BEFORE THE PUBLIC UTILITIES COMMISSION OF COLORADO

DOCKET NO. 08I-113EG

IN THE MATTER OF THE INVESTIGATION OF REGULATORY AND RATE INCENTIVES FOR GAS AND ELECTRIC UTILITIES

COMMENTS OF LESLIE GLUSTROM
September 22, 2008

Leslie Glustrom, a Colorado citizen, submits the following comments in the above captioned Docket related to the Colorado Public Utilities Commission ("PUC") investigation of incentives for utilities. These comments are submitted in response to Commission decision C08-0903. I will focus my comments on some, but not all, of the areas outlined by the Commission and will focus on my experience as a Public Service Company of Colorado ("PSCo" or "Xcel") ratepayer who has been following PUC proceedings since 2004.

A. AS PRESENTLY STRUCTURED, THE FUEL COST PASS THROUGH (ELECTRIC COMMODITY ADJUSTMENT) DOESN'T PROTECT RATEPAYERS FROM POOR UTILITY MANAGEMENT PRACTICES[1]

In accordance with PUC Decision 06-1379, all of Xcel's natural gas and coal costs are passed directly through to consumers under the "Electric Commodity Adjustment" ("ECA") with minimal PUC oversight. This creates a situation where ratepayers have no control over decisions affecting fuel costs and fuel choices for Xcel's system, yet bear all the costs. Conversely, Xcel has all the control and bears no risk. This is bound to create a situation where Xcel does not feel the consequences of its fuel choice and fuel management decisions; by not feeling the consequences of its decisions Xcel

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[1] This section is offered in response to Question iii in Appendix A to Decision C08-0903.

does not have adequate incentive to make wise decisions about fuel choices and fuel management. This is often compared to the actions of Person A determining how many electric shocks Person B will receive. Person A may not be malicious, but if they are not the one receiving the shock, it is very likely that they won't be as careful as if they were receiving the shock. In the present case, whether it is intentional or not, Xcel makes the decisions while ratepayers feel the shock. As explained below, these shocks are often quite severe and presently tens of thousands of Xcel customers are facing disconnect notices[2]--while Xcel just adjusts the ECA and carries on.

1. The Electric Commodity Adjustment Accounted for 30-40 % of Xcel's Rates in 2008 Yet Receives Only Minimal PUC Oversight

In 2007, about 96% of the electricity used on Xcel's system was produced with coal or natural gas resources.[3] This means that decisions about both the fuel source and the securing of a supply of these fuels are critical to consumers' bills.

The quarterly increases in the fuel cost rider—the "Electric Commodity Adjustment" are usually filed by Xcel a few weeks before they go into effect. The proposed ECA is given a quick review by Commission staff and then implemented on customers' bills. Table 1 summarizes the residential rates and the Electric Commodity Adjustment charges for 2008.

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[2] See Attachment 8 to the Supplemental and Cross Answer Testimony of Leslie Glustrom in Docket 07A-447E.
[3] See page 2-53 in Xcel's November 15, 2007 Application in Docket 07A-447E.

Table 1
2008 Electric Commodity Adjustment Filings and the Effective Monthly Rate for Residential Customers
(All filings available from the Colorado PUC) [4]

PUC Docket	Effective Dates	Effective Monthly Rate	Electric Commodity Adjustment	ECA as a % of the Effective Monthly Rate
07L-497E	Jan-March 2008	7.683 cents/kwh (winter)	2.506 cents/kwh	32.62 %
08L-094E	April-June 2008	9.615 cents/kwh (summer)	3.849 cents/kwh	40.03 %
08L-267E	July-Sept 2008	10.648 cents/kwh (summer)	4.925 cents/kwh	46.25%
08L-410E	Oct-Dec 2008	8.643 cents/kwh (winter)	3.303 cents/kwh	38.22 %

Table 1 shows that in 2008, the ECA accounted for 32-46% of residential electric bills[5]—yet the PUC provides almost no oversight on the purchasing of fuel and Xcel bears none of the fuel cost risk for its decisions to maintain a system that is over 90% dependent on fossil fuels. This is a very serious issue as the PUC considers the question of how various rate-making processes affect utility incentives.

[4] The Effective Monthly Rate and the ECA rider are usually found on about pages 11-12 of the ECA filing—give or take a page.

