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March 26, 2009

Patricia Van Gerpen, Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501-5070

RE: RESPONSE REGARDING PROSPECTIVE CONGRESSIONAL ACTION ON
GREENHOUSE GAS LEGISLATION

Dear Ms. Van Gerpen:

Northern States Power Company, an operating company of Xcel Energy Inc. ("Xcel Energy") appreciates the opportunity to respond to your letter of March 13, 2009 regarding our assessment of the potential impact of Congressional action capping greenhouse gas emissions. We agree that this issue is important to our customers and the communities we serve, and we appreciate the South Dakota Public Utilities Commission's initiative in gathering additional information and views on this topic.

As an overview to this discussion, Xcel Energy believes that it is very likely that Congress will act within the next two to three years to enact some type of cap on greenhouse gas emissions. We are preparing today for future greenhouse gas regulation because we believe such actions will benefit our customers. As we have had opportunities to improve the environmental performance of our fleet, we have implemented cost-effective options. We believe this approach helps maintain the fuel diversity of our system while preparing our system for a variety of potential future environmental regulations.

Thus, the Company has already begun cost-effective actions to reduce its greenhouse gas emissions. For example, we are the nation's number one utility wind provider and have some of the industry's largest conservation programs. Both of these initiatives provide cost-effective energy services for our customers while improving the overall environmental impact of our services. Based on our current resource plans, we project that the emissions associated with company's Northern States Power operating unit (which serves customers in South Dakota) will be 22% below 2005 levels by 2020.

We are proud of our environmental leadership initiatives. In part, because of these initiatives, we support the enactment of sound policy to address climate change and

reduce greenhouse gas emissions in the United States. However, we also recognize that the wrong policy could have severe adverse impact on the cost of energy and the country's already fragile economy. For these reasons, we offer the following suggestions as public policy makers discuss this matter:

- *Allowances.* Although President Obama has endorsed the auction of 100% of greenhouse gas allowances under a cap-and-trade program, we believe that emission allowances should be allocated freely to the utility industry. A large free allocation of allowances appears to be the best way to mitigate the cost of the program to utility customers. Any cap-and-trade program that requires 100% auction of allowances effectively requires utility customers to pay twice for the program: first to reduce emissions to meet the emission reduction goals, and second to purchase allowances to cover the utility's remaining emissions at auction. Without a large allocation, even a company that reduces its emissions by a significant amount would still face a significant obligation to purchase allowances. We strongly encourage the Commission to help advocate to Congress on this issue, as we believe it has significant consequences for our customers.
- *Credit for Early Action.* As indicated above, in anticipation of climate change legislation, Xcel Energy is already in the process of reducing its emissions through the expansion of renewable energy and other clean energy strategies. Our customers are already bearing the cost of these programs. We believe that climate policy should recognize and reward these early actions. Early action credit will be especially valuable in states like South Dakota that are developing their rich, renewable energy resources.
- *Offsets.* A sound climate policy should also include measures to mitigate the cost of the program and minimize its impact on the economy. There are numerous cost containment mechanisms, and we encourage Congress to consider a combination of policies. In particular, we support unfettered access to credible, verifiable carbon dioxide offsets as a sound method to contain the cost of the program. Agricultural offsets in particular would not only reduce emissions at low cost but would also benefit farmers and ranchers in South Dakota.
- *Technology Development.* The program should be designed to encourage the development of clean energy technologies that the nation will need under a tightening carbon cap. We believe the national carbon targets should promote technology development by setting aggressive but reasonable goals. We also believe that, to the extent that carbon policy includes an auction, the revenues from that auction should be redirected to energy technology development and should not be diverted to other uses.

- *International Coordination.* Federal climate policy should coordinate with international emission reduction programs and assure that the United States is not put at a competitive disadvantage with other nations.
- *Single, Consistent Standard.* Finally, there should be only one federal carbon strategy. Congress should assure that utilities and other industries are not subject to multiple requirements under overlapping federal and state regulatory schemes.

Xcel Energy's understanding of the cost impact of prospective legislation is best depicted by a study performed by DOE/EIA. EIA's study examined the impact of last year's Lieberman Warner bill. It indicated that, depending on the assumptions underlying the study, electricity prices in the region could prospectively increase by as much as 57% as a result of cap and trade legislation. Since we have already implemented a number of carbon-reducing strategies, we would expect to see impacts lower than this regional average, while other utilities would likely face higher impacts. This link to this study is: <http://www.eia.doe.gov/oiaf/servicerpt/s2191/index.html>. Page 29 of the study depicts a range of electrical prices in 2030 due to prospective cap and trade legislation. The bar graph for the MAPP region most applies to Xcel Energy.

Thank you for your consideration of these comments and leadership on this issue. We look forward to participating in the carbon forum on March 27th.

Thank you.

