

E-002/GR-91-1 ORDER SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

ISSUE DATE: March 22, 1991
DOCKET NO. E-002/GR-91-1
ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On January 28, 1991, Northern States Power Company (NSP or the Company) filed a petition seeking a general rate increase of approximately \$98,200,000, or 8.1%. Along with the rate increase petition, the Company filed a proposed interim rate schedule to go into effect on March 29, 1991. The interim rate request, if allowed, would increase present revenues by \$71,904,000, or 5.94%.

On March 11, 1991, the Commission issued its NOTICE AND ORDER FOR HEARING, in which the Commission referred the general rate case to the Office of Administrative Hearings for contested case proceedings.

The Commission also issued its ORDER ACCEPTING FILING AND SUSPENDING RATES in this proceeding on March 11, 1991. Under Minn. Stat. § 216B.16, subd. 3 (1988), if rates are suspended the Commission must set an interim rate schedule within 60 days of the Company's initial rate petition.

The Company's proposed interim rates came before the Commission for consideration on March 13, 1991.

FINDINGS AND CONCLUSIONS

The Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3 (1988) states in part as follows:

***** Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall

include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design. *****

The Company Proposal

NSP proposed an interim rate increase of \$71,904,000, based on the following revenue summary (000's omitted):

Rate Base	\$2,234,908
Rate of Return	9.79%
Required Operating Income	218,718
Net Operating Income	175,913
Income Deficiency	42,805
Revenue Conversion Factor	1.679825
Revenue Deficiency	71,904

Comparison of Terms

Prior to the rate proceeding herein, the most recent rate proceeding filed by the Company was at Docket No. E-002/GR-89-865 (the 89-865 Docket). An ORDER SETTING INTERIM RATES was issued by the Commission in the 89-865 Docket on December 29, 1989. The petition for a final rate increase was ultimately rejected, however, in the Commission's August 28, 1990 FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER. The Commission later denied the Company's request for reconsideration and required the Company to refund the interim rates it had collected. The Company has withdrawn its appeal of the denial of increase and of the Order requiring refund.

The Company's last petition for rate increase which was approved by the Commission was at Docket No. E-002/GR-87-670 (the 87-670 Docket). The rates and terms set in the 87-670 Docket are therefore controlling at the time of the present petition for rate increase. For purposes of the interim rates statute, comparisons must be made between the terms in the current filing and the terms of the 87-670 Docket to determine if they are unchanged or the same in nature and kind.

Rate Base and Expense Issues

Nuclear Fuel Sinking Fund

In the 89-865 Docket, the Company proposed reductions in operating income and rate base to reflect its intention to establish a nuclear fuel sinking fund. This fund would recover

costs attributable to unused nuclear fuel when the Company's three nuclear reactors are decommissioned. Because the fund did not at that time exist, and was therefore not the same in nature and kind as any item allowed in the Company's previous rate case, the Commission disallowed this expense in setting interim rates in the 89-865 Docket.

Since the Commission's consideration of the 89-865 Docket, it has approved a nuclear fuel sinking fund as a necessary nuclear decommissioning expense. In the Matter of the Petition of Northern States Power Company for Depreciation Certification for Expected Decommissioning Costs for the Monticello and Prairie Island Nuclear Steam Generating Facilities, Docket No. E-002/D-90-184, ORDER DETERMINING DECOMMISSIONING COSTS, APPROVING COST RECOVERY PROCEDURES, AND ESTABLISHING FUTURE FILING REQUIREMENTS. Since nuclear decommissioning costs have been approved in prior rate cases including the 87-670 Docket, expenses for a nuclear fuel sinking fund would therefore now be the same in nature and kind.

In the current docket, the Company has asked to include costs of a nuclear fuel sinking fund as an expense item. Based upon the analysis above, the Commission will allow this item as an expense for the purposes of setting interim rates.

Demand-Side Management Incentives

Demand-side management (DSM) is a method of adjusting energy production and consumption by means of conservation measures and load management techniques. On March 19, 1991, the Commission approved NSP's proposal for an experimental demand-side management incentive mechanism in its ORDER APPROVING PROPOSAL AND REQUIRING FURTHER FILINGS, In the Matter of the Proposal of Northern States Power Company's Electric Utility for a Demand-Side Management Incentive Mechanism, Docket No. E-002/M-90-1159. In that Order, the Commission also determined that issues of cost recovery stemming from the Company's DSM plan should be addressed in NSP's current rate filing, the docket herein.

Under the accounting and ratemaking mechanism NSP contemplates for implementing its DSM plan, the test year revenue deficiency would decrease by almost \$7 million. At the time that the Company filed its request for interim rates, however, the Commission had not made a determination on the DSM proposal. The Company did not therefore include the financial impact of the DSM plan in its interim rates petition.

The Commission finds that the exclusion of the projected financial impact of the DSM plan is appropriate at this time. Issues stemming from the plan will be fully addressed in the final rate proceeding. A formal evidentiary hearing will allow the Commission to address fully the financial impact of the incentive mechanism. The Commission will accept the Company's interim rate filing as submitted, without adjusting for effects of the DSM incentive plan.

Interim Rate of Return

The Company's Proposal

NSP proposed the following capital structure and cost rates for interim rates:

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	41.98%	8.65%	3.63%
Short Term Debt	0.42%	7.78%	0.03%
Other Debt	2.50%	9.38%	0.23%
Preferred Stock	9.85%	6.13%	0.60%
Common Equity	45.25%	11.70%	5.30%
TOTAL	100.00%		9.79%

In the 87-670 rate case, the Commission allowed the following capital structure and cost rates:

Long Term Debt	40.96%	8.45%	3.46%
Short Term Debt	2.73%	6.89%	0.19%
Preferred Stock	11.06%	6.74%	0.74%
Common Equity	45.25%	11.70%	5.29%
TOTAL	100.00%		9.68%

Rate of Return on Common Equity

NSP has requested a rate of return on common equity of 11.70% for the purpose of interim rates. This rate is the same as that adopted in the 87-670 Docket, the last rate proceeding in which a rate of return on common equity was accepted by the Commission. NSP's proposed rate of return on common equity is thus acceptable under the interim rates statute.

Capital Structure

NSP has proposed a capital structure with a 45.25% common equity ratio. This ratio is consistent with the Company's 1987 general rate case, 87-670, in which the parties stipulated to and the Commission adopted a 45.25% equity ratio for the Company. The Company's proposed equity ratio for interim rates is thus acceptable under the interim rates statute.

Interim Rate Design

The Company has proposed collecting its interim rate increase equally from all classes of customers by applying a surcharge of \$5.94% to each retail rate schedule, thus producing \$71,904,000 in additional revenues. The Commission finds that this rate design is the same as that found in the Company's 1987 rate case,

the 87-670 Docket. NSP's proposed interim rate design is thus in conformance with the interim rates statute, which allows "no change in the existing rate design".

Commission Action

Based on the findings and conclusions above, the Commission will authorize an interim revenue increase of \$71,904,000, or 5.94% of revenues under current rates, for NSP. The interim rate schedule will be effective on March 29, 1991.

Interim rates are collected subject to refund in the event the interim rate level exceeds the final rate level allowed in the general rate case. Minn. Stat. § 216B.16, subd. 3 (1988).

ORDER

1. Northern States Power Company is authorized to collect \$71,904,000 in additional annual revenues, or 5.94% of revenues under current rates. The interim rate schedule will be effective on March 29, 1991.
2. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets reflecting the decisions herein.
3. The Company shall keep such records of sales and collections under interim rates as will be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)