

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of the Application of Northern
States Power Company d/b/a Xcel Energy for
Authority to Increase Natural Gas Rates in
Minnesota

**FINDINGS OF FACT,
CONCLUSIONS, AND
RECOMMENDATION**

This matter came on for hearing before Administrative Law Judge Kathleen D. Sheehy on May 4, 2005, at 9:30 a.m. at the Large Hearing Room of the Minnesota Public Utilities Commission (Commission).

Megan J. Hertzler, Senior Attorney, 800 Nicollet Mall, Suite 2900, Minneapolis, Minnesota 55402, appeared for Xcel Energy (Xcel).

Julia Anderson and Karen Finstad Hammel, Assistant Attorneys General, 445 Minnesota Street, Suite 1400, St. Paul, MN 55101, appeared for the Minnesota Department of Commerce (Department).

Ronald M. Giteck, Assistant Attorney General, 445 Minnesota Street, Suite 900, St. Paul, MN 55101, appeared for the Office of Attorney General-Residential Utility Division (OAG).

James Strommen, Esq., Kennedy & Graven, 470 US Bank Plaza, 200 South Sixth Street, Minneapolis, MN 55402, appeared for the Suburban Rate Authority.

James R. Talcott, Assistant General Counsel, 111 South 103rd Street, Omaha, NE 68124, appeared for Northern Natural Gas Company.

Robert S. Lee, Esq., Mackall, Crouse & Moore, PLC, 1400 AT&T Tower, 901 Marquette Avenue, Minneapolis, MN 55402, appeared for Marathon Ashland Petroleum, LLC.

Joseph V. Plumbo, Business Manager, 932 Payne Avenue, St. Paul, MN 55101, appeared without counsel for the Local Union 23, International Brotherhood of Electrical Workers.

Richard J. Savelkoul, Esq., O'Neill, Grills & O'Neill, PLLP, W1750 First National Bank Building, 332 Minnesota Street, St. Paul, MN 55101, appeared for Gerdau AmeriSteel.

Sandra L. Hofstetter, Esq., 10157 Ivywood Court, Eden Prairie, MN 55347, appeared for the Minnesota Chamber of Commerce (a nonparty participant).

Robert Harding and Louis Sickmann appeared for the staff of the Minnesota Public Utilities Commission (Commission).

NOTICE

Notice is hereby given that, pursuant to Minn. Stat. § 14.61, and the Rules of Practice of the Minnesota Public Utilities Commission and the Office of Administrative Hearings, exceptions to this Report, if any, by any party adversely affected must be filed according to the schedule which the Commission will announce. Exceptions must be specific and stated and numbered separately. Proposed Findings of Fact, Conclusions and Order should be included, and copies thereof shall be served upon all parties. Oral argument before a majority of the Commission will be permitted to all parties adversely affected by the Administrative Law Judge's recommendation who request such argument. Such request must accompany the filed exceptions or reply (if any), and an original and 15 copies of each document should be filed with the Commission.

The Commission will make the final determination of the matter after the expiration of the period for filing exceptions as set forth above, or after oral argument, if such is requested and had in the matter.

Further notice is hereby given that the Commission may, at its own discretion, accept or reject the Administrative Law Judge's recommendation and that said recommendation has no legal effect unless expressly adopted by the Commission as its final order.

Under Minn. Stat. § 216B.16, subd. 1a, if the Commission rejects or modifies the Settlement between the Department and the Company, this matter may be extended by 60 days for conclusion of this proceeding.

STATEMENT OF ISSUES

Xcel and the Department have resolved all issues between them in this matter and have agreed that the Settlement Agreement^[1] produces rates that are just, reasonable, and in the public interest. Xcel and the OAG have reached a partial settlement.^[2] No party objects to the terms of the comprehensive settlement between Xcel and the Department except with regard to one issue. The remaining issues are:

1. Should the residential basic charge be raised from \$6.50 to \$8.00 per month?

2. Are the Settlement Agreements in the public interest and supported by substantial interest?

The Administrative Law Judge concludes that the residential basic charge should be increased to \$8.00 per month and that the Settlement Agreements should be accepted in their entirety.

Based on all the proceedings herein, the Administrative Law Judge makes the following:

FINDINGS OF FACT

PROCEDURAL BACKGROUND

1. On September 17, 2004, Xcel Energy filed its petition seeking a general revenue increase of \$9,937,000, or 1.7 percent of total revenues (the Application). Xcel used a projected 2004 calendar year as its test year for this proceeding. On October 22, 2004, Xcel Energy filed additional information.

2. On November 12, 2004, the Minnesota Public Utilities Commission issued an Order Accepting Rate Case Filing and Suspending Rates (Order Accepting Filing) and a Notice and Order for Hearing referring the case to the Office of Administrative Hearings for contested case proceedings. In the Order Accepting Filing, the Commission found that the Company's application was substantially complete as of October 22, 2004.

3. On November 16, 2004, the Commission issued its Order Setting Interim Rates, authorizing Xcel Energy to collect \$6,423,000 annually in interim rates. Interim rates are collected subject to refund.

4. The original parties were Xcel, the Department, and the OAG. The Administrative Law Judge granted the Petitions to Intervene of Northern Natural Gas Company and Marathon Ashland Petroleum, LLC, in the First Prehearing Order. The Administrative Law Judge further granted the Petitions to Intervene of the Suburban Rate Authority on January 24, 2005; Local Union 23 IBEW on February 2, 2005; and Gerdau AmeriSteel on March 7, 2005. The Minnesota Chamber of Commerce was granted status as a Non-Party Participant on February 2, 2005.

5. Public hearings were held on March 1, 2005, in St. Paul; March 2, 2005, in Woodbury; and March 3, 2005, in St. Cloud.

6. Xcel, the Department, and the OAG were the only parties to file testimony in this proceeding.

7. Shortly before April 5, 2005, the date scheduled for hearing, Xcel and the Department announced that they had reached a settlement in principle and requested

that the Administrative Law Judge assign a new schedule for this proceeding. The Second Prehearing Order set deadlines for filing the written settlement document, surrebuttal and witness/issue lists. Pursuant to this schedule, an executed copy of the Settlement was filed on April 19, 2005. The hearing was continued to May 4, 2005.

8. At the outset of the hearing on May 4, 2005, Xcel, the Department, and the OAG announced additional settlement terms. The parties stipulated that Exs. 1-45 would be received into the evidentiary record. Xcel made a witness available to answer questions about the terms of the settlement. No cross-examination took place by any party.

SUMMARY DESCRIPTION OF SETTLEMENT

9. In summary, the Settlement reduces Xcel's revenue deficiency from \$9,937,000 to approximately \$5,793,000. The Settlement revenue requirement results in an overall increase in revenues of 0.99%.^[3] All parties further agreed on how the deficiency is to be apportioned between classes of customers, with the estimated increase to the residential class being 1.24% and the estimated increase for all firm service business classes ranging from 0.35% to 1.19%. Xcel agreed to withdraw its partial decoupling proposal. Xcel and the Department agreed that the residential customer charge should increase from \$6.50 to \$8.00 per month; the OAG advocates that the customer charge should remain at \$6.50, with an increased volumetric charge.

10. The Settlement is expressly conditioned on the Commission's acceptance of the Agreement in its entirety. If the Commission otherwise modifies the Settlement in a final Order After Reconsideration, it provides that the parties shall have ten (10) days in which to reject such modification, pursuant to Minn. Stat. § 216B.16, subd. 1a(b). If either party rejects the modification, the Settlement shall be null and void and shall not constitute any part of the record in this proceeding. In addition, the parties agreed that they would request an extension of 60 days for the Commission's consideration of this matter. In that event, the parties agreed that the hearings should go forward promptly upon all settlement matters raised in the testimony and that all parties should be permitted to argue their positions with respect to such issues to the Commission in post-hearing briefs and, if requested or permitted by the Commission, oral argument.

