

**STATE OF 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**

**ORDER ON SETTLEMENT**

**February 29, 2012**

**Appearances**

Commissioners Tony Clark, Kevin Cramer, and Brian P. Kalk.

Matthew P. Loftus, Assistant General Counsel, Xcel Energy, 414 Nicollet Mall, Fifth Floor, Minneapolis, Minnesota 55401, attorney for Northern States Power Company, a Minnesota corporation.

Mitchell D. Armstrong, Special Assistant Attorney General, Legal Counsel for the North Dakota Public Service Commission Advocacy Staff.

Mark E. Gruman, Legal Counsel, Public Service Commission, State Capitol, 600 East Boulevard Avenue, Bismarck, North Dakota 58505, representing Public Service Commission Advocacy Staff.

Illona A. Jeffcoat-Sacco, General Counsel, Public Service Commission, 600 E. Boulevard Avenue, Dept. 408, Bismarck, North Dakota 58505, attorney for the Public Service Commission.

Al Wahl, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street — Suite 303, Bismarck, ND 58503, as Procedural Hearing Officer.

**Preliminary Statement**

On December 20, 2010, Northern States Power Company (NSP) filed with the North Dakota Public Service Commission (Commission) an increase in annual base

revenues for electric utility service for 2011 of \$19.773 million or a 12.0% increase over current rates effective for electric service on and after January 19, 2011, Case Number PU-10-657 (2011 Increase). NSP also filed an increase in annual base revenues for electric utility service for 2012 of \$4.226 million or 2.57%, effective January 1, 2012 (2012 Increase).

The combined effect of the 2011 and 2012 test year applications is a total request of \$23.999 million or an overall increase of approximately 14.59%.

On January 12, 2011, the Commission suspended NSP's general rate increase filing and set the matter for investigation and hearing.

On January 26, 2011, the Commission issued an order authorizing NSP to implement an interim electric rate increase of \$17.355 million, effective February 18, 2011, subject to refund.

On February 7, 2011, NSP submitted a request that the Commission sever the 2012 Increase from the 2011 Increase and consider the 2012 Increase in a separate proceeding. The 2012 Increase was docketed as Case No. PU-11-55.

On March 24, 2011 the Commission issued a Notice of Hearing, Notice of Intervention Deadline, and Notice of Public Input Sessions for Case Number PU-10-657 and Case No. PU-11-55, providing until June 10, 2011 for filing petitions to Intervene and scheduling a public hearing for August 9, 2011 and. The notice also advised of Public Input Sessions to be held via interactive television at various locations May 23, 2011 at 7:00 pm and May 24, 2011 at 12:00 pm central time.

On May 10, 2011 NSP filed an adjustment to the 2011 and 2012 test years in its rate filings, reducing the 2011 Increase to \$17.99 million or 10.94% increase, and reducing the 2012 increase to \$2.374 million or 1.44% increase. The adjustments were made to reflect the termination of NSP's contract with enXco Development Corporation to take ownership of a 150 MW wind project near Merricourt, ND.

On June 6, 2011, NSP and Commission Advocacy Staff filed a stipulation requesting that the hearing be rescheduled to begin October 18, 2011.

On June 8, 2011, the Commission passed a motion consolidating the hearings for Case No. PU-10-657 and Case No. PU-11-55.

On June 22, 2011, the Commission issued a Notice of Rescheduled Hearing setting the public hearing to begin October 18, 2011 at 8:30 a.m. CDT in the Commission Hearing Room, State Capitol, 12th Floor, Bismarck, North Dakota 58505. The Notice set forth the following issues to be considered:

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 proposed 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 August 11, 2011, NSP filed with the Commission a petition for approval of a credit mechanism to refund approximately \$4.7 million received by NSP pursuant to a settlement with the United States regarding the Department of Energy's partial breach of its contract to take spent nuclear fuel beginning January 31, 1998, Case No. PU-11-557.

On September 15, 2011 a Settlement Agreement was entered into by NSP and Advocacy Staff, and filed with the Commission, to resolve all outstanding issues in Case No. PU-10-657, Case No. PU-11-55, and Case No. PU-11-557 (September Settlement).

