



Gary Hanson, Chairperson
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South Dakota

PUBLIC UTILITIES COMMISSION

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December 1, 2014

H. John Martin
[REDACTED]
[REDACTED]

Dear Mr. Martin:

Thank you for contacting me regarding the Xcel Energy rate increase application currently being processed by the commission.

Xcel filed an application with the commission on June 23, 2014, requesting an electric rate increase of 8 percent. Xcel's application with testimony and other documents regarding the case are available online at www.puc.sd.gov by clicking on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and scrolling to EL14-058.

You also mentioned Xcel's prior rate increase. That application was filed June 29, 2012 and the utility requested an 11.53 percent increase. The commission processed that case and authorized a 9.06 percent increase effective May 1, 2013. Interim rates were effective Jan. 1, 2013, and the overage that Xcel charged in the interim was refunded. As part of the decision on this docket, the commission required Xcel not to 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.

When a utility files a rate case with the commission, we are obligated by law to thoroughly process the case. We cannot simply say no and reject it outright since we are required to investigate it and make a just and reasonable decision. This process can take almost a year to complete. Each commissioner, the commission's staff and expert consultants hired by staff will review the entire case – also referred to as a docket – separately, along with any interveners in the case. We request and review additional data and information from the utility before a decision is rendered. Additionally, we will hold a formal evidentiary hearing if necessary in order to obtain all information and allow interveners the opportunity to fully participate as well.

All discussion involving commissioners on the case must be available to the public. The commission's work is now done electronically to be the most time and cost effective, and therefore, anyone can review the majority of the filings in the case online. Consumers can submit comments to the commission electronically and these are made public.

My fellow commissioners and I are consumers too. We have family affected by utility costs and we understand how rate increases affect all of us, of various ages and stages of life. We have a strong desire to keep rates down and to protect citizens against increases. We hate to agree to any rate increase.

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 and two MidAmerican rate cases these needs have been stated as causes for those requested increases.

In 2010 we began receiving numerous rate dockets from natural gas and electric utilities. Mandates from the federal Environmental Protection Agency continue to place 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 all of our lives.

You reference Xcel Energy's profits and suggest they borrow money for projects. The laws governing 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 a 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.

As a regulated utility, Xcel 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 ROR. The rates are set based on a ROR established by utility debt and equity market rates determined by present market conditions. In the past several years, the commission's approved ROR have been the lowest in the nation for the electric sector.

The commission is required by law to allow rates based on a reasonable rate of return for the regulated utility sector. In South Dakota the rates of Xcel Energy, Black Hills Power, Montana-Dakota Utilities, Otter Tail Power, NorthWestern Energy and MidAmerican Energy are regulated. This is required by the statutes passed by the South Dakota Legislature, and has been upheld by multiple decisions of the South Dakota Supreme Court and the United States Supreme Court. The Supreme Court has ruled that it is unconstitutional according to the takings clause of the Constitution for the commission to set rates based on debt and equity values that are not within the current range of market rates for utility debt and equity securities.

The reason for such regulations is that these utilities are in a captive rate situation. They are not permitted to charge whatever rates management decides to charge, as other businesses do. Because Xcel is a monopoly situation, there is no market to discipline prices as in unregulated business sectors. One effect of regulation is that a regulated utility's ROR is almost always significantly lower than for unregulated business corporations.

Given your interest, I encourage you to follow along as this rate case is processed. My response to your questions will be filed under Comments and Responses in this docket. I will enclose a document explaining the commission's processing of rate increase requests which may be helpful.

Thank you for sharing your concerns and giving me an opportunity to explain how a rate case is processed according to the law. I will always work to keep utility costs as low and affordable and reasonable as possible.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gary Hanson".

Gary Hanson