

June 13, 2007

The Public Service Commission convened in the Commission Hearing Room, State Capitol, Bismarck, North Dakota, on June 13, 2007, 10:00 a.m. Present were Commissioners Wefald, Cramer, and Clark.

Minutes

Mr. Cramer: I move the minutes of May 31, 2007, be approved.

Mr. Clark: I second the motion.

Roll Call: All voting "Aye."

Bills

Mr. Cramer: I move the following bills, as reviewed by the Commission, be approved and paid:

Sybase, Inc.	6,774.00
ExecutiveAir Taxi Corporation	2,499.19
Hewlett-Packard Company	13,486.00
Dell, USA	8,660.40
Dell, USA	8,074.37
Geray Dozing & Excavating	13,399.40
Thiem Drilling, Inc.	56,552.85
Material Testing Services, LLC	3,877.50
ND Newspaper Association	5,421.49
Leo D. Praus	365.21
Phyllis G. Richter	837.12
Wayne Grangaard	626.68
JP Robbins	342.50
Kevin Hanson	651.50
Guy Welch	470.55
Timothy Erdmann	716.19
Tim Oswald	708.94
William E. Dodd	246.92
Larry Reisenauer	476.54
Mark Knell	490.62
Bruce Beechie	42.50
Bruce Johnson	15.00
ITD – 5/07 DP	3,111.45
ITD – 5/07 ph	1,414.05
OMB – 5/07 supplies	971.96
OMB – 5/07 postage	882.48
OMB – training	10.00

Mr. Clark: I second the motion.

Roll Call: All voting "Aye."

Case No. PU-07-190  
Montana-Dakota Utilities Co., a  
Division of MDU  
Design 1 for Verizon Wireless, Adams  
County  
Public Convenience & Necessity

Mr. Cramer: I move the Commission adopt the Order and issue a Certificate of Public Convenience and Necessity authorizing Montana-Dakota Utilities Co. to extend electric service to Design 1 for Verizon Wireless for a communication tower site near Hettinger, North Dakota, Case No. PU-07-190.

Mr. Clark: I second the motion.

Roll Call: All voting "Aye."

Case No. PU-06-481  
Otter Tail Corporation  
Advance Determination of Prudence  
Application

Mr. Cramer: I move the Commission permit attorneys Todd J. Guerrero and David L. Sasseville to appear before the Commission pursuant to N.D. Admin. Code §69-02-01-06 and the North Dakota Supreme Court Rule 3 for the limited purpose of representing Otter Tail Corporation and Montana-Dakota Utilities Co. in the Advance Determination of Prudence Applications of Otter Tail Corporation and Montana Dakota Utilities Co., Case Nos. PU-06-481 and PU-06-482.

Case No. PU-06-482  
Montana-Dakota Utilities Co., a  
Division of MDU  
Advance Determination of Prudence  
Application

Mr. Clark: I second the motion.  
Roll Call: All voting "Aye."

Case No. PU-07-199  
Montana-Dakota Utilities Co., a  
Division of MDU  
June 2007  
Fuel Cost Adjustment

Discussion Item Only

Case No. PU-07-205  
Otter Tail Corporation  
June 2007  
Fuel Cost Adjustment

Case No. PU-07-242  
Northern States Power Company  
June 2007  
Fuel Cost Adjustment

Case No. AM-05-576  
Williams County Road 9  
2006 Phase 1 Construction  
Project

Mrs. Wefald: I move the Commission close out Contract No. AM-520-06 with Thiem Drilling, Inc., for construction services at the Williams County Road 9 Phase 1 abandoned mine land site.

Mr. Cramer: I second the motion.  
Roll Call: All voting "Aye."

Case No. AM-05-576  
Williams County Road 9  
2006 Phase 1 Construction  
Project

Mrs. Wefald: I move the Commission close out Contract No. AM-522-06 with Material Testing Services, LLC, for material testing services at the Williams County Road 9 Phase 1 abandoned mine land site.

