



**Northern States Power Company,
a Minnesota corporation
Before the
Minnesota Public Utilities Commission**

Application for Authority to
Increase Electric Rates in Minnesota
Docket No. E002/GR-15-826

November 2, 2015

Volume 5

Budget Summary and Correspondence

BUDGET SUMMARY AND CORRESPONDENCE

Volume 5

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Introduction

The purpose of the budget documentation is to provide information supporting the 2016 through 2018 operating and maintenance (O&M) expense and 2016 through 2018 capital expenditure budgets for the utility companies that make up Xcel Energy.

This Executive Summary is designed to provide an overview of the budget documentation and explain how the different components fit together.

The budget documentation section within this summary provides high level descriptions of the narrative, variance explanations and expense schedule information contained within Volume 6 - Budget Documentation included in the filing.

In addition, supplemental reports for the most recent five historical annual periods of 2010 through 2014 are contained within Volume 6 - Budget Documentation included in the filing. The Supplemental Reports section within Volume 6 provides Xcel Energy Financial Performance Team (FPT) Reports summarizing total NSPM Company actual and budget O&M and capital expenditures by business area, including the annual budget variance and explanations. This section also contains summaries of the most recent five years of historical O&M expenses for the NSPM Company electric utility. Five annual schedules provide the actual and budget expenditures, including the variance and percent variance. The O&M expenses are organized by functional class and listed by FERC account. Summaries of the most recent five years of historical NSPM Company capital expenditures, organized by project, are also included in this section.

Summary-level Northern States Power Company – Minnesota Electric Utility (NSPM Electric) reports are also included in the “Summary Reports” tab. These reports show the 2014 actual versus 2016 budget O&M expenses, summarized across all business areas.

Summary Report 1 compares O&M expenses by function between the 2014 actual and 2016 budget for NSPM Electric. The report includes an analysis of the major categories of cost changes over the two-year period.

Summary Reports 2A, 2B and 2C compare O&M expense by cost component between the 2014 actual and 2016 budget, 2016 budget and 2017 budget, and the 2017 budget and 2018 budget periods, respectively for NSPM Electric.

Summary Reports 3A, 3B and 3C compare O&M expense by FERC account between the 2014 actual and 2016 budget, 2016 budget and 2017 budget, and the 2017 budget and 2018 budget periods, respectively for NSPM Electric.

This exhibit reflects Northern States Power Minnesota Company total electric utility costs. The Regulatory area directly assigns or allocates costs to the State of Minnesota electric jurisdiction. In addition, the Regulatory area makes various test period adjustments to eliminate certain costs not included within the State of Minnesota electric jurisdiction cost of service. Thus these represent business area costs in total prior to adjustments, so not all of the above costs are reflected in the cost of service, nor are the costs all part of our request for rates.

Xcel Energy Operating Companies

Budget information for the following companies was developed during the budget effort:

- Northern States Power Company – Minnesota (NSPM), aka Operating Company (OpCo)
- Northern States Power Company – Wisconsin (NSPW)
- Public Service Company of Colorado (PSCo)
- Southwestern Public Service Company (SPS)
- Xcel Energy Services Inc. (XES), which includes services provided to the subsidiaries of Xcel Energy, aka Service Company (Svc Co)

Note: Only NSPM information has been included in the budget documentation.

NSPM is a direct subsidiary of Xcel Energy Inc. NSPM is an operating utility engaged in the generation, transmission, distribution, and sale of electricity in Minnesota, North Dakota and South Dakota. NSPM also purchases, distributes and sells natural gas to retail customers and transports customer-owned gas in Minnesota and North Dakota. NSPM provides electric utility service to approximately 1.4 million customers and gas utility service to approximately 0.5 million customers.

NSPW is a direct subsidiary of Xcel Energy Inc. NSPW is an operating utility engaged in the generation, transmission, distribution, and sale of electricity to approximately 255,000 customers in northwestern Wisconsin and in the western portion of the Upper Peninsula of Michigan. NSPW is also engaged in the purchase, distribution, and sale of natural gas to retail customers and transports customer-owned gas in the same service territory to approximately 111,000 customers.

PSCo is a direct subsidiary of Xcel Energy Inc. PSCo is an operating utility engaged principally in the generation, purchase, transmission, distribution and sale of electricity and the purchase, transportation, distribution and sale of natural gas. PSCo serves approximately 1.4 million electric and 1.3 million natural gas customers in Colorado.

