BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES	))))	**FINAL DECISION AND ORDER; NOTICE OF ENTRY** **EL11-019**

PROCEDURAL HISTORY

On June 30, 2011, Northern States Power Company (NSP) d/b/a Xcel Energy (Xcel) filed with the South Dakota Public Utilities Commission (Commission) an Application for Authority to Increase Electric Rates in South Dakota, including Statements A through R as required by ARSD 20:10:13 (Application)[1], and supporting pre-filed testimony. The Application requested approval to increase rates for electric service to customers in its South Dakota service territory by approximately $14.6 million annually or approximately 9.28% based on Xcel's 2010 test year. In addition, Xcel proposed to recover approximately $1 million of ongoing investments in its Monticello nuclear generating plant through a Nuclear Cost Recovery Rider to go into effect with the final rates. Xcel stated that a typical residential electric customer using 750 kWh per month would see an increase of 9.48%, or $6.93 per month and that the proposed rates would affect approximately 84,000 customers in Xcel's South Dakota service territory.

On July 7, 2011, the Commission electronically transmitted notice of the Application and the intervention deadline of September 9, 2011, to interested individuals and entities. No petitions to intervene were filed. On July 20, 2011, the Commission issued an Order of Assessment of Filing Fee and Suspension of Imposition of Tariff assessing Xcel a filing fee not to exceed the statutory limit, suspending the operation of the schedule of rates proposed by Xcel for 180 days beyond June 30, 2011, and approving the originally noticed intervention deadline of September 9, 2011. On November 4, 2011, Xcel filed its Notice of Intent to Implement Interim Rates. On February 28, 2012, the Commission issued an Order for and Notice of Procedural Schedule and Notice of Hearing. On March 13, 2012, April 2, 2012, and April 9, 2012, Xcel and the Commission's staff (Staff) filed stipulations for extension of the procedural schedule deadline for filing and service of Staff's testimony to facilitate on-going settlement discussions. On April 16, 2012, Staff filed its pre-filed testimony. On April 19, 2012, Xcel filed a letter advising the Commission that settlement had been reached on all issues except two and that the parties had stipulated to an amended procedural schedule. On April 24, 2012, the Commission issued an Order for and Notice of Cancellation and Continuance of Hearing and Amended Procedural Schedule setting the matter for hearing on June 13-14, 2012. On April 27, 2012, Xcel filed its pre-filed rebuttal testimony. On May 5, 2012, Xcel filed a letter advising the Commission of a procedural schedule stipulation between it and Staff to accommodate Staff's pre-filing of rebuttal testimony.

On May 8, 2012, Staff filed a Joint Motion for Approval of Settlement Stipulation (Joint Motion), Settlement Stipulation, and Staff Memorandum Supporting Settlement Stipulation. At its

[1]The Application, Commission Orders, transcripts, and all other documents in the record are available on the Commission's web page for Docket EL11-006 at: http://puc.sd.gov/Dockets/Electric/2012/el12-019.aspx

regular meeting on May 22, 2012, the Commission considered the Joint Motion and voted unanimously to grant the Joint Motion. On May 23, 2012, Staff filed its pre-filed rebuttal testimony. On May 24, 2012, the Commission issued its Order Granting Joint Motion for Approval of Settlement Stipulation (Order). As a result of the Settlement Stipulation and Order, two primary issues and one follow-on issue remained for hearing: (i) the extent to which the capital costs and operating expenses of the Nobles Wind Project should be included in Xcel's revenue requirement and recovered in rates; and (ii) the appropriate return on equity, cost of long term debt, capital structure, and resulting overall rate of return to produce just and reasonable rates. A third follow-on issue also remained regarding what additional adjustments to revenue requirement inputs would be necessary as a result of the Commission's decisions on issues (i) and (ii) to reach final revenue deficiency and revenue requirement amounts. On May 24, 2012, the Commission issued its Order for and Notice of Hearing setting the matter for hearing on June 13-14, 2012, to address these remaining issues. On June 4, 2012, Xcel filed its pre-filed surrebuttal testimony, and on June 6, 2012, filed Xcel Energy Brief and Xcel Energy Proposed Findings of Fact. On June 8, 2012, and June 11, 2012, Staff and Xcel filed their respective proposed exhibit lists.

