

From: PUC
Sent: Monday, August 04, 2014 2:10 PM
To: 'leonswenson@netzero.com'
Subject: XCEL ENERGY RATE INCREASE REQUEST

Mr. Swenson:

Thank you for contacting the commission with your questions regarding the Xcel Energy rate increase application currently being processed.

You inquired what the amount of the increase is that Xcel requested, and according to the utility's application filed on June 23, 2014, it is 8 percent. Here is a link to Xcel's rate case docket with the complete application: <http://www.puc.sd.gov/Dockets/Electric/2014/e114-058.aspx>

You also requested information regarding Xcel's prior rate increase. That application was filed June 29, 2012 and they requested a 11.53 percent increase. The commission processed that case and authorized a 9.06 percent increase effective May 1, 2013. Interim rates were effective Jan. 1, 2013, and the overage that Xcel charged in the interim was refunded. As part of the decision on this docket, the commission required Xcel not to file any application for a rate increase in base rates effective before Jan. 1, 2015. The utility's current rate request is proposed to begin on that date, two years after interim rates were effective in the previous case.

When a utility files a rate case with the commission, we are obligated by law to thoroughly process the case. We cannot simply say no and reject it outright since we are required to investigate it and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case – also referred to as a docket – separately, along with any interveners in the case. We will request and review additional data and information from the utility before a decision is rendered. Additionally, we will hold a formal evidentiary hearing if necessary in order to obtain all information and allow interveners the opportunity to fully participate as well.

All discussion involving commissioners on the case must be available to the public. The commission's work is now done electronically to be the most time and cost effective, and therefore, anyone can review the majority of the filings in the case online. Consumers can submit comments to the commission electronically and these are made public.

I wish to point out that my fellow commissioners and I are consumers too. We have family of several generations who are affected by utility costs and we understand how rate increases affect all of us. We have a strong desire to keep rates down and to protect the citizens against increases. None of us want to raise rates. In fact, we hate to agree to any rate increase.

It is important to understand the reasons Xcel cited when filing this case, including investments in plant infrastructure and compliance with federal mandates. The commission is currently processing a Black Hills Power rate case and these needs have been stated as cause for that case also. Xcel relayed their need to file another rate case when their last case was processed during 2012 and 2013. The commissioners referenced this and the utility ultimately agreed to hold off on filing the case longer than planned.

In 2010 we began receiving numerous rate dockets from natural gas and electric utilities. Mandates from the federal Environmental Protection Agency continue to place greater costs on utilities, such as \$400 million-plus on the Big Stone power plant alone, and in several cases have forced the closure of power plants. We are seeing the effects of legislative requirements and EPA regulations on utility rates throughout the country. Utilities are also replacing aging power plants and infrastructure. These cost-causers affect all of our lives.

You asked why Xcel Energy's profits do not take away the need for any rate increases. The laws governing regulated utilities include what is known as ring-fencing. This separates the accounting and revenue of the regulated entity from the other owned entities within a larger corporate ownership structure. It essentially prevents an investor-owned utility of being stripped of its profits by shareholders. The purpose is to retain sufficient funds to operate the utility and reinvest in the system in order to provide safe, reliable service to the utility's customers. I authored and spearheaded the passage of the utility ring-fencing law in South Dakota.

Xcel is a regulated utility and as such, has its rates set by the commission based on an authorized rate of return. Authorized does not mean guaranteed. The utility is not guaranteed to earn that rate of return. The rates are set based on a rate of return established by utility debt and equity market rates determined by present market conditions. In the past several years, the commission's approved rates of return have been the lowest in the nation for the electric sector.

A regulated utility may have a rate that is set based in part on current debt and equity return values, but that process also results in the utility not being able to earn the higher rates of return that unregulated businesses can and do charge.

It is also important to understand that a regulated utility cannot raise funds or borrow funds to build and maintain infrastructure and comply with federal mandates unless it can pay some dividends to shareholders and pay off their debts.

The commission is required by law to allow rates based on a reasonable rate of return for the regulated utility sector. This is required by the statutes passed by the South Dakota Legislature, and has been upheld by multiple decisions of the South Dakota Supreme Court and the United States Supreme Court. The Supreme Court has ruled that it is unconstitutional according to the takings clause of the Constitution for the commission to set rates based on debt and equity values that are not within the current range of market rates for utility debt and equity securities.

In South Dakota the rates of Xcel Energy, Black Hills Power, Montana-Dakota Utilities, Otter Tail Power, NorthWestern Energy and MidAmerican Energy – are regulated. These utilities are in a captive rate situation. They are not permitted to charge whatever rates management decides to charge, as other businesses do. Because Xcel is a monopoly situation, there is no market to discipline prices as there are in unregulated business sectors. One effect of regulation in South Dakota is that regulated utility rates of return are almost always significantly lower than for unregulated business corporations.

You mentioned mistakes the utility made at their Monticello, Minnesota plant and ask why ratepayers must pay for Xcel's mistakes. The commission is still reviewing Xcel's power generation costs and related expenses to determine which will be allowed to be allocated to South Dakota consumers and which will not, or be adjusted. Therefore, it is too early in the case to respond to this.

You asked whether a hearing date has been set for this rate case as yet. This case is still in the early stages of being processed by the commission. Requests for additional information beyond what is part of the official application will be made and these requests require the company to respond with additional data and spreadsheets. It is a complex and lengthy process. The commission must process the case within a one-year period, and no hearing date has been set yet. It will likely be several months before that is determined. I encourage you to follow along online and you will see when the hearing date is decided and posted in the docket. It is also possible that the parties to the case may reach a settlement, in which case a full hearing will not take place, but the settlement agreement will be heard by the commission at a public meeting. The date and place of such a meeting will be posted in the docket online.

You asked if the utility or the commission has done studies on the effect of rate increases on senior citizens or persons on fixed incomes. The commission has not conducted such a study, and I am not aware whether Xcel Energy has done so. The commission's authority is provided by federal and state law, and the law orders the commission to thoroughly review and process utility rate increase applications in addition to other cases. The law does not authorize the commission to research the effect of such rates on consumers and the commission does not have staff or funding for this purpose.

Again, given your questions and interest, I encourage you to follow along as the case is processed. My response to your questions will be filed under Comments and Responses in this docket, EL14-058. Here is a link to a document explaining the commission's processing of rate increase requests:
<http://www.puc.sd.gov/commission/Publication/electricratecasehandout.pdf>

Thank you for sharing your concerns and giving me an opportunity to explain how a rate case is processed according to the law. I will always work to keep utility costs as low and affordable and reasonable as possible.

Gary Hanson, Chairperson
South Dakota Public Utilities Commission
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