On September 16, 2011, the Commission issued a Notice of Hearing stating that the October 18, 2011 public hearing would be held to consider whether the September Settlement is reasonable and should be approved and adopted by the Commission. The hearing was held as scheduled.

On October 27, 2011, an Amended Settlement Agreement was entered into by NSP and Advocacy Staff to restructure one of the reliability components of the September Settlement as testified to at the October 18, 2011 hearing. The Amended Settlement Agreement was filed on October 28, 2011.

On December 23, 2011, an Amended Settlement Agreement was entered into by NSP and Advocacy Staff, and filed with the Commission, to include three additional reliability conditions to address concerns regarding staffing, system maintenance, and overall reliability (December Settlement).

## **Discussion**

NSP originally filed to increase annual base revenues for electric utility service for 2011 by \$19.773 million effective for electric service on and after January 19, 2011, Case Number PU-10-657 (2011 Increase). NSP also filed to increase annual base revenues for electric utility service for 2012 by \$4.226 million effective January 1, 2012 (2012 Increase). The increase was based on a 11.25% return on equity component of cost of capital.

NSP identified the primary drivers of the need for a rate increase as: (1) investment to maintain, improve, and replace infrastructure on its system; (2) additional costs to comply with new regulatory requirements; (3) cost increases due to general economic trends.

The interim rate increase authorized for NSP provided \$17.355 million of additional annual revenue until final rates were approved by the Commission. The interim rates were made effective February 18, 2011, subject to refund.

On May 10, 2011, NSP reduced its 2011 Increase to \$17.99 million and reduced the 2012 Increase to \$2.374 million to reflect its decision to terminate a 150 MW wind project near Merricourt, North Dakota.

The December Settlement provides:

- a 10.4% return on equity ("ROE") component of cost of capital;
- an increase in rates in 2011 to produce additional annual revenue of \$13.711 million;
- an increase in rates in 2012 to produce additional annual revenue of \$2.011 million;
- a refund to customers to be issued within 90 days of the implementation of final rates. If final rates were to become effective March 1, 2012, the refund would be approximately \$7.239 million, about \$37 per residential customer. The refund would reflect the difference between total interim revenues collected since February 18, 2011 and the 2011 test year revenue amount agreed to in the December Settlement; an offset of \$862,000 in operating and maintenance expenses from late May through October 3, 2011 related to the flood in Minot, North Dakota; and a credit of \$4.668 million in settlement payments from the Department of Energy (DOE) regarding its failure to take spent nuclear fuel during the period of 1998 to 2008, net of legal costs;
- a one-time bill charge or refund in 2013 to true-up actual billed 2012 non-fuel retail revenues with 2012 projected forecast of non-fuel retail revenues of \$119.426 million.

The stipulated rates in the December Settlement provide for recovery of:

- capital investments related to the Minot flood restoration effort;
- \$2.5 million in 2012 for the installation of approximately 25 Intelliteam automated switches in Fargo, North Dakota;

- \$212,000 in 2012 for an additional vegetation management crew;
- a three year program to locate and replace 500 MCM cable resulting in a \$19,000 revenue requirement included in 2012 electric rates; and
- the costs associated with an additional electrical engineer to be based in Fargo, North Dakota who will lead the effort to identify and replace 500 MCM cable, will monitor system reliability in North Dakota, and will proactively address system and reliability issues, a \$17,000 revenue requirement included in 2012 electric rates.

The December Settlement provides for the following apportionment of revenue requirement increase among customer classes:

- residential service: \$5.735 million or 8.7 percent;
- commercial (non-demand metered) service: \$808,000 or 7.4 percent; and
- commercial (demand metered) service: \$9.064 million or 10.6 percent.

The December Settlement provides for expanded reliability reporting for calendar years 2012 through 2014 including:

- event by event reporting of sustained feeder level outages;
- quarterly reporting of all outages due to underground cable failure and cable replacements;
- annual reporting of the top ten causes of outage events and top ten causes of customer-minutes out; and
- annual reporting of the number of customers experiencing multiple service interruptions.

The December Settlement also provides that NSP and Advocacy Staff will jointly develop and file, within 90 days of the date of this Order, recommendations regarding a reliability service quality plan to include a focus on localized reliability performance.