SPS is a direct subsidiary of Xcel Energy Inc. SPS is an operating utility engaged primarily in the generation, purchase, transmission, distribution, and sale of electricity. SPS serves approximately 386,000 electric customers in portions of Texas and New Mexico. A major portion of SPS' retail electric operating revenues is derived from operations in Texas.

XES is a direct subsidiary of Xcel Energy Inc. XES provides various administrative, managerial, environmental, and other support services to the other subsidiary companies of Xcel Energy Inc.

Corporate Organization

Budget documentation is provided for each of the internal utility company business areas and the XES business areas that provide support to the utility companies. Each of the business areas has a senior officer responsible for its operation. There have been no significant modifications to the organization since the time of our last electric rate case. The business areas are listed below:

- Energy Supply
 - Business area that includes electric generation facilities, as well as various other supporting departments required to maintain their operations (Engineering and Construction, Technical Services, Environmental, Corporate, Minnesota Generation, and VP Operations, VP Energy Supply)
- Energy Supply – Nuclear
 - Business area that provides oversight and financial responsibility for Nuclear Generation
- Energy Supply – Nuclear Amortization
 - Business area that reports the accounting for nuclear outage costs that are incurred in the Nuclear Generation business area
- Transmission and Operating Services
 - Business area that oversees Xcel Energy's transmission and substation business as well as System Performance, and Standards
- Distribution Operations
 - The Distribution Operations organization provides oversight for Vegetation Management, Gas and Electric Distribution Design, Construction and Maintenance, Metering Systems, Facility Attachments, Electric Distribution Engineering and Emergency Response, and Outdoor Lighting
- Distribution Gas Systems
 - The Distribution Gas Systems organization focuses on gas plant operations and gas control as well as the gas trouble and dispatch areas. It includes gas engineering, damage prevention, system and reliability planning as well as gas governance which focuses on the risk management side of the gas systems
- Operation Services
 - Business area that manages Xcel Energy's Commercial Operations, electric and gas fuel supply, Supply Chain functions, Customer Care, and Bad Debt
- Benefits
 - Support area that contains the summary of labor additive costs, including payroll taxes, non-productive labor costs, insurance and pension costs, incentive costs, and workers compensation costs
- Utilities and Corporate Services
 - Business areas that provide integrated services to Xcel Energy and its operating companies in the following areas: Business Systems, Human Resources, Workforce Relations and Safety, Aviation and Travel Services, Security Services, Property Services, Chief Administrative Office, Marketing, and NSPM President which manages Rates & Regulatory Affairs, State and Federal Affairs, Customer and Community Relations, and HomeSmart
- Shared Services Organizations
 - Chief Executive Officer (CEO) includes the Chairman's Fund and Chief Executive Officer
 - Corporate Secretary and Executive Services includes Strategy and Planning, Corporate Compliance and Business Conduct, and Communications business areas
 - Corporate Other - support area that is comprised of the costs that are not directly attributable to a specific business area such as utility company use of gas and electricity

Corporate Organization (continued)

- Shared Services Organizations (continued)
 - Financial Operations includes Chief Financial Officer (CFO) Management, the Controller's organization, the Treasury organization, Tax Services, Investor Relations & Business Development, Audit Services, Financial Planning & Analysis, Risk Management and Revenue Requirements
 - General Counsel provides support services to Xcel Energy and its subsidiaries in General Counsel Management, Legal Services, Claims Services, Public Policy, Environmental Policy, and Federal Regulatory / Governmental Affairs

Budget Documentation

Budgeting is the foundation and framework for developing supportable and attainable financial plans by legal entity, utility and jurisdiction. The level of budget documentation provides a consistent basis for business planning and budget reviews, facilitates any necessary budget adjustments, provides transparency and a clear audit trail, and supports rate case filings.

The general format of each business area's budget documentation is consistent and is comprised of the major sections discussed below:

Narrative Documentation

Major Business Functions and Key Activities

Introduction

This section generally describes the organization, primary focus and overall responsibilities of the sub-areas included in the selected business area being discussed.

Section I - Customer Value

This section discusses the key priorities, strategic initiatives and elements of the business area and how they optimize direct benefit to the customer. Examples include productivity improvements, overhaul management of the generation plants, environmental initiatives, infrastructure modernization and new technologies, increasing capacity requirements, and compliance with reliability standards to ensure the safe delivery of our energy products.

