

Direct Testimony and Schedules
Steven V. Huso

Before the South Dakota Public Utilities Commission
State of South Dakota

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

Docket No. EL12-____
Exhibit__ (SVH-1)

Rate Design

June 29, 2012

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1 **I. INTRODUCTION AND QUALIFICATIONS**

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3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

4 A. My name is Steven V. Huso. I am a Pricing Consultant in Regulatory
5 Administration for Northern States Power Company – Minnesota (NSPM), an
6 operating company of Xcel Energy, Inc.

7
8 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

9 A. I have over 32 years of electric pricing experience with Xcel Energy and NSPM,
10 including the areas of rate design, revenue determination and cost allocation that
11 support pricing functions for the utility operating subsidiaries of Xcel Energy Inc.
12 My qualifications and experience are further described in Exhibit___ (SVH-1),
13 Schedule 1.

14
15 Q. FOR WHOM ARE YOU TESTIFYING?

16 A. I am testifying on behalf of Xcel Energy.

17
18 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

19 A. My Direct Testimony presents the Company’s proposed rate-revenue analysis
20 and allocation of revenue responsibility to the customer classes. The revenue
21 responsibility was determined using the embedded class cost of service study
22 (CCOSS), as explained by Company witness Mr. Michael A. Peppin. Mr.
23 Peppin and I each present different portions of the Company’s electric rate
24 design proposals. I am also sponsoring the Company’s rate schedules and
25 tariffs. A summary of the tariff changes proposed in this case is included as
26 Exhibit ___ (SVH-1), Schedule 9.

1 **II. RATE REVENUE ANALYSIS**

2
3 Q. WHAT ARE THE 2011 PRO FORMA YEAR ELECTRIC REVENUES FROM WEATHER-
4 NORMALIZED SALES AT PRESENT AND PROPOSED RATE LEVELS?

5 A. Table 1 below shows 2011 weather-normalized pro forma year revenues at
6 present and proposed rates for the Electric Utility-South Dakota retail
7 jurisdiction. Present revenues were determined based on the Commission's
8 Order in Docket No. EL11-019.

9
10 **Table 1**
11 **Pro Forma 2011 Retail Service Rate Revenue (\$000's)**

Present	Proposed	Proposed Increase	Percent Increase
168,052	187,420	19,368	11.53%

12
13 Company witness Mr. Thomas E. Kramer presents the 2011 pro forma year
14 revenue deficiency in his Direct Testimony. The pro forma year revenues are
15 based on 2011 weather-normalized calendar-month sales and customers for
16 both present and proposed rates.

17
18 Q. HAVE YOU PROVIDED MORE DETAILED COMPARISONS OF THE PRO FORMA
19 YEAR REVENUES?

20 A. Yes. I prepared the following summary and detailed comparisons of present
21 and proposed rate revenues:

22 • **Sales and Revenue by Rate Schedule**

- 23 - Filed as Exhibit___ (SVH-1), Schedule 2

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- **Revenue by Rate Class**

- Filed as Exhibit___ (SVH-1), Schedule 3

- **Sales and Revenue by Rate Schedule and Component**

- Filed in Required Information, Statement I, located in Volume 1 of the Application

Q. PLEASE DESCRIBE EXHIBIT___ (SVH-1), SCHEDULES 4 AND 5.

A. Schedule 4 compares present rates to proposed rates both with and without fuel costs (fuel costs for each rate class are also provided). Schedule 5 is a comparison of monthly bills at present and proposed rates for various usage levels.

III. CLASS REVENUE RESPONSIBILITY

Q. HOW DID THE COMPANY DETERMINE THE PROPOSED CLASS REVENUE ALLOCATION?

A. The primary guideline for proposed class revenue responsibility is class revenue requirements from the CCOSS, sponsored by Mr. Peppin in this proceeding. Moderation was also considered by comparing class costs as a percent increase from present rate levels, relative to the proposed average retail increase of 11.5 percent.

