Minnesota Public Utilities Commission

Staff Briefing Papers – Volume IV of V
Class Revenue Apportionment

Meeting Date: July 9, 2015 .... **Agenda Item # 5

Company: Northern States Power Company d/b/a Xcel Energy (Xcel or the Company)

Docket No. E-002/GR-13-868

In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota

Issue: Should the Commission accept, modify or reject Xcel's proposed class revenue apportionment?

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Relevant Documents

(This list is also on the list of relevant documents for Vol. I of the staff briefing papers.)

Xcel – Actual Sales Data & Property Tax Expense Update .... Jan. 16, 2015
Xcel – Preliminary Compliance Filing .... May 1, 2015
PUC – Notice for Comments .... May 15, 2015
Department – Comments (TS) .... May 28, 2015
Xcel – Reply Comments (TS) .... Jun. 8, 2015
OAG – Reply Comments .... Jun. 8, 2015
Xcel Large Industrials – Reply Comments .... Jun. 8, 2015
Minnesota Chamber of Commerce – Reply Comments .... Jun. 8, 2015

The attached materials are workpapers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

Statement of the Issue

Should the Commission accept, modify or reject Xcel's proposed class revenue apportionment?

1. Introduction

In Order Point 48 of its May 8, 2015 Order, the Commission made the following determination on the class revenue apportionment[1]:

> The Company shall rerun the CCOSS in accordance with all Commission decisions in this docket and the Monticello docket that affect the CCOSS, and set the class revenue apportionment by applying the following methodology to the revised CCOSS:
>
> a. Maintain the current level of Lighting class revenues;
> b. Set the C&I Non-Demand class apportionment at the cost-based level;
> c. If the revised CCOSS shows that the Residential class is currently contributing more than its share of cost, set the Residential class apportionment at the cost-based level;
> d. If the revised CCOSS shows the Residential class is currently contributing less than its share of cost, move the Residential class 75% closer to cost; and
> e. Recover the remaining revenue requirement from the C&I Demand class.

At issue here is the interpretation of provision d. The Company and the Department have presented two different interpretations of the requirement to "move the Residential class 75% closer to cost." In Section 2, Staff outlines the two interpretations, including an explanation of each party's recommended calculation and the resulting class revenue apportionment. Section 3 lays out the arguments in support of each interpretation, Section 4 provides Staff analysis, and Section 5 presents decision alternatives.

2. Two Interpretations of the Order

The Company and the Department disagree on the appropriate calculation of the Residential class's movement "75% closer to cost." Table 1 below displays the difference between current revenues and Xcel's revised Class Cost of Service Study (CCOSS) for 2015. The essence of the disagreement is the parties' focus on different columns in this table: the Company recommends moving the *percentage* of current revenues closer to cost; the Department, on the other hand, recommends bringing the *dollar values* closer to cost. In Reply Comments, the Office of the Attorney General (OAG) supported the Department's interpretation, while the Minnesota Chamber of Commerce (MCC) and Xcel Large Industrials (XLI) supported Xcel's interpretation.

[1] Docket No. E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS, AND ORDER, May 8, 2015, Order Point 48 at page 104.

Table 1. Current Revenues and 2015 CCOSS

	Current revenues		June 8th CCOSS[2]	
	(000s)	Percent	(000s)	Percent
Residential	$1,023,121	36.20%	$1,087,141	36.31%
Non-Demand	$108,086	3.82%	$113,603	3.79%
C&I Demand	$1,669,134	59.05%	$1,767,855	59.04%
Lighting	$26,319	0.93%	$25,841	0.86%
Total	$2,826,660	100.00%	$2,994,440	100.00%

The Department's interpretation focuses on the *dollar values* of current revenues and the CCOSS. To move the Residential class 75% closer to cost, the Department recommends moving the dollar value of current revenues 75% closer to the dollar value of cost. The Department's approach would:

- First take the difference between current revenues and the CCOSS:
  - $1,087,141 - $1,023,121 = $64,020;
- And then add 75% of this difference to current revenues:
  - $64,020 x 0.75 = $48,015;
  - $1,023,121 + $48,015 = $1,071,136.

