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January 20, 2015

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**VIA E-FILING**

Dan Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St. Paul, Minnesota 55101

Re: In the Matter of the Application of Northern States Power Company, d/b/a  
Xcel Energy for Authority to Increase Rates for Electric Service in Minnesota  
PUC Docket No. E002/GR-13-868  
OAH Docket No. 68-2500-31182  
Our File No. 2021-13

Dear Mr. Wolf:

Attached for filing in the above-referenced docket, please find the Exceptions of the Minnesota Chamber of Commerce to the Findings of Fact, Conclusions, and Recommendation of the Administrative Law Judge. Also attached is the Chamber's Certificate of Service.

Sincerely,

/e/ Richard J. Savelkoul  
Richard J. Savelkoul

RJS:wsl

Attachments

cc: Service List  
Larry Schedin (via email)  
Kavita Maini (via email)

**BEFORE THE PUBLIC UTILITIES COMMISSION  
121 7<sup>th</sup> PLACE E., SUITE 350  
SAINT PAUL, MN 55101-2147**

**IN THE MATTER OF THE  
APPLICATION OF NORTHERN STATES  
POWER COMPANY, A MINNESOTA  
CORPORATION, FOR AUTHORITY TO  
INCREASE RATES FOR ELECTRIC  
UTILITY SERVICE IN MINNESOTA**

**MPUC DOCKET NO. E-002/GR-13-868  
OAH DOCKET NO. 68-2500-31182**

**EXCEPTIONS OF THE MINNESOTA CHAMBER OF COMMERCE TO THE  
FINDINGS OF FACT, CONCLUSIONS, AND RECOMMENDATION OF THE  
ADMINISTRATIVE LAW JUDGE**

**JANUARY 20, 2015**

## Table of Contents

I.	INTRODUCTION .....	1
II.	REVENUE REQUIREMENT ISSUES .....	1
	A. Sherco 3 Outage Fuel Cost.....	1
	B. Wind Recovery in Base Rates or Rider .....	4
	C. Rate Moderation .....	4
III.	CLASS COST OF SERVICE STUDY (CCOSS), ALLOCATION AND TARIFF MODIFICATIONS .....	5
	A. CCOSS – Classification of Fixed Production Plant – Plant Stratification versus Straight Fixed Variable Method.....	5
	B. CCOSS – Classification of Company-Owned Wind Facilities .....	7
	C. CCOSS – Allocation of Other Production O&M Costs.....	10
	D. Rate Design - Interruptible Service Rates .....	12
	E. Tariff Proposals - Coincident Peak Billing and Definition of Contiguous .....	16
IV.	FINAL CONCLUSIONS AND REQUEST FOR ORAL ARGUMENT .....	17

**EXCEPTIONS OF THE MINNESOTA CHAMBER OF COMMERCE TO THE  
FINDINGS OF FACT, CONCLUSIONS, AND RECOMMENDATION OF THE  
ADMINISTRATIVE LAW JUDGE**

**I. INTRODUCTION**

Pursuant to Minnesota Statutes Section 14.61 and Minnesota Rule 7829.2700, the Minnesota Chamber of Commerce (“Chamber”) respectfully files these Exceptions to the Findings of Fact, Conclusions, and Recommendations of the Administrative Law Judge (“ALJ”), dated December 26, 2014.<sup>1</sup> While the Chamber generally supports the ALJ Report, some exceptions should be noted. These Exceptions address Findings by the ALJ that do not accurately reflect the facts of the proceeding, as well as policy issues that are appropriate for the Minnesota Public Utilities Commission (“Commission”) to consider and modify.

**II. REVENUE REQUIREMENT ISSUES**

The Chamber takes exception to the ALJ’s Revenue Requirement findings on a couple of issues. The development of facts in the report are mostly thorough and accurate, but in some instances accurate facts were not recognized or an outcome was not appropriate for Commission action. These issues are discussed herein.

**A. Sherco 3 Outage Fuel Cost**

The Chamber recommends the Company treat the excess fuel cost relating to the Sherco 3 outage in the same way as Xcel agreed is appropriate for Monticello’s EPU outage due to inability to ramp up to 671MW. The principle is the same. Ratepayers should not pay capital costs for a resource and also pay for the excess replacement power when the outage is related to a capital investment intended to benefit future ratepayers.

