March 20, 1995

DOCKET NO. E-002/M-94-1016

ORDER GRANTING VARIANCES AND APPROVING A CIP ADJUSTMENT AS MODIFIED

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Joel Jacobs	Commissioner
Dee Knaak	Commissioner

In the Matter of the Petition by Northern States Power Company's Electric Utility for Approval of an Annual Recovery Mechanism for Conservation Improvement Program Expenses

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PROCEDURAL HISTORY

On October 28, 1994, Northern States Power Company electric utility (NSP or the Company) filed its petition for a Conservation Improvement Plan (CIP) adjustment.

On December 28, 1994, the Minnesota Department of Public Service (the Department) filed its comments.

On February 23, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. NSP's Proposal

♦ The CIP Adjustment

NSP proposed a CIP adjustment of 0.75 percent, based on a year-end 1994 tracker balance of $10,580,747. NSP noted that its conservation expenditures have risen rapidly over the past four years, from $13.1 million in 1991 to an expected $44.9 million in 1994 and $52.2 million in 1995.

NSP based its adjustment on its projected 1994 year-end CIP tracker balance of $10,580,747. To reach this figure, NSP used eight months' actual and four months' forecasted information. Consistent with the recommendations of the Implementation Study Group, the tracker balance does not include any financial incentives which have not been approved by the Commission.

Dividing this balance by 1995 forecasted revenues of $1,417,848,000, NSP arrived at an adjustment of 0.75 percent.

- **Application of the Adjustment**

The Company proposed to implement the adjustment as a surcharge to customer's bills, applied before the calculation of taxes and city fees. Revenues collected under the surcharge would be credited to the CIP tracker.

NSP proposed that this adjustment be implemented January 1, 1995 and remain in place until June 30, 1996. On April 1, 1996 NSP would file a new adjustment based on the Company's 1995 year-end tracker balance. That adjustment would be implemented beginning July 1, 1996. Thereafter, NSP would file a recalculation of its adjustment April 1 of each year.

- **CIP Tracker Balance**

NSP's CIP tracker balance was zeroed out as of December 31, 1992. Its year-end 1993 balance was negative. The projected 1994 balance of $10,580,747 represents one year of tracker activity. As such, NSP proposed to collect the balance over one year of the adjustment and not to amortize the tracker balance, as other utilities have done.

- **Notification and Billing**

The Company proposed to reflect the adjustment on customer bills combined with the Fuel Adjustment Clause and, if approved, any adjustments relating to changes in taxes, fees and permits as proposed in Docket E-002/M-94-915. All of these items would be combined in a single line entitled the "Resource and Tax Adjustment Clause." Customers would be notified of the change, and would have full explanation of billing components available to them upon request.

- **Rule Variances**

In order to combine these items on the bill, NSP requested variances to Minn. Rules Parts 7820.2600 and 7820.3500 (k), which require any fuel adjustment clause to be separately itemized on customer bills. The Company argued that this request met the conditions of Minn. Rules, Part 7829.3200 for variances. Requiring each of these adjustments to be itemized separately would result in long and confusing bills. Itemized billing would be available to customers who request it. The Commission has granted similar variances for other utilities who have received CIP Adjustments.

In addition, NSP requested a variance from Minn. Rules part 7825.3600, which requires new tariff pages to be filed showing all proposed changes in rates. NSP argued that this would require the refiling of all tariff sheets, incorporating the proposed rider by reference. The Company suggested that this would be time-consuming and burdensome. The proposed rider itself provides enough explanation of the proposed change. If the CIP adjustment is approved, NSP will then file the required new tariff sheets.

B. The Department's Comments

The Department stated that the Company's proposal, with a slight modification, is reasonable and consistent with the report of the Implementation Study Group.[1] It noted that NSP does not propose to amortize the existing tracker balance over a three-year period, as recommended by the report. Since NSP's tracker reflects only activity from 1994, the Department stated that the Company's proposal to recover the tracker over one year is reasonable.

The Department objected, however, to NSP's mix of actual and forecasted data, noting that the report discusses using either historical or forecasted expenses, and not both. It requested that the Company file its updated tracker balance, which included actual information through November, 1994. The Department stated that the balance for this period is $9,559,482. The Department expressed approval of the presentation of eleven months' actual and one month forecasted data, and recommended that the CIP adjustment factor be set at 0.67 percent.

The Department also recommended that the Commission grant NSP's requested variances.

