

**Fahn, Patrick J.**

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**From:** Shea, Bria E [bria.e.shea@xcelenergy.com]  
**Sent:** Wednesday, December 17, 2008 9:25 AM  
**To:** Diller, Michael R.  
**Cc:** Fahn, Patrick J.; Bahr, Douglas A.  
**Subject:** Settlement Agreement Case No. PU-07-776  
**Attachments:** Settlement Agreement 12-17-08.pdf

Mike,

Attached is the Settlement Agreement for Case No. PU-07-776.

Regards,

Bria E. Shea  
Case Specialist  
Government and Regulatory Affairs  
Xcel Energy  
414 Nicollet Mall  
Minneapolis, MN 55401  
612-330-6064

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**VIA ELECTRONIC FILING AND U.S. MAIL**

December 17, 2008

Darrell Nitschke  
Executive Secretary and Director of Administration  
North Dakota Public Service Commission  
State Capitol  
600 East Boulevard  
Bismarck, ND 58505-0480

Re: IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER  
COMPANY, A MINNESOTA CORPORATION, FOR AUTHORITY TO  
INCREASE RATES FOR ELECTRIC SERVICE IN NORTH DAKOTA  
Case No. PU-07-776

Dear Mr. Nitschke:

Attached is a Settlement Agreement reached between Northern States Power Company, a Minnesota corporation operating in North Dakota (“Xcel Energy” or the “Company”) and the Advocacy Staff of the North Dakota Public Service Commission (collectively, the “Parties”) in the above referenced matter.

The Settlement Agreement represents a global settlement of all contested issues raised during the pendency of the rate case and incorporates the terms of the prior settlement with Advocacy Staff on the appropriate return on equity, previously provided to the North Dakota Public Service Commission (the “Commission”) by Advocacy Staff on January 9, 2008.

The terms of the Settlement Agreement are the result of negotiations between the Parties toward reaching a balanced resolution of this rate case based on important policy concerns and the record in this proceeding. During negotiations, the Parties considered the direction received from the Commissioners on specific issues in the recent work sessions held on this matter and worked to address those concerns. While the Settlement Agreement does not reflect how the Commission may have decided each

contested issue, the Parties believe that the resolution of these issues in the Settlement Agreement furthers North Dakota's public policy and also results in a revenue requirement that will allow the Company to recover the cost of serving its customers and earn a return that will support its future investments.

In particular, the Settlement Agreement allows the Company to recover its investment in the refurbishment of its High Bridge power plant, and the construction of the Grand Meadow Wind Farm. These costs had been contested in this proceeding, and the Commissioners had each expressed some concern with the inclusion of this investment in the Company's revenue requirement. However, during negotiations, it became clear that securing or allocating replacement generation resources for these plants would create significant costs for North Dakota customers. While the Settlement Agreement provides for the recovery of High Bridge and Grand Meadow, it explicitly does not set any precedent as to the recovery of other generation investment in future rate cases.

Instead, the Settlement Agreement outlines a process by which the Company will proactively seek Commission involvement in its resource planning needs in advance of any future investment that will be allocated to North Dakota customers. Specifically, the Agreement provides for additional Resource Plan analyses on a North Dakota basis, annual summaries of energy supply and transmission plans, and a commitment for Advanced Determination of Prudence filings for all resources above a designated size. The Parties believe that these expanded planning efforts will help ensure that the concerns raised in this case do not reoccur in future cases.

The Settlement Agreement also provides North Dakota customers with significant protections, such as: a rate increase moratorium until January 1, 2011; a sharing mechanism for earnings above the return authorized in this proceeding; and significant changes to how the Company accounts for depreciation. Taken together, the Settlement Agreement terms provide a fair and balanced resolution of this matter.

For these reasons, the Parties urge the Commission to approve the attached Settlement Agreement, as it is consistent with the public interest and a reasonable means of resolving all of the contested issues in this proceeding. We recognize that the timing of this filing poses challenges for the Commission and Advisory Staff, for which we apologize. Obtaining Commission input through the work sessions was critical in allowing the Parties to reach this Agreement. We appreciate consideration of this Settlement Agreement, and

are available to provide any additional information the Commission may require.

Please contact us with any questions.

