Minnesota Center for
Environmental Advocacy

Using law, science, and research to protect Minnesota's environment, its natural resources, and the health of its people.

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June 14, 2016

The Honorable Jeffrey Oxley
Administrative Law Judge
600 North Robert Street
P.O. Box 64620
St. Paul, MN 55164-0620

VIA ELECTRONIC SERVICE

Re: *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*
PUC Docket No.: E-002/GR-15-826

Dear Judge Oxley,

In connection to the above-captioned docket, enclosed please find the Direct Testimony and Schedules of Jonathan F. Wallach, filed on behalf of Clean Energy Organizations. Also attached is an affidavit of service.

Sincerely,

/s/ Hudson B. Kingston
Hudson B. Kingston
Staff Attorney

HBK/em

Enclosure

cc: Service List

Exhibit _____

STATE OF MINNESOTA
BEFORE THE PUBLIC UTILITIES COMMISSION

In the Matter of the Application of	**)**	
Northern States Power Company for	**)**	**PUC Docket No. E002/GR-15-826**
Authority to Increase Rates for	**)**	
Electric Service in Minnesota	**)**	

DIRECT TESTIMONY OF

JONATHAN WALLACH

ON BEHALF OF

NATURAL RESOURCES DEFENSE COUNCIL

MINNESOTA CENTER FOR ENVIRONMENTAL ADVOCACY

FRESH ENERGY

WIND ON THE WIRES

SIERRA CLUB

Resource Insight, Inc.

JUNE 14, 2016

Exhibit _____

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I. INTRODUCTION

Q: Please state your name, occupation, and business address.

A: My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc., 5 Water Street, Arlington, Massachusetts.

Q: Please summarize your professional experience.

A: I have worked as a consultant to the electric power industry since 1981. From 1981 to 1986, I was a research associate at Energy Systems Research Group. In 1987 and 1988, I was an independent consultant. From 1989 to 1990, I was a senior analyst at Komanoff Energy Associates. I have been in my current position at Resource Insight since September of 1990.

Over the past thirty years, I have advised and testified on behalf of clients on a wide range of economic, planning, and policy issues relating to the regulation of electric utilities, including: electric-utility restructuring; wholesale-power market design and operations; transmission pricing and policy; market-price forecasting; market valuation of generating assets and purchase contracts; power-procurement strategies; risk assessment and mitigation; integrated resource planning; mergers and acquisitions; cost allocation and rate design; and energy-efficiency program design and planning.

My resume is attached to this testimony as Schedule 1.

Q: Have you testified previously in utility regulatory proceedings?

A: Yes. I have sponsored expert testimony in more than seventy state, provincial, or federal proceedings in the U.S. and Canada. Schedule 1 to this testimony includes a detailed list of my previous testimony.

Q: On whose behalf are you testifying?

A: I am testifying on behalf of the Natural Resources Defense Council, Minnesota Center for Environmental Advocacy, Fresh Energy, Wind on the Wires, and the Sierra Club (collectively "Clean Energy Organizations" or "CEO").

Q: What is the purpose of your testimony?

A: On November 2, 2015, Northern States Power Company of Minnesota ("NSPM" or "the Company") filed an application for authority to increase electric rates, including supporting testimony by Steven V. Huso regarding the Company's proposal to increase the monthly customer charge for residential customers by $2. My testimony responds to Mr. Huso's with respect to the residential customer charge.[1]

Q: Please summarize your findings and conclusions regarding the Company's proposal to increase the residential customer charge.

A: As the Commission found in Docket No. E-002/GR-13-868, Minnesota law requires that electric rates encourage energy conservation and be affordable:

[1] The Company also proposes to increase customer charges for small commercial customers by $2 per month. While I do not directly address this aspect of the proposal, my findings and conclusions with regard to the residential customer charge would generally apply to the Company's proposal regarding the small commercial customer charge as well.

