

**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

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

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

**SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into this \_\_\_\_ day of April 2007, by and between the North Dakota Public Service Commission advisory staff ("Staff") and Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., (collectively, the "Parties"). 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 retail natural gas operations in North Dakota.

**BACKGROUND**

Xcel Energy's natural gas operations in North Dakota earned an average return on equity ("ROE") of 6.5% for the ten-year period from 1997-2006.<sup>1</sup> This is below the authorized ROE of 11.5% during the same time period. The earnings deficiency began after the Company reduced rates by \$491,000 in 1996, and then suffered a loss of its natural gas infrastructure and customer base in the city of Grand Forks during the Red River flood of 1997. During this 10 year period, earnings were as low as 3.61%, and never exceeded 8.80%

The Company has implemented two base rate increases since 2000: a 1.2% (\$500,000) increase effective September 1, 2001 (Case No. PU-400-00-521)<sup>2</sup> and a

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<sup>1</sup> Assumes a projected ROE of 5.0% in 2006.

<sup>2</sup> In Case No. PU-400-00-521, a \$360,000 per year amortization of the costs to clean up a manufactured gas plant site was also recovered through the Cost Of Gas Rider for an 8-year period.

1.0% (\$745,000) increase effective August 1, 2005 (Case No. PU-04-578). However, these rate increases have not been sufficient to offset the impacts of increased natural gas system investment due to gas main reconstruction and relocation, capacity upgrades, and customer growth. In addition, the Company has continued to see lower distribution margins due to lower commercial sales resulting from customer conservation efforts and response to high wholesale natural gas prices. Finally, operating expense increases due to inflation, new information technology, and other cost increases have also adversely affected the Company's financial results in North Dakota.

Even with the previous two rate increases, Xcel Energy's average residential natural gas delivery charges were *lower* in 2006 than they were in 1984. In 1984, the average natural gas customer paid about \$16.52 for delivery of natural gas on the Xcel Energy system in North Dakota. In 2006, the fixed monthly charge for residential customers was only \$15.69. With the proposed rates contemplated in this Settlement, North Dakota residential consumers will be charged \$18.60 per month for delivery services, approximately a 13% increase over 1984 rates. This compares to an inflationary increase of 95% in the consumer price index ("CPI") over the same 23 year period.

In addition to historically stable rates, progress is being made in other ways to help alleviate high heating bills in North Dakota. The fixed monthly residential charge approved by the Commission in 2005 reduced distribution charges during high natural gas use months (winter) and removed disincentives for the Company to actively promote conservation (Xcel Energy would implement a set of natural gas conservation programs in North Dakota in 2007 under this Settlement to assist residential customers in lowering their natural gas usage and monthly bills through wiser energy use). In addition, the Company annually contributes to fuel assistance programs in the state, and works closely with low-income agencies.

Rates resulting from this Settlement would continue to be reasonable, while allowing the Company the opportunity to recover its costs, avoid another North Dakota rate increase proceeding until at least 2010, and restore financial health for its North Dakota operation.

## PROCEDURAL HISTORY

On December 15, 2006, Xcel Energy filed a Notice of Change in Rates for Natural Gas Service with the North Dakota Public Service Commission (the "Commission"), based on a 2007 test year, with interim rates to become effective February 13, 2007. The Notice proposed an increase in natural gas retail and miscellaneous revenues of \$2,800,291, or about 3.0 percent of overall revenues. Xcel Energy proposed to increase residential bills approximately 4.3 percent through a \$3.51 increase in the monthly Delivery Services Charge. The Company proposed to increase commercial firm service revenues by 2.8 percent and commercial interruptible service revenues by 0.7 percent. Filed with the Notice were revised tariffs, direct testimony, exhibits, and supporting statements.

Concurrent with the Notice, Xcel Energy submitted an Alternate Petition for Interim Rates. The proposed interim increase was for \$2,551,000 or 2.74 percent overall, to be effective February 13, 2007 (60 days from filing) in the event the Commission suspended the proposed general increase. The proposed interim increase and rate design were submitted pursuant to the criteria set forth in N.D.C.C 49-05-06.

On December 29, 2006, the Commission issued an order suspending Xcel Energy's general rate increase application and set the matter for investigation and hearing.

On December 29, 2006, the Commission issued a Notice of Filing and Intervention Deadline (the "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, 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 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 Commission 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, 2007, a 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 this Settlement Agreement.

On March 20, 2007 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. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement without conditions or modifications.

#### **TERMS OF SETTLEMENT AGREEMENT**

The Parties agree to the provisions as defined below and supported by Schedules A, B, C, D, E, F, and G attached to this Settlement.

##### **Increase in Natural Gas Revenue**

The Parties agree to, and recommend the Commission approve, a net increase in Xcel Energy's natural gas rates for retail customers in North Dakota to yield an annual retail sales and miscellaneous revenue increase of approximately \$2,293,938, or 2.5%, effective for service rendered on and after July 1, 2007. Rates have not been increased since August 2005, and consequently this represents an annual increase of about 1.2 percent, which is well below the rate of inflation.