[5] Other riders are typically much smaller than the fuel cost rider. For example, for the period October-December 2008 other riders on residential rates include:

Demand Side Management Cost Adjustment	0.118 cents/kwh
Purchased Capacity Adjustment	1.464 cents/kwh

The Renewable Energy Standard Adjustment has been at 1.46% which appears to be taken as a percentage of the total bill (as can be seen from the Customer Impact Study included (usually as Exhibit 8) of the ECA filing.) Obviously, the 1.46% RESA is much smaller than the ECA which is 30-40% of the Effective Monthly Rate. In short, the other riders on Xcel's bills are significantly smaller than the fuel cost "ECA" rider.

2. Xcel Often Underestimates Coal Costs During Resource Planning Dockets, but Bears None of the Risk of These Assumptions

During Resource Plan Dockets, Xcel estimates future costs of fossil fuels to use in analyzing potential plans. These same fuel cost estimates are also often carried over to other Dockets such as the Renewable Energy or Demand Side Management Compliance Plans.

For example, in 2004, Xcel assumed that the price of coal would stay flat or decline in real terms over the course of the 30 year planning period.[6] Near term prices were apparently projected to stay flat and then after 2008 the prices were assumed to rise at about 1.5 % per year. Real coal costs have increased substantially in recent years as Xcel's long term contracts began to expire.

Across Xcel's system the increase in coal costs in recent years has been between 10-15% per year. Coal plants that have had their long term coal contracts expire have experienced very significant increases in coal costs of up to 25% per year[7]--or more than 10 times the increases assumed by Xcel as recently as 2004. It matters not to Xcel, though, since whatever the price of coal (or natural gas) is , they just prepare the ECA filing that only a few staff at the PUC review and then the changes get quickly reflected in ratepayer bills.

The lack of incentive to Xcel to thoughtfully analyze and procure fuel supplies is something the Commission should carefully consider. One solution, as summarized below, is to only allow Xcel to recover fuel costs that correspond to the predictions they

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[6] See the Rebuttal Testimony of Xcel witness Jim Hill in Dockets 04A-214E, 04A-215E, 04A-216E.
[7] See pages 12 and 15 in the Supplemental and Cross Answer Testimony of Leslie Glustrom, Docket 07a-447E.

have made, plus a cushion, say of 20%. In short, under this proposal, "What Xcel models is what they get in cost recovery." This ought to help them "sharpen their pencils" a bit.

3. Xcel is "Flying Blind" as They Base Their Understanding of Future Fuel Supplies on Unexamined Assumptions; Again They Bear None of the Risk for this Extremely Risky Behavior

It has been repeatedly demonstrated that Xcel has failed to analyze possible future constraints in coal supply. In both the 06S-234 EG Docket and the 07A-447E Docket, Xcel has provided Discovery Responses indicating that it hasn't done any analyses of future coal supply constraints.[8] Xcel appears to be assuming that because it has oft been stated that the United States is "The Saudi Arabia of Coal,"[9] that mile-long trains of coal will continue to show up at its coal plants several times a week for the next 50 years. Once again, since fuel costs get passed through to ratepayers, if this assumption is faulty and coal costs begin to mount dramatically due to supply constraints, as they have, then Xcel doesn't suffer any of the pain—they just pass the costs through to consumers under the ECA.

A careful look at the mines supplying Xcel's coal, as well as the recent reports of the United States Geologic Survey[10] will show significant geologic constraints that will

[8] See Discovery Response RUC 2-10 (g) in Exhibit 118 in Docket 06S-234EG as well as Attachments 48 and 49 to the Answer Testimony of Leslie Glustrom in Docket 07A-447E. In each case, when asked what analyses had been done of future coal supplies for its coal plants, Xcel responded to the effect that, "No such analyses have been conducted." Not assuring your supply chain for future needs is a mistake that no thoughtful business person would make—and if they did, they wouldn't be in business for long….

[9] See page 1-29 of Xcel's Least Cost Plan filing in Dockets 04A-214E, 04A-215E and 04A-216E for their assumption about the United States being the "Saudi Arabia of Coal."

[10] See USGS Open File Report 2002-180 and 2008-1202. The 2002-180 report does not appear to be available on the web, but is available from Leslie Glustrom upon request to lglustrom@gmail.com. The 2008 report is available from http://pubs.usgs.gov/of/2008/1202/. Excerpts of the 2002 report were submitted to the record of the 06S-234EG Docket by several individuals as well as by Ratepayers United of Colorado.

become increasingly apparent over the next 10-15 years.[11] In a world of declining supply and stable or increasing demand, prices can expect to increase—as they already have begun to do.[12]

Once again, if you don't suffer the consequences yourself, then you are not strongly motivated to examine your assumptions. In this case, Xcel seems to have made its assessment of future coal supplies on the basis of hearsay about "The Saudi Arabia of Coal," rather than by taking a hard look at the data on coal mines that supply its coal plants and geologic and transportation constraints on its future coal supplies.