The hearing was held as scheduled on June 13-14, 2012, with Xcel and Staff appearing and presenting evidence and argument. At the conclusion of the hearing, the Commission decided to defer taking action on the outstanding issues until its regular meeting on June 19, 2012, at which the Commission voted unanimously to approve the inclusion of the South Dakota jurisdictional costs of the Nobles Wind Farm in rate base in the amount of Xcel's actual costs to construct the wind farm, including associated interconnection facilities, and approve the resulting revenue requirement adjustment. The Commission also voted unanimously to approve a value for cost of long term debt of 6.13% as proposed by Xcel and agreed to by Staff's witness, a return on common equity, including flotation costs of 9.25%, and use of the end-of-year 2011 capital structure consisting of long term debt of 46.96% and common equity of 53.04%. To then address the remaining follow-on issue of adjustments to revenue requirement and resulting rates, the Commission voted unanimously to direct Staff and Xcel to compute the overall rate of return resulting from the decisions made by the Commission and make the needed model runs and analyses to finalize the additional adjustments to rate inputs resulting from the Commission's decisions, to exchange their results with each other, and to file such results by June 21, 2012. The Commission directed Commission Counsel to work with the parties and administrative Staff to schedule an ad hoc meeting for consideration of such results and to determine what actions to then take regarding effectuating a refund mechanism and the filing of final tariffs conforming to the Commission's decision.

In compliance with the Commission's directives, on June 21, 2012, Staff filed the joint response of Xcel and Staff, including Exhibits reflecting the various input computations (Joint Compliance Filing), demonstrating that the overall rate of return resulting from the Commission's decision on cost of long term debt, return on common equity, and capital structure is 7.79% as reflected on Exhibit 6, that NSP's revenue deficiency reflecting the Commission's authorized overall rate of return and full cost recovery for the Nobles Wind Project is $8,037,000 justifying an approximate 5.12% increase in retail revenue. Exhibits 1 through 5 to the joint compliance filing contain the revenue requirement, operating income statement, and rate base schedules supporting the revenue requirement determination, with the distribution of the revenue deficiency among rate classes shown on Exhibit 7.

At an ad hoc meeting on June 26, 2012, the Commission, in conformity with the joint filing by Staff and Xcel on June 21, 2012, voted unanimously to approve an overall rate of return of 7.79% based on its decisions on cost of long term debt, return on equity, and capital structure, a revenue deficiency and corresponding revenue requirement increase of $8,037,000 based on the adjustments reflected in the Exhibits to the joint filing, and the distribution of the revenue deficiency among rate classes in accordance with Exhibit 7 of the joint filing. The Commission further voted unanimously to direct Xcel to file for review and approval by July 6, 2012, its proposed computation methodology and mechanism for refund or credit of interim rate over-collections, including interest, its proposed interest rate on refund/credit amounts, and its final rates and tariff sheets reflecting the Commission's final decision, and to place the refund issues on the agenda for decision at its regular meeting scheduled for July 17, 2012.

Having considered the evidence of record, applicable law and the arguments of the parties, the Commission makes the following Findings of Fact, Conclusions of Law and Decision:

FINDINGS OF FACT

Parties

1. The Applicant is Northern States Power Company d/b/a Xcel Energy, a Minnesota corporation operating in South Dakota and "public utility" as defined in SDCL 49-34A-1(12). Ex Xcel Energy 1, p. 1[2]

2. Staff participated in this case as a full party.

Procedural Findings

3. The Application was filed with the Commission on June 30, 2011. The Application included all schedules and information required by ARSD 20:10:13.

4. The Procedural History set forth above is hereby incorporated by reference in its entirety in these Procedural Findings. The procedural findings set forth in the Procedural History and these Procedural Findings are a substantially complete and accurate description of the material documents filed in this docket and the proceedings conducted and decisions rendered by the Commission in this matter.

5. On November 4, 2011, Xcel filed its Notice of Intent to Implement Interim Rates based on current rate design for service provided on and after January 2, 2012, pursuant to SDCL § 49-34A-17.

6. On January 2, 2012, Xcel Energy implemented an interim rate increase of approximately $12.7 million, or 8.09 %, subject to refund.

7. On May 24, 2012, the Commission issued its Order Granting Joint Motion for Approval of Settlement Stipulation (Order). As a result of the Settlement Stipulation and Order, all issues in the case were resolved except for the following two primary issues and one follow-on issue: (i) the extent to which the capital costs and operating expenses of the Nobles Wind Project should be included in Xcel's revenue requirement and recovered in rates; and (ii) the

[2]References to the Hearing Transcript are in the format "TR" followed by the Hearing Transcript page number(s) referenced, and references to Hearing Exhibits are in the format Ex followed by the exhibit number and, where applicable, the page number(s) referenced (the exhibit number party abbreviations employed by the parties are: Xcel – "Xcel Energy"; Staff – "Staff."

appropriate return on equity, cost of long term debt, capital structure, and resulting overall rate of return to produce just and reasonable rates. A third follow-on issue also remained regarding what additional adjustments to revenue requirement inputs would be necessary as a result of the Commission's decisions on issues (i) and (ii) to reach final revenue deficiency and revenue requirement amounts. The Settlement Stipulation and Order are adopted by reference in this Final Decision and Order.

