

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Tony Clark
Kevin Cramer
Brian Kalk

Chairman
Commissioner
Commissioner

APPLICATION OF NORTHERN STATES POWER
COMPANY, A MINNESOTA CORPORATION, FOR
AUTHORITY TO INCREASE RATES FOR ELECTRIC
SERVICE IN NORTH DAKOTA

CASE NO. PU-10-657
CASE NO. PU-11-55

AND

PETITION FOR APPROVAL OF A CUSTOMER CREDIT
MECHANISM FOR A DEPARTMENT OF ENERGY
SETTLEMENT PAYMENT

CASE NO. PU-11-557

CORRECTED
SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 15th day of September 2011, by and between the North Dakota Public Service Commission Advocacy Staff (“Staff”) and Northern States Power Company (“Xcel Energy” or the “Company”), a Minnesota corporation operating in North Dakota (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 electric operations in North Dakota.

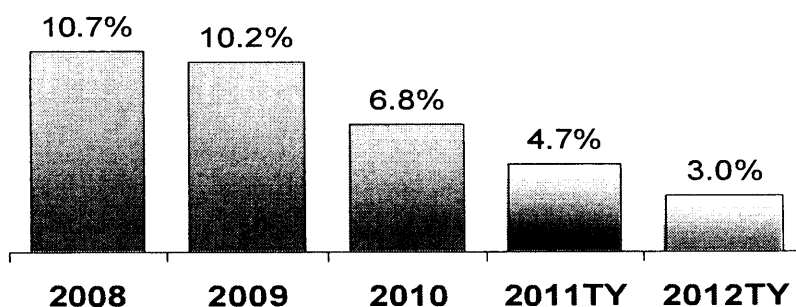
BACKGROUND

The Company’s previous general electric rate increase application was filed in December 2007 (Case No. PU-07-776). In 2010, Xcel Energy’s earnings from its electric operations in North Dakota were substantially below the authorized return on

equity (“ROE”) of 10.75 percent, as shown in the weather-normalized returns provided in Figure 1 below. Projected ROEs for the 2011 and 2012 test years, absent rate relief, are 4.7 percent and 3.0 percent, respectively.

Figure 1

Xcel Energy North Dakota Electric
Weather-Normalized Returns on Equity (ROE)



Note: The 2010 return does not include a one-time deferred fuel expense write-off.

The resulting increase in rates provided under this Settlement Agreement is necessary to provide the Company with a reasonable opportunity to earn a fair rate of return while still keeping residential rates among the lowest in the region and much lower than the national average. Moreover, even with the increase contemplated in this Settlement Agreement, the Company’s North Dakota rates will have increased, on average, about 2.2 percent per year over the past twenty years, which is below the average 2.4 percent annual rate of inflation during the same period.¹

¹ Source: U. S. Dept. of Labor (Consumer Price Index).

See Attachment A for a summary of the procedural history of this case, leading to this Settlement Agreement.

TERMS

The Parties agree to the provisions as defined below and supported by Attachment B, which is a summary of the Settlement Agreement adjustments and their revenue impact.

I. REVENUE REQUIREMENTS

In its amended filing, the Company requested a revenue increase of \$17,990,000 in 2011 and a 2012 step of \$2,374,000. As a result of the adjustments agreed to herein and described below, the Parties agree to an increase in Xcel Energy's electric base rates for retail customers in North Dakota in 2011 to yield an additional \$13,711,000 or 8.3 percent over previous rates, and a 2012 step increase of \$1,995,000 or 1.2 percent in 2012 (for a total rate increase effective January 1, 2012 of \$15,706,000 or 9.6 percent). Since this increase is lower than the current interim rate level, it will result in an estimated interim rate refund of \$3,165,000 (plus interest), as described further in Section III.

In addition to resolving all outstanding issues in the Company's rate case filing, this Settlement Agreement resolves two additional matters. The first is an agreement to allow the recovery of \$862,000 in incremental operating and maintenance ("O&M") costs incurred by the Company as it responded to the devastating 2011 summer flood in its Minot, ND service area. This is a non-recurring expense. Rather than include it in the 2011 revenue requirement and thereby affect base rates (which would complicate recovering the appropriate amount from customers over a given amortization period) this Settlement Agreement proposes to recover incremental

Minot flood O&M costs as an offset to the 2011 interim rate refund resulting from this rate case Settlement Agreement. This has the effect of decreasing the interim rate refund, and recovering the total amount in 2011 with no effect on final base rates now or in the future.