The Commission finds the December Settlement regarding the ROE of 10.4% is a just and reasonable return.

The Commission finds that the 2011 and 2012 revenue increases provided in the December Settlement are necessary to provide a just and reasonable return of NSP's property, used and useful, for the service and convenience of the public in North Dakota.

The Commission acknowledges that the amended license and completion of the Monticello power plant life extension and power uprate project that is anticipated to occur in late 2012 was removed from the 2011 Increase and the 2012 Increase in the December Settlement. The Commission also acknowledges that the December Settlement represents an adjustment that reduces the 2011 Increase by approximately 85% of the amount of non-ROE adjustments recommended by Advocacy Staff.

The Commission finds the December Settlement provisions regarding the addition of (1) the recovery of costs related to the Minot flood efforts, (2) the recovery of 2012 costs for Intelliteam automated switches and additional vegetation management expenditures; and (3) the 1998 to 2008 DOE settlement proceeds to the rate refund are reasonable and appropriate. The rate refund is a reasonable and effective mechanism for handling those financial issues. The Commission applauds the past and ongoing work of NSP employees related to the Minot flood.

The Commission finds the December Settlement provisions regarding (1) the recovery of 2012 costs for the program to locate and replace 500 MCM cable and (2) the recovery of the North Dakota portion of the 2012 costs for the additional electrical engineer to be based in Fargo are reasonable and appropriate.

The Commission finds the December Settlement provision for apportionment of the 2011 increase and 2012 increase among customer classes is just and reasonable without discrimination.

The Commission finds the December Settlement regarding reliability reporting is reasonable and appropriate.

By the December Settlement, the parties agree to jointly develop and file, within 90 days of the Order in this proceeding, recommendations regarding a reliability service quality plan to include a focus on localized reliability performance. The Commission believes the following modifications to the December Settlement must be made relative to service reliability issues:

- Within 90 days of the implementation of final rates, NSP shall develop and file with the Commission a plan for performance-based regulation with metrics to measure and evaluate system reliability, and with rate of return incentives/penalties to improve North Dakota service reliability and reduce costs to improve return on investment.

The Commission finds the December Settlement, as modified by the Commission, is reasonable.

Having considered this matter, the Commission issues the following:

### **Order**

1. The December 23, 2011 Settlement Agreement, a copy of which is attached to this Order, is made a part of this Order and is APPROVED with an additional filing requirement specified in ordering paragraph 2.
2. Within 90 days of this Order, NSP shall 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.

3. NSP is authorized to implement an increase in its electric rates sufficient to produce a total annual revenue increase of \$15.722 million, or 9.6 % in accordance with the rate design provided in the December 23, 2011 Settlement Agreement. .

4. NSP shall file compliance tariffs consistent with this Order and the December 23, 2011 Settlement Agreement at least 30 days prior to the effective date of the electric rates.

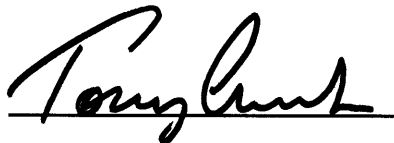
5. Within 90 days from the effective date of the rates filed in compliance with this Order, NSP shall issue to customers a refund consistent with the December 23, 2011 Settlement Agreement.

6. 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 \$119.426 million and include supporting schedules calculating the customer bill impacts.