Rate of Return

8. Determining a reasonable ROE rests primarily on sound judgment looking at the overall results of the analysis. Under SDCL 49-34A-8 and relevant case law, rates set in this proceeding must be just and reasonable. *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944).

9. The just and reasonable test focuses on whether the "total effect of the rate order [is] unreasonable." *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310 (1989). Under the just and reasonable test "it is the result reached, not the method employed that is controlling" and "the impact of the rate order which counts." *Hope, supra,* at 602. The South Dakota Supreme Court recognized that rates that do not yield a fair return are unreasonable. *In Re Northwestern Bell*, 43 N.W.2d 553, 555 (S.D. 1950). The rate of a return must be "commensurate with returns on other investments of corresponding risks" and "be sufficient ... to attract capital." *Northwestern Public Service v. Cities of Chamberlain et al*, 265 N.W.2d 867, 873 (S.D. 1978).

10. "The ratemaking process under the Act, i.e. the fixing of 'just and reasonable' rates, involves a balancing of the investor and the consumer interests." *Hope, supra,* at 603. "Regulation may, consistently with the Constitution, limit stringently the return recovered on investment, for investors' interests provide only one of the variables in the constitutional calculus of reasonableness." *Permian Basin Area Rate Cases*, 390 U.S. 747, 769 (1968).

11. The overall rate of return of a utility is composed of three components: cost of long term debt, return on equity, and capital structure.

12. In the Application and supporting direct pre-filed testimony, Xcel's proposed revenue requirement reflected an overall rate of return (ROR) on investment of 8.78%, based on a test year average capital structure of 52.48% common equity and 47.52% long term debt, a cost of long term debt of 6.33%, and a rate of return on equity (ROE) of 11%. Xcel originally proposed as its reasonable range for ROE for NSP to be from 10.75% to 11.25 %. Ex Xcel Energy 1, pp. 15-16; Ex Xcel Energy 7, pp. 3-4. In subsequent pre-filed testimony, Xcel provided an updated ROR of 8.52%, based on an updated test year average capital structure of 52.90% common equity and 47.10% long term debt, cost of long term debt of 6.13%, and ROE of 10.65%, with an updated reasonable range for ROE to be from 10.40% to 10.90%. Ex Xcel Energy 8, pp. 4-5.

13. Staff's expert witness Copeland's analysis resulted in a proposed overall ROR of 7.60% based on a capital structure as of December 31, 2011, of 52.73% common equity and 47.27% long term debt, an ROE of 9.00% and a cost of long term debt of 6.02%. Mr. Copeland proposed a reasonable range for ROE for NSP to be from 8.5% to 9.5%. Ex Staff 5, p. 4. In his pre-filed rebuttal testimony, Mr. Copeland updated his capital structure and long term debt values resulting in a capital structure of 53.04% common equity and 46.96% long term debt and long term debt rate of 6.10%. TR 88-89; Ex Staff 6, Exhibit___(BLC-2).

14. By the time of hearing, Staff no longer disagreed with the reasonableness of Xcel's proposed cost of long term debt of 6.13%. TR 73; Ex Staff 6, p. 30.The Commission finds that a cost of long term debt of 6.13% is supported by the evidence and should be approved.

15. Xcel's proposed capital structure for NSP is based on the average long term debt and common equity percentages over the 13-month test year ending on December 31, 2011. Xcel expert witness Coyne stated that this method of capital structure calculation is employed based on the principle that use of the average capital structure over the 13-month test year is consistent with and appropriately matches the use of NSP's average rate base over the 13-month test year. TR 87-88; Ex Xcel 8, pp. 41-42.

16. Staff's expert witness Copeland's proposed capital structure for NSP is based on the percentages of common equity and debt as of the most recent reporting period. TR 87-88; Ex Staff 6, Exhibit ___(BLC-2). Mr. Copeland argues that the actual percentages as of the end of the test year or latest reporting period are "known and measurable," that historic test year based ratemaking includes adjustments for known and measurable changes to bring the historic test year as close as possible to current conditions, that this creates a more accurate basis for establishment of rates which are forward looking in their applicability, and that cost of capital is specifically forward looking. Ex Staff 6, pp. 28-30.

