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Xcel Energy		
Docket No.:	EL12-046	
Response To:	SDPUC	Data Request No.
Requestor:	South Dakota Public Utilities Commission	1-5
Date Received:	July 23, 2012	

Question:

Identify and describe each cost reduction program adopted by NSP since 2011.

Response:

Xcel Energy has undertaken numerous initiatives designed to mitigate rising costs while continuing to provide safe, reliable, cost-effective service to our customers.

The 2012 budget included a 2.5 percent merit increase for non-bargaining employees, effective March 1, 2012. Annual merit increases were postponed until October 1, 2012 for exempt employees due to lower than expected sales, warmer than normal winter weather and higher than anticipated property taxes. No known and measurable non-bargaining employee wage adjustment was made to the historical test year.

Through the years the Company has taken steps to reduce pension benefit levels and prudently manage pension cost. As new pension formulas were created, which reduced benefit levels, participation in the old formula was closed to new participants. The timing of when the old formula was closed and the new formula became effective varies between bargaining and non-bargaining employees.

- Bargaining employees: On January 1, 2000 the Pension Equity Plan (PEP) formula was created and from January 1, 2000 to December 31, 2010, new employees made an irrevocable election of whether to participate in the Traditional formula or the PEP formula. On January 1, 2011 the Traditional formula and the PEP formula were closed to new entrants and the 5 Percent Cash Balance formula was created.
- Non-Bargaining employees: On January 1, 1999 the Company closed the Traditional formula to new entrants and created the PEP formula. On January

1, 2012 the PEP was closed to new entrants and the 5 Percent Cash Balance Formula was created. Changing to a 5 Percent Cash Balance Plan for non-bargaining employees resulted in lower pension benefits, but allowed the Company the ability to continue to leverage existing pension plan assets. The benefit was lowered as a result of a lower multiplier and changing from final average wages to career average wages.

In 2011, cost reduction efforts in the high deductible health plan (HDHP) for non-bargaining and certain bargaining employees were implemented. Among these, two mandatory drug programs were added to reduce costs for prescription drug coverage: a mandatory mail order program for maintenance drugs, and a mandatory generic "pay the difference" program. As patents on drugs expire, generic drugs may be substituted at a lower cost.

In February 2012, the Company launched the Productivity through Technology (PTT) initiative. PTT is a commitment to uncover innovative solutions to employees' work challenges. The Company is evaluating technologies that can streamline, simplify and improve work processes throughout the Operations and Nuclear organizations. The PPT initiative will focus on a common set of applications across the company to bring added efficiencies and further improve employee and asset productivity. PTT will drive the development of a ten year strategic plan to help the Company make wise technology investments and maintain its competitive edge in the industry. The PTT initiative is engaging employees in discussions to solicit ideas for removing roadblocks and discovering ways to best use technology to our advantage. Examples include expanding the use of mobile devices in daily operations, implementing bar coding and GPS technology to better identify and track equipment, as well as using new design and scheduling tools.

In 2011, the Company integrated Energy Supply, Distribution and Transmission functions across the four operating companies to improve operating performance through efficiencies of scale to lower operating costs. The Operations business areas will be deploying a more programmatic and structured approach to cost efficiencies starting in 2012. This approach will bring more formal oversight and management of cost efficiency efforts through the discovery and implementation of best practices, work management process improvements, and leveraging of new technologies.

The Business Systems area has extended its contract with IBM for IT services. The agreement will result in immediate productivity improvements while ensuring high-quality deliverables. The Company worked with IBM to take a more innovative approach to delivering products and services to increase quality and ensure a low cost model. Xcel Energy expects to realize market-based cost-competitive pricing during the life of the new contract. The agreement will make funds and other services available to invest in more strategic IT projects increasing flexibility to manage ongoing expenses. The redesigned contract will transition some IT support to IBM Centers of Excellence to leverage new processes, tools and shared resources.

