

# Memo

**To:** Illona Jeffcoat-Sacco  
**From:** Mike Diller *MRD*  
**Date:** January 9, 2008  
**Re:** NSP Electric Rate Case Partial Stipulation (Case No. PU-07-776)

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Attached is an agreement between the commission's advocacy staff and Northern States Power Company to use an overall rate of return of 8.8% and a return on common stock equity of 10.75% in Case No. PU-07-776. As you know, the overall rate of return is a weighted average cost of invested capital taking into consideration the company's equity and debt issues.

Please note that this agreement does not inhibit potential intervenors from pursuing a different rate of return or return on equity before the commission. The agreement simply disposes of any arguments that might occur between the Company and advocacy staff concerning rate of return and return on equity issues.

In reaching this agreement, the advocacy staff will not file cost of capital testimony during the rate case proceeding. The advocacy staff believes the stipulation is reasonable and in the best interest of North Dakota ratepayers. The stipulation also includes a provision requiring NSP to share future earnings on equity above 10.75% with its customers. Staff believes the agreement will enable staff, the Company and the commission to focus on the more critical elements of the rate increase application.

Finally, staff believes the stipulation accomplishes what would likely occur through a contested proceeding without all the noise.

STATE OF NORTH DAKOTA  
BEFORE THE  
PUBLIC SERVICE COMMISSION

In the Matter of the Application by Northern )  
States Power Company, a Minnesota )  
corporation for Authority to Increase Rates )  
for Electric Service in North Dakota )  
)

Case No. PU-07-776

**PARTIAL STIPULATION OF FACTS AND RECOMMENDATION**

This Partial Stipulation of Facts (“Partial Stipulation”) is entered into this 7<sup>th</sup> day of January 2008, by and between the North Dakota Public Service Commission advocacy staff (“Staff”) and Northern States Power Company, a Minnesota corporation (“Xcel Energy” or the “Company”), operating in North Dakota (collectively, the “Parties”). This Partial Stipulation sets forth the positions and recommendations of the Parties relating to the overall rate of return (“ROR”) and Return on Equity (“ROE”) for the Company 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 electric operations in North Dakota.

**TERMS OF STIPULATION OF FACTS**

**Reduced Return on Equity**

The Parties agree that an 8.80 percent overall ROR is appropriate for determining revenue requirements in this proceeding. The Parties also agree

to, and recommend the North Dakota Public Service Commission (the “Commission”) approve in its final order, a ROE of 10.75 percent.

The reasonableness of a 10.75 percent ROE is supported by various considerations, including but not limited to the following:

- It represents the average ROE granted to electric utilities in 2006 and 2007 by Commissions in the states included in the Company’s PLUS Plan Midwest Utility Comparison Group, as shown on Attachment A;
- 10.75 percent is equal to the ROE adopted in June 2007 by the Commission in the Company’s North Dakota natural gas rate case;<sup>1</sup>
- In the Company’s most recent rate electric rate proceeding, the Wisconsin Commission has indicated its intent to approve a 10.75 percent ROE for both electric and natural gas operations.<sup>2</sup>

#### Customer Refunds for Earnings Above Threshold.

The Parties agree to, and recommend that the Commission approve in its final order, an earnings sharing mechanism that will result in customer refunds if the Company’s net income from electric utility service in North Dakota exceeds a 10.75 percent ROE.

If the Company earns in excess of 10.75 percent ROE as reflected in the annual report of jurisdictional regulated electric earnings for any fiscal year prior to either: (i) 2011; or (ii) the test year included in the Company’s next electric general rate case (whichever occurs sooner), the Company will refund to customers revenues corresponding to earnings as shown below:

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<sup>1</sup> Case No. PU-06-525.

<sup>2</sup> Decision reflected in Wisconsin Public Service Commission Open Meeting Report for Dec. 14, 2007 (Docket No. 4220-UR-151). An actual Order is expected within the next 30 days.

- 50% of earnings above 10.75 percent ROE up to and including 11.25 percent ROE
- 75% of earnings above 11.25 percent ROE

Earnings sharing credits for a fiscal year would be applied to customer accounts as soon as practical after July 1<sup>st</sup> of the following year, after the annual report of electric earnings for the relevant 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.

## OTHER TERMS AND CONDITIONS

### Basis of Stipulation

It is agreed this Partial Stipulation is a negotiated Stipulation of Facts subject to approval by the Commission in its final order. Except for the purpose of setting interim rates in the Company's next electric general rate case, this Partial Stipulation 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 Partial Stipulation

It is understood and agreed that all offers of settlement and discussions related to this Partial Stipulation of Facts are privileged and may not be used in any manner in connection with proceedings in this case or otherwise, except as provided by law. This Partial Stipulation shall not be deemed to prevent either the Staff or the Company from responding to positions taken by intervenors in this proceeding; provided, however, that the Parties agree that such response

shall not alter the positions and recommendations set forth in this Partial Stipulation.

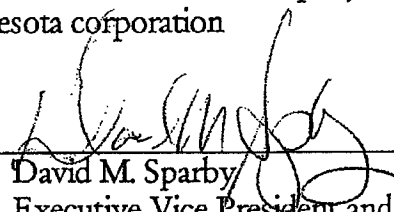
Effective Date

This Partial Stipulation of Facts shall be effective as of the date hereof.

Dated this 10<sup>th</sup> day of January, 2008.

Northern States Power Company, a  
Minnesota corporation

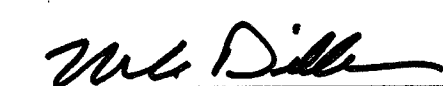
By

  
\_\_\_\_\_  
David M. Sparby  
Executive Vice President and  
Acting President and CEO

Dated this 11<sup>th</sup> day of January, 2008.

North Dakota Public Service Commission  
Advocacy Staff

By

  
\_\_\_\_\_  
Mike Diller  
Director of Accounting

**2006 AND 2007 ELECTRIC RATE CASE DECISIONS**  
FROM STATES IN THE PLUS PLAN  
MIDWEST UTILITY COMPARISON GROUP

State	Utility	Order Date	ROE
Wisconsin	Northern States Power Co. - WI	1/5/06	11.00%
Wisconsin	Wisconsin Electric Power Co.-WI	1/25/06	N/A
Minnesota	Interstate Power & Light Co.	3/3/06	10.39%
Wyoming	PacifiCorp	3/24/06	N/A
Minnesota	Northern States Power Co. - MN	9/1/06	10.54%
South Dakota	Black Hills Power Inc.	12/28/06	N/A
Wisconsin	Wisconsin Public Service Corp.	1/11/07	10.90%
Wisconsin	Wisconsin Power and Light Co.	1/19/07	10.80%
Wyoming	Cheyenne Light Fuel Power Co.	11/29/07	10.90%
Wisconsin*	Northern States Power Co. - WI	12/14/07	10.75%
<b>Average</b>			<b>10.754%</b>

\* Decision reflected in Public Service Commission of Wisconsin Open Meeting Report for December 14, 2007 (Docket No. 4220-UR-151). A written Order is anticipated within the next 30 days.