**PUBLIC SERVICE COMMISSION**



**Kevin Cramer  
Commissioner**



**Tony Clark  
Chairman**



**Brian P. Kalk  
Commissioner**

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

**AMENDED  
SETTLEMENT AGREEMENT**

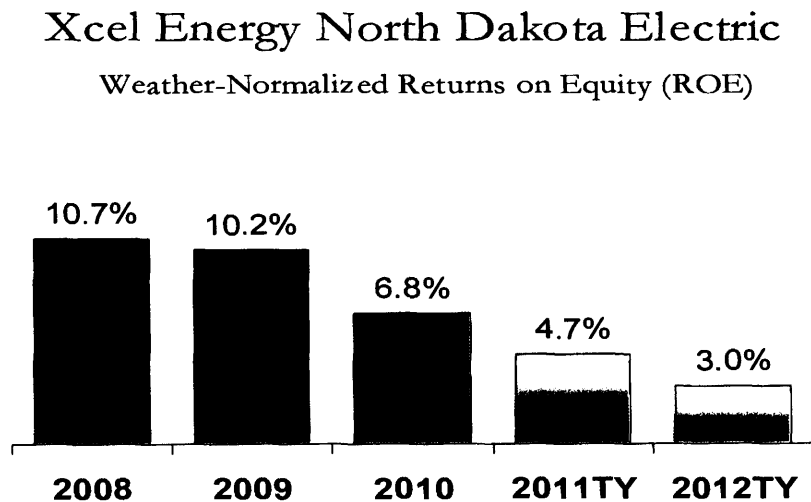
This Amended Settlement Agreement (“Settlement Agreement”) is entered into this 23rd day of December 2011, by and between the North Dakota Public Service Commission Advocacy Staff (“Staff”) and Northern States Power Company (“Xcel Energy” or the “Company”), a Minnesota corporation operating in North Dakota (collectively, the “Parties”). This second amendment is made to the first amendment of October 28, 2011, which was made to the original Settlement Agreement entered into on September 15, 2011. This amendment includes three additional reliability conditions to help further address Commission concerns, as discussed at their October 31, 2011 work session, regarding staffing, system maintenance, and overall reliability. Additionally, portions of the Settlement Agreement have been updated to reflect the passage of time since the original Settlement Agreement. 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**



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.<sup>1</sup>

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 rate application (amended to exclude the Merricourt wind project), 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 \$2,011,000 or 1.2 percent in 2012 (for a total rate increase effective March 1, 2012 of \$15,722,000 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 \$3,433,000 (plus interest), as described further in Section III.

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<sup>1</sup> Source: U. S. Dept. of Labor (Consumer Price Index).

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 \$7,239,000, 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**

<b>Test Year</b>	<b>Requested Base Rate Increase<sup>1</sup></b>	<b>Settlement Base Rate Increase</b>	<b>DOE Settlement Credits<sup>2</sup></b>	<b>Minor Flood O&amp;M Recovery</b>	<b>Bill Impact</b>
2011	\$17,990,000	\$13,711,000	(\$4,668,000)	\$862,000	\$9,905,000
2012	\$2,374,000	\$2,011,000			
1/1/12 Increase	\$20,364,000	\$15,722,000			

<sup>1</sup> Reflects removal of Merricourt Wind Project.

<sup>2</sup> 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 \$498,000 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;
3. \$19,000 for an additional engineer to be located within North Dakota (amount reflects initial year revenue requirement in 2012); and
4. \$17,000 for a program to proactively locate and replace an older type of underground cable, referred to as 500 MCM cable, in the Company's North Dakota electric system (amount reflects revenue requirement for initial year, 2012, of the three year program).

In addition, the Parties agree to work together to jointly develop and file with the Commission, within 90 days of a final order in this proceeding, recommendations

regarding a service quality plan which will focus more specifically on localized reliability performance. The Company also agrees to periodically submit various reliability reports with the Commission beginning in 2012. Additional details regarding the service quality plan and reliability reports will be provided in Section IV.

#### **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<sup>2</sup> so as to match the 2012 projected forecast of non-fuel retail revenues of \$119,426,000 resulting from this Settlement.<sup>3</sup> 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

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<sup>2</sup> Adjusted to reflect final rates effective January 1, 2012.

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 \$119,426,000 and include supporting schedules calculating the customer bill impacts. The Company will use the same weather normalization methodology used in this current rate case.

## **II. RATE DESIGN**

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

1. Residential service: \$5,735,000 or 8.7 percent;
2. Commercial (non-demand metered) service: \$808,000 or 7.4 percent; and
3. Commercial (demand metered) service: \$9,064,000 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

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<sup>3</sup> 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 \$15,608,000 (which does not include increases in non-retail operating revenues of \$114,000). Also see Attachment C.

