

PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

Gary Hanson
Chris Nelson
Kristie Fiegen

Chairman
Vice Chairman
Commissioner

IN THE MATTER OF THE APPLICATION)
OF NORTHERN STATES POWER)
COMPANY, A MINNESOTA)
CORPORATION, FOR AUTHORITY TO)
INCREASE RATES FOR ELECTRIC)
SERVICE IN THE STATE OF SOUTH)
DAKOTA)

DOCKET NO. EL11-019

**NOTICE OF INTENT TO
IMPLEMENT INTERIM RATES**

INTRODUCTION

Northern States Power Company, a Minnesota corporation (“Xcel Energy” or the “Company”) operating in South Dakota, submits to the South Dakota Public Utilities Commission (the “Commission”) this Notice of Intent to Implement an interim rate increase for our South Dakota retail electric customers for service provided on and after January 2, 2012 (the “Interim Rate Increase”) pursuant to S.D. Codified Laws Section 49-34A-17. It is the Company’s understanding that no Commission action is required to implement interim rates. This Interim Rate Increase of \$12.717 million or 8.09 percent, will remain in effect until final rates are implemented following the Commission’s final determination in this matter. As authorized by Section 49-34A-17, the Company will use the rate design currently in effect to recover the interim revenue requirement. Under this method, a uniform percentage increase of 12.01 percent will be applied to base rates, and will not apply to fuel costs or certain identified rider rates.

BACKGROUND

On June 30, 2011, Xcel Energy filed a Petition for approval to increase rates. The effect of the Company’s proposed change in rates, if approved, would be an annual increase in base rate (*i.e.*, non-fuel) electric revenues of approximately \$14.583 million, or approximately 9.28 percent.

Pursuant to S.D. Codified Laws § 49-34A-14, the Commission, in its July 20, 2011 ORDER OF ASSESSMENT OF FILING FEE AND SUSPENSION OF IMPOSITION OF TARIFF (“Order”), ordered the suspension of the operation of Xcel Energy’s

proposed rates for 180 days beyond June 30, 2011. The 180 day suspension period expires after December 28, 2011.

S.D. Codified Laws § 49-34A-17 provides that a public utility may implement its proposed rate or practice if: 1) the proposed rate or practice has not been suspended or is no longer subject to suspension; 2) the Commission has not issued a final decision; and 3) 30 days has passed from the date of filing. In this case, the Company's proposed rate will no longer be subject to suspension after December 28, 2011 and no final decision by the Commission on Xcel Energy's proposed rate increase is anticipated to be entered prior to December 28, 2011. Additionally, more than 30 days have passed from the date of the Company's filing. Accordingly, Xcel Energy intends to implement its Interim Rate Increase effective January 2, 2012.

DESCRIPTION AND NEED FOR INTERIM RATES

A. Rate Design

Xcel Energy will apply the Interim Rate Increase to the base rate components of customers bills beginning with service provided as of January 2, 2012. Interim rates are necessary because the Company is currently experiencing the increased cost of service reflected in the Company's June 30, 2011 filing in this Docket. Without interim rate relief, Xcel Energy would be unable to recover the increased cost of providing service to its customers.

S.D. Codified Laws § 49-34A-17 states that if a utility implements the proposed rate or a rate lower than the proposed rate, the utility shall use the same rate design currently in effect or the rate design the utility proposed when the petition for increased rates was filed. The Company has selected the option of implementing the Interim Rate Increase using the same rate design currently in effect rather than its initially proposed rate design. Implementing the Interim Rate Increase using a uniform percentage increase to current base rates will ensure that the interim rate design is based on a rate design that has received the express approval of the Commission.

The Interim Rate Increase sets forth an annual increase in base rate electric revenues of approximately \$12.717 million. The Interim Rate Increase was determined using our original 2010 revenue requirement as provided in our June 30, 2011 filing with one adjustment to remove the pro forma test year adjustment for the power uprate/life cycle management project at our Monticello Nuclear Generating facility ("Monticello").

B. Adjustments from the Initial Filing

Due to a delay in the completion of the Monticello power uprate/life cycle management project, which delay became known after our original filing, we have removed from the interim revenue requirement the known and measureable pro forma adjustment associated with this project.

As discussed in the Direct Testimony of Company Witness Laura McCarten, the Company is implementing a power uprate/life cycle management project at Monticello.¹ That project will allow Monticello to extend its useful life by 30 years and also increase its capacity by 71 MW. The work to support the power uprate/life cycle management project was planned to be completed in several stages, primarily during three plant outages. As filed, our pro forma test year includes a known and measureable adjustment based on actual cost for the Monticello power uprate/life cycle management project through April 2011 and a forecast of costs for the remaining months in 2011.²

There have been three significant developments in the Monticello power uprate/life cycle management project since the case was initially filed. First, the Nuclear Regulatory Commission (“NRC”) approval of the license amendment necessary to operate at the uprate conditions has been delayed. Second, new equipment needed to accomplish the power uprate failed to meet performance specifications during testing at the vendor’s facility and will require extensive rework or rebuilding. Finally, the costs of the project are greater than initially estimated because the planning, engineering, design, and installation work needed to complete the project is greater and more complex than had been forecasted.

With respect to NRC approval of the license amendment, the Company had expected approval of the license amendment to occur by the end of 2011. However, due to delays in the NRC’s review, the Company currently plans to install the remainder of the power uprate/life cycle management project during the Spring 2013 refueling outage.

