

**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)

SURREBUTTAL 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.

OCTOBER 18, 2016

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1 **I. Introduction**

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

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

5 **Q: Are you the same Jonathan F. Wallach who filed direct and rebuttal testimony in**
6 **this proceeding?**

7 **A:** Yes.

8 **Q: On whose behalf are you testifying?**

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

12 **Q: What is the purpose of your surrebuttal testimony?**

13 **A:** My surrebuttal testimony responds to rebuttal testimony regarding residential customer
14 charges by:

- 15 • Northern States Power Company of Minnesota (NSPM or “the Company”) witness
16 Michael A. Peppin.
- 17 • NSPM witness Steven V. Huso.
- 18 • Minnesota Department of Commerce (DOC) witness Michael N. Zajicek.

19 **Q: Have you revised your findings or recommendations regarding the residential**
20 **customer charge in light of rebuttal testimony filed in this proceeding?**

21 **A:** No. I continue to find that increasing the residential customer charge by any amount
22 would:

- 23 • Inappropriately shift recovery of load-related costs to the customer charge.

1 • Exacerbate the subsidization of high-use residential customers' costs by low-usage
2 customers, and thereby inequitably increase bills for the Company's smallest
3 residential customers.

4 • Dampen price signals to consumers for reducing energy usage.

5 Accordingly, I recommend that the Commission reject proposals by NSPM and DOC to
6 increase residential customer charges.

7 **II. Response to Mr. Peppin**

8 **Q: At page 2 of his rebuttal testimony, NSPM witness Mr. Peppin remarks that the**
9 **Company responded to CEO Information Request No. 19 by stating that “the**
10 **Company does not intend to develop a CCOSS that reflects the 2016 test year**
11 **Settlement revenue requirement.”¹ How do you respond?**

12 **A:** Without the results of a cost of service study that reflects the Settlement revenue
13 requirement for the 2016 test year, the Company lacks an embedded-cost basis to support
14 its proposal to increase monthly customer charges for residential customers by \$2. As I
15 noted in my direct testimony, NSPM supported its proposal for residential customer
16 charges on the basis of the results of a cost of service study of the Company's requested
17 revenue requirements for the 2016 test year (2016 CCOSS). Specifically, NSPM justified
18 its proposed increase to residential customer charges in relation to an estimate of
19 embedded customer-related cost per residential customer in the 2016 CCOSS. The
20 Company has not revised, and does not intend to revise, its cost of service study to reflect
21 Settlement revenue requirements for the 2016 test year, which means that NSPM does not

¹ Michael A. Peppin, *Rebuttal Testimony and Schedules*, Docket No. E-002/GR-15-826, 2 (Sept. 23, 2016) (Xcel response to CEO IR No. 19 attached as Schedule 1).

1 have a reliable estimate of embedded customer-related costs to support its proposal for
2 residential customer charges.²

3 **III. Response to Mr. Huso**

4 **Q: How does NSPM witness Mr. Huso respond to your direct testimony regarding the**
5 **classification of embedded distribution plant costs for purposes of estimating the**
6 **embedded customer-related cost per residential customer?**

7 **A:** In my direct testimony, I found that it would be reasonable to classify meters and services
8 as customer-related and all other distribution plant costs as demand-related. I also found
9 that the customer-related cost under this reasonable classification approach amounts to
10 \$5.97 per residential customer per month, or about 32 percent less than the current
11 customer charge of \$8.72 per month.

12 In response, Mr. Huso claims that classifying distribution plant costs in this fashion is
13 “inconsistent with economically efficient pricing, as its implication for rate design is to
14 include most fixed distribution costs in a volumetric energy charge.”³

15 **Q: In your direct testimony, did you assert that setting customer charges based on your**
16 **estimate of embedded customer-related costs would provide economically efficient**
17 **price signals?**

18 **A:** No. In fact, it was Mr. Huso, not I, who maintained in his direct testimony that setting the
19 customer charge at embedded customer-related costs would improve price signals. To the
20 contrary, I found in my direct testimony that the Company’s proposal to set the customer

² Steven V. Huso response to CEO IR No. 19, Aug. 17, 2016 (Peppin Rebuttal Schedule 1).

1 charge in excess of incremental connection costs would dampen price signals and
2 *discourage* economically efficient conservation by residential customers.

