

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
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In the Matter of an Investigation into Using
Rate Design to Achieve the Demand-Side
Management Goals of Xcel Energy

ISSUE DATE: June 23, 2003

DOCKET NO. E-002/CI-01-1024

In the Matter of Xcel Energy's Time of Use
Rate Proposal

DOCKET NO. E-002/M-02-1894

ORDER DECLINING TO PROCEED WITH
PILOT PROJECT

PROCEDURAL HISTORY

On July 20, 2001 the Commission opened the first case listed above, a comprehensive investigation into the impact of Xcel Energy's rate design on its demand-side management and conservation goals and on the potential for using rate design to further those goals. On February 14, 2002, the Commission issued an Order in that case requiring the Company to develop a residential time-of-use rate pilot project. In subsequent Orders the Commission adjusted implementation dates to accommodate project development needs.

On November 1, 2002, Xcel filed its residential time-of-use rate pilot project; that filing was assigned the second docket number listed above.

Four parties filed comments on the Company's proposal: the Minnesota Department of Commerce, the Residential and Small Business Utilities Division of the Office of the Attorney General, the Energy CENTS Coalition, and the North American Water Office. The Department of Commerce recommended approving the proposal with minor revisions and clarifications; the other parties recommended rejecting the proposal.

The proposal came before the Commission on May 22, 2003. At that time the Company stated that, while it had confidence in the design and efficacy of its pilot project and was prepared to proceed, it was not clear to the Company that this was an opportune time to pursue time-of-use residential rates. The Department then stated that, while it continued to recommend proceeding with the pilot project, it did not oppose declining to proceed at this time.

FINDINGS AND CONCLUSIONS

I. The Company's Proposal

The pilot project was designed to produce statistically reliable data on the economic efficiency of using mandatory residential time-of-use pricing in Xcel's Minnesota service area. The Company planned to compare project data with existing data from its voluntary Saver's Switch program to determine if there were significant efficiencies to be gained by moving to mandatory time-of-use rates.

The Company proposed to randomly assign 4800 residential customers to four test groups with different time-of-use rate structures. Within each of the four rate structures, customers would be further divided into two or three rate groups, with each group assigned a different rate per kilowatt hour. Customers could, and would be encouraged to, monitor their usage patterns over a special website operated by the Company.

The Company concluded that the greatest challenge in determining the conservation potential of time-of-use rates – as well as in designing time-of-use rates to maximize their conservation potential – was the lack of reliable data on how residential customers respond to different price signals. The Company therefore designed the rate structure of the pilot project to secure as much customer response data as possible, even when that meant setting some rates significantly above cost. Customers could, however, be released from the pilot project upon showing either a 35% or \$35 increase in three consecutive monthly bills or upon an individualized showing of hardship.

The Company proposed to run the pilot for twelve months, with a twelve-month extension if necessary to ensure reliable data. The four rate structures, which would have different rate levels for different customer groups, are set forth below.

- (1) Two-part time-of-use rates
 - On-peak rates effective 12:00 p.m. to 9:00 p.m. Monday through Friday;
 - Off-peak rates effective all other times.
- (2) Three-part time-of-use rates
 - Highest on-peak rates effective 2:00 p.m. to 8:00 p.m. Monday through Friday;
 - Mid-peak rates effective 8:00 a.m. to 2:00 p.m. and 8:00 p.m. to 10:00 p.m. Monday through Friday and 2:00 p.m. to 8:00 p.m. Saturday and Sunday;
 - Off-peak rates effective all other times.
- (3) Two-part time of use rates with Critical Peak Pricing
 - On-peak rates effective 12:00 p.m. to 9:00 p.m. Monday through Friday;
 - Critical peak rates effective 12:00 p.m. to 9:00 p.m. up to ten high system-wide usage days per year;
 - Off-peak rates effective all other times.
- (4) Extreme Day Pricing
 - Super-peaking rates effective entire 24 hours of up to ten high system-wide usage days per year;
 - Standard rates effective all other times.

II. Positions of the Parties

A. Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG)

The Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG) opposed the pilot project as unreasonable and inconsistent with the public interest, making the following claims.

First, the RUD-OAG noted that some, if not most, project participants' monthly bills would increase during the pilot project. This, the RUD-OAG argued, was a de facto rate increase that should not occur without the normal procedural and evidentiary protections applicable to rate increases by statute.