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 March 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 February 29, 2012. 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 weighted average of 2011 and 2012 test year revenue amounts agreed to in this Settlement. Based on current information, the Parties estimate this difference to be \$3,433,000 prior to considering the additional refund adjustments for the DOE Settlement customer credit and incremental Minot flood O&M expenses. The weighted average of Settlement 2011 and 2012 revenue requirements during the effective period of interim rates is first compared to the annualized interim rate increase level to calculate the annualized interim rate refund. An adjustment is made to the annualized difference to reflect the fact that interim rates will be in effect for more than a full year (i.e., February 18, 2011 through February 29, 2012) and the different 2011 and 2012 revenue requirements. Once the 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, described in Section I, provide an overall net increase to the interim rate refund of \$3,806,000. This will result in a total customer refund of approximately \$7,239,000, or about \$37 per residential customer, to be issued during the second quarter of 2012.

**Table 2**

<b>Refund/Recovery Item</b>	<b>Annualized</b>	<b>2/18/11 to 12/31/11 Estimate</b>	<b>1/1/12 to 2/29/12 Estimate</b>	<b>Total</b>
<b><i>Interim Refund</i></b>				
Interim Rates	\$17,355,000	\$15,073,000	\$2,853,000	\$17,926,000
2011 Settlement Increase	\$13,711,000	\$11,908,000	\$2,254,000	<u>\$14,162,000</u>
2012 Settlement Increase	<u>\$2,011,000</u>	<u>\$0</u>	<u>\$331,000</u>	<u>\$331,000</u>
Total Settlement Increase	\$15,722,000	\$11,908,000	\$2,585,000	\$14,492,000
<b>Interim Refund</b>		<b>\$3,165,000</b>	<b>\$268,000</b>	<b>\$3,433,000</b>
<b><i>Other Refund Items</i></b>				
a. Minot Flood O&M Recovery				(\$862,000)
b. DOE Settlement Proceeds				<u>\$4,668,000</u>
<b>Net Refund Items</b>				<b>\$3,806,000</b>
<b>Total Estimated Refund<sup>1</sup></b>				<b><u>\$7,239,000</u></b>

<sup>1</sup> When actually issued, the total refund will include interest earned on the DOE Settlement amount as well as the interim revenues collected since February 18, 2011. Interest has not been 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 by year end 2012.

**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. Identify and Replace 500 MCM Underground Cable**

Beginning in 2012, the company will initiate a three year program to proactively locate and replace 500 MCM cable (an older type of underground cable that is less robust than the current standard cable) remaining in its North Dakota system. The Company will expend \$250,000 per year in capital funds for three years beginning in 2012. The annual revenue requirement related to this project will be approximately \$19,000 in 2012, \$59,000 in 2013, and \$99,000 in 2014. Only the 2012 revenue requirement is included in the Settlement Agreement amount and resulting rates.

**D. Hire an Electrical Engineer to be based in North Dakota.**

The Company will hire, in 2012, an additional electrical engineer to be based in Fargo, North Dakota. The engineer will lead the effort to identify and replace the remaining 500 MCM cable on our system, as described previously. In addition, the engineer will be assigned responsibility to monitor Xcel Energy's reliability in North Dakota, and

proactively address system and reliability issues in the Company's service area. The engineer will provide engineering services in the Company's other jurisdictions as well, with costs allocated correspondingly. The annual revenue requirement associated with the additional engineer is approximately \$17,000 in 2012, \$31,000 in 2013, and \$46,000 in 2014, based on the assumption that approximately 90 percent of the engineer's labor and other expenses will be capitalized, and the remaining 10 percent expensed. Only the 2012 revenue requirement is included in the Settlement Agreement amount and resulting rates.

**E. Develop and Propose a Reliability Service Quality Plan.**

The Commission expressed interest in a reliability "service quality plan" focused more specifically on localized reliability performance. The Commission referenced the reliability metrics used in the Company's prior "Plan Linking Utility Stakeholders" or "PLUS" performance-based rate plan as a possible basis for a new service quality plan.<sup>4</sup> The parties agree to jointly develop and file, within 90 days of the Order in this proceeding, recommendations regarding a reliability "service quality plan" to include a focus on localized reliability performance. The development of this plan and recommendations will be guided by the following principles:

- Industry standard performance indicators (SAIFI, CAIDI, and SAIDI) will be considered along with other metrics relating to "customer experience" level (i.e., customers with multiple outages, customer satisfaction survey scores, etc.).
- Performance targets will be constructed as ranges to acknowledge normal levels of performance variability and create more meaningful targets.
- Performance incentives will be symmetrical, such that any financial impact would be based on both above-target and below-target performance.