3 **Q: At page 19 of his rebuttal testimony, Mr. Huso states that “the CEO also maintains**
4 **that the customer charge should include only the incremental cost to connect one**
5 **more very small customer, but unrealistically conditions this incremental cost to an**
6 **existing distribution system.” How do you respond?**

7 **A:** Mr. Huso mischaracterizes my direct testimony in this regard. Nowhere in my direct
8 testimony do I propose that the residential customer charge should be set at connection-
9 related costs for the existing system. Instead, I asserted that the customer charge should
10 reflect the cost to install and maintain a service drop and meter for a new customer, as
11 well as the cost to provide meter-reading, billing, and other customer services to that
12 customer.⁴

13 **Q: At page 22 of his rebuttal testimony, Mr. Huso contends that you “completely ignore**
14 **the fact that decoupling does nothing to solve the losses of economic efficiency and**
15 **customer equity produced by a customer charge that is far below cost.” How do you**
16 **respond?**

17 **A:** Mr. Huso mischaracterizes my direct testimony. Contrary to Mr. Huso’s assertion, the
18 bulk of my direct testimony is dedicated to addressing the efficiency and equity
19 implications of the residential customer charge proposed by the Company, in light of the

³ Steven V. Huso, *Rebuttal Testimony and Schedule*, Exhibit SVH-2, Docket No. E-002/GR-15-826, 18 (Sept. 23, 2016).

⁴ I did estimate incremental connection costs for residential customers based on 2016 test year revenue requirements for the existing system. However, this was solely for the purpose of illustrating the extent to which the \$10.72 monthly residential customer charge proposed by the Company would exceed incremental connection cost. I did not propose to set the residential customer charge at my estimate of incremental connection cost.

1 fact that that proposed charge (not to mention the current customer charge) exceeds both
2 embedded customer-related and incremental connection costs.

3 **IV. Response to Mr. Zajicek**

4 **Q: Please summarize DOC witness Mr. Zajicek’s rebuttal to your direct testimony**
5 **regarding the Minimum System method for classifying distribution plant costs.**

6 **A:** On rebuttal, Mr. Zajicek agrees with my finding that the Minimum System method
7 misclassifies demand-related costs as customer-related because it fails to account for the
8 fact that even minimum-size equipment has some amount of load-carrying capability.⁵
9 However, Mr. Zajicek also notes that the 2016 CCOSS adjusts the allocation of demand-
10 related costs to account for this residual load-carrying capability. Moreover, this flaw in
11 the Minimum System method notwithstanding, Mr. Zajicek argues that some portion of
12 distribution plant costs are reasonably classified as customer-related, since “it will be
13 necessary for a certain number of poles, lines, and transformers to exist to create a system
14 that is capable of delivering power to customers.”⁶

15 **Q: Does the 2016 CCOSS adjust the allocation of demand-related costs to account for**
16 **the residual load-carrying capability of the minimum distribution system, as Mr.**
17 **Zajicek contends?**

18 **A:** Yes. However, as I discussed in my direct testimony, the 2016 CCOSS does not reduce
19 the portion of distribution plant costs classified as customer-related to reflect the fact that
20 some amount of plant costs for minimum-size equipment are demand-related and thus

⁵ *Rebuttal Testimony and Attachments of Michael N. Zajicek on behalf of the Minnesota Department of Commerce*, Docket No. E-002/GR-15-826, 33 (Sept. 23, 2016).

1 misclassified as customer-related. Consequently, the 2016 CCOSS overstates the
2 embedded customer-related cost per residential customer.

3 **Q: Do you agree with Mr. Zajicek's position that the costs for "a certain number of**
4 **poles, lines, and transformers" which "exist to create a system that is capable of**
5 **delivering power to customers" are appropriately classified as customer-related?**

6 **A:** No, because the costs of such a hypothetical minimum distribution system would likely
7 not vary with the number of customers. For example, the number (and thus the cost) of
8 minimum-size poles, lines, and transformers necessary to deliver power to an apartment
9 building would be the same whether that building has 10 units with minimal or zero load
10 or 100 units with minimal or zero load. As I discussed in my direct testimony, the
11 Minimum System and Zero Intercept methods arbitrarily classify the costs of minimum-
12 size poles, lines, and transformers as customer-related even though such costs are not
13 driven by number of customers.

14 The fundamental problem with the Minimum System and Zero Intercept classification
15 approaches is that these methods are based on an artificial construct of a minimum
16 distribution system. In reality, utilities invest in distribution equipment in order to reliably
17 serve customer load; utilities would not make such investments if, as is posited under the
18 Minimum System and Zero Intercept approaches, there were no load to serve. In other
19 words, distribution plant costs (other than for meters and services) are effectively driven
20 by demand and thus appropriately classified as demand-related.

21 **Q: Does this conclude your surrebuttal testimony?**

22 **A:** Yes.

⁶ *Id.*