The Parties further agree, and recommend the Commission approve, the following revenue requirement apportionment. Total residential test year revenues would increase \$1,294,275 or approximately 3.6 percent, Commercial firm service revenues would increase \$872,588 or 2.2 percent, and interruptible service revenues would increase \$124,475 or 0.7 percent overall, as shown on Schedule B. This apportionment reflects the assignment to the residential class of 53 percent of the Settlement decrease in revenues from the original rate increase request. At the same time, the apportionment helps align rates for each customer class more closely with the class costs as derived in the class cost of service study filed in this proceeding.

The Company shall file compliance tariff pages setting forth the revised gas rates and tariffs provided by this Settlement Agreement rate option at least 30 days prior to the effective date.

#### **Reduced Return on Equity**

The Parties agree to, and recommend the Commission approve, a return on equity of 10.75 percent.

This reduction in ROE from the 11.3 percent proposed in the original filing decreases the test year revenue requirement by about \$215,000. It is below the average return granted to natural gas utilities since December 2005, as shown on Attachment A.<sup>3</sup> The Parties agree that a 10.75% ROE will be used for purposes of determining interim rates in the Company's next natural gas rate case.

#### **Residential Rate Freeze Until 2010**

The Parties agree to, and recommend the Commission approve, a prohibition against further increases in residential natural gas delivery rates any time prior to January 1, 2010.

#### **Customer Refunds for Earnings Above Threshold**

The Parties agree to, and recommend the Commission approve, an earnings

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<sup>3</sup> All orders listed on Attachment A are for natural gas rate orders issued after December 1, 2005, for cases with a 2005 or 2006 test year.

sharing mechanism that will result in customer refunds if the Company's net income exceeds a 10.75 percent return on equity.

If the Company earns in excess of 10.75 percent ROE during the 2007, 2008, or 2009 calendar years, the Company will refund to customers revenues corresponding to earnings as shown below:

50% of earnings above 10.75% up to and including 11.25%

75% of earnings above 11.25%

Earnings sharing credits would be applied to customer accounts as soon as practical after July 1<sup>st</sup>, after the annual report of natural gas earnings for the given fiscal year has been filed with the Commission (typically on May 1<sup>st</sup>). A refund would be administered as a one-time bill credit.

A 10.75 percent ROE sharing threshold is reasonable because this Agreement freezes residential rates until January 1, 2010, imposing an additional risk on the Company. The ROE is lower than previously authorized and, as demonstrated by Attachment A, is lower than the average ROE granted in recent utility rate proceedings across the country.

#### **No Change in Customer-Based Allocation Factor**

The Parties agree to, and recommend the Commission approve, a \$291,000 *reduction* in test year revenue requirements to reflect a reinstatement of Xcel Energy's previous method of allocating common utility costs.<sup>4</sup>

In its original application, the Company had estimated a \$363,000 increase in test year revenue requirements as a result of a new customer allocation method. This estimated impact was based on a comparison of the cost allocation using the new method to the cost allocation determined by the previous method using 2004

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<sup>4</sup> In its rate application, Xcel Energy had proposed that, for purposes of determining the customer-based allocator used to allocate common utility costs to the gas utility, a customer receiving both gas and electric service from the Company would be counted as 1 gas and 1 electric customer (previously, combination customers were counted as a ½ gas and ½ electric customer). This change was driven by limitations in the combination customer count reporting of the Company's billing system ("CRS") installed in 2005. However, the Company has recently verified the existence of a computer program that enables

customer data (the most recent year in which the old method had been calculated).

In reinstating the previous method, both Parties agree to use 2006 customer counts (instead of 2004 counts) to determine the cost allocation. The use of updated 2006 customer counts increases the test year revenue requirement by \$72,000. The net result of reinstating the previous method of counting combination customers (a \$363,000 decrease) and updating the customer count data with 2006 data (a \$72,000 increase) is a reduction in revenue requirements of \$291,000.

#### **Exclusion from Rate Base of Automated Meter Reading Investment**

For purposes of determining the overall revenue requirement, the Parties agree to, and recommend the Commission approve, the filed test year average rate base amount of \$46,631,000. The rate base does not include a significant investment in automated meter reading ("AMR") equipment that the Company plans on making in North Dakota in the fourth quarter of 2007. However, this amount does include \$721,000 related to the remaining balance of the unamortized manufactured gas plant ("MGP") remediation costs.

For purposes of settlement, the Parties agree that the Company's recent decision to install either longer-life replacement batteries (at an estimated cost of \$1.0 million) or replacing both AMR modules and batteries (at an estimated cost of \$2.4 million) will not be included in the test year operating expense, rate base, or calculation of test year revenue requirements. A \$2.4 million investment in AMR equipment would increase annualized revenue requirements by approximately \$500,000 (about \$90,000 of this is offset by the inclusion of unamortized MGP costs in rate base, however). The Company agrees not to seek an increase in its test year rate base and revenue requirement through a supplemental filing in this proceeding, as would otherwise be permitted by NDCC § 49-05-04.1 paragraph 3.

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Xcel Energy to access the CRS customer count data needed to support its previous customer allocation methodology. Under the terms of this Settlement, Xcel Energy will return to this previous method.

### **Use of Operating Company Capital Structure**

For purposes of determining the overall revenue requirement, the Parties agree to, and recommend the Commission approve, the filed capital structure and cost of capital for Northern States Power, a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc. ("NSP(MN Co.)").

