

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Ellen Gavin	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayner	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of an Investigation into Informing
Customers of the Costs of Generation and
Delivery of Electricity

ISSUE DATE: December 20, 2002

DOCKET NO. E-999/CI-01-1127

ORDER APPROVING PROPOSALS WITH
MODIFICATIONS AND REQUIRING
COMPLIANCE FILING, ADDITIONAL
DISCLOSURES AND REPORTING

PROCEDURAL HISTORY

On February 1, 2001, Northern States Power Company d/b/a Xcel Energy (NSP) petitioned for authorization to display the cost of its electric transmission and distribution on customer bills.¹

On February 16, 2001, Otter Tail Power Company (OTP) petitioned for authorization to display the cost of its electric generation, transmission and distribution on electric service bills.²

On August 8, 2001, the Commission issued an ORDER DENYING PETITIONS AND INITIATING INVESTIGATION. The Order directed OTP and NSP to meet with other parties to design a Minnesota-wide uniform approach to reasonably inform their customers of the cost of electric generation and delivery.

On December 16, 2001, the Minnesota Department of Commerce (the Department) filed a Work Group Progress Report and Proposal with the Commission.

¹ *In the Matter of the Petition of Xcel Energy to Display Unbundled Transmission and Distribution Costs on Customer Bills*, Docket No. E-002/M-01-166.

² *In the Matter of the Petition of Otter Tail Power Company to Display Unbundled Transmission and Distribution Costs on Customer Bills*, Docket No. E-017/M-01-234.

On March 22, 2002, the Commission issued its ORDER REQUIRING DISCLOSURE OF COST INFORMATION AND ESTABLISHING COMMENT PERIOD, adopting the Work Group's recommendations and directing Minnesota's electric utilities to file proposals for disclosing energy generation and delivery costs.

By June 24, 2002, the Commission had received proposals from Dakota Electric Association (Dakota Electric), Interstate Power and Light Company (Interstate Power), Minnesota Power, NSP and OTP.

On July 19, 2002, the Department filed comments recommending that the Commission approve the proposals with modifications.

On August 1, 2002, NSP filed comments.

The Commission met on September 12, 2002 to consider this matter.

FINDINGS AND CONCLUSIONS

I. BACKGROUND

The traditional electricity utility performs at least three functions: generation, transmission, and distribution. Generally, generation consists of creating electrical charges at different points, and establishing a circuit through which a current would flow; the current could then be harnessed to do work. Generally, transmission consists of extending the circuit at relatively high voltage, often over relatively long distances, for subsequent distribution. Generally, distribution consists of extending the circuit over relatively short distances at relatively low voltage for consumption.³

Historically the price a customer would pay for electricity would reflect the cost of performing all these functions. A customer would have no means of knowing what portion of his or her bill was due to generation, what portion to transmission, and what portion to distribution. The current docket was opened to provide customers with access to this kind of information.

³ See the Federal Energy Regulatory Commission's *Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Docket No. RM94-7-001; *Promoting Wholesale Competition Through Open Access Non-discriminatory Transmission Services by Public Utilities*, Docket No. RM95-8-000, 75 FERC 61,080, ORDER NO. 888 FINAL RULE, FERC Stats. & Regs. ¶ 32,514 at 33,145 (April 24, 1996) (Order 888); *In the Matter of the Informal Filing and Request for Technical Conference by Northern States Power Company Regarding Electric Cost-Separation Methods*, Docket No. E-002/M-98-1878, Office of Administrative Hearing's Summary of Proceedings (April 14, 1999).