FINANCIAL ISSUES

A. RATE BASE

CRS Billing System

11. Xcel proposed an addition to the rate base of \$5,520,000, representing the Minnesota regulated allocation of its investment in a new customer billing and information system known as the Customer Resource System (CRS).^[4] The costs of the CRS system were included in Xcel's 2004 budget, and use of the new system in Minnesota was scheduled to begin in October of 2004 (which would fall within the test

year for this proceeding). Based on Xcel's experience with implementation, the decision was made to move back the Minnesota implementation date to February 2005 (which falls outside of the test year for this proceeding). Given the significant expenditures associated with this investment, which would occur before final rates take effect, Xcel argued that these known costs should be extrapolated to the test year.^[5]

12. The Department opposed Xcel's request to recover CRS costs. The Department's objection was based on Commission precedent of only allowing recovery on plant "used and useful" within the test period. In this case, CRS was not implemented until 2005, thus falling outside the test year.^[6] Consequently, the Department was concerned that inclusion of this investment would result in a mismatch of revenues and expenses. The Department's adjustment to remove CRS increases average test year rate base by \$1,157,000 and increases operating income by \$1,061,000. The net effect of the Department's recommended adjustments is to decrease Xcel's overall revenue requirement by \$1,625,000.^[7]

13. In response, Xcel argued that if the CRS system costs were disallowed, the rates would not reflect any costs for a billing and information system because Xcel had, in the last few years, accelerated its depreciation schedule in order to fully depreciate its prior billing system (the CSS system) by the end of 2003.^[8] Therefore, Xcel argued that disallowance would not reflect its costs, particularly because CRS was in operation before final rates from this proceeding take effect. If the CRS system were not allowed in the rate base, Xcel urged the recovery of the proposed level of depreciation expense or at least the 2003 depreciation expense for the predecessor CSS system even though the total amount of the CSS system has already been expensed.^[9]

14. To resolve this issue Xcel agreed to accept the Department's rate base adjustment of \$1,157,000 related to CRS. The Department agreed that this adjustment shall not affect the potential recoverability of CRS related costs in a future rate proceeding.^[10]

Unamortized Rate Case Expense

15. Xcel included in the average rate base the unamortized portion of rate case expenses in the amount of \$400,000 less accumulated deferred taxes.^[11]

16. The Department opposed allowing rate base treatment for the unamortized expense because rate case expenses are not prepaid, and therefore are expenses, not assets to be amortized.^[12]

17. In reviewing the Department's proposed adjustments, Xcel noted that the Department had not removed from rate base the corresponding offset for deferred taxes resulting from these outlays.^[13]

18. The Department agreed that an adjustment to rate base to remove the related offset for deferred taxes was appropriate.^[14]

19. Xcel and the Department agreed to remove the unamortized rate case expense from rate base and to make the adjustment in the manner proposed by the Department along with the offset for deferred taxes. This results in a reduction to rate base of \$237,000.

Cash Working Capital

20. The Department noted that Xcel's cash working capital needed adjustment in the amount of \$138,000 to reflect various adjustments agreed upon between them.^[15] Xcel agreed to make these adjustments.^[16]

Adjustments to Rate Base for Unrecovered CIAC

21. Xcel included a decrease to rate base of \$2,366,079, along with other associated adjustments, to reflect the amount of contribution in aid of construction (CIAC) that could have been, but was not, recovered from customers with respect to mains and service extensions. Because customer contributions are treated as customer supplied capital, customer contributions result in a reduction to rate base and consequently, any unrecovered CIAC is also properly treated as a reduction to rate base.^[17]

22. The Department reviewed the documents concerning Xcel's investigation that supported its calculation of the rate base and associated adjustments for mains and service extensions.^[18] The Department proposed that Xcel amend its tariff to address promotions in which Xcel intentionally waives the CIAC. In addition, the Department proposed that Xcel retain records of unusual construction charges and unusual winter construction charges assessed under its proposed tariff.

23. Xcel agreed to amend its tariff to address promotions and to include a provision agreeing to a rate base adjustment if Xcel waived the collection of otherwise applicable CIAC. Xcel also agreed to retain records of unusual construction charges and unusual winter construction charges.^[19]

Test Year Rate Base Summary

24. Applying the above agreed upon adjustments to rate base, Xcel and the Department agreed that the test year rate base is \$402,648,000.^[20]

B. COST OF CAPITAL

Capital Structure

25. Xcel proposed a projected capital structure for the test year ending December 31, 2004, as follows:

Long-Term Debt	48.65%
Short-Term Debt	1.11%
Common Stock Equity	<u>50.24%</u>
	<u>100.00%</u> ^[21]

26. Xcel supported the reasonableness of this capital structure in its prefiled testimony, noting that its equity ratio is slightly lower than the median equity ratio for the group of companies that Xcel Energy used to determine its proposed Return on Equity (ROE).^[22] The Department agreed that Xcel's proposed capital structure was reasonable and appropriate and consistent with previous Commission rulings.^[23]

Cost of Equity

27. Xcel initially proposed an ROE of 11.50%, based on a constant growth Discounted Cash Flow (DCF) analysis of a group of eight comparable companies, using data from June 2004 and including: (1) a 25 basis point flotation cost adjustment (to reflect the costs of the common stock that Xcel had issued directly to the public prior to the Northern States Power Company/New Centuries Energy merger and that remains in its capital structure); and (2) a 56 basis point adjustment for the smaller size of Xcel's local distribution company (LDC) operations in comparison to the comparable companies. Xcel also performed a Capital Asset Pricing Model (CAPM) analysis and compared its ROE recommendation to other analysts' ROE projections for the comparable companies.^[24] Xcel's analysis showed DCF results within a range of 11.31% to 11.71%, CAPM results of 11.61%, and the median of other analysts' projections for the comparable companies of 11.50%.^[25] Xcel recommended an 11.50% ROE, which was close to the 11.51% midpoint of the DCF range.^[26]

28. The Department performed an independent analysis and filed testimony on ROE. The Department calculated a DCF range of 8.95% to 10.00% and recommended a 9.48% ROE at the midpoint of that range, which included a 24 basis point flotation cost adjustment, but no size adjustment.^[27] The Department's analysis used data from September 2004 and was based on a group of six companies. The Department contended that two of the companies included by Xcel should not be part of the analysis. The Department used averages in its analysis instead of medians, concluding that the use of medians was inappropriate.^[28] The Department also rounded to two digits to the right of the decimal point in its analysis instead of the single digit method used by Xcel.^[29]

29. The Department rejected the use of the Zacks Industry Growth Rate that Xcel had used because that rate was not shown to be representative of Xcel or the comparable companies.^[30] The Department determined growth by averaging two Value Line growth rates and then averaging that result with the Zacks firm specific growth rate. The Department performed a comparative ROE analysis, and compared its

recommended ROE to the ROEs awarded in recent LDC cases in other states and to the Department's recommendation in the CenterPoint Energy rate case (Docket No. G-008/GR-04-901).

30. In response, Xcel filed an updated DCF analysis based on February 2005 data and made modifications to its DCF analysis based on June 2004 data to reflect certain comments and recommendations made by the Department. Xcel accepted the Department's approach to make use of averages instead of medians and to round to two digits to the right of the decimal point instead of one.^[31] Xcel's revised recommendation resulted from certain updated data, the elimination of the Zacks Industry Growth Rate from its analysis, and inclusion of the Gross Domestic Product as a measure of long-term growth. Xcel proposed a revised ROE of 10.95%. This recommendation was based on the result of the mean of 10.38% from four different DCF analyses, and a size adjustment of 56 basis points.^[32]

31. Xcel further proposed employing percentage of earnings rather than percentage of operating revenues as the basis for a screen in its proxy group selection. Using the proposed screen, two companies, Atmos Energy and New Jersey Resources (both of which had been excluded in the Department's original analysis) were shown to warrant inclusion in the proxy group. Xcel's revised analysis reflects its recommended eight-company group.

32. To resolve this issue, the Department agreed to accept Xcel's proposal to use percentage of earnings rather than percentage of revenues as a screen in the comparison group selection. When the September 2004 data are adjusted for the change in comparison group selection, three companies are added to the Department's original six-company comparison group. Two of the three companies are Atmos Energy and New Jersey Resources, which had been included in the Company's proxy group. The third company that meets the new screening criterion is South Jersey Industries. Using September 2004 data, the resulting ROE midpoint for this expanded group is 9.69%, with a range of 8.93% to 10.44%.^[33] Xcel and the Department agreed that an ROE of 10.40% is reasonable and in the public interest.

Cost of Long-Term Debt

33. Xcel presented an analysis of the possible effects of the financial difficulties of Xcel Energy Inc. and NRG Energy, Inc. (NRG) on Xcel's debt costs for debt issued after June 1, 2002, in compliance with the Commission's October 22, 2002, Order Requiring Additional Information and Audit in Docket E, G002/CI-02-1346.^[34] Since June 2002, Xcel has issued three new debt issuances and one debt reoffering.^[35]

34. Xcel made several comparisons of the yields on its post-June 2002 debt portfolio to those of other companies to determine the reasonableness of the specific issuances and overall average interest rate as well as its embedded cost of debt.^[36] Based on Xcel's prior experience, the individual cost of the August 2002 debt reoffering was 1.957% higher than would have been expected.^[37]

35. In order to assure that there is no indirect adverse impact resulting from NRG, Xcel proposed an adjustment to reduce the cost (for ratemaking purposes) of that reoffering by the 1.957% added cost of the August 2002 reoffering.^[38] This adjustment had the effect of reducing the embedded cost of debt by 21 basis points (from 7.33% to 7.12%).^[39]

36. The Department agreed with Xcel's downward adjustment for the possible effect of NRG and with Xcel's calculation of long-term cost of debt at 7.12%.^[40]

Cost of Short-Term Debt

37. Xcel initially proposed a cost of short-term debt of 7.74%.^[41]

38. The Department recommended an adjustment because the cost of Xcel's short term credit facilities in effect since May 2004 is 5.26%. The Department determined the test year short-term cost of debt should be 6.29% by weighting the costs of the prior and current short-term credit facilities.^[42]

39. Xcel accepted the Department's calculation of short-term cost of debt at 6.29%.^[43]

Overall Cost of Capital

40. As a result of the above agreements, Xcel and the Department agreed upon an overall cost of capital of 8.75%, as follows:

<u>Component</u>	<u>Percent of Total</u>	<u>Costs</u>	<u>Weighted Average</u>
Long-Term Debt	48.65%	7.12%	3.46%
Short-Term Debt	1.11%	6.29%	0.07%
Common Stock Equity	50.24%	10.40%	5.22%
Total			8.75%

C. GAS OPERATING INCOME

CRS Billing System

41. As noted above, Xcel agreed to the Department's CRS adjustments. The income statement impact of the adjustment is \$1,172,000.^[44]

Rate Case Expense

42. Xcel proposed recovering its rate case expense over a three-year period, based on its judgment that its next natural gas rate case would occur within that time period.^[45]

43. The Department proposed that the amortization period for rate case expenses be extended to five years, based on its judgment that five years is a more likely period before Xcel's next natural gas rate case.^[46] Xcel accepted the Department's five-year amortization period for rate case expenses.