The Parties agree that it is not necessary for the Company to adjust its NSP(MN Co.) regulated capital structure by decreasing common equity and increasing long-term debt by the amount of preferred equity held at the holding company level. It is agreed that the NSP(MN Co.) operating company capital structure will be used for purposes of determining interim rates in the Company's next natural gas rate case.

### **Transportation Service Tariff Improvements**

The Parties agree to, and recommend the Commission approve, three changes to Large Commercial Interruptible Transportation Service tariff. 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. These changes to the nomination terms will provide transportation customers additional ability to ensure that their nominations match their expected usage and provide them greater opportunity to react to an unanticipated change in usage. 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. This change makes the tariff language more understandable to customers.

The tariffs filed in compliance will also reflect the more accurate legal name Northern States Power Company, a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc.

### **Accounting for Conservation Programs**

The Parties agree to, and recommend the Commission approve, a requirement for the Company to keep track of annual conservation program expenses that deviate from the amount allowed in the test year (\$138,000). Any accumulated differences will be considered in the next rate case proceeding.

### **Interim Rates Remain in Effect**

The parties agree the interim rates will remain in effect for all customer classes for the period February 13, 2007 to June 30, 2007. No interim rate refunds will be issued.

## **OTHER TERMS AND CONDITIONS**

### **Basis of Settlement**

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. Except for the purpose of setting interim rates in the Company's next natural gas general rate case, the Settlement Agreement does not establish any principle or precedent, nor adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

### **Effect of the Settlement Negotiations**

It is understood and agreed that all offers of settlement and discussions related to this Settlement Agreement 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 by any party for any purpose in this case or in any other.

### **Applicability and Scope**

This Settlement Agreement shall be binding on the Parties, and their successors, assigns, agents, and representatives. Consistent with the Commission's

settlement guidelines, this Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement shall not in any respect constitute an agreement, admission or determination by any of the Parties as to the merits of any specific allegation or contention made by the Parties in this proceeding.

**Effective Date**

This Settlement Agreement shall be effective on the date of the Commission Order approving the Settlement Agreement. The revised rates and tariff agreed to by this Settlement Agreement shall be effective on the dates specified in Section I of Terms of Settlement Agreement.

**Modification**

If the Commission Order modifies or conditions approval of this Settlement Agreement, it shall be deemed terminated if either Party files a letter with the Commission within three (3) business days of the date of such Order stating that a condition or modification to the Settlement Agreement is unacceptable to such party.

Dated this 24 day of April 2007

Northern States Power Company,  
A Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc.

By: Scott Wilensky  
Scott M. Wilensky  
Vice President, Government and Regulatory Affairs

Dated this 23 day of April 2007.

Northern Dakota Public Service Commission Staff

By: Annette Bendish  
Annette M. Bendish  
Counsel to the Commission

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement**  
**Survey of Authorized ROEs**

<u>State</u>	<u>Company</u>	<u>Order Date*</u>	<u>End of TY</u>	<u>Auth ROE</u>
Virginia	Virginia Nat. Gas Co.	7/24/2006	na	10.00%
New York	Coming Nat. Gas Corp.	5/22/2006	12/31/2005	10.00%
Nevada	Sierra Pacific Pwr Co.	4/27/2006	5/31/2005	10.60%
Colorado	CO Nat. Gas Inc.	3/1/2006	3/31/2005	12.00%
Wisconsin	Wisc. Elec Pwr Co.	1/26/2006	12/31/2006	11.20%
Wisconsin	Wisconsin Gas LLC	1/26/2006	12/31/2006	11.20%
Kentucky	The Union LH&P Co.	12/22/2005	9/30/2006	10.20%
Wisconsin	Wisconsin Pub Svc Corp.	12/22/2005	12/31/2006	11.00%
Maryland	Baltimore G&E	12/21/2005	7/31/2005	11.00%
California	Pacific G & E	12/15/2005	12/31/2006	11.35%
California	San Diego G&E	12/15/2005	12/31/2006	10.79%
Wisconsin	Madison Gas & Elec	12/12/2005	12/31/2006	11.00%
			Average:	<u>10.86%</u>

\*Cases ordered after 12/1/05 with a test year of either 2005 or 2006.

Source: PUR Utility Regulatory News (Letter #3800, December 29, 2006)

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Revenue Deficiency Summary (2007 Test Year)**  
 (000's)

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Average Rate Base	\$46,631	
2	Operating Income	\$2,791	
3	Rate of Return	5.99%	line 2 / line 1
4	Required Rate of Return	8.96%	
5	Required Operating Income	\$4,178	line 1 x line 4
6	Operating Income Deficiency	\$1,387	line 5 - line 2
7	Gross Revenue Conversion Factor	1.65426	
8	Unadj. Revenue Deficiency	\$2,294	line 6 x line 7
9	COG methodology decrease	\$0	
10	Net Revenue Deficiency	\$2,294	
11	Increase percentage	2.5%	

<b>2007 Capital Structure</b>	<u>Rate</u>	<u>Ratio</u>	<u>Weighted Cost</u>
Long Term Debt	7.0820%	46.4100%	3.2900%
Short Term Debt	5.8100%	2.0000%	0.1200%
Preferred Stock	0.0000%	0.0000%	0.0000%
Common Equity	10.7500%	51.5900%	5.5500%
<b>Required Rate of Return</b>			<b>8.9600%</b>

