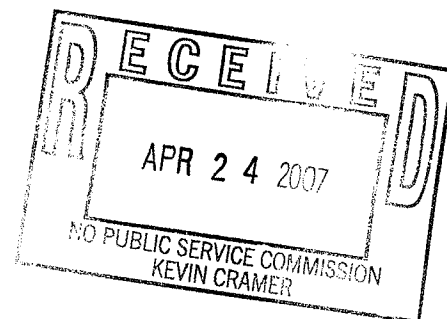


STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION



Northern States Power company  
Natural Gas Rate Increase  
Application

Case No. PU-06-525

ORDER ADOPTING SETTLEMENT

May \_\_\_\_, 2007

Appearances

**Commissioners:** Tony Clark, Kevin Cramer, Susan E. Wefald.

**Annette M. Bendish, Counsel to the Commission,** Public Service Commission, State Capitol, 600 East Boulevard, Bismarck, ND 58505, appearing for the Public Service Commission Advocacy Staff.

**Megan J. Hertzler, Assistant General Counsel,** Xcel Energy Services Inc., 414 Nicollet Mall, Minneapolis, MN 55401, appearing for Northern States Power Company.

**Preliminary Statement**

On December 15, 2006, Northern States Power Company ("Xcel Energy", or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. filed an application with the North Dakota Public Service Commission to increase its natural gas rates. The requested increase in rates would have generated additional natural gas revenues of \$2,800,291 annually in North Dakota. Xcel Energy's application was based on a 2007 projected test year.

Xcel Energy proposed changing natural gas rates for residential customers by increasing the Basic Service Charge per month from \$15.69 to \$19.20. Xcel Energy proposed to change natural gas rates for commercial and industrial firm service customers by changing the Basic Service Charge per month from \$20.00 to \$30.00 and changing the Distribution Charge per therm from \$0.10710 to \$0.11650. Xcel Energy proposed to increase natural gas rates to small commercial interruptible customers by increasing the Distribution Charge per therm from \$0.07740 to \$0.08800. Xcel Energy also proposed to increase natural gas rates to large commercial interruptible customers by increasing the Distribution Charge per therm from \$0.046320 to \$0.05110.

Xcel Energy states that each residential customer bill would increase by \$3.51 per month. Xcel's proposed rate change would not affect the cost of purchased gas, which is separately recovered through the Cost of Gas Rider billing provision.

On December 29, 2006 the Commission issued an order suspending Xcel Energy's general rate increase application.

Concurrent with the general rate increase application, Xcel Energy submitted a request for interim rate relief, based on a 2007 projected test year, to generate additional annual revenues of \$2,551,000. To accomplish this, Xcel Energy filed an Interim Rate Adjustment of 18.4% to be applied to the non-gas portion of the bill (the Deliver Services, Basic Service, and Distribution charges).

On December 29, 2006, the Commission issued a Notice of Filing and Intervention Deadline ("Commission Notice") that set forth a deadline of February 15, 2007 for other parties to indicate their interest in participating in the case.

On January 10, 2007, the Commission issued a Notice of Hearing and Notice of Public Input Session which 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 16, 2007, Commission Advocacy Staff ("Staff") filed comments taking issue with the level of interim rates requested by the company, contending that Xcel Energy's interim rate petition did not comply with N.D.C.C 49-05-06. Specifically, Staff argued that the return on equity ("ROE") to be used for interim rates should be based on a consideration of the imputed ROE from the previous rate case Settlement, and that interim rates should not include the unamortized balance of manufactured gas plant ("MGP") remediation costs in rate base, nor should it reflect additional expenses resulting from a change in the derivation of the Company's "customer allocation factor". Staff proposed that the interim rate increase be \$1,788,000. On January 18, 2007, the Company provided a response to Staff's comments, opposing those adjustments as being inconsistent with the interim rate standards of Section 49-05-06.