Allocation of Rate Case Expenses to Unregulated Businesses

44. Xcel did not allocate any of its rate case costs to its unregulated businesses.^[47] The Department proposed that 0.6% of the rate case expense should be allocated to Xcel's unregulated enterprises to reflect the resources dedicated to investigate the appropriateness of Xcel's cost allocations. The Department's position on this issue reflects Commission precedent.^[48]

45. To resolve this issue, Xcel agreed to the Department's \$161,000 adjustment to allocate 0.6% of rate case costs to its unregulated businesses, and to reflect the five-year amortization period.

Opportunity Sales

46. Xcel included \$12,567,674 of Opportunity Sales revenues in the test year as an offset to \$12,122,000 of purchased gas expenses and \$445,675 of non-gas distribution expenses. Under Xcel's proposal, \$12,122,000 of projected test year purchased gas expenses and \$445,675 test year non-gas distribution expenses will be recovered from Opportunity Sales customers rather than ratepayers.^[49]

47. In the Department's view, Opportunity Sales arise when Xcel purchases and sells gas charged to firm ratepayers to an Opportunity Sales customer for a higher price than the cost of the replacement gas. The Department proposed that Opportunity Sales be treated as trading higher cost ratepayer (firm) gas-related assets for lower cost gas-related assets. Opportunity Sales customers would be allocated purchased gas demand and commodity expenses in an amount equal to the amount for which Xcel Energy billed them. Under the Department's proposal, \$12,567,674 of projected test year purchased gas expenses and \$0 of test year non-gas distribution expenses will be recovered from Opportunity Sales customers rather than ratepayers. Therefore, the Department proposed that \$12,567,674 be removed from both revenues and purchased gas expenses in this rate case.^[50]

48. To resolve this issue, Xcel and the Department agreed that Xcel will allocate \$12,567,674, rather than \$12,122,000, of projected test year purchased gas expenses to Opportunity Sales (as defined above), thereby increasing test year non-gas distribution costs by \$445,674. They also agreed that if their settlement were to be approved by the Commission, Xcel would begin to allocate purchased gas expenses between Opportunity Sales and the ratepayer purchased gas expenses included in the monthly PGAs (estimated) and their associated annual PGA true-up (actual) in a similar manner.^[51]

Post-Retirement Benefit Expense (FAS-106 Expense)

49. Xcel included its budgeted 2004 accrual amount of \$1,737,000, calculated by its actuarial firm, as needed to recover projected FAS-106 Expense of \$22,606,000.^[52]

50. The Department made two adjustments to Xcel's FAS-106 expense. First, it used the accrual of \$1,221,000, representing the 2004 actual accrual amount needed to recover the more recently projected FAS-106 Expense of \$15,896,000. For its second adjustment, the Department used a five-year average for the FAS-106 expense.^[53]

51. Xcel agreed that it was reasonable to use actual 2004 accruals, but it disagreed with the Department's five-year averaging method.^[54]

52. To resolve this issue, the Xcel and the Department agreed that the Department's proposal to include the 2004 actuals booked by Xcel should be used for setting test year costs. The Minnesota jurisdictional Gas Utility amount associated with this accrual determination is \$1,221,000. Using this amount results in a downward adjustment of \$516,000.

Advertising

53. Xcel's Projected Year advertising expenses are \$902,546, of which \$166,167 was included in the test year. Those costs were for providing customer information relative to safety and other customer programs.^[55]

54. The Department reviewed the sample advertisements and agreed that the test year advertising expenses were calculated appropriately.^[56]

Marketing

55. Xcel included Marketing and Sales Program test year costs of \$83,930. These expenses are associated with programs that increase customer energy awareness, provide information about technical advancements and ways to minimize customers' total energy costs, provide information about the benefits of using efficient natural gas technologies, and other similar information.^[57] Because these activities involved the promotion or retention of present and prospective customers, the Department concluded that Xcel should be required to demonstrate that these activities were cost-effective.^[58] Because Xcel had not provided a cost-benefit analysis, the Department recommended that \$83,932 in expenses related to the Customer and Field Operations (C&FO) Sales area should be excluded from the test year.^[59]

56. In addition, the Department identified another marketing area called the Gas Business Development area, for which Xcel had included \$799,808 of expenses in

the test year. Based on information provided by Xcel, the Department concluded that the primary responsibilities for this area related to load-building. Thus, the Department concluded that Xcel needed to show the cost effectiveness of these expenses as well. Without a cost-benefit analysis, the Department recommended that \$799,808 in expenses for the Gas Business Development area should be excluded from the test year.^[60]

57. In response, Xcel explained that the primary responsibility of the Gas Business Development area is to work closely with potential customers, builders, developers, and trade allies to facilitate the addition of new customers. Specifically, the employees in this area provide general information to potential customers regarding the process of obtaining natural gas service, such as performing site visits, providing cost estimates, explaining the features and benefits of natural gas service, and providing communication with customers during the connection process. The functions are in the nature of customer service and information rather than marketing efforts to promote incremental sales. The Commission allowed cost recovery for the activities of these employees in the Company's last natural gas rate case (Docket No. G-002/GR-97-1606). The Gas Business Development area activities have not changed since that last rate case.^[61] Lastly, the Company provided a cost-benefit analysis. The analysis showed that these costs are justified.^[62]

58. With respect to the labor and benefit costs of \$83,932, which the Department identified as potentially load-building, Xcel provided a job description for each employee and showed that those costs relate to staff who support the C&FO Sales area. In addition, Xcel demonstrated that the C&FO Sales Support area offered such services as rate options, conservation programs, and reliability services. According to Xcel, none of the services promoted by the employees in this area include load-building activities.

59. The Department then agreed that the test year expenses proposed by Xcel for Marketing and Sales should be approved. It also agreed that the labor and benefit expenses for the Gas Business Development area (\$799,808) should be recoverable in rates based on the results of Xcel's cost-benefit analysis. In addition, the Department agreed that the labor costs of employees who support the C&FO Sales area (\$83,932) should also be recoverable in rates because the primary responsibilities associated with these expenses are mainly related to customer service and information, rather than load-building.

Economic Development

60. Xcel sought to recover 50% of its economic development program costs (\$3,149).^[63]

61. The Department initially objected to inclusion of these costs absent a cost-benefit analysis. The total amount of the Department's recommended disallowance was

\$27,223, which included the program costs above and 100% of the labor and benefit costs of \$24,074 associated with the one staff person.^[64]

62. In response, Xcel pointed out that 50% of the program expenses and all of the associated labor and employee expenses for these same programs had been allowed in the Company's last gas rate case (Docket No. G-002/GR-97-1606). Xcel also performed a cost-benefit analysis demonstrating a positive net present value (benefits exceeded costs).^[65]

63. Based on the results of Xcel's cost-benefit analysis, the Department agreed that Xcel may recover 50% of the economic development program costs, and all of the labor and benefit costs associated with the person who supports the economic development programs. Therefore, no adjustment to the cost of service was made.

CIP Expense

64. Xcel included in the test year 2004 costs related to a conservation improvement program (CIP), approved by the Department in Docket E,G002/CIP-02-854, for a total of \$4,185,000, to be recovered through the conservation cost recovery charge (CCRC) in base rates.^[66]

65. The Department recommended removal of \$360,829 in CIP expenses related to a CIP program that Xcel has proposed, but which has not yet received Commissioner approval.^[67] The Department agreed that the same amount should also be removed from revenues.^[68]

66. The Settlement Agreement provides that the proposed Resource Adjustment should be reduced by \$360,829 to reflect the difference between Xcel's pre-filed conservation amount and the Commissioner-approved conservation amount. They further agreed at the time of the compliance filing, the CCRC will be adjusted to reflect the agreed upon forecasted sales levels.

