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October 12, 2012

VIA ELECTRONIC
AND U.S. MAIL

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission, Dept. 0408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

RE: IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER FOR A
RELIABILITY PERFORMANCE PLAN
Case Numbers PU-10-657, PU-11-55, and PU-11-557

Dear Mr. Nitschke:

Attached is a Settlement Agreement reached between Northern States Power Company and the Advocacy Staff of the North Dakota Public Service Commission (collectively, the "Parties") in the above referenced matter.

The Settlement Agreement resolves the contested issue regarding the establishment of an appropriate award threshold for the Company's reliability performance under the proposed Reliability Performance Plan, as measured by the System Average Interruption Duration Index (SAIDI).

The Parties urge the Commission to approve the attached Settlement Agreement, as it is consistent with the Order and Settlement Agreement in the above referenced dockets and in the public interest.

Thank you.

Sincerely,

DAVID SEDERQUIST

SR. REGULATORY CONSULTANT

cc: Mark Gruman
Mike Diller

106 PU-11-557 Filed 10/12/2012 Pages: 8
Fully executed Settlement Agreement
Northern States Power Company
David Sederquist

161 PU-11-55 Filed 10/12/2012 Pages: 8
Fully executed Settlement Agreement
Northern States Power Company
David Sederquist

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**STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

**Northern States Power Company
2011 Electric Rate Increase
Application**

Case No. PU-10-657

**Northern States Power Company
2012 Electric Rate Increase
Application**

Case No. PU-11-55

**Northern States Power Company
Customer Credit - DOE
Settlement Application**

Case No. PU-11-557

OAH File No. 20120353

**RELIABILITY PERFORMANCE PLAN
SETTLEMENT AGREEMENT**

This Settlement Agreement is entered into this 12th day of October, 2012, by and between the North Dakota Public Service Commission Advocacy Staff (Advocacy Staff), and Northern States Power Company, a Minnesota corporation (the Company).

BACKGROUND

On February 29, 2012 the North Dakota Public Service Commission (Commission) issued its Order on Settlement in the above referenced proceedings (Settlement Order), which, in ordering clause 2, directed the Company to file with the Commission a plan for performance-based regulation with metrics to measure and evaluate system reliability, including rate of return incentives/penalties to improve North Dakota service reliability and reduce costs to improve return on investment.

On June 1, 2012, the Company complied with ordering clause 2 of the Settlement Order by filing its proposed Reliability Performance Plan (RPP) with the Commission. The RPP proposed a three pronged plan:

- The establishment of an “excellence threshold” and a related financial incentive for the Company’s reliability performance, as measured by the System Average Interruption Duration Index (“SAIDI”),
- Compensation, in the form of annual, one-time billing credits, to Customers who Experience Multiple service Interruptions (“CEMI”) in a given Plan year, and
- Reporting to the Commission of customer perceptions of Xcel Energy’s reliability as determined by an annual reliability-focused survey.

On August 21, 2012, Advocacy Staff filed its pre-filed direct testimony (Staff Testimony) with the Commission supporting the RPP Filing but requesting a strengthened standard with respect to the SAIDI excellence threshold.

On September 17, 2012, the Company filed its pre-filed direct testimony (Company Testimony) supporting the RPP and advocating for the originally proposed SAIDI excellence threshold.

On September 25, 2012, a hearing was held in the Commission hearing room to evaluate the Company’s proposed RPP.

On October 4, 2012, the Commission held a Work Session to evaluate the Company’s proposed RPP.

TERMS OF SETTLEMENT

The Company and Advocacy Staff agree to the provisions described below, supported by this Settlement Agreement and the evidentiary record in this proceeding.

1. The Company and Advocacy Staff agree to a SAIDI excellence threshold of 57.0 minutes, representing a negotiated outcome based on the Company's proposed 58.8 minute excellence threshold and Advocacy Staff's proposed 56.8 minute excellence threshold. The excellence threshold agreed to represents a stretching goal that takes into consideration the installation of the Intelliteam switches and other actions that the Company is undertaking to improve the reliability of electric service to its North Dakota customers.
2. In recognition of the more difficult SAIDI excellence threshold agreed to in Section 1, Advocacy Staff and the Company agree to modify the range of the incentive award for achieving the SAIDI excellence threshold. The range shall be \$250,000 to \$1,500,000. As applied, a base incentive amount of \$250,000 as originally proposed would be awarded in any year the Company can achieve the SAIDI excellence threshold, regardless of its reported earnings for the same year. The base incentive amount, however, would be increased one dollar for every dollar that actual reported revenues for the plan year were deficient (relative to the authorized Return on Equity of 10.4 percent) and capped if the total incentive reached \$1,500,000.
3. In addition to the reliability reporting the Company has committed to in the December 23, 2011 Amended Settlement Agreement in the above referenced proceedings, the Company shall provide to the Commission, in each plan year, documentation of all outage days excluded for purposes of normalizing SAIDI results. While the parties agree that the IEEE normalization methodology will be used to calculate SAIDI under the RPP, the Company and Advocacy Staff agree to discuss in good faith the appropriateness of excluding any outage day questioned or contested by Staff.

4. All other terms of the RPP as reflected in the RPP Filing, Company Testimony and Staff Testimony remain unchanged.

MISCELLANEOUS PROVISIONS

A. Basis of Settlement Agreement. It is agreed this Settlement Agreement is a negotiated Settlement agreement subject to approval by the Commission.

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, the Settlement Agreement will not be admissible as evidence in this or any other proceeding and no part thereof may be used for any purpose in this case or in any other.

C. Applicability and Scope. This Settlement Agreement is binding on the Company and Advocacy Staff, and their successors, assigns, agents, and representatives. This Settlement Agreement does not set policy or overturn precedent. This Settlement Agreement does not in any respect constitute an agreement, admission or determination by the Company or Advocacy Staff as to the merits of any specific allegation or contention made by the Company and Advocacy Staff in this proceeding.

D. Effective Date. This Settlement Agreement is effective on the date of the Commission Order approving this Settlement Agreement.

E. Modification. The Company and Advocacy Staff reserve the right to withdraw from the Settlement if the Commission rejects or modifies any element of the Settlement.

CONCLUSION

The Company and Advocacy Staff have agreed to the foregoing terms to resolve the contested issues in the captioned proceedings. For these reasons, the Company and Advocacy Staff respectfully urge the Commission to approve the Settlement Agreement.

[Signature Pages Follow]


Northern States Power Company, a Minnesota Corporation

By: Laura McCarten
Laura McCarten
Regional Vice President

Dated this 11th day of October, 2012.

[SIGNATURE PAGE TO SETTLEMENT AGREEMENT]

North Dakota Public Service Commission Advocacy Staff

By: 
Mark Gruman
Legal Counsel (PSC Advocacy Staff)

Dated this 12th day of October, 2012.

[SIGNATURE PAGE TO SETTLEMENT AGREEMENT]