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<sup>1</sup> Findings of Fact, Conclusions and Recommendation, *In the Matter of the Application of Northern States Power to Increase Electric Service Rates in Minnesota*, MPUC No. E-002/GR-13-868, OAH No. 68-2500-31182 (December 26, 2014) (“ALJ Report” and “Findings” individually, “Finding”).

As identified by the Chamber, this rate case is the first since Sherco 3 has been up and running, so final capital costs that are being sought (net of unrecovered insurance) and the first case in which the increased fuel and purchased power cost can be measured.<sup>2</sup> The fuel and purchased power costs should be measured and dealt with now.

In Xcel's last rate case, the Company was permitted to recover the capital costs by adding them to rate base, as well as some expenses, but a decision on fuel and purchased energy was not made.<sup>3</sup> In making this decision, the Commission made it clear that a balancing of equities was being done and further review would be necessary when interruption were complete.<sup>4</sup> Since capital was being recovered and fuel and purchased energy was also recovered through the FCA, current ratepayers have paid twice for the power. But for the construction project and capital addition intended for the benefit of future ratepayers, the redundant and additional FCA costs would have not been incurred.<sup>5</sup>

These FCA costs should be accumulated and recovered from future ratepayers like any other cost of construction is capitalized and recovered from ratepayers that benefit from use of the asset.<sup>6</sup> A regulatory asset should be created and current ratepayers should not be required to pay for this asset.

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<sup>2</sup> Ex. 341, Schedin Direct at 14:11 to 15:9.

<sup>3</sup> FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, *In the Matter of the Application of Northern States Power for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961 ("2012 Xcel Order") (September 3, 2013) at 22-23.

<sup>4</sup> Id.

<sup>5</sup> Ex. 340, Schedin Direct, at 14:11-17.

<sup>6</sup> Id. at 14:27-30.

The Company has calculated the adjustment to be \$60,486,539 and has explained \$50 million is the amount included in its litigation related to the outage.<sup>7</sup> Xcel should be ordered to make a filing proposing the adjustment of not less than \$50 million in its open AAA proceeding.

The Chamber does not challenge that the costs were prudently incurred. Rather the issue is one of intergenerational allocations. The capital improvement that caused the outage and increased costs is intended to benefit future ratepayers for years to come. Those future ratepayers must pay for the costs that go into completion of the improvement; including the outage costs.<sup>8</sup>

### **Modified Findings and Conclusions**

567. In November 2011, the Sherburne County Generating Station (Sherco) coal-fired power plant experienced a catastrophic failure of Unit 3, resulting in a reduction of the plant's power generating capacity. The outage occurred during startup of a capital improvement project. As a result, the Company was required to purchase replacement power to cover the deficit created by the outage in Unit 3. According to the Department, from November 2011 to October 2012, \$22.7 million in additional power costs were incurred as a result of the extended outage of Unit 3. The Company has sought recovery of the replacement power costs through the Fuel Clause Adjustment mechanism rather than through base rates.

569. MCC has also raised the issue in this case. Specifically, MCC recommended that the replacement power costs, that were in excess of standard fuel costs, from the Sherco Unit 3 outage be capitalized and recovered over the life of the power plant. The outage occurred because of the capital project, which benefits future ratepayers. Current costs associated with capital construction is not recovered from current ratepayers, it is capitalized and recovered from future ratepayers. The increased fuel cost is similar to other current costs that are capitalized and recovered over the life of the facility, such as interest on construction financing or labor incurred in advancing the project. According to MCC, the replacement power costs from the Sherco Unit 3 outage should be recovered from future ratepayers who will benefit from the reconstruction and increased capacity of Sherco Unit 3 as a result of the failure in 2011, not current ratepayers.

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<sup>7</sup> Ex. 341, Schedin Direct, Attachment 13, MCC IR No. 237 Public, Attachment A (NSP response to OAG IR No. 001, calculations shown on p26, discussion at 4-5).

<sup>8</sup> Ex. 340, Schedin Direct, at 14:11-17.

572. Because increased replacement power costs are for power that was used during the outage of Sherco Unit 3, is a result of a capital project providing benefit for future ratepayers, the excess cost should be carried forward and recovered from future ratepayers. ~~the Administrative Law Judge concludes that~~ The issue of cost recovery period is properly addressed as part of the AAA docket.

### **B. Wind Recovery in Base Rates or Rider**

The Chamber in its initial brief addressed the appropriateness of rider recovery, of Pleasant Valley and Boarder Winds, and identified the impact difference to ratepayers as \$5.538 million for 2015.<sup>9</sup> When considering multiple methods of recovery and more than one can be found to be appropriate the most favorable one for ratepayers must be the method used.<sup>10</sup> The Department does not oppose this rider recovery.<sup>11</sup>

The Findings below make clear that rider recovery is best for ratepayers and fair for Xcel.