Very truly yours,



David Sederquist	Michael Diller
Sr. Regulatory Consultant	Director, Economic Regulation

Encls.

cc: Service List

STATE OF NORTH DAKOTA  
BEFORE THE  
PUBLIC SERVICE COMMISSION

Susan E. Wefald  
Kevin Cramer  
Tony Clark

President  
Commissioner  
Commissioner

APPLICATION OF NORTHERN STATES POWER  
COMPANY, A MINNESOTA CORPORATION, FOR  
AUTHORITY TO INCREASE RATES FOR ELECTRIC  
SERVICE IN NORTH DAKOTA

CASE NO. PU-07-776

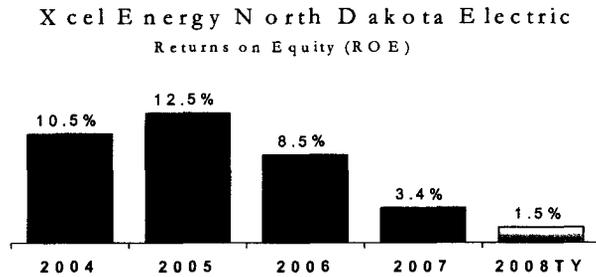
**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into this 17<sup>th</sup> day of December 2008, by and between the North Dakota Public Service Commission Advocacy Staff (“Staff”) and Northern States Power Company (“Xcel Energy” or the “Company”), a Minnesota corporation operating in North Dakota (collectively, the “Parties”). This Settlement Agreement resolves all outstanding issues in the above-captioned proceeding in a manner consistent with the public interest and will result in just and reasonable rates for the Company’s retail electric operations in North Dakota.

**BACKGROUND**

Xcel Energy’s electric operations in North Dakota were revenue deficient in 2006 and 2007, earning substantially below the authorized return on equity (“ROE”) of 11.5 percent, as shown in Figure 1 below. Projected ROE for the 2008 test year, absent rate relief, was 1.54 percent.

**Figure 1**



Prior to this rate application, the Company had not filed a general electric rate increase application since November 1992 (Case No. PU-400-92-399). During this period, Xcel Energy did implement two modest performance-based rate increases under the provisions of the “PLUS Plan.” authorized in Case No. PU -400-00-195. Those increases were triggered by above-target operating and rate performance, and below-authorized earnings.

In 2007, Xcel Energy’s average residential electric rate was ranked as the lowest among investor-owned utilities in the states of North Dakota, Iowa, Minnesota, Montana, South Dakota, Wisconsin and Wyoming. This was the fourth year since 2001 in which the Company’s North Dakota residential electric rates were the lowest in the region. With the increase contemplated in this Settlement Agreement, Xcel Energy’s North Dakota residential rates are expected to remain within the top six of the thirty service territories comprising this regional comparison group. Moreover, even with the agreed-to increase, the Company’s North Dakota rates will have averaged an annual increase of less than one percent since 1993, well under half the rate of inflation over the same period.

See Attachment A for a summary of the procedural history of this case, leading to the Settlement Agreement.

## **TERMS**

The Parties agree to the provisions as defined below and supported by Attachments B, C, D, and E to this Settlement Agreement.

## **ENERGY POLICY**

In this case, the Company determined its revenue requirement in part based on the costs of operating a single, multistate, and integrated system of generation and transmission facilities, with a corresponding allocation of those costs to the North Dakota jurisdiction.

Staff challenged whether North Dakota customers should pay for a portion of the integrated system costs incurred by the Company to satisfy environmental and renewable requirements imposed or facilitated by Minnesota law. During this proceeding, this issue became central to this rate case.

To eliminate or minimize conflicts surrounding energy resource decisions and the associated costs in future general rate proceedings, the Parties agree to adhere to the following regulatory procedures to ensure appropriate Commission involvement and oversight of the Company's future resource plans and selection of future generation and transmission projects to be added to the system serving North Dakota.

## **A. North Dakota Resource Planning Process**

The Parties to this Agreement recognize that Xcel Energy, with its multi-state utility system, seeks to provide its customers the benefits of operating an integrated system while at the same time complying with the energy goals and policies of the states it serves. Currently, these states have different and/or conflicting energy priorities. The intent of the Energy Policy provisions of this Settlement Agreement is to provide a framework for identifying future plans and investments and, to the extent applicable, state-specific energy goals and policies and their implications for serving North Dakota customers. Using input provided by the Commission, the Company will be able to determine how best to proceed to both meet the needs of its North Dakota customers and recover its system-wide cost of providing service.

Xcel Energy agrees to provide to the Commission its Minnesota-filed Resource Plans (“RPs”) for the integrated NSP System (Minnesota, Michigan, North Dakota, South Dakota and Wisconsin) as it has in the past. In addition to these overall RPs, the Company agrees to provide an alternative system-wide resource plan (the “North Dakota version”) that strictly meets both Federal and North Dakota environmental and renewable requirements for the same time period addressed by the Minnesota Resource Plan.