> In setting rates, the Commission must consider both ability to pay and the need to encourage energy conservation. The Commission must balance these factors against the requirement that the rates set not be "unreasonably preferential, unreasonably prejudicial, or discriminatory" and the utility's need for revenue sufficient to enable it to provide service.[2]

The Company's proposal to increase the residential customer charge runs contrary to those statutory requirements. As explained in more detail below, the proposed increase would:

- Inappropriately shift recovery of load-related costs to the customer charge.
- Exacerbate the subsidization of high-use residential customers' costs by low-usage customers, and thereby inequitably increase bills for the Company's smallest residential customers.
- Dampen price signals to consumers for reducing energy usage.

In Docket No. E-002/GR-13-868, the Commission found that even a half-dollar increase in the customer charge would unreasonably dampen price signals and disproportionately burden low-usage customers:

> The Commission concludes that raising the Residential and Small General Service customer charges, even by the smaller amount the Department recommends, would give too much weight to the fixed customer cost calculated in Xcel's class-cost-of-service study and not enough weight to affordability and energy conservation.[3]

The Commission further concluded in that docket that an increase of any magnitude was unwarranted, particularly given its approval of a revenue decoupling mechanism:

[2] *Finding of Facts, Conclusions, and Order*, Docket No. E-002/GR-13-868, May 8, 2015, 88 (*citing* Minn. Stat. §§ 216B.16, subd. 15, 216B.03, 216B.16, subd. 6).
[3] *Id.*

> The Commission also concludes that a customer-charge increase for these classes would place too little emphasis on the need to set rates to encourage conservation. This is particularly true where the Commission has approved a revenue decoupling mechanism that will largely eliminate the relationship between Xcel's sales and the revenues it earns. As several parties have argued, decoupling removes the need to increase customer charges to ensure revenue stability.[4]

In the current proceeding, NSPM proposes to increase the residential customer charge by an even greater amount than what was found to be unreasonable and unwarranted in Docket No. E-002/GR-13-868. For the reasons laid out below, the Commission should again reject the Company's proposal to increase the monthly customer charge for residential customers.

II. NSPM PROPOSAL

Q: What is the Company's proposal with respect to the customer charge for residential customers?

A: The Company proposes to increase the monthly customer charge for residential customers by $2.[5] The Company's proposal represents about a 23% increase over the current weighted-average rate of $8.72 per month.[6]

Company witness Huso contends that the Company's proposal would result in a residential customer charge that better reflects the fixed customer-related cost to serve the

[4] *Id.*

[5] Steven V. Huso, *Direct Testimony and Schedules*, Exhibit SVH-1, Docket No. E-002/GR-15-826, 14 (Nov. 2, 2015) [hereinafter "Huso Direct"].

[6] This is the weighted average across standard underground, standard overhead, electric heat underground, and electric heat overhead service types. See the Company's response to CEO Information Request No. 10(a), attached to this testimony as Schedule 2, for the derivation of the weighted-average monthly rate of $8.72.

residential class, as indicated by the results of the class cost of service study for the 2016 test year ("2016 CCOSS"). Specifically, Mr. Huso notes that the proposed customer charge of $10.72 would recover about 57% of the embedded costs classified as customer-related and allocated to the residential class in the 2016 CCOSS.[7] The 2016 CCOSS estimate of customer-related costs includes a portion of distribution plant costs classified as customer-related along with the costs of meters, meter reading, billing, collections, other customer services, and associated overheads.

Q: Why does NSPM want to move the residential customer charge closer to the 2016 CCOSS estimate of embedded customer-related costs?

A: Mr. Huso offers two justifications for this proposal. First, Mr. Huso asserts that increasing the customer charge would mitigate purported subsidization of low-usage customers' customer-related costs by larger residential customers.[8] Second, Mr. Huso claims that increasing the residential customer charge to better reflect embedded customer-related costs would improve price signals for promoting economically efficient behavior by residential customers.[9]

I address each of these justifications in the following two sections.

