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Xcel asks for 10 percent rate increase

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Minnesota customers of Xcel Energy may soon pay more for electricity -- and one reason, the utility contends, is that they're using less of it.

The state's largest power company, which serves 1.2 million Minnesota customers, told regulators Friday that it needs an additional \$285 million, a 10.7 percent increase, in revenue starting next year.

For a typical residential customer, the proposed rate hike would be 12 percent -- or \$9 on a monthly bill, Xcel said. Small businesses would see a 10.6 percent increase and large businesses a 9.5 percent boost, the utility said.

Xcel officials said the biggest factor driving the rate request is the \$114 million the utility is spending to keep its two Minnesota nuclear power plants operating and boosting the output at one of them. But the No. 2 reason is that electricity sales have fallen nearly 4 percent since its 2011 rate hike.

With less revenue coming in, Xcel wants everyone to pay more to cover costs.

"It's a simple equation of cost-of-doing-business divided by the base amount of energy being used," said Laura McCarten, a regional vice president for Xcel's Minnesota operations. "When that base reduces, then the cost goes up."

McCarten attributed the drop in power sales to the lingering effects of the recession and the loss of large customers like the Ford plant in St. Paul, which closed last December, and the Verso paper mill in Sartell, Minn., which shut down after a fire on Memorial Day.

If approved by the state Public Utilities Commission (PUC), this will be the fifth rate increase since 2005, including one earlier this year and another in 2011. In all of those cases, the approved rate hike ended up being less than Xcel requested.

Thanks partly to stable revenue growth and lower investment needs, Xcel avoided a Minnesota rate hike for many years prior to the recent string of them.

McCarten said it's common practice for the utility to recoup investments in power plants and the grid from customers -- and this year's investments are on the same scale as in the recent past. Xcel said higher property taxes and other grid and plant investments also are driving the rate-hike request.

"What's different is that on top of that, we now have a \$40 million property tax increase and in a typical year that would be more like \$10 million, and the base usage of energy has fallen off," McCarten said.

The higher-than-usual tax hike stems partly from a higher valuation of assets because of Xcel's investments in them, she said.

The investments will keep the Prairie Island nuclear power plant near Red Wing and the Monticello nuclear power plant operating until the early 2030s, Xcel said. The Monticello plant also is undergoing a power-boosting upgrade. Plans to do the same at Prairie Island were recently scrapped.



Xcel Energy told Minnesota regulators on Friday that it needs \$285 million in extra revenue to pay for investments in nuclear power plants and a stronger grid.

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Discount offer

In an effort to rebuild some of its base, Xcel proposed to offer discounted rates to large industries that want to expand in Minnesota. The utility recently offered such a deal to a St. Paul metal recycler and believes other companies could benefit.

"For a customer who faces a competitive threat and might be thinking about leaving the state, it allows us to offer an alternative to that and compete for that customer," said Chris Clark, an Xcel regional vice president for rates and regulatory affairs.

Bill Blazar, vice president of regulatory affairs for the Minnesota Chamber of Commerce, said the need for such a discount-rate program underscores the business group's concern about power costs.

"Our concern is that Minnesota may be losing its advantage when it comes to competitive electric rates," Blazar said.

The rate-hike request sets off a long regulatory process that probably won't end until later in 2013. Two state agencies, the Commerce Department's Energy Resources Division and the attorney general's office, represent consumers, although anyone can weigh in with the PUC, which offers a way to comment through its website.

One battle line in the case is likely to be how to spread the pain. Large business customers already pay lower rates than homeowners, but they have long argued that they should pay even less because it costs significantly less to deliver power to big users.

Xcel asked for permission for an interim rate hike that would take effect in January. That bump would be slightly less than the permanent rate increase being sought.

If an interim rate hike is approved, customers would begin paying more on their January bills. If the final rate hike is less than requested -- as happened this year and is not uncommon -- the utility must give out refunds.

If the approved rate hike exceeded the interim rate, customers would not have to make up the difference for the months they have already paid.

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