Agency Services

67. Although Xcel formally discontinued its Agency Services program, it has a special contractual arrangement with one customer whereby Xcel makes arrangements on behalf of the customer to acquire third-party gas supplies and transportation. Xcel did not exclude the cost of providing this unregulated service for this one customer. The Department recommended increasing other income by \$20,274 to reduce the revenue requirement to be recovered in regulated rates, thereby protecting ratepayers from absorbing the costs associated with this service.^[69]

68. Xcel agreed to increase revenues by the \$20,274 associated with Agency Services.

Sales Forecast

69. Xcel used a blend of historical and actual data to conduct its sales and customer forecasts. It used a combination of statistical forecasting techniques and analyses to develop the sales customer class forecasts. In all of Xcel's models, a minimum of eight years of monthly historical data was used to determine these relationships. The modeled relationships were then simulated over the forecast period by assuming normal weather (expressed in terms of twenty-year averaged heating degree days) and other variables. The historical number of customers by class was derived from the billing system. Customer counts for Residential, Commercial-Firm, and Medium and Large Volume Interruptible customer classes were forecasted using state-level demographic data in regression models and other statistical techniques.^[70]

70. The Department raised a number of concerns with Xcel's underlying data. Among the concerns were:^[71]

- three different sets of "actual" data were used for the Residential, Commercial, and Small Volume Interruptible classes;
- data was missing prior to January 2000;
- errors were identified in the Company's test year billing demand units; and
- inconsistencies were shown between weather data that was identified in the Xcel's Direct Testimony and that provided in response to the Department's discovery.

71. The Department conducted its own forecast, correcting these concerns, and worked with Xcel to examine whether using data from 2000-2004 was an appropriate alternative to using the data filed in the Application.

72. Xcel and the Department agreed that data from 2000 to 2004 should be used to develop a methodology to weather normalize historic 2004 actual sales. As for the inconsistent weather data, the Department concluded that the uncertainty arising from using data from 2000-2004 was smaller than the uncertainty of using a 20-year period with uncertain historical data; and that the data is relatively reliable for the purpose of weather normalizing actual 2004 data.^[72]

73. Using this data along with billing month data for the same January 2000 through December 2004 period, the Department conducted its own analysis. The Department's analysis used actual 2004 customer numbers for Residential, Small Commercial, Large Commercial, Small Commercial Demand Billed, Large Demand Billed, Small Volume Interruptible, Medium Volume Interruptible, Large Interruptible, Large Firm Transportation, Small Interruptible Transportation, Medium Interruption Transportation, Large Interruptible Transportation, Generation, and Interdepartmental classes.^[73]

74. The Department also used the most recent 20-year actual National Oceanic and Atmospheric Administration (NOAA) data. Based on this analysis, the Department recommended a decrease in the cost-of-gas in the amount of approximately \$12,797,120 and a corresponding decrease in operating revenue in the amount of approximately \$15,014,104.^[74] In addition, the estimated sales volumes are 79,121,672 dekatherms. This is 1,187,168 dekatherms (1.48%) lower than Xcel's forecast of 80,308,840 dekatherms.^[75]

75. Xcel accepted the Department's 2004 test year sales.^[76]

76. Xcel also noted an error in both the Department's and its own Billing Demand units. Xcel proposed to use 2004 actual billing demand units, which corrects for errors and is consistent with the use of actual 2004 sales. This has the net effect of increasing the Department's 2004 actual revenues by \$295,593.^[77]

77. Xcel agreed to the Department's proposal to use 2004 actual weather normalized sales volumes and 2004 actual billing demand units, and the Department agreed to make all corrections as noted in Xcel's Rebuttal Testimony. This results in an overall adjustment of approximately \$1,922,000. The estimated sales volumes are 79,121,672 dekatherms.

Future Forecast Data

78. In an effort to minimize data problems in future general rate cases, the Department requested that Xcel retain and provide in future rate case filings comprehensive information on the billing cycle sales, cancellations/rebills, customer bills, and weather data (adjusted for billing errors) in a format to allow independent verification of any and all data used. In addition, the Department requested that the Xcel file any and all data used for its sales forecast six months in advance of (or three months prior to preparation for) the filing of the next general rate case.^[78]

79. Xcel indicated that it was willing to work with the Department to meet this higher level of data requirements, but that neither the old CSS nor the new CRS billing systems possess the functionality to provide some of the information requested by the Department. Xcel proposed working with the Department to develop reasonable efforts and timeframes for enhancing Xcel's CRS billing system reporting capabilities at a reasonable cost. In addition, Xcel agreed to provide all of the sales data actually used to develop its sales forecast (i.e. monthly billing data, models, formulas, and coefficients) at least 60 days in advance of its next general rate case.^[79] The Department agreed with these proposals.

New Large Customer Reports

80. The Department recommended that Xcel provide an annual report to the Commission providing:

- a summary description identifying separately all service agreements for new contracts with Large-Volume customers;
- the minimum volumes expected to be used by the customers;
- a summary description of expected revenues from the customers;
- in subsequent annual reports provide the historical annual actual volumes and associated revenues by month and customer; and
- a description identifying under which tariffs the customers are currently being served.^[80]

81. Xcel agreed to provide the requested information but proposes meeting with the Department to clarify the specific size threshold and timing of reports.^[81] The Department agreed to meet to develop the specific reporting requirements.

Propane Storage

82. Xcel proposed eliminating the Propane Sales Service and included no revenues for that service. After filing the Application, one customer indicated a desire to continue the service and to restrict its use of the service to product movement via a third-party owned pipeline, rather than loading trucks at Xcel's facilities (thus reducing the Company's exposure to hazardous material incidents). Xcel accepted the customer's proposal. This agreement provides Xcel with additional revenue, and Xcel proposed to adjust the test year revenue requirement by that amount.^[82] The Department reviewed additional information to verify the revenues.^[83]

83. The Department agreed that test-year revenues should be increased by \$304,405 to reflect the revenues from propane sales.

Interest Synchronization

84. The Department adjusted the interest synchronization to reflect its adjustments and stated that a recalculation would need to be made to reflect the final adjustments.^[84]

85. Xcel agreed that interest synchronization must be recalculated to reflect the final adjustments in this proceeding and noted an inadvertent error in the Department's calculation of the adjustment.^[85]

86. Xcel and the Department agreed that an interest synchronization adjustment needs to be done by Xcel and included in its compliance filing, using Xcel's methodology.

Test Year Operating Income

87. Applying the above agreed upon adjustments to operating income, Xcel and the Department agreed that Xcel's test year operating income is \$31,875,000.^[86]

D. UNCONTESTED FINANCIAL RELATED ISSUES

88. Xcel filed testimony as part of its Application on a number of matters including: (1) Merger Savings^[87]; (2) Service Company Cost Allocations^[88]; (3) Gas Coordination Agreement – SCADA^[89]; (4) Income Taxes^[90]; (5) Compensation^[91]; (6) Charitable Contributions^[92]; (7) Organizational Dues^[93]; (8) Rate Base Reductions for Customer Contributions^[94]; (9) Tax Benefit Transfer Leases^[95]; and (10) Lobbying Expenses.^[96]

89. Neither the Department nor any other party has contested these issues.

E. FUTURE RATE CASE AFFILIATE TRANSACTIONS

90. The Department, in the course of reviewing Xcel's compliance with past affiliate interest orders, identified certain information requirements that should apply to Xcel's future natural gas or electric general rate cases:

- Demonstrate the benefits of the Administrative Services Agreement;
- Provide a description of the most recent fiscal year actual transactions with Utility Engineering;
- Provide a demonstration of the benefits of the most recent fiscal year actual transactions with Utility Engineering;
- Provide a description of the costs and/or revenues included in the test year from test year transactions with Utility Engineering; and
- Provide a demonstration of the benefits of the test year transactions with Utility Engineering.^[97]

91. Xcel agreed with these filing requirements. Xcel and the Department noted, however, that during the course of this proceeding Xcel sold its interest in United Engineering, and some of the filing requirements may be unnecessary. They agreed to consult before Xcel's next general rate case to determine which of the specific requirements are still applicable.

F. REVENUE REQUIREMENT

92. Xcel and the Department agreed that, based on the above agreements and the record in this case, Xcel's revenue deficiency should be reduced from \$9,937,000 to approximately \$5,793,000. The Settlement revenue requirement results in an overall increase in revenues of 0.99%.^[98] Xcel and the Department agreed that the Settlement revenue deficiency is reasonable and in the public interest, and no party has opposed this agreement.

G. RATE DESIGN AND NON-FINANCIAL ISSUES

Class Cost of Service Studies (CCOSS)

93. Xcel performed a CCOSS containing five modifications from the CCOSS used in its prior rate case: (1) With respect to the allocation of mains, Xcel used a minimum system study and allocated the remaining mains costs not allocated by the minimum system study using the Average and Peak method; (2) Xcel allocated CIP expenses based on sales, but excluded sales to customer that have obtained a CIP exemption; (3) Xcel included transportation customers' revenues, sales, etc. with the corresponding sales class, allowing the margins for sales and transportation customers to be analyzed on the same basis; (4) capacity related costs were further broken down into peak-shaving related, base capacity related, and seasonal capacity related costs; and (5) minor adjustments were made to reflect changes in accounting systems and budgeting procedures.^[99]

94. The Department accepted Xcel's CCOSS without adjustment.^[100] While the Department recommended that Xcel should be required to separately account for transportation in its CCOSS during its next general rate case, the Department did not seek a change in the methodology Xcel in this rate case; rather, it seeks a requirement that Xcel continue to break out costs for transportation with the same level of detail as it did in this proceeding.