### **Modified Findings and Conclusions**

586. The determination of whether to include the Pleasant Valley and Borders Wind project costs in the 2015 Step or RES rider depends upon whether the Commission seeks to limit the amount of funds recovered through riders or whether the Commission seeks to moderate the effects of the 2015 Step by including these costs in the RES rider. ~~Either approach would result in~~ Because RES rider recovery reduces 2015 costs for ratepayers it results in most reasonable treatment of these costs and shall be used in this case.

### **C. Rate Moderation**

The Findings present the issues and facts accurately. The Chamber advocates return of these assets to ratepayers in fastest way that is reasonable to avoid shock. The Commission

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<sup>9</sup> Chamber Brief at 8-10.

<sup>10</sup> Minn. Stat. § 216B.03, (“doubt as to reasonableness must be resolved in favor of the consumer”... so where equally valid methods are available, Commission must choose the one that favors the consumer).

<sup>11</sup> Department Brief at 226.

should also consider the ability to use these assets to affect future rate proceedings if possible, but any such delay in use should have clear benefits.

### **III. CLASS COST OF SERVICE STUDY (CCOSS), ALLOCATION AND TARIFF MODIFICATIONS**

The Chamber takes exception to the ALJ's CCOSS, Allocation and some tariff findings. The development of facts and conclusion need correction in some circumstances.

#### **A. CCOSS – Classification of Fixed Production Plant – Plant Stratification versus Straight Fixed Variable Method**

MCC has proposed Xcel change the way it allocates Fixed Production Plant from the Equivalent Peaker method to Straight Fixed Variable method. The ALJ failed to recognize that the MCC explained differences in Xcel's generation mix for the change and otherwise gave credible explanation for changing methods. As a result the Findings arrived at the wrong conclusion.

Witness Maini explained the problems with selecting the Equivalent Peaker and changes to support the Straight Fixed Variable method as follows:

by classifying portions of fixed production plants to energy, the method results in allocating these classes on the basis of the energy allocator which ultimately get recovered through energy charges in rates. Since Xcel is concerned about declining sales, recovering fixed production plant costs through energy charges will necessarily result in lower cost recovery if sales are declining. However, customer classes that use less energy, but contribute more towards system peak demand do not get their fair share of cost allocated to them or pay for these costs. Yet, these fixed production costs represent the capacity used to serve the valuable purpose of meeting system peak demand and planning reserve margin requirements. In a period where Xcel expects to be capacity deficient in the 2017-2019 time frames, it would make sense to send more appropriate pricing signals regarding this matter.

By classifying portions of fixed production plant as energy related, the resulting cost allocation to classes also has the unintended consequence of discouraging customers in various classes from improving load factors because each additional kWh of off-peak usage results in additional base load fixed costs (return, depreciation, fixed O&M expenses) being assigned to the rate class.



Xcel's generation mix is changing and includes more than 1000 MW of wind generation and the Commission also approved an additional 750 MW of wind generation last year. Since wind generation typically produces more output in the off peak hours, sending signals to discourage off peak usage and at the same time introducing generation that produces more off peak usage is counter-productive. Furthermore, as resources get added for policy reasons, the EP theory of the dual nature of resources to serve energy and demand needs no longer holds. These resources are being added for reasons other than reliably serving energy or capacity need. I discuss this issue later in the testimony regarding classification and allocation of wind generation.

For all these reasons, I believe that alternative methods should be considered. At a minimum, efforts should be made to refine the EP method...<sup>12</sup>

Maini further described changes to Xcel's system in Surrebuttal:

It is important to recognize the changes in Xcel's supply mix and load profile and respond to them.

Given that, in addition to the RES standard, an additional policy such as a solar standard was approved and included in the Minnesota Statutes last year, Xcel's generation mix will increasingly include resources that are not being constructed to reliably serve energy or capacity needs. This practical reality should not be ignored because these policies are the cost causation driver and not least cost planning to reliably serve energy or capacity needs, which is the basis of the EP method.

