

**STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION**

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

PUC Docket No. E-002/GR-13-868
OAH Docket No. 68-2500-31182

**EXCEPTIONS TO ALJ'S REPORT
OF CLEAN ENERGY INTERVENORS**

January 20, 2015

I. INTRODUCTION

Pursuant to Minnesota Statutes Section 14.61 and Minnesota Rule 7829.2700, the Clean Energy Intervenors¹ respectfully file these Exceptions to the Findings of Fact, Conclusions, and Recommendations of the Administrative Law Judge (“ALJ”), dated December 26, 2014. Clean Energy Intervenors generally support the ALJ Report and note only one exception for which we provide amended Findings for the Commission to consider.

II. EXCEPTION: LEGAL STANDARDS

Clean Energy Intervenors submit an exception to Finding No. 46 in the “Legal Standards” section of the ALJ’s Report, which reads:

46. The Commission must set rates that are just and reasonable, balancing the interests of the utility and its customers. A reasonable rate enables a utility not only to recover its operating expenses, depreciation, and taxes, but also allows it to compete for funds in the capital market. Minnesota law recognizes this principle when it defines a fair rate of return as the rate which, when multiplied by the rate base, will give a utility a reasonable return on its total investment.

Clean Energy Intervenors respectfully suggest that the ALJ’s description of the substantive legal standard as focused solely on the utility’s revenue recovery and rate of return is too narrow. Finding No. 46 states that the substantive standard applicable to rate cases is to “set rates that are just and reasonable, balancing the interests of the utility and its customers.” It further explains that a reasonable rate allows the utility to recover its expenses and provide for a reasonable return on its total investments. In the Findings that follow, Nos. 47 through 49, the Report summarizes applicable statutes (including Minn. Stat. § 216B.03), rules and case law that assign burden of proof, establish the standard of proof, and explain both the fact-finding and policy roles of the Commission. But these findings do not reflect the fact that Minn. Stat. § 216B.03 establishes *other* important legal standards that are equally as important as fair rates.

¹ Clean Energy Intervenors include the Minnesota Center for Environmental Advocacy, Natural Resources Defense Council, The Izaak Walton League- Midwest Office, Fresh Energy, and Sierra Club.

Specifically, Minn. Stat. § 216B.03 mandates that the Commission “to the maximum reasonable extent . . . set rates to encourage energy conservation and renewable energy use” and “to further the goals” of state statutes promoting co-generation, small distributed generation, and conservation improvement programs. While a utility may have little incentive to propose or structure its rates to accomplish these goals, this is the legal standard the Legislature has set out for this Commission.

Moreover, other sections of the Report acknowledge this broader set of criteria for setting rates and the necessity of balancing a range of policy goals to arrive at a rate design most consistent with the broad public interest. For example, Finding No. 667 in the “Rate Design Issues” section acknowledges that encouraging conservation is one of four main principles the Commission relies upon in establishing fair and reasonable rates:

667. The Commission has relied on the following four principles in establishing reasonable rate design:

- i. Rates should be designed to allow the utility a reasonable opportunity to recover its revenue requirements, including the cost of capital;**
- ii. Rates should promote the efficient use of resources by sending appropriate price signals to customers, reflecting the cost of serving those customers. An appropriate price signal encourages conservation by customers;**
- iii. Rate changes should be gradual in order to limit rate shock to consumers. Rate stability and continuity are important to both the utility and the consumer. Consumers benefit from protection against rate shock associated with dramatic increases in rates, and utilities are afforded the opportunity to recover a steady revenue requirement; and**
- iv. Rates should be understandable and easy to administer. Maintaining ease in administration and understanding helps ensure that customers have a better understanding of their utility bills.**

Specifically referencing this conservation principle in the “Legal Standards” section would render the Report consistent with the overall content of the Findings of Fact, Conclusions of Law and Recommendations, as well as render it consistent with applicable Minnesota law.

Thus, Clean Energy Intervenors respectfully submit this exception to Finding No. 46 and offer the following amendment:

46. The Commission must set rates that are just and reasonable, balancing the interests of the utility and its customers. A reasonable rate enables a utility not only to recover its operating expenses, depreciation, and taxes, but also allows it to compete for funds in the capital market. Minnesota law recognizes this principle when it defines a fair rate of return as the rate which, when multiplied by the rate base, will give a utility a reasonable return on its total investment. In addition, the Commission must set rates to encourage energy conservation, to encourage the use of renewable energy, to promote co-generation and distributed small generation, and to support the goals of the conservation improvement statute, Minnesota Statutes, Section 216B.241.

III. CONCLUSION

Clean Energy Intervenors appreciate this opportunity to file exceptions to the ALJ's Report in this matter.

Dated: January 20, 2015

Respectfully submitted,

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