II. THE DEPARTMENT'S WORK GROUP PROGRESS REPORT AND PROPOSAL

The Department reported that several parties⁴ met on November 9, 2001 to design a Minnesota-wide uniform approach to disclosing energy generation and delivery costs. According to the Department, the Work Group made the following recommendations:

- Each utility should calculate the proportion of its electricity costs that derives from the cost of generation, transmission and distribution, respectively. By June of each year, utilities should perform a separate calculation for each customer class as follows:
 - A. Each utility should identify the costs it incurs to serve customers in Minnesota.
 - B. For purposes of this disclosure, each utility should identify at least three customer classes – such as a residential class, a commercial class and an industrial class.
 - C. The utility should determine the amount of its Minnesota jurisdictional costs that were incurred to serve each customer class during the past calendar year.
 - D. The utility should determine the amount of each class' costs that were incurred for generating, transmitting and distributing the electricity, respectively. The utility should then calculate the percentage of each class' costs that were incurred for each function.
 - E. Each utility should revise its calculations and methods to reflect each new year's data, and to reflect changes arising through a rate case.
- Utilities should provide this information on customers' monthly bills. In addition, each utility should prepare a brochure providing more details about this information, to be distributed to its customers annually. The brochure should clarify the purpose of the cost information and how the costs relate to components of the utility's plant. A utility should begin distributing its cost brochure when it begins distributing monthly bills containing the cost information.
- The bills and brochures should state that the data reflects class averages and may not reflect data specific to any given customer. The bills and brochures should also provide a phone number where customers may obtain more information from the utility.

III. UTILITY FILINGS AND DEPARTMENT RECOMMENDATIONS

As noted above, the Commission adopted the Work Group report and directed electric utilities to file proposals for complying with the group's recommendations. After the Commission received proposals from Dakota Electric, Interstate Power, Minnesota Power, NSP and OTP, the Department offered its analysis and recommendations.

⁴ The Minnesota Chamber of Commerce, Minnesota Energy Consumers, Minnesota Power, the Residential and Small Business Utility Division of the Attorney General's Office, OTP, NSP, and the Department.

A. Utility Filings

1. Dakota Electric

Dakota Electric proposes to use three customer classes: residential, general service, and small general service.

Dakota Electric did not file a draft bill or brochure, but provided descriptions and proposed text for them. The front of the bill would tell consumers how much of their bill reflected the cost of generation, how much reflected transmission, and how much reflected distribution. The back of the bill would include a brief explanation of the generation, transmission and distribution functions; an explanation that the percentages are based on class averages and may not reflect the customer's specific cost structure; and a phone number for further questions. Dakota Electric also provided draft text for its proposed brochure, including the following:

The generation function is the process of converting mechanical energy into electrical energy, or electricity. Generation facilities are the first link in the chain in providing electricity to customers. The generation function consists of generating plants, fuel and labor to operate these plants. In states that have created competitive retail markets for electricity, competitive choice is limited to this generation function.

The transmission function moves electricity from generating plants over long distances to local service areas, such as the town or neighborhood that you live in. This function consists of fixed costs for high voltage lines and labor to operate and maintain these facilities. Transmission lines are typically those consisting of large steel or wood structures and wires. Transmission services and rates for these services are regulated by the federal government through the Federal Energy Regulatory Commission.

Dakota Electric provides all the services to its member-consumers that make up the **distribution function**. Distribution is the final link in the chain built to deliver electricity to your home or business. Dakota Electric's distribution plant includes substations, poles, wires, transformers and meters. These facilities are required to convert and deliver high voltage power from the transmission system into voltage that is usable in homes and businesses. Service and labor expenses incurred by Dakota Electric include the operation and maintenance of facilities as well as billing and customer services.

Finally, Dakota proposes to include an article in its newsletter explaining the cost percentage figures and how they relate to the electric system and its operations.

The Department recommends that the Commission approve Dakota Electric's proposal, but proposes modifying two of the brochure's paragraphs. First, the Department recommends omitting the first and last sentences of the paragraph discussing generation. The Department is concerned that the reference to deregulation triggers the need for further explanation which Dakota Electric does not provide; and if Dakota Electric were to provide the necessary explanation, it would unavoidably shift the focus of this communication away from the focus on cost information.