Revenue Apportionment

95. Xcel used the CCOSS as a starting point to apportion the revenue deficiency among customer classes, but also used non-cost considerations, such as emphasizing market-based pricing for competitive services and limiting rate increases to the Residential Class. Xcel first determined the revenue responsibility for the interruptible classes based on the market prices of the customers' typical competitive alternatives. The remaining revenue requirement was then apportioned among the firm classes.^[101]

96. The Department agreed that there is a need to move rates closer to cost, but it concluded that the Residential Class increase was too large, and that there should be no rate reductions for other customer classes. The Department concluded that Interruptible customers could absorb a larger increase based on the Department's analysis of competitive alternatives. The Department recommended retaining existing rates for Commercial and Industrial (C/I) firm classes.^[102]

97. The Department further recommended that if the revenue requirement were reduced, the interruptible class revenue requirement should not change because such rates were based on a comparison to alternative costs. Further, any reduction in the revenue requirement would flow exclusively to the firm classes, but because only the Residential Class was subject to a rate increase, the reduction would go entirely to

the Residential Class.^[103] In addition, the Department proposed that the final apportionment be accomplished using its forecast billing units.

98. OAG recommended that the percentage change should be apportioned equally among the rate classes.^[104]

99. Xcel opposed the Department’s proposed increases for interruptible customers because of its concern that the resulting rates would not be sustainable in the market and could result in Xcel’s largest customers relying on alternative fuels or bypass options. Based on Xcel’s concerns, and in recognition of the Department’s concerns, Xcel modified its proposal, reducing the increase on the Residential Class, eliminating any rate reductions, and providing for moderate increases in interruptible rates.^[105]

100. Xcel requested that, in any revenue apportionment the distribution charge for Large Commercial Firm Service should be lower than for Small Commercial Firm Service; and the distribution charges for Large Interruptible sales service should be lower than the distribution charges for Medium Interruptible Service. Correspondingly, the distribution charges for Medium Interruptible service should be lower than the distribution charges for Small Interruptible Service, and the demand charges for Small and Large Commercial Demand Billed Service and Large Firm Transportation Service should be identical. Xcel also requested that the distribution charges for the Small and Large Commercial Demand Billed Service (and Medium Interruptible Service and Large Firm Transportation Service) be identical.^[106]

101. Xcel and the Department initially agreed to use Xcel’s proposed rate relationships along with Department’s base concept of flowing through the reduction to all firm service customers. The Amended Settlement, reached on May 4, 2005, further reduces the percentage increase to the residential class:

Class	Company Orig. Proposal	Company Reply Proposal	Original Settlement ^[107]	Amended Settlement ^[108]
Residential	3.7%	2.6%	2.54%	1.24%
Small Commercial	-0.7%	1.3%	1.20%	1.19%
Large Commercial	-1.9%	0.0%	0.05%	0.35%
Small Commercial Demand Billed (SCDB)	-0.7%	0.1%	0.20%	0.46%
Large Commercial Demand Billed (LCDB)	-1.8%	0.0%	0.14%	0.45%
Small Interruptible (SVI)	-0.6%	0.5%	0.62%	0.68%
Medium Interruptible (MVI)	0.1%	0.4%	0.57%	0.63%

Large Interruptible (LVI)	0.6%	0.4%	0.57%	0.64%
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Customer Fixed Charges

102. The monthly cost of serving the average residential ratepayer is \$21.07, according to Xcel's CCOSS.^[109]

103. Xcel and the Department proposed the following fixed customer charges:^[110]

Customer Class	Company Proposed	Department Proposed
Residential Firm	\$8.50	\$8.00
Small Commercial Firm	\$20.00	\$20.00
Large Commercial Firm	\$40.00	\$40.00
SCDB	\$150.00	\$150.00
LCDB	\$275.00	\$275.00
SVI	\$125.00	\$125.00
MVI	N/A	\$300.00
LVI	\$300.00	\$450.00

104. OAG proposed retaining the existing \$6.50 per month residential charge.^[111]

105. In the alternative, Xcel proposed increasing the residential customer charge to \$14.50 if its proposal for partial decoupling were not approved.^[112]

106. In the Settlement Xcel agreed to use all customer charges recommended by the Department. The combined impact of the recommended revenue allocation and the \$8.00 monthly customer charge on Residential customers is provided on Schedule 4.3.D.^[113] This Schedule reflects that the annual bill for low-volume users (480 therms) will increase from \$474.92 to \$489.61, a total of \$14.69 or 3.1%. The annual bill for average-volume users (996 therms) will increase from \$901.60 to \$912.72, a total increase of \$11.14 or 1.2%. The annual bill for high-volume users (1,500 therms) will increase from \$1,318.37 to \$1,326.03, a total increase of \$7.66 or 0.6%.

107. If the OAG's proposal to retain the existing \$6.50 customer charge were adopted, the bills would increase as follows: the annual bill for low-volume users would increase from \$474.92 to \$480.30, a total of \$5.38 or 1.1%; annual bills for average-volume users would increase from \$901.60 to \$912.77, a total of \$11.17 or 1.2%; and annual bills for high-volume users would increase from \$1,318.37 to \$1,326.03, a total of \$16.81 or 1.3%.^[114]

108. The proposed increase in the residential charge from \$6.50 to \$8.00 per month represents a 23% increase from the existing charge.

109. Xcel also proposed merging the Medium and Large Volume Interruptible Classes. The Department opposed that merger and recommended retaining the existing customer charges.^[115] Xcel accepted the Department’s recommendations on retaining the two customer classes and concerning the LVI customer charge.^[116]

Partial Decoupling

110. Xcel initially proposed the use of partial decoupling, under which Xcel would be able to recover the revenue requirement approved by the Commission in this proceeding even if the Residential Class usage per customer declined (it would also adjust rates if usage per customer increased). Xcel presented evidence that residential usage is declining on average 3% per year and that such a trend is predicted to continue into the future.^[117]

111. The Department and the OAG challenged the decoupling proposal on a number of grounds, including disputing Xcel’s evidence that usage was declining, questioning whether the Commission had legal authority to approve the proposal, and arguing that the costs of the program (measured in likely rate increases) exceed its benefits (measured in rate case savings).^[118]

112. In the Settlement, Xcel agreed to withdraw its proposal without prejudice to its right to renew the issue of partial decoupling in a future natural gas rate case.

Customer Service Charges

113. Xcel presently has seven types of customer service charges. Of those, Xcel proposed increasing only one service charge, changing the Returned Check Charge from \$15.00 to \$25.00.^[119]

114. The Department disagreed with proposal, contending that the current returned check charge was above cost. In addition, the Department analyzed the cost of providing each of these services and proposed the following changes to existing charges based on a comparison of the rate to the cost of the service.^[120]

	Xcel Existing Charge	Department Proposed
Service Processing Charge	\$10.00	\$5.00
Service Reconnection	\$15.00	\$45.00
Firm Service Interruption	\$65.00	\$85.00
Account History Charge	\$1.00	\$5.00

115. In the Settlement Xcel agreed to use the Department’s proposed charges.

H. MISCELLANEOUS TARIFF ISSUES

Consolidation of Medium and Large Interruptible Sales and Transportation Services.

116. Xcel proposed to consolidate the Medium and Large Interruptible Sales and Transportation Services,^[121] but the Department opposed that consolidation, noting that Xcel had advocated the creation of the Medium Interruptible and Sales classes in its last rate case.^[122] Xcel agreed to withdraw its proposal at this time.^[123] The Medium and Large Interruptible Sales Classes will not be consolidated.

Economic Bypass Rider

117. Xcel also proposed to streamline its tariff by incorporating the Negotiated Transportation Service (NTS) customers into the comparable Demand Billed and Interruptible tariffs by adding the Economic Bypass Rider to the Demand Billed and Interruptible Tariffs.^[124] The Department agreed with this proposal.^[125]

Demand Billed Usage Levels

118. Xcel proposed synchronizing the usage levels for the two Demand-Billed classes if those classes were consolidated.^[126] Because the Department opposed consolidating the two classes, and Xcel agreed not to propose consolidating the two classes, the Demand-Billed class's usage levels will remain unchanged from those contained in current rates.

End User Allocation Service

119. The End User Allocation Service (EUAS) initially had been a pilot program open to no more than 5 customers. There are currently four customers taking the service. Xcel proposed making the service permanent, eliminating the participation cap, and lowering the rate from \$95.00 per month to \$75.00 per month.^[127]

120. The Department accepted this proposal, subject to a 50-customer cap on the service. The Department determined that, if more than 50 customers took the service, the rate may need to be increased.^[128] The Department also recommended that Xcel perform a CCOSS of EUAS in its next natural gas rate case.^[129]

121. Xcel and the Department agreed that the EUAS should be made a permanent service, with a participation cap of 50 customers and a rate of \$75.00 per month. Xcel will file a separate study supporting the EUAS costs in its next natural gas rate case.

