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April 3, 2009

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Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

PUBLIC SERVICE COMMISSION

RE: **Comments of the Minnesota Office of Energy Security**
Docket Nos. G002/CI-08-871 and E,G002/M-09-224

Dear Dr. Haar:

Attached are the comments of the Minnesota Office of Energy Security (OES) in the following related matters:

Northern States Power Company's Proposed Resolution Regarding Inaccurate Gas Meters, Recalculation of Bills, and Related Issues;

and

Service Rules Tariff Modification.

The petitions were filed on March 6, 2009 by:

Bria Shea
Case Specialist
Xcel Energy
414 Nicollet Mall
Minneapolis, MN 55401

The OES recommends that the Commission **approve, with modification**, Xcel's requests and is available to answer any questions the Commission may have in this matter.

Sincerely,

SUSAN MEDHAUG
Planner Principal

SM/ja
Attachment

30 **PU-08-627** Filed: 4/9/2009 Pages: 15
MN PUC Docket No. G-002 - CI-08-871 MN Office of Energy Security Comments re. NSP's Proposed Resolution
Public Service Commission
PSC Staff



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA OFFICE OF ENERGY SECURITY

DOCKET NOS. G002/CI-08-871 and E,G002/M-09-224

I. BACKGROUND

In early February, 2008, Northern States Power Company (Xcel or the Company) determined that an unusual number of 1074 v.2 model gas meter modules were failing. As the meter modules were replaced, Xcel rebilled customers for unrecorded gas consumption. Rebilling was suspended on July 29, 2008, pending regulatory review.

On August 1, 2008, the Minnesota Public Utilities Commission (Commission) issued a notice requiring Xcel to file a rebilling plan and answer a number of questions related to the meter module failure and rebillings.

Xcel filed a response on August 21, 2008. On November 14, 2008, the Commission issued an Order Requiring Filings. The Commission found that it was unable to conclude that Xcel's rebilling plan was reasonable or adequate until additional information was provided. Specifically, the Order states that the Commission seeks the following outcomes:

- The requirements of any Commission approved rebilling plan, and Xcel's internal procedures for implementing the plan, will be clearly understood and consistently applied by Xcel billing, customer service, and other relevant personnel.
- The notification letters, billing statements, and any other customer communications will be clear and timely.
- The rebilled amounts will be accurate.

- Xcel will respond in a timely manner, providing accurate, consistent, information and fair treatment whenever a customer asks to make payment arrangements, asks to have consumption estimates adjusted, or expresses questions or concerns about rebillings.
- Xcel will promptly respond to staff questions and concerns and customer complaints.
- Xcel will promptly disclose to Commission staff any significant problems or issues Xcel encounters in its rebilling efforts.
- Xcel will use the lessons learned from the current situation to review policies and procedures for all cancel/rebill situations.

Further, the Order directed Xcel to provide written confirmation from senior officials that adequate resources would be provided to achieve these outcomes.

II. SUMMARY OF PETITIONS

On March 6, 2009, Xcel submitted its filings, “Inaccurate Gas Meters, Recalculation of Bills, and Related Issues” and “Service Rules Tariff Modification” which are intended: 1) to provide a proposed resolution of the issues pertaining to the failure of the 1074 v.2 module and 2) to respond to Commission’s concerns by providing “an ongoing standard of reasonableness for our [Xcel’s] response to customer inquiries regarding their meter/module performance.” Xcel requests that the Commission accept its proposals and allow the Company to proceed with rebilling the remaining customers affected by the 1074 v.2 and non-1074 v.2 Automated Meter Reading (AMR) module failures.

A. *FINANCIAL REMEDIES*

Xcel proposes to provide a \$50 credit to each of the approximately 10,400 Minnesota customers currently in the rebilling queue. Although Xcel estimates that 2,800 of the 10,400 customers in the queue are affected by an issue not related to the 1074 v.2 module, the Company proposes to provide all 10,400 customers with the \$50 credit due to the delay in rebilling and the resulting inconvenience to the customers.

Further, Xcel proposes to remove the unbillable natural gas costs, occurring as a result of the Company’s conservative estimation method used in rebilling affected customers, from Xcel’s annual natural gas cost true-up. Xcel states that this removal will ensure that its ratepayers will not be paying for natural gas used by, but not billed to, the customers affected by the 1074 v.2 module issue.

Xcel proposes to return to the Commission for direction in the event the Company is allowed to rebill customers and then receives damage or settlement funds related to the 1074 v.2 module failures. Further, Xcel states that it will not seek recovery of costs incurred that are associated with the module failures and remediation efforts.

