



Gary Hanson, Chairperson  
Chris Nelson, Vice Chairperson  
Kristie Fiegen, Commissioner



## PUBLIC UTILITIES COMMISSION

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September 17, 2014

Dennis Aanenson  
A&B Business Solutions  
1600 North A Ave  
Sioux Falls SD 57104

Dear Mr. Aanenson:

Thank you for contacting the commission with your comments regarding the Xcel Energy rate increase application currently being processed.

The utility's application filed June 23, 2014 requested an increase of 8 percent. You can review the complete application online at [www.puc.sd.gov](http://www.puc.sd.gov) and click on Commission Actions, Commission Dockets, Electric Dockets, 2014 Electric Dockets, and go to docket EL14-058.

You state that the utility's increase is too high and should be in the 2 to 3 percent range to be in line with other local utility companies. The PUC is not allowed to adjust the rates of one utility by comparing them to other utilities' rates. When a utility files a rate case with the commission, we are required by law to thoroughly process the case according to the statutes governing utility rates. We cannot reject a rate case outright since we are required to investigate it and make a just and reasonable decision. In order to accomplish this we go through an extensive process that 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 docket – separately, along with any intervenors in the case. We request and review additional data from the utility before a decision is rendered. We will hold a formal evidentiary hearing if necessary in order to obtain all information and allow intervenors the opportunity to fully participate.

Discussion involving commissioners on the case must be available to the public. The commission's work is done electronically to be the most time and cost effective, and therefore, anyone can review the majority of the filings in the case online.

It is important to understand the reasons Xcel cited when filing this case, including investments in plant infrastructure and compliance with federal mandates. These are additional reasons we cannot simply point to other utilities or businesses in the area and determine that a rate should be adjusted to be in accordance with others. Different utilities have different costs of generating electricity, including distribution and load types. These attributes are why the rate determination process is directed by law for investor-owned utilities. The commission is also currently processing a Black Hills Power electric rate case and two MidAmerican Energy rate cases – one electric and the other natural gas. Operational cost increases and new federal mandates are stated as causes for those cases also. Xcel relayed their need to file another rate case when their last case was processed during 2012 and 2013. The commissioners referenced this and the utility ultimately agreed to hold off on filing their next case longer than planned. This is reflected in the information available on that case.

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.

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 determinations have been the lowest in the nation for the electric sector. A regulated utility may have a rate that is set based in part on current debt and equity return values, but that process also results in the utility not being able to earn the higher ROR that unregulated businesses can and do charge.

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.

The commission is required by law to allow rates based on a reasonable ROR for the regulated utility sector. 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.

In South Dakota the rates of Xcel Energy, Black Hills Power, Montana-Dakota Utilities, Otter Tail Power, NorthWestern Energy and MidAmerican Energy are regulated. These utilities are in a captive rate situation. They are not permitted to charge whatever rates management decides to charge, as most other businesses do. Because Xcel is a monopoly situation, there is no market to discipline prices as exists in unregulated business sectors.

My fellow commissioners and I are consumers too. We have family members of several generations affected by utility costs and we understand how rate increases touch us all. We wish to keep rates down and to protect the citizens against increases. We hate to agree to any rate increase.

Given your interest, I encourage you to follow along as the case is processed. Your comment and my response will be filed under Comments and Responses in this docket, EL14-058. I encourage you to read a document titled Electric Rate Increase Requests Info Guide on the commission's home page at [www.puc.sd.gov](http://www.puc.sd.gov). It explains the processing of rate increase requests.

Thank you for sharing your concern and giving me an opportunity to respond. I pledge to always work to keep utility costs as low, affordable and reasonable as possible.

Sincerely,

A handwritten signature in cursive script that reads "Gary Hanson".

Gary Hanson