Without a closer "nexus" between the decision maker (i.e. Xcel) and the risk taker (i.e. ratepayers), then Xcel will never have a very strong motivation to examine its assumptions and determine whether it really will be able to supply its coal plants for the next 20-50 years as it did during the last century. Upon closer examination, it will find that many of the mines that supply its coal plants have life spans of 10-20 years (or in some cases less) and they can't just assume that the mines will expand to meet Xcel (or any utility's) future demand. This is, of course, a very serious situation for this country's utilities—and as we watch the investment bank industry crumble, it can't be claimed that somehow American business is immune from making massively stupidly miscalculations….

To help protect ratepayers from Xcel's risky behavior—**AND TO ENSURE SYSTEM RELIABILITY**—the Commission should begin to examine this situation carefully and to devise ways to help internalize the risks that accompany future price

[11] See Attachments 26-30 to the Answer Testimony and Attachments 2 and 20 to the Supplemental and Cross Answer Testimony of Leslie Glustrom in Docket 07A-447E

[12] See pages 12 and 15 in the Supplemental and Cross Answer Testimony of Leslie Glustrom, Docket 07A-447E.

increases and supply constraints so Xcel will begin to conduct analyses of future supplies of the fuel that runs over 60% of its system.

A similar argument can be made regarding future supplies of natural gas, but my focus is on coal supplies in part because of the greater reliance of Xcel on coal plants and in part because the gap between what Xcel thinks and the truth is <u>so very great</u>—and <u>so very dangerous</u> from a consideration of both rates and reliability.

4. Restricting Xcel's Cost Recovery for Fuel Costs to What It has Modeled (Plus a Margin of Error) Should Help Xcel to Make More Accurate Projections of Fuel Cost

To help bring some more discipline to Xcel's assumptions about future coal (and natural gas) supplies, the Commission should consider limiting Xcel's cost recovery for fuel prices to the amount they have used in their Resource Plan models, plus say 20% as a margin of error with any fuel costs greater than that being the responsibility of the company—not the ratepayers. A policy such as this should help Xcel begin to take a much more careful look at future fuel supplies and costs.

B. SUPPORT FOR DECOUPLING OF REVENUES AND SALES

I believe others will discuss the concept of decoupling sales and revenues for utilities to help support the commitment to robust efficiency programs. Without going into detail, I support such efforts as well as other incentive structures that the Commission believes will increase commitments to efficiency programs.

C. I OPPOSE THE EX PARTE PROVISIONS IN C08-0903, BUT MAKE AN ALTERNATIVE PROPOSAL

I understand and appreciate the Commission's desire to promote less formal communication on the multitude of issues facing the Commission, but I do not support the relaxation of the *ex parte* rules as discussed in Decision C08-0903. (e.g. on pages 7-9).

While I trust that the Commission's intentions are the best, in reality this revised *ex parte* process has several serious pitfalls associated with it.

- Xcel and other wealthy parties will essentially always have a very significant advantage under these rules. Xcel has hundreds of employees that can be freed up for these meetings and extensive staff that can be called on to meet the legal reporting requirements. Members of the public or parties with fewer resources will not be able to commit as much time and money for these *ex* parte meetings as Xcel and other wealthy intervenors will be able to.
- The outlines summarizing the meeting that are filed with the Commission are not likely to be very informative, as we've seen from Xcel's *ex parte* disclosure filed on September 17, 2008 in this 08I-113EG Docket. The outline gives a general idea of the topics covered, but what was actually said will only ever be known to the Xcel people and Chairman Binz.

An alternative mechanism to increase communication would be to allow parties to ask for meetings with Commissioners that will be noticed well in advance (e.g. 2 weeks) and held in a place where anyone can come to listen or listen on the web. This would have the effect of increasing informal communication while making the meetings open to anyone who is interested and ensuring that whatever is said can be heard by other interested individuals.

Thank you for this opportunity to comment.

Respectfully submitted, this 22^{nd} day of September 2008,

Leslie Glustrom
4492 Burr Place
Boulder, CO 80303
303-245-8637
lglustrom@gmail.com