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<sup>4</sup> The Commission authorized the PLUS rate plan in Case No. PU-400-00-196 for the years 2001 – 2005.

- The duration of the plan term and other plan exceptions will be clearly defined to allow for flexibility in the operation, review, and amendment of the plan.
- The Company's ability to seek rate recovery of its prudent investments and operating costs will be maintained during the term of the plan.

#### **F. Provide Expanded Reliability Reporting**

Beginning January 1, 2012, Xcel Energy agrees to provide the Commission the following reliability information:

- On an event by event basis, email notification of each sustained (duration of five minutes or more) feeder level outage, including the general location, time of interruption, number of customers impacted and, as they become available, the interruption duration and cause. Additional notifications and information will be provided for the most significant events as appropriate.
- On a quarterly basis, a report showing all outages due to underground cable failure and cable replacements made under the Company's underground cable replacement policy. The report will indicate for each failed segment of underground cable (for which the cause has been designated as "cable failure") the following information, as applicable:

Date, time, and location of cable outage

Date outage was reviewed by engineering

Applicable cable replacement criteria

For replacements:

Date service request was made,

Date construction is started

Date project is completed

Length of cable replaced

- On an annual basis, a summary of the key elements of the Company's most current reliability expenditure plan and budget for North Dakota (this information is currently provided).
- On an annual basis, storm-normalized System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI) results for the Company's North Dakota operations for each of the past five years, as well as a report of the same information for each of the largest five substations (this information is currently provided).
- On an annual basis, starting with a report for the 2012 calendar year, the top ten causes of outage events (with and without storm outages) for each of the past three years, and the top ten causes of all customer-minutes out (CMO) for each of the past three years (again, with and without storm outages).
- On an annual basis, starting with a report for the 2012 calendar year, the number of customers experiencing multiple service interruptions, including the number of customers experiencing 4, 5, and 6 or more outages during the previous calendar year. Storm and public damage-related outages will be excluded from the information.

The Company will provide the Commission with the above reliability information for the calendar years 2012 through 2014, after which the Staff and Company will make a recommendation to the Commission regarding the continuance, modification of, and/or supplementation of the reports, prospectively.

## **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 23rd day of December 2011.

Northern States Power Company,  
A Minnesota corporation

By: Laura McCarten  
Laura McCarten  
Regional Vice President

Dated this 23rd day of December 2011.

Northern Dakota Public Service Commission Staff

By: Mark Gruman  
Mark Gruman  
Counsel to the Commission

## **PROCEDURAL HISTORY**

### **Case Numbers PU-10-657 and PU-11-55**

On December 20, 2010, Northern States Power Company ("NSP" or "Xcel Energy") filed a Notice of Change in Rates for Electric Service ("Notice") with the North Dakota Public Service Commission (the "Commission") to increase its rates for electric utility service to provide additional 2011 test year annual revenue of \$19,773,000 or a 12.0 percent increase over current rates effective for electric service on and after January 19, 2011 (Case Number PU-10-657). The Company also requested a step increase ("2012 Step Increase") of \$4,226,000 or 2.57 percent for a total of \$23,999,000 or an overall increase of 14.59 percent effective January 1, 2012. The Company filed testimony by eleven witnesses in support of the Notice, along with revised tariffs, exhibits, and supporting statements.

Xcel Energy proposed to increase residential base rates by \$7,363,000 or 11.2 percent and commercial service revenues by \$12,168,000 or 12.7 percent. The 2011 proposed monthly increase for a residential customer using 750 kilowatt-hours in a winter month is \$7.08 and in a summer month is \$8.59. Rates for public authorities were proposed to increase by \$119,000 or 11.6 percent.

Concurrent with the Notice, Xcel Energy submitted an Alternate Petition for Interim Rates. The proposed interim increase, which impacted only base rates, was for \$17,355,000 or 10.55 percent, to be effective February 18, 2011 (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 January 12, 2011, the Commission issued an order suspending Xcel Energy's general rate increase application and set the matter for investigation and hearing.