17. While the Commission can understand the argument for an attempt to match an average capital structure with an average rate base, we find that Staff's position on this issue is more persuasive and is more consistent with the Commission's long term, consistent policy of incorporating known and measurable changes into its determination of rate input elements, both on the rate base side and on the rate of return side. As witness Copeland points out, this policy more often than not has positive consequences for the utility, since known and measurable changes most often result in cost increases for the utility and corresponding increases to rate base. Furthermore, since the cost of capital is forward looking, use of the most current values for capital structure inputs yields the most reliable basis point from which to construct the forward looking projection.

18. The Commission finds that the appropriate capital structure to employ in determining Xcel's overall rate of return is the latest financial reporting year end ratio of 53.04% common equity and 46.96% long term debt.

19. With respect to ROE, both Xcel's witnesses, Dane and Coyne, and Staff's witness Copeland, employed the constant growth discounted cash flow (DCF) methodology to project a range of ROE values and recommended ROE that each believed would be "commensurate with returns on other investments of corresponding risks" and " sufficient ... to attract capital" and therefore just and reasonable. *Northwestern Public Service v. Cities of Chamberlain et al, supra*, at 873. Ex Xcel Energy 7, pp. 15-25, Exhibit_(DSD-1); Ex Xcel Energy 8, pp. 13-17; Ex Staff 5, pp.23-27. Xcel's recommended range was 10.40% to 10.90%. Ex Xcel Energy 8, p. 48. Staff's recommended range was 8.5% to 9.5%. Ex Staff 5, pp. 3-4, 56. The parties also employed other simulation methodology runs, including the dividend discount model (DDM) DCF hybrid methodology, bond yield plus risk premium, multi-stage DCF analysis, and the capital asset pricing model (CAPM) as reality checks on the credibility of their DCF results. Ex Xcel Energy 7, pp. 25-30; Ex Xcel Energy 8, pp. 18-38; Ex Staff 5, pp. 27-37

20. The primary reason for the difference in the witnesses' ROE ranges was the exclusive use by Xcel in its DCF model of forecasted growth in earnings per share (EPS) and Staff's use in its DCF model of an average of four different expected growth rate indicators:

projected growth in EPS, dividends per share (DPS), book value per share (BVPS), and % Retained to Common Equity. TR p. 81; Ex Staff 5, pp. 25. Staff stated the reason for its use of the four projected growth indicator average as follows:

> [I]t is sometimes possible to derive reasonable and accurate estimates of the cost of equity using only one of these growth measures as a "proxy" for the expected rate of growth in dividends. But if the payout ratio is not constant, using just projected earnings or dividend growth can result in distorted estimates of the DCF cost of equity. . . . [T]here is some disparity between the EPS growth rates projected by Zacks and the DPS growth rates projected by Value Line, especially in median (which is a better measure of central tendency for a sample this small). . . . Consequently, based on current projections, relying solely upon projected EPS growth rates will overstate the investors' long-term growth expectations. Similarly, relying solely upon projected DPS growth rates would understate the investors' long-term growth expectations.

Ex Staff 5, pp. 25-26. Staff further pointed to the substantial current difference between the Zacks EPS growth projections and the Value Line DPS projections as indicative of a divergence between EPS growth and dividend pay-out ratio. Ex Staff 5, p. 25. Mr. Copeland also attempted to verify the reasonableness of his multi-input DCF results with an earnings risk premium analysis, including consideration of a Duke University survey of chief financial officers, a review of pension plan earnings projections and Social Security Administration estimates, and a dividend discount model. TR 84-86; Ex Staff 5, pp. 16-23, 27-30, 54-55. Xcel agreed that the primary reason for the difference in Staff's and its appropriate ROE range determinations was Xcel's exclusive reliance on EPS in its modeling and the parties' respective growth rate and dividend payout ratio assumptions. TR 34-36, 81-86; Ex Xcel 9, p. 8; Ex Staff 6, p. 8-12.

21. The Commission finds that, especially in the current turbulent economic environment, the four indicator average projected growth input employed by Staff in its DCF model is a more conservative and reliable methodology for projecting probable growth rates at this point in time, and the Commission adopts Staff's DCF model approach and its conclusions for purposes of its decision on ROE in this case. The Commission finds that use of this more conservative approach in this case is a proper application of the principle that regulatory commissions are to effect a "balancing of the investor and the consumer interests." *Hope*, *supra*, at 603. There is no evidence in the record that Xcel will be unable to raise capital through equity issuances as a result of a return on equity at the rate recommended by Staff. TR 39-43.

