Overview of Minnesota Utility Regulation and Role of the Public Utilities Commission

March 5, 2014
"Lunch and Learn" Presentation to the Legislative Energy Commission

By
Dan Wolf - Assistant Executive Secretary
Janet González - Regulatory Analysis Division Manager
Minnesota Public Utilities Commission

Major Responsibilities of the Minnesota Public Utilities Commission

- Establish just and reasonable rates and terms of service for electric, natural gas, and local telecommunications services
- Approve energy infrastructure that enhances the public interest
- Establish broad electric and natural gas utility and telephone industry policies
- Resolve party-to-party disputes
- Mediate consumer complaints
- Provide a public forum for issues discussion
- Represent Minnesota’s interest in regional and national forums

Commission Structure

- Public Utilities Commission made up of 5 Commissioners
  - appointed by the Governor and confirmed by the Senate
  - Serve staggered 6 year terms
  - No more than 3 from one political party
  - Removed only for cause
  - Full-time positions

Commission Structure (cont.)

- The Commission is an independent entity with quasi-judicial and quasi-legislative roles
- Staff of the Commission has an advisory role
- Advocacy on behalf of the general body of rate payers is the responsibility of a separate state agency, the Department of Commerce

Commission Funding

- Assessment of utilities
- Fees for facilities permitting
- Budget proposal submitted by Governor; final budget approved by Legislature
- Recover nearly 100% of all expenditures for General Fund

Types of Electric Utilities in Minnesota

- The Commission has comprehensive authority over the retail rates and operations of the 5 investor-owned utilities (IOUs) operating in Minnesota
- Are also approx. 45 retail electric cooperatives and 125 retail municipal utilities over which the Commission has more limited authority:
  - Retail electric cooperatives can choose to be rate-regulated by the Commission – Dakota Electric Association is the only such cooperative
  - Commission establishes exclusive electric service territories for all retail utilities

Types of Electric Utilities in Minnesota (cont.)

- Wholesale electric cooperatives and municipal power agencies provide transmission and generation to their retail members
  - Commission authority over RES compliance for all and resource plans for most
  - Implementation of PURPA and related
- Independent Transmission Companies
  - 4 of 5 IOUs are vertically integrated; Interstate Power & Light sold its transmission assets to ITC

Statutory Framework for Major Energy-Related Responsibilities

- Ensure safe, adequate, and reliable electricity and natural gas services at fair and reasonable rates (Chapter 216B)
- Evaluate electric utility compliance with renewable energy standards (§216B.1691), review resource plans (§216B.2422)
- Establish environmental cost values (§216B.2422, subd. 3) and range of carbon dioxide regulatory costs (§216H.06)
- Determine need for large energy facilities (§216B.243) and designate sites or routes (Chapters 216E, 216F & 216G).

Evolution of Commission Energy-Related Responsibilities

- State-wide energy rate regulation in Minnesota effective under 1974 legislation – 48th state to do so; Primary focus on rate cases and related utility financial issues
- In 1980s and 1990s: Requirements for utility Conservation Improvement Programs (CIP), PURPA implementation, resource planning, environmental externalities
- Since 2001, many more planning and environmental responsibilities – transmission planning, Renewable Energy Standards (RES), Carbon Values, Solar Energy Standards (SES)

Statutory Definition of "Reasonable Rates"

- Minn. Stat. 216B.03, Reasonable Rate
  - Just and reasonable
  - Not unreasonably preferential, prejudicial, or discriminatory
  - Sufficient, equitable, and consistent in application to a class of customers
  - To maximum reasonable extent, encourage conservation and renewables
  - Any doubt as to reasonableness to be resolved in favor of the consumer

Statutory Considerations for Setting "Reasonable" Rates

- Minn. Stat. 216B.16, subd. 6
  - Public's need for adequate, sufficient, and reasonable service
  - Utility's need for revenue sufficient to meet the cost of furnishing service, including
    - Depreciation on property used and useful in rendering service to the public
    - Earning a fair return on such property

Rate Setting Mechanisms

- General Rate Cases
  - Comprehensive look at the utility's revenue requirements (revenues, expenses, return, rate design)
- Miscellaneous Dockets
  - Changes that do not require a determination of the overall revenue requirement
- Rate Riders and Automatic Adjustments
  - Allow changes for specific types of costs outside of a rate case

General Rate Cases

- Information and content requirements set out in statute and rules
- 10 month process, which can be extended for 60 days for settlement discussions or up to 90 days if other pending rate cases
- Hearings are conducted by an Administrative Law Judge from the Office of Administrative Hearings

General Rate Cases (Cont.)

- Commission required to set interim rates within 60 days of a general rate case filing
- Unless the Commission finds exigent circumstances, interim rates based on the utility's proposed test year revenue requirement, except:
  - Rate of return on equity kept at that allowed in last rate case for that utility
  - Rate base and expense items must be same in nature and kind as allowed in last rate case

General Rate Cases
(Cont.)