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Revenue Apportionment**

	Rate Code	Avg Cust.	Dkt Sales	Revenue		Increase	
				Present	Proposed	Amount	%
<b><u>Firm Service</u></b>							
Residential	401	37,064	3,065,892	\$36,128,428	\$37,422,703	\$1,294,275	3.6%
Commercial and Industrial	410	<u>6,383</u>	<u>3,676,490</u>	<u>\$40,309,437</u>	<u>\$41,182,025</u>	<u>\$872,588</u>	<u>2.2%</u>
Total Firm Service		43,447	6,742,382	\$76,437,865	\$78,604,728	\$2,166,863	2.8%
<b><u>Interruptible Service</u></b>							
Small C&I	404	112	655,964	\$6,116,733	\$6,186,265	\$69,532	1.1%
Large C&I/Neg. Transp.	405	<u>22</u>	<u>2,455,956</u>	<u>\$10,490,283</u>	<u>\$10,545,226</u>	<u>\$54,943</u>	<u>0.5%</u>
Total Interruptible Service		134	3,111,920	\$16,607,015	\$16,731,490	\$124,475	0.7%
Total Retail		<u>43,581</u>	<u>9,854,302</u>	<u>\$93,044,880</u>	<u>\$95,336,218</u>	<u>\$2,291,338</u>	<u>2.5%</u>
<b><u>Other Gas Revenues</u></b>							
Connection Charge				\$58,000	\$58,000	\$0	0.0%
Late Payment Charge				\$104,000	\$106,600	\$2,600	2.5%
NSF Check Charge				\$5,000	\$5,000	\$0	0.0%
Other sales				<u>\$165,000</u>	<u>\$165,000</u>	<u>\$0</u>	<u>0.0%</u>
Total Other Gas Revenues				<u>\$332,000</u>	<u>\$334,600</u>	<u>\$2,600</u>	<u>0.8%</u>
<b>Total Retail Sales and Other Revenues</b>				<u>\$93,376,880</u>	<u>\$95,670,818</u>	<u>\$2,293,938</u>	<u>2.5%</u>

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Present and Proposed Rates**

	<u>Present Rates</u>	<u>Proposed Rates</u>
<b><u>Residential Firm Service</u></b>		
Delivery Services Charge	\$15.69 / Month	\$18.60 / Month
Cost of Gas	\$0.94713 /Therm	\$0.94713 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>C&amp;I Firm Service</u></b>		
Basic Service Charge	\$20.00 /Month	\$30.00 /Month
Distribution Charge	\$0.10710 /Therm	\$0.11000 /Therm
Cost of Gas	\$0.94401 /Therm	\$0.94401 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>Small C&amp;I Interruptible Service</u></b>		
Basic Service Charge	\$75.00 /Month	\$75.00 /Month
Distribution Charge	\$0.07740 /Therm	\$0.08800 /Therm
Cost of Gas	\$0.83606 /Therm	\$0.83606 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>Large C&amp;I Interruptible Service</u></b>		
Basic Service Charge	\$275.00 /Month	\$275.00 /Month
Distribution Charge	\$0.04632 /Therm	\$0.05110 /Therm
Cost of Gas	\$0.83606 /Therm	\$0.83606 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm

**Xcel Energy****Natural Gas Utility - State of North Dakota****Settlement Agreement Comparison of CCOSS Deficiency and Proposed Rates**

(000's)

		(1)	(2)	(3)	(4)	(5)
Customer Class		Present Revenues	Revenue Deficiency Indicated by CCOSS	Total Effect Of Proposed Rates	Difference Between CCOSS Revenue Deficiency and Proposed Rates	
Residential	\$ increase	\$36,128	\$4,301	\$1,294	\$3,007	
	% increase		11.9%	3.6%	8.3%	
Commercial	\$ increase	\$40,309	(\$912)	\$873	(\$1,785)	
	% increase		-2.3%	2.2%	-4.4%	
Interruptible Service (Small Volume)	\$ increase	\$6,117	(\$368)	\$70	(\$438)	
	% increase		-6.0%	1.1%	-7.2%	
Interruptible Service (Large Volume)	\$ increase	\$10,490	(\$220)	\$55	(\$275)	
	% increase		-2.1%	0.5%	-2.6%	
Other Revenues	\$ increase	\$332		\$3		
	% increase					
Total	\$ increase	\$93,377	\$2,801	\$2,294	\$507	
	% increase		3.0%	2.5%	0.5%	

**Rate Design - Class Impact by Rate Component**

		(1)	(2)	(3)	(4)
Customer Class		Present Revenues	Overall Impacts of Proposed Rates		
			Delivery / Basic Service Charges	Distribution Charges	Total Effect of All Changes
Residential	\$ increase	\$36,128	\$1,294	\$0	\$1,294
	% increase		3.6%	0.0%	3.6%
Commercial	\$ increase	\$40,309	\$766	\$107	\$873
	% increase		1.9%	0.3%	2.2%
Small Interruptible	\$ increase	\$6,117	\$0	\$70	\$70
	% increase		0.0%	1.1%	1.1%
Large Interruptible	\$ increase	\$10,490	\$0	\$55	\$55
	% increase		0.0%	0.5%	0.5%
Total	\$ increase	\$93,045	\$2,060	\$231	\$2,291
	% increase		2.2%	0.2%	2.5%