Lastly, this Settlement Agreement provides an efficient mechanism for crediting to customers \$4,668,000 for the settlement payment from the Department of Energy (“DOE”) regarding the DOE’s failure to take spent nuclear fuel during the period from 1998 to 2008, net of legal costs. Rather than include the DOE Settlement credit as a one-time offset to the Company’s 2011 revenue requirement and thereby affect base rates (which would complicate crediting the appropriate amount to customers over time), this Settlement Agreement proposes to add this customer credit to the 2011 interim rate refund. This has the effect of flowing through the DOE Settlement proceeds to customers as a one-time bill credit included with the 2011 interim rate refund, with no effect on base rates now or in the future. This provision also resolves the Company’s DOE Settlement petition in Case No. PU-11-557 pending before the Commission. Thus, this is a timely and efficient crediting mechanism.

The total refund, including the interim rate refund, the Minot flood charge, and the DOE Settlement credit is estimated to be \$6,971,000, as described in Section III.

Table 1 summarizes the overall impacts to customers of the base rate and non-base rate changes for both 2011 and 2012:

Table 1

| Test Year | Requested Base Rate Increase¹ | Settlement Base Rate Increase | DOE Settlement Credits² | Minor Flood O&M Recovery | Bill Impact |
|------------------|---|--------------------------------------|---|-------------------------------------|--------------------|
| 2011 | \$17,990,000 | \$13,711,000 | (\$4,668,000) | \$862,000 | \$9,905,000 |
| 2012 | \$2,374,000 | \$1,995,000 | | | |
| 1/1/12 Increase | \$20,364,000 | \$15,706,000 | | | |

¹ Reflects removal of Merricourt Wind Project.

² Actual credit will include interest earned on Settlement proceeds.

A. Return on Equity

The Parties agree to a return on equity (“ROE”) of 10.4 percent. The adjustment reduces the original 2011 revenue request, based on an 11.25 percent return on equity, by \$2,270,000. The 2012 step increase is also reduced by \$63,000 for this adjustment. The Parties also agree that a 10.4 percent ROE will be used for purposes of determining interim rates in the Company’s next electric rate application.

B. Monticello Life Extension and Power Uprate Project

For purposes of determining the overall revenue requirement and base rates, the Parties agree to reduce the 2011 test year revenue requirement and 2012 step increase to reflect the change in the Monticello life extension and power uprate project (“Monti LCM/EPU”). The project has been delayed due to: (1) problems in obtaining data from a vendor needed to complete a safety study required by the NRC as a condition of obtaining the amended license for the power uprate; and (2) the failure of a vendor’s equipment to meet operating requirements. As a result, the amended license and completion of the Monti LCM/EPU project are anticipated to

occur in the Fall of 2012. This change in schedule reduces the 2011 test year revenue requirement by \$480,000 and the 2012 step increase is reduced by \$897,000.

C. Reliability Improvement Costs

For purposes of determining the final revenue requirement, the Parties agree to include \$482,000 in the 2012 step increase for purposes of funding reliability improvement initiatives developed and agreed to in discussions between the Parties. These programs, described in more detail in Section IV of this Settlement Agreement, will increase revenue requirements by:

1. \$250,000 for installation of 25 Intelliteam automated switches in the Fargo, ND service area,
2. \$212,000 for increased annual vegetation management expenditures in the state of North Dakota, and
3. \$20,000 to fund a customer credit program which will issue \$50 credits on an annual basis to customers experiencing at least six sustained (5 minutes or longer) interruptions during the year.

D. Minot Flood Restoration Capital Investment

The Parties also agree to the recovery in base rates of the Company's revenue requirements associated with capital investments made to prepare and restore the Company's Minot electric system before and after the 2011 Minot flood. The 2011 revenue requirement associated with these capital investments is \$99,000 based on the incremental \$1.1 million investment in 2011. The 2012 step is increased by \$91,000 reflecting the incremental, second-year revenue requirements. Unlike the incremental flood O&M expense, this capital investment creates ongoing revenue requirements. Therefore, it is appropriate to include the investments costs in base rates in this Settlement Agreement.

E. Additional Adjustment

For purposes of determining the overall revenue requirement and base rates, the Parties agree to an additional adjustment that reduces the 2011 requested increase by \$1,629,000. This additional adjustment is equal to approximately 85 percent of the amount of non-ROE adjustments recommended by Advocacy Staff witness Mr. Michael McGarry. If this case were to remain contested, the Company would challenge a significant number of these non-ROE adjustments.

Thus, the additional adjustment implemented in this section acknowledges that although the parties could agree on an overall revenue requirement for purposes of establishing base rates, there were differences of opinion on certain components. The additional adjustment, along with other adjustments described in this Settlement Agreement: (1) provides an overall revenue requirement that is just and reasonable; (2) avoids costly and time-consuming litigation; and (3) does not require the endorsement and/or acceptance of any cost-of-service principles or application of Commission policies. In particular, the additional adjustment does not establish any principle or precedent, or adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding.

