



Karl Richard Pavlovic
Jurisdictional and Class Cost Allocation, Rate Design, and TCR
Evidentiary Hearing Opening Statement
Case No. PU-12-813

My name is Karl Richard Pavlovic. My testimony addresses, on behalf of the Commission's Advocacy Staff, the assertions and proposals in this proceeding by Northern States Power regarding its North Dakota jurisdictional and class costs of service, rate design, and proposed Transmission Cost Recovery (TCR) tracker.

In my testimony I conclude that NSP's jurisdictional cost assignment methods and procedures are, with the exception of the use of a 12 coincident peak demand allocator, appropriate and in accordance with the principles enunciated in the NARUC Cost Allocation Manual. The 12 coincident peak demand over-allocates system costs to the North Dakota jurisdiction. I also conclude that NSP's class cost assignment methods and procedures are appropriate and consistent with the NARUC cost allocation principles and that NSP's proposed customer class revenue distribution is cost based and reasonable. While the class cost study does not directly support the current rate structure, NSP's proposed modifications to the rate components, moving customer and demand charges towards full cost recovery, are appropriate and reasonable. NSP's rate structure, however, is overly complex and the tariff is virtually incomprehensible. Finally, I conclude that NSP's application for a Transmission Cost Recovery rider does not comport with the statutory requirements for Commission consideration and lacks a demonstration that the costs proposed for the tracker meet the criteria for inclusion in a tracker.

There are 13 generally accepted methods for the allocation of electric production costs and 6 generally accepted methods for the allocation of electric transmission costs. The primary factor considered in selection of an allocation method is cost causation as reflected in the planning and

operation of an electric utility's production and transmission facilities. The primary drivers/metrics of cost causation on electric production and transmission facilities are demand and energy. Selection of an allocation method consists of determining which method best reflects the utility's actual system planning and operation. My testimony provides explanations and illustrations of each of these points drawn from the NARUC Manual.

In my testimony I assess the 12 Coincident Peak (12CP) demand allocator that Northern States Power uses to effect its jurisdictional allocation of production and transmission costs and recommended that NSP use a Single Coincident Peak (1CP) demand allocator. My assess is based on my review of cost allocation and system planning documents and other information provided by NSP in testimony and discovery.

The 12CP method is considered appropriate where system monthly peak demand does not vary significantly or where the utility plans and operates its facilities so as to maintain equal reserve margins, LOLPs or other reliability index values in all months. As regards variation in monthly peak demand, NSP is a strongly summer peaking system and there is considerable variation in its monthly peak demand. As regards equal monthly reliability indexes, there is in the documents and information I reviewed no indication or explanation that NSP plans and operates its system to maintain equal monthly reliability indexes.

In fact, other than statements that NSP uses the 12CP method to allocate production and transmission, there is in the documents and information that I reviewed no indication or explanation that NSP plans and operates its production and transmission facilities to anything other than its annual system peak demand. In addition there are allocation methods explained in the NARUC Manual that are designed to account for timing and cost differences among baseload, intermediate, and peaking production facilities. NSP does not use any of these other allocation methods. For

these reasons I conclude that 1CP is the appropriate method for allocation of NSP's production and transmission costs to the North Dakota jurisdiction.