2302 Great Northern Drive
P O Box 2747
Fargo, ND 58108-2747
(701) 241-8632
dave.sederquist@xcelenergy.com

January 18, 2007

Illona A. Jeffcoat-Sacco, Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

RE: IN THE MATTER OF THE PETITION FOR AN INTERIM RATE INCREASE FOR NATURAL GAS SERVICE IN NORTH DAKOTA

Dear Ms. Jeffcoat-Sacco:

Enclosed are an original and 7 copies of a response by Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., to Mr. Michael Diller's January 16th memorandum recommending adjustments to the Company's interim rate petition.

Xcel Energy is concerned about the appropriateness of these adjustments given the interim rate statute (N. D. Century Code, Section 49.05.06, part 2). The Company believes that the law is clear regarding what is includable in determining interim rates, and that the refund provision in the law protects consumers if interim rates are higher than the final rates approved by the Commission.

The Company looks forward to discussing this matter further during the informal hearing scheduled on January 24th.

Please call me at (701)-241-8632 if you have any questions regarding this response.

Sincerely,

David H Sederquist

DAVID H. SEDERQUIST
SR. CONSULTANT, REGULATION & FINANCE
NORTHERN STATES POWER CO. D/B/A XCEL ENERGY

Enclosures

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

In the Matter of the Application of Northern States Power Company, a Minnesota Corporation and Wholly Owned Subsidiary of Xcel Energy Inc. For Authority to Increase Rates for Natural Gas Service in North Dakota	**Case No. PU-06-525** **Natural Gas Rate Increase Application**

XCEL ENERGY COMMENTS ON INTERIM RATES

Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., filed for an increase in natural gas rates on December 15, 2006. The North Dakota Public Service Commission (the "Commission") has elected not to allow those rates to go directly into effect and, therefore, interim rates need to be authorized in accordance with NDCL § 49-05-06. The Company removed from its interim revenue requirement costs that are not of the same nature and kind as allowed in the most recent rate proceeding, Case No. PU-400-00-578. Commission Staff has reviewed the Company's proposed interim rate revenue requirement and in its January 16th memo proposes three additional financial adjustments. The Company respectfully opposes those adjustments as being inconsistent with the interim rate standards of Section 49-05-06.

It is important that interim rates be established at the appropriate level because, while there is a mechanism for refunding to customers interim revenues that exceed the finally authorized rates, along with interest, there is no mechanism for the Company to recover lost revenues if final rates are higher than the interim rates.

1. An Interim Return on Common Equity of 11.3 Percent Is Appropriate.

The Company requests an interim return on common equity of 11.3 percent, which is slightly lower than the most recently authorized return on equity of 11.5 percent previously approved by the Commission in Case No. PU-400-00-521. Commission Staff proposes a return on common equity of 10.54 percent (as shown on the third attachment to the January 16th memo), which is the return on common equity authorized by the Minnesota Public Utilities Commission (the "Minnesota Commission") in the Company's recent Minnesota electric rate case (MPUC Docket No. E-002/GR-05-1428). Staff's proposal conflicts with the requirements of Section 49-05-06, which provides in relevant part:

> The interim rate schedule must be calculated using the proposed test year cost of capital … except that the schedule must include:
>
> a. A rate of return on common equity for the public utility equal to that **authorized by the commission** in the public utility's most recent rate proceeding.

(Emphasis added.) The Company's most recent North Dakota rate proceeding, Case No. PU-04-578, resulted in a settlement that did not stipulate as to the appropriate

return on common equity. To the contrary, the Settlement Agreement, on page 7, provided:

> The Settlement Agreement does not … adopt or recommend any specific type or amount of expense …for this **or any future proceeding**.

(Emphasis added.) Consequently, the resolution of the most recent North Dakota rate case did not result in a "rate of return on common equity for the public utility …authorized by the commission." The most recent North Dakota rate proceeding in which the Commission authorized a return on common equity was in Case No. PU-400-00-521, in which a return on common equity of 11.5 percent was authorized. Because the Company is seeking a slightly lower return of 11.3 percent in final rates, the Company does not propose using the higher authorized ROE for setting interim rates. Consequently, the Company's interim rate request complies with the statute.

In contrast, Staff proposes using a rate of return approved by the Minnesota Commission in a Minnesota electric rate case proceeding. That proposal clearly does not comply with the statute, which requires use of a Commission authorized return on common equity for the Company in a natural gas proceeding.

The use of the authorized return from Case No. PU-400-00-521 provides a reasonable result and is consistent with both the language and spirit of Section 49-05-06. The purpose of using a prior authorized return is to set the interim return at a reasonable level. In this case, the reasonableness of that authorized return is demonstrated by the Company's direct testimony supporting an 11.3 percent return

on common equity for final rates. In addition, if the Commission later approves a lower return for final rates, any resulting reduction in the revenue requirement below the interim revenue requirement will be refunded with interests. Thus, the interests of ratepayers are fully protected.

