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September 4, 2009

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

Re: Docket EL08-028
In the Matter of the Consideration of the New PURPA Standards.

Dear Ms. Van Gerpen:

Following are Xcel Energy's reply comments in this matter.

If anyone has any questions, please call me at 339-8350

Sincerely,

JCWilcox

Jim Wilcox

STATE OF SOUTH DAKOTA
BEFORE THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

NORTHERN STATES POWER COMPANY, A MINNESOTA CORPORATION	**REPLY COMMENTS**
IN THE MATTER OF THE CONSIDERATION OF THE NEW PURPA STANDARDS	DOCKET NO. EL08-028

INTRODUCTION

Pursuant to the South Dakota Public Utilities Commission (the "Commission") Order for and Notice of Procedural Schedule and Hearing in this matter issued on March 9, 2009, Northern States Power Company, a Minnesota corporation operating in South Dakota ("Xcel Energy" or the "Company") offers the following comments in reply to the testimony submitted on August 14, 2009 by the Commission Staff in this proceeding.

SUMMARY

On December 19, 2007 the federal Energy Independence and Security Act of 2007 ("EISA") was enacted. The EISA amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"), in part, to require each state regulatory authority to consider adopting new energy policy standards.

Section 532 of the EISA amends PURPA Section 111(d) to require that states conduct an investigation and issue a decision whether to adopt two new electric policy standards regarding (1) integrated resource planning and (2) rate design modifications to promote energy efficiency investments.

Section 1307 requires consideration of two new PURPA electric policy standards regarding (1) consideration of smart grid investments and (2) smart grid information.

In comments previously filed by utilities and the Commission Staff's testimony, parties are in agreement that it is premature to mandate smart grid technology, there is no need for the Commission to require South Dakota specific resource plans from utilities that file total system related plans in another jurisdiction, and utilities should consider increasing fixed monthly charges and recover energy efficiency costs through a rider. However, depending on how often a utility files rate cases, it may take a considerable amount of time to achieve a rate design with the appropriate level of fixed charges. Thus, decoupling could potentially offer an alternative to help utilities recover fixed costs where declining customer usage is present. We also propose that the Commission be open to reviewing incentive mechanisms as part of utility energy efficiency program filings. We elaborate on these two issues below.

FIXED COST RECOVERY

We agree with Commission Staff that straight fixed-variable pricing "provides earnings stability and makes utilities neutral on energy efficiency investments." We support Staff's recommendation of increasing the fixed monthly charge in a gradual movement toward straight fixed-variable pricing, but are concerned that if we only increase fixed charges in rate cases at a "publicly acceptable amount" it will be a very long term process, perhaps as long as fifteen to twenty years, before the rate design is fully implemented. Thus, in the near term, to prevent erosion of fixed cost recovery, a properly designed decoupling mechanism could allow for recovery of fixed costs without imposing the rate impacts that may be associated with increased fixed charges for some customers. With fixed charge increases, customers with smaller bills will generally see a higher percentage increase in their bills even though this may be a small dollar amount. With decoupling, higher use customers will most likely see greater increases as decoupling rates are usually expressed as an energy charge.

Decoupling mechanisms can be designed to recover specific sales deviations. For example, a design based on recovering the portion of revenue lost to energy efficiency savings would ensure that only sales lost to energy efficiency are addressed. Another design would be to assess the fixed costs for each customer class and compare revenues received per customer to ensure that the fixed costs are covered through the revenue received. Rates could then be adjusted up or down as needed to ensure fixed cost recovery.

Additionally some jurisdictions limit decoupling adjustments to residential and smaller commercial customer rate classes as these customers are more likely to be billed under rate designs that recover more of the fixed costs through the variable rate components.

INCENTIVES FOR PROMOTING ENERGY EFFICIENCY INVESTMENTS

We appreciate Staff's support for performance incentives to compensate utilities for implementing energy efficiency programs. We are currently updating our energy efficiency program filing and plan to include a proposal for a shared savings incentive mechanism.

Under a shared savings model, a utility retains a percent of the net benefits generated by the energy efficiency programs. The portion of net benefits retained can be fixed or vary depending on the level of performance. The latter method is typically used when the utility has a state-sponsored goal, such that the portion of net benefits retained increases as the percent of goal achieved increases. We believe that this is a reasonable and desirable incentive model because it encourages cost-effective efficiency programs and the ratepayers retain the vast majority of the net benefits. Xcel Energy currently has shared savings incentive models in place in Minnesota and Colorado. We are presently updating our energy efficiency program filing and plan to include proposals for rider recovery and a shared savings incentive mechanism.

CONCLUSION

The Company appreciates the opportunity to provide additional comments responding to the testimony of the Commission Staff regarding the standards proposed in the federal Energy Independence and Security Act of 2007. As discussed above, we are in agreement with Staff's position recommending no standards be adopted for smart grid technologies or integrated resource planning at this time. We also are in agreement that energy efficiency programs costs are best recovered through a rider mechanism. However, because it may take a considerable amount of time to incorporate a straight fixed-variable rate design for customers, the Company proposes that the Commission consider allowing utilities to have the ability to propose some form of decoupling if they are experiencing reduced fixed cost recovery due to declining customer usage. We also propose that utilities be afforded the opportunity to include an incentive mechanism for energy efficiency in an energy efficiency program filing.

Dated: September 4, 2009

Northern States Power Company
a Minnesota corporation and
wholly owned subsidiary of
Xcel Energy Inc.

By: ______________________________

JAMES C. WILCOX
Manager, Government & Regulatory Affairs