Xcel Energy®

500 West Russell Street
Sioux Falls, South Dakota 57101

April 5, 2013 **VIA ELECTRONIC FILING**

Ms. Patricia Van Gerpen
Executive Director
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, South Dakota 57501

RE: APPLICATION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES
DOCKET NO. EL12-046

Dear Ms. Van Gerpen:

At the March 26, 2013 hearing of the South Dakota Public Utilities Commission, the Commissioners raised several questions, including questions regarding:

- an extension of the provision included in the Settlement Stipulation that restricts the Company from filing any petition for an increase in base rates that would be effective prior to January 1, 2015;
- the incentive the Company has to keep costs low;
- the comparative salaries of Company employees to cooperatives;
- the status of settlement payments received from the Department of Energy and credits issued to customers; and
- the use of leased airplanes to conduct Company business.

We provide below additional information on these issues for the Commission in advance of its April 9, 2013 hearing and will be available to answer any further questions on these or any other issues at that time.

Rate Moratorium

The Commission Staff and the Company agreed in the Settlement Stipulation that the Company would not file a petition for an increase in base rates that would result in an increase prior to January 1, 2015. The new Infrastructure Rider is a key part of this settlement and avoids what would have otherwise have been a clear need to file another case in two months. At the Commission's March 26, 2013 hearing, the Commission asked whether this rate moratorium could be extended. Levels of infrastructure investment necessary over the next several years to keep of system strong and reliable to meet customers' needs now and into the future are substantial. This Settlement when taken in whole, already presents a challenging financial situation for the Company. Extending the rate moratorium, in light of the clear need for system investments over the next few years at a level that far exceeds sales growth, would result in a significant negative impact on our financial performance. For this reason, the Company cannot agree to extending the rate moratorium. The situation is further illustrated below.

Included in this rate case is a rate base of $351 million. Our projected actual rate base for 2013 is $419 million. For 2014 and 2015, our projected rate base is $462 million and $484 million, respectively. During the rate moratorium period, this increase in South Dakota rate base of $133 million over the settlement amount, represents the significant amount of capital investment work in key pieces of our system, especially the life extension of our nuclear facilities and other important network upgrades needed to serve customers.

Additionally, increases in operating and maintenance costs over this period are not addressed by this settlement. For instance, nuclear refueling outages have significantly increased for 2012 and 2013 over the 2011 test year represented in the Settlement. Both nuclear plants are in a cycle of work occurring every 10 years, requiring added maintenance, extra inspections and special testing, beyond what normally occurs during a refueling outage. To smooth out the impact of nuclear outage costs, this Commission has approved the use of the deferral and amortization of specific outage costs over the period until the next refueling outage at that unit. The South Dakota portion of projected increase in the annual outage amortization for 2013 and 2014 over 2011 is approximately $800,000 each year.

Further, although our new rider to recover capital costs includes incremental property taxes for 2013, it does not include increases in property and other taxes beyond 2013. With the significant additions to rate base noted above and upward pressure on tax rates, we project substantial increases to property taxes as well. The South Dakota jurisdictional portion of property and other taxes not recovered through the Settlement in this case are approximately $1.8 million for 2014 alone.

Retail sales in our Sioux Falls service area have been slow (0.5% in 2011 and 0.3% in 2012); while we do expect this will pick up over the next two years, it will not be enough to revenue to offset unrecovered costs during a longer rate freeze period. Accordingly, the existing Settlement rate moratorium puts the Company in an extremely difficult financial position as we move forward with these plans while forgoing any additional cost recovery until at least 2015. The Infrastructure Rider only includes recovery of a small number of projects going into service in 2013 and does not include any increases in other operating costs or capital investments. In summary, we hope we have clearly explained why we can not agree to modify this aspect of the Settlement.

Incentive to Keep Costs Low
We recognize the effect that increases in electric rates have on our customers and we work hard to manage and keep our costs as low as possible while ensuring the continued safety and reliability of our system. As discussed in the hearing, all costs the Company incurs are subject to the Commission's prudence review. Accordingly, the Company makes every effort to reduce and keep costs as low as possible. Attachment A includes our response to Staff Data Request No. 1-5, which explains the numerous cost reduction programs we have undertaken in just the last two years. Our focus is to manage the business efficiently while making those investments needed to ensure our customers receive high-quality, safe and reliable electric service.

