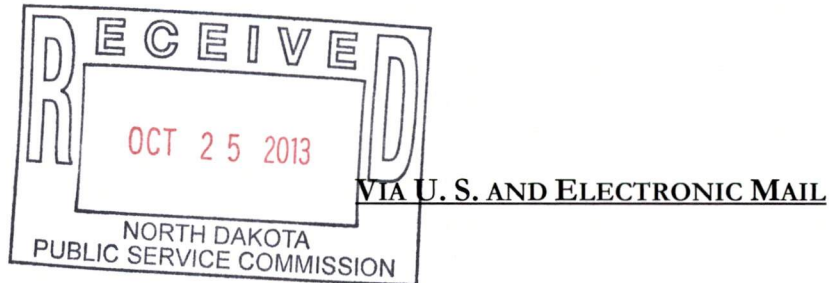




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October 25, 2013



Chairman Brian P. Kalk
Commissioner Randy Christmann
Commissioner Julie Fedorchak
North Dakota Public Service Commission
600 East Blvd.
Bismarck, ND 58505

RE: SETTLEMENT NEGOTIATIONS REGARDING THE REQUEST BY NORTHERN STATES POWER TO INCREASE ELECTRIC RATES
CASE NO. PU-12-813

Dear Commissioners:

Northern States Power Company, doing business as Xcel Energy, respectfully submits this update to the North Dakota Public Service Commission on the efforts being made by the Company and the Commission Advocacy Staff to resolve the issues in the above referenced case.

Good progress has been made on a number of issues that were raised in Staff's testimony and commission comments at the Evidentiary Hearing. Some of the key items of discussion can be summarized below:

- **Multiple Year Solution.** The parties recognize that the Company is in the midst of making significant investments to refurbish its generating fleet and build out its transmission system. We are discussing ways to establish a multiple year cost recovery approach that would enable the Company to forego filing another rate application in the immediate future.
- **Return on Equity.** We are assessing the use of a reasonable authorized ROE that could gradually increase to reflect the long-term nature of a multi-year approach. In addition, we are in agreement that a revenue sharing mechanism is appropriate to minimize rate impacts in the event earnings exceed authorized levels.

- **Renewable Energy.** We are pursuing a workable arrangement for the treatment of previously executed renewable power contracts being recovered through the ND Fuel Cost Rider, and we are developing an approval process for FCR recovery of future power purchase agreements. With respect to the specific treatment of the Prairie Rose wind power purchase, we expect to reach an agreement that recognizes the Company's ADP filing could have been filed more timely while at the same time acknowledging the favorable economics of the project.
- **Demand Allocator.** We are discussing the potential for further analysis and comparison of different demand allocation methodologies while also considering the practicalities involved in assigning all costs of an integrated system to the state jurisdictions served.
- **Transmission Cost Rider (TCR).** We are refining our TCR tariff language to enable the Rider to work efficiently and effectively. The mechanism may have value in moderating future rate impacts while facilitating future development of a robust transmission system that will, in turn, enhance service area reliability and support future development of ND's energy industry.

We are also in agreement - or very close to it - on a number of other issues specific to the case, including annual incentive plan costs, unrecognized pension costs, asset-based margin sharing, charitable contributions and economic development, rate design, expansion of reliability improvement initiatives, improving jurisdictional budget update capabilities, improved tariff book language, and other items.

We respectfully request the Commission be aware that considerable work is being done to achieve a constructive outcome for all stakeholders. We would also point out to the Commission that its discussion in the upcoming Work Session(s) will further inform these settlement negotiations, and we hope to file a Settlement Agreement soon.

Sincerely,



David H. Sederquist
Sr. Regulatory Consultant

CC: Mike Diller
Ryan Norrel
Sara Cardwell

Illona-Jeffcoat-Sacco
Patrick Fahn
Jerry Lein