22. Xcel and Staff also disagreed regarding both the necessity for inclusion of recovery of flotation costs in an appropriate ROE and, if recovery were allowed, what the magnitude of such recovery should be. Ex Xcel 8, p. 24-27; Ex Xcel 9, p. 15.The Commission agrees that recovery of reasonable flotation costs is appropriate and has included an allowance for flotation costs in its approved ROE.

23. The Commission approves an ROE of 9.25% as the appropriate and just and reasonable ROE for Xcel based on the evidence in this case. Based on this ROE and the cost of debt and capital structure values approved by the Commission in Findings of Fact 13 and 14, the Commission approves an overall rate of return of 7.79%.

Nobles Wind Project

24. The Nobles wind project is a 201 MW project located in Nobles County, Minnesota, and consists of 134 1.5 MW wind turbines. Nobles became operational in December 2010. Ex Xcel Energy 1, p. 6.

25. Xcel conducts its resource planning on a system wide basis. An integrated system can provide a utility's customers with significant benefits. These include reducing the total amount of generating resources needed to reliably serve customers, diversifying the fleet of generating resources required to meet customer needs, thus lowering costs and risks, and reducing costs by spreading costs over a substantially larger customer base. Ex Xcel Energy 4, p. 4.

26 Based on its resource planning process, Xcel determined that additional wind generation would provide system benefits. As a result, Xcel initiated a competitive bidding process in 2007. The Nobles wind project was selected pursuant to this process during which Xcel evaluated 30 proposals submitted in response to a request for proposals for up to 500 MW of wind energy generation. Ex Xcel Energy 1, p. 7.

27. Before proceeding with the project, Xcel conducted two Strategist model runs and determined that Nobles would be a generating resource that would both lower the production cost of electricity and comply with the renewable energy policies of the states in which Xcel provides service. Ex Xcel Energy 4, p. 10.

28. Staff questioned the correctness of allowing full cost recovery for Nobles. Staff expert witness Maini argued that the costs of Nobles exceeded the value of its benefits. She also disputed Xcel's use of $17 per ton for carbon regulation costs in its Strategist modeling and advocated using $4 per ton in the absence of specific legislation establishing a different cost. Finally, because the actual cost of bringing Nobles on line was greater than Xcel estimated in an earlier Minnesota proceeding, Ms. Maini advocated disallowing the incremental actual investment costs. In combination, Ms. Maini recommended disallowing 30 % of Xcel's requested cost recovery, or $612,000. Ex Staff 1, pp. 13-19.

29. Xcel's position is that if the wind generation is cost effective it should be allowed to recover its costs, that the benefits to South Dakota of participating in Xcel's integrated system significantly lower the cost of service to South Dakota, and that the Commission has approved cost recovery based on allocations of system costs in each of Xcel's prior rate cases.

30. In response to Staff's assertion that Nobles costs more than the value of its benefits, Xcel provided a number of responses. First, it cautioned against using the results of any single Strategist Model to determine the least cost alternative. Any modeling will necessarily depend on assumptions about the cost of alternatives, including the cost of replacement energy over a 25 year period, where the change in one or more assumptions could change a least cost determination. Ex Xcel Energy 4, p. 14. Second, Xcel explained that it conducted three different cost/benefit analyses.

31. The particular Strategist model pointed to by Ms. Maini was a conservative model run filed in a Minnesota Commission proceeding. In that proceeding, the modeling was consistent with Minnesota renewable resource goals of serving up to 30 % of Minnesota retail sales with renewable resources. Under that analysis, rather than look at Nobles as a standalone wind project, Xcel modeled Nobles as if 2000 MW of additional wind generation had already

been added and that the addition of 200 MW from Nobles would bring the total to 2200 MW required to meet all State renewable obligations and objectives. Under that worst case scenario, Nobles was not strictly least cost, but Xcel argued it was nevertheless "cost effective" (within 0.11 % on a system basis). Ex Xcel Energy 4, pp. 14-17.

32. Xcel's second Strategist analysis treated Nobles on a standalone basis, where Nobles was the next wind generation unit added. Under that analysis (using $17 per ton carbon regulation), Nobles was the least cost, and benefits exceeded costs by $80 million. Ex Xcel Energy 4, p. 16.

33. Xcel also compared the cost of Nobles against the cost of obtaining replacement energy from the MISO market. Wind provides little capacity; therefore, the MISO energy market comparison was a valid basis for comparison. Although Xcel provided no evidence to back its MISO forecast prices, Xcel's comparison demonstrated that obtaining an equivalent amount of energy from the MISO market would have been $3.05/MWh more expensive. Ex Xcel Energy 4, p. 18; Ex Xcel Energy 5, p. 9.