[7] Huso Direct, Exhibit SVH-1 at 16. The term "embedded costs" refers to the accounting costs on the Company's books in the test year, as reflected in the 2016 CCOSS for the 2016 test year.
[8] To the extent that customer-related costs are recovered through energy rates, a low-usage customer will contribute a smaller share toward recovery of such costs than a larger residential customer. Conversely, to the extent that demand-related costs are recovered through the customer charge, a low-usage customer will contribute a larger share toward recovery of such costs than a larger residential customer.
[9] Huso Direct, Exhibit SVH-1 at 14.

III. INTRA-CLASS COST SUBSIDIZATION

Q: What is the basis for Mr. Huso's assertion that increasing the customer charge would mitigate subsidization of low-usage customers' customer-related costs by larger residential customers?

A: Mr. Huso relies on the results of the 2016 CCOSS to support this claim. Specifically, in his direct testimony, Mr. Huso notes that the 2016 CCOSS estimates an embedded customer-related cost of $18.65 per customer per month for residential customers.[10] And Mr. Huso asserts that any amount of that customer-related cost recovered through the energy charge represents a subsidy payment from above-average to below-average customers.[11] Thus, the Company's proposal to increase the residential customer charge from $8.72 to $10.72 would reduce the amount of customer-related costs recovered through the energy charge and thereby reduce the alleged subsidy payment from above-average to below-average customers.

Q: Do you agree with Mr. Huso's claim that increasing the customer charge would reduce subsidization of low-usage customers by larger residential customers?

A: No. To the contrary, I conclude from a review of the 2016 CCOSS that above-average customers are currently being subsidized by low-usage customers. Thus, the Company's proposal would actually *exacerbate* intra-class subsidization by shifting costs inappropriately from high-use to low-use customers, and thereby would diminish rate affordability for smaller customers.

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[10] *Id.* at 16.

[11] Company's response to CEO Information Request No. 9(b), attached to this testimony as Schedule 3.

Specifically, I find that the 2016 CCOSS overstates the embedded cost to serve a residential customer because it classifies distribution plant costs as either demand-related or customer-related on the basis of the results of Minimum System and Zero Intercept analyses. As discussed below, such analyses typically produce classifications that are inconsistent with cost-causation and tend to overstate the minimum cost per customer for distribution plant. Using a more-reasonable approach for classifying distribution plant costs, I find that the embedded cost to serve a residential customer is less than the amount currently being recovered through the residential customer charge, which indicates that low-usage customers are currently subsidizing high-usage customers.

Q: How do the Minimum System and Zero Intercept methods differ?

A: Minimum System analyses attempt to estimate the cost to install the same number of units (e.g., poles, conductor-feet) as are currently on the distribution system, assuming that each of those units are the smallest size currently used on the system. The Minimum System approach attempts to estimate the cost to exactly replicate the configuration of the existing distribution system using the smallest-size equipment currently used on the system.

As with the Minimum System approach, the Zero Intercept method attempts to estimate the cost to replicate the configuration of the existing distribution system, assuming the same number of poles, conductor-feet, transformers, and services. However, where the Minimum System approach estimates minimum cost based on equipment cost for the smallest-size equipment actually in use, the Zero Intercept method derives minimum cost based on an estimate of what the equipment would cost in theory if it did not have to carry any load. The Zero Intercept approach derives the cost of this hypothetical zero-

load equipment by estimating a functional relationship between equipment cost and equipment size based on the current system, and then extrapolating that cost function to estimate the cost of equipment that carries zero load (e.g., zero-kVA transformers), the smallest units legally allowed (e.g., 25-foot poles), or the smallest units physically feasible (e.g., the thinnest conductors that will support their own weight in overhead spans).

Under either approach, the estimated minimum cost of existing distribution plant is deemed to be customer-related, and the remainder of distribution plant cost in excess of minimum cost is classified as demand-related.

Q: Do Minimum System or Zero Intercept analyses generally produce reasonable classifications of distribution plant costs?