Xcel's system is also experiencing a declining load factor. In response to **MCC IR No. 132** (Exhibit \_ (KM-2), Attachment 6), Xcel provided its forecast used for resource planning purposes. In 2012, the system load factor was 57% and in 2013, it declined to 55%. The system getting peakier and this is also reinforced when we observe the change in MW and GWhs between 2014 and 2019. **Table 2** shows the percent change forecasted between 2014 and 2019 for energy and demand using the forecast provided in the Resource Planning docket (10-825) in September 2013. As the table indicates, demand is expected to grow at a faster rate than energy. This means that Xcel's load profile is not getting less peakier, which also implies that Xcel's system will continue to be utilized less efficiently. This is not a desirable outcome and further improvements or changes as the ones I am recommending, are needed in the CCOSS to ultimately send the right pricing signals in rates.<sup>13</sup>

The Findings should be modified as follows:

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<sup>12</sup> Ex. 343, Maini Direct, at 17:16 to 18:25.

<sup>13</sup> Ex. 345, Maini Surrebuttal, at 12:24 to 13:8.

## **Modified Findings and Conclusions**

678. As in prior rate cases, MCC recommended that the Company adopt the Straight Fixed Variable method instead of Plant Stratification to classify fixed production plant. The Straight Fixed Variable method classifies all fixed production plant costs as demand-related because plant capacity is required to meet peak demand and reserve margin requirements. Variable costs such as fuel align with energy consumption and are therefore classified as energy-related. MCC argued that the Straight Fixed Variable method should be used based on its view that high energy users, such as large customers, are allocated more than their share of costs under the Plant Stratification method. MCC made this same argument in the last rate case. In this case MCC further explained the changes in Xcel's generation mix and driving factors in making generation decisions, as well as changes in ratepayer usage.<sup>14</sup> All of MCC's identified changes support changing the method Xcel uses for allocation.

681. In several past rate cases, the Commission has compared Plant Stratification to the Straight Fixed Variable method, and determined that Plant Stratification is the more reasonable method to classify fixed production plant costs. MCC has put forward ~~no~~ new convincing arguments to show that the Straight Fixed Variable method should be substituted. ~~Not~~ has MCC responded to the Commission's emphasis on the need to recognize the dual nature of base load plants. For these reasons, the ~~Administrative Law Judge concludes that the Company's continued-use of the Plant Stratification method is reasonable.~~ should be changed to the Straight Fixed Variable method.

### **B. CCOSS – Classification of Company-Owned Wind Facilities**

MCC supports the Company's change in allocation method for Grand Meadow and Nobles wind farms. The Plant Stratification method is inappropriate because the driver or motivation for moving forward with these projects was not that the projects were least cost, rather they were policy driven. The ALJ did not capture this difference in the Findings nor did the findings address the appropriateness of the Percent of Base Revenue method.

The Chamber's position is that Xcel should allocate least-cost wind investments according to its standard CCOSS methodology, but disagrees with its use when assets are not

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<sup>14</sup> Ex. 345, Maini Surrebuttal, at 12:24 to 13:8.

least-cost and added for policy reasons. The Chamber proposes to use the same method as is used in the wind rider – the Percent of Base Revenue method.

The Department believes Stratification should be used, but bases this conclusion on the presumption that Nobles and Grand Meadow were added as a “least cost” resource.<sup>15</sup> Xcel has maintained that these resources were not “least cost” resources, rather they were “least cost renewable resources”.<sup>16</sup> There is a material difference in the meaning of these least cost conclusions, which results in the conclusion that Stratification method should not be used.

The Department contends that any switch based on least cost is inconsistent with past classification positions the Company took on allocation.<sup>17</sup> But as discussed in the Chamber’s initial brief this is just wrong – the change is merely recognition of using the wrong method in the past, not a change in position on these purchases not being least cost resources.<sup>18</sup> Neither Xcel, nor the Commission took a position on least cost in past cases.<sup>19</sup> This is simply a refinement of the CCOSS, like the Department proposed in the last rate case on CIP costs (despite the Department’s inconsistent CIP positions in several prior rate cases).<sup>20</sup> This

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<sup>15</sup> Transcript Ouanes, Vol. 4 at 107:9 to 108:3.

<sup>16</sup> Ex. 102, Peppin Direct, at 27:12 to 28:2.

<sup>17</sup> Ex. 408, Ouanes Direct, at 22-23.

<sup>18</sup> Chamber Brief at 18-21.

<sup>19</sup> Chamber Brief at 19-21 (discussing IRP’s forcing selection of these wind resources rather than selection based on least cost, distinguishing least cost renewable resource, and noting that no order found Nobles or Grand Meadow least cost (merely that the Chamber was not able prove that it was not least cost)).