B. REBILLING PLAN

Xcel offers a similar rebilling plan to that proposed in its August 21, 2008 filing in this matter. Further refinements are proposed in response to input from Commission staff, the OES, and the Residential Utilities Division of the Office of Attorney General (RUD-OAG). Specifically, these refinements include:

- streamlined billing statement reflecting both the current and rebilled amounts on a single invoice,
- improved letter of explanation to be mailed with the billing statement,
- formation of a dedicated team of billing specialists,
- establishment of a dedicated toll-free number, and
- pro-active communication to customers enrolled in payment programs.

Xcel proposes to use the one-year limit in its calculation of rebill amounts as allowed by Minnesota Rules, part 7820.4000.

Xcel offers to provide monthly reports to the Commission on the Company's rebilling efforts for three months, then quarterly, until 60 days after the rebilling effort is concluded and the service quality credits are applied to the customers' accounts at which time Xcel would provide a final report.

C. ON-GOING COMMITMENTS

1. Tariff Changes

Xcel's proposed rebilling plan does not allow the Company to rebill an affected customer for the time period between when the customer called to report an issue with their natural gas meter and when Xcel performed a field investigation if the field investigation occurred more than 10 days after the customer's call. Xcel proposes to make this a required practice by incorporating appropriate language to that effect into its natural gas and electric tariff books (Docket No. E,G002/M-09-224).

Xcel proposes to consider adding service quality reporting metrics to its monthly and annual service quality reporting in Docket No. E,G002/CI-02-2034. Until those metrics are determined, Xcel states that it is willing to provide the Commission with regular updates on matters related to this docket.

2. Process Improvements

Xcel states that it has formed an Executive Committee that is charged with improving the coordination and oversight of the Company's metering and billing areas. Changes [some in conjunction with Change Orders under Xcel's contract with Cellnet Technology Midwest, Inc.(Cellnet)] implemented as a result of directives from this committee include:

- an enhanced process to identify and repair AMR module failures,
- shortened response times to natural gas and electric meter concerns,
- a Return Material Analysis process to better evaluate causes of malfunctions, and
- First Article Testing to ensure that new AMR modules undergo acceptance testing prior to deployment.

3. Outside Audit

Xcel states that it has also engaged an outside consulting firm, Global Enterprise Managers, Inc. (GEM) to evaluate and make recommendations on:

- work processes and information flows within and between the metering, meter reading, and billing functions;
- oversight and administration of the Cellnet contract;
- processes for evaluating, implementing, and testing new technologies such as AMR modules and new billing information systems;
- training, knowledge, and data retention practices; and
- current revenue cycle-related service quality measures.

III. OES ANALYSIS

The OES reviewed the amendments and additions to Xcel's proposed rebilling plan and related proposals and concludes that, generally, together the petitions do achieve a balance between Company responsibility for adequate service and customers' obligation to pay for the natural gas that they use. As such, the OES appreciate the results of Xcel's efforts to date.

However, the circumstances that allowed this situation to occur, and Xcel's inability to consistently follow through on commitments that it made earlier in this proceeding are troubling in that confidence in Xcel's management of its revenue cycle was brought into serious question.

Further, the fact that the 1074 v.2 module issue was not revealed to the Commission until Commission staff pressed the issue magnifies the erosion of confidence. Therefore, while the OES generally supports Xcel's proposal, the Company should anticipate that its proposed efforts to improve its processes will be closely monitored and any future issues that reveal a lack of commitment to improvement will likely be harder for Xcel to defend and harder to be seen as resolvable by a similarly balanced approach. Further, OES expects that Xcel will seek to continually improve its processes rather than fix them only when regulators discover that they are broken.

The following sections discuss specific portions of Xcel's proposals that the OES believes could be strengthened or clarified.

A. REBILLING PLAN

1. Rebilling Period

Xcel requests that it be allowed to implement the proposed rebilling plan pursuant to Minnesota Rules, part 7820.4000. Subparts 3 and 4 of this rule part state as follows:

Subp. 3. Remedy for undercharge.

When a utility has undercharged a customer, the utility shall calculate the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, for the period beginning one year before the date of discovery. If the recalculated bills indicate that the amount due the utility exceeds \$10, the utility may bill the customer for the amount due. But a utility must not bill for any undercharge incurred after the date of a customer inquiry or complaint if the utility failed to begin investigating the matter within a reasonable time and the inquiry or complaint ultimately resulted in the discovery of the undercharge. The first billing rendered shall be separated from the regular bill and the charges explained in detail.

Subp. 4. Exception if error date known.

If the date the error occurred can be fixed with reasonable certainty, the remedy shall be calculated on the basis of payments for service rendered after that date, but in no event for a period beginning more than three years before the discovery of an overcharge or one year before the discovery of an undercharge.