2. The Unamortized Balance For Manufactured Gas Plant Clean-Up Costs Should Be Included In Rate Base.

Commission Staff proposes removing the unamortized balance of manufactured gas plant ("MGP") remediation costs from rate base for the purpose of setting interim rates. Staff argues that the Settlement Agreement in the Company's most recent rate case, Case No. PU-04-478, did not replace the earlier settlement in Case No. PU-400-00-521, where recovery of the MGP clean-up costs was allowed without including the unamortized balance in rate base.

The Settlement Agreement relied on by Staff in Case No. PU-400-00-521 expressly held, on page 8, that the terms of the settlement did not act as a precedent. Consequently, the Company in its rate application in Case No. PU-400-04-578, requested that the unamortized balance be included in rate base. As in the earlier proceeding, a Settlement Agreement was entered into in Case No. PU-400-04-578. That Settlement Agreement also states that it does not act as precedent and that it did not adopt or recommend any specific rate base items (*see* "Basis of Settlement" at 7). It did, however, specify the overall amount of rate base to use for setting rates:

> For purposes of determining the overall revenue requirement, the Parties agree to a test year average rate base amount of $42,398,000.

See Settlement Agreement, at 5. The Commission's June 1, 2005, ORDER ADOPTING SETTLEMENT in Case No. PU-400-04-578, at page 3, also specifically cited and approved that level of rate base. The allowed rate base was identical to that included in the Company's original application, which reflected the inclusion of the unamortized balance of MGP clean-up costs in rate base.

Staff relies on the earlier settlement in Case PU-400-00-521. More appropriate guidance is provided by the allowed rate base in Case PU-400-04-578. While inclusion of the unamortized balance for MGP clean-up costs in rate base in the Settlement Agreement does not serve as precedent with respect to how to resolve this issue in determining final rates for *this* current proceeding, the Commission did establish the amount of the allowed rate base that serves as the starting point for the filing in this rate case. Section 49-05-06 requires that interim rates be established based on the most recently allowed rate base, stating:

> The interim rate schedule … must include:
>
> b. Rate base … items the same in nature and kind as those **allowed** by a currently effective commission order in the public utility's most recent rate proceeding.

(Emphasis added.) The June 1, 2005, ORDER ADOPTING SETTLEMENT in Case No. PU-400-04-578 "allowed" a rate base that included the unamortized balance from the MGP remediation. Thus, it is appropriate that the interim rates include the unamortized remediation costs. When faced with two different regulatory treatments,

both based on settlements, the Commission should base interim rates on the most recent regulatory treatment, allowing a specific rate base.

3. A Change In An Allocation Percentage Does Not Justify Removal Of Ordinary Costs From Interim Rates.

The Company has changed the customer count value it assigns to customers taking both natural gas and electric service (a "combination customer"). Prior to this case, a combination customer counted as a one-half natural gas and a one-half electric customer. Since 2005, the Company counts a combination customer as a full natural gas and a full electric customer. This change results in a larger percentage of certain costs being allocated to the Company's gas operations, with an offsetting reduction in the percentage allocated to its electric operations. As a result, natural gas operations expenses increased by $363,000 in the Test Year for this proceeding. Commission Staff recommends removing the $363,000 from the determination of the interim rate level, even though the *nature* or *kind* of costs to be recovered has not changed. The Company respectfully disagrees. Staff's adjustment is based on the fact that an allocation percentage has changed rather than being based on any change in the *nature* or *kind* of costs. It is only the latter types of changes that justify exclusion from interim rate recovery. In other words, because the types of costs being allocated or assigned to the North Dakota jurisdiction are the *same nature* and *kind* of costs that were included in previous rate cases, they should be reflected in interim rates.

There are any number of reasons why a particular expense may increase between the filing of rate cases. The fact that a cost has increased is not a reasonable basis for excluding that cost from the determination of interim rates. If it were, there could be no interim rate increases. Rather, Section 49-05-06 only makes an adjustment to expenses if they are of a different nature or kind.

Section 49-05-06 provides:

> The interim rate schedule must be calculated **using the proposed test year** cost of capital, rate base, and **expenses**, except that the schedule must include:
>
> b. … expense items the same in **nature and kind** as those allowed by a currently effective commission order in the public utility's most recent rate proceeding.

(Emphasis added.)

The proposed test year expenses reflect the change in the allocation percentage. Because all of the interim expenses are of a like nature and kind to those previously allowed by the Commission, they should be reflected in interim rates.

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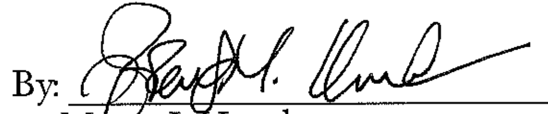
Conclusion.

For the above stated reasons, the interim rate revenue requirement should be approved as filed.

Dated: January 18, 2007

Respectfully submitted,

By: 

Megan J. Hertzler
Assistant General Counsel
414 Nicollet Mall
Minneapolis, MN 55401
Telephone: 612-215-4589