<sup>20</sup> FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER, *In the Matter of the Application of Northern States Power for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961 (“2012 Xcel Order”) (September 3, 2013) at 41-42.

refinement is being proposed to more accurately reflect costs that do not appropriately fit into Plant Stratification, because they are not least cost.<sup>21</sup>

The Department challenges the Chamber's proposed Percent of Base Revenue largely on cost causation basis, but fails to acknowledge that Xcel did not acquire these resources based on least cost.<sup>22</sup> Because Xcel did not acquire these resources based on least cost – cost was not the cause of its purchase and Plant Stratification is not appropriate.

Neither, the Department nor the NARUC manual attempt to give guidance on allocation of resources that are not least cost.<sup>23</sup> The Chamber recognizes that Xcel's proposed method is an appropriate one, but also offers another reasonable method for policy additions:

the classification and allocation be based on the percent of base revenues, the "Percent of Base Revenue" method. Such an approach would recognize that resources built for policy reasons are neither built to reliably serve capacity or energy needs. The Percent of Base Revenue approach implicitly has elements of energy and demand, mimics the current rate design for all customers and by applying the same percentage to all customer classes, it recognizes the policy nature behind the investment. This method is also used currently in Xcel's RER Rider, and was implemented only after rigorous debate and analysis at the Commission.<sup>24</sup>

Analysis of the history on these projects makes it clear that Xcel would not have invested in them if there was not a law that Xcel had to comply with. As a result the cost-causer of these investments was a policy one – not strictly a least cost one.

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<sup>21</sup> Chamber Brief at 20-21.

<sup>22</sup> Department Brief at 271.

<sup>23</sup> Transcript Ouanes, Vol. 4 at 110:18 to 111:17.

<sup>24</sup> Ex. 343, Maini Direct, at 23:11-21.

Percent of Base Revenue allocation is appropriate because it has ratepayers pay for cost-inefficient, policy purchases in a way that is proportionate to their responsibility for Xcel's system.<sup>25</sup>

### **Modified Findings and Conclusions**

706. The Administrative Law Judge concludes that the Company has not demonstrated that it is reasonable to classify the Grand Meadow and Nobles generation facilities as 100 percent capacity-related. As the Commission noted in its 10-971 ORDER, wind facilities generally replace other energy resources, and "contribute very little to capacity" because they are only available when the wind blows, at the same time the investments were not made to produce least-cost energy. The Company has failed to provide any evidence that Nobles and Grand Meadow have any different operational characteristics than other wind facilities that would justify classifying them as 100 percent capacity-related. The fact that these facilities were built to satisfy a legislative renewable energy policy does not change their operational characteristics, and therefore does not provide a rational basis for classifying these facilities as 100 percent capacity-related. But, the fact that these facilities were built to satisfy a legislative renewable energy policy AND that they were not least cost, supports an alternative allocation that impacts all ratepayers in a manner that is consistent with respect to overall base rates. Percent of Base Revenue method is appropriate for these assets not purchased in the regular resource need based manner.

709. The Commission has repeatedly confirmed the Company's use of the Plant Stratification method for the proper classification and allocation of the Company's production plant, including costs of Company-owned wind generation. The application of the Plant Stratification method to wind generation continues to be the most reasonable alternative shown in the record if the resources were acquired as part of least cost resource planning. Grand Meadow and Nobles were not purchased as a least cost resource, so should be allocated with the percent of base revenue method. Accordingly, the Administrative Law Judge recommends that the Commission require the Company to modify its 2014 and 2015 Step CCOSs to classify the costs of the Grand Meadow and Nobles wind farms on the same basis as it does in the RES rider, with the Percent of Base Revenue method ~~its other fixed production plant costs using the Plant Stratification method.~~

#### **C. CCROSS - Allocation of Other Production O&M Costs**

Xcel was ordered to analyze allocation Other Production O&M for this rate case.