Xcel proposes to use the date of the field order completion date of the module replacement as the date from which the Company would count back one year to rebill affected customers. Since most of the defective modules were installed in late 2007 and the replacement of the modules was completed by the end of 2008, it appears that a one-year rebilling may be reasonable in most cases. However, not all of the modules were installed at the same time, nor did they all fail at the same time. Xcel states in Attachment 1 of its August 21, 2008 filing that:

Using data contained [in] our meter reading data repository, in most instances we should be able to reasonably identify the dates of both module failure and replacement, giving us a defined period for rebilling.

The OES is concerned that Xcel has stepped back from the intent expressed in its August 21, 2008 filing and is now proposing to streamline the rebilling process by automatically assuming a one-year period for all rebills. Since Xcel's rebilling plan involves looking at each customer's situation individually to determine the cause of the suspect readings, the customer's usage patterns, and two-year consumption history, that evaluation should necessarily include determining an estimated date of module failure and certainly the date of module replacement. Therefore, the OES requests that Xcel confirm that it intends to estimate as accurately as possible each customer's rebilling period, using an *outside* limit of one year rather than assuming a one-year period for all customers.

Further, Xcel states that it would not rebill affected customers for the time period between when the customer called to report an issue with their meter and when the Company performed a field investigation if it took more than 10 days to investigate the customer's issue. In Attachment C of its filing, Xcel states, "If our response to a customer inquiry related to the module failure did not occur within 10 calendar days, we will limit our rebilling of the customer from the date the 1074 v.2 model module failed to the date the customer contacted us to report the problem." The OES concludes that the latter representation of Xcel's intent is preferable to the former since "investigating the customer's issue" does not necessarily mean the issue was resolved. The OES does not believe that Minnesota Rules, part 7820.4000, subp. 3 allows Xcel to start the clock again for rebilling of overcharges at the point an investigation is initiated. The rule states that ". . . a utility must not bill for any undercharge incurred after the date of a customer inquiry or complaint . . ." The OES asks that Xcel confirm that it will not rebill a customer for undercharges occurring after the customer contacted Xcel if it took the Company more than 10 days to begin to investigate.

2. *Customer Communication*

As stated in Section I, one of the desired outcomes sought by the Commission in its November 14, 2008 Order in this docket is that the notification letters, billing statements, and any other customer communications will be clear and timely. The OES supports the improvements Xcel reports that it has made to the rebilled customer's billing statement. There may be further

improvements that could be made to one or more of the customer communication letters. For instance, in the letter proposed to be sent to customers who have already been rebilled and who have an outstanding balance, the last sentence of the letter asks the customer to contact Xcel if the customer has any questions or would like to change his or her payment arrangement. This may be confusing to a customer who does not have a payment arrangement. Substituting “change your payment arrangement” with “take advantage of an extended payment arrangement” may eliminate the confusion and highlight Xcel’s offer of a twelve-month, interest free, payment arrangement. The OES encourages Xcel to work with the Commission’s Consumer Affairs Office for assistance in enhancing these letters and all other customer communications.

B. FINANCIAL REMEDIES AND REPORTING

1. \$50 Credit

The OES believes that providing customers in the rebilling queue with a \$50 credit helps offset the difficulties they will face or have faced upon being rebilled. The number of customers who will be receiving this credit is unclear at this point. Xcel states that, as of March 3, 2009, the rebilling queue contained approximately 12,500 premises, 10,400 of which the Company expects to rebill. Xcel adds that 240 customers potentially affected by the “five-dial meter” issue are included in the queue. Xcel also states that approximately 2,800 of the 10,400 in the queue are not 1074 v.2-type issues. Xcel states that all customers currently in the queue will receive the credit. The OES requests that Xcel clarify whether it will provide a \$50 credit only to those customers in the queue that will be rebilled. Further, the OES recommends that Xcel include in its proposed reporting the cause of the malfunction for each of the customers the Company does rebill (1074 v.2, five-dial meter, or a different source of the malfunction).

2. Unbillable Gas

The OES acknowledges that estimating the amount of unbillable gas to be excluded from the annual natural gas true-up is a challenge in that it is impossible to be exact or precise. The general goal is to estimate the difference between the amount of gas that would have been billed had there not been billing errors and the amount that was or will actually be billed. To estimate this amount, Xcel must account for any factors that created differences in consumption levels between the time period during which the billing errors occurred and the time period used to provide the estimated rebill. The two main factors that cause consumption level differences are the number of customers served and the weather.

As the OES understands it, Xcel’s method attempts to consider these factors by first calculating consumption per customer for a specific time period for customers not affected by the billing issues in this docket. Xcel then proposes to calculate the percentage difference (referred to as the “unbillable weather percentage”) and apply it to the sum of actual billed sales and an estimate of unbilled sales. The result is Xcel’s estimate of the consumption for the period that will remain unbilled. Xcel proposes to apply the cost of gas for the period to the estimate of unbillable gas

and remove that amount from the true up. The OES presumes that, after all customers are rebilled, the unbillable weather percentage will be applied to actual billed sales rather than a combination of actual and estimated sales.