The Company's interpretation, on the other hand, focuses on the *percentages* of current revenues and the CCOSS. To move the Residential class 75% closer to cost, the Company recommends moving the percentage of current revenues 75% closer to the percentage of cost. The Company's approach[3] would:

- First take the difference between percentage of current revenues and the CCOSS:
  - 36.305% - 36.195% = 0.11%;
- And then add 75% of this difference to current revenues:
  - 0.11% x 0.75 = 0.082%;
  - 36.195% + 0.082% = 36.277%.

As Table 2 below displays, these two interpretations produce considerably different class revenue apportionments, with the Department's interpretation allocating over $15 million less to the Residential class and over $15 million more to the C&I Demand class.

Table 2. Recommended Class Revenue Apportionments

	Current revenues		June 8th CCOSS		Xcel Interpretation		Department Interpretation	
	(millions)	Percent	(millions)	Percent	(millions)	Percent	(millions)	Percent
Residential	$1,023.1	36.20%	$1,087.1	36.31%	$1,086.3	36.28%	$1,071.1	35.77%
Non-Demand	$108.1	3.82%	$113.6	3.79%	$113.6	3.79%	$113.6	3.79%
C&I Demand	$1,669.1	59.05%	$1,767.9	59.04%	$1,768.2	59.05%	$1,783.4	59.56%
Lighting	$26.3	0.93%	$25.8	0.86%	$26.3	0.88%	$26.3	0.88%
Total	$2,826.7	100%	$2,994.4	100%	$2,994.4	100%	$2,994.4	100%

[2] Xcel's May 1, 2015 preliminary compliance filing and June 8, 2015 reply comments are based on estimated final retail revenues of $2,994.4 million rather than the slightly lower number that was in the Commission's May 8 Order, i.e. total retail-related revenue of $2,992.4 million.

[3] Xcel's actual calculation—described on page 9 of its June 8, 2015 Reply Comments—is more complicated than Staff describes here, but the apportionment produced is the same. Staff presents this alternative calculation to illustrate the conceptual difference between the two methodologies.

3. Ambiguity in the Order

In supporting their interpretation, the Department and the Company each focus on the same paragraph of the Commission's May 8, 2015 Order, which states[4]:

> In this case, the Commission believes that the classes can reasonably be set at—or significantly closer to—their CCOSS-indicated cost. But, in the interest of protecting against rate shock from a possibly significant and sudden increase, any upward adjustment to the Residential class will be limited to 75% of the difference between that class's updated present revenue figure and its revised CCOSS-indicated cost.

The Department and the OAG focus on the second sentence in this paragraph. Specifically, these parties point to the requirement that the upward adjustment be *limited* to the difference between the present revenues and the CCOSS-based cost. In the Department's words, "[t]he Department understands the Commission's Order to require the 75 percent to apply to the difference between updated current revenues and the results of the CCOSS rather than revenues based on an across-the-board increase."[5]

Xcel, XLI, and MCC focus on the first sentence in the paragraph. Xcel highlights the Commission's intention to move the revenue apportionment to—or closer to—the Company's estimate of cost. In Xcel's words, "[t]his language evidences a clear intention on the part of the Commission to set the percentage of revenue coming from the Residential class (and other classes) at a level that is closer to the cost-based percentages indicated in the final CCOSS."[6] MCC, Xcel, and XLI argue that the Company's interpretation is more in keeping with the Commission's intent: as Table 2 above displays, the Company's estimate of cost for the Residential class is 36.31%; Xcel's interpretation would move the Residential class's revenue apportionment *closer* to the Company's estimate of cost (from 36.20% to 36.28%) while the Department's interpretation would move the Residential class *away* from the Company's estimate of cost (from 36.20% to 35.77%).

4. Staff Analysis

Staff agrees with the parties that the Order could be read to support either interpretation. On its face, the Department's interpretation is a reasonable reading of the plain-language of the Order. However, Staff believes the Company's interpretation is more consistent with the Commission's intention to move the class revenue apportionment toward the updated estimate of cost. In any rate case, there is a multitude of moving pieces, many of which affect the ultimate revenue requirement; in this context, Staff believes it is helpful to consider the class revenue apportionment in terms of percentages. By focusing on dollar values of current revenues and the CCOSS, the Department's interpretation results in an apportionment that moves the Residential class's allocation further from the Company's estimate of cost, which seems to contradict the Commission's intent.

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[4] Docket No. E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS, AND ORDER, May 8, 2015, at page 84.
[5] Department of Commerce, May 28th Comments, at page 13.
[6] Xcel Energy, Reply Comments, June 8, 2015, at page 8.