Other Production O&M includes allocation of all non-capital and non-fuel items such as labor,

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<sup>25</sup> Chamber Brief at 21, (discussing lack of guidance on policy purchases and reasoning of fairness of percent of base revenue method).

hardware, software, networking expenses, etc. Xcel conducted analysis using two methods namely the “location” and “predominant nature” methods. Xcel proposes to use the predominant nature method for allocation. The Chamber agrees this is the best method for Xcel’s system.<sup>26</sup>

Xcel noted that the predominant nature method is the most commonly used method and consistent with allocations by Xcel in other jurisdictions. Chamber observed “*the NARUC manual characterizes the Predominant Nature method as a commonly used method and the Location method as not standard practice.*”<sup>27</sup> Maini also observed that “*the FERC method is consistent with the Predominant Nature method*” and “*Xcel classifies Other Production O&M at a jurisdictional level on this basis.*”<sup>28</sup>

Not only does MCC recognize that the Predominant Nature method is most appropriate, based on consistency with industry and Xcel’s other jurisdictional usage, but Xcel’s detailed analysis and sound theory support the Predominant Nature method.<sup>29</sup> As a result, the Findings should be modified as follows:

### **Modified Findings and Conclusions**

733. MCC and XLI supported the Company's use of the Predominant Nature method. MCC identified consistency in using Predominant Nature method with NARUC, FERC allocation and in how Xcel allocates the costs for jurisdictional purposes.

735. The Company... The Company has not shown that its grouping and analysis of these Other Production O&M Costs based on their predominant nature moves the marker closer to cost causation. ~~The Predominant Nature method displays the same oversimplified fixed/variable analysis that the Commission has previously found lacking. The Location~~

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<sup>26</sup> Id. at 25:9-20.

<sup>27</sup> Ex. 345, Maini Surrebuttal at 17:29-30.

<sup>28</sup> Ex. 345, Maini Surrebuttal at 18:1-3.

<sup>29</sup> Id.

~~method, required by the Commission in the 12-961 ORDER, is the most reasonable method of classifying Other Production O&M Costs in the record.~~

~~736. For these reasons, the Administrative Law Judge recommends that the Commission require the Company to modify its 2014 and 2015 CCOSSs to use the Location method rather than should approve use of the Predominant Nature method.~~

#### **D. Rate Design - Interruptible Service Rates**

The ALJ's Findings did not accurately reflect the facts set forth in the case and arrived at the incorrect recommendation. Notably, the Findings failed to incorporate the impact of failure to maintain interruptible customers, increased cost to participating interruptible customers, and lost benefits to ratepayers as a whole for the avoided capacity purchases. Furthermore, findings in Xcel's IRP are consistent with growing interruptible participation, not reducing participation.

Xcel has simply argued it has maintained participation and a significant increase in the credit is not necessary to retain the interruptible customers. While Xcel proposed a modest 6% increase in the credit, it did not keep up with past increases in demand charge (no increase in interruptible credit in last rate case which increased firm demand charges by 7%)<sup>30</sup> or even the increase in this case (11.7% increase in demand at secondary levels, but only 6% increase in credit).<sup>31</sup> Two cases in a row Xcel has dropped the relative value of the credit, MCC supports restoring this so that the rest of ratepayers get the benefit of avoided capacity. This loss of value in the interruptible credits leads to insufficient incentive for maintaining participation in light of the costs.

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<sup>30</sup> Ex. 344, Maini Direct, at 39.

<sup>31</sup> Transcript Huso, Vol. 2 at 181:12 to 182:15.

The Department took the same position as Xcel, that an increase in the credit was not necessary to retain customers, and dropped the proposed credit to 3%, even lower than what Xcel proposed.<sup>32</sup> This is wrong – Xcel has lost interruptible customers.<sup>33</sup> In the past few years, there has been a loss of 136 participants and 67MW.<sup>34</sup> After filing testimony, the Company more closely reviewed retention of interruptible participation and found that there has been a drop off that is likely a result of the lack of credit.<sup>35</sup>

The Findings also fail to recognize that participating interruptible customers have significant costs to participate, regardless of the number of interruptions. The costs include additional employee costs (engineers and others that were necessary to hire), monitoring and testing, reporting and overtime costs, capital costs for compliance of RICE compliance, fuel costs regardless of being called on (fuel must be rotated as it does have a useful life).<sup>36</sup>

Demand Response was ordered to be reviewed for expansion in Xcel’s last Integrated Resource Plan order.<sup>37</sup> Specifically, Xcel was ordered to evaluate “*achieving participation rates in for demand response programs in the top 25 percent*” and to “*evaluate higher levels of cost-effective and feasible demand response*”.<sup>38</sup> The opposite is happening – participation is dropping and the Chamber’s cost-effective proposal should be accepted. Demand Side

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<sup>32</sup> Ex. 420, Pierce Surrebuttal at 26:1-8.

<sup>33</sup> Transcript Huso, Vol. 2 at 182:21-25.