The OES concludes that Xcel's proposed method is reasonable with one exception. Applying the unbillable weather percentage to actual billed sales will result in a number that is too low given that actual billed sales will be missing the natural gas consumed by those customers Xcel proposes not to, or only partially, rebill – customers who have moved, customers for whom it took Xcel longer than 10 days to respond to a meter/module issue, and customers in new construction. Xcel proposes to add the natural gas costs it will not rebill due to the lack of consumption history for customers who have moved. However, in its March 6, 2009 filing, the Company does not explain how it will determine these unbilled natural gas costs. The OES recommends that Xcel use an average per-customer consumption based on unaffected customers for the same time period as the rebilling period as a proxy for the consumption of customers in new construction and for those who have moved. The OES also recommends that Xcel add the unbilled natural gas costs associated with any over-ten-day delay to respond to customer inquiries.

3. Recovery of Related Costs

Xcel states that it will not seek recovery of the various costs it has incurred that are associated with the AMR module failures and remediation. The OES appreciates Xcel's commitment in this regard and requests that Xcel confirm in its reply comments that the commitment pertains not only to costs incurred to date, but also to all costs that will be incurred. To help ensure the enforceability of this commitment, the OES recommends that Xcel clearly identify these costs in its final report to the Commission in this proceeding.

C. REPORTING AND COMMUNICATION

The OES concurs with Xcel's willingness to incorporate appropriate service quality metrics into its Service Quality Tariff established under Docket No. E,G002/CI-02-2034 and looks forward to the results of the GEM report and to working with Xcel, Commission Staff and the RUD-OAG to accomplish this goal.

The OES supports Xcel's proposal to provide the Commission with regular updates on matters related to this docket as well as the timing and basic content of the reports regarding the Company's progress in resolving the current situation. As stated previously in these Comments, the OES recommends that Xcel also include in these reports the causes of the issue leading to the necessity to rebill each customer in the queue. Further, in addition to identifying costs as noted above, the OES expects that the final report will include the final numbers on customers

receiving the \$50 credit and unbillable amounts calculated based on the final billed amounts and including unbilled amounts due to customer moves, new construction and more-than-ten-day responses to customer inquiries.

The OES notes that Xcel expresses a desire for clarity regarding which circumstances, going forward, would warrant a specific request to rebill, as well as under which circumstances it might be appropriate to follow some or all of the elements of the proposed rebilling plan. The OES concludes that, if successful, Xcel's efforts to improve internal communication and its communication with the Commission will allow those determinations to happen as issues occur and in the normal course of doing business. The nature and extent of future issues cannot be predicted. However, if Xcel's enhanced communication processes are effective, each future issue will be managed appropriately and in a timely manner.

IV. CONCLUSION AND RECOMMENDATIONS

The OES concludes that Xcel's proposed rebilling plan is appropriate with the following additions and clarifications:

- that Xcel confirm that it intends to estimate as accurately as possible each customer's rebilling period, using an outside limit of one year;
- that Xcel confirm that it will not rebill a customer for undercharges occurring after the customer contacted Xcel if it took the Company more than 10 days to begin to investigate;
- that Xcel clarify whether it will provide a \$50 credit only to those customers in the queue that will be rebilled;
- that Xcel include in its proposed reporting the cause of the malfunction for each of the customers the Company does rebill (1074 v.2, five-dial meter, or a different source of the malfunction);
- that Xcel work with the Commission's Consumer Affairs Office for assistance in enhancing its proposed letters to affected customers and all other customer communications;
- that Xcel use an average per-customer consumption based on unaffected customers for the same time period as the rebilling period as a proxy for the consumption of customers in new construction and for those who have moved, and include the associated unbilled revenue for these customers in its unbillable gas calculations;

- that Xcel add the unbilled natural gas costs associated with any over-ten-day delay to respond to customer inquiries in its unbillable gas calculations;
- that Xcel clarify that not only costs incurred to date, but all costs that will be incurred, will not be recovered through rates; and
- that Xcel report in its final report in this proceeding the total costs Xcel incurred as a result of the AMR module failures and remediation.

Finally, the OES supports the actions Xcel has taken and is proposing to take to improve its processes going forward. The OES looks forward to the results of the GEM report and to working with the Company, Commission Staff, and the RUD-OAG in establishing relevant service quality measures that will help ensure that customer service performance remains a high priority for Xcel.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Letter**

Docket No. P5681,421/C-09-302

Dated this 3rd day of April, 2009

/s/Sharon Ferguson

G002/CI-08-871

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