A: No. Both approaches are conceptually flawed since they are premised on a simplistic model of cost-causation that is inconsistent with typical distribution-system planning, design, and investment practices.

In practice, distribution-system costs may be driven by a host of planning and design considerations – such as customer load, load growth, terrain, number of customers, customer density, voltage considerations, or minimum service reliability and quality requirements. Minimum System and Zero Intercept analyses disregard this multitude of cost drivers and instead simplistically model cost-causation as a function of just *two factors*: customer load and number of customers. With only two categories for classifying costs (i.e., as either demand-related or customer-related), minimum distribution system

analyses tend to classify as customer-related all costs not directly driven by demand, even though such costs may be driven by factors other than number of customers.

In other words, as James Bonbright, Albert Danielson, and David Kamerschen explain in their *Principles of Public Utility Rates*, minimum system analyses will inappropriately dump into the customer-cost category those plant costs that are neither driven by demand nor by number of customers:

> But if the hypothetical cost of a minimum-sized distribution system is properly excluded from the demand-related costs …, while it is also denied a place among the customer costs …, to which cost function does it then belong? The only defensible answer, in our opinion, is that it belongs to none of them. Instead, it should be recognized as a strictly unallocable portion of total costs…. But fully-distributed cost analysts dare not avail themselves of this solution, since they are prisoners of their own assumption that "the sum of the parts is equal to the whole." They are therefore under impelling pressure to fudge their cost apportionments by using the category of customer costs as a dumping ground for costs that they cannot plausibly impute to any of their other cost categories.[12]

Q: Are there other problems with these two approaches for estimating minimum distribution plant cost?

A: Yes. Both the Minimum System and Zero Intercept methods suffer from specific problems that tend to misclassify demand-related costs as customer-related.

The problem with the Minimum System method arises due to the fact that even the minimum-size equipment currently installed on the system has some amount of load-carrying capability. Consequently, some portion of the cost for this minimum-size

[12] James C. Bonbright, Albert L. Danielsen, & David R. Kamerschen, Principles of Public Utility Rates, Arlington, VA: Public Utilities Reports, 492 (1988).

equipment should be classified as demand-related. However, under the Minimum System method, that portion of minimum-equipment cost appropriately classified as demand-related is instead misclassified as customer-related.[13]

The Zero Intercept method avoids this misclassification of demand-related costs by setting minimum cost at the estimated cost for a hypothetical system with zero load.[14] However, at a conceptual level, the Zero Intercept method is so abstract that its application may not yield realistic results. Specifically, it may not be appropriate to extrapolate from the current system to estimate the cost of a system that serves zero load. A system designed to connect customers but serve zero load would likely look very different from the existing system. For example, a zero-capacity electric system would not use the overlapping primary and secondary systems and line transformers that the actual system uses. Without the need for high voltages to carry power, or the need for line transformers to step down high voltages, poles could be shorter and thinner. The labor and equipment costs of setting those short, light poles would be much lower than the costs of real utility poles of any size. It is therefore likely that a cost estimate based on an extrapolation from the current system would overstate the cost of a zero-load system and thus overstate the portion of distribution costs classified as customer-related. If so, then the Zero Intercept approach would misclassify demand-related costs as customer-related.

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[13] The 2016 CCOSS adjusts the allocator for demand-related costs to reflect this residual load-carrying capability of minimum-size equipment. However, the 2016 CCOSS does not reduce the portion of distribution plant costs classified as customer-related to reflect the fact that some amount of plant costs for minimum-size equipment are demand-related and thus misclassified as customer-related.

[14] In contrast to the Minimum System method, which sets the minimum cost at the cost of the minimum-size equipment used by the utility, where such minimum-size equipment may be large enough to cover average residential load.

Apart from these problems of misclassification, both approaches overstate the minimum (i.e., customer-related) cost *per customer* because they assume that a minimum system carrying minimal or zero load would have the same number of poles, conductor-feet, transformers, etc. as currently installed in a distribution system designed to carry actual distribution load. In other words, the Minimum System and Zero Intercept methods assume that each piece of distribution equipment would serve the same number of customers on average, regardless of whether the customers are average-sized (as for the actual system) or have minimal or zero demand (as for the hypothetical minimum system.)

