Affordable Energy and Rates

Our Approach

We understand that our customers are concerned with the affordability and reliability of the service we provide. Even as we continue to upgrade our infrastructure and bring more renewable energy onto our systems, we have kept our retail electricity rates competitive with rates across the country and in the states we serve. We continually look for opportunities to improve productivity and reduce costs, as we invest in our systems. As technology evolves and our industry faces tremendous change, we are actively engaged and participate in efforts to help shape the future policies that will regulate and guide our business for the future.

The Regulatory Compact

Our utility subsidiaries operate under carefully regulated conditions, which are determined in part by state public utilities commissions. A utilities commission is a governing body that regulates the rates and services of utilities such as ours. In exchange for the exclusive right to provide electricity and natural gas services in certain regions, we agree to the following:

- **Duty to serve**: We will provide service to any residence or business within our service territory that requests it under reasonable terms and conditions. Utilities cannot pick and choose their customers.
• **Cost of service pricing:** Pricing for our services is regulated by the costs we incur to deliver them. We cannot arbitrarily raise prices to levels beyond our costs.

• **Resource planning process:** Every few years, we go through a process to determine the resources necessary to serve customers’ future energy needs. Resource plans must be reviewed and approved by regulatory commissions, and stakeholders are given the opportunity to provide input on the plans through a public process.

Together, this is known as the regulatory compact. As a participant in the compact, we are granted the ability to recover our costs of doing business and earn a reasonable rate of return. This rate of return is not guaranteed—we have only the opportunity to earn it. To operate effectively in a closely regulated business like ours, it is imperative that we stay in sync with the current demands of the public and policymakers.

### Managing Costs for Customers

We are managing costs by increasing productivity and improving efficiency. In 2015, our performance target was to limit the company’s operations and maintenance cost growth to 1 percent or less annually. Our diligent focus on cost control helped us to reduce these costs by 0.2 percent in 2015, compared to 2014.

Since 2011, we have been successful in bending the company’s cost curve—reducing annual cost growth from an average of 6 percent between 2007 and 2011 down to approximately 3 percent between 2011 and 2014. We remain focused on simplifying and automating business processes while taking full advantage of new systems and other technology. Our consistent focus on operational excellence will ensure continuous improvement, helping improve quality without dramatically raising rates for consumers.

### Productivity through Technology

Productivity through Technology (PTT) is an initiative we started in 2011 to help us solve our workforce challenges, make smart investments and minimize customer price increases—all while improving service reliability. PTT is about removing roadblocks that are preventing our employees from being productive by providing them with new tools and ways of working. The work is driven by a cross-functional project team of more than 150 employees, as well as a change network of about 150 leaders from all business areas. The change network is critical as it helps proactively lead the change throughout the company.

We successfully completed major initiatives in 2015 to build a new general ledger as well as a new work and asset management (WAM) system, both using the SAP technology. The new general ledger standardized and simplified financial accounting and reporting to enable us to make better business decisions. WAM addresses the way we do business from start to finish, allowing us to standardize operations. Together, these efforts will enable Xcel Energy to be more competitive and meet our customers’ expectations.