- The Department of Commerce intervenes in all rate cases and conducts a comprehensive review and testimony on all major issues
- The Office of the Attorney General, Utilities and Anti-trust Division often intervenes on issues related to residential and small business
- Other intervenors may include representatives of large customers, low income customers, or environmental groups, among others

Major Components of Setting Rates in a Rate Case

- What revenues does the utility need to provide safe, adequate, and reliable service?
  - Operating & Maintenance costs, taxes, depreciation
  - Return on investment
  - Energy demand forecast
- How should the revenue requirement be translated into specific customer rates?
  - Class cost of service studies
  - Revenue apportionment
  - Rate design and structure

Revenue Requirement Considerations

- Only costs related to providing utility service to Minnesota retail customers are included in rates.

- Many categories of costs are joint or common costs, and need to be allocated or separated out before retail rates are established.
  - Diversified Operations—regulated and non-regulated
  - Wholesale and retail services
  - Multi-state operations

Revenue Requirement Considerations (cont.)

- What test year should be used - historic, future, blended?
- Rate base: facilities/property used and useful in providing utility service to the public
  - Generally facilities need to be in-service before being included in rate base; is a provision allowing Construction Work in Progress (CWIP) to be included under certain circumstances
- Expenses: costs prudently incurred to provide service; statute specifically includes and excludes certain categories of costs

Revenue Requirements Considerations (cont.)

- Rate Of Return on Rate Base
  - Cost of long and short-term debt
  - Cost of/return on equity
- Demand/Revenue Forecast
  - What will energy usage for various customer groups, and in the aggregate, be over the test period?
  - What other factors may affect revenues likely to be collected?

Rate Design Considerations

- Once a revenue requirement is determined, how should rates be established to collect the revenues?
- Class Cost of Service Studies (CCOSS)
  - Various methodologies for estimating what customer groups are “responsible” for various types of costs
  - Because many utility costs are joint or common costs, different methods of allocating different types of costs to customer classes is used

Rate Design Considerations (cont.)

- Class Revenue Responsibility
  - Commission has generally found CCOSS to be a guide in determining revenue allocation to classes, but recognize that CCOSS have a myriad of assumptions and choices underlying the results
  - Also, other factors are considered such as avoidance of “rate shock”, i.e. may need to be a more limited increase to certain classes

Rate Design Considerations (cont.)

- Rate Structure – How should the specific rates be designed?
  - Customer (fixed), demand, energy charges
  - Time of day, seasonal, interruptible
- Some other factors to be considered:
  - Continuity with past rates
  - Relatively easy to understand and administer
  - Effects on Conservation
  - Ability to Pay

Rate Riders and Adjustments

- Rate riders allow for changes in rates outside of a general rate case
- “Automatic” adjustments for cost of gas (PGA) and cost of fuel (FCA) have been in place in Minnesota for more than 35 years
- Trackers for Conservation Improvement Plan (CIP) investments and expenses, and annual rate factor adjustments, started more than 30 years ago

Rate Riders and Adjustments (Cont.)

- The legislature has authorized many new categories of riders, especially in the last 10 years, generally to further certain policy goals
- There are more than 20 rider mechanisms that can potentially be used
- These include Renewable Generation, Transmission, and Environmental Improvement riders

Resource Planning

- Minn. Stat. §216B.2422; Minn. Rules, part 7843
- Covers investor-owned utilities and larger generation & transmission cooperatives and municipal power agencies
- Plans include a 5-year action plan and 15 year forecasts

Resource Planning
(cont.)

- Evaluates supply side and demand side resources on equal footing
- Provides a public forum for stakeholders and the Commission to see what a utility's planned resources are for the next 15 years and to provide input in that planning
- Ensures that a utility complies with all applicable laws (environmental, economic, etc.) in the planning of future generation
- Gives an general understanding of the "big picture" before other, more specific filings are made (e.g., a Certificate of Need request for a specific facility)
- Helps ensure that a utility will have adequate resources to cover future demand in a cost-effective manner

Renewable Energy Standards

- Minn. Stat. § 216B.1691
- Applies to Investor-owned, G&T cooperatives, municipal power agencies
- Renewable energy percentages required:

Non-Xcel utilities	**Xcel**
REO: 1% in 2005	REO: 1% in 2005
REO: 7% in 2010	RES: 15% in 2010
RES: 12% in 2012	RES: 18% in 2012
RES: 17% in 2016	RES: 25% in 2016
RES: 20% in 2020	RES: 30% in 2020
RES: 25% in 2025	

Solar Energy Standards

- New requirement of 2013 statutes (216B.1691, subd. 2f)
- Applies only to investor-owned utilities
- Requires 1.5% of total retail electric sales to come from solar PV by 2020
- Certain categories of business customers sales are excluded, and those customers exempted from paying related costs

Questions?

- This presentation was intended as a brief overview, and does not cover many of the energy-related activities and responsibilities of the Commission in any detail.

- We will be happy to provide more information and answer questions, now or follow-up later.