



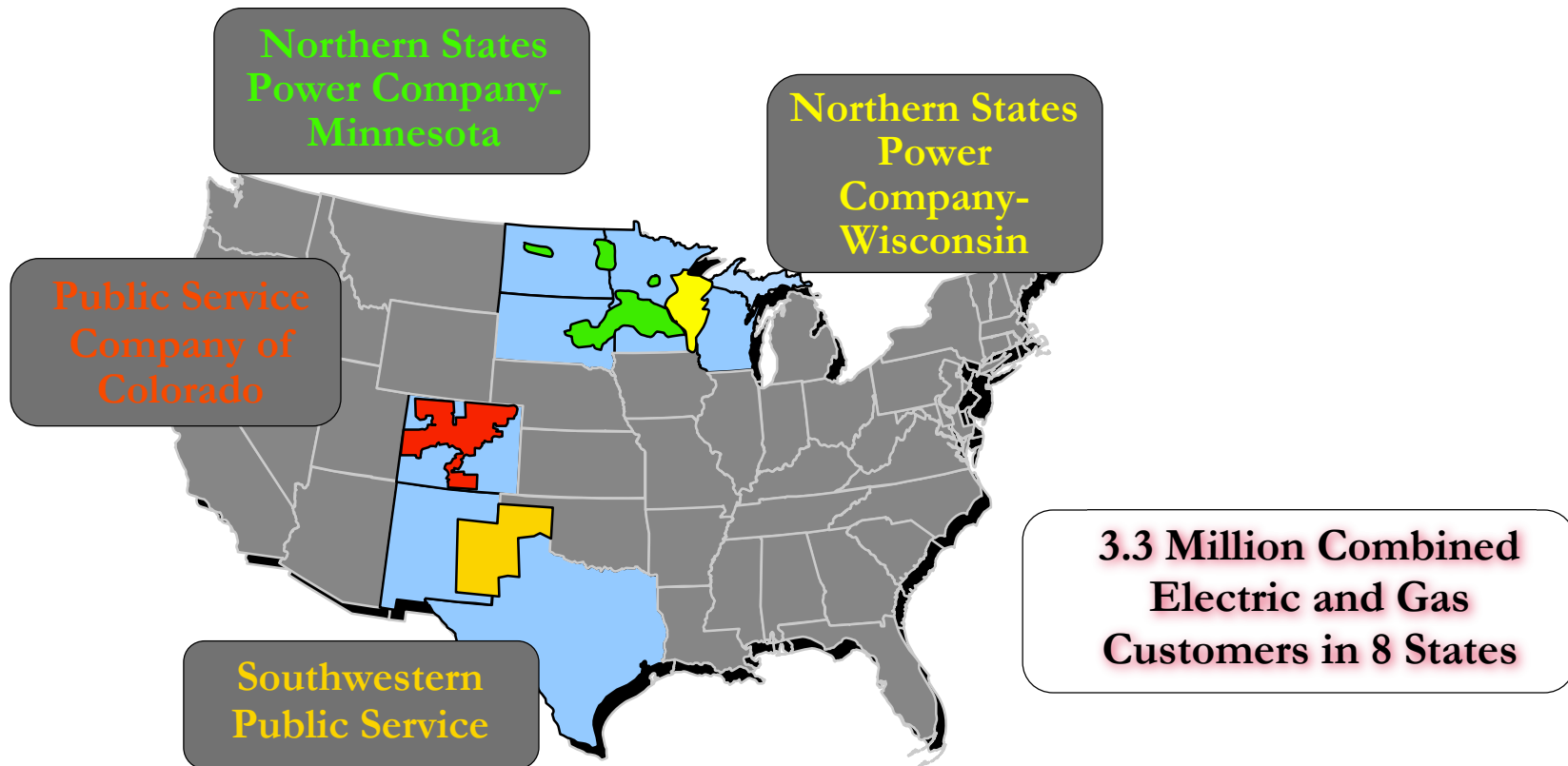
Midwest Energy Solutions Conference

Incorporating Efficiency into the Utility Business Model