Section II - Walk Forward of Major Cost Drivers

This section consists of two parts: Walk Forward schedules of the business drivers and amounts that comprise the majority of the increases and/or decreases in O&M costs in the form of tables and bar graphs comparing the 2015 forecast to the 2016 budget, the 2016 budget to the 2017 budget, and the 2017 to the 2018 budget. The walk forward tables are prepared on an activity-based perspective and include high-level explanations of the cost level changes. Detailed explanations are provided for each major cost driver following the Walk Forward table. This section also includes the Major Cost Categories, which provide the business area's total 2016, 2017 and 2018 O&M budgets and the major spend components in the form of a pie chart. In some cases, brief explanations of some of the components are also provided.

Expenses of business areas that are specific to the NSP Minnesota Company have been provided at that level. Business areas that provide support to all of Xcel Energy's operating companies reflect their total 2016 through 2018 budget O&M expenses.

Section III – Functional Organization Chart

This section includes an organizational chart that identifies all areas that fit within the organizational entity being discussed. For some business areas, there is no applicable functional organizational chart (e.g., Benefits). In these cases, "Not applicable" is noted on this page.

Budget Documentation (continued)

Section IV – Major Business Functions and Key Activities

This section generally describes the overall responsibilities of each of the areas included in the organizational chart.

Section V – Cost Allocation Methodologies

This section is applicable to business areas that manage costs in XES that must be assigned to legal entities within Xcel Energy. All cost assignment or allocation methods used to distribute the business area's budget dollars between legal entities and utilities are shown here. This includes explanations of how each area's costs are assigned directly, or if allocated, the allocation methodology used.

The allocation methods used to distribute costs to legal entity and utility are identified below. Whenever possible, costs are charged directly to the relevant operating company.

Operating Company Direct Charges – Costs incurred by a particular operating company. For example, the relevant operating company pays insurance premiums for operating company-specific policies. These premiums are charged directly to that operating company.

Service Company Direct Charges – Costs incurred by the Service Company on behalf of an operating company. For example, some Budgeting personnel may be involved in a specific operating company initiative. Any Service Company labor costs associated with this initiative are billed directly to the relevant operating company.

Service Company Allocated Charges – Costs for which a unique operating company cannot be determined, or which are incurred on behalf of all operating companies. For example, general budgeting services are provided on a centralized basis for all Xcel Energy legal entities. The Service Company labor costs associated with these services are allocated to the legal entities using allocations. The descriptions and specific allocation methods used by the various functional areas within business area being discussed are provided in a table.

Budget Documentation (continued)

Variance Explanations

This section contains explanations for significant changes between the 2014 actual and 2016 budget O&M expenses, shown by FERC account, for the NSPM Company - electric utility. The explanations are aggregated to include each business area's activities that contributed a variance within the specific FERC account of at least $\pm\$500,000$ and at least $\pm 5\%$ over the two-year period. These explanations cover the variances shown in Schedule 4 of the budget documentation.

The first report within the Variance Explanations section of Volume 6 - Budget Documentation included in the filing is titled "Summary Report 1". This high-level report summarizes the NSPM Company - electric utility's O&M expenses by FERC account function. This report subtotals the expenses recorded within the functional FERC accounts (Production and Power Supply, Transmission, and Distribution) and also subtotals the expenses recorded to Customer, Sales and Administrative and General accounts. The report includes the respective change and the percentage change over the two-year period for each of the account groups.

Two additional summary reports provide the O&M expenses by FERC account. The first of the two summary reports provides the expenses recorded within the functional FERC accounts. The second report provides a summary of the expenses recorded within the Customer, Sales and Administrative and General FERC accounts. Together, these two reports summarize the total NSPM Company electric utility expenses by account for the 2014 actual and 2016 budget periods. The two reports also include the respective change and the percentage change over the two-year period for the accounts. Variance explanation reference numbers have been included on the two summary reports to be used as a key to the respective accounts' variance explanations.

A respective variance explanation report follows each of the two additional summary reports. The variance explanation reports include the variance explanation's reference number, the FERC account number, the variance explanation, and the two-year variance amount. In addition, offsetting variance amounts that have been budgeted to other FERC accounts are indicated on this report. Finally, the net remaining variance amount reflected under the FERC account being explained is identified.