Q. PLEASE COMPARE PRESENT AND PROPOSED REVENUES BY SERVICE CLASS WITH THE CLASS REVENUE REQUIREMENTS FROM THE CCOSS.

1 A. Revenues and cost levels by the major CCOSS class categories are compared
 2 in Table 2 below. Class cost levels are the pro forma year 2011 adjusted
 3 CCOSS revenue requirements.
 4

5 **Table 2**
 6 **Pro Forma Year 2011 Rate Revenue and Cost by CCOSS Class (\$000's)**

Class	Present Revenue	Cost	Proposed Revenue	Cost Increase %	Proposed Increase %
Residential	70,525	81,622	79,391	15.7%	12.6%
Non-Demand	9,026	9,920	10,030	9.9%	11.1%
C&I Demand	86,802	94,024	96,113	8.3%	10.7%
Lighting	1,699	1,854	1,886	9.1%	11.0%
Total Retail	\$168,052	\$187,420	\$187,420	11.5%	11.5%

7
 8 Q. PLEASE EXPLAIN HOW THE CLASS ALLOCATION PROPOSAL WAS DEVELOPED
 9 FOR EACH SERVICE CLASS.

10 A. Proposed revenues for each class are based on a moderate 25 percent
 11 movement to class cost levels. This movement removes 25 percent of the
 12 difference between class revenue requirements from the CCOSS and present
 13 class revenue at the average retail percent increase. The proposed Residential
 14 class increase of 12.6 percent, for example, is 25 percent of the difference
 15 between the 11.5 percent proposed average retail increase and the 15.7 percent
 16 increase that would occur at the Residential revenue requirement if it were not
 17 moderated. [i.e., 11.5 percent + (0.25 * (15.7 – 11.5)) = 12.6 percent] The
 18 proposed class revenue allocation provides a significant movement of rates to
 19 class cost levels to maintain accurate and equitable pricing while being
 20 tempered by moderation. The significant moderation in this proposal also

1 recognizes the recent rate increase and the overall level of the proposed
2 increase.

3
4 Q. DID THE COMPANY CONSIDER FUEL COSTS IN DETERMINING ITS PROPOSED
5 CLASS REVENUE RESPONSIBILITIES?

6 A. Yes. The CCOSS and proposed class revenue allocations include both the
7 costs recovered through base rates (rates without fuel costs) and the separate
8 cost of fuel.

9
10 **IV. RATE DESIGN OBJECTIVES**

11
12 Q. WHAT RATE DESIGN OBJECTIVES DOES THE COMPANY USE AS A GUIDE FOR
13 DEVELOPING ITS PROPOSED ELECTRIC RATES?

14 A. Our electric rate design objectives are to:

- 15 1. Produce revenue equal to the revenue requirement when applied to the
16 approved billing quantities, in order to provide a reasonable opportunity
17 for the Company to earn its authorized return on investment.
- 18 2. Accurately represent the resource costs of providing service and where
19 appropriate the market value of the service.
- 20 3. Provide sufficient flexibility in pricing levels and provisions for the
21 Company's electric service to remain competitive in the broader energy
22 market.
- 23 4. Provide reasonable pricing by considering the importance of rate
24 continuity, customer understanding, revenue stability, and administrative
25 practicality.

1 Q. WHAT ROLE DID THESE RATE DESIGN OBJECTIVES PLAY IN THE COMPANY'S
2 RATE DESIGN PROPOSALS?

3 A. These objectives provided the foundation for the Company's revenue
4 allocation analysis and rate design recommendations.
5

6 V. RATE DESIGN PROPOSALS

7

8 Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSED RATE DESIGN.

9 A. The Company's proposed rate design is generally unchanged from its present
10 rate design. There are no significant proposed revisions to present rate
11 structures or the relationships between rate components.
12

13 Q. WHAT RATE DESIGN CHANGES WILL YOU DISCUSS?

14 A. My testimony will address Residential Service rate design and the Fuel Clause
15 Rider.
16

17 Q. DOES THE COMPANY PROPOSE ANY ADDITIONAL RATE DESIGN CHANGES?

18 A. Yes, Mr. Peppin presents the rate design proposal for voltage discounts on
19 behalf of the Company.
20

21 A. Residential Service

22 Q. PLEASE DESCRIBE THE PROPOSED RATE DESIGN FOR RESIDENTIAL SERVICE.

23 A. The proposed Residential Service tariff retains the present structure, including
24 the distinction between electric space heating and non-space heating service.
25 As supported by the cost of service, the energy charge for monthly energy
26 usage over 1000 kWh during the non-summer months of October through
27 May is lower for customers with electric space heating.