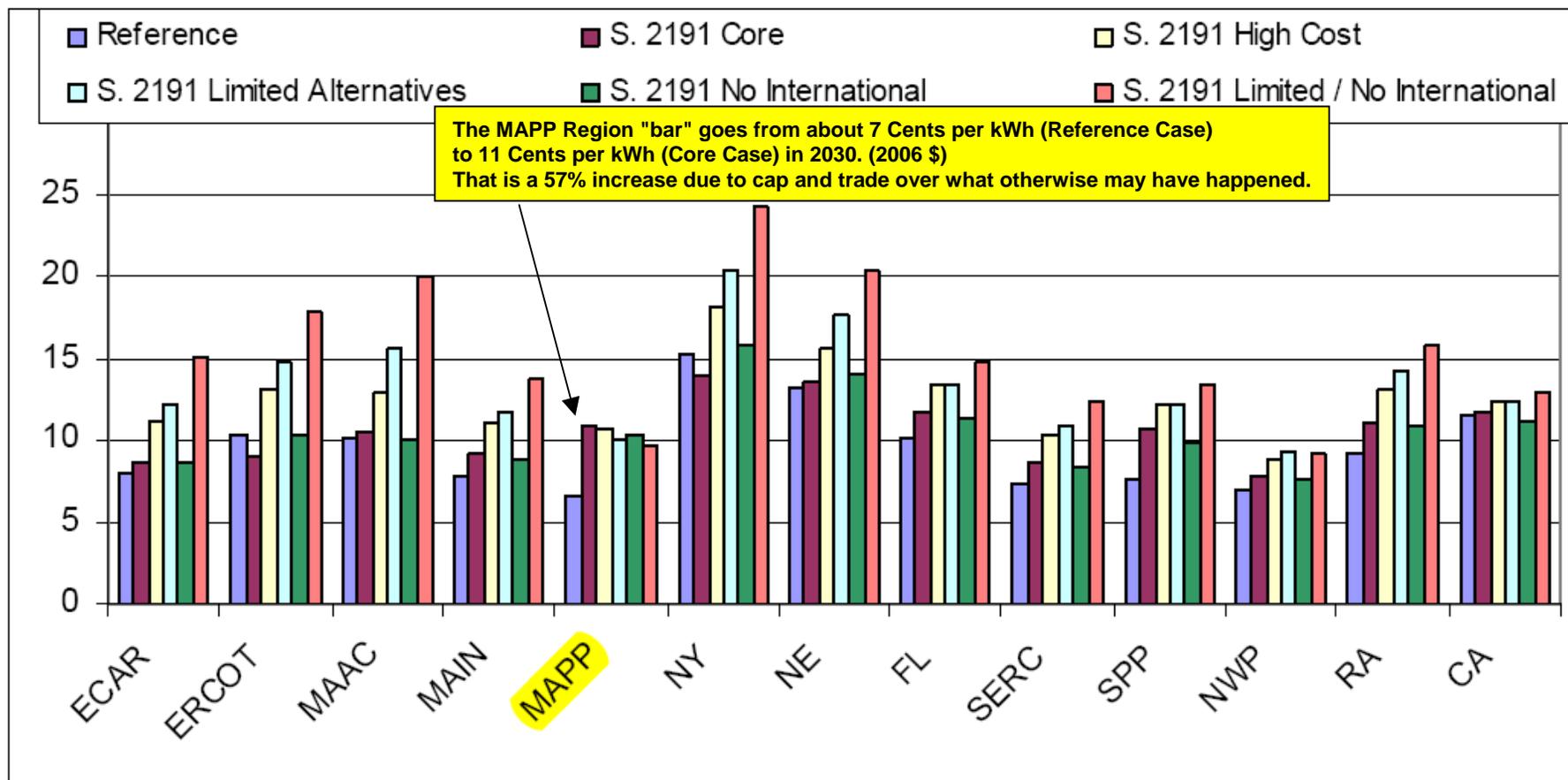
Sincerely,

A handwritten signature in black ink, appearing to read 'Judy Pofperl', written in a cursive style.

JUDY POFERL

Regional Vice President

Figure 18: 2030 Electricity Prices
 (2006 cents per kilowatthours)



Source: National Energy Modeling System runs AEO2008.D030208F, S2191.D031708A, S2191HC.D031708A, S2191BIV.D031608A, S2191NOINT.D032508A, S2191BIVNOI.d033108A and S1766_08.D031508A.

DOE Energy Information Administration Study
“Energy Market and Economic Impacts of S. 2191,
the Lieberman-Warner Climate Security Act of 2007”

Definition of Analysis Cases

There is significant uncertainty regarding the potential impacts of S. 2191. A set of five cases simulating the S.2191 policy were prepared, varying assumptions regarding the cost and availability of various technologies and compliance offset options (Table 2). While the cases do not span the full range of possibilities, they provide some indication of the impact of the more important analytical assumptions:

- The **S. 2191 Core Case** represents an environment where key low-emissions technologies, including nuclear, fossil with carbon capture and sequestration (CCS), and various renewables, are developed and deployed in a timeframe consistent with the emissions reduction requirements without encountering any major obstacles, even with rapidly growing use on a very large scale, and the use of offsets, both domestic and international, is not significantly limited by cost or regulation.
- The **S. 2191 No International Offsets Case**, is similar to the S. 2191 Core Case, but represents an environment where the use of international offsets is severely limited by cost or regulation. The regulations that will govern the use of offsets have yet to be developed and their availability will depend on actions taken in the United States and around the world.
- The **S. 2191 High Cost Case** is also similar to the S.2191 Core Case except that the costs of nuclear, coal with CCS, and biomass generating technologies are assumed to be 50 percent higher than in the Core Case. There is great uncertainty about the costs of these technologies, as well as the feasibility of introducing them rapidly on a large scale. While the costs assumed in the High Cost Case are more closely aligned with recent cost estimates than those in the Core Case, it is unclear if the recent cost increases are a short- or long-run phenomenon. The High Cost Case, which raises the cost of key low- and no carbon electric generation technologies, falls between the Core Case and the Limited Alternative Case discussed below.
- The **S. 2191 Limited Alternatives Case** represents an environment where the deployment of key technologies, including nuclear, fossil with CCS, and various renewables, is held to their Reference Case level through 2030, as are imports of liquefied natural gas (LNG). The inability to increase their use of these technologies causes covered entities to turn to other options in response to S.2191.
- The **S. 2191 Limited/No International Case** combines the assumptions from the S. 2191 Limited Alternatives and S. 2191 No International Offset Cases.