Revenue decoupling breaks the link between Xcel Energy’s revenues and electricity customer’s energy usage. Decoupling ensures that utilities collect the amount of revenue that has been approved by a regulatory authority (in Minnesota, this is the Minnesota Public Utilities Commission or MPUC). Decoupling doesn’t apply to fuel costs which are passed through without a mark-up to customers.

With decoupling, the MPUC establishes the amount of revenue (or revenue baseline) that Xcel Energy needs to cover the cost of safely delivering electricity to its customers. With decoupling, the per kilowatt-hour electric rate is adjusted so that Xcel Energy does not retain more or less revenue than what was approved in its last rate case. Revenue decoupling allows Xcel Energy to adjust its rates once each year to make up for any deficit or surplus in sales from the revenue baseline. For example, under revenue decoupling, if total actual electric sales were higher than expected in a given year, the utility would lower rates the next year to refund customers the revenue surplus from the additional usage. On the other hand, if total actual electric sales were lower than expected in a given year, the utility would increase rates the next year to surcharge customers the revenue deficit from the lower usage.

Revenue decoupling is designed to separate a utility’s revenue from changes in energy sales. When a utility’s revenues fluctuate with the amount of energy it sells, a disincentive to promote energy conservation occurs. Revenue decoupling removes this link between a utility's sales and revenues, therefore eliminating the disincentive to promote energy conservation.

The results for the first two years of decoupling are as follows:

<table>
<thead>
<tr>
<th>Xcel Energy Decoupling Results Surcharge or (Credit)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>($millions)</td>
<td>$/kWh Oct. 2017-March 2018</td>
</tr>
<tr>
<td>Residential</td>
<td>($2.6)</td>
<td>($0.000649)</td>
</tr>
<tr>
<td>Residential with Space Heating*</td>
<td>$0.9</td>
<td>$0.003600</td>
</tr>
<tr>
<td>SCI Non-Demand</td>
<td>($0.1)</td>
<td>($0.000291)</td>
</tr>
</tbody>
</table>

*In 2016 and 2017, the surcharge for the Residential with Space Heating Class exceeded its cap of approximately $0.9 million. The capped results are listed in the table for this class.
Xcel Energy revenue decoupling quick facts

- A three-year full revenue decoupling pilot in Xcel Energy’s 2013 electric rate case (Docket No. 13-868) for 2016-2018 was approved by the MPUC. We filed an electric rate case in 2015 (Docket No. 15-826) and the MPUC ultimately approved a one-year extension to the revenue decoupling pilot for 2019.

- Our full revenue decoupling pilot program started in January 2016.

- The first revenue decoupling adjustments appeared on Oct. 2017 customers’ bills.

How decoupling adjustments are determined

- The MPUC determines and approves, in an electric rate case, Xcel Energy’s revenue baseline based on expected usage.

- We track each month the actual usage vs. expected, approved usage.

- We calculate the difference between actual usage and expected usage and the impact on utility revenue at the end of a 12-month period.

- If actual usage is higher than expected, revenues will exceed Xcel Energy’s authorized revenue level. Therefore, customers will receive a refund for the revenue surplus.

- On the other hand, if actual usage is lower than expected, revenues will be less than our authorized revenue level and a surcharge will be applied to bills. However, customers can still save on their bills from lower than expected usage.

Utility rates background

- Rates vary by customer type and class. For residential and small commercial non-demand customers, bills include three primary components:
  - A basic or fixed customer charge
  - A delivery charge
  - A fuel charge

- Fuel costs are passed directly to customers and makes up about 20 percent of a decoupled customer’s bill. The basic or fixed customer charge and delivery charge recover the cost of delivering electricity to customers.

Revenue decoupling annual reports

We must submit annual reports that report on:

- Total over- or under-collection of allowed revenues by customer class or group

- Total collection of prior deferred revenue

- Calculations of the revenue decoupling deferral amounts

- The number of customer complaints
• The amount of revenues stabilized and how the stabilization affected our overall risk profile

• A comparison of how revenues under traditional regulation would have differed from those collected under partial and full decoupling

• A description of all new and existing demand-side-management programs and other conservation initiatives

• A description of the effectiveness of all new and existing demand-side-management programs and other conservation initiatives we had in effect for the year covered by the report

• Other factors that may have contributed to a decline in energy consumption, including weather and the economy

**Revenue decoupling mechanism caps**

• There is no cap on the amount of credits customers may receive from the revenue decoupling mechanism.

• The cap on surcharges is three percent of a customer group’s revenues. This amounts to about 2.5 percent of a customer’s bill.

• The cap is a “soft cap” in that if our upward revenue adjustment is more than three percent of a customer class revenues, we may only implement a three percent rate adjustment. We may carry-over the surplus revenue over the three percent cap to the following year. However, we must demonstrate our demand-side management programs were a contributing factor in declining sales.