However, Staff also notes that there is more controversy surrounding the updated CCOSS than the Commission may have anticipated when it made its class revenue apportionment decision. As detailed in Volume III of the briefing papers, the Department and the Company have not reached agreement on several components of the updated CCOSS. Further, as the Department and the OAG note, the Company did not provide the information necessary to replicate the results of the model. When the Commission made its class revenue apportionment decision, it seemed to expect that the parties would agree on the finalized CCOSS, to which the Commission's methodology could then be applied. The lack of consensus on the CCOSS calculation—and the inability to replicate the results—creates a degree of uncertainty that may undermine the reliability of the results of the CCOSS.

If the Commission is persuaded that the Company's updated CCOSS appropriately incorporated (or at least reasonably attempted to incorporate) the Commission's decisions in this docket and the Monticello docket, then Staff believes the Company's interpretation of the class revenue apportionment is reasonable.

Alternatively, if the Commission believes the uncertainty surrounding the CCOSS makes it an inappropriate foundation for class revenue apportionment, Staff notes that a number of alternative class revenue apportionments were recommended in this proceeding. Table 3 below displays the updated class revenue apportionments that would result from some of the methodologies introduced in the record. If the Commission were to take this approach, it would need to do so on its own motion to reconsider this issue, and it would need to clearly explain the rationale for altering the class revenue apportionment methodology adopted in the May 8 Order.

Table 3. Alternative Class Revenue Apportionments

	Current Revenues[7]	OAG[8]	ALJ[9]	Xcel Rebuttal[10]	MCC and XLI[11]	DOC CCOSS[12]
Residential	36.20%	36.20%	36.24%	36.28%	36.31%	36.21%
Non-Demand	3.82%	3.82%	3.80%	3.80%	3.79%	3.70%
C&I Demand	59.05%	59.10%	59.09%	59.04%	59.04%	59.22%
Lighting	0.93%	0.88%	0.88%	0.88%	0.86%	0.87%

Please note that the current revenues class revenue percentages on Table 3 above are the same as the current revenues class revenue percentages on Table 2 (on p. 2.) and the MCC and XLI class revenue percentages on Table 3 below are the same as the June 8 CCOSS class revenue percentages on Table 2. In addition, Xcel Rebuttal class revenue percentages on Table 3 below are almost exactly the same as the Xcel Interpretation class revenue percentages on Table 2 (on

[7] Current revenues as of Xcel Energy's May 1, 2015 Compliance Filing, at Table 1, Schedule A1, page 1

[8] Staff's calculation using the updated current revenues (see footnote 6) applied to the methodology detailed in Exhibit 375 (Nelson Direct), at pages 39-40.

[9] Staff's calculation applying the ALJ's recommended methodology (from paragraphs 775-777 of her December 26, 2014 Report) to the updated current revenues (see footnote 6).

[10] Staff's calculation using the updated current revenues (see footnote 6) and CCOSS applied to the methodology detailed in Exhibit 107 (Huso Rebuttal), at pages 3-5.

[11] MCC and XLI each recommended apportioning revenues according to the final CCOSS. These figures represent the class revenue apportionment using Xcel's updated 2015 CCOSS from its June 8, 2015 Reply Comments.

[12] Staff's calculation using the Department's 2015 CCOSS percentages as provided in its Initial Brief, September 23, 2014, at page 284.

p. 2.), because the methodology adopted by the Commission was very similar to Xcel's recommendation in Exhibit 107 (Huso Rebuttal).

Finally, Staff believes that regardless of what the Commission decides about the merit of Xcel's updated CCOSS, a decision on class revenue apportionment needs to be made at this time to enable Xcel to design and implement final rates in this case.

5. Decision Options

Class Revenue Apportionment

1. Accept Xcel's proposed class revenue apportionment (Xcel, MCC, XLI); or

2. Modify Xcel's proposed class revenue apportionment as recommended by the Department in its May 28, 2015 comments (Department, OAG); or

3. Reject Xcel's proposed class revenue apportionment and adopt one of the alternate class revenue apportionments.

Compliance Filing

4. Require Xcel to provide estimated rate and bill impacts for customer classes (in its thirty-day compliance filing) once the financial and CCOSS issues are finalized in this proceeding. (Department)