Second, the RUD-OAG contended that the pilot project would impose unacceptable costs on participants by causing inconvenience and discomfort far in excess of any benefit they would receive from the project. The RUD-OAG also questioned the appropriateness of subjecting ratepayers, for research purposes, to rates above cost and in excess of amounts ultimately likely to be found reasonable.

Third, the RUD-OAG argued that the Extreme Day and Critical Peak rates, which can be up to four times as high as standard rates and apply only on the ten hottest days of the year, could cause serious harm to vulnerable persons who, out of real or perceived economic necessity, might forgo the essential use of air conditioning or electric fans while those rates were in effect.

Fourth, the RUD-OAG argued that a comprehensive study of residential time-of-use rates recently completed in the state of Washington reduces the need for this pilot project by demonstrating that residential demand for electricity is in fact highly inelastic and that residential time-of-use rates tend to be ineffective in changing usage patterns and unpopular with customers.

Finally, the RUD-OAG argued that the pilot project may result in increased earnings for Xcel, violating the rate freeze provisions of its merger stipulations and Order.¹

B. Energy CENTS Coalition

The Energy CENTS Coalition opposed the pilot project on grounds that it would adversely affect those residential customers who could not shift their electric usage to non-peak hours. The Coalition expressed special concern for low-income ratepayers, fixed-income ratepayers, and ratepayers dependent upon medically necessary equipment.

C. North American Water Office

The North American Water Office opposed the pilot project, stating that the concerns raised by the RUD-OAG were too grave to permit the project to go forward. The Water Office recommended requiring the Company to file a new time-of-use project more closely reflecting the price and cost structures the Company manages as it purchases power and operates its own generation fleet.

¹ In the Matter of the Application of Northern States Power Company for Approval to Merge with New Century Energies, Inc., Docket No. E,G-002/PA-99-1031, ORDER APPROVING MERGER, AS CONDITIONED (June 12, 2000).

D. Department of Commerce

The Department of Commerce filed comments supporting the pilot project, subject to the correction of technical difficulties with the Company's metering equipment, a final report on procedures used to excuse individual ratepayers from project participation, and the clean-up of tariff provisions. In the alternative, the Department's filed comments recommended a cost-benefit analysis of the pilot project, should the Commission question its value. At hearing the Department stated that, while it continued to recommend approving the pilot project, it did not oppose declining to proceed at this time.

E. Xcel Energy

At hearing the Company stated that, while it had confidence in the design and efficacy of the pilot project and was prepared to proceed, it was not clear to the Company that this was an opportune time to pursue residential time-of-use rates.

III. Commission Action

Having examined the entire record and having heard the arguments of the parties, the Commission finds that mandatory time-of-use rates for Xcel's residential customers should not be pursued at this time.

This has been an important and productive investigation. Energy efficiency is clearly vital to the economy, the environment, and individual households and businesses; it is a core regulatory goal. Exploring the potential contribution of residential time-of-use rates was a necessary step in working toward that goal.

That exploration, however, compels the conclusion that in Xcel's current situation, the energy efficiency benefits of mandatory residential time-of-use rates would not outweigh their costs in confusion, inconvenience, and customer dissatisfaction. The Company's preliminary calculations suggest that the only scenario under which mandatory time-of-use rates would out-perform its existing, voluntary Saver's Switch program would be with the institution of Extreme Day Pricing and Critical Peak Pricing,² rate structures that pose unresolved public health and safety issues.

Further, the data from Washington, the state with the most extensive and recent experience with mandatory residential time-of-use rates, is not encouraging. Ninety-four percent of the residential customers who participated in that time-of-use pilot project paid higher than standard rates, and the project was discontinued before its conclusion at the request of the utility.³ While one state's experience is not directly transferrable to another, it is instructive, and here it does not militate in favor of investing more resources in this project.

² Petition of Xcel Energy for Approval of Residential Time-of-Use Tariffs, p. 5.

³ Initial Comments of the Residential and Small Business Division of the Office of the Attorney General, p. 8.

In fact, the record as a whole does not demonstrate any reasonable likelihood that the pilot project would yield data establishing that moving to mandatory time-of-use rates in the near term would serve the public interest. The data the pilot project would yield would pertain to the elasticity of residential demand in the abstract, which is not sufficient grounds to support mandatory ratepayer participation.

The data and analysis submitted in this case have been extremely useful. On the basis of that data and analysis the Commission concludes that at this time it should not proceed with the pilot project or otherwise pursue mandatory time-of-use rates for Xcel's residential customers.

ORDER

1. The Commission declines to approve the pilot project proposed by Xcel and rejects its petition and proposed tariffs on the merits.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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