On January 26, 2011, the Commission issued an order authorizing Xcel Energy to implement an interim electric rate increase of \$17,355,000, effective February 18, 2011 and subject to refund.

On February 7, 2011, Xcel Energy submitted a request that the Commission sever our 2012 Step Increase from Case No. PU-10-657 and consider the 2012 Step Increase in a new proceeding. The Company further requested the new proceeding be consolidated with Case No. PU-10-657.

On March 24, 2011 the Commission issued a Notice of Hearing, Intervention Deadline, and Public Input Session. The Notice announced that a Public Hearing would be held beginning August 9, 2011 at 8:30 a.m. central time, setting forth the following issues to be considered in this case:

- (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.

The Notice of Hearing also announced Public Input Sessions to be held via interactive television on May 23, 2011, at 7:00 p.m. and May 24, 2011, at 12:00 p.m. central time at various locations in Fargo, Grand Forks, Minot, and Bismarck. Members of the public were invited to appear and participate in the informal discussion. Finally, the Notice set forth a deadline of June 10, 2011 for parties to indicate their interest in participating in the case. No parties intervened.

On May 10, 2011 Xcel Energy filed an adjustment to the 2011 and 2012 test years in its rate application, reducing the 2011 request to a \$17,990,000 or 10.94 percent increase, and reducing the 2012 request to a \$2,374,000 or 1.44 percent increase. The adjustments were made to reflect the Company's termination of its contract with enXco to take ownership of a 150 MW wind project near Merricourt, ND.

On May 23 and May 24, 2011, the Commission conducted two public input sessions. The sessions utilized interactive video-conferencing capabilities to include participants in Fargo, Grand Forks, Minot, and Bismarck. Outside of local media, no one from the public attended.

On June 6, 2011 a Stipulation for Rescheduled Hearing and Amendment of Pre-Hearing Order was filed indicating agreement between the parties to reschedule the Public Hearing to begin October 18, 2011 at 8:30 a.m. central time. The Stipulation also established filing dates for Staff direct testimony and Company rebuttal testimony as August 18, 2011 and September 20, 2011, respectively.

On June 8, 2011, the Commission passed a motion consolidating the hearings for the Notice and the 2012 Step Increase, Case Nos. PU-10-657 and PU-11-55 respectively.

On August 18, 2011, Advocacy Staff filed Direct Testimony prepared by Blue Ridge Consulting,

Inc. The testimony recommended a \$11,446,000 rate increase in 2011, and a step increase in 2012 of \$2,290,000, based on an authorized ROE of 9.55 percent.

On August 29, Settlement discussions between Staff and the Company led to an agreement in principle regarding several key issues in the rate case.

On September 13, 2011 the Advocacy Staff filed a joint Stipulation with the Company to Amend the Pre-Hearing Order to allow the deadline for the filing of Company Rebuttal Testimony to be moved to October 3, 2011.

On September 15, 2011 this Settlement Agreement was entered into by Advocacy Staff and Xcel Energy, and filed with the Commission.

On September 16, 2011 Commission Advocacy Staff submitted a statement supporting the Settlement Agreement.

October 7, 2011 the Company filed testimony sponsored by Ms. Laura McCarten supporting the proposed Settlement Agreement.

October 11, 2011 a Prehearing conference with the Parties was held.

October 18 – the Commission conducted a Formal Hearing on the Settlement Agreement.

On October 28, the Settlement Agreement was amended to include additional reliability provisions, agreed to by Advocacy Staff and Xcel Energy, and filed with the Commission.

October 31 the Commission held a work session to discuss the amended Settlement Agreement. At the session, Commissioners expressed interest in additional reliability initiatives and use of performance-based principles to incent better reliability.

November 30, 2011 Xcel Energy submitted a letter in response to the discussion of the October 31, 2011 work session. The letter suggested additional, above-standard reliability actions the Company would be willing to implement providing the corresponding cost recovery was approved.

On December 16, 2011 the Commission conducted a second work session. The Commission discussed its legal and procedural options in addressing the Settlement Agreement and other reliability actions that could be implemented.