In the paragraph addressing transmission, the Department also recommends omitting the word "fixed" from the second sentence, and omitting the last sentence entirely. Again, the Department is concerned that the brief references to the distinctions between fixed and variable costs, or between the state and federal regulatory jurisdictions, raise more questions than they answer, and that answering those questions would distract from the brochure's main focus on cost.

2. Interstate Power

Interstate Power defines four customer classes – residential, large power and light, farm, and general service. But Interstate Power did not use the Work Group formula for calculating the percentage of each customer class' costs attributable to generation, transmission and distribution. Instead, it bases its percentages on the results of a class cost-of-service study performed during its last rate case, updated to reflect subsequent changes.

The Department notes that the Work Group formula was designed specifically to reflect how rates recover the cost of generation, transmission and distribution. While Interstate Power's cost-of-service study may be well grounded, and may in fact produce similar outcomes to the Work Group formula, nevertheless the Department recommends that Interstate Power use the Work Group formula.

Interstate Power's filing includes a draft utility bill and brochure. While the Department generally recommends that the Commission approve Interstate Power's filing, the Department also suggests that Interstate Power's brochure could benefit from more visual aids. The Department notes that Minnesota Power and OTP make good use of visual aids in their brochures.

3. Minnesota Power

Minnesota Power defines four customer classes – residential, commercial, industrial and lighting. Consistent with the Work Group's recommendations, Minnesota Power allocates costs among the generation, transmission and distribution functions, and then allocates the cost of each function among the customer classes.

Minnesota Power's filing includes a draft utility bill and brochure. Along with fulfilling the recommendations of the Work Group, the bill includes customer-specific information about trends in the customer's energy consumption.

The Department praises Minnesota Power's proposed bill and brochure lay-outs, and recommends that the Commission approve Minnesota Power's proposal.

4. NSP

NSP defines four customer classes: residential, commercial/industrial customers that are billed solely on the basis of the amount of energy consumed, commercial/industrial customers that are billed both on the basis of the amount of energy consumed and the amount of power required to serve the customer, and other (including street lighting). NSP calculates generation, transmission and distribution cost percentages for each of these customer classes, and documents its methods.

While NSP's filing did not include a draft customer bill or brochure, NSP explained the approach it plans to take in developing these documents, and stated its intention to distribute its brochure twice a year.

NSP currently lists its generation cost (per kilowatt-hour) on its customer bills.⁵ NSP stated its intention to discontinue this practice once it begins issuing bills disclosing percentage costs of generation, transmission and distribution.

The Department recommends that the Commission approve NSP's proposal, but asks that the Commission direct NSP to adopt the formats set forth by Minnesota Power.

5. OTP

OTP defines three customer classes – residential, small commercial, and large commercial – and then disaggregates each class into sub-classes. For example, the “residential” class is disaggregated into residential service, controlled service water heating, and controlled service interruptible. Consistent with the Work Group's recommendations, OTP allocates costs among the generation, transmission and distribution functions, and then allocates the cost of each function among the customer classes.

OTP's filing contains a sample residential bill. On the side opposite the billing information, the sample bill shows energy usage over time; the proportion of the bill associated with the generation, transmission and distribution functions, respectively; and a disclaimer noting that the data reflects average usage for the customer class and may not reflect the usage or costs of any specific customer.

⁵See *In the Matter of the Petition of Northern States Power Company for Authorization to Display Unbundled Generation Costs on Customer Bills*, Docket No. E-002/M-00-791 ORDER AUTHORIZING DISPLAY OF OVERALL GENERATION COSTS ON CUSTOMER BILLS AND OPENING AN INVESTIGATION INTO DISCLOSURE OF ENVIRONMENTAL INFORMATION (October 27, 2000).

The filing also contains a draft brochure. The brochure discusses the peculiar qualities of electricity, describes how it is made and transmitted, how utilities determine its price, and how the cost of generation, transmission and distribution are reflected in that price. It includes the following sentence:

Understanding what determines the price of electricity will be important when deregulation goes into effect, even though its pace has slowed considerably in the states we serve.