While no formal action by the Commission on these RP scenarios would be required, the Parties envision that the Commission would consider the submissions on an informal basis and provide input to the Company’s planning process. The intent of this provision is to seek and obtain such input prior to

Company investments in resources for which it intends to seek recovery from North Dakota customers.

The Company also agrees to file with its annual Ten Year Plan required by N.D.C.C. § 49-22-04 and N.D.A.R. § 69-06-02-01 a summary of the key generating and transmission investments or purchase agreements that it intends to construct or enter into within the next five years. This summary will provide an anticipated schedule of future applications for Advance Determination of Prudence (“ADP”) pursuant to N.D.C.C. § 49-05-16 that the Company would commit to filing with the Commission by July 1<sup>st</sup> of each year (see Section B of this Settlement Agreement).

Finally, the Company agrees to meet with the Commission and Staff as necessary to conduct updates on its resource planning efforts and decisions, and discuss the Ten Year Plan filed in that year. Such updates would include, but not be limited to, details regarding the above described alternative planning analyses, the specific projects identified in the five-year horizon, key management decisions being considered or made regarding the generation fleet and transmission systems, issues or trends in the energy industry impacting generation and transmission, the status of energy policies or laws approved or under consideration across the integrated NSP-System, as well as other pertinent planning topics of interest to the Commission. The Company commits to keeping the Commission and its Staff informed on a timely basis of any major changes in its Resource Plan or significant legislative initiatives under consideration in another jurisdiction.

Xcel Energy will file its next Ten Year Plan report on or before July 1, 2009. In the report, the Company will provide the results of its North Dakota version of the Resource Plan (based on the current 2008-2022 RP) outlined in this Settlement Agreement. Thereafter, Xcel Energy agrees to file the complete RP and updated North Dakota version on a schedule that corresponds to its overall Resource Planning cycle. In this first and all future Ten Year Plans, the Company will include and describe the current five-year action plan for generation and transmission facilities and its anticipated schedule for filings under the ADP statute.

#### **B. Advanced Determination of Prudence**

In accordance with N.D.C.C. § 49-05-16 the Company agrees to file for an ADP finding from the Commission for all proposed new construction, rehabilitation, or acquisition of an energy conversion facility, renewable energy facility, transmission facility or proposed energy purchase in which:

1. The Company proposes to allocate all or part of the related costs to the North Dakota jurisdiction for recovery in electric rates; and
2. The capacity of the generation facility or purchase is at least 50 MW; and/or the length of the transmission facility is at least 50 miles long and larger lines that are at least 1500 feet long; and all 100 kV or larger lines that are at least 10 miles long.

The Company will identify its proposed cost-allocation methodology in the ADP petition as an item for which a determination of prudence by the Commission is requested.

The Parties anticipate that RP and ADP processes will provide a sound basis for Commission decision-making and substantially reduce the likelihood that the disputes of this case will occur in future rate proceedings. To the extent that these new processes reveal continued concern with individual resource decisions or cost assignments to jurisdictions, the Parties agree to work together on alternative approaches that might be employed while still allowing the Company to recover its costs of service and earn a reasonable return. Such efforts will include advocacy by the Company for cost recovery statutes to directly assign costs and benefits of mandated expenditures to the jurisdiction imposing the mandate when appropriate.

### **C. North Dakota Depreciation Study**

The Company's proposed depreciation expense in this case was based on a uniform depreciation expense for use in all jurisdictions. In its testimony and post-hearing briefs, Staff challenged the reasonableness of the Company's methodologies in several respects.

In response, the Parties agree to the following process for establishing depreciation expenses:

- The Company will use the principles adopted in this Settlement Agreement in establishing depreciation rates for use in North Dakota. The Company will reflect its North Dakota depreciation rates in its annual North Dakota earnings reports and will file depreciation rates consistent with these principles as part of the Company's next electric

rate case.

- For informational purposes, the Company will submit to the Commission the various depreciation studies and related documents that are periodically filed with the Minnesota Public Utilities Commission. Such filings include: Annual Review of Remaining Lives, Average Service Life and Vintage Group Filing (every five years), Triennial Review of Nuclear Decommissioning
- Ninety days before filing its next electric rate case, the Company will report to the Commission on whether it intends to propose North Dakota specific depreciable lives for distribution facilities, and the reasons for its proposal.
- Both Parties agree that, unless directed otherwise by the Commission, rate recovery -- past, present, and future -- for the removal and retirement of Company utility property will be used solely for the retirement of the Company's utility property and recognized as a regulatory liability.