Company Wages are Competitive
As indicated in Staff's letter dated March 27, 2013, the Company engages in an extensive negotiations process with our unions. In addition, we conduct regular reviews of peer companies to ensure our wages are competitive. While we seek to keep our wages low, we note we must remain competitive in the industry to attract and retain the skilled workforce needed to run our business.

We currently participate in and purchase more than 40 market surveys annually. Our survey portfolio consists of industry specific, function specific, general industry, non-exempt, professional, and executive specific surveys. The use of reliable third-party compensation data ("market survey data") is one of the most efficient, comprehensive ways for the Company to ensure our compensation levels are comparable to what is being offered by our utility and non-utility competitors.

As noted in Staff's comments at the hearing, we do not know the wage schedule of the nearby cooperative utility and do not have the detail necessary to conduct an apples-to-apples comparison. However, to assure our base salary and base salary increases do not exceed market competitive values, we utilize the above-referenced market survey data to assign salary grades to jobs and to compare our base salary increases to that of other utilities and general industry.

In addition, we are a multi-jurisdictional utility that competes for employees with other utilities and companies throughout the nation. Similarly, potential employees for the Company may be located throughout the country. In order to attract, retain and engage employees, we must provide compensation that is competitive on a national basis, not just within one state.

The Company also does not alter salary grades, incentive targets or budgeted base salary increases based upon the location of employees. In addition to ensuring that our compensation is competitive on a national level, this approach is reasonable and provides for internal equity. In particular, it is the Company's compensation philosophy that positions within the Company should be similarly graded regardless of location. Finally, as noted by Commission Staff, various Company employees have unique skill sets, which may not be required by other employers—even other utility employers. For example, we are the only employer in the State of South Dakota that operates nuclear facilities. Thus, a compensation comparison against other employers would be of limited value for this group of workers.

Department of Energy Settlement Payments
The Company has so far received 3 DOE settlement payments; the third settlement payment at the end of 2012. The first two credits totaling $4.8 million for our South Dakota customers were issued in April 2012. Consistent with the Commission's direction, we issued credits to our South Dakota customers for their jurisdictional share of the third settlement payment, approximately $1 million, beginning in February, 2013. Pursuant to the terms of settlement with the Department of Energy, the Company intends to submit its next claim for in May, 2013. We anticipate the claim to total $35 million for all of NSPM jurisdictions. Absent any disagreement with the DOE, payment should be received by October 2013 and credits will be issued shortly thereafter consistent with the Commission's direction in Docket No. EL11-23.

Use of Leased Aircraft
At the hearing, the Commission had raised questions about the amount of aircraft costs included in the rate case and the Company's responsiveness to Staff's data requests. The Company uses two leased aircraft but have only sought cost recovery for half of the costs in this case for a total rate case expense of approximately $58,000. The Company has not sought full recovery of all of its leased aircraft expenditures, despite the fact that both aircraft are used to conduct Company business.

We regret that Staff did not get sufficient information in response to its request for information on the use of the aircraft. The Company was as responsive as possible given the timing of the request relative to when their testimony was due but was not aware there was ongoing interest in the additional information that Staff had sought. Commission Staff had initially sought the business purpose for each flight. However, because several Company employees may be on any particular flight and each may have a different purpose, we do not track the purpose of the flight by trip but by passenger. We provided Commission Staff additional information following the Commission's March 26, 2013 hearing on the number of employees and flight purpose and have also provided that information formally for the record in a separate submittal.

We appreciate the constructive efforts of the Commission Staff to resolve these disputes in the form of the Settlement Stipulation. We believe the Settlement in this case balances the interests of the Commission and our customers of keeping costs low while providing the Company a mechanism to recover some of its costs of service. The Company has discussed the filing of this information with Commission Staff and it is our understanding that Staff does not object to our filing this information. We seek to provide all requested information and wanted to ensure the Commission had the information it needed to review the case. We will also be available at the hearing to address any further questions.

Sincerely,

Laura McCarten

LAURA MCCARTEN
REGIONAL VICE PRESIDENT

Attachment