

**STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION**

**Northern States Power Company
2004 Electric Operations
Annual Report**

Case No. PU-05-265

ORDER

August 25, 2006

Preliminary Statement

On April 20, 2000 Northern States Power Company d/b/a NSP (NSP) filed an application for approval of its Performance-Based Regulation (PBR) plan for purposes of regulating its retail electric operations in North Dakota. The Commission so ordered on December 29, 2000 and PBR began January 1, 2001 and ended December 31, 2005.

During the first four years of PBR, NSP's North Dakota residential rates remained the lowest or second to the lowest among the investor-owned utilities in the seven state region, including: North Dakota, Wyoming, South Dakota, Wisconsin, Minnesota, Montana, Iowa. In 2005, NSP's North Dakota rates fell to the ninth lowest out of 30 companies. When comparing NSP's North Dakota rates for 2005 to its own rates in other states, North Dakota's rates are 10% to 20% lower.

During the first two years of PBR, NSP's earnings exceeded the low end of the PBR earnings bandwidth and therefore rates were not permitted to increase. However, NSP was unable to earn above the low end of the PBR threshold during 2003 and 2004 resulting in small rate increases that were limited to 60% of the consumer price index or 1.4% and 1.62%, respectively. The rate increases were an after-the-fact fix for the revenue shortages.

In addition to a rate increase, PBR allows a one-time partial recovery of the revenue shortfall occurring during the reported year. For instance, in 2003, NSP earned \$1.9 million less than the low end of the PBR threshold and therefore was entitled to collect one-half that amount from customers. The recovery was held in abeyance to make sure excess earnings were not available in 2004 to offset the allowed surcharge to customers. In 2004, NSP continued to report earnings below the minimum threshold of 11% and therefore was allowed to recover 2003 revenue shortfalls in the fall of 2005. The billing was spread out over a four month period using the fuel adjustment clause.

This order addresses the 2004 revenue shortfall that was held in abeyance until after 2005 to make sure excess earnings were not available during the final year of PBR. In 2005, the PBR bandwidth for reasonable earnings was 11% to 13% return on equity and the company earned 12.46%. Since the earnings levels occurred within the bandwidth, rates were not changed and surplus earnings were not available to offset the 2004 revenue shortfall. Accordingly, NSP has filed with the Commission to collect one-half of the revenue shortfall that occurred in 2004, or \$139,000.

In addition, NSP seeks to recover \$37,163 applicable to the 2003 earnings deficiency. The under-recovery of \$37,163 during the months of September through December 2004 occurred because NSP fixed the 2003 surcharge factor assuming normal sales volumes. Sales in December were lower than normal due to warmer-than-normal weather, resulting in an under-recovery. Rather than attempting to true-up the deficiency in February 2005, the Company and staff agreed to roll the amount into any future surcharges that might occur in the last year of the PBR Plan.

NSP is proposing that the same surcharge method be applied in this proceeding. However, staff believes a better approach would be to simply include the total amount of \$176,163 in the monthly fuel adjustment clause. Doing so will avoid the problems related to using forecasted sales volumes to estimate surcharge factors over the next four months. The fuel adjustment clause has a self-adjusting mechanism to true-up any over- or under-recoveries. This approach will impact the average residential customer by less than \$1 during the month it is implemented. By comparison, the last monthly fuel adjustment clause filed by NSP increased the average residential bill by \$2.85 for the month of August, 2006. This method will eliminate the need to true-up any under- or over- recoveries due to actual sales volumes differing from projected levels.

Discussion

Either method will result in a fair recovery from consumers. However, the recovery method advocated by staff is the simplest and most efficient.

Order

The Commission orders:

1. NSP may recover its under-earnings from 2004 and the unrecovered portion of 2003 under-earnings, as provided for under PBR, through its fuel clause adjustment as recommended by staff.
2. In order to implement this order, NSP may deviate from its FCA tariff and the Commission's rules regarding the use of automatic adjustment clauses contained in the North Dakota Administrative Code 69-09-02-39.

PUBLIC SERVICE COMMISSION


Susan E. Wefald
Commissioner


Tony Clark
President


Kevin Cramer
Commissioner