Presented by Deb Sundin

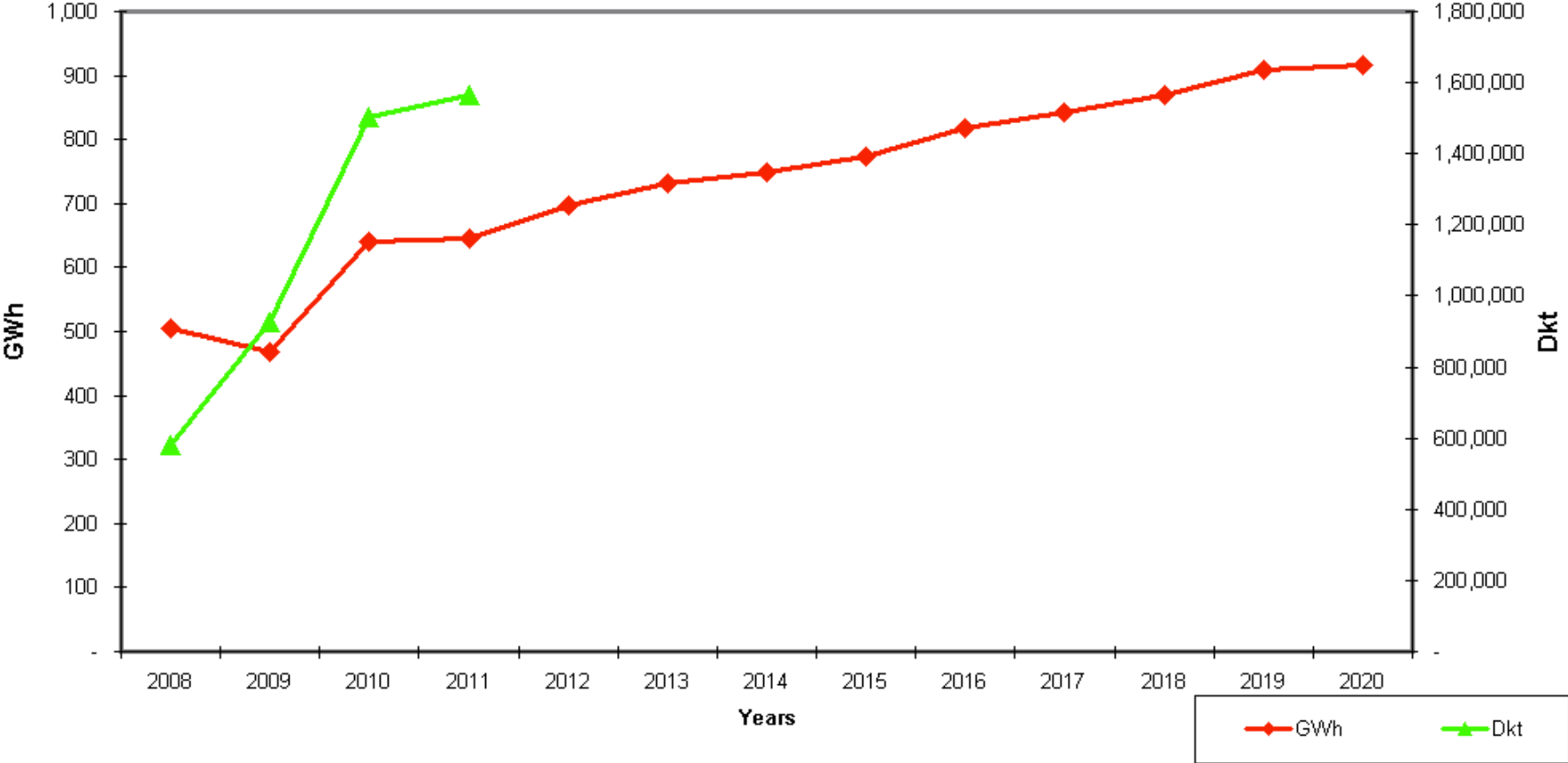
January 8, 2009

Xcel Energy Service Territory



Long-Term DSM Goals (System EE Goals)

