

**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)

**REBUTTAL 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.

SEPTEMBER 23, 2016

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

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

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

6 **A:** Yes.

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

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

11 **Q: What is the purpose of your rebuttal testimony?**

12 **A:** My rebuttal testimony responds to direct testimony filed in this proceeding by Minnesota
13 Department of Commerce (DOC) witness Susan L. Peirce regarding residential customer
14 charges.

15 **Q: Have you revised your findings or recommendations regarding the residential**
16 **customer charge in light of Ms. Peirce’s direct testimony?**

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

- 19
- 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.
- 20
21
22

- 1 • Dampen price signals to consumers for reducing energy usage.

2 Accordingly, I recommend that the Commission reject proposals by both Northern States
3 Power Company of Minnesota (the Company) and DOC to increase residential customer
4 charges.¹

5 **Q: What is Ms. Peirce’s recommendation with respect to the customer charge for**
6 **residential customers?**

7 **A:** Ms. Peirce recommends that the monthly customer charge for residential customers be
8 increased by \$1.25.² Ms. Peirce notes that her proposal for the residential customer
9 charge would recover about 50 percent of the embedded costs classified as customer-
10 related and allocated to the residential class in the Company’s class cost of service study
11 for the 2016 test year (2016 CCOSS).³

12 Ms. Peirce offers three justifications for her proposal to increase the residential customer
13 charge by \$1.25. First, she asserts that increasing the customer charge would mitigate
14 (but not eliminate) purported subsidization of low-usage customers’ customer-related
15 costs by larger residential customers.⁴ Second, Ms. Peirce claims that increasing the
16 residential customer charge would improve price signals to distributed generation (DG)

¹ On August 16, 2016, the Company filed a settlement agreement which provides for a reduction to the test year revenue requirements requested by the Company in its initial application. It is not clear at this time how this proposed settlement agreement will affect those test year costs appropriately recovered through the customer charge. I will address this issue on surrebuttal once I have had the opportunity to review rebuttal testimony by settling parties regarding the proposed settlement.

² *Direct Testimony and Attachments of Susan L. Peirce on behalf of the Minnesota Department of Commerce*, Docket No. E-002/GR-15-826, 11 (June 14, 2016) [hereinafter “Peirce Direct”].

³ *Id.*

⁴ Peirce Direct at 12–13.

1 customers.⁵ Finally, Ms. Peirce contends that her proposal to recover about 50 percent of
2 embedded customer-related costs through the customer charge:

3 ... is consistent with the results of Xcel's 2013 rate case. In that case, the
4 Commission maintained the residential customer charge at \$8.00 per month
5 which represented approximately 50 percent of the \$15.86 per month
6 customer costs.⁶

7 I address each of these justifications in turn.

8 **Q: What is the basis for Ms. Peirce's allegation that higher-usage residential customers**
9 **are currently subsidizing lower-usage customers?**

10 **A:** Ms. Peirce relies on the results of the Company's 2016 CCOSS to support this claim.
11 Specifically, Ms. Peirce notes that the current customer charge is less than the 2016
12 CCOSS estimate of the embedded customer-related cost to serve a residential customer,
13 indicating that a portion of this customer-related cost is currently being recovered through
14 the energy charge. According to Ms. Peirce, higher-usage customers subsidize lower-
15 usage customers by paying for customer-related costs through the energy charge.⁷

16 **Q: Do you agree with Ms. Peirce's claim that increasing the customer charge would**
17 **reduce subsidization of low-usage customers by larger residential customers?**

18 **A:** No. As I discussed in my direct testimony, the 2016 CCOSS overstates the embedded cost
19 to serve a residential customer because it misclassifies demand-related distribution plant

⁵ Peirce Direct at 15.

⁶ Peirce Direct at 18.

⁷ As I discussed in my direct testimony, 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.

