

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

Northern States Power Company
d/b/a Xcel Energy
Notice of Gas Rate Change

Case No. PU-400-00-521

SETTLEMENT AGREEMENT

This Settlement Agreement is made and entered into this 25th day of May, 2001, by and between Northern States Power Company d/b/a Xcel Energy and the Litigation Staff of the North Dakota Public Service Commission (“Staff”). 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 natural gas distribution operations in North Dakota.

PROCEDURAL HISTORY

1. On October 6, 2000, Northern States Power Company d/b/a Xcel Energy (“Xcel Energy” or “the Company”) filed a Notice of Change in Natural Gas Rates (“Notice”) with the North Dakota Public Service Commission (“Commission”) pursuant to N.D. Cent. Code § 49-05-05. The Notice proposed an increase in natural gas rates of \$1,393,000, or 3.3% annually, based on a 2000 current test year, pursuant to N.D. Cent. Code § 49-05-04.1. The Notice included a test year cost of service study, a class cost of service study, and proposed tariff sheets. The Company proposed the natural gas rate change be allowed to go into effect on December 1, 2000, without suspension. The Notice stated the proposed increase was the Company’s first natural gas general rate increase since Case No. 10,523 in 1984.

2. On October 25, 2000, the Commission issued a notice that the Commission had, on its own motion, voted to suspend the rate change pursuant to N.D. Cent. Code § 49-05-06. Under this statute, the suspension of rates expires on June 9, 2001, and the Company may place the filed rates and tariffs

into effect on that date, unless the Commission issues an order authorizing a different increase

On December 20, 2000, the Commission issued a Notice of Hearing and Notice of Public Input Sessions.

On January 29, 2001, the Commission conducted a Public Input Session via interactive video conference, with hearing sites in Bismarck, Fargo, and Grand Forks. Approximately 20 members of the public attended at the three locations.

3. Pursuant to a voluntary procedural schedule established by the Company and Staff, the Company filed direct pre-filed testimony on February 16, 2001, supporting the proposed gas rate increase. On March 13, 2001, pursuant to N.D. Cent. Code § 49-05-04.1(3), the Company filed an update to its test year cost of service reflecting (a) increased costs incurred related to its manufactured gas plant ("MGP") clean-up project, and (b) reduced costs related to an update to the proposed capital structure to be used to determine final rates. The update increased the test year revenue deficiency to \$1,644,000.

On March 21, 2001, the consultants for Staff (Mr. King and Mr. Majoros) filed direct testimony contesting various aspects of the Company's rate increase request and proposing an overall rate increase of \$247,000 annually. The consultants also filed an alternative proposal which would reduce the Company's existing non-gas base rates by \$168,000 annually and recover \$415,000 of MGP clean-up costs through the purchased gas adjustment ("PGA") provisions of the Company's gas tariffs. Mr. Lein of Staff filed testimony on cost allocation and rate design.

On April 6, 2001, the Company filed its rebuttal testimony, contesting most of the consultant's direct testimony recommendations for Staff, but reducing the test year deficiency to \$1.55 million annually. On April 16, 2001, the Staff consultants filed surrebuttal testimony on certain issues.

4. On April 19 to 20, 2001, the Commission conducted a formal evidentiary hearing in the Commission Hearing Room at the State Capitol in Bismarck, with Chief Administrative Law Judge Allen Hoberg presiding. All Commissioners were

present. The Company presented eight witnesses, and the Staff presented three witnesses. At the conclusion of the hearing, Judge Hoberg required the Parties to submit late filed exhibits by April 27, 2001 (if possible), and proposed Findings of Fact, Conclusions of Law, and Order, and supporting legal briefs by May 25, 2001, to allow the Commission to issue a final order by June 9, 2001.

5. The Company and Staff thereafter submitted the late-filed exhibits requested during the evidentiary hearing. The Commission held a working session on May 15, 2001.

6. Following the analysis of on the record information, informal settlement discussions were held between Staff and Company representatives pursuant to the Commission's Proposed Settlement Guidelines (July 1994). On May 21, 2000, the Parties reached a settlement in principle. The Parties agree this Settlement Agreement resolves all issues in the proceeding in a manner consistent with applicable law and the Settlement Guidelines.

This Settlement Agreement is supported by the administrative record. Certain other documentation in support of the Settlement Agreement is attached hereto or contemporaneously submitted in support hereof. Accordingly, the Parties jointly recommend the Commission issue an order (a) approving this Settlement Agreement in its entirety, without conditions or modifications; and (b) approving the final natural gas rate increase contemplated by this Settlement Agreement.

TERMS OF SETTLEMENT AGREEMENT

Attachment 1 provides a bridge schedule summarizing the adjustments to the Company's filed rate increase request for both rate base and the income statement. Attachment 2 is an issue summary describing the Settlement Agreement resolution of disputed issues in the format requested by the Commission at the working session on May 15, 2001.