Mr. Cramer: I second the motion.  
Roll Call: All voting "Aye."

Case No. PU-06-481  
Otter Tail Corporation  
Advance Determination of Prudence  
Application

Mrs. Wefald: I move the Commission adopt the order to dismiss the trade secret protection request of Mark Trechock and Dakota Resource Council, Case Nos. PU-06-481 and PU-06-482.

Case No. PU-06-482  
Montana-Dakota Utilities Co.,  
a Division of MDU  
Advance Determination of Prudence  
Application

Mr. Cramer: I second the motion.  
Roll Call: All voting "Aye."

Case No. PU-07-214  
Northern States Power Company  
June 2007  
Cost of Gas Adjustment

Mr. Cramer: I move the Commission approve Northern States Power Company's Cost of Gas Adjustment for June 2007, Case No. PU-07-214.

Mr. Clark: I second the motion.  
Roll Call: All voting "Aye."

Case No. PU-07-232  
Great Plains Natural Gas Co.  
June 2007  
Cost of Gas Adjustment

Mr. Cramer: I move the Commission approve Great Plains Natural Gas Co.'s Cost of Gas Adjustment for June 2007, Case No. PU-07-232.

Mr. Clark: I second the motion.  
Roll Call: All voting "Aye."

Case No. PU-06-525  
Northern States Power Company  
Natural Gas Rate Increase  
Application

Mr. Cramer: I move the Commission adopt the Order Adopting Settlement in Northern States Power Company's Natural Gas Rate Increase application, Case No. PU-06-525.

Mrs. Wefald: I second the motion.  
Roll Call: All voting "Aye."

Mrs. Wefald and Mr. Clark intend to write a concurring opinion.

Commissioner Wefald's  
Concurring Opinion

Mrs. Wefald: I concur with this rate case decision, however, I do not agree with the concept that for residential customers, all of the customer costs are placed in a Delivery Services Charge. I also do not agree with the calculation of the percentage of the rate increase included in the Order Adopting Settlement. Xcel Energy is not receiving a rate increase of 2.3% (see page 2). They are receiving an increase of approximately \$2,168,000 that will increase Xcel Energy income by 15.6%.

Prior to two years ago, Xcel Energy had a Basic Service Charge and a Distribution Charge for residential customers, which added together reflected the total of non-gas charges. Under this method, all residential customers paid the same Basic Service Charge, but Distribution Charges were based on gas usage of the customers (cents per dekatherm of gas used). In my

Commissioner Wefald's  
Concurring Opinion Continued

dissenting opinion dated June 1, 2005 I noted, "All customers who use 828 therms or less of gas a year will pay more," for customer costs through a single Delivery Services Charge and noted that "one half of Xcel customers use 828 therms or less a year."

This is still true. The residential customer who uses a small amount of gas each month now pays the same Delivery Services Charge as the customer who uses large amounts of gas. This means that as the Delivery Services Charge increases it becomes a larger and larger percentage of the small user's bill.

What is wrong with this method? There are legitimate distribution costs that relate to volumetric usage of natural gas. Many states limit the costs included in the Basic Service Charge to costs that vary with the number of customers, such as metering costs and billing costs and exclude costs that relate to gas mains and the distribution systems. These costs are considered distribution related because they vary based on gas usage.

What are the advantages of a Delivery Services Charge? The company has a set amount of money they can count on each month, rather than their income varying based on customer usage of natural gas. This is important to the company because people are using less natural gas these days. With commodity prices of natural gas increasing substantially, people are finding ways to conserve on natural gas.

It is interesting that only residential customers are billed using a "Delivery Services Charge." All other customer groups are billed using a Basic Service Charge and a Distribution Charge. If this is a good idea, it seems as if it should be a good idea for all customer groups.

Decoupling profits from sales does give Xcel Energy an incentive not to encourage more gas usage to receive more income. However, this rate case settlement gives \$135,000 of rate payer money to Xcel Energy to encourage people to conserve on gas usage, so apparently the original decoupling was not enough incentive.