Second, new equipment needed to accomplish the uprates failed to meet Xcel Energy’s performance specifications during testing at the vendor’s facility and will require extensive rework or rebuilding prior to being accepted by Xcel Energy for installation. Based on the schedule projected by the vendor and our need to plan outages in a manner that assures adequate and economic power

¹ Exhibit ___(LM-1) at 12.(McCarten Direct).

² *Id.* at 19.

during our peak load months, the equipment will not be installed and placed into service until the refueling outage scheduled for spring 2013.

Finally, the costs of the project are greater than initially anticipated. The Company will supplement the record during the course of this proceeding to address the costs of the power uprate/life cycle management project. As shown on Attachment 4, the Company has removed the previously-filed Monticello adjustment from the Interim Rate revenue requirements.

C. Comparison of Interim Rate Increase to Proposed Rates

Overall, our proposed final rates address a revenue deficiency of \$14.583 million. To develop the Interim Rate Increase amount we reduced the deficiency by the revenue requirements that had been associated with the Monticello power uprate/life cycle management project (\$1.866 million) resulting in an interim revenue deficiency of \$12.717 million (see Attachment 4), or about 8.09 percent (see Attachment 5). To collect this deficiency, an interim rate surcharge of 12.01 percent of base rates is required. This interim rate adjustment will be uniformly billed as a 12.01 percent increase on the base rate portion of customers' bills (exclusive of fuel costs and certain rate riders).³ The difference in percent results from the unbundling of fuel costs from base rates. We provide a comparison of the rate base and income statement changes included in interim rates as compared with our June 30, 2011 Filing in this Docket as Attachments 1 through 4. A Class Cost of Service Interim Model is included as Attachment 5 and Attachment 6 provides the interim rate revenue impacts by customer class.

The difference between the overall interim deficiency of 8.09 percent and the interim rate surcharge of 12.01 percent is primarily due to not applying the interim increase to fuel costs which have been unbundled from base rates and are shown separately as a line item on customers' bills. The interim increase is also not applied to rate riders. Because the Interim Rate Increase will not apply to fuel costs or rate riders, a higher interim rate percent increase is required to collect the interim revenue deficiency.

Tariff pages including the Interim Rate Increase shown in Legislative and Non-Legislative form are attached as Attachment 7. The Interim Rate Surcharge Rider, Section No. 5, Original Sheet No. 75, lists those charges to which the

³ Rate riders excluded from the Interim Rate Adjustment are the Transmission Cost Recovery Rider and the Environmental Cost Recovery Rider.

interim rate increase applies and lists those rate riders to which the interim rate increase does not apply.

To avoid double recovery of the costs currently being recovered through the Environmental Cost Recovery (“ECR”) Rider, the Company will set the ECR tariff rate to zero upon implementation of interim rates. We are projecting the 2011 year-end ECR to have a small under-collected balance. If there is an interim refund, the Company proposes true-up the small balance (either over or under collection) as part of the interim refund at the conclusion of this proceeding. If there is no interim refund, and the Company has over collected ECR costs, we will propose an appropriate means of returning the over collection to customers at that time.

REFUNDS

The Interim Rate Increase will be subject to refund, pending final Commission determination on the general electric rate increase. South Dakota Codified Laws Section 49-34A-17 provides, in part, as follows:

In the case of a proposed increased rate, the commission may, by order, require the public utility to keep an accurate account in detail of all amounts received by reason of increase, specifying by whom and in whose behalf the amounts are paid. Upon completion of the hearings and decision, the commission may by further order require the public utility to refund, with interest, to customers, the portion of the increased rates found to be unjust, unreasonable, or discriminatory. The refund shall be carried out as provided in South Dakota Codified Laws Sections 49-34A-22 and 49-34A-23.

Xcel Energy will track the individual customer billing impacts during this interim rate period in the event that the Commission approves an increase less than Xcel Energy’s originally proposed increase.

CUSTOMER NOTICE

In addition to the notice the Company provided our customers regarding our June 30, 2011 Application for a rate increase, we will provide notice to our customers of our Interim Rate Increase as follows:

- a. Notice will be given to the public by posting a copy of this *Notice Of Intent To Implement Interim Rates* in a prominent location at its local customer service center in Sioux Falls for at least thirty (30) days prior to the rates taking effect;

- b. Notice will be given to the public no later than December 2, 2011 by publishing a copy of this *Notice Of Intent To Implement Interim Rates* on Xcel Energy's website www.xcelenergy.com; and
- c. Notice will be given to the public no later than December 2, 2011 by a press release of Xcel Energy announcing this filing.

CONCLUSION

For the foregoing reasons, Xcel Energy respectfully informs the Commission its intent to implement an Interim Rate Increase of \$12.717 million or 8.09 percent for service on and after January 2, 2012, using our current rate design, pursuant to S.D. Codified Laws § 49-34A-17, and until final rates are implemented following the Commission's final determination in this proceeding.

Xcel Energy agrees that placing interim rates into effect will not affect the Commission's authority to order a refund of the Interim Rate Increase pursuant to S.D. Codified Laws §§ 49-34A-17, 49-34A-22, and 49-34A-23, in the event the Commission order establishing final rates determines that a lower rate increase is appropriate.

Dated: November 4, 2011

Northern States Power Company,
a Minnesota corporation

RESPECTFULLY SUBMITTED,



LAURA MCCARTEN
REGIONAL VICE PRESIDENT
NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION OPERATING IN SOUTH DAKOTA