



2302 Great Northern Drive  
Fargo, North Dakota 58402

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August 4, 2022

—VIA ELECTRONIC FILING AND U.S. MAIL—

Steven M. Kahl, Executive Director  
North Dakota Public Service Commission, Dept. 408  
State Capitol, 600 E. Boulevard  
Bismarck, ND 58504-0480

RE: INFORMAL HEARING FOLLOW UP INFORMATION  
COMPETITIVE RESPONSE RIDER  
CASE NO. PU-22-185

Dear Mr. Kahl:

Northern States Power Company, doing business as Xcel Energy, submits to the North Dakota Public Service Commission (Commission) this Letter containing the follow-up items from the July 6, 2022 Informal Hearing for the above-mentioned cases.

During the July 6, 2022 Informal Hearing, we agreed to provide more information on the applicability of the CRR to new and existing customers and rationale and prudence of allocating the discount to all other customers. We appreciate the opportunity to address these items below.

**A. Applicability to Existing and New Load**

The Commission requested that we review the proposed language in the new CRR tariff to ensure the load requirements for existing customers is clear. We have developed the CRR tariff with the goal of both retaining large existing customers and attracting new customers. If a large existing customer in our North Dakota service territory has the opportunity to move their facilities out of state to access lower rates, our ability to negotiate a special rate would allow us to retain them as a customer in North Dakota. Existing customers with a current load of at least 2 MW *and* the ability to move at least 2 MW of their load to another utility's service territory would qualify for the CRR in order to retain them as a customer.

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The proposed tariff specifies, “any existing demand-metered commercial and industrial customer with a minimum load of 2 MW and the ability to obtain its energy requirements from an alternate electric supplier” can qualify for the CRR. The tariff later states, “The required minimum load served under the CRR is 2 MW for existing customers and 10 MW for prospective customers.” We believe these two statements support the parameters we have established for existing customers, that they must have 2 MW of existing load that could reasonably be relocated to another service territory. We have therefore not proposed any revisions to the proposed tariff language at this time.

**B. Net Benefit for All Customers**

The Commission had questions about the CRR customer discount in relation to the cost recovery from other customers in a future rate case. The CRR rate is intended to provide a net benefit for all customers. To better explain what we mean by net benefit and how those costs and benefits are treated for recovery, the Company has performed an illustrative example of the Incremental Cost Analysis, provided as Attachment A, to demonstrate how the proposed CRR process will work. The Company forecasts total revenue before discount, the discount, the revenues remaining after discount, and the incremental cost. The revenue remaining after the discount minus the incremental cost is incremental revenue. This incremental revenue is a contribution to system fixed costs, benefitting existing customers in the form of lower rates in a future rate case.

Please note Attachment A is marked as “Not Public,” as it contains not public information consistent with the Company’s August 4, 2022 Application for Trade Secret Protection in this case. The Attachment is Highly Confidential.

As a simple example, assume we had a customer whose annual billed revenue would be \$6.5 million on standard rates before discounting. In this example, it costs \$5 million of annual incremental costs to bring them onto the system, and we offer them a discount worth \$0.5 million. Their contribution to system fixed costs is shown in the table below.

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**Table 1: Illustrative Example - Customer Discount**

Annual Revenue on Standard Rates	\$6,500,000
Annual Discount	\$ 500,000
Revenue Remaining After Discount	\$6,000,000
Incremental Costs	\$5,000,000
Contribution to System Fixed Costs: Net Benefit	\$1,000,000

In a rate case, the incremental costs for the customer would be included as part of the cost of service. The customer’s full revenues based on standard, non-discounted rates would also be included. If the customer revenue is not adjusted downward by the discount amount, then the Company is representing more contribution to system fixed costs than they are collecting from this customer. Recovering the discount from existing customer simply means the Company would continue to have the opportunity to set rates that would recover its full revenue requirement. If the Company did not have the ability to recover the discount it would essentially act as a disallowance, which would deter the Company from adding these valuable customers to our sales base. Table 2 below shows the difference in rate case treatment if the discount is recoverable or not, using the illustrative example from Table 1.

**Table 2: Illustrative Example - Rate Case Treatment of Customer Discount**

Rate Case Treatment	Discount Recoverable	Discount Not Recoverable
Customer Revenues – Standard Rates	\$6,500,000	\$6,500,000
Discount Included in Rate Case	\$ 500,000	
Revenues Represented in Rate Case	\$6,000,000	\$6,500,000
Incremental Costs	\$5,000,000	\$5,000,000
Contribution to System Fixed Costs: Net Benefit	\$1,000,000	\$1,500,000
Revenues Represented in Rate Case	\$6,000,000	\$6,500,000
Actual Revenues Expected From Customer	\$6,000,000	\$6,000,000
<b>Revenues Not Collected</b>	<b>\$ 0</b>	<b>\$ 500,000</b>

In the example above, if the discount is not recoverable, then system customers receive the benefit of the difference between revenues on full standard rates and the incremental costs. However, the Company does not collect the amount of the

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discount from the new customer or the existing customers, and therefore cannot collect their full revenue requirement.

**C. Use of LMP**

As noted above, a detailed illustrative example of the Incremental Cost Analysis is provided as Attachment A. The incremental energy costs in Attachment A is based on the LMPs at the OTP.NSP node for year-to-date 2022. We will use LMP data from the closest available load node when calculating the incremental energy costs for prospective customers.

Please feel free to contact me at (612) 330-7974 if the Commission requires additional information or has any questions.

Sincerely,

/s/

CHRISTOPHER SHAW  
MANAGER, REGULATORY POLICY

# CRR - Incremental Cost Analysis

*Illustrative Example*

		kWh Sales				
		Summer		Winter		
		1	2	3	4	5 = 1 + 2 + 3 + 4
Year	Peak Load (kW)	On Peak	Off Peak	On Peak	Off Peak	Total kWh Usage

Incremental Energy Costs (\$ per kWh)				
Summer		Winter		
6	7	8	9	10
On Peak	Off Peak	On Peak	Off Peak	Total Incremental Energy Costs

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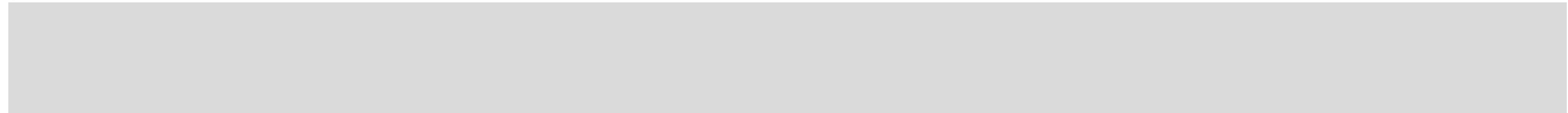


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		11	12	13	14	15	16 = 10 + 12 + 13 + 14 + 15
Year	Peak Load (kW)	Total Incremental Capacity Costs	Juris. Cost Allocation Increase to MN	MISO Costs	Total Incremental Transmission Costs	Total Incremental Costs	

17	18	19	20	21	22 = 21 - 16
Rate Forecast (\$ per kWh)	Revenues Before Discount	Rate Forecast under Discount (\$ per kWh)	Total Discount	Revenues Remaining After Discount	Contribution to Margin

[HIGHLY CONFIDENTIAL PROTECTED DATA BEGINS]



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