C. The Commission's Analysis

The Commission finds the Company's proposal generally acceptable and will approve it, with one exception which will be discussed in detail below. In addition, the variances requested as part of this proposal will be granted as explained in detail below.

1. Calculation of NSP's CIP Adjustment

The key issue in this matter is whether NSP's CIP adjustment should be calculated based on its historical CIP expenditures or based on forecasted CIP costs. NSP stated that it chose to use the historical cost approach in calculating its proposed CIP adjustment to mitigate the rate impact of the adjustment in the first year.

It is true that in NSP's case, a CIP adjustment using forecasted costs is considerably higher than one based on historical costs: 2.45 percent rather than .75 percent. This is because NSP is experiencing rapidly rising CIP expenditures.

However, for the same reason, the historical approach is not as good at matching cost recovery

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[1] The CIP Adjustment Implementation Study Group met three times between July and September, 1993 and achieved agreement on a substantial number of issues. The agreements are set forth in the "Report of the CIP Adjustment Implementation Study Group," which was distributed to the Commission on November 8, 1993.

with the timing of the expenditure (who pays/who benefits) as the forecasted approach. In addition, rate impact is cushioned for only one year. Under the historical approach, the rate impacts for the second year would be similar to the first-year impacts under the forecasted. Moreover, although funds approved in the CIP tracker are guaranteed recovery, use of the historical approach to calculate the CIP adjustment leaves more of the actual costs unpaid for a longer period of time, hence generating carrying costs which ratepayers eventually must pay. In NSP's case, these carrying costs are substantial. Under the Company's historical approach, the CIP tracker will stand at over $31 million at year-end 1995 and will have accrued 1995 carrying charges of over $1.4 million.

In these circumstances, the Commission finds that it is more appropriate to provide more accurate matching and timely recovery by approving a forecasted adjustment. The Commission will the resulting adjustment, 2.45 percent for 1995.

2. Rule Variances

The rule variances implicated in the Company's proposal are warranted and will be granted.

a. Combined Presentation on Bills

Minn. Rules, Parts 7820.2600 and 7820.3500 (k), require any fuel adjustment clause to be separately itemized on customer bills. NSP proposed to present the CIP adjustment with the Fuel Adjustment Clause and any adjustments relating to changes in taxes, fees, and permits authorized in Docket No. E-002/M-94-915 in a single line.[2]

A variance from the separate itemization requirement of Minn. Rules Parts 7820.2600 and 7820.3500 (k) is warranted. Separate itemization would result in long confusing bills that would unduly burden ratepayers for no appreciable gain. Itemized billing will be made available to customers who request it. Combined presentation avoids singling out conservation costs for special treatment, thereby serving the public interest. Finally, the variance conflicts with no standard imposed by law and may be properly granted, as provided for by Minn. Rules, Part 7829.3200.

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[2] The title of this single line originally proposed by the Company included reference to a tax adjustment. In another docket, the Commission has permitted NSP to withdraw its request for a property tax adjustment. Docket No. E-002/M-94-915. It is expected, therefore, that in its compliance filing NSP will change the title of this line to delete reference to a tax adjustment.

b. New Tariff Pages

Minn. Rules, Part 7825.3600, requires that a company proposing new rates file with its proposal new tariff pages showing all proposed changes in rates. NSP did not do so and requested relief from this requirement. The Company explained that compliance would require the filing of all its tariff sheets, revised by incorporating the proposed rider by reference. The Company argued that this would be time-consuming and burdensome. The Company agreed that if the CIP adjustment was approved, it would then file the required new tariff sheets.

The Commission will grant the requested variance. The proposed rider itself provides enough explanation of the proposed change. Filing revised tariff pages incorporating the proposed rider would not increase the Commission's ability to understand the proposal and would require extensive filings. In these circumstances the requirement is unduly burdensome and waiving it does not interfere with the public interest. No statute imposes this requirement. Accordingly, the variance can and will be granted. See Minn. Rules, Part 7829.3200.

ORDER

1. Variances from the filing requirement of Minn. Rules, Part 7825.3600 and the separate itemization requirement of Minn. Rules, Parts 7820.2600 and 7820.3500 (k) are granted.

2. A 2.45 percent CIP Adjustment for 1995, based on 1995 forecasted CIP expenditures is approved for the Company.

3. The remainder of NSP's proposal is approved.

4. Within 10 days of this Order, NSP shall file revised tariff sheets reflecting the rate changes approved in this Order.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)