

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

**Northern States Power Company  
Natural Gas Rate Increase  
Application**

**Case No. PU-06-525**

**ORDER ADOPTING SETTLEMENT**

**June 13, 2007**

On December 15, 2006 Northern States Power Company (NSP) filed a Notice for Change in Rates for Natural Gas Service under North Dakota Century Code Section 49-05-05 and North Dakota Administrative Code Section 69-09-01-26. NSP proposed a \$2.8 million or 3.0 percent increase in its annual North Dakota Natural gas revenues. NSP's general rate increase application was based on a 2007 projected test year and would affect approximately 43,600 retail natural gas customers in the State of North Dakota.

NSP's filing included an Interim Rate Adjustment of 18.4% to be applied to the non-gas portion of customers' bills (the delivery service, basic service, and distribution charges) The Interim Rate Adjustment would be shown as a separate line item on customer bills.

On December 29, 2006 the Commission suspended NSP's general rate increase application and issued a Notice of Filing and Intervention Deadline that provided until February 15, 2007 for interested persons to file a petition to intervene. No petitions to intervene were received.

On January 10, 2007 the Commission issued a Notice of Hearing and Notice of Public Input Session, scheduling a public hearing for May 24, 2007 and a public input session for February 8, 2007. The notice identified the following issues to be considered in this matter:

1. What is the value of NSP's property, used and useful, for the service and convenience of the public in North Dakota?
2. What is NSP's rate of return on its property, used and useful, for the service and convenience of the public in North Dakota?
3. 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?
4. 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?

5. 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?
6. Other relevant information or proposals concerning the proceeding.

On January 16, 2007 Commission Advocacy Staff (Staff) filed comments in opposition to the level of interim rates proposed by NSP in its filing and proposing a lower level. On January 18, 2007 NSP filed a response opposing Staff's adjustments and the Commission conducted an informal hearing on the interim rate petition on January 24, 2007.

On February 5, 2007, NSP filed a letter advising the Commission that NSP and Staff reached a compromise reducing the requested interim increase to \$2,158,000. Advocacy staff sent an e-mail message supporting the compromise.

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

On February 8, 2007 and March 20, 2007 public input sessions were held with interactive video-conferencing to locations in Fargo, Grand Forks and Bismarck, North Dakota.

On April 24, 2007 and April 26, 2007, NSP filed a Settlement Agreement between NSP and Staff providing among other things for: (a) a rate increase of approximately \$2,293,938, or 2.5%, effective for service rendered on or after July 1, 2007; (b) a residential rate freeze until January 1, 2010; and (c) an earnings sharing mechanism if net income exceeds a 10.75% return on equity.

Also on April 26, 2007 the Commission issued a Notice of Informal Hearing on Proposed Settlement, scheduling an informal hearing for May 11, 2007.

On May 9, 2007, NSP filed an Amendment To Settlement Agreement, amending the agreement that was filed on April 24<sup>th</sup>. The amendment addressed additional issues that arose after the Settlement Agreement had been executed regarding net salvage values used for plant depreciation expenses and corrected an error related to the amount of un-recovered manufactured gas plant remediation costs included in rate base. The result of these changes reduces the rate increase to approximately \$2,168,000 or 2.3%.

On May 11, 2007 an informal hearing on the proposed settlement was held as scheduled. Having considered this matter, the Commission finds the amended settlement agreement reasonable, supported by the administrative record, and should be approved. Therefore, the Commission issues the following:

## Order

The Commission Orders:

1. The amended Settlement Agreement filed April 24 and April 26, 2007 and amended on May 9, 2007, a copy of which is attached to and made a part of this Order, is Approved.
2. NSP shall file compliance tariffs to implement final rates as agreed to in the amended settlement agreement and at the informal hearing, to yield a final annual revenue increase of not more than \$2,168,000.
3. NSP's interim increase in annual revenues of approximately \$2,158,000 will remain in effect until the revised tariff sheets contemplated by this order take effect for service rendered on or after July 1, 2007, at which time the interim rates will expire and be replaced by the rates in the compliance tariff sheets. Since the final rates exceed the interim rates, no refunds will be due.
4. NSP shall track DSM expenditures and report the results in its annual report to the Commission. Any accumulated differences from the amount allowed in the test year will be considered in NSP's next rate case proceeding.

### PUBLIC SERVICE COMMISSION

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**Tony Clark**  
Commissioner

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**Susan E. Wefald**  
President

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**Kevin Cramer**  
Commissioner

**CONCURRING OPINION**  
**Commissioner Tony Clark**

**June 14, 2007**

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**Case No. PU-06-525**

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