Limited Firm Service

122. Limited Firm Service (LFS) allows an MVI or LVI customer to purchase up to fifteen days of firm service a year. An SVI customer may purchase up to 10 days of firm service a year.^[130] Xcel did not propose any changes to the operation of the program; rather, the only change sought was to limit the allocation of gas costs to LFS to the cost of the propane acquired for customers taking this service. This would replace the current method of allocating gas costs to LFS at the higher of the replacement cost for propane or the weighted average cost of gas (WACOG) (including the pipeline demand rate).^[131]

123. The Department disagreed with Xcel's proposal to directly assign the propane costs acquired for LFS service, asserting that firm natural gas, rather than propane, is provided to LFS customers and, therefore, the cost of the propane should be part of the WACOG. Under the Department's proposal, LFS customers would pay the weighted average commodity and demand costs of gas for gas supplies used under the LFS program.^[132] In addition, the Department recommended that, because LFS customers were able to obtain service nearly equivalent to firm service, LFS customers should pay the equivalent firm rates on days they received LFS.^[133]

124. Xcel opposed both changes. Xcel was concerned that charging LFS customers the WACOG would eliminate some of the hedging value of the service. LFS customers currently know the cost of the service if they use it and, if they are instead charged the WACOG, they will not know the actual cost of the service until the following month after taking the service, when they receive the bill. As a result, fewer customers would be expected to take the service reducing the contribution from this service.^[134]

125. Xcel also disagreed that LFS is equivalent to firm service because interruptions have historically exceeded the number of available days of LFS. In addition, LFS customers already pay a premium for the service through the availability charge. If LFS customers also pay firm rates, fewer customers would subscribe to LFS, decreasing the available contribution from this service.^[135]

126. Xcel proposed reducing the amount of contribution included in the test year by 50 percent if the Department's proposals were adopted. In addition, if the proposal to charge LFS customers based on the WACOG were adopted, Xcel requested that the cost of propane be rolled back into the general system costs, and that the propane supply costs be included in the PGA and its true-up.^[136]

127. The Settlement provides that (a) LFS distribution rate design will not change; (b) LFS customers will continue to be allocated the higher of LFS average unit propane inventory costs or the monthly PGA WACOG (commodity and demand) for the volumes taken under the LFS rider during a month; (c) Xcel's tariff should be modified to allow it the opportunity to recover the higher of the monthly WACOG or average unit propane inventory costs from LFS customers; (d) the projected contribution included in the test year should not be reduced; (e) Xcel and the Department will work out a new reporting of LFS costs (inclusive of LFS propane costs) to be used in Xcel's PGA true-up reconciliation filing; and (f) Xcel and the Department will work together on a

compliance tariff that Xcel will file to reflect this agreement.^[137] Lastly, Xcel and the Department agreed to work together to develop a LFS rate design for inclusion in Xcel's next natural gas rate case.

Standby and Telemetering Service

128. Xcel proposed elimination of Standby Service^[138] and Telemetering Service,^[139] because no customer currently takes Standby Service, and no customer has taken Telemetering Service since Xcel's last gas rate case. The Department did not oppose these requests, and the Settlement provides that Standby Service and Telemetering Service should be eliminated.^[140]

Small Volume Flexible Interruptible Transportation Service

129. Xcel proposed eliminating this rate, which is a holdover from its acquisition of Western Gas Company. Only one customer takes service under this rate.^[141]

130. The Department opposed eliminating this rate. If eliminated, the one customer taking service would pay an additional \$13,000 under the alternative rate, which is approximately a 57 percent increase.^[142]

131. Xcel accepted the Department's recommendation.^[143] The Settlement provides that the Small Volume Flexible Interruptible Service rate will not be eliminated.

Mains and Service Extensions

132. Xcel proposed amending its tariff to refine the methodology for calculating winter construction charges. Specifically, Xcel proposed to charge \$400 per frost burner and \$3.00 for each foot of service pipe, and to eliminate the current 40-foot allowance. Where frost depth exceeds 18 inches, the cost would be determined on an individual basis. There is also a reservation of the right to charge for any unusual winter construction charges; all winter construction charges would be non-refundable and would be in addition to normal construction charges. The wording of the joint trenching tariff was amended to clarify that where there is joint trenching, Xcel will waive the lower of the gas or electric winter construction charges on the joint portion.^[144]

133. In addition, Xcel proposed that it would determine the amount of CIAC based on current company costs, and that it would eliminate the specific per-foot charges for the different sizes of pipe. The current cost would be determined using the average pipe cost per foot as determined from the most recently available annual cost data.^[145]

134. The Department supported the changes to the winter construction charge as being cost based; however, the Department did not agree with eliminating the per foot costs from the tariff and recommended that the tariff be revised to reflect the upfront

costs for meter placement. Specifically, the Department objected to Xcel's proposal because it had the potential to result in rate changes between rate cases.^[146]

135. Xcel accepted the Department's recommendations and submitted new proposed per foot rates for residential mains and service extensions.^[147] It also proposed a new extension tariff for Residential main projects that is based on a free-footage allowance. In addition, Xcel agreed to amend its tariff to establish a specific rate for gopher sleeving.^[148] Xcel further agreed to establish a cost sheet for commercial and industrial main and service extensions, which will be filed annually with the Department, identifying the current cost inputs in performing the feasibility studies required by the tariff for commercial mains and service extensions.^[149]

136. Schedule 4.6.9.D is the proposed tariff reflecting all of the changes agreed to by Xcel and the Department. In addition, Xcel will annually submit in a miscellaneous compliance filing the current cost inputs it uses in performing those feasibility studies required by the tariff for commercial and industrial service extensions.

Self-Managed Hedging Option

137. Xcel proposed an optional program under which interruptible sales customers could opt out of Xcel's hedging activities. Customers choosing this option would not be allocated the costs or the benefits of the hedging activities. Customers opting out would be allocated gas costs that would closely reflect the monthly index price for physical gas purchased in the portfolio.^[150]

138. The Department opposed this program, contending that customers who wish access to individual hedging options should instead become transportation customers.^[151] Xcel agreed to withdraw this proposal from this case, but it may make a miscellaneous tariff filing at which time the merits of offering this program can be considered.

Interstate Pipeline Charges

139. Xcel proposed removing specific interstate pipeline price references from the tariff. Those prices are relevant because Xcel passes through the pipeline charges to those customers who caused Xcel to incur the charges. Xcel was seeking to make sure that, if a pipeline amends its rates, it could still recover its costs and prevent customers from gaming the system.^[152]

140. The Department objected to this proposal, noting that the Commission rejected a similar proposal in Docket No. G007, 011/M-03-2008. To facilitate changes, the Department proposed centralizing the location of the pipeline charges by including a separate tariff sheet for each pipeline, identifying the pipeline charges used to determine the Company's rates and charges.^[153]

141. Xcel accepted the Department's position and recommendation to add new tariff sheets listing current interstate pipeline charges referenced in any rate sheet.^[154]

Class Definitions

142. In an effort to streamline the tariff, Xcel proposed eliminating the minimum and maximum class usage in Class Definitions, since this information is already present under the individual rates.^[155]

143. The Department objected, stating that there is value in having class definition information specified in a central location. In addition, the Department stated that this information should precede the rate schedules.^[156] Xcel accepted the Department's recommendation to retain the minimum and maximum class usage contained in the Class Definitions section of its tariff.^[157]

Tariff Modifications to Enhance Readability

144. The Department proposed that Xcel rewrite its tariffs to conform to the Department's proposed structure.^[158]

145. With one exception, Xcel agreed to file new tariffs conforming to the Department's proposed format. Because inserting specific sheet number references within the text of the tariffs would make future miscellaneous tariff changes burdensome, Xcel objected to the proposal to refer to specific sheet number references within the text of the tariffs.^[159]

146. The Settlement provides that Xcel will file its tariffs conforming to the suggested format, except that instead of referencing specific tariff sheet numbers, the tariff text will reference the specific title of the tariff section, and Xcel will not change the title of a tariff section without changing the associated reference in specific tariff sheets.

Tariff Modifications Based on Analysis of Statutes and Rules

147. The Department recommended several modifications to the tariff to reflect the language in the Commission rules and the substitution of references to rules with the actual language from the rules. In addition, the Department recommended the creation of a new section in the tariff to incorporate much of the language from Minn. R. Chapter 7820.^[160]

148. Xcel accepted these recommendations.^[161] The Settlement provides that Xcel will make a miscellaneous tariff filing reflecting these changes within 60 days of the Commission's Order in this proceeding.

Based on the foregoing Findings of Fact, the Administrative Law judge makes the following:

CONCLUSIONS

1. The Minnesota Public Utilities Commission and the Administrative Law Judge have jurisdiction over the subject matter of this proceeding pursuant to Minn. Stat. Ch. 216B and section 14.50.
2. Every rate made, demanded, or received by any public utility shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers. To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164, 216B.241, and 216C.05. Any doubt as to reasonableness should be resolved in favor of the consumer.^[162]
3. The burden of proof to show that a rate change is just and reasonable shall be upon the public utility seeking the change.^[163]
4. If an applicant and all intervening parties agree to a stipulated settlement of the case or parts of the case, the settlement must be submitted to the commission. The commission shall accept or reject the settlement in its entirety. The commission may accept the settlement on finding that to do so is in the public interest and is supported by substantial evidence.^[164]
5. An adjustment of the residential basic charge from \$6.50 to \$8.00 and the other terms of the Settlement Agreement between Xcel and the Department will result in just and reasonable rates. The Settlement Agreement is in the public interest and is supported by substantial evidence.
6. In the event that the Commission rejects the agreement of the parties, this matter may be extended by 60 days for conclusion of the contested case proceedings under the terms of Minn. Stat. § 216B.16, subds. 1a and 2.

