

**From:** PUC

**Sent:** Monday, July 14, 2014 3:21 PM

**To:** [REDACTED]

**Subject:** FW: Xcel rate increase

Mr. Karr:

Thank you for your message regarding the Xcel Energy rate increase application currently before the commission. I am sorry to hear of your wife's death and your financial challenges.

Xcel Energy's prior rate increase application was filed June 29, 2012 and requested a 11.53 percent increase. The commission processed this case over several months and authorized a 9.06 percent increase effective May 1, 2013. Interim rates were effective Jan. 1, 2013, and in accordance with state law, were subject to refund. As part of the decision on this docket, Xcel agreed to the commission's requirement to not 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.

Commissioners and staff will be reviewing this case during the next several months. Each commissioner and the commission staff, along with any expert consultants utilized by the staff analysts and attorney, will separately analyze all filings in the case, asking for more data beyond that in Xcel's initial filings. These utility responses will also be carefully analyzed.

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.

We began receiving numerous rate dockets from natural gas and electric utilities in 2010. Federal Environmental Protection Agency mandates are placing 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 our checkbooks as consumers.

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.

The laws over 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 that 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.

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.

My fellow commissioners and I are consumers too, and we understand how rate increases affect all of us. None of us want to raise rates. In fact, we hate to agree to any rate increase.

Here is the link to this docket, EL14-058, and I encourage you to follow along as the case is processed:

<http://www.puc.sd.gov/Dockets/Electric/2014/el14-058.aspx>

Your comment and my response will be filed under Comments and Responses. 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>

Gary Hanson, Chairperson  
South Dakota Public Utilities Commission  
[www.puc.sd.gov](http://www.puc.sd.gov)