

**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

December 12, 2012

Appearances

Commissioners Brian P. Kalk, Kevin Cramer, and Bonny M. Fetch.

Zeviel Simpser, Attorney at Law, Briggs and Morgan, P.A., 80 South Eighth Street, Minneapolis Minnesota 55402 attorneys for Northern States Power Company.

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

Ilona 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, Case Number PU-10-657. NSP also filed an increase in annual base revenues for electric utility service for 2012, Case No. PU-11-55.

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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.

In its February 29, 2012 Order on Settlement, the Commission ordered that NSP file 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.

On June 1, 2012, NSP filed a Reliability Performance Plan (RPP) proposal which provides an incentive for reducing outages; a bill credit of \$50 payable to customers experiencing more than 3 outages in a year, excluding major events such as storm outages; and customer survey reporting requirements.

On August 13, 2012 the Commission issued a Notice of Hearing on September 25, 2012 at 8:30 a.m. in the Commission Hearing Room, State Capitol, 12th Floor, Bismarck, North Dakota concerning NSP's RPP proposal. The issue in this proceeding is whether the proposal is reasonable and prudent and in the best interest of customers. The hearing was held as scheduled.

On October 12, 2012, NSP filed a Settlement Agreement (Settlement) reached between NSP and Commission Advocacy Staff. The Settlement is intended to resolve contested issues regarding NSP's proposed RPP.

On October 31, 2012, the Commission issued a Notice of Opportunity for Hearing providing until December 3, 2012 for comments and requests for hearing. The issue to be considered is whether the Settlement Agreement should be approved and adopted by the Commission. No comments or requests for hearing were received. The Notice stated the Commission may make a decision without hearing.

Discussion

The RPP proposal contains three elements. The first element is a reliability threshold and related financial award for overall reliability performance as measured by the System Average Interruption Duration Index (SAIDI). SAIDI is an indicator that measures the total amount of time in minutes, on average, that each customer is out of electric service during a year. SAIDI is affected by both the number of electric outages and the time it takes to restore power to customers. SAIDI reflects outages greater than 5 minutes in length excluding outages caused by storms and outages caused by statistically outlying events and major event days (MEDs) that generate unusually high customer outage minutes. A lower SAIDI number reflects fewer minutes, on average, that a customer is out of electric service in the plan year. The Institute of Electrical Energy Engineers Standard 1366-2003 would be used to identify MEDs.

NSP testified that setting the SAIDI threshold is more art than science and that the performance threshold should be at a level that is both difficult and possible to obtain.

NSP will provide to the Commission, in each plan year, documentation of all outage days excluded for purposes of normalizing SAIDI results. NSP and Advocacy Staff agree to discuss the appropriateness of excluding any outage day questioned or contested by Staff.

The second element of NSP's RPP proposal is compensation, in the form of annual one-time \$50 bill credits, to customers experiencing multiple service interruptions in a year.

The third element of NSP's RPP proposal is measurement and reporting to the Commission of customer perceptions of NSP's reliability as measured by an annual reliability-focused customer survey.

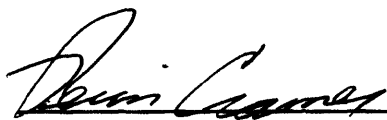
The Commission finds the provisions of the Settlement Agreement filed October 12, 2012 are reasonable and appropriate.

Having allowed all interested persons an opportunity to be heard and having heard, reviewed and considered all testimony and evidence presented, the Commission makes the following:

Order

1. The Settlement Agreement filed with the Commission on October 12, 2012, a copy of which is attached to this Order, is made a part of this Order and is APPROVED.
2. NSP shall file compliance tariffs consistent with this Order and the Settlement Agreement at least 30 days prior to the effective date of the tariffs.

PUBLIC SERVICE COMMISSION



Kevin Cramer
Commissioner



Brian P. Kalk
Chairman



Bonny M. Fetch
Commissioner

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

**Northern States Power Company
2011 Electric Rate Increase
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Case No. PU-10-657

**Northern States Power Company
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**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