This is not a realistic assumption, since even a minimally sized piece of distribution equipment should be able to serve more minimal-demand customers than the number of average-demand customers served by average-sized distribution equipment. Consequently, the true minimum cost to serve a customer with minimal usage is likely to be less than the customer-related cost per customer derived using minimum system analyses. Indeed, since the Zero Intercept method estimates the minimum cost for hypothetical equipment that serves zero load, the true minimum cost per customer must be zero since distribution equipment that carries zero load can serve an infinite number of customers with zero load.

Q: Is there a more-reasonable approach for classifying distribution plant costs and estimating the embedded customer-related cost per residential customer?

A: Yes. A reasonable and reasonably straightforward approach, and one that has been used in other jurisdictions across the U.S., is to classify meters and services as customer-related and all other distribution plant costs as demand-related.[15]

Q: Have you estimated the customer-related cost per residential customer under this alternative approach?

A: Yes. I modeled this alternative classification approach by modifying a version of the 2016 CCOSS spreadsheet model provided by NSPM in response to CEO Information Request No. 1.[16] Specifically, I modified the spreadsheet model so that 100% of overhead, underground, and line transformer costs would be classified as demand-related and 100% of service costs would be classified as customer-related. With these modifications, the 2016 CCOSS derives a customer-related cost of $5.97 per residential customer per month.

To put this in perspective, the current customer charge of $8.72 per month is already nearly 50% higher than the embedded customer-related cost derived under this alternative classification approach.

[15] According to a study by the Regulatory Assistance Project, this approach is employed in more than thirty states. *See* Frederick Weston, Charging for Distribution Utility Services: Issues in Rate Design, Regulatory Assistance Project, 30 (Dec 2000), attached to this testimony as Schedule 4.

[16] Xcel's supplemented response to CEO Information Request Number 1 is attached to this testimony as Schedule 5.

Q: What does this result tell us about cost subsidization within the residential class?

A: The fact that the current customer charge exceeds the embedded customer-related cost derived under my alternative classification approach indicates that a sizeable portion of demand-related distribution plant costs are being recovered through the current customer charge. This means that residential customers with below-average usage currently bear a disproportionate share of demand-related distribution plant costs and consequently subsidize larger customers under current rates, not the other way around as Mr. Huso contends.

Q: How would a change in the customer charge affect cost subsidization within the residential class?

A: Since the current customer charge already exceeds the embedded cost to serve residential customers, increasing the customer charge would exacerbate the subsidization of high-usage customers' costs by low-usage customers. Decreasing the customer charge, on the other hand, would reduce the subsidy payment from low-usage to high-usage residential customers.

Q: Please summarize your findings and conclusions regarding the issue of intra-class cost subsidization.

A: The Company relies on the results of the 2016 CCOSS to support its contention that an increase in the residential customer charge would mitigate subsidization of low-usage customers by customers with above-average usage. However, the 2016 CCOSS relies on a flawed method for classifying distribution plant costs which overstates the customer-related cost to serve residential customers.

In fact, a more-reasonable approach for classifying distribution plant costs yields an estimate of customer-related costs that is less than the current customer charge. This result indicates that low-usage customers are currently subsidizing high-usage customers, not the other way around as claimed by NSPM. Thus, the Company's proposal would exacerbate cost subsidization within the residential class and diminish rate affordability for low-usage customers.

The Commission should therefore give no weight to the results of the 2016 CCOSS for the purposes of assessing intra-class cost subsidization or for setting the customer charge for the residential class. If the Commission opts to address subsidies within the residential customer class, the results of the alternative classification approach described above suggest that a *reduction*—not an increase—in the customer charge would be warranted to mitigate subsidization of high-usage customers' costs by low-usage customers.