<sup>34</sup> Ex. 145, Maini Opening Statement at Attachment A, Xcel answers to b and c, since 2010.

<sup>35</sup> Transcript Huso, Vol. 2 at 183:1-11.

<sup>36</sup> Ex. 345, Maini Surrebuttal, at 24:19-25.

<sup>37</sup> ORDER ESTABLISHING PROCEDURAL SCHEDULES AND FILING REQUIREMENTS, *In the Matter of Xcel Energy’s 2011-2025 Integrated Resource plan*, Docket No. E-002/RP-10-825 (“*2010 Xcel IRP ORDER*”) (November 30, 2012) at 12.

<sup>38</sup> Id.



Management efforts must be implemented through rates – this is exactly the time and place to put into effect objectives of the IRP.

Further support for increased attention to interruptible rates is found in other Minnesota decisions and at MISO. MISO has indicated tightening supply concerns about 2016, in Minnesota it was also recently determined that Xcel has a capacity deficiency in the 2017-2019 timeframe. (12-1240).<sup>39</sup> In addition, in the near term, MISO indicated over a 70% probability of initiating interruptible load for this summer and has established local resource zones for resource adequacy purposes whereby capacity/supply side resources (such as interruptible load) within the local resource zones create additional value.<sup>40</sup> All of these factors indicate that interruptible load will play an important role in addressing planning reserve margin shortages.<sup>41</sup> Consequently, it is important that efforts be made to maintain and expand interruptible load.

Findings below must be modified to protect against the loss of valuable interruptible customers.

### **Modified Findings and Conclusions**

824. The Department agreed that interruptible service discounts should be increased because interruptible service customers have seen rates increase during the past few years without a corresponding increase in the interruptible service discount. However, the Department recommended a more moderate increase of 3 percent. The Department believes a smaller increase is appropriate given the limited number of service interruptions over the last several years as well as the Company's claim that it currently has sufficient levels of interruptible load. The Department acknowledged that it did no independent analysis of its

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<sup>39</sup> Ex. 344, Maini Direct, at 39.

<sup>40</sup> Ex. 344, Maini Direct, at 39.

<sup>41</sup> Ex. 344, Maini Direct, at 39.

own on participation levels, relying on Xcel's representations.<sup>42</sup> Xcel's representations about maintaining levels of participation were incorrect.<sup>43</sup>

825. MCC agreed that interruptible service discounts should be increased. MCC pointed to the positive impact interruptible service has on the system. MCC noted that the Company's proposed increases would translate to an annual credit ranging from \$37.80/KW-year to \$70.20/KW-year. MCC recommended, however, that the interruptible service discount for Tier 1-C be increased from \$60.60/KW-year to \$77.24/KW-year with the other performance factors and tiers adjusted accordingly to maintain the current relationships between them. Full avoided cost would equal \$127.56/KW-year.<sup>44</sup> MCC also identified the need to address significant costs of participants as reason to increase the credit. Costs to participants include additional employee costs (engineers and others that were necessary to hire), monitoring and testing, reporting and overtime costs, capital costs for compliance of RICE compliance, fuel costs regardless of being called on (fuel must be rotated as it does have a useful life).<sup>45</sup> Finally, MCC identified error by Xcel and the Department in relying on Xcel in concluding that the credit has been sufficient to maintain levels of participating interruptible participants. Participation has actually dropped by 136 participants and 67MW.<sup>46</sup> MCC based its proposed discount calculation on a portion of its calculation of the avoided capacity cost, the cost to participants to be prepared for interruption and the need to maintain participation for the planning benefit provided to for other ratepayers.

827. Although the Company has utilized interruptible service on only a few occasions during the past two years, it argued that having the option to interrupt as conditions warrant provides significant value, especially when supply and demand factors are quickly altered. The Company does not expect its proposal to materially increase the amount of interruptible load, but instead expects its proposal to help maintain an optimal supply of interruptible load. Regardless of interruption, other ratepayers receive the benefit of interruptible customers through avoided capacity purchases.<sup>47</sup> The Company believes the Department's recommended increase is too small while MCC and XU's proposals go too far.

828. All parties agree that some increase in interruptible service discounts is necessary. Based on the evidence in the record, the ~~Administrative Law Judge concludes that the Department's proposal to increase the Level C Performance Factor interruptible service discounts by restoring the relative value of the credit to what it has been in the past (prior to the last rate case), to \$77.24/KW-year for Tier1 Performance Factor C<sup>48</sup> by three percent, and institute corresponding increases for the other performance factors to maintain the current~~

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<sup>42</sup> Transcript Pierce, Vol. 4 at 201:1-202:19.