DSM Goals Growth



Energy Efficiency Policies

▪ State Legislative Requirements

- Minnesota (1.5% annual sales, gas & electric, 2010).
- Wisconsin (Public Benefit State).
- Colorado (sets savings floor with PUC ability to increase).
- New Mexico (sets long term goals).
- Texas (voluntary for SPS, historically focused on demand, new change to add energy savings).

▪ Resource Planning Requirements

- Minnesota, Colorado, New Mexico (future).
- Competitive with supply options.
- Balanced with achievable potential.

Aggressive EE Impacts On Utility Financials

- **Financial disincentives to energy efficiency.**
 - Lost revenues/margins.
 - Lost opportunity earnings of capital investment in plant.
 - Rate impacts:
 - Rates would go up more over time with other supply options;
 - Rate increases generally in place quicker than supply options.

- **Xcel Energy works within legislative and regulatory frameworks in order to:**
 - Remove disincentives to energy efficiency;
 - Provide a positive financial incentive to support utilities to aggressively pursue EE.

DSM Cost Recovery Mechanisms

▪ **Minnesota Gas & Electric**

- Expenses & incentive collected thru CCRC in base rates + true-up Rate Rider.
- Timely cost recovery.
- All expenses including labor.
- Carrying charge applied.

▪ **Colorado Gas & Electric (begins 2009)**

- Expenses & incentive collected thru Rate Rider.
- Timely cost recovery.
- All expenses including labor.
- Asymmetrical carrying charge applied to electric; symmetrical to gas.

DSM Cost Recovery Mechanisms, cont.

▪ **Texas**

- 10 year amortization.
- Remainder of tracker balance amortized over 10 Years in next rate case.
- Proposing changes in current rate case.

▪ **New Mexico**

- Rate rider with carrying charges.
- Timely cost recovery.
- All expenses including labor.

▪ **Wisconsin & North Dakota Residential Gas**

- Built into base rates.

Current Performance Incentives

Minnesota

- **Shareholders Retain a Percentage of Net-Benefits Generated From DSM Achievements**
 - Net benefits derived from the Utility Cost Test.
 - Net Benefits = avoided costs (capacity + T&D + marginal energy) - utility program costs (including rebates).
 - Company keeps an increasing percent based on percent of goal achieved (target range 90%-150%).
 - Model calibrates goal to minimum spending requirement.
 - Performance incentive is capped at 30% of approved budget or actual spend, which ever is less.
- **2007 Legislation Requires PUC to Open a Docket in 2008 to Review Performance Incentive Design (Docket No. E,G999/CI-08-133)**

Performance Incentives

Colorado Electric - Effective 2009

- **PUC incentive comprised of:**

 - Annual flat incentive of \$3.2 million (\$2.0 million after tax).

 - Incentive based on retaining percent of net benefits.

 - Not to exceed 20% of expenditures.

- **Net benefits based on modified Total Resource Cost Test: Avoided costs (capacity+T&D+marginal energy+avoided emissions+ O&M) – utility costs – customer costs.**

 - For each 1% beyond 80% of goal, earn an additional 0.2% of net economic benefits. Reaching 10% at 130% of goal.

 - For each 1% beyond 130% of goal, earn an additional 0.1% of net economic benefits. Reaching 12% at 150% of goal.

 - Required to meet 100% of goal in 2009 before incentive is earned.

- **Awarded in two installments. Second installment subject to updated savings data through M&V.**

 - 60% first year following performance year, remainder paid after second year.

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