IV. ECONOMICALLY EFFICIENT PRICE SIGNALS

Q: Would setting the customer charge to reflect embedded customer-related costs improve price signals, as Mr. Huso contends?

A: No. If the fixed customer charge exceeds incremental connection costs, the usage-based energy charge will understate the extent to which the Company's costs are driven by customer usage. The Company's proposal to recover a larger share of embedded costs through the customer charge would shift recovery of costs to the customer charge that are more appropriately recovered through the energy charge. Contrary to Mr. Huso's assertion, such a cost shift would dampen price signals and discourage economically efficient conservation by residential customers.

Q: How should residential energy and customer charges be set in order to provide appropriate price signals and encourage conservation?

A: Energy charges should be set at levels that recover costs that tend to increase with customer usage. This includes costs directly driven by customer usage, such as generation, transmission, substations, and distribution conductor sizing and number. Energy charges should also include costs that tend to rise with customer usage level but are not directly caused by customer usage. Examples of this latter category might include bad debt, the costs associated with adding line transformers to avoid long runs of secondary with high loads, or the additional distribution costs between very large suburban homes, as opposed to close-packed urban duplexes or apartments.

In contrast, the customer charge is intended to reflect the incremental costs imposed by the continued presence of a customer who uses very little energy. Thus, the customer charge should not be expected to cover all customer-related costs for the average residential customer, but only the incremental cost to connect one more very small customer.[17] Since NSPM would probably not need to add secondary conductor or a transformer to connect a very small customer, incremental connection costs would be limited to installation and maintenance costs for a service drop and meter, along with meter-reading, billing, and other customer-service expenses.[18]

[17] *See, e.g.*, Jim Lazar & Wilson Gonzalez, Smart Rate Design for a Smart Future, Regulatory Assistance Project, 36 (July 2015), attached to this testimony as Schedule 6.

[18] Remote residences might also require a line extension and a small transformer in order to connect to the distribution system. On the other hand, customers located in a multi-family building would probably not require their own service drop.

Q: What is the incremental cost to connect a residential customer in the Company's service territory?

A: Using a version of the 2016 CCOSS spreadsheet model provided by NSPM in response to CEO Information Request No. 1, I estimate an incremental connection cost ranging from $5.74 to $7.32 per customer per month. The lower estimate includes the cost for a minimum-size service drop, while the higher estimate includes the cost for an average-size service drop and for a minimum-size transformer.

The $10.72 customer charge proposed by NSPM overstates my estimated incremental connection cost by about 50%–90%. The excess over incremental connection cost represents usage-related costs that would be recovered through the customer charge under the Company's proposal. Thus, the Company's proposal to increase the residential customer charge would dampen price signals by inappropriately shifting recovery of usage-related costs from the energy charge to the customer charge.

Q: How does the Company's proposal to increase the residential customer charge by $2 per month affect the residential energy rate?

A: With the residential customer charge set at an average of $10.72, I estimate that the annual energy rate, including fuel and on average across seasons, would increase to 11.998¢/kWh in order to recover the proposed allocation of 2016 test year revenue requirement to the residential class.[19] If, instead, the customer charge remained at its current average rate of $8.72, the annual energy rate would have to be increased to

[19] Based on data provided in the Company's Revenue Model spreadsheet RevModMnTY16TCR.xlsx.

12.316¢/kWh to recover the same allocated revenue requirement.[20] Thus, the annual energy rate under the Company's proposal to increase the monthly customer charge by $2 would be 0.3¢/kWh, or about 2.6%, less than the energy rate without the proposed increase to the customer charge.

Q: To what extent would the lower energy rate under the Company's proposal for the customer charge dampen price signals for conservation?