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Monthly Bills Using Present and Proposed Rates**

RESIDENTIAL FIRM SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
0	\$15.69	\$18.60	\$2.91	18.5%
10	\$25.34	\$28.25	\$2.91	11.5%
20	\$35.00	\$37.91	\$2.91	8.3%
30	\$44.65	\$47.56	\$2.91	6.5%
40	\$54.30	\$57.21	\$2.91	5.4%
50	\$63.96	\$66.87	\$2.91	4.6%
75	\$88.09	\$91.00	\$2.91	3.3%
100	\$112.22	\$115.13	\$2.91	2.6%
200	\$208.75	\$211.66	\$2.91	1.4%
300	\$305.29	\$308.20	\$2.91	1.0%
500	\$498.35	\$501.26	\$2.91	0.6%

COMMERCIAL & INDUSTRIAL FIRM SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
0	\$20.00	\$30.00	\$10.00	50.0%
50	\$73.62	\$83.77	\$10.15	13.8%
100	\$127.24	\$137.53	\$10.29	8.1%
250	\$288.10	\$298.83	\$10.73	3.7%
500	\$556.21	\$567.66	\$11.45	2.1%
750	\$824.31	\$836.49	\$12.18	1.5%
1000	\$1,092.42	\$1,105.32	\$12.90	1.2%
3000	\$3,237.25	\$3,255.95	\$18.70	0.6%
5000	\$5,382.09	\$5,406.59	\$24.50	0.5%
7500	\$8,063.13	\$8,094.88	\$31.75	0.4%
10000	\$10,744.18	\$10,783.18	\$39.00	0.4%

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Comparison of Monthly Bills Using Present and Proposed Rates**

SMALL VOLUME INTERRUPTIBLE SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
1000	\$992.11	\$1,002.71	\$10.60	1.1%
3000	\$2,826.34	\$2,858.14	\$31.80	1.1%
5000	\$4,660.57	\$4,713.57	\$53.00	1.1%
7500	\$6,953.35	\$7,032.85	\$79.50	1.1%
10000	\$9,246.13	\$9,352.13	\$106.00	1.1%

LARGE VOLUME INTERRUPTIBLE SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
1000	\$1,161.03	\$1,165.81	\$4.78	0.4%
3000	\$2,933.10	\$2,947.44	\$14.34	0.5%
5000	\$4,705.17	\$4,729.07	\$23.90	0.5%
7500	\$6,920.25	\$6,956.10	\$35.85	0.5%
10000	\$9,135.33	\$9,183.13	\$47.80	0.5%

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Reinstatement of Previous Customer Allocation Method**

The customer allocator is used to assign some costs to the electric and natural gas utilities that are common to both utility operations (certain customer accounting and service costs).

In the company's original rate application, the customer allocator was derived from customer count information from 2005, the most recent available fiscal year.

The allocator was developed by counting combination electric and natural gas customers as 1 electric and 1 natural gas customer. This was a change from the previous method of counting combination customers as 1/2 electric and 1/2 natural gas customer. The change was necessitated by the unavailability (at the time the rate case was being developed) of 2005 combination customer count data from the company's CRS billing system which was installed in the spring of 2005.

To determine the impact of the change on ND natural gas operations, the new methodology was compared to the previous allocation method utilizing 2004 customer data (as stated above, 2005 customer data was not available at the time in the format needed to use the previous method).

<u>Cust. Alloc. Method</u>	<u>Customer Data Year</u>	<u>Allocation Factor</u>	<u>Common Costs to Allocate</u>	<u>NSP Gas Portion</u>	<u>ND Portion</u>
New (1e and 1g)	2005	23.930%	\$65,503,377	\$15,674,958	\$1,618,426
Previous (1/2e and 1/2g)	2004	18.560%	\$65,503,377	\$12,157,427	<u>\$1,255,244</u>
Estimated Impact of the change in method on the Test Year:					\$363,182

In April, the company verified that it had developed a query program that was able to determine and report the number of combination customers from the billing system database. This allowed the Company to reinstate its previous method of counting combination customers as 1/2 electric, 1/2 natural gas. The program, along with the completion of the 2006 fiscal year, allowed the Company to utilize the most relevant customer data (2006) available to calculate the test year customer allocator.

The difference between the original allocation reflected in the test year and the reinstated allocator using more timely and relevant customer count data was determined as follows:

<u>Cust. Alloc. Method</u>	<u>Customer Data Year</u>	<u>Allocation Factor</u>	<u>Common Costs to Allocate</u>	<u>NSP Gas Portion</u>	<u>ND Portion</u>
New (1e and 1g)	2005	23.930%	\$65,503,377	\$15,674,958	\$1,618,426
Previous (1/2e and 1/2g)	2006	19.630%	\$65,503,377	\$12,858,313	<u>\$1,327,610</u>
Decrease in Test Year Deficiency due to Reinstating Previous Method:					\$290,816

The decrease in the Test Year revenue deficiency of \$290,816 is referenced in the "Terms of Settlement Agreement" section of the Settlement Agreement.