34. With respect to the issue of the appropriate level of regulatory cost of carbon to include in the modeling, it is not possible to determine the actual future cost of such regulation. That does not, however, justify ignoring an important and likely future cost. To ignore those future costs would result in resource decisions that could adversely affect future ratepayers.

35. Xcel selected $17 per ton based on two considerations. First, $17 per ton was the middle of the range developed in a Minnesota proceeding based on supporting testimony of expert witnesses. Ex Xcel Energy 4, p. 19. Second, at the time the modeling was done there was legislation pending in Congress to establish a regulatory cost for carbon, and $17 per ton represented a conservative mid-range value. Ex Xcel Energy 4, p. 20. Ms. Maini's argued that $4 per ton adequately reflects these potential future costs. In any case, on a next-in resource basis, Nobles maintains a positive cost-benefit ratio even in the $4 per ton case. Ex Xcel Energy 4, p. 16.

36. In her Rebuttal Testimony, Ms. Maini asserts that Xcel should have supplemented its Strategist modeling with a chronological hourly production cost model to validate energy savings. Exs Staff 3 and 4, pp. 7-9. Xcel responded to this assertion by asserting that production cost modeling is not appropriate for making long-term resource selection decisions. Xcel also stated that it incorporated production costs into its Strategist modeling, and that Xcel's Strategist model is also an hourly model. Ex Xcel Energy 5, pp. 4-6

37. Ms. Maini also stated that the benefits from Nobles may have been overstated because the actual capacity factor for Nobles in 2011 was less than the projected 40 % used in Xcel's modeling. Xcel responded by explaining that the lower capacity factor in 2011 was caused by transformer issues that have been resolved, and by MISO curtailing the output (lowering the capacity factor by 2 %). Xcel stated that it does not believe either issue is indicative of future capacity factors. Ex Xcel Energy 5, pp. 8. The Commission finds that the lower capacity factor and generation output during 2011 was largely due to abnormal conditions, with the most significant of which, the transformer issue, having been resolved.

38. Xcel's reliance on its studies for Nobles was reasonable and prudent. Xcel's models considered Nobles both as the next resource added as if 2000 MW were already on the system and on a "standalone basis." Xcel's Strategist modeling evaluated Nobles as a resource under a variety of scenarios over a 25 year period. Xcel included production costs in its

Strategist modeling. These models, and in particular the "standalone," next-in model, which is what this case is about, showed that Nobles is a cost effective resource. Ex Xcel Energy 5, p. 6. Although the Commission would like to see more robust analysis in the future, we conclude that there is adequate evidence that the benefits of Nobles exceed its costs.

39. In addition, the standard for testing cost recovery provided in Section 49-34A-8.4 includes consideration of whether the expenditure was "efficient, and economical." That standard provides Xcel with a certain amount of flexibility to pick alternatives that are best for the overall system, not strictly the least-cost alternative. Other factors such as fuel diversity and diversification of risk are also factors in such a decision. The facts sufficiently demonstrate that Xcel's selection of Nobles satisfies the "efficient and economical" component of that standard.

40. Staff's witness Maini recommended that Nobles' cost recovery should be limited to Xcel's estimated cost presented to the Minnesota Commission in a proceeding that determined eligibility for cost recovery through a Minnesota special rate rider. Staff provided no evidence that Xcel's actual incremental costs were not prudently incurred. Xcel explained that these were necessary additional costs in addition to the costs of the developer that would have been incurred under any alternative project, including a power purchase agreement. Ex Xcel Energy 5, pp. 12-13.

41. The Commission finds that Xcel's recovery of its actual costs should be allowed. The record is devoid of evidence that such costs were not in fact the actual costs or that such additional costs were incurred due to a lack of prudence in project management on Xcel's part. Cost recovery is determined based on the cost of service, and not based on cost estimates. Just as Xcel must pass on any savings when a project comes on line below its estimated cost, Xcel is entitled to recover its prudent costs when actual costs exceed the preconstruction estimate.

42. The Commission finds that Xcel's full investment in Nobles, Ex Xcel Energy 5, p. 21, adequately satisfies the standard established in Section 49-34A-8.4 for recovery of costs that are "prudent, efficient, and economical, and are reasonable and necessary to provide service," and full cost recovery is approved.

43. The Commission wishes to stress that the approval for cost recovery of the Nobles Wind Project in this Final Decision and Order is limited to the Nobles Wind Project itself as a discrete project on a next-in basis and is not intended and should not be construed as an approval of prudency or cost recovery for additional projects or a portfolio of projects to satisfy state renewable energy standards or objectives.

