



Gary Hanson, Chairperson
Chris Nelson, Vice Chairperson
Kristie Fiegen, Commissioner

South Dakota

PUBLIC UTILITIES COMMISSION

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May 8, 2013

Dennis Aanenson
A&B Business Solutions
1600 North A Avenue
Sioux Falls, SD 57104

Dear Mr. Aanenson:

This is in response to the letters you sent to Commissioners Hanson, Nelson and Fiegen regarding the recent Xcel Energy rate case docket, EL12-046. Your letters will be added to this docket online. Since the commission continues review of another Xcel rate docket, Chairperson Hanson asked that I respond to you.

When an investor-owned electric or natural gas utility plans to modify its rates, it must first seek permission from the PUC to do so. The company begins by filing a request with the PUC stating the proposed increase and the rationale for it. The PUC staff analyzes the data, requests additional information from the utility as it works through each segment of the docket, presents findings to the commissioners and other parties to the case, and commissioners ultimately discuss and make a decision about the requested rate in a public meeting.

Docket EL12-046 is now closed. Xcel requested a rate increase of 11.53 percent, and after staff, consultants and commissioners analyzed the docket over several months, the final approved rate increase was a 6.86 percent in base rates and a 2.2 percent increase associated with a new infrastructure rider, for an overall increase of approximately 9.06 percent. We are now at work on a transmission cost recovery rate adjustment Xcel filed, docket EL13-006. The legislature passed laws allowing for utilities' transmission and environmental rate recovery during the 2006 and 2007 legislative sessions.

I understand your frustration regarding increased costs associated with energy. You specifically pointed to Xcel's labor rates. This is an area staff investigates as they process rate cases to ensure the labor costs by a regulated company are within reason relative to the same industry. Commissioners had several questions regarding labor expenses for Xcel officials and PUC staff during the recent meeting when the rate case was discussed. Staff found the company's wage levels to be comparable to other regulated electric utilities. I encourage you to reference a letter and attachment from Xcel Energy Regional Vice President Laura McCarten, dated April 5, 2013, filed in the EL12-046 docket, which responds to commissioners' questions regarding labor costs.

A rate case is one of the most difficult dockets the commission deals with and it involves several staff analysts and an attorney, as well as one or more consultants with specific expertise needed to investigate the case. There are several steps as staff and the consultants do their analysis to present to the commissioners and other parties. It is a lengthy, complex process. Enclosed is a document that helps explain how rate cases are handled.

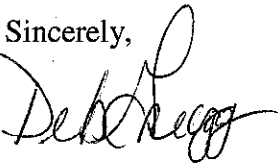
The commission is legally required to investigate and act on all rate requests filed by regulated utilities such as Xcel Energy, according to South Dakota law. Regulated electric utilities are not the only energy providers with increasing rates. I have seen notices on recent rate increases from several municipal electric and electric cooperatives to their consumers.

PUC staff members are currently working on two Black Hills Power rate cases, EL12-061 and EL12-062. A week ago, the commission closed three Otter Tail Power cost recovery and deferred accounting dockets, EL12-027, EL12-054 and EL13-007. We continue to process a MDU natural gas rate case, NG12-008. We have been working on a purchase power agreement involving NorthWestern Energy for several months, EL11-006. A look back at history reveals that rate cases are cyclical and typically such a cycle is caused by factors that affect the entire industry. Recent factors cited by utilities include new Federal Energy Regulatory Commission and Environmental Protection Agency mandates and the costs associated with compliance.

Whether or not the commissioners agree with these companies' justifications for new expenses or a portion of them is determined in the processing and eventually, the commissioners' decisions regarding each case. None of the commissioners wish to increase utility rates for South Dakotans. They are consumers as well and understand how increased costs affect us all.

I hope this helps explain how the commission reviews rate cases and issues such as labor costs that are part of them. Thank you for writing to make us aware of your concerns. Please contact us again with any additional questions.

Sincerely,



Deb Gregg
Consumer Affairs Manager

enclosure

Electric Rate Increase Requests

South Dakota Public Utilities Commission

This guide is intended to offer a simple overview of the Public Utilities Commission's process in considering a rate increase request from an electric service provider within its jurisdiction. This guide is informational and does not discuss all situations, variations and exceptions of the rate case process and proceedings of the PUC. See South Dakota Codified Law 49-34A for additional information, on the Internet at www.legis.state.sd.us/statutes; enter 49-34A to view the chapter.