The parties agree this Settlement Agreement provides for the Company's filed regulatory amortizations over a three year period.

F. 2012 Revenue Adjustment

The Parties agree to increase or decrease weather normalized non-fuel retail revenues experienced in 2012 so as to match the 2012 projected forecast of non-fuel retail

revenues of \$119,410,000 resulting from this Settlement.² Due to the continued economic recession, the actual weather normalized revenues for 2011 are lower than projected for the 2011 Test Year. While it is not possible to predict when economic recovery will occur, it is doubtful that a full recovery will occur in the near future. Therefore, due to the difficulty in forecasting retail revenues at this time, a retail revenue true-up will occur for the year ending 2012. Given the current trend in electric retail sales, the true-up may result in a customer surcharge rather than a bill credit. In either circumstance, the Company will collect no more and no less than its projected retail base revenues for 2012. This Revenue Adjustment will not apply to 2011 calendar year and will only apply to 2012 base revenues. The Revenue Adjustment will be made through a one-time bill charge or refund. Refunds or charges will be determined on a per customer basis using each customer's 2012 annual actual billed retail base revenues as a share of the total 2012 actual billed retail base revenues before weather-normalization, multiplied by the true-up amount. The Company shall make a compliance filing by March 31, 2013 providing a comparison of weather normalized retail revenues to the Settlement 2012 projected non-fuel revenues of \$119,410,000 and include supporting schedules calculating the customer bill impacts. The Company will use the same weather normalization methodology used in this current rate case.

² Steven Huso Direct Testimony Exhibit____(SVH-1), Schedule 3 Base Retail Revenues of \$103,818,000 plus increased retail revenues resulting from this Settlement of \$15,592,000 (which does not include increases in non-retail operating revenues of \$114,000). Also see Attachment C.

II. RATE DESIGN

The Parties agree to the following apportionment of the 2011 revenue requirement and 2012 increase among customer classes for the January 1, 2012 rate change:

1. Residential service: \$5,729,000 or 8.7 percent;
2. Commercial (non-demand metered) service: \$806,000 or 7.3 percent; and
3. Commercial (demand metered) service: \$9,055,000 or 10.6 percent.

These changes are further shown on Attachment C to the Settlement Agreement. This apportionment reflects base rate percentage changes by customer class that are consistent with the Company's originally proposed class revenue allocation, as shown on the attachment.

The Parties agree to the filed tariff changes proposed in the Company's initial filing, as amended to reflect the change in revenue requirement contained in this Settlement Agreement. In amending the tariffs, the Parties agree to use the Company's proposed rate design principles in developing final rates to implement the approved revenue requirement contained in this Settlement Agreement.

The Company shall file compliance tariff pages setting forth the revised electric rates and tariffs provided by this Settlement Agreement at least thirty (30) days prior to the January 1, 2012 effective date of final rates.

III. 2011 INTERIM RATE REFUND

The Parties agree the interim rates presently in place will remain in effect for all customer classes through December 31, 2011. An interim rate refund will be issued to customers within ninety (90) days of the implementation of final rates for the difference between total interim revenues collected since February 18, 2011 and the 2011 test year revenue amount agreed to in this Settlement (effective February 18). Based on current information, the Parties estimate this difference to be \$3,165,000 prior to considering the additional refund adjustments for the DOE Settlement customer credit and incremental Minot flood O&M expenses. The annualized Settlement 2011 revenue requirement is first compared to the annualized interim rate increase level to calculate the annualized 2011 interim rate refund. An adjustment is made to the annualized difference to reflect the fact that interim rates will be in effect for less than a full year (i.e., February 18, 2011 through December 31, 2011). Once the 2011 interim rate refund estimate is calculated, the above-described one-time DOE refund revenue credit and Minot O&M cost adjustments are included to establish the net refund amount.

As shown in Table 2, the inclusion of both the DOE Settlement credit and incremental Minot O&M adjustments provide an overall net increase to the 2011 interim rate refund of \$3,806,000. This will result in a total customer refund of approximately \$6,971,000, or about \$35.69 per residential customer, to be issued during the first quarter of 2012.