## **REVENUE REQUIREMENTS**

As a result of the adjustments agreed to herein and described below, the Parties agree to an increase in Xcel Energy's electric rates for retail customers in North Dakota to ultimately yield an annual retail sales and miscellaneous revenue increase of approximately \$10,431,000 or 7.1 percent, including the reduction in depreciation expense for the Prairie Island nuclear plant life adjustment which will be implemented through a separate rate reduction within 30 days of the final approval for

recertification and life extension and fuel storage approval for Prairie Island being granted. The Prairie Island approvals are expected to be completed in 2010.

As shown in Table 1 below and on Attachment B, the rates implemented on March 1, 2009 will reflect an overall \$12,593,000 revenue increase, which will remain in effect until 30 days after final approval of Prairie Island life extension is received, at which time, rates will be reduced by an additional \$2,162,000 to produce the overall revenue of \$10,431,000 agreed upon by the Parties.

Table 1

<b>Implementation</b>	<b>Base Rates</b>	<b>Fuel Rates</b>	<b>Overall Revenue</b>
March 1, 2009	\$14,841,000	(\$2,248,000)	\$12,593,000
Post-PI Approval	(\$2,162,000)	\$0	(\$2,162,000)
Net	\$12,679,000	(\$2,248,000)	\$10,431,000

An interim rate refund will be issued to customers for the difference between the interim rate increase placed into effect on February 5, 2008 and the Settlement Agreement amount calculated without the Prairie Island life extension adjustment. The interim rate refund will reflect the fact that wholesale margins were credited to the interim revenue requirement. However, such margins will be credited to the fuel clause adjustment on a prospective basis, coinciding with final rates. See Attachment C for the calculation of the annualized interim rate refund

Following is a description of the specific test year adjustments agreed to in this Settlement Agreement. (See also Attachment B):

#### **D. Return on Equity**

The Parties agree to a return on equity of 10.75 percent as outlined in the previous settlement with Staff. The adjustment reduces the original revenue request by \$1,562,000 and agrees to share any earnings above 10.75% with customers (see other Terms and Conditions for a full discussion of this sharing mechanism).

The Parties also agree that a 10.75% ROE will be used for purposes of determining interim rates in the Company's next electric rate case.

#### **E. Generating Plant Service Lives**

For purposes of determining the overall revenue requirement, the Parties agree to:

- Extend the service lives of the Sherco Generating Station, and five other combustion plants (Angus C. Anson, Granite City, High Bridge, Inver Hills, and Key City) as proposed by Staff. The Company will reflect the longer service lives in final rates implemented in this docket. The adjustment reduces the revenue requirement by \$1,362,000.
- Reduce the depreciation rates for its transmission and distribution assets to effect an adjustment in the reserve balance, thereby recalibrating the balance to be more in line with theoretically calculated levels. This adjustment reduces the revenue requirement by \$1,180,000.
- Recover removal costs in depreciation rates for transmission and distribution based on a net present value methodology rather than on a future cost methodology (using Staff's alternative five year historical average for the purposes of this case). This adjustment reduces the revenue increase by \$437,000.

- Extend the service life of the Prairie Island plant as proposed by Staff effective thirty (30) days after the Company receives final approval of the life extension and fuel storage needed for the life extension expected to occur in 2010.<sup>1</sup> This adjustment will reduce the revenue increase proposed by \$2,162,000 at that time. The Company's compliance filing will include two sets of rates, the first to implement the revenue requirement without the Prairie Island adjustment and the second set to be effective thirty (30) days after final approval of the life extension and fuel storage approval.

In all other respects, the Parties recommend that the Commission approve the methodologies used by the Company in this proceeding.

The service life extensions and other depreciation-related changes reduce the revenue increase request by \$3,961,000. However, as previously mentioned, the \$2,162,000 revenue reduction included in this amount that is due to the longer Prairie Island service life will be deferred until thirty (30) days after final Prairie Island recertification and life extension approvals are granted (to be implemented using the rate design principles included in this Settlement Agreement).