**STATE OF NORTH DAKOTA  
PUBLIC SERVICE COMMISSION**

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

**AMENDMENT TO SETTLEMENT AGREEMENT**

A Settlement Agreement was entered on April 23, 2007, by and between the North Dakota Public Service Commission advisory staff ("Staff") and Northern States Power Company ("Xcel Energy" or the "Company"), a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc., (collectively, the "Parties"). This Amendment to Settlement Agreement addresses an additional issue that arose after the Settlement Agreement had been executed, and also corrects an error related to the amount of unrecovered Manufactured Gas Plant remediation costs to include in rate base.

1. To address the issues raised by Staff witness Mr. Michael Majoros concerning net salvage, the Settlement Agreement is amended to add the following paragraph.

The Parties agree to, and recommend the Commission approve, the following regulatory treatment for net retirements. First, the Company shall continue to recover the estimated net present value of the cost of retirement over the useful life of an asset. Second, for regulatory purposes, the Company shall continue to include all retirements as part of accumulated depreciation, which in turn results in an offset to rate base equal to the amount of the accumulated depreciation. Should, at any future date, there be change in regulation or other

event that would result in a change in the above-described process, the Company agrees to work with the Commission to ensure that any accumulated depreciation amounts for retirement purposes are considered and appropriately addressed as part of that change.

2. To correct an error discovered related to inclusion of the of the Manufactured Gas Plant the Settlement Agreement is amended as follows:

The Parties agree to, and recommend the Commission approve, an additional reduction to the revenue requirement of \$126,000 to correct for an error discovered in the calculation of the amount of unrecovered Manufactured Gas Plant ("MGP") remediation costs to be included in rate base. As amended, the test year average rate base amount is reduced to a level that equals \$45,627,000, which includes \$427,000 related to the remaining balance of the unamortized MGP remediation costs.

The Parties further propose that this reduction in the revenue requirement result in the following revenue allocations.

- Total residential test year revenues would increase \$1,240,903 or approximately 3.4% percent;
- Commercial firm service revenues would increase \$799,058 or 2.0% percent; and
- Interruptible service revenues would increase \$125,625 or 0.8% percent overall.

This information amends the information shown on Schedules B, C, D, E and

F to the original settlement. Updated schedules are attached to this Amendment.

The Company shall file compliance tariff pages setting forth the revised gas rates and tariffs provided by the Settlement Agreement and this Amendment at least 30 days prior to the effective date.

Dated this 9<sup>th</sup> day of May 2007.

Northern States Power Company,  
A Minnesota corporation and wholly owned subsidiary of Xcel Energy  
Inc.

By: Scott Wilensky  
Scott M. Wilensky  
Vice President, Government and Regulatory Affairs

Dated this 9<sup>th</sup> day of May 2007.

Northern Dakota Public Service Commission Staff

By: Annette Bendish  
Annette M. Bendish  
Counsel to the Commission

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Revenue Deficiency Summary (2007 Test Year)**  
 (000's)

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Average Rate Base	\$45,627	
2	Operating Income	\$2,778	
3	Rate of Return	6.09%	line 2 / line 1
4	Required Rate of Return	8.96%	
5	Required Operating Income	\$4,088	line 1 x line 4
6	Operating Income Deficiency	\$1,311	line 5 - line 2
7	Gross Revenue Conversion Factor	1.65426	
8	Unadj. Revenue Deficiency	\$2,168	line 6 x line 7
9	COG methodology decrease	\$0	
10	Net Revenue Deficiency	\$2,168	
11	Increase percentage	2.3%	

<b>2007 Capital Structure</b>	<u>Rate</u>	<u>Ratio</u>	<u>Weighted Cost</u>
Long Term Debt	7.0820%	46.4100%	3.2900%
Short Term Debt	5.8100%	2.0000%	0.1200%
Preferred Stock	0.0000%	0.0000%	0.0000%
Common Equity	10.7500%	51.5900%	5.5500%
<b>Required Rate of Return</b>			<b>8.9600%</b>

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Revenue Apportionment**

Rate Code	Avg Cust.	Dkt Sales	Revenue		Increase	
			Present	Proposed	Amount	%

**Firm Service**

Residential	401	37,064	3,065,892	\$36,128,428	\$37,369,331	\$1,240,903	3.4%
Commercial and Industrial	410	<u>6,383</u>	<u>3,676,490</u>	<u>\$40,309,437</u>	<u>\$41,108,495</u>	<u>\$799,058</u>	<u>2.0%</u>
Total Firm Service		43,447	6,742,382	\$76,437,865	\$78,477,826	\$2,039,961	2.7%

**Interruptible Service**

Small C&I	404	112	655,964	\$6,116,733	\$6,186,265	\$69,532	1.1%
Large C&I/Neg. Transp.	405	<u>22</u>	<u>2,455,956</u>	<u>\$10,490,283</u>	<u>\$10,546,375</u>	<u>\$56,093</u>	<u>0.5%</u>
Total Interruptible Service		134	3,111,920	\$16,607,015	\$16,732,640	\$125,625	0.8%