Table 2

| Refund/Recovery Item | Refund Amount |
|--|---------------------------|
| <i>Interim Refund</i> | |
| Interim Rate Level (annual) | \$17,355,000 |
| Settlement 2011 Increase (annual) | <u>\$13,711,000</u> |
| Difference | \$3,644,000 |
| Adjusted for Feb 18 Effective Date ¹ | \$3,165,000 |
| <i>Other Refund Adjustments</i> | |
| a. Minot Flood O&M Recovery | (\$862,000) |
| b. DOE Settlement Proceeds | <u>\$4,668,000</u> |
| Net Refund Adjustments | \$3,806,000 |
| Total Estimated Customer Refund² | <u>\$6,971,000</u> |

¹ Since interim rates will have been collected from February 18, 2011 to December 31, 2011, or 317 days, the estimated refund amount represents approximately 317/365 or 86.849 percent of the annualized difference between the interim rate level and the Settlement amount.

² When actually issued, the refund will also include interest earned on the DOE Settlement amount as well as the interim revenues collected since February 18, 2011. Interest is not reflected in this estimate.

IV. RELIABILITY IMPROVEMENTS

The Parties agree that the following reliability improvements will be implemented beginning in 2012:

A. Installation of Intelliteam Switches

Xcel Energy will install 25 Intelliteam switches on its Fargo, North Dakota distribution system to improve outage restoration time through “smart grid”

technology. These switches will cover about 80 percent of the load in Fargo, including critical loads such as hospitals, the airport, water treatment facilities, North Dakota State University, and the industrial park. In a feeder-level outage, these switches have the capability to automatically isolate a faulted section of a circuit and restore power to the unfaulted sections. Typically, about half of the customers being served by a protected feeder will be restored within 45 seconds. At the time of this Settlement Agreement, the estimated cost of installing 25 Intelliteam switches is approximately \$2.5 million. The Parties agree to increase the 2012 step increase by \$250,000 to reflect the associated annual revenue requirement for 2012. Future rate cases will include the investment as part of the filed rate base.

Xcel Energy has already installed over a hundred of these switches on its system in other states and has had good experience with them. Other utilities throughout the country have also successfully used this technology.

Assuming Commission acceptance of this Settlement, the 25 Intelliteam switches can be in service prior to the 2012 summer storm season.

B. Increase Vegetation Management Resources

Beginning in 2012, the Company will increase its operating expense budget to supplement its vegetation management (e.g. tree pruning) activities in North Dakota. To recover these costs, the Parties agree to allow an increase to the 2012 revenue requirement of \$212,000, which is representative of the current cost of an additional vegetation management crew. Increasing its North Dakota resources from 4 to 5 crews will allow the Company to shorten the vegetation management cycle in North Dakota from the current 4.5 years to 4 years, which exceeds the Company's existing internal standard of 5 years. The additional resources would also facilitate mid-cycle

check-ups on the higher growth or problematic areas of Xcel Energy's North Dakota system. This agreement is intended to address the high tree growth rates in recent years due to excess moisture in the region.

C. Implement Annual Multiple Outage Credit

Beginning January 1, 2012, Xcel Energy will implement a service quality program in North Dakota for customers experiencing multiple service interruptions. The program will, on an annual basis, provide \$50 bill credits for customers who experience at least 6 sustained (5 minutes or longer) interruptions during the previous calendar year that are not caused by storms or public damage to our system. The credits will be awarded as a one-time bill credit after the data has been finalized, queried, and reviewed following the calendar year in question. The Parties agree to include an increase to the 2012 revenue requirement of \$20,000 for the cost of the credits. The Company will provide a summary report each year to the Commission of the customers impacted and credits paid under this program. The first bill credits will be for interruptions occurring in 2012, and will be issued to customers during the first quarter of 2013.

V. OTHER TERMS AND CONDITIONS

A. Basis of Settlement Agreement

It is agreed this Settlement Agreement is a negotiated settlement agreement subject to approval by the Commission. Except for the 10.4 percent ROE, the Settlement Agreement does not establish any principle or precedent, or adopt or recommend any specific type or amount of expense or rate base, for this or any future proceeding. In future rate applications and earnings reports, the Company will use an ROE of 10.4 percent and the most recent Commission order approving cost recovery for specific

costs.

B. 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.

C. 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.

D. 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 the Revenue Requirements Section of this Settlement Agreement.

E. 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.

CONCLUSION

The Parties have agreed to the forgoing terms to resolve all outstanding issues in the above-captioned proceeding. These terms are a result of negotiations between the Parties, are in the public interest, and will result in reasonable electric rates. For these reasons, the Parties urge the Commission to approve the Settlement Agreement.

Dated this 15th day of September 2011.

Northern States Power Company,
A Minnesota corporation

A handwritten signature in black ink that reads "Laura McCarten". The signature is written in a cursive, flowing style.

By: _____
Laura McCarten
Regional Vice President

Dated this ____ day of September 2011.

Northern Dakota Public Service Commission Staff

By: _____
Mark Gruman
Counsel to the Commission