1. Base Rate Increase. Staff and Company have agreed to, and recommend that the Commission approve, an annual base rate increase for the Company's

North Dakota gas operations of \$500,000 or 1.2%, exclusive of MGP remediation costs discussed in section 6 below.

2. Return/Capital Structure/Merger Savings. For purposes of settlement, the parties agree the capital structure and return on common equity used to establish final rates shall be:

Component	Amount (\$000)	Percent	Component Cost	Total Cost
Long Term Debt	\$1,755,263	51.05%	6.99%	3.57%
Short Term Debt	\$ 155,000	4.51	4.65%	0.21
Common Equity	<u>\$1,528,155</u>	<u>44.44</u>	11.50%	<u>5.11</u>
Total	\$3,438,418	100.00%		8.89%

For settlement purposes only, the capital structure is the capital structure proposed by the Company, except \$105,320,000 of common equity is treated as long term debt to reduce the equity component by the dollar amount of preferred stock held by the parent company Xcel Energy Inc. after the NSP/NCE merger in August 2000. The Company agrees to employ this adjustment for purposes of annual reporting of its future actual North Dakota gas earnings until the earlier of (a) redemption of the preferred stock by Xcel Energy Inc. or (b) issuance of the final Commission order in the Company's next natural gas general rate case.

In addition, for settlement purposes only, the Company agrees to adjust the average cost of short term debt for ratemaking purposes from 6.39% to 4.65% to reflect recent reductions in short term interest rates. This adjustment is not specifically supported by testimony in the hearing record, but results in an annual cost savings to ratepayers of \$26,000.

The 11.5% settlement return on common equity ("ROE") is within the range of returns supported by the testimony of Dr. Olson for the Company, who recommended a 12.0% ROE; and Mr. King for Staff, who recommended 11.3%. The 11.5% ROE is also 0.5% lower than the 12.0% ROE underlying the Company's present gas rates established in Case No. PU-400-95-559.

Nothing in this Settlement Agreement shall limit the Staff or Company's authority to advocate, or the Commission's authority to establish, a different capital structure and/or ROE in future Company natural gas rate proceedings.

3. Merger Savings. For purposes of settlement, the Staff and Company agree to reduce the test year cost of service by \$125,000.
4. Other Adjustments. In its filing update, the Company sought rate recovery of \$50,000 of estimated rate case expenses, amortized over three (3) years at \$17,000 per year, with rate base treatment of the unamortized amount. For purposes of settlement, this Company agrees to no recovery of this cost. In addition, to achieve a settlement, the Company agrees to further reduce the test year cost of service by \$50,000 annually. This adjustment is undesignated.
5. Depreciation Rates. For purposes of establishing final base rates, this Settlement Agreement provides the depreciation life for plastic and metallic gas mains shall be 45 years. This Settlement Agreement does not in any way limit the Staff's authority to advocate, or the Commission's authority to establish, revised depreciation rates in future Company natural gas rate proceedings.
6. MGP Remediation Costs
 - A. Amortization and Accounting. Staff and Company agree the Company should, for purposes of settlement, amortize the \$2.88 million of costs incurred by the Company to remediate the former Grand Forks MGP site over eight (8) years starting September 1, 2001, with no rate base treatment of the unamortized balance the of MGP expenditures or related accumulated deferred income taxes. This results in an amortization of \$360,000 per year, or less than the \$415,000 supported by Staff consultant Mr. Majoros for the first three years of a five year amortization (with a true-up in years 4 and 5).
 - B. Rate Recovery
 1. The MGP cost recovery shall occur through an adjustment to the Company's annual Purchased Gas Adjustment ("PGA") True-up for all rate schedules subject to a Cost of Gas Charge. The annual MGP amortization amount will be included in the calculation of the PGA true-up factor, which is modified each September 1st and applied as part of the monthly PGA adjustment beginning with the September billing cycle. This would result in an MGP cost recovery billing factor which does not change until the next PGA true-up filing. At the end of each PGA year, the MGP cost recovery would be compared to the

amortization, and any under-or-over collections during the previous 12 month period would be included as part of the new PGA true-up factor.

In addition, the Company shall establish a "Resource Adjustment" tariff and billing line item for all current and future transportation service rate schedules at a rate equivalent to the MGP factor included in the then-effective PGA true-up, so transportation service customers contribute to the MGP cost recovery and customers are not incited to convert to transportation-only service to avoid the MGP cost. The Resource Adjustment shall be subject to change annually on September 1st.

The Company shall establish a sub-account in Account 182 to record the dollars collected through the PGA and Resource Adjustment. The Company agrees to report the status of the MGP cost recovery in its annual PGA true-up reports to the Commission starting September 1, 2002. The report shall also document any recovery of dollars associated with the Grand Forks MGP clean-up project from third parties (insurance providers, etc.) during such PGA true-up year. Any such recovered dollars shall be accounted to shorten the MGP amortization recovery period.