#### **F. Generation and Transmission Investments**

The Parties agree to allow recovery of the Company's proposed costs of its investments in the King and High Bridge power plants and the Grand Meadows wind

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<sup>1</sup> The Prairie Island life extension requires approval of a new operating license from the Nuclear Regulatory Commission and a Certificate of Need ("CON") from the Minnesota Public Utilities Commission. Pursuant to Minn. Stat. § 216B.242, the Minnesota Public Utilities Commission's approval of a CON for additional nuclear storage will take effect after the close of the next legislative session after approval of the CON.

farm and associated transmission investments. The Parties recognize that these investments were primary issues of dispute in this proceeding. The Parties reached agreement on this issue as a whole, and believe that the RP, ADP, earnings sharing, and rate moratorium provisions all facilitate the resolution of this issue and result in reasonable rates. Further, the Parties agree that the Company's refurbishment and repowering of two of its aging coal-fired power plants were prudent and economic investments, especially considering the strategic location of these plants. Moreover, Staff acknowledges that the Grand Meadow Wind Farm is able to take advantage of existing production tax credits to produce low and stable-priced energy that will contribute to Xcel Energy's efforts to meet North Dakota's renewable energy objective of supplying 10 percent of its retail energy needs with renewable resources. For these reasons, this Settlement Agreement provides for recovery of Company's costs associated with the King, High Bridge, and Grand Meadow generating facilities.

#### **G. Wholesale Margins**

For purposes of determining the overall revenue requirement, the Parties agree to provide to ratepayers 100 percent of all asset-based and 50 percent of non-asset-based margins achieved by the Company through the fuel clause. Passing these credits directly to customers through the fuel clause as they are realized ensures that neither customers nor the Company are disadvantaged by a non-representative margin forecast in the test year. The non-asset sharing at 50 percent is more than adequate to assure that any costs imposed on customers as a result of this activity is fully credited. The Company had originally proposed that 85 percent of asset-based margins and 15% of non-asset-based margins flow to customers through the fuel clause, so the additional sharing reduces the overall revenue increase request by \$409,000.

## **H. Amortization of Nuclear Refueling Expenses**

For purposes of determining the overall revenue requirement, the Parties agree to an annual amortization expense level of \$2,174,000, which approximates the total amortization in the second year (2009) of the transition from the actual expense method to the levelized amortization method based on the outage cycle period for each nuclear unit. This amount provides a reasonable transition to the new method approved by the Commission and recognizes that the Company's costs increase in 2009 and 2010 when these rates are expected to apply. Given that other provisions of this Settlement Agreement provide for earnings sharing and a rate moratorium, the Parties believe this approach is reasonable. The adjustment reduces the rate increase request by \$318,000 (see Attachment D).

## **I. Renewable Development Fund**

For purposes of determining the overall revenue requirement, the Parties agree to remove the test year expenses related to Renewable Development Fund research and development grants and disbursements. The adjustment reduces the rate increase request by \$170,000.

## **J. Charitable Contributions**

For purposes of determining the overall revenue requirement, the Parties agree to remove the Company's costs associated with 50 percent of its charitable contributions. The adjustment reduces the rate increase request by \$86,000.

**K. Incentive Compensation Cap**

For purposes of determining the overall revenue requirement, the Parties agree to a reduction in the cap on incentive compensation from the Company's proposed level of 25 percent to 15 percent of base salary. Accordingly, costs associated with the incentive compensation of the employee's total compensation is capped at 15 percent of an individual's base salary, and costs for incentive compensation in excess of 15 percent of the employee's base salary will not be included in rates. The adjustment reduces the rate increase request by \$35,000.

**L. Mercury Emissions Control**

For purposes of determining the overall revenue requirement, the Parties agree to a reduction in costs related to monitoring mercury emissions reduction efforts at its King and Sherco generating plants to meet Minnesota mercury emissions requirements. The adjustment reduces the revenue increase request by \$12,335.

**M. MISO Schedule 16 and 17 Costs**

For purposes of determining the overall revenue requirement, the Parties agree to recovery of Midwest Independent Systems Operator ("MISO") Schedule 16 and 17 costs in the fuel clause. Fuel clause treatment is appropriate given that, like all other MISO Day 2 charge types which are also recovered through the fuel clause, they are non-discretionary charges billed out by the MISO, and they have been recovered through the fuel clause in North Dakota for the past three years. Fuel clause treatment is also consistent with the present treatment of these costs in South Dakota. This adjustment does not impact the overall revenue increase, since the recovery of

these costs is just being shifted from base rates to fuel clause rates. This adjustment does, however, reduce the base rate revenue requirement by \$532,000.

## **RATE DESIGN**

The Parties agree to the following revenue requirement apportionment among customer classes for the March 1, 2009 rate increase:

1. Residential service: \$5,986,000 or 10.4 percent;
2. Commercial (non-demand metered) service: \$1,128,000 or 10.8 percent; and
3. Commercial (demand metered) service: \$7,726,000 or 10.0 percent.