Based on the foregoing Findings and Conclusions above, the Administrative Law Judge makes the following:

RECOMMENDATION

That the Commission accept the Settlement Agreements and increase the basic residential charge to \$8.00 per month.

Dated this 21st day of June, 2005.

s/Kathleen D. Sheehy
KATHLEEN D. SHEEHY
Administrative Law Judge

Reported: Shaddix and Associates

Transcript Prepared

MEMORANDUM

All parties have agreed upon the amount of the revenue deficiency to be recovered from the residential class: \$4,161,854 out of a total deficiency of \$5,793,473. There is no dispute among them that this amount is just and reasonable and is consistent with the statutory policies reflected in Minn. Stat. § 216B.03.

The same amount of money will be recovered from the residential class whether the customer charge is \$6.50, as advocated by the OAG, or \$8.00, as advocated by the Department and Xcel. A lower customer charge means that the distribution charge per therm of gas will be higher; a higher customer charge means that the distribution charge per therm of gas will be lower. In either case, there would be virtually no difference in the bill of an average user (996 therms per year). Under the OAG's proposal, the average customer's annual bill would be \$912.77; under the Department's and Xcel's proposal, the average customer's annual bill would be \$912.74. Low-volume users could expect an increase from \$480.30 (given a \$6.50 monthly charge) to \$489.61 (given an \$8.00 monthly charge); high-volume users would see a decrease from \$1,335.18 to \$1,326.03.^[165]

Whether the customer charge should be set at \$6.50 or \$8.00 is essentially a public policy issue.^[166] The parties disagree about the policies promoted by the different charges. Setting the charge at \$8 represents a movement toward the \$21.07 cost of the service; the \$6.50 charge moves farther away from cost. Ability to pay is a policy consideration applicable to both proposals; the Department's focus is on the total amount of the bill, whereas the OAG focuses on the amount of the customer charge.

No one disputes that recovering fixed costs through a volumetric rate results in high-volume users subsidizing low-volume users. Setting the charge at \$8.00 tends to reduce this intra-class subsidy.

Although the OAG contends the \$8.00 charge would undermine conservation efforts, it has identified no evidence in the record to suggest that a \$1.50 difference in the amount of the customer charge will adversely impact either low-income users or the conservation efforts of any users. The reality is that gas is increasingly expensive; that customers are paying annually hundreds of dollars more for gas than they did several years ago; and that the large increases in gas costs are a much more efficient economic impetus toward conservation than would a \$1.50 difference in the amount of the fixed charge.

Finally, the increase from \$6.50 to \$8.00 is relatively small (23%). The Administrative Law Judge is compelled to point out that, in the larger scheme of this rate case, there are many other issues having much greater impact on the bills of residential customers than the amount of the fixed monthly charge. Among them were the issues involved in determining the cost of capital.

If the Commission looks to the public testimony and public comments for guidance on which policies should be supported, it should do so keeping in mind the state of the record at the time the public comment was taken. At the outset of this case, Xcel sought a \$9.9 million increase in revenue, with a customer charge of up to \$14.00 if its partial decoupling proposal were rejected. The partial decoupling proposal was aimed at guaranteeing Xcel the amount of the revenue requirement established in this case, regardless of actual sales volumes, to offset what Xcel characterized as declining revenues due to conservation efforts by homeowners. Xcel also advocated recovering virtually all of the revenue deficiency from the residential class, giving reductions or no increases to business classes. In the public hearings and written comments, and specifically in response to the partial decoupling proposal and the alternative \$14 fixed charge, the public objected to increasing residential rates because homeowners had been successful in conserving energy. The public also objected strongly to allocating all of the deficiency to the residential class and reducing rates for commercial classes.

The Settlements in this case substantially respond to the criticisms voiced by the public, the Department, and the OAG. The overall revenue increase is now limited to \$5.7 million, which is less than the interim rate approved by the Commission; Xcel's controversial decoupling proposal has been withdrawn; and the amount of the deficiency will be recovered from all classes of customers. Although the public was concerned about conservation and impacts on low-income users in general, it is not accurate to contend that the public comment in this matter was focused on the impact of a \$1.50 increase in the customer charge.

K.D.S.

^[1] Exs. 40 & 44.

^[2] Ex. 45.

^[3] See Schedule 3.6. All references to "Schedules" in this Report are to the schedules contained in Ex. 40 (the Settlement Agreement).

^[4] Ex. 8, Robinson Direct at 37-39; and Ex. 10, Robinson Rebuttal at 3-9.

^[5] Ex. 8, Robinson Direct at 38.

^[6] Ex. 36, Lusti Direct at 4-7.

^[7] Schedule 3.1.1, Exhibit__ (DVL-7); Schedule 2 at 2.

^[8] Ex. 10, Robinson Rebuttal at 3.

^[9] Ex. 10, Robinson Rebuttal at 8.

^[10] See Schedule 3.1.1, Exhibit__ (DVL-7), Schedule 2 at 2.

^[11] Schedule 3.1.2.A, Robinson Direct at 58-59; Schedule 3.1.2.B, Lusti Direct at 8.

^[12] Schedule 3.1.2.B, Lusti Direct at 8. The Department provided the adjustments that flowed from its position in DOC Exhibit__ (DVL-8), which is included with Schedule 3.1.2.B of the Settlement Document.

^[13] Ex. 10, Robinson Rebuttal at 15-16.

^[14] Schedule 3.1.2.C.

^[15] Schedule 3.1.3.A, Lusti Direct at 8.

^[16] Schedule 3.1.3.B, Robinson Rebuttal at 21-22.

[17] Schedules 3.1.4.A and B, Robinson Direct at 33-34, and Woolf Direct at 9-14.

[18] Schedule 3.1.4.C, Minder Direct, Vol. II, at 2-31.

[19] Schedule 3.1.4.E, Liberkowski Rebuttal at 12.

[20] Schedules reflecting rate base adjustments are included as part of Schedule 3.6.

[21] Schedule 3.2.1.A, Hevert Direct at 32-33, and RBH -1, Schedule 9.

[22] Schedule 3.2.1.A, Hevert Direct at 32-33, and RBH -1, Schedule 10.

[23] Schedule 3.2.1.B, Griffing Direct at 28.

[24] SeeSchedule 3.2.2.A, Hevert Direct at 7-8 and Exhibit__(RBH-1), Schedule 8.

[25] Schedule 3.2.2.A., Hevert Direct at 30.

[26] Schedule 3.2.2.A., Hevert Direct at 30-31.

[27] Schedule 3.2.2.B., Griffing Direct at 19-20 and Exhibit__(MFG-3), Schedule 1.

[28] Schedule 3.2.2.B, Griffing Direct at 42-43.

[29] Schedule 3.2.2.B, Griffing Direct at 41-42.

[30] Schedule 3.2.2.B, Griffing Direct at 17, 48.

[31] Schedule 3.2.2.C, Hevert Rebuttal at 7.

[32] Derived from: Schedule 3.2.2.C, Hevert Rebuttal at 25, 29, and 30, Exhibit__(RBH-2), Schedule 5, at 3, 6, and 9.

[33] Schedule 3.2.2.D.

[34] Schedule 3.2.3.A, Reed Direct, at 6-8.

[35] Schedule 3.2.3.A, Reed Direct, at 21-23.

[36] Schedule 3.2.3.B, Exhibit__(JJR-1), Schedule 10.

[37] SeeSchedule 3.2.3.A, Reed Direct, at 41-42, and Schedule 3.2.3.C., Exhibit__(JJR-1), Schedule 8, page 2 of 2, and Schedule 9, page 1 of 2.

[38] Schedule 3.2.3.D, Sparby Direct, at 29-30, Schedule 3.2.3.A., Reed Direct, at 44.

[39] SeeSchedule 3.2.3.A, Reed Direct at 44, and Schedule 3.2.3.E., Exhibit__(JJR-1), Schedule 11.

[40] Schedule 3.2.3.F, Griffing Direct at 28.

[41] Schedule 3.2.1.A., Hevert Direct, at 33 and Exhibit__(RBH -1), Schedule 11.

[42] Schedule 3.2.3.F., Griffing Direct, at 29-30.

[43] Schedule 3.2.3.G., Hevert Rebuttal, at 6.

[44] SeeSchedule 3.6.

[45] Ex. 8, Robinson Direct at 58-59, and Ex. 10, Robinson Rebuttal at 13-14.

[46] Schedule 3.3.2, Lusti Direct at 11-12.

[47] Ex. 8, Robinson Direct at 60.

[48] Schedule 3.3.3, Lusti Direct at 10.

[49] Schedule 3.3.4.A, Liberkowski Exhibit__(AAL-Revised Schedule 2) and Required Financial Information Revised Schedule D.

[50] Schedule 3.3.4.B, Bender Direct at 2-5.

[51] See also Tr. May 4, 2005 at 17-18; Revised Schedule 4.3.D filed May 20, 2005, with corrected average base cost of gas.

[52] Schedule 3.3.5.A and B, Robinson Direct at 54-56; and Weatherby Direct at 18-21.