On December 23, 2011 this second amendment to the Settlement Agreement was entered into by Advocacy Staff and Xcel Energy, and filed with the Commission.

The administrative record in this proceeding supports the Settlement Agreement. Accordingly, the Parties jointly recommend the Commission issue an Order approving this Settlement Agreement, and the earlier settlement on ROR, without further conditions or modifications.

**Case Number PU-11-557**

On August 11, 2011, Xcel Energy filed a Petition for Approval of a Credit Mechanism for the proceeds from a settlement with the Department of Energy ("DOE"). The settlement paid Xcel Energy for damages resulting from DOE's breach of the contract under which DOE was to accept spent nuclear fuel from Prairie Island and Monticello beginning January 31, 1998 through 2013. The petition sought Commission approval to pass the North Dakota jurisdictional portion of those settlement proceeds, net of legal costs, to North Dakota customers through a credit mechanism of the Commission's choice.

On September 16, 2011 the Commission held a special meeting where Case No. PU-11-557 was consolidated with Case No. PU-10-657 and PU-11-55.

**Xcel Energy**  
**Electric Utility - State of North Dakota**  
**Case Nos. PU-10-657 and PU-11-55**

*Dollars in 000's*

**Settlement Agreement Summary (Second Amendment)**

	<u>2011 TY</u>	<u>2012 Step</u>
1 Original Rate Application (Dec. 20, 2010)	\$19,773	\$4,226
2 Removal of Merricourt Wind Investment <sup>1</sup>	<u>(\$1,783)</u>	<u>(\$1,852)</u>
3 Revised Rate Application	\$17,990	\$2,374
 <u>Settlement Adjustments</u>		
4 Return on Equity (from 11.25% to 10.40%)	(\$2,270)	(\$63)
5 Stipulated Adjustment*	(\$1,629)	\$0
6 Monticello LCM/EPU project delay	(\$480)	(\$897)
7 Minot Flood Recovery (investment-related)	\$99	\$91
8 Reliability Improvement Initiatives	\$0	\$498
9 Cash Working Capital/Rounding	\$1	\$8
10 Total Adjustments	<u>(\$4,279)</u>	<u>(\$363)</u>
11 Settlement Increase	<u>\$13,711</u>	<u>\$2,011</u>

<sup>1</sup> Filed April 8, 2011

**Xcel Energy**  
**Electric Utility - State of North Dakota**  
**Case Nos. PU-10-657 and PU-11-55**

*Dollars in 000's*

**Amended Settlement Rate Revenue Apportionment**

	<u>Residential</u>	<u>Non-Dmd</u>	<u>Demand</u>	<u>Lighting</u>	<u>Retail</u>	<u>Other<sup>1</sup></u>	<u>Total</u>
<b><u>Original Application</u></b>							
Present	\$66,011	\$10,986	\$85,640	\$1,867	\$164,504	\$0	\$164,504
Proposed 2011	\$73,373	\$12,061	\$96,852	\$1,869	\$184,155	\$122	\$184,277
Proposed 2012	\$75,053	\$12,337	\$99,070	\$1,912	\$188,372	\$131	\$188,503
Class Allocation	39.84%	6.55%	52.59%	1.01%	100.00%		
Increase - 2011	\$7,363	\$1,075	\$11,211	\$1	\$19,650	\$122	\$19,773
Percent change	11.2%	9.8%	13.1%	0.1%	11.9%		12.0%
Increase - 2012	\$9,043	\$1,351	\$13,429	\$44	\$23,867	\$131	\$23,998
Percent change	13.7%	12.3%	15.7%	2.4%	14.5%		14.6%
<b><u>Settlement Agreement</u></b>							
Increase eff. 3/1/12	\$5,735	\$808	\$9,064	\$1	\$15,608	\$114	\$15,722
Percent change	8.7%	7.4%	10.6%	0.1%	9.5%		9.6%
Total Revenue	\$71,746	\$11,793	\$94,704	\$1,869	\$180,112	\$114	\$180,226
Class Allocation	39.83%	6.55%	52.58%	1.04%	100.00%		

<sup>1</sup> Other: Increases in Non-Retail Operating Revenues, including Late Payment Fees and Miscellaneous Charges