Electric Utilities in South Dakota

There are six investor-owned utility companies that provide electric service to specific geographic areas in South Dakota. These companies are owned by their investors and are managed as private enterprises. The PUC has regulatory authority, including ratemaking authority, over these investor-owned utilities: Black Hills Power, MidAmerican Energy Co., Montana-Dakota Utilities Co., NorthWestern Energy, Otter Tail Power Co. and Xcel Energy.

The PUC does not have ratemaking authority over electric cooperatives or municipal electric organizations. Each electric co-op is governed by a board of directors, elected by its membership. Municipal electric organizations are managed by the local government entity. The leadership of each of these groups is responsible for setting rates paid by its electric customers.

Rate Case Process

When an investor-owned electric utility wishes to modify its rates, it must seek permission from the PUC to do so. The company begins the process by filing an application with the PUC that states the proposed rate of increase for each of its customer classes – residential, commercial and industrial, for example – and the rationale for the requested increase. The PUC has six months to investigate and make a decision about a rate request before the utility may put interim rates into effect, subject to refund depending on the PUC's decision.

PUC Authority

The South Dakota Legislature gave the PUC authority to ensure utility companies in South Dakota provide safe and reliable service at fair and reasonable rates. In considering a rate case, the commission weighs the public's need for adequate, efficient and reasonable service and the need for the utility to collect revenues to enable it to meet its total current cost of furnishing such service and the opportunity to earn a fair and reasonable

return. The commission determines these factors based on definitions, standards and references specified in South Dakota Codified Law. In rendering its decision, the commission may approve, deny or approve with modifications the proposed rate increase as the commission finds appropriate and legally within its jurisdiction. The decision of the commission can be appealed to the circuit court and, ultimately, to the South Dakota Supreme Court.

The commission strives to issue a reasoned decision and modifications, where appropriate, that uphold the law and discourage a potentially expensive and lengthy appeal process.

PUC Staff Role

Members of the PUC staff assigned to work on a rate case typically include one attorney and several analysts. Staff attorneys have educational and practical experience in administrative law, business management principles and trial procedure. Staff analysts have expertise in accounting, economics, research and engineering. The staff conducts a comprehensive analysis of the company's request and gathers additional information from the company, intervenors and outside experts as necessary. Company operating expenses, employee benefits, executive compensation, corporate advertising, and the cost of generation and transmission facilities are among the many facets of the rate case the staff examines. In addition to reviewing the data and evidence submitted by the applicant and intervenors, PUC staff request and analyze opinions from experts and question the parties. The staff considers the information relative to state laws and rules and presents recommendations to the Public Utilities Commissioners.

See page 2 for information about public involvement.

Public Involvement

South Dakotans with an interest in a rate case have a variety of ways to stay informed and involved.

- **Review the electronic docket.** A docket is the continually updated collection of documents filed with the commission for a particular case. Dockets are accessible under the Commission Actions tab on the PUC Web site, www.puc.sd.gov. Dockets are labeled to correspond with their type and filing date. For example, Black Hills Power's rate case docket is EL12-061; EL for electric, 12 for 2012 and 061 to indicate it was the 61st electric docket filed with the commission in 2012.
- **Submit comments.** Members of the public are encouraged to relay written comments or questions about a rate case to the PUC. These informal public comments are filed in the docket and reviewed and considered by the PUC commissioners and staff. Public comments should include the docket number or name of the company proposing the rate increase, commenter's full name and mailing address as well as e-mail address and phone number, if available. These comments should be sent to puc@state.sd.us or PUC, 500 E. Capitol Ave., Pierre, SD 57501.
- **Become an intervenor.** Individuals who wish to be formal parties in a rate case may apply to the commission for intervenor status. Intervention deadline is clearly indicated within the docket. Intervention is appropriate for people who intend to actively participate in the case through legal motions, discovery (requests for facts or documents), the written preparation and presentation of actual evidence, and in-person participation in a formal hearing. Intervenors are legally obligated to respond to discovery from other parties and to submit to cross-examination at a formal hearing. Individuals seeking only to follow the progress of a rate case or to offer comments for the PUC's consideration need not become intervenors.

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