Revenue Requirement and Class Distribution

44. Based on the Settlement Stipulation and Order, the Commission's decision on rate of return, inclusion of Nobles Wind Farm in rate base, and the adjustments reflected in the exhibits to the Joint Compliance Filing, the Commission finds that the deficiency in Xcel's revenue requirement is $8,037,000 and that the revenue deficiency and corresponding rate increase should be distributed among the rate classes in accordance with Exhibit 7 of the Joint Compliance Filing.

Additional Matters

45. As stated in Finding of Fact 6, on January 2, 2012, Xcel implemented an interim rate increase pursuant to SDCL 49-34A-17. In accordance with the proceedings conducted on June 26, 2012, the Commission finds that it is appropriate for the Commission to issue a future order as contemplated by SDCL 49-34A-17 to require Xcel to refund or credit back to customers the amounts it collected during the interim rate period and to direct Xcel to file its proposed refund plan with the Commission by July 6, 2012, for review by Staff and Commission action at its regular meeting on July 17, 2012.

46. In accordance with SDCL 49-34A-10 and the proceedings conducted on June 26, 2012, the Commission finds that Xcel shall file tariff sheets conforming to its decision in this case and the Settlement Stipulation and Order by July 6, 2012, for review by Staff and Commission action at its regular meeting on July 17, 2012.

General

47. To the extent that any Conclusion of Law set forth below is more appropriately a finding of fact, that Conclusion of Law is incorporated by reference as a Finding of Fact.

CONCLUSIONS OF LAW

1. The following South Dakota statutes are applicable: SDCL 49-34A-1, 49-34A-3, 49-34A-6, 49-34A-8, 49-34A-8.3, 49-34A-8.4, 49-34A-10 through 49-34A-14, 49-34A-17, 49-34A-19 through 49-34A-19.2, 49-34A-21, 49-34A-22, and 49-34A-101 through 49-34A-104 and applicable provisions of SDCL Chs. 1-26 and 15-6. The Commission has jurisdiction in this matter pursuant to one or more of the above statutes.

2. The following South Dakota administrative rules are applicable: ARSD Chapters 20:10:01 and ARSD 20:10:13.

3. SDCL 49-34A-6 provides:

> Every rate made, demanded or received by any public utility shall be just and reasonable. Every unjust or unreasonable rate shall be prohibited. The Public Utilities Commission is hereby authorized, empowered and directed to regulate all rates, fees and charges for the public utility service of all public utilities, including penalty for late payments, to the end that the public shall pay only just and reasonable rates for service rendered.

SDCL 49-34A-8 provides:

> The commission, in the exercise of its power under this chapter to determine just and reasonable rates for public utilities, shall give due consideration to the public need for adequate, efficient, economical, and reasonable service and to the need of the public utility for revenues sufficient to enable it to meet its total current cost of furnishing such service, including taxes and interest, and including adequate provision for depreciation of its utility property used and necessary in rendering

> service to the public, and to earn a fair and reasonable return upon the value of its property.

SDCL 49-34A-8.4 further provides:

> The burden is on the public utility to establish that the underlying costs of any rates, charges, or automatic adjustment charges filed under this chapter are prudent, efficient, and economical and are reasonable and necessary to provide service to the public utility's customers in this state.

SDCL 49-34A-11 states that "[t]he burden of proof to show that any rate filed is just and reasonable shall be upon the public utility filing same."

4. Xcel is a "public utility" as defined in SDCL 49-34A-1(12).

5. The Application was properly filed with the Commission on June 30, 2011, included all schedules and information required by ARSD 20:10:13, and was jurisdictionally complete.

6. Xcel had the statutory authority pursuant to SDCL 49-34A-17 to "implement the proposed rate or practice" on January 2, 2012, and Xcel's interim rate was lawfully implemented on January 2, 2012.

7. The Joint Motion and Settlement Stipulation were duly and lawfully granted and approved by the Commission without objection by any party through its Order Approving Joint Motion for Approval of Settlement Stipulation issued on May, 24, 2012.

8. In accordance with the Commission's Order for an Notice of Hearing issued on May 24, 2012, a hearing on the merits of this matter was held on June 13 and 14, 2012, with Xcel and Staff participating and afforded a full opportunity for hearing on the merits of their issues.

9 The Commission concludes that an overall rate of return for Xcel of 7.79%, based upon a cost of long term debt of 6.13%, a return on equity of 9.25%, and capital structure of 53.04% common equity and 46.96% long term debt, will enable Xcel to earn a fair and reasonable return upon the value of its property while appropriately balancing investor and consumer interests.

