

June 1, 2005

The Public Service Commission convened in the Commission Hearing Room, State Capitol, Bismarck, North Dakota on June 1, 2005, at 1:30 p.m. Present were Commissioners Clark, Wefald, and Cramer.

Case No. PU-04-578
Northern States Power Company
Natural Gas Rate Increase
Application
Order

Mr. Cramer: I move the Commission adopt the Order Adopting Settlement in Northern States Power Company's Natural Gas Rate Increase application, Case No. PU-04-578.

Mr. Clark: I second the motion.

Roll Call: Mr. Clark: "Aye."

Mrs. Wefald: "Nay."

Mr. Cramer: "Aye."

Commissioner Clark's
Concurring Opinion

Mr. Clark: Advocacy staff and Xcel Energy have proposed two settlement options for the Commission to consider in this case. In deciphering whether option A or B is best for consumers, option B wins in a landslide. Average residential rates will be lower under option B than under option A. The new billing format will decrease the price volatility in winter gas bills. It ends unfair rate discrimination against customers living in older homes. And it helps lower the chance that we will hear another rate case in the near future.

Xcel appears entitled under the law to an increase of some amount. Even advocacy staff acknowledges such by virtue of the proposed settlement that is before us. Under the settlement the Commission is approving, the increase will only be about \$1 a month averaged over the course of a year for a typical Xcel customer. While no one likes even a small rate increase, it should be noted that regulated rates have been exceptionally stable for Xcel. Over the past 20 years, there will have now been two rate decreases and two rate increases that essentially net each other out. (I only wish the unregulated cost of gas was as stable. For this, federal policy makers should be ashamed for their lack of attention. But I digress.)

The most noticeable change being implemented is that billing formats have been substantially improved in a way that most customers will appreciate. It is an accepted ratemaking principle that fixed, non-usage sensitive costs should be recovered through fixed charges and variable, usage sensitive costs should be recovered through variable charges. Unfortunately, regulators and utilities across the country have too often drifted from sound economics in favor of less than straightforward ways of implementing utility rates. A common trick for hiding rate increases is to incorporate the increase into volumetric (usage-based) charges. I applaud this Commission, its staff, and Xcel for providing an option that does not fall into this trap. It is, however, easy to see why some regulators and utilities find such schemes so appealing. Volumetric charges are hard to understand. They

Commissioner Clark's
Concurring Opinion Continued

are calculated in fractions of cents and are based on usage, so it is difficult for consumers to ever know when and how their rate has increased. It is a perfect solution for those wanting to deflect and obscure the attention of the general public.

But political expediency for regulators and utilities carries a heavy price for consumers. Moving these fixed costs into variable charges does not mean that consumers pay any less. In actuality, they pay just as much over the course of time as they would if sound decisions were implemented. (Under Option A, they would pay more.) Instead, when fixed costs are recovered through usage, consumers have the burden of paying for most of the costs of the distribution network when they can least afford it, in the middle of winter. This is especially painful for consumers in a northern state like ours. Residential gas usage is relatively stable in sunbelt states, therefore recovering distribution costs via the volume of gas used may not be so offensive, because the costs will naturally be spread throughout the year. Indeed, irrational usage-based charges might even be somewhat tolerable where usage is somewhat consistent throughout the year. Electricity usage, for example, is becoming much less seasonable for most utilities. But in North Dakota, we know all too well that natural gas usage surges during our coldest months. This means that any usage based gas charge, such as proposed in settlement option A, will be paid for disproportionately when usage is the highest, and when the unregulated cost of the gas is also highest. When gas distribution costs are nearly all fixed regardless of usage, I cannot fathom why consumers should be asked to pay more during cold weather as opposed to warm. The option the Commission is selecting will be preferred by a majority of consumers, by far. Helping to mitigate the extreme price volatility of winter gas bills will be welcomed by consumers. While the total monthly bill will be only a few dollars higher for most consumers during the warmest months, it is estimated to reduce an average January bill by over \$25. (It should be noted that the cost of gas itself will still be a usage based charge, which is entirely appropriate for obvious reasons. For this reason, consumers' bills will still be more expensive when gas usage is the highest, and consumers will still have the incentive to conserve energy.)

Placing fixed costs in usage-based charges can also add a significant burden to those living in older homes – often our senior citizens and those on fixed incomes. I formerly represented north Fargo in the legislature. That portion of the city is a prime example of why inappropriately applied usage charges can discriminate against these customers. Legislative District 44 is one of the most established residential districts in the state. The residences within it are

Commissioner Clark's
Concurring Opinion Continued

overwhelmingly single family homes, and most of them have been there for some time. Older homes tend to be less well insulated than newer homes. They typically also have furnaces which cannot compare to the super-high efficiency furnaces now standard in most newly constructed homes. The distribution costs associated with these homes are no more than of any other home on the network. (In fact, a strong case can be made that they cost less due to a variety of factors.) Yet irrationally recovering fixed, non-usage sensitive costs through usage-based charges, such as under option A, requires these customers to shoulder an unfair portion of the cost of the distribution network. Option B ends such unjustifiable subsidies and discrimination.