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Q. ARE YOU PROPOSING A DIFFERENT PERCENTAGE INCREASE FOR THE NON-SPACE HEATING AND ELECTRIC SPACE HEATING SERVICES?

A. Yes. To continue following the cost of service difference between these two sub-classes, the overall proposed Residential increase of 12.57 percent was differentiated into a 12.65 percent increase for non-heating service and a 11.70 percent increase for electric space heating service. The corresponding cost of service increases for non-heating service is 15.93 percent and 11.95 percent for electric space heating service.

Q. ARE CUSTOMER CHARGE INCREASES PROPOSED FOR RESIDENTIAL SERVICE?

A. Yes. A \$0.75 increase to monthly customer charges is proposed for residential customers. This would increase the present overhead service customer charge by 9.1 percent to \$9.00 and the present underground service customer charge by 7.3 percent to \$11.00. The combined proposed 8.2 percent increase in customer charge revenues is less than the proposed total residential revenue increase of 12.6 percent.

Q. WHY HAVE YOU PROPOSED A UNIFORM RESIDENTIAL CUSTOMER CHARGE INCREASE OF \$0.75?

A. The present weighted average residential customer charge of \$9.11 per month is only 51 percent of the \$17.80 fixed customer-related cost of service. The proposed customer charges improve equity and provide more consistent percent increases between residential customers with different usage levels. By moving the average customer charge from 51 percent to 55 percent of the cost of service, proposed customer charges will provide more accurate cost-based pricing and reduce subsidies within the residential class.

1 **B. Fuel Clause Rider**

2 Q. WHAT CHANGE IS BEING PROPOSED BY THE COMPANY IN THE FUEL CLAUSE
3 RIDER TARIFF?

4 A. No change is proposed to the structure and application of the Fuel Clause
5 Rider (FCR) tariff approved by the Commission in the Company's last rate
6 case; however, the Company is proposing an update of the Service Category
7 Ratios and Base Costs shown on FCR Rate Sheet No. 5-91 in order to reflect
8 the 2011 pro forma year.

9
10 Q. PLEASE EXPLAIN HOW THE REVISED SERVICE CATEGORY RATIOS WERE
11 DETERMINED.

12 A. The calculation of the proposed Service Category Ratios uses the same
13 method as that used to determine the ratios in the present FCR tariff, but with
14 updated marginal energy cost and load data for the 2011 pro forma year. The
15 ratio for each service category measures the differences between load-weighted
16 averages of 2011 marginal energy costs. The relationship between the
17 weighted average cost for each customer class and total retail determines each
18 Service Category Ratio. The weighted average marginal cost for each service
19 category is based on that category's hourly energy requirements multiplied by
20 the system hourly marginal energy costs. A summary of the calculation of the
21 proposed pro forma 2011 Service Category Ratios is shown in Exhibit____
22 (SVH-1) Schedule 6. This calculation method was approved by the
23 Commission in the Company's last rate case, Docket EL11-019.

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VI. TARIFFS

Q. ARE YOU SPONSORING SCHEDULES OF THE PROPOSED TARIFFS AND PROPOSED TARIFF CHANGES?

A. Yes. I sponsor several schedules that provide the proposed tariffs and that identify proposed tariffs changes. Those schedules are located in Volume 2 of the Application as follows:

- Schedule 7 – Company Tariff Table of Contents
- Schedule 8 – List of Proposed Tariff Sheets
- Schedule 9 – Summary List of Tariff Changes
- Schedule 10 – Rate Schedules and Tariffs (Redlined)
- Schedule 11 – Rate Schedules and Tariffs (Non-Redlined)

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The Company has submitted a proposed allocation of revenue requirements by customer class that is reasonable and provides a moderate movement toward the cost of service. The Company’s proposed changes in rates are reasonable, consistent with present rates and rate design objectives, and improve customer equity.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.