2. Unless otherwise authorized by the Commission, the Company shall terminate the PGA commodity gas cost recovery charge on the date the Company completes recovery of the \$2.88 million of MGP costs through the PGA cost recovery/Resource Adjustment line item surcharge provided herein. The Company shall notify the Commission of the termination of the PGA cost recovery, and shall, unless otherwise authorized by the Commission, file to terminate the Resource Adjustment provision of its then effective transportation service tariffs on such date.

3. For purposes of settlement, the Parties agree any customer who had in effect a transportation service agreement for a fixed term at a fixed discounted rate under the negotiated transportation service provisions of the Company's Interruptible Transportation Service rate schedule as of May 1, 2001, shall not be subject to the Resource Adjustment for the remaining term of the customer's fixed rate transportation service agreement. Unless otherwise

authorized by the Commission, however, the Resource Adjustment shall apply to any future transportation service agreements with such customer(s) during the eight year amortization period. However, if the Company must discount its commodity Distribution Charge from the maximum per therm rate, the Resource Adjustment component shall be discounted pro rata with the Distribution Charge discount.

7. Cost Allocation/Rate Design. For purposes of Settlement, the Company and Staff agree the Residential customer charge shall be \$5.50 per month, as proposed by Staff. Both Staff and Company testimony supported the separation of the Distribution Charge from the Cost of Gas Charge, elimination of the declining block commodity rates for Residential and Commercial classes, the Seasonal PGA demand cost recovery, and restatement of the Base Cost of Gas in the Cost of Gas Charge.

Staff and Company agree the overall base rate increase will be allocated so the base rate increase to the interruptible class will be at least one-half the overall base rate increase. The percentage increase to other customer classes shall be the pro-rata share of the overall percentage by class proposed by the Company.

8. Effective Date of Final Rates. For purposes of settlement, the Company agrees it will not place the Notice rates into effect June 9, 2001, when the suspension period under the Commission's October 25, 2000 suspension notice would otherwise expire. Upon Commission approval of this Settlement Agreement, the Company may place the settlement rates into effect for gas usage on and after July 9, 2001.

9. Compliance Filing. Upon Commission approval of this Settlement Agreement, the Company will file revised tariff sheets reflecting all the provisions of this Settlement Agreement, to be effective no earlier than July 9, 2001, but not less than ten (10) days after such filing to allow the Staff and Commission to review the compliance filing prior to the effective date.

10. Proposed Findings. In consultation with Staff, the Company will by May 25, 2001 prepare and submit "Proposed Findings of Fact, Conclusions of Law

and Order” and brief which will, among other things, summarize the record support for this Settlement Agreement. Staff agrees to file a written report indicating its support for the Settlement Agreement, consistent with its practice in prior settled proceedings.

11. Other Terms and Conditions

A. Basis of settlement. It is agreed the Settlement Agreement is a negotiated dollar settlement, subject to the approval of the Commission. This Settlement Agreement does not establish any principle or precedent, or specific amount of allowed expenses or level of rate base, or any specific level of overall cost of capital for any specific test year.

B. Commission Approval

The provisions of this Settlement Agreement are subject to Commission approval without material modification. Each of the provisions of this Settlement Agreement is in consideration for each and every other provision. If this Settlement Agreement is not accepted by the Commission in its entirety, at the option of either Party, this Settlement Agreement shall be null and void. Approval of this Settlement Agreement by the Commission constitutes only a determination that the Agreement is in the public interest and that final gas rates implemented in accordance with the Agreement will be just and reasonable. Approval does not constitute a determination by the Commission as to the merits of any specific allegation, statement, or theory advanced by the Staff or the Company.

C. Applicability and Scope

This Settlement Agreement shall be binding on the parties hereto, and upon their successors, assigns, agents and representatives. Except where expressly provided herein, this Settlement Agreement does not establish any principle or precedent, or specific amount of allowed expenses or level of rate base, or any specific level of overall cost of capital for any specific test year. Consistent with the Commission’s 1994 Proposed Settlement Guidelines, this Settlement Agreement does not set policy or overturn precedent.

D. Effective Date

This Settlement Agreement shall be effective on the date of the final Commission order approving the Settlement Agreement and gas rate increase without modification. However, if the Commission order modifies or conditions approval, this Settlement Agreement shall be deemed terminated if either party files a letter with the Commission within three (3) business days of such order stating that a condition or modification to the Settlement Agreement is unacceptable to such Party.

E. Effect of Settlement Negotiations

It is understood and agreed that all offers of settlement and discussions related thereto 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 for any purpose in this proceeding or otherwise. This Settlement Agreement shall not in any respect constitute a determination by the parties hereto as to the merits of any specific allegations or contentions made by the parties in Case Nos. PU-400-00-521.

F. Counterparts

This Settlement Agreement may be executed in separate, identical counterparts.

**Northern States Power Company
d/b/a Xcel Energy**

**North Dakota Public Service
Commission Staff**

By: _____
James P. Johnson
Assistant General Counsel

By: _____
Michael R. Diller
Director of Accounting

Date: May __, 2001