Upon receiving the necessary approvals for the Prairie Island life extension and fuel storage, rates will be decreased \$2,162,000 in the following revenue apportionment among customer classes:

1. Residential service: \$872,000 or 1.5 percent;
2. Commercial (non-demand metered) service: \$164,000 or 1.6 percent; and
3. Commercial (demand metered) service: \$1,126,000 or 1.5 percent.

These changes are further shown on Attachment E to the Settlement Agreement. This apportionment reflects base rate percentage changes by customer class that are consistent with the Company's originally proposed class revenue allocation, as shown on the attachment.

The Parties agree to the filed tariff changes proposed in the Company's initial filing, as amended to reflect the change in revenue requirement contained in this Settlement

Agreement. In amending the tariffs, the Parties agree to using the Company's proposed rate design principles in the development of final rates to implement the approved revenue requirement contained in this Settlement Agreement.

The Company shall file compliance tariff pages setting forth the revised electric rates and tariffs provided by this Settlement Agreement at least thirty (30) days prior to the effective date of final rates.

### **INTERIM RATES**

The Parties agree the interim rates will remain in effect for all customer classes until February 28, 2009. Refunds will be issued to customers within ninety (90) days of the implementation of final rates for the difference between the interim revenue level and the March 1, 2009 revenue level agreed to in this Settlement. Based on current information, the Parties estimate that customers will receive \$4.6 million in base rate refunds (see Attachment C).

### **OTHER TERMS AND CONDITIONS**

#### **N. Customer Refunds for Earnings Above Authorized ROE**

The Parties agree to an earnings-sharing mechanism that will result in customer refunds if the Company's net income exceeds a 10.75 percent ROE for its North Dakota electric operations.

If the Company earns in excess of 10.75 percent ROE during the 2009 or 2010 calendar years, the Company will refund to customers revenues corresponding to

earnings as shown below:

- 50% of earnings above 10.75% up to and including 11.25%; and
- 75% of earnings above 11.25%.

Earnings sharing refunds would be applied to customer accounts as a one-time bill credit as soon as practical on or after July 1<sup>st</sup> of the following calendar year.

#### **O. Rate Moratorium**

The Parties agree to a moratorium on an electric rate increases until 2011 for Xcel Energy's North Dakota operations. This moratorium does not preclude the Company from submitting a rate application for electric rates prior to 2011, but no change in customer rates would be implemented before January 1, 2011.

#### **P. Basis of Settlement Agreement**

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. Except for the purpose of setting interim rates and depreciation expenses in the Company's next electric rate case, the Settlement Agreement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

#### **Q. Effect of the Settlement Negotiations**

It is understood and agreed that all offers of settlement and discussions related to this Settlement Agreement are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. In the event the Commission does not approve this Settlement Agreement, it shall not constitute part of the record in this proceeding and no part thereof may be used by any party for any purpose in this case or in any other.

#### **R. Applicability and Scope**

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

#### **S. Effective Date**

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by this Settlement Agreement shall be effective on the dates specified in the Revenue Requirements Section of this Settlement Agreement.

**T. Modification**

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if either Party files a letter with the Commission within three (3) business days of the date of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

**CONCLUSION**

The Parties have agreed to the forgoing terms to resolve the contested issues in the electric rate case proceeding. These terms are a result of negotiations between the Parties, are in the public interest and will result in reasonable electric rates. For these reasons, the Parties urge the Commission to approve the Settlement Agreement.

Dated this 17<sup>th</sup> day of December 2008.

Northern States Power Company,  
A Minnesota corporation



By: \_\_\_\_\_  
Judy M. Poferl  
Regional Vice President

Dated this \_\_\_\_ day of \_\_\_\_\_ 2008.

Northern Dakota Public Service Commission Staff

By: \_\_\_\_\_  
Doug Bahr  
Counsel to the Commission

## **PROCEDURAL HISTORY**

### **Case No. PU-07-776**

On December 7, 2007, Xcel Energy filed a Notice of Change in Rates for Electric Service (“Notice”) with the North Dakota Public Service Commission (the “Commission”), based on a 2008 test year, with interim rates to become effective February 5, 2008. The Notice proposed an increase in electric retail and miscellaneous base rates of \$20,535,000 and a decrease in fuel clause rates of \$2,371,000, or about a 12.3 percent overall increase in revenues. The Company filed testimony by eleven witnesses in support of the Notice.

Xcel Energy proposed to increase residential base rates by \$8,228,000 or 14.3 percent and commercial service revenues by \$12,056,000 or 13.9 percent. Filed with the Notice were revised tariffs, direct testimony, exhibits, and supporting statements.

