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Fargo, North Dakota 58402

November 30, 2011

**VIA ELECTRONIC
AND FEDERAL EXPRESS**

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
Department 408
600 East Boulevard Avenue
Bismarck, ND 58505-0480

Re: IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION, FOR AUTHORITY TO INCREASE RATES FOR
ELECTRIC SERVICE IN NORTH DAKOTA
Case Numbers PU-10-657 and PU-11-55
AND
PETITION FOR APPROVAL OF A CUSTOMER CREDIT
MECHANISM FOR A DEPARTMENT OF ENERGY
SETTLEMENT PAYMENT
Case Number PU-11-557

Dear Mr. Nitschke:

This letter provides a response from Northern States Power Company (“Xcel Energy” or “the Company”) to concerns raised by the North Dakota Public Service Commission (“Commission”) at a working session held on October 31, 2011 in the above-referenced matter. At the October 31 working session, the Commission considered the Settlement Agreement, amended to incorporate Commission suggestions made at the October 18, 2011 technical hearing. In their October 31 discussions, the Commissioners suggested that the Company and Commission Advocacy Staff (“Staff”) explore the value and feasibility of including additional reliability investments or actions to the Settlement Agreement to further enhance reliability in North Dakota. In addition, the Commission indicated an interest in some form of performance-based mechanism focused on reliability performance (or, service quality plan).

Since that time, we consulted with the Staff to identify additional reliability investments and actions beyond our standard level of service that could be considered. These actions and their associated costs were agreed to in principle by Staff and are described in this submittal.

67 PU-11-557 Filed 11/30/2011 Pages: 5
Letter response to Oct. 31, 2011 work session
Northern States Power Company

111 PU-11-55 Filed 11/30/2011 Pages: 5
Letter response to Oct. 31, 2011 work session
Northern States Power Company

136 PU-10-657 Filed 11/30/2011 Pages: 5
Letter response to Oct. 31, 2011 work session
Northern States Power Company

At the October 31 working session, most of the discussion addressed our electric reliability in North Dakota and whether additional actions or staffing was needed. Providing reliable service is a top priority for Xcel Energy, and we are confident that our procedures, investment decisions, and approach to resource allocation are consistent with sound industry practices and have resulted in very reliable service in North Dakota.

That said, we acknowledge that there have been unusual and high profile outages that have affected customers in our Fargo/West Fargo service area over the last 18 months. These include the August 28, 2010 power disruption to a north Fargo neighborhood, the February 12, 2011 equipment failure at our Cass County Substation, and the November 14, 2011 transmission level outage in Fargo. We understand these particular outages have raised the Commission's concerns regarding reliability, and we take these events and the Commission's concerns very seriously.

In the following section of this memo we provide additional information on our staffing levels in North Dakota. In the subsequent section we detail additional reliability related actions that we could undertake to further enhance reliability performance, and present the framework for a quality service program that would allow ongoing monitoring of our performance over several metrics, should the commission desire to implement such a program.

North Dakota staffing levels

At the October 31 working session the Commission questioned whether the Company was sufficiently staffed in North Dakota to provide reliable electric service. We believe we are appropriately staffed. Each year the Company plans and budgets for its standard reliability programs, which include applicable work in the following areas:

- Underground cable replacement program
- Overhead line maintenance (i.e., inspections, replacements, and upgrades of failed devices and equipment)
- System vegetation management
- Computerized reliability event monitoring and reporting (i.e., automated notification of system devices that have failed more than once)
- Pole testing and replacement
- Our Feeder Performance Improvement Program (i.e., yearly analysis of reliability data to identify worst performing feeders on our system)
- Feeder infra-red evaluation (i.e., periodic infra-red scans of overhead mainline feeders to detect hot spots or hot components)
- Inspections and condition assessments of various system equipment

As these and any new reliability programs are developed and planned, staffing levels are determined based upon what is needed to safely and efficiently execute each program. When necessary, we augment our local resources with other employees with specialized training and contract resources, for specific projects or spikes in workload, such as during flooding conditions.

Our staffing needs are also heavily driven by the need to provide adequate response time to service interruptions around the clock and throughout the year. The Customer Average Interruption Duration Index (“CAIDI”) measures how long it takes to restore service when an outage occurs. The average CAIDI for North Dakota from 2006 – 2010 was 81 minutes, about 20 percent faster than in the other states we serve. We believe these results support the conclusion that we are reasonably staffed in North Dakota.¹

However, in response to comments made by the Commission regarding additional steps that may improve reliability, we would propose hiring an additional electrical engineer to be based in Fargo, North Dakota, as described more fully in the next section.