Finally, by selecting option B, the Commission is, hopefully, reducing the chance that we will be holding another rate case soon. Cost recovery via usage creates utility company revenue streams that fluctuate based on the technological efficiency of the equipment using the natural gas, as well as seasonal weather fluctuations. Such uncertainty benefits neither consumers nor the utility, because there is a negligible ability for any single party to control them. Because the utility company has more certainty as to what its revenue stream will be, efficient planning that benefits both consumers and the utility is enhanced.

Tony Clark, President

Commissioner Wefald's
Dissenting Opinion

Mrs. Wefald: I am voting no on this rate case decision because I do not agree Option B is the best alternative to chose in this matter. I am not against giving Xcel Energy a rate increase. However, the Settlement Agreement filed by staff and Xcel offered the Commission a choice of two rate alternatives.

Option B places all costs that relate to the customer distribution system for residential customers in the basic monthly service charge. This means that even if customers do not use any gas in a particular month, they will still have a fee of \$15.69 to receive gas service. Commissioners Clark and Cramer's decision will make us the first Commission in the country to adopt this type of "one part" tariff.

Option A, which I prefer, places a portion of the customer costs in a basic monthly service charge (\$8.75) and places a portion of the customer costs on each unit of gas used by the customer (10 cents per therm). This "two part" tariff is the method which has been used in the past by this Commission.

I prefer Option A for the following reasons:

Costs for distribution services are typically divided

Commissioner Wefald's
Dissenting Opinion Continued

between those costs which are fixed per person, and those costs which relate to the amount of commodity used. In fact, when customer charges were first started, all costs were first established as "usage" (per therm) charges.

However, a one part tariff "did not capture the non linear relationship between costs and the amount of services."¹ Commissions then started to use a two part tariff which consisted of a fixed component and a usage component. The fixed component included costs for meters, reading meters, billing, collecting, and accounting and these were put into a "customer charge." Many times this component did not include distribution main (pipeline) costs because these are installed to serve volumetric needs of the customers and thus should be established as usage charges.

In this case, my fellow Commissioners are deciding that both fixed costs and usage costs should be placed into one customer charge. I do not agree that we should be moving again to a one part tariff. Two part tariffs better capture the relationship between the types of costs and the types of activities that cause those costs.

Although, Option A gives an increase to Xcel of \$886,697 and Option B gives Xcel an increase of \$745,000, many customers would pay less per year for their natural gas services under Option A than Option B. All customers who use 828 or less therms of gas a year will pay more under Option B. One half of Xcel residential customers (17,277) in North Dakota use 828 therms or less a year.

I am also curious about why only residential customers were singled out for this "one part tariff". If this is good for residential customers, why isn't it good for commercial and interruptible customers as well?

Also, I do not agree with notices and announcements in this case which talk about an "overall" increase. An "overall" increase interprets the rate increase in relationship to the total bill of the gas customer. However, gas commodity charges have been decoupled from the distribution charges on the bill, and this case is about distribution charges.

An "overall" increase percentage can change depending on the price the customer is paying in any month for natural gas. Now that gas prices for Xcel customers are around \$8.00 a dekatherm, the "overall" percentage increase granted to the company becomes very small.

The reality is that the Commission is granting a 4.7% increase to Xcel for distribution charges in this rate case. Residential customers will be seeing a distribution charge increase of 7.6%, commercial customers 4.2%, small interruptible customers 4.9%, and large Interruptible Customers 2.8%.

¹ Mohammad Harunuzzaman and Sridarshan Koundinya, Cost Allocation and Rate Design for Unbundled Gas Services, (The National Regulatory Research Institute, 2000) 94.

Commissioner Wefald's
Dissenting Opinion Continued

Susan E. Wefald, Commissioner

Case No. RC-05-303
Wayne Boeshans
Petition to Designate Lands
Unsuitable for Mining
Approval
Notice of Receipt of Petition

Mr. Cramer: I move the Commission issue the Notice of
Receipt of Petition to Designate Lands Unsuitable for Mining
for the petition filed by Wayne Boeshans.

Mrs. Wefald: I second the motion.

Roll Call: All voting "Aye."

ATTEST:

THE COMMISSION ADJOURNED AT 2:30 P.M.

Executive Secretary

TONY T. CLARK, PRESIDENT