In the area of workforce deployment, through strict management of overtime, employee replacements and hires, and work-planning efforts, the Distribution Operations business area has been able to manage and offset labor cost pressures such as wage increases. Work-planning efforts have also helped create a more flexible workforce, allowing to more readily shared internal resources and also reduce and make better use of contractors. In addition, the Distribution Operations area has continued to improve the effectiveness of its distribution vegetation line clearance program by achieving and maintaining on-cycle performance, prioritizing and targeting work in terms of reliability risk, and incenting productive performance results from its contract workforce. Over the past few years, Distribution Operations has initiated efforts to increase the effectiveness in its Distribution Design Area. These efforts have lead to improved accuracy in distribution work order designs resulting in fewer scope changes, increased replacements of poor-performing assets, and greater up-front accounting accuracy.

Nuclear Generation works with owners of other nuclear facilities to share the costs of resolving common issues. The Company is currently a member of several industry groups and works with its industry partners to proactively identify potential issues, investigate whether its facilities may experience similar issues, and identify how to most cost-effectively and efficiently improve plant operations. Proactively working with industry partners enables more competitive bids for resources and materials, advanced purchases, increased cost savings, as well as balancing in-house and external expertise to further control costs.

Energy supply seeks to continuously add customer value by making significant investments to upgrade and extend the useful life of key facilities that will benefit customers through improved performance and availability. In 2012, Energy Supply implemented the Generation Operating Model to better align resources, share best practices and standardize key elements to reduce costs and promote operational excellence. A major component of the operating model is the Energy Supply Playbook, a guiding document to plan, perform and oversee operations. The Generation Operating Model Playbook provides for the alignment of resources and standardization of key elements of organization operation to identify best practices, reduce operating and maintenance costs, and promote excellence.
The key initiatives resulting from implementation of the Generation Operating Model include development of the following:

- Fleet-wide quality management program to reduce unplanned outage rates and improve unit reliability.
- Standard planning and scheduling process able to function at any facility, establishing consistent processes across the Xcel Energy fleet of power plants
- Fleet-wide overhaul management process to standardize management of overhaul and all overhaul resources

Xcel Energy has installed new emissions control technologies on many of our power plants. This new controls typically require chemicals used in the process of removing emissions from the stacks. The high costs of these chemicals have driven commodity costs higher in recent years. Energy Supply continues to monitor operation of these new control systems and has engineered and installed several improvements which have significantly reduced chemical usage from original manufacturer recommendations while maintaining high emission removal rates.

The Transmission and Operating Services area has been engaged for several years in a series of initiatives to more efficiently use available resources and control increases in costs. These initiatives show that T&OS management is working aggressively to improve our business practices to minimize costs increases to ratepayers.

- Created vendor alliances to control costs and used competitive bidding processes to secure resources like contractors and materials to help ensure the reasonableness of overall costs. Strategic supplier relationships combine greater supplier involvement, collaboration and performance management with effective longer term contracts. These contracts drive savings in many ways, as appropriate based on the category of expenditure, to include transparency into materials and services costs, indexing to underlying commodities, and productivity improvement goals. Some examples include:

  \- *Power Transformers.* Xcel Energy is participating in an alliance with four entities to provide all power transformers. The contracts were negotiated mid-2009. While prices under the contracts can escalate or de-escalate relative to raw commodity input costs (steel, copper, aluminum, oil, etc.) the base price savings are roughly 6 percent through the end of 2012, but vary by the size/type of transformer.

  \- *Cable and Wire.* Xcel Energy has contracted with a single vendor to provide all transmission conductors following a comprehensive RFP. The contract was renegotiated effective mid 2009. While the contract prices can still escalate or de-escalate relative to commodity costs (steel, aluminum), the base price savings are roughly 9 percent through the end of 2012.

- *Wood Poles*. Xcel Energy contracted with a new vendor (replacing another vendor) as the alliance wood pole provider starting in mid 2009. While the contract prices can still escalate or de-escalate with fuel costs, the base price savings are estimated to be 19 percent through mid 2014.

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