<sup>43</sup> Ex. 145, Maini Opening Statement at Attachment A, Xcel answers to b and c, since 2010.

<sup>44</sup> Ex. 343, Maini Direct at 38:7-15.

<sup>45</sup> Ex. 345, Maini Surrebuttal, at 24:19-25.

<sup>46</sup> Ex. 145, Maini Opening Statement at Attachment A, answers to b and c, since 2010.

<sup>47</sup> Transcript Huso, Vol. 2 at 183:18-22.

<sup>48</sup> Ex. 343, Maini Direct at 38:7-15.

relationship between tiers is the most reasonable. ~~The other parties have failed to demonstrate that a~~ Increasing participation in the interruptible program is consistent with the direction in Xcel's most recent IRP order.<sup>49</sup> A larger increase than proposed by Xcel is necessary to maintain an optimal supply of interruptible load.

**E. Tariff Proposals - Coincident Peak Billing and Definition of Contiguous**

The Findings are somewhat inconsistent with respect to Coincident Peak Billing and Definition of Contiguous. Specifically, the Findings on Coincident Peak Billing should be modified to be consistent with Finding on Contiguous and demand aggregation. Further the Coincident Findings can be made more accurate with respect to cost allocation recommended by MCC.

**Modified Findings and Conclusions**

~~953. While MCC's current coincident peak billing proposal has more specificity than its last proposal, the Administrative Law Judge concludes that its current proposal is still not and is sufficiently developed to show that it will result in reasonable rates. By allocating any increased cost of metering and changes to the billing system, these customers would not be adding costs to the system that would be paid by other ratepayers and would allow customers to benefit from the diversification they bring to the system. MCC has not addressed how the cost of implementing the new billing system would be recovered, other than to express through its acceptance of a reasonable meter charge, which could include the cost of changing the billing system, meter changes and any administrative costs. MCC has not provided any evidence to demonstrate that it would be cost-effective for any of the nine customers to implement coincident peak billing if the customer is responsible for the cost of the new meters and also a reasonable meter charge. Finally, MCC has not explained how its current proposal differs from the experimental demand aggregation rider program cancelled by the Company in 2001 due to lack of interest. Significant time has passed, technology has changed and fundamental rate modifications have been made since the 2001 rider was in place and it is appropriate to now make a tariff change, or in the alternative, develop another experimental rider.~~

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<sup>49</sup> ORDER ESTABLISHING PROCEDURAL SCHEDULES AND FILING REQUIREMENTS, *In the Matter of Xcel Energy's 2011-2025 Integrated Resource plan*, Docket No. E-002/RP-10-825 ("2010 Xcel IRP ORDER") (November 30, 2012) at 12 ("achieving participation rates in for demand response programs in the top 25 percent" and to "evaluate higher levels of cost-effective and feasible demand response")

958. The Administrative Law Judge concludes that MCC's request for adoption of the statutory definition of "contiguous" as part of the Company's current tariff is reasonable. ~~Although the Administrative Law Judge has concluded that coincident peak billing is not appropriate under the facts in this record,~~ MCC has shown that use of the statutory definition of "contiguous" would be beneficial. Formal application of the statutory definition in a revised tariff would provide uniformity and benefit to current customers looking to take advantage of demand aggregation.

#### **IV. FINAL CONCLUSIONS AND REQUEST FOR ORAL ARGUMENT**

For the reasons stated above, the Chamber objects, in part, to the ALJ's Findings of Fact, Conclusions, and Recommendation as discussed herein. The Chamber requests the opportunity to present oral argument on these matters. The Chamber accepts the remainder of the ALJ's report and urges the Commission to adopt, as modified by these Exceptions, the ALJ's recommendations.

Respectfully submitted,

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**ATTORNEYS FOR MINNESOTA CHAMBER OF  
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## CERTIFICATE OF SERVICE

I, Wendy S. Latuff, hereby certify that I have this day, served a true and correct copy of the following document to all persons at the addresses on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States mail at St. Paul, Minnesota.

**Minnesota Chamber of Commerce**  
**EXCEPTIONS TO THE FINDINGS OF FACT, CONCLUSIONS, AND**  
**RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE**

Docket Number **E-002/GR-13-868**  
Dated this **20th** day of **January, 2015**

/s/ Wendy S. Latuff

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