On January 24, 2007, the Commission conducted an informal hearing on the Company's interim rate petition. Both Staff and the Company presented their positions on the interim rate increase amount that should be allowed in this case.

On February 5, 2007 the Company sent a letter to the Commission outlining a proposed resolution to the disagreement regarding interim rates. The resolution called

for an interim rate increase of \$2,158,000, reflecting: 1) an ROE of 11.5% (the last commission authorized ROE); 2) exclusion of the unamortized balance of MGP remediation costs; and 3) exclusion of additional expenses related to the customer allocation factor change. In an email note sent to the Commission on the same day, Staff endorsed the proposal.

On February 7, 2007, the Commission issued an order allowing interim rates of \$2,158,000, as agreed to by the Parties, to be placed into effect February 13, 2007, subject to refund.

On February 8, 2007, the Commission conducted a public input session as provided in the Commission Notice. The session utilized interactive video-conferencing capabilities to include participants in Fargo, Grand Forks, and Bismarck. However, the session was closed shortly after its scheduled start time due to lack of participation.

Under the Commission Notice the deadline for filing a Petition to Intervene was February 15, 2007. No party filed such a petition in this proceeding.

On March 13 a case settlement meeting was held between the Company and the Commission Advocacy Staff. Follow-up discussions were held by phone and email in the months of March and April. As a result of those discussions, the Parties reached a Settlement Agreement.

On March 20 a second public input session was conducted to provide the public with another opportunity to participate in the case. The session utilized interactive video-conferencing capabilities to include participants in Fargo, Grand Forks, and Bismarck.

The administrative record supports the Settlement Agreement. Having considered this matter, the Commission finds the Settlement Agreement reasonable and should be approved. Therefore, the Commission issues the following:

#### **Order**

1. The Settlement Agreement filed April 24, 2007, a copy of which is attached to this Order and made a part of this Order, is APPROVED.
2. Xcel Energy's interim increase in annual revenues of approximately \$2,158,000 will remain effective until the revised tariff sheets contemplated by this order take effect on July 1, 2007, at which time the interim rates will expire and be replaced by the rates reflected in the compliance tariffs. Since the final rates exceed the interim rates, no refunds will be due.
3. Xcel Energy shall file compliance tariffs to implement final rates, as agreed to in the Settlement Agreement and at the Informal Hearing, to yield a final annual revenue increase of not more than \$2,293,938.

4. Xcel Energy will not increase residential natural gas Delivery rates of \$18.60 per month resulting from this order anytime prior to January 1, 2010. The Company is permitted to *file* a rate case in advance of this date to allow for an interim increase to take effect on January 1, 2010, if necessary.
5. The Company will refund to customers 50 percent of the revenues associated with earnings greater than 10.75 percent ROE and less than or equal to 11.25 percent ROE; and 75 percent of earnings greater than 11.25 percent ROE. Such refund will be made as soon as practical after July 1<sup>st</sup>, after the annual report of natural gas earnings for the given fiscal year filed with the Commission. Any refund would be made as a one-time refund and would be administered as a bill credit.
6. The Company will track the amounts it expends as a result of the natural gas conservation programs being approved for recovery in the Settlement Agreement. The differences between the amounts actually spent and the amounts recovered through rates will be deferred without carrying costs for possible recovery/refund in the Company's next natural gas rate case.
7. Three changes to Large Commercial Interruptible Transportation Service tariff are approved. The first is to allow for nominations in the final a.m. cycle on Northern Natural Gas Company interstate pipeline. The second is to shorten the nomination deadline from two hours to 10 minutes prior to the standardization nominate deadlines. The final change is to clarify the language regarding the calculation of Monthly Undertake/Overtake charges to ensure the calculation is based upon the amount of natural gas actually delivered on the customer's behalf by the upstream pipeline.

**PUBLIC SERVICE COMMISSION**

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**Susan E. Wefald**  
**Commissioner**

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**Tony Clark**  
**President**

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**Kevin Cramer**  
**Commissioner**