While the Department generally approves of OTP's filing, it recommends omitting this sentence. As discussed in evaluating Dakota Electric's brochure, the Department is concerned that the reference to deregulation triggers the need for further explanation which OTP does not provide, and if OTP were to provide the necessary explanation it would unavoidably shift the focus of this communication away from the issue of cost information.

B. Additional Recommendations

The Department proposes that each utility, in addition to providing cost information on customer bills and in an annual brochure, provide similar information on a site on the World Wide Web.

Also the Department proposes that each utility report on the inquiries it receives from customers. Specifically, the Department recommends that each utility file a report one year after it begins disseminating the cost information. The report should identify the number of calls to the utility's call center and the type of questions asked.

IV. REPLY TO DEPARTMENT RECOMMENDATIONS

The only party to reply to the Department's recommendations was NSP. In its reply, NSP agreed with the recommendation to track call center activity, and agreed to post the cost information on the Web. NSP sought to clarify that posting the information on its company Web site, rather than create a new Web site, would satisfy the Department. At hearing, the Department expressed satisfaction with NSP's plans.

Also, NSP's reply explained that NSP did not submit a draft brochure and bill format because it intended simply to update its current brochure and bill format. But at the hearing, NSP acquiesced in the Department's recommendation to use Minnesota Power's format.

V. COMMISSION ACTION

Having clarified matters at hearing, the Commission is not aware of any party opposing the Department's recommendations.

The Commission has reviewed the Department's recommendations about each utility's filings, and finds them appropriate. In particular, the Commission is persuaded on the merits of keeping the message of the brochures on track. As the Commission has noted before,

The success of any public education effort depends upon selecting a focused message. The Commission faces a trade-off between the complexity of the message and the ability to convey it.⁶

The Department's editing has helped to keep the message in the brochures accurate, focused and simple. The Commission will direct the utilities to file draft bills and brochures incorporating the changes discussed above.

The Commission also approves of the recommendation that each utility post its cost information on the World Wide Web. A Web posting does not simply duplicate a brochure or bill notice. A Web posting has the advantages of a reference book: it stores and presents data to people at a time when they are specifically looking for it. A bill notice or brochure, in contrast, has the advantage of informing people without requiring individual initiative, and letting them know what information is available. The Commission concludes that posting the cost information on the Web will complement the bill notices and brochures recommended by the Work Group.

Finally, the Commission approves of the recommendation to have the utilities report on call center activity. This information may help the Commission evaluate the relative effectiveness of each utility's bill statements, brochures, web sites and other communications. That information could be helpful when revising these plans in the future.

ORDER

1. Dakota Electric's proposal for disclosing electric generation, transmission and distribution costs is approved with the following modifications to Dakota Electric's brochure:
 - Dakota Electric shall eliminate the first and last sentence in the paragraph describing the generation functions.
 - In the paragraph describing the transmission function, Dakota Electric shall remove the word "fixed" from the second sentence and remove the entire last sentence.

2. Interstate's proposal is approved with the following modifications:

⁶In the Matter of an Investigation into Disclosure of Environmental Information to Utility Customers, Docket No. E, G-999/CI-00-1343 ORDER REQUIRING DISCLOSURE AND COMPLIANCE FILING (October 2, 2001).

- Interstate shall follow the methodology adopted by the Work Group to calculate the percentages of generation, transmission and distribution cost recovery.
 - Interstate shall improve its brochure by including better visual aids.
3. Minnesota Power's proposal is approved.
 4. NSP's proposal is approved provided that NSP adopt the format of Minnesota Power's customer information brochure.
 5. OTP's proposal is approved provided that OTP remove the sentence that begins, "Understanding what determines the price of electricity will be important when deregulation goes into effect...."
 6. Each of these companies shall file a new brochure incorporating the modifications specified above.
 7. The companies shall post their cost disclosure information on the World Wide Web. They may use their company sites for this purpose.
 8. One year following the dissemination of its cost information, each company shall provide the Commission with call center data, including the number of calls received by the utility's call center and the types of questions received from customers.
 9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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