

Decision No. C14-1331-I

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 14AL-0660E

IN THE MATTER OF ADVICE LETTER NO. 1672 – ELECTRIC PUBLIC SERVICE COMPANY OF COLORADO TO REVISE THE GENERAL RATE SCHEDULE ADJUSTMENT (GRSA) RIDER APPLICABLE TO ALL ELECTRIC BASE RATE SCHEDULES AND REVISE THE TRANSMISSION COST ADJUSTMENT (TCA) TO REMOVE COSTS THAT HAVE BEEN SHIFTED TO BASE RATES TO BECOME EFFECTIVE JULY 18, 2014.

PROCEEDING NO. 14A-0680E

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS ARAPAHOE DECOMMISSIONING AND DISMANTLING PLAN.

**INTERIM DECISION DISMISSING
PUBLIC SERVICE COMPANY'S PROPOSED
DECOUPLING MECHANISM FROM THE PROCEEDING
AND REQUIRING FILING OF CORRECTED TESTIMONY**

Mailed Date: November 5, 2014
Adopted Date: October 29, 2014

I. BY THE COMMISSION

A. Statement

1. On June 17, 2014, Public Service Company of Colorado (Public Service or Company) filed Advice Letter No. 1672. Public Service seeks approval to increase its base rate revenues, revise its Transmission Cost Adjustment, and implement a rider to recover incremental costs for projects pursued under the Company's emission reduction plan pursuant to the Clean Air Clean Jobs Act.

2. Public Service also seeks approval to implement a revenue decoupling mechanism. Decoupling is a method of increasing or decreasing the amounts billed to customers so that the utility receives a base amount of revenues to support its fixed costs of providing service, even if energy usage is less than, or greater than, anticipated levels. Public Service proposes to collect, or refund, the revenue adjustment through the General Rate Schedule Adjustment.

3. In Decision No. C14-1130-I, mailed on September 16, 2014, the Commission requested the parties to file briefs addressing whether the Commission should hear Public Service's proposal for decoupling along with the other issues raised by Public Service's Advice Letter.

4. Initial briefs were timely filed by: Clean Energy Action, Colorado Electric Health Care Coordinating Council (CEHCC), The Alliance for Solar Choice (TASC), and Public Service. In addition, Southwest Energy Efficiency Project (SWEEP) and Western Resource Advocates (WRA) filed a joint Initial brief (SWEEP/WRA).

5. CEHCC, Public Service, Staff of the Commission, and SWEEP/WRA filed reply briefs.

B. Discussion and Findings

6. In their briefs, all the parties but one agree that consideration of the proposed decoupling mechanism is relevant to a Phase I rate case.¹ Public Service argues the Commission should address decoupling in a Phase I proceeding because of the impact a

¹ Staff of the Commission is the exception; they argue that a decoupling mechanism is a rate design issue and as such should be considered in a Phase II rate case. See Staff's Reply Brief Addressing the Proposed Decoupling Mechanism at p. 1.

decoupling mechanism could have on base rates.² SWEEP/WRA suggest the Commission consider decoupling in the instant proceeding because a decoupling mechanism influences the relationship of the utility's energy sales to meeting its revenue requirement. SWEEP/WRA also note that most states that have adopted revenue decoupling, including Colorado in a prior gas case, have done so in a Phase I rate case.³ Finally, CEHCC suggests that considering a revenue decoupling mechanism in a Phase I proceeding would allow parties an opportunity to address any effects that the decoupling mechanism would have on the Company's business risk and return on equity.

7. In their respective briefs, and in recent testimony in Proceeding No. 13A-0686EG referred to in those briefs, parties state that decoupling can have broad and varied implications upon utility regulation and a utility's business model. SWEEP/WRA describe decoupling as "a broad ratemaking policy that would eliminate Public Service's throughput incentive under traditional ratemaking."⁴ TASC opines that a properly designed revenue decoupling mechanism would likely have broad implications on the utility's entire business model and risk profile.⁵ Public Service states that it did not raise decoupling in the most recent Demand-Side Management Strategic Issues proceeding because of its broad impacts and policy implications.⁶

² Initial Brief of Public Service at p. 3. Public Service also states, "[b]ecause the purpose of revenue decoupling is to completely or partially true up differences between the actual recovery of fixed costs through volumetric base rates and the level of fixed-cost recovery assumed when setting these same base rates, it makes sense to raise the issue of decoupling in the context of a Phase I rate case."