Concurrent with the Notice, Xcel Energy submitted an Alternate Petition for Interim Rates. The proposed interim increase, which impacted only base rates, was for \$17,183,000 or 11.5 percent, to be effective February 5, 2007 (60 days from filing) in the event the Commission suspended the proposed general increase. The proposed interim increase and rate design were submitted pursuant to the criteria set forth in N.D.C.C 49-05-06.

On December 31, 2007, the Commission issued an order suspending Xcel Energy’s general rate increase application and set the matter for investigation and hearing.

On January 16, 2008, the Commission issued a Notice of Public Input Session and Intervention Deadline announcing a Public Input Session to be held via interactive television on March 14, 2008, at 11:30 a.m. central time at various locations in Fargo, Grand Forks, Minot, and Bismarck. Members of the public

were invited to appear and participate in the informal discussion. The notice also set forth a deadline of March 28, 2008 for parties to indicate their interest in participating in the case. No parties intervened.

On March 26, 2008, the Commission issued a Notice of Hearing that set forth the following issues to be considered in this case:

What is the value of NSP's property, used and useful, for the service and convenience of the public in North Dakota?

What is NSP's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?

What is a just and reasonable rate of return on NSP's property, used and useful, for the service and convenience of the public in North Dakota?

What rates and charges are necessary to provide a just and reasonable rate of return on NSP's property, used and useful, for the service and convenience of the public in North Dakota?

Are NSP's rate schedules designed in such a manner that they result in a basis of charge to its customers that is just and reasonable without discrimination?

Other relevant information or proposals concerning the proceeding.

On January 30, 2008, the Commission issued an order allowing an interim base rate increase of \$17,183,000, to be placed into effect February 5, 2008, subject to refund.

On March 14, 2008, the Commission conducted a public input session. The session utilized interactive video-conferencing capabilities to include participants in Fargo, Grand Forks, Minot, and Bismarck.

On May 16, 2008, Advisory Staff filed Direct Testimony prepared by two consultants from Snavelly King & Majoros.

On June 13, 2008, Xcel Energy filed Rebuttal Testimony prepared by seven witnesses.

On June 23 and 24, evidentiary hearings were held in the Commission Hearing Room at the state capitol building in Bismarck, North Dakota. Fourteen Xcel Energy witnesses provided testimony on the Company's need for rate relief. Two consultants from Snavelly King & Majoros provided testimony on behalf of Commission Advocacy Staff.

On August 22, post-hearing briefs were filed by both Xcel Energy and the Commission Advocacy Staff.

From November 9<sup>th</sup> through December 12<sup>th</sup> of 2008 the Commission held three working sessions with its Advisory Staff during which the issues raised by Advocacy Staff and the Company were considered and discussed.

On December 17<sup>th</sup> this Settlement Agreement was entered into by Advocacy Staff and the Company, and filed with the Commission.

The administrative record in this proceeding supports the Settlement Agreement. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement, and the earlier settlement on ROR, without further conditions or modifications.

Northern States Power Company, a Minnesota corporation  
 Electric Utility- State of North Dakota  
 2008 Settlement Guide Sheet

	<u>Base Rates</u>	<u>Fuel Rates</u>	<u>Total Revenue</u>	
1 <b>12/7/07 Rate Application</b>	<b>\$20,535</b>	<b>(\$2,371)</b> [1]	<b>\$18,164</b>	
2 Stipulate to ROE of 10.75%	(\$1,562)	\$0	(\$1,562)	
3 Depr - life adj. - Steam & Other Production	(\$1,362)	\$0	(\$1,362)	
4 Depr - T&D reserve recalibration	(\$1,180)	\$0	(\$1,180)	
5 Depr - Net PV method for removal in T&D	(\$437)	\$0	(\$437)	
6 Pass 100% of asset; 50% of non-asset margins	\$0	(\$409) [2]	(\$409)	
7 Nuclear Fuel outage amortization @ 2009 level	(\$318)	\$0	(\$318)	
8 Disallow Renewable Development Fund	(\$170)	\$0	(\$170)	
9 Disallow all charitable contributions	(\$86)	\$0	(\$86)	
10 Decrease Incentive comp cap from 25% to 15%	(\$35)	\$0	(\$35)	
11 Disallow mercury emissions costs	(\$12)	\$0	(\$12)	
12 Recover MISO 16/17 costs in fuel rates	<u>(\$532)</u>	<u>\$532</u>	<u>\$0</u>	
13 <b>Settlement Outcome (implemented 3/1/09)</b>	<b>\$14,841</b>	<b>(\$2,248)</b>	<b>\$12,593</b>	8.6%
14 Depr - life adj. - Prairie Island*	(\$2,162)	\$0	(\$2,162)	
15 <b>Settlement Outcome (post-PI approvals)</b>	<b>\$12,679</b>	<b>(\$2,248)</b>	<b>\$10,431</b>	7.1%