I also do not agree with the calculation of the percentage of the rate increase included in the Order Adopting Settlement. Xcel Energy is not receiving a rate increase of 2.3% (see page 2). They are receiving an increase of approximately \$2,168,000 that will increase Xcel Energy income by 15.6%. 2.3% is the amount of increase a customer will see in relationship to their total bill which includes the cost of natural gas. However, the company does not receive any net income from natural

Commissioner Wefald's  
Concurring Opinion Continued

gas costs, since the actual cost for natural gas is recovered dollar for dollar from the consumer. Therefore, the only source of income comes from increases in the Delivery Services Charge for residential customers, and the Basic Service Charge and Distribution Charges for other customers. Therefore, Xcel's actual increase in income is 15.6%.

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Susan E. Wefald, President

Commissioner Clark's  
Concurring Opinion

Mr. Clark: Because it has been raised as an issue for discussion I wish to address again the ongoing use of "decoupled" gas rates for Xcel's customers. This settlement confirms the continued use of this rate design. I believe this is in the best interest of North Dakota consumers and I am pleased to see it continued.

When this commission first approved the rate design, it was for sound economic and cost allocation reasons that continue to this day. It lessens unfair rate subsidization and helps mitigate the cost of utility bills in high-use gas months here on the northern plains. Without repeating previous concurrences I have authored, I only note this rationale is as true today as then.

What I will expound upon is how this issue of decoupling has taken-off as an issue of national interest. It is a trend that North Dakota can be proud of helping lead. Decoupling is repeatedly being raised in regulatory circles as an issue worthy for consideration. The reason? Because it is now becoming nationally recognized that this is as much an issue of environmental awareness and conservation as it is of sound economics. Environmental advocates have rightly noted that recovering fixed costs through volumetric charges creates the perverse incentive for utility companies to resist conservation. After all, if gas use declines, so does the utilities' revenue. The rate design we have adopted ensures that companies can recover their prudently incurred costs while becoming partners in conservation. This is critical because even a small drop in gas demand can have a disproportionate impact on the market cost of the gas itself. In an era of high natural gas prices the importance of this pro-conservation measure cannot be emphasized enough.

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Tony Clark, Commissioner

Case No. GE-07-243  
Buffalo Farm Supply, Inc.  
License No. 559 - Tower City, ND  
Discontinue Business

Mr. Clark: I move the Commission issue an order in Case No. GE-07-243 granting the request of Buffalo Farm Supply, Inc., Buffalo, North Dakota, to discontinue business at Tower City, North Dakota.

Mr. Cramer: I second the motion.

Roll Call: All voting "Aye."

Case No. GE-07-38  
Heartland Feed, Inc.  
Tioga, ND  
Insolvency

Mr. Clark: I move that the Commission submit an application to the District Court, South Central Judicial District to become trustee of Heartland Feed, Inc., Tioga, North Dakota, under N.D.C.C. Chapter 60-03, Public Service Commission Case No. GE-07-38.

Mr. Cramer: I second the motion.

Roll Call: All voting "Aye."

Case No. PU-07-256  
Qwest Performance Assurance Plan  
Investigation

Mr. Clark: I move the Commission approve North Dakota's participation in the Multi-state Collaborative Audit of Qwest Corporation's 2005 performance reporting and QPAP payment process.

Mr. Cramer: I second the motion.

Roll Call: All voting "Aye."

Salary Adjustment

Mrs. Wefald: I move the approval of salary increases for Position Number 5003, effective June 18, Position Number 5022, effective June 18, and Position Number 5023, effective June 1, for satisfactory completion of probationary employment periods, in amounts consistent with the terms set forth in the Commission's respective offers of employment.

Mr. Clark: I second the motion.

Roll Call: All voting "Aye."

ATTEST

THE COMMISSION ADJOURNED AT 11:20 A.M.

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Executive Director

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SUSAN E. WEFALD, PRESIDENT