A: Residential customers respond to the price incentives created by the electrical rate structure. Those responses are generally measured as price elasticities, i.e., the ratio of the percentage change in consumption to the percentage change in price. Price elasticities are generally low in the short term and rise over several years, because customers have more options for increasing or reducing energy usage in the medium to long term. For example, a review by Espey and Espey (2004) of thirty-six articles on residential electricity demand published between 1971 and 2000 reports short-run average-rate elasticity estimates of about −0.35 on average across studies and long-run average-rate elasticity estimates of about −0.85 on average across studies.[21]

Studies of electric price response typically examine the change in usage as a function of changes in the marginal rate paid by the customer. Table 1 lists the results of seven studies of marginal-price elasticity over the last forty years.[22]

[20] *Id*.

[21] In other words, on average across these studies, consumption decreased by 0.35% in the short term and by 0.85% in the long term for every 1% increase in average rates. This study is provided as Schedule 7 to this testimony.

[22] The citations for these studies are provided in Schedule 8 to this testimony.

Table 1: Summary of Marginal-Price Elasticities

Authors	Date	Elasticity Estimates
Acton, Bridger, and Mowill	1976	−0.35 to −0.7
McFadden, Puig, and Kirshner	1977	−0.25 without electric space heat and −0.52 with space heat
Barnes, Gillingham, and Hageman	1981	−0.55
Henson	1984	–0.27 to –0.30
Reiss and White	2005	−0.39
Xcel Energy Colorado	2012	–0.3 (at years 2 and 3)
Orans et al, on BC Hydro inclining-block rate	2014	–0.13 in 3rd year of phased-in rate

Q: What would be a reasonable estimate of the marginal-price elasticity for changes in the residential energy rate?

A: From Table 1, it appears that –0.3 would be a reasonable mid-range estimate of the impact over a few years.

Q: What would be a reasonable estimate of the effect on energy use from a 2.6% reduction to the annual energy rate under the Company's proposal to increase the customer charge?

A: An elasticity of –0.3 and a 2.6% reduction in marginal energy price would result in an increase in energy consumption of about 0.8%. This means that all else equal, residential load would be expected to increase by almost 0.8% over a several-year period as a result of implementing the Company's proposed customer charge increase.

For comparison, I estimate that the Company's 2016 goal for energy savings from Conservation Improvement Program (CIP) residential programs amounts to a reduction

of about 1.2% of residential sales.[23] Thus, the consumption increase due to the Company's proposed increase to the residential customer charge (and the resulting decrease in the energy charge) would undo about two-thirds of the 2016 CIP goal for residential energy-efficiency savings.

V. CONCLUSIONS AND RECOMMENDATIONS

Q: What do you conclude with respect to the Company's proposal to increase the residential customer charge by $2?

A: Contrary to statute, the Company's proposal would inappropriately shift recovery of usage-related costs from the energy charge to the customer charge, unreasonably dampen energy price signals, and discourage conservation by residential customers. It would also unjustly increase the subsidization of high-usage customers by low-usage customers, which is already a problem under the current customer charge. Accordingly, the Commission should reject the Company's request to increase residential customer charges by $2.

Q: Does this conclude your direct testimony?

A: Yes.

[23] The 2016 energy savings goal is provided in Minnesota Electric and Natural Gas Conservation Improvement Program, 2016 Extension Filing, Docket No. E, G002/CIP-12-447 (June 1, 2015).

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

In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota

AFFIDAVIT OF SERVICE

MPUC Docket No. E-002/GR-15-826

STATE OF MINNESOTA)
)ss.
COUNTY OF RAMSEY)

Erin Mittag, being duly sworn, says that on the 14th day of June, 2016, she served via U.S. mail and e-dockets the following:

- Direct Testimony and Schedules of Jonathan F. Wallach, filed on behalf of Clean Energy Organizations

on the following persons, in this action, by filing through e-dockets or mailing to them a copy thereof, enclosed in an envelope, postage prepaid, and by depositing the same in the post office at St. Paul, Minnesota, directed to said persons at the last known mailing address of said persons:

Attached Service List.

Erin Mittag

Subscribed and sworn to before me
this 14th day of June, 2016

Karen Moss

KAREN E. MOSS
NOTARY PUBLIC - MINNESOTA
My Commission Expires 01/31/2021

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