1 costs as customer-related and overstates the minimum cost per customer for distribution
2 plant. By correcting for these flaws, I found in my direct testimony that the embedded
3 cost to serve a residential customer is less than the amount currently being recovered
4 through the residential customer charge, indicating that a sizeable portion of demand-
5 related distribution plant costs are being recovered through the current customer charge.
6 This means that residential customers with below-average usage currently bear a
7 disproportionate share of demand-related distribution plant costs and consequently
8 subsidize larger customers under current rates, not the other way around as Ms. Peirce
9 (and the Company's witness Mr. Huso) contends. Thus, Ms. Peirce's proposal would
10 actually exacerbate intra-class subsidization by shifting costs inappropriately from high-
11 use to low-use customers.

12 **Q: Would increasing the residential customer charge improve price signals to DG**
13 **customers, as Ms. Peirce claims?**

14 **A:** No. To the contrary, Ms. Peirce's proposal would dampen price signals and discourage
15 economically efficient DG installations by shifting recovery of costs to the customer
16 charge that are more appropriately recovered through the energy charge.

17 As I discussed in my direct testimony, the residential energy charge will understate the
18 extent to which the Company's costs are driven by customer usage whenever the
19 customer charge exceeds the incremental cost to connect a residential customer. I also
20 described in my direct testimony how I estimated that the incremental cost to connect a
21 residential customer in the Company's service territory ranged from \$5.74 to \$7.32 per
22 customer per month.

1 Ms. Peirce's proposal would result in a residential customer charge that exceeds
2 incremental cost by a wide margin. This excess over incremental connection cost
3 represents usage-related costs that would be recovered through the customer charge under
4 Ms. Peirce's proposal. Thus, Ms. Peirce's recommendation to increase the residential
5 customer charge would dampen price signals by inappropriately shifting recovery of
6 usage-related costs from the energy charge to the customer charge.

7 **Q: Is Ms. Peirce's proposal to recover about 50 percent of embedded customer-related**
8 **costs through the customer charge consistent with the Commission's decision in**
9 **Docket No. E-002/GR-13-868?**

10 **A:** No. Ms. Peirce mischaracterizes the Commission's decision when she claims that her
11 proposal is consistent with that decision. In Docket No. E-002/GR-13-868, the
12 Commission did not reject the Company's and DOC's proposals to increase the customer
13 charge on the basis of a finding that the current charge recovers about 50 percent of the
14 CCOSS estimate of customer-related costs. Instead, the Commission rejected the
15 proposed increases because it found that the CCOSS did not reasonably estimate the
16 customer-related cost to serve residential customers:

17 Xcel and the Department argued that the current customer charges are set
18 below cost and will result in intraclass subsidies. However, the Clean Energy
19 Intervenors and the OAG have cast doubt on the validity of Xcel's class-cost-
20 of-service study as a means of apportioning intraclass responsibility for fixed
21 costs. Therefore, the Commission, like the ALJ, gives the study limited
22 weight.⁸

23 Thus, the Commission's decision in Docket No. E-002/GR-13-868 offers no support for

⁸ *Findings of Facts, Conclusions, and Order*, Docket No. E 002/GR 13 868, May 8, 2015, 89.

1 Ms. Peirce's recommendation on the basis that her proposed increase would recover a
2 greater portion of embedded customer-related costs and thereby mitigate intra-class cost
3 subsidization.

4 **Q: What do you conclude with respect to Ms. Peirce's recommendation to increase the**
5 **residential customer charge by \$1.25?**

6 **A:** As I found in my direct testimony with respect to the Company's proposal to increase
7 residential customer charges, Ms. Peirce's proposal would inappropriately shift recovery
8 of usage-related costs from the energy charge to the customer charge, unreasonably
9 dampen energy price signals, and discourage conservation by residential customers. It
10 would also unjustly increase the subsidization of high-usage customers by low-usage
11 customers, which is already a problem under the current customer charge. Accordingly,
12 the Commission should reject Ms. Peirce's recommendation to increase residential
13 customer charges by \$1.25.

14 **Q: Does this conclude your rebuttal testimony?**

15 **A:** Yes.