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JURISDICTIONAL DEMAND ALLOCATOR
EVIDENTIARY HEARING OPENING STATEMENT
Case No. PU-12-813

I am Director of Regulatory Administration and Compliance for Xcel Energy Services Inc.

In my Rebuttal Testimony, I explain why the Commission should continue to use the “12 CP” method to determine the North Dakota jurisdictional portion of costs for our production and transmission facilities. I also explain why the Commission should not adopt the “1 CP” method recommended by the Advocacy Staff Consultant, Karl R. Pavlovic. As part of his recommendation, Dr. Pavlovic proposes a \$20 million reduction in the test year revenue requirement. As a result, use of the right jurisdictional allocator is a critical financial issue for the Company.

As part of an integrated system, our production and transmission facilities are used to provide service to more than one state. As a result, it is necessary to determine the North Dakota portion of the costs of these facilities as part of the process of setting our North Dakota rates.

The Commission has historically applied three criteria for selecting a method for allocating costs to the North Dakota retail jurisdiction: accuracy, stability, and consistency with other jurisdictions. The weighted 12 CP method we recommend meets all of the Commission’s criteria and should continue to be used in this case.

Accuracy is the Commission’s primary criteria. The 12 CP method we have used in North Dakota for about 20 years and again proposed in this case most accurately captures the drivers of our fixed production costs. The 12 CP method recognizes that

our fixed production costs are incurred not only to ensure reliable service, but also to minimize overall system energy costs over the course of a year. Specifically, the 12 CP method considers loads in all 12 months, thereby recognizing that loads in all months contribute to our overall system costs. The 12 CP method recognizes that the costs incurred to ensure reliable service (demand related costs) cannot be allocated to any specific hourly load in any specific month, or even to a single season because we design and operate our system to ensure reliable service at the least costs in all months. As a result, potential loads in many different summer hours, as well as hours outside the summer season, also contribute to the need for production capacity. The 12 CP method gives more weight to summer peak loads, but also recognizes the significance of peak demands in other months.

The 12 CP method also better captures the drivers of our fixed transmission costs. The Company designs the various segments of its transmission system to meet the peak demands of the specific regions served by each segment of the system. These regional peak demands are not necessarily coincident with the NSPM coincident peak, and may occur in the winter. Moreover, MISO uses the 12 CP method as a basis for its monthly transmission billings.

The Commission has found that it is appropriate to recognize peak usage in all 12 months with a weighting that recognizes the added significance of higher usage months. The 12 CP method, which reflects peak loads in all months with an added weighting of higher usage months, meets these Commission criteria for accuracy.

The Commission has also recognized that the 1 CP method was an inappropriate method to determine the drivers of the Company's costs because it ignores the costs that off-peak customers impose on the Company's system.

The 12 CP method also yields more stable results (the Commission's second criterion) than the 1 CP method, because the 12 CP method takes into consideration peak loads throughout the year. As a result, year to year changes are smaller than the changes under the "1 CP method" that has been recommended by the Staff consultant in this case. Such variability can have a significant impact on test-year revenue requirements and, ultimately, electric rates.

The Commission's third criterion is consistency with the approach used by other jurisdictions. The 12 CP method is used by the other four NSP system states and MISO. While this factor may be less significant to the Commission, it nevertheless points to the 12 CP method as the best approach under the Commission's criteria.

Finally, as Staff consultant Dr. Pavlovic's Supplemental Testimony recognizes, the NARUC manual focuses on which "method best reflects the utility's actual system planning and operation." My Rebuttal Testimony explains that the 12 CP best reflects: (1) our planning and operation of production facilities both to ensure very high levels of reliability during the entire year and to minimize system energy costs; and (2) the effects of loads other than the system annual coincident peak demand on our transmission planning, given the need for each transmission facility to meet the peak demand on that particular facility.

We submit that the 12 CP method that has been in place for many years in North Dakota and elsewhere should again be approved because it best meets the three Commission criteria. It is accurate, yields stable results, and is more consistent with the methods approved by other jurisdictions. In contrast, the Staff consultant has proposed the 1 CP method, which the Commission has previously found to be

inappropriate and has rejected. Accordingly, the 12 CP method should be adopted in this case.