Proposals for “next step” actions to promote better reliability

1. Identify and replace 500 MCM underground cable

At the October 31 working session the Commission expressed interest in what “next steps” (i.e., additional actions or programs) we might consider taking to potentially enhance service reliability - beyond those already included in the Settlement Agreement - if the corresponding funding was made available. In response, the Company identified a potential program to proactively locate and replace an older type of underground cable, referred to as 500 MCM cable, that is less robust than the current standard cable. Experience shows that when this type of cable fails, it is likely to have a subsequent failure sooner than our current standard underground cable.

To accomplish this, the Company would propose to expend \$250,000 per year in capital funds for 3 years beginning in 2012. The annual revenue requirements related to this project are approximately \$19,000 in 2012, \$59,000 in 2013, and \$99,000 in 2014.

2. Hire an electrical engineer to be based in North Dakota.

Another action that could help improve reliability in North Dakota is to hire an additional electrical engineer to be based in Fargo, North Dakota. The engineer would lead the effort to identify and replace the remaining 500 MCM cable on our system, as described previously. In addition, this engineer would be assigned responsibility to monitor our reliability in North Dakota, and proactively address system and reliability

¹ We anticipate the Intelliteam automated switches to be installed in Fargo will further improve the CAIDI for North Dakota. See the Rate Case Settlement Testimony of Ms. Laura McCarten.

issues for our North Dakota service area. The engineer would provide engineering services in our other jurisdictions as well, with the costs allocated correspondingly. The annual revenue requirements associated with an additional engineer is about \$17,000 in 2012, \$31,000 in 2013, and \$46,000 in 2014, based on our assumption that approximately 90 percent of the engineer's labor and other expenses would be capitalized, and the remaining 10 percent expensed.

3. Investigate use of a performance-based mechanism.

The Commission also asked the Company to consider how a type of performance-based regulation could be used to promote better reliability performance. As an example, Commissioner Clark referenced the general design of the Company's "PLUS" rate plan, as authorized in Case No. PU-400-00-195, but designed to focus more on localized reliability performance.

We generally agree with the Commission that it is worthwhile to consider application of performance metrics designed similarly to those used in the PLUS Plan. However, given that the Company's investment plans are different today than what they were ten years ago, the more comprehensive elements of that plan (relating primarily to cost recovery) would not be appropriate. Instead, a "service quality plan" focused solely on reliability performance could be designed. We discussed with Staff the following concepts in considering the Commission's suggestion:

- Using a mix of the broader, industry standard performance indicators (such as SAIFI, CAIDI, and SAIDI) and those that would measure reliability issues on a more "customer experience" level (i.e., customers with multiple outages, customer satisfaction survey scores, etc.) should be considered.
- Establishing performance targets as ranges to acknowledge normal levels of performance variability and create more meaningful targets.
- Ensuring performance incentives are symmetrical, such that any financial impact would be based on both above-target and below-target performance.
- Clearly defining the plan term and any plan exceptions to allow for needed flexibility in the review, amendment, and extension of the framework.
- Maintaining the Company's ability to seek rate recovery of its prudent investments and operating costs during the term of the plan.

While the Company has undertaken initial work in response to the Commission's discussion, it is important to give the Company and Staff sufficient time to properly design, develop, and vet such a service quality plan. As Commissioner Clark noted at the October 31 working session, development of a plan's metrics, targets, and award/penalty structure is a big effort and is easier said than done. Therefore, we

propose to commit to continue to work with Staff to develop a set of reliability-focused metrics and targets, and file a final study report or service quality plan proposal to the Commission within 90 days of the Order date in this case.

Conclusion

The Company appreciates the direction provided by the Commission at its October 31 work session, as well as the Commission's recognition that the existing Settlement Agreement already contains a significant focus on reliability—greater than has historically been considered. Since that session, we have made a serious effort to respond to the Commission's reliability concerns. The proposals above, along with the incremental costs, could be added to the Settlement Agreement to potentially improve reliability in North Dakota.

The Company continues to believe the current Settlement Agreement, independent of whether the additional proposals describe in this letter are implemented by the Commission, is in the public interest as it:

- Provides a reasonable result for the Company and our customers.
- Allows an efficient mechanism to return to customers proceeds from our spent nuclear fuel settlement with the Department of Energy, as well as to recover incremental costs to the 2011 Minot Flood.
- Avoids costly and lengthy litigation that could result in a greater revenue requirement for the Company, as acknowledged by Mr. Michael Diller at the October 18 hearing.\
- Seeks to improve reliability via the installation of Intelliteam switches in Fargo, increased vegetation management, and enhanced reliability reporting.

We welcome the opportunity to discuss these proposals with you further and respectfully recommend either an informal hearing or work session be scheduled as soon as possible to consider whether the Commission has sufficient information to allow approval of the Settlement Agreement.

Please contact me if you have any questions.

Sincerely,



David Sederquist
Sr. Regulatory Consultant

cc: Mike Diller