Total Retail		<u>43,581</u>	<u>9,854,302</u>	<u>\$93,044,880</u>	<u>\$95,210,465</u>	<u>\$2,165,586</u>	<u>2.3%</u>
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**Other Gas Revenues**

Connection Charge				\$58,000	\$58,000	\$0	0.0%
Late Payment Charge				\$104,000	\$106,392	\$2,392	2.3%
NSF Check Charge				\$5,000	\$5,000	\$0	0.0%
Other sales				<u>\$165,000</u>	<u>\$165,000</u>	<u>\$0</u>	<u>0.0%</u>

Total Other Gas Revenues				<u>\$332,000</u>	<u>\$334,392</u>	<u>\$2,392</u>	<u>0.7%</u>
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Total Retail Sales and Other Revenues				<u>\$93,376,880</u>	<u>\$95,544,857</u>	<u>\$2,167,978</u>	<u>2.3%</u>
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**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Present and Proposed Rates**

	<u>Present Rates</u>	<u>Proposed Rates</u>
<b><u>Residential Firm Service</u></b>		
Delivery Services Charge	\$15.69 / Month	\$18.48 / Month
Cost of Gas	\$0.94713 /Therm	\$0.94713 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>C&amp;I Firm Service</u></b>		
Basic Service Charge	\$20.00 /Month	\$30.00 /Month
Distribution Charge	\$0.10710 /Therm	\$0.10800 /Therm
Cost of Gas	\$0.94401 /Therm	\$0.94401 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>Small C&amp;I Interruptible Service</u></b>		
Basic Service Charge	\$75.00 /Month	\$75.00 /Month
Distribution Charge	\$0.07740 /Therm	\$0.08800 /Therm
Cost of Gas	\$0.83606 /Therm	\$0.83606 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm
<b><u>Large C&amp;I Interruptible Service</u></b>		
Basic Service Charge	\$275.00 /Month	\$275.00 /Month
Distribution Charge	\$0.04632 /Therm	\$0.05120 /Therm
Cost of Gas	\$0.83606 /Therm	\$0.83606 /Therm
MGP amortization	\$0.00365 /Therm	\$0.00365 /Therm

## Xcel Energy

## Natural Gas Utility - State of North Dakota

Settlement Agreement Comparison of CCOSS Deficiency and Proposed Rates  
(000's)

	(1)	(2)	(3)	(4)	(5)
Customer Class		Present Revenues	Revenue Deficiency Indicated by CCOSS	Total Effect Of Proposed Rates	Difference Between CCOSS Revenue Deficiency and Proposed Rates
Residential	\$ increase	\$36,128	\$4,301	\$1,241	\$3,060
	% increase		11.9%	3.4%	8.5%
Commercial	\$ increase	\$40,309	(\$912)	\$799	(\$1,711)
	% increase		-2.3%	2.0%	-4.2%
Interruptible Service (Small Volume)	\$ increase	\$6,117	(\$368)	\$70	(\$438)
	% increase		-6.0%	1.1%	-7.2%
Interruptible Service (Large Volume)	\$ increase	\$10,490	(\$220)	\$56	(\$276)
	% increase		-2.1%	0.5%	-2.6%
Other Revenues	\$ increase	\$332		\$2	
	% increase				
Total	\$ increase	\$93,377	\$2,801	\$2,168	\$633
	% increase		3.0%	2.3%	0.7%

## Rate Design - Class Impact by Rate Component

	(1)	(2)	(3)	(4)	
Customer Class	Present Revenues	Overall Impacts of Proposed Rates			
		Delivery / Basic Service Charges	Distribution Charges	Total Effect of All Changes	
Residential	\$ increase	\$36,128	\$1,241	\$0	\$1,241
	% increase		3.4%	0.0%	3.4%
Commercial	\$ increase	\$40,309	\$766	\$33	\$799
	% increase		1.9%	0.1%	2.0%
Small Interruptible	\$ increase	\$6,117	\$0	\$70	\$70
	% increase		0.0%	1.1%	1.1%
Large Interruptible	\$ increase	\$10,490	\$0	\$56	\$56
	% increase		0.0%	0.5%	0.5%
Total	\$ increase	\$93,045	\$2,007	\$159	\$2,166
	% increase		2.2%	0.2%	2.3%

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Settlement Agreement Monthly Bills Using Present and Proposed Rates**

RESIDENTIAL FIRM SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
0	\$15.69	\$18.48	\$2.79	17.8%
10	\$25.34	\$28.13	\$2.79	11.0%
20	\$35.00	\$37.79	\$2.79	8.0%
30	\$44.65	\$47.44	\$2.79	6.2%
40	\$54.30	\$57.09	\$2.79	5.1%
50	\$63.96	\$66.75	\$2.79	4.4%
75	\$88.09	\$90.88	\$2.79	3.2%
100	\$112.22	\$115.01	\$2.79	2.5%
200	\$208.75	\$211.54	\$2.79	1.3%
300	\$305.29	\$308.08	\$2.79	0.9%
500	\$498.35	\$501.14	\$2.79	0.6%