³ Initial brief of SWEEP/WRA, at 3.

⁴ Initial brief of SWEEP/WRA, at 4, 8, and 10.

⁵ Initial Brief of TASC, at 1.

⁶ Initial Brief of Public Service, at 2.

Public Service suggests that, while decoupling could be considered in the instant proceeding, a decoupling proposal also could be considered in a separate proceeding where it is the sole focus.⁷

8. The Commission has broad discretion to “conduct its proceedings in such [a] manner as will best conduce the proper dispatch of business and the ends of justice.”⁸ Rate setting is a legislative function “which involves many questions of judgment and discretion....”⁹ The Commission is not bound by a particular methodology, but there must be a reasonable basis, in the exercise of the Commission’s legislative function, to adopt a different one.¹⁰ We agree with the parties that the Commission could consider Public Service’s proposal in this proceeding. However, the record in this proceeding shows that there are different approaches to implementing revenue decoupling and the choice of a decoupling mechanism depends on the state’s broader policy goals.¹¹

9. Therefore, we find that Public Service’s suggestion of a separate proceeding to address decoupling is reasonable and efficient based on these circumstances, including the statements of the parties that implementing a decoupling mechanism will have broad policy implications. By considering decoupling in a separate proceeding, the Commission and interested parties will have an opportunity to address policy objectives for a decoupling mechanism before engaging in a discussion about the merits of the design of a particular decoupling mechanism. We find that, in this instance, considering a decoupling mechanism in a separate proceeding will serve the public interest and enable the Commission to consider the

⁷ Initial Brief of Public Service, at 7 (*see also*, Rebuttal Testimony of Public Service witness Brockett, at 18, Proceeding No. 13A-0686EG).

⁸ Section 40-6-101(1), C.R.S.

⁹ *CF&I Steel, L.P. v. Pub. Utilities Comm’n of Colo.*, 949 P.2d 577, 584 (Colo. 1997).

¹⁰ *Id.*

¹¹ *See* Initial brief of SWEEP/WRA, at 3 (citing Morgan, P., *A Decade of Decoupling for US Energy Utilities: Rate Impacts, Designs, and Observations* (2013)).

broad implications of a fundamental change for Colorado in rate regulation, including, without limitation, the effects of revenue decoupling on related proceedings.

10. Public Service's revenue decoupling proposal shall be dismissed from this proceeding. Parties shall not address the decoupling proposal in Answer Testimony.

11. Further, by Decision No. C14-1130-I, we directed Public Service to file corrections to testimony and exhibits on or before January 14, 2014. Public Service shall update testimony and exhibits filed on or before January 14, 2014, and remove the decoupling proposal using a red-line strike through.

12. We do not require Public Service to file an application to implement revenue decoupling by this Decision. However, an application must account for regulatory mechanisms and rate structures affected by revenue decoupling. By way of example, Public Service should consider whether the application should be filed before the Company's next Electric Resource Plan filing. An application to implement a revenue decoupling mechanism must address how and whether the mechanism will affect current and upcoming proceedings.

II. ORDER

A. It Is Ordered That:

1. Consistent with the discussion above, we dismiss from this proceeding the revenue decoupling mechanism proposed by Public Service Company of Colorado (Public Service) in Advice Letter No. 1672 filed on June 17, 2014.

2. Parties filing Answer Testimony shall not address the decoupling proposal in their testimony.

3. Public Service shall file updated testimony and exhibits removing discussion of the decoupling proposal using a red-line strike through. Updated testimony and exhibits shall be

filed on or before the January 14, 2014 deadline for filing corrections to testimony and exhibits in this proceeding.

4. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
October 29, 2014.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JOSHUA B. EPEL

PAMELA J. PATTON

GLENN A. VAAD

Commissioners