[53] Schedule 3.3.5.C, Lusti Direct at 14-15.

[54] Schedule 3.3.5.D, Robinson Rebuttal, at 10-11.

[55] Ex. 8, Robinson Direct, at 41-42.

[56] Schedule 3.3.6, Minder Direct, Vol. I at 21-22.

[57] Schedule 3.3.7.A, Robinson Direct, at 43-44.

[58] SeeSchedule 3.3.7.B (using \$83,932).

[59] Schedule 3.3.7.C, Minder Direct, Vol. I at 17.

[60] Schedule 3.3.7.C, Minder Direct, Vol. I at 15-16.

[61] Schedule 3.3.7.D, Woolf Rebuttal at 3-5.

[62] Schedule 3.3.7.D, Woolf Rebuttal at 6-9. See also Trade Secret Ex. (MJW-2), Woolf Rebuttal, Schedules 1 and 2.

[63] Ex. 8, Robinson Direct, at 44-45.

[64] Ex. 37-A, Minder Direct, Vol. I., at 18-20.

[65] Schedule 3.3.8., Woolf Rebuttal, at 11-15. See also, Trade Secret Ex., (MJW-2) Schedule 4.

[66] Ex. 8, Robinson Direct, at 57-58.

[67] Schedule 3.3.9.A., Minder Direct, Vol. I., at 6-7.

[68] See Schedule 3.3.9.B.

[69] Schedule 3.3.10.A., Bender Direct, at 8-9.

[70] Schedule 3.3.11.A, Marks Direct at 15-19.

[71] Schedule 3.3.11.B, Shah Direct at 9-10.

[72] Schedule 3.3.11.B, Shah Direct at 12-13.

[73] Schedule 3.3.11.B, Shah Direct at 13-19.

[74] This varies slightly from the Department's Direct Testimony and reflects a correction made by the Department.

[75] Schedule 3.3.11.B, Shah Direct at 19.

[76] Schedule 3.3.11.C, Marks Rebuttal at 1-3.

[77] Schedule 3.3.11.D, Liberowski Rebuttal at 2-3.

[78] Ex. 38-A, Shah Direct at 10-11.

[79] Ex. 6, Marks Rebuttal at 4-5.

[80] Ex. 38-A, Shah Direct at 22.

[81] Ex. 6, Marks Rebuttal at 7. See also Tr. May 4, 2005 at 15-16 (reporting would begin with filing of May 1, 2006 annual report).

[82] See Trade Secret Ex. 11, Robinson Rebuttal at 21-23.

[83] Schedule 3.3.14 (public version).

[84] Schedule 3.3.15.A, Lusti Direct at 16-17.

[85] Schedule 3.3.15.B, Robinson Rebuttal at 22-23.

[86] Schedules reflecting operating income adjustments are included as part of Schedule 3.6.

[87] Ex. 4, Pofert Direct.

[88] Ex. 7, Schmidt-Petree Direct.

[89] Ex. 8, Robinson Direct.

[90] Ex. 9, Robinson Supplemental Direct

[91] Ex. 14, Sanford Direct.

[92] Ex. 8, Robinson Direct.

[93] Ex. 8, Robinson Direct.

[94] Ex. 8, Robinson Direct.

[95] Ex. 8, Robinson Direct.

[96] Ex. 8, Robinson Direct.

[97] Schedule 3.5, Bender Direct, at 21

[98] See Schedule 3.6.

[99] Schedule 4.1.A., Dahl Direct at 4-8.

[100] Schedule 4.1.B., Bonnett Direct at 4-6.

[101] Schedule 4.2.A., Liberowski Direct at 5-16.

[102] Schedule 4.2.B, Bonnett Direct at 18-26. A comparison of the Company's initial proposed revenue allocation and that of the Department's is contained on Table 2 of Schedule 4.2.B, Bonnett Direct at 26.

[103] Schedule 4.2.B, Bonnett Direct at 27.

[104] Ex. 41, Nelson Direct at 12-13.

[105] Schedule 4.2.C, Liberowski Rebuttal at 5-7. A comparison of the Company's original proposal, the Department's proposal and the Company's modified proposal is contained on Table 1, on page 7 of Schedule 4.2.C.

[106] Schedule 4.2.C, Liberowski Rebuttal at 7-8.

[107] Ex. 40, Offer of Settlement at 32.

[108] Ex. 44.

[109] Ex. 32, Bonnett Direct at 27-28.

[110] See Schedule 4.3.A, Bonnett Direct at 28, Table 3 for the current customer charges, the associated customer costs as determined by the CCOSS, and the alternative proposals of the Company and Department. The Department's analysis of the Company's proposed customer charges and its recommendations are found in Schedule 4.3.A, Bonnett Direct at 29-33.

[111] Ex. 41 at 22. The SRA supports the OAG's position but did not file its own testimony on this issue.

[112] Schedule 4.3.B., Liberowski Rebuttal, at 4.

[113] An updated version of Schedule 4.3.D, addressing the effect of the Amended Settlement, was filed with the Administrative Law Judge on May 20, 2005. Another version of it with updated information was attached to Xcel's Reply Brief.

[114] Schedule attached to Xcel's Reply Brief.

[115] Schedule 4.3.A., Bonnett Direct, at 33.

[116] See Schedule 4.3.C.

[117] Ex. 5, Marks Direct at 7.

[118] See Ex. 39, Chavez Direct at 8-15; Ex. 41, Nelson Direct at 13-17.

[119] Ex. 27, Liberkowski Direct at 27.

[120] Ex. 33-A, Fang Direct at 7-10. A comparison of the current rates, the underlying costs, and the Parties' initial proposals is found on Table 1, page 7 of Ex. 33-A.

[121] Ex. 27, Liberkowski Direct at 21-22.

[122] Ex. 32, Bonnett Direct at 34-35.

[123] Ex. 29, Liberkowski Rebuttal at 4.

[124] See Schedule 4.6.2, Liberkowski Direct at 21-22.

[125] Ex. 32, Bonnett Direct at 35.

[126] Ex. 27, Liberkowski Direct at 21.

[127] Schedule 4.6.4.A, Paluck Supplemental Direct at 6-7.

[128] Schedule 4.6.4.B., Bonnett Direct at 36-38.

[129] Schedule 4.6.4.B., Bonnett Direct at 36-38.

[130] Schedule 4.6.5.A, Paluck Direct at 7.

[131] Schedule 4.6.5.A, Paluck Direct at 9. See also March 12, 2001, ORDER ACTING ON GAS UTILITIES' 1999 ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND OPENING INVESTIGATION, in Docket No. G,E-999/AA-99-1095, at 9. Schedule 4.6.5.B.

[132] Schedule 4.6.5.C, Bender Direct at 7-8.

[133] Schedule 4.6.5.D, Bonnett Direct at 40-41.

[134] Schedule 4.6.5.E, Paluck Rebuttal at 6-7.

[135] Schedule 4.6.5.E, Paluck Rebuttal at 2-6.

[136] Schedule 4.6.5.E, Paluck Rebuttal at 8-9.

[137] Tr. May 4, 2005 at 19 (the first true-up filing would be September 1, 2006).

[138] Ex. 24, Paluck Direct at 13.

[139] Ex. 27, Liberkowski Direct at 23.

[140] Ex. 32, Bonnett Direct at 42.

[141] Ex. 27, Liberkowski Direct at 23.

[142] Ex. 32, Bonnett Direct at 43.

[143] Ex. 29, Liberkowski Rebuttal at 3.

[144] Schedule 4.6.9.A, Liberkowski Direct at 24-26.

[145] Schedule 4.6.9.A, Liberkowski Direct at 28.

[146] Schedule 4.6.9.B, Minder Direct, Vol. II at 34-39.

[147] Schedule 4.6.9.C, Woolf Rebuttal at 16-18.

[148] See Schedule 4.6.9.D.

[149] Schedule 4.6.9.E is a template of the cost sheet that will be filed annually in a miscellaneous compliance filing. The cost information will be submitted and updated annually. It is understood that the information will be filed with the Department as Trade Secret information.

[150] Ex. 24, Paluck Direct at 2-6.

[151] Ex. 38-A, Shah Direct at 25.

[152] Ex. 27, Liberkowski Direct at 23.

[153] Ex. 33, Fang Direct at 10-12.

[154] Ex. 29, Liberkowski Rebuttal at 10.

[155] Ex. 27, Liberkowski Direct at 27.

[156] Ex. 33, Fang Direct at 13.

[157] Ex. 29, Liberkowski Rebuttal at 10.

[158] Ex. 33, Fang Direct at 16-17.

[159] Ex. 29, Liberkowski Rebuttal at 11.

[160] Ex. 33, Fang Direct at 14-16.

[161] Ex. 29, Liberkowski Rebuttal at 11-12.

[162] Minn. Stat. § 216B.03.

[163] Minn. Stat. § 216B.16, subd. 4.

[164] Minn. Stat. § 216B.16, subd. 1a(b).

[165] See Schedule attached to Xcel's Reply Brief.

[166] *Hibbing Taconite Co. v. Minnesota Public Utilities Commission*, 302 N.W.2d 5, 9 (Minn. 1980).