COMMERCIAL & INDUSTRIAL FIRM SERVICE

Use (Therms)	Bill Amount (Present)	Bill Amount (Proposed)	Increase	Percent
0	\$20.00	\$30.00	\$10.00	50.0%
50	\$73.62	\$83.67	\$10.05	13.6%
100	\$127.24	\$137.33	\$10.09	7.9%
250	\$288.10	\$298.33	\$10.23	3.5%
500	\$556.21	\$566.66	\$10.45	1.9%
750	\$824.31	\$834.99	\$10.68	1.3%
1000	\$1,092.42	\$1,103.32	\$10.90	1.0%
3000	\$3,237.25	\$3,249.95	\$12.70	0.4%
5000	\$5,382.09	\$5,396.59	\$14.50	0.3%
7500	\$8,063.13	\$8,079.88	\$16.75	0.2%
10000	\$10,744.18	\$10,763.18	\$19.00	0.2%

**Xcel Energy**  
**Natural Gas Utility - State of North Dakota**  
**Comparison of Monthly Bills Using Present and Proposed Rates**

SMALL VOLUME INTERRUPTIBLE SERVICE

<u>Use</u> <u>(Therms)</u>	<u>Bill Amount</u> <u>(Present)</u>	<u>Bill Amount</u> <u>(Proposed)</u>	<u>Increase</u>	<u>Percent</u>
1000	\$992.11	\$1,002.71	\$10.60	1.1%
3000	\$2,826.34	\$2,858.14	\$31.80	1.1%
5000	\$4,660.57	\$4,713.57	\$53.00	1.1%
7500	\$6,953.35	\$7,032.85	\$79.50	1.1%
10000	\$9,246.13	\$9,352.13	\$106.00	1.1%

LARGE VOLUME INTERRUPTIBLE SERVICE

<u>Use</u> <u>(Therms)</u>	<u>Bill Amount</u> <u>(Present)</u>	<u>Bill Amount</u> <u>(Proposed)</u>	<u>Increase</u>	<u>Percent</u>
1000	\$1,161.03	\$1,165.91	\$4.88	0.4%
3000	\$2,933.10	\$2,947.74	\$14.64	0.5%
5000	\$4,705.17	\$4,729.57	\$24.40	0.5%
7500	\$6,920.25	\$6,956.85	\$36.60	0.5%
10000	\$9,135.33	\$9,184.13	\$48.80	0.5%

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

**June 14, 2007**

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

**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

## CONCURRING OPINION

Commissioner Susan E. Wefald

June 13, 2007

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

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

I concur with this rate case decision, however, I do not agree with the concept that for residential customers, all of the customer costs are placed in a Delivery Services Charge. I also do not agree with the calculation of the percentage of the rate increase included in the Order Adopting Settlement. Xcel Energy is not receiving a rate increase of 2.3% ( see page 2). They are receiving an increase of approximately \$2,168,000 that will increase Xcel Energy income by 15.6%.

Prior to two years ago, Xcel Energy had a Basic Service Charge and a Distribution Charge for residential customers, which added together reflected the total of non-gas charges. Under this method, all residential customers paid the same Basic Service Charge, but Distribution Charges were based on gas usage of the customers (cents per dekatherm of gas used). In my dissenting opinion dated June 1, 2005 I noted, "All customers who use 828 therms or less of gas a year will pay more," for customer costs through a single Delivery Services Charge and noted that "one half of Xcel customers use 828 therms or less a year."

This is still true. The residential customer who uses a small amount of gas each month now pays the same Delivery Services Charge as the customer who uses large amounts of gas. This means that as the Delivery Services Charge increases it becomes a larger and larger percentage of the small user's bill.

What is wrong with this method? There are legitimate distribution costs that relate to volumetric usage of natural gas. Many states limit the costs included in the Basic Service Charge to costs that vary with the number of customers, such as metering costs and billing costs and exclude costs that relate to gas mains and the distribution systems. These costs are considered distribution related because they vary based on gas usage.

What are the advantages of a Delivery Services Charge? The company has a set amount of money they can count on each month, rather than their income varying based on customer usage of natural gas. This is important to the company because

people are using less natural gas these days. With commodity prices of natural gas increasing substantially, people are finding ways to conserve on natural gas.

It is interesting that only residential customers are billed using a "Delivery Services Charge." All other customer groups are billed using a Basic Service Charge and a Distribution Charge. If this is a good idea, it seems as if it should be a good idea for all customer groups.

Decoupling profits from sales does give Xcel Energy an incentive not to encourage more gas usage to receive more income. However, this rate case settlement gives \$135,000 of rate payer money to Xcel Energy to encourage people to conserve on gas usage, so apparently the original decoupling was not enough incentive.

I also do not agree with the calculation of the percentage of the rate increase included in the Order Adopting Settlement. Xcel Energy is not receiving a rate increase of 2.3% (see page 2). They are receiving an increase of approximately \$2,168,000 that will increase Xcel Energy income by 15.6%. 2.3% is the amount of increase a customer will see in relationship to their total bill which includes the cost of natural gas. However, the company does not receive any net income from natural gas costs, since the actual cost for natural gas is recovered dollar for dollar from the consumer. Therefore, the only source of income comes from increases in the Delivery Services Charge for residential customers, and the Basic Service Charge and Distribution Charges for other customers. Therefore, Xcel's actual increase in income is 15.6%.

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Susan E. Wefald, Commissioner