10. Absent a showing that actual costs in excess of estimated costs were due to imprudence on the part of the utility, such as failure to exercise due diligence in project management and oversight, a utility is entitled to recovery of its actual investment in a project which is found by the Commission to have been justified under the standards of SDCL 49-34A-8 and 49-34A-8.4, and Xcel's recovery of its actual costs for the Nobles Wind Project should be allowed.

11. Xcel's full investment in Nobles Wind Project adequately satisfies the standard established in Section 49-34A-8.4 for recovery of costs that are "prudent, efficient, and economical, and are reasonable and necessary to provide service," and full cost recovery is approved.

12. Based on the Settlement Stipulation and Order, the Commission's decision on rate of return, inclusion of Nobles Wind Farm in rate base, and the adjustments reflected in the exhibits to the Joint Compliance Filing, the Commission concludes that the deficiency in Xcel's revenue requirement is $8,037,000 and that the revenue deficiency and corresponding rate increase should be distributed among the rate classes in accordance with Exhibit 7 of the Joint Compliance Filing.

13. Giving due consideration to the public need for adequate, efficient, economical, and reasonable service and to the need of the public utility for revenues sufficient to enable it to meet its total current cost of furnishing such service, including taxes and interest, and including adequate provision for depreciation of its utility property used and necessary in rendering service to the public, and to earn a fair and reasonable return upon the value of its property, the Commission concludes that the rates, terms and conditions approved in this Final Decision and Order, incorporating the Settlement Stipulation and Order, are just and reasonable and are approved for service on and after the date established by the Commission in connection with its approval of Xcel's conforming tariff sheets.

14. SDCL 49-34A-17 and 49-34A-22 permit, but do not require, the Commission to order a public utility to refund or credit amounts charged on an interim basis in excess of amounts chargeable under the rates as approved. Having found that refund or credit of excess charges is appropriate in this case, the Commission concludes that Xcel shall submit a refund plan for approval by July 6, 2012.

15. In accordance with SDCL 49-34A-10, Xcel shall file tariff sheets conforming to this Final Decision and Order and the Settlement Stipulation and Order by July 6, 2012, for Commission action at its regular meeting on July 17, 2012.

16. To the extent that any of the Findings of Fact in this decision are determined to be conclusions of law or mixed findings of fact and conclusions of law, the same are incorporated herein by this reference as a Conclusion of Law as if set forth in full herein.

17. The Commission concludes that the Application and all required filings have been filed with the Commission in conformity with South Dakota law and that all procedural requirements under South Dakota law, including public hearing requirements, have been met or exceeded.

It is therefore

ORDERED, that inclusion of the full actual cost of Nobles Wind Farm in Xcel's rate base is hereby approved. It is further

ORDERED, that a rate of return for Xcel of 7.79% consisting of a cost of long term debt of 6.13%, a return on equity of 9.25%, and a capital structure of 53.04% common equity and 46.96% long term debt is hereby approved. It is further

ORDERED, that a revenue deficiency and corresponding rate increase for Xcel in the amount of $8,037,000 is hereby approved. It is further

ORDERED, that Xcel's revenue deficiency and corresponding rate increase shall be distributed among the rate classes in accordance with Exhibit 7 of the Joint Compliance Filing. It is further

ORDERED, that Xcel shall submit a refund plan and tariff sheets conforming to this Final Decision and Order and the Settlement Stipulation and Order for approval by July 6, 2012.

Dated at Pierre, South Dakota, this 2 day of July, 2012.

NOTICE OF ENTRY AND OF RIGHT TO APPEAL

PLEASE TAKE NOTICE that this Final Decision and Order was duly issued and entered on the 2d day of July, 2012. Pursuant to SDCL 1-26-32, this Final Decision and Order will take effect 10 days after the date of receipt or failure to accept delivery of the decision by the parties. Pursuant to ARSD 20:10:01:30.01, an application for a rehearing or reconsideration may be made by filing a written petition with the Commission within 30 days from the date of issuance of this Final Decision and Order; Notice of Entry. Pursuant to SDCL 1-26-31, the parties have the right to appeal this Final Decision and Order to the appropriate Circuit Court by serving notice of appeal of this decision to the circuit court within thirty (30) days after the date of service of this Final Decision and Order and Notice of Entry.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, electronically.

By: [signature]

Date: 7-2-12

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

[signature]
CHRIS NELSON, Chairman

[signature]
KRISTIE FIEGEN, Commissioner

[signature]
GARY HANSON, Commissioner