**Notes:**[1] Fuel Clause Impact of 12/7/07 Application

Pass 85% Asset-Based margins to customers	(\$1,800)
Pass 15% Non-Asset Based margins to cust.	(\$39)
Move MISO 16/17 costs to Base Rates	<u>(\$532)</u>
	(\$2,371)

[2] Adjustment to Fuel Clause for Wholesale Margins

Pass remaining 15% of asset based to cust.	(\$318)
Pass add'l 35% of non-asset based to cust	<u>(\$91)</u>
	(\$409)

\* Reduction to be implemented in rates 30 days from date final regulatory approvals are granted in Prairie Island recertification and life extension process.

**Northern States Power Company, a Minnesota corporation**  
**Electric Utility- State of North Dakota**  
**Calculation of 2008 Test Year Annualized Refund**  
*Dollars in 000's*

	<u>Amount</u>
Interim Revenue Requirement	\$17,183
Settlement Revenue Requirement [1]	\$14,841
<u>Fuel clause-related amounts [2]</u>	
Asset Based Margins Ratepayer (100%)	(\$2,118)
Non-Asset Based Margins Ratepayer (50%)	<u>(\$130)</u>
Subtotal Adjustments	(\$2,248)
Adjusted Settlement Overall Rev Req	<u>\$12,593</u>
Estimated refund [3]	\$4,590

**Notes:**

[1] Excludes Prairie Island depreciable life adjustment expected to occur in 2010

[2] Reflects test year forecast

[3] This refund amount is an estimate based on a 12 month interim rate period. If final rates are implemented on March 1, 2009, the refund will include a 13 month period and will include interest.

Northern States Power Company, a Minnesota corporation  
 Electric Utility - State of North Dakota  
 Amortization of Nuclear Fuel Outage Costs

	<u>NSPM Co.</u>	<u>ND Jurisdiction</u>	
2008 Actual Outage Expense	\$50,759,000	\$2,492,407	<--(Test Year level)
<b>2008 Amortization</b>	\$16,535,421	\$811,935	
2009 Actual Outage Expense	\$58,821,000	\$2,888,274	
<b>2009 Amortization</b>	\$44,282,980	\$2,174,417	<--(Settlement)
2010 Actual Outage Expense	\$35,000,000	\$1,718,597	
<b>2010 Amortization</b>	\$52,307,202	\$2,568,428	

**Notes:**

2008 amortization reflects 10 months of PI 1 and 3 months of PI 2.

2010 amortization reflects 12 months at all three units.

There are 2 fuel reloading outages (PI1 and PI2) scheduled to occur in 2008; 2 reloading outages (Monti and PI1) are scheduled in 2009, and 1 outage (PI2) is scheduled in 2010.

Northern States Power Company, a Minnesota corporation  
Electric Utility - State of North Dakota  
Settlement Base Rate Revenue Apportionment

*Dollars in 000's*

<b><u>Original Application</u></b>	<b><u>Residential</u></b>	<b><u>Non-Dem</u></b>	<b><u>Demand</u></b>	<b><u>Street Ltg</u></b>	<b><u>Total</u></b>
Present revenues	\$57,723	\$10,436	\$77,139	\$1,881	\$147,179
Proposed revenues	<u>\$66,006</u>	<u>\$11,997</u>	<u>\$87,830</u>	<u>\$1,881</u>	<u>\$167,714</u>
Base rate deficiency	\$8,283	\$1,561	\$10,691	\$0	\$20,535
Percent change	14.3%	15.0%	13.9%	0.0%	14.0%
<b><u>March 1, 2009 Increase</u></b>					
Base rate increase	\$5,986	\$1,128	\$7,726	\$0	\$14,841
Percent change	10.4%	10.8%	10.0%	0.0%	10.1%
<b><u>Prairie Island Life Extension Decrease</u></b>					
Base rate decrease	-\$872	-\$164	-\$1,126	\$0	-\$2,162
Percent change	-1.5%	-1.6%	-1.5%	0.0%	-1.5%
<b><u>Net Settlement Base Rate Increase (after Pr. Island Approval)</u></b>					
Base rate increase	\$5,114	\$964	\$6,601	\$0	\$12,679
Percent change	8.9%	9.2%	8.6%	0.0%	8.6%

Note: Revenue impacts do not include credits for wholesale margins, which will be passed directly directly to customers through the Fuel Clause.