

NSP's PROPOSED ORDER ON SETTLEMENT

February ____, 2014

Appearances

Commissioners Brian P. Kalk, Randy Christmann, Julie Fedorchak.

Kari L. Valley, Assistant General Counsel, Xcel Energy Services Inc., 414 Nicollet Mall, Fifth Floor, Minneapolis, Minnesota 55401, attorney for Northern States Power Company.

Zeviel Simpser, Attorney, Briggs and Morgan, P.A., 2200 IDS Center, 80 South 8th Street, Minneapolis, Minnesota, 55402, attorney for Northern States Power Company.

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

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

Bonnie Fetch, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, ND 58503, Administrative Law Judge.

Patrick Ward, Zuger, Kirmis & Smith, 316 North Fifth Street Bismarck, ND 58502-1695, Administrative Law Judge.

Preliminary Statement

On December 18, 2012, Northern States Power Company (NSP or the Company) filed a Notice of Change in Rates for Electric Service to increase electric rates by \$16.9 million or 9.25 percent. Along with the Notice, the Company filed an Alternative Petition for an interim rate increase of \$14.7 million or 8.05 percent, to be effective February 16, 2013. The Commission assigned this application Case No. PU-12-813.

On December 21, 2012, the Commission suspended NSP's general rate increase application and set the matter for investigation and hearing.

On January 30, 2013, the Commission issued an order authorizing NSP to implement an interim rate increase of \$14.7 million, subject to refund.

On February 13, 2013, the Commission issued a Notice of Hearing, Intervention Deadline, and Public Input Sessions. The Notice announced that a Public Hearing would be held August 27-29, 2013, setting 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 the 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.

On April 15 and 16, 2013, the Commission conducted two public input sessions.

On April 26, 2013, the Company filed an Application seeking an advance determination of prudence (ADP) for its proposal to add three 215 MW natural gas fired, simple cycle, combustion turbine generators to its system; one at the Company's existing Black Dog generating site (Black Dog Unit 6) and two at a site near Hankinson, North Dakota (Red River Valley Units 1 and 2). The Commission assigned this application Case No. PU-13-194. The Company also requested the Commission grant a Certificate of Public Convenience and Necessity (PC&N) for the construction of Red River Valley Units 1 and 2. The Commission assigned the application for PC&N as Case No. PU-13-195.

On July 26, 2013, the Company filed an application seeking an ADP for three wind generation projects: a proposed power purchase agreement (PPA) for the 200 MW Courtenay Wind Project (Courtenay), to be located in Stutsman County, North Dakota; a proposed PPA for the 200 MW Odell Wind Project (Odell) to be located near Mountain Lake, Minnesota; and the proposed 200 MW Pleasant Valley Wind Project (Pleasant Valley) to be located in southeastern Minnesota and owned by the Company. The Commission assigned the application for ADPs for these projects as Case Nos. PU-13-706, PU-13-707, and PU-13-708 respectively.

On August 13, 2013, NSP filed an application seeking an ADP for the proposed 150 MW Border Winds Project (Border Winds) to be located in Rolette County North Dakota and owned by the Company. The Commission assigned this application Case No. PU-13-742. Also on August 13, 2013, the Company filed an application for a PC&N for its ownership of the Border Winds Project. The Commission assigned that application Case No. PU-13-743.

On August 27, 28, and 29, 2013, an evidentiary hearing was held in the Commission Hearing Room, 12th Floor, State Capitol Building in Case No. PU-12-813, including ALJ Fetch.

On September 25, 2013, the Commission issued a Notice of Consolidated Hearing for Case Nos. PU-13-706, PU-13-707, PU-13-708, PU-13-742, and PU-13-743 and scheduled a hearing for October 31, 2013 in the Commission Hearing Room, 12th Floor, State Capital, Bismarck, North Dakota. The Notice specified the issues to be considered were:

1. Are the PPAs reasonable and prudent and in the best interests of customers?
2. Is NSP's proposed investment in the Pleasant Valley Wind Project and the Border Winds Project prudent?
3. Whether the public convenience and necessity will be served by the purchase and operation of the facilities.
4. Whether the applicant is fit, willing, and able to provide service.

On October 9, 2013, the Commission issued a Notice of Consolidated Hearing for Case Nos. PU-13-194 and PU-13-195, and scheduled a hearing for November 26, 2013, in the Commission Hearing Room, 12th Floor, State Capitol, Bismarck, North Dakota. The Notice specified the issued to be considered were:

1. Whether NSP's proposed investment in the three CTs is prudent.
2. Whether the public convenience and necessity will be served by NSP's construction and operation of the three CTs.
3. Whether NSP is fit, willing and able to provide service.

On October 31, 2013, a public hearing was held in Case Nos. PU-13-706, PU-13-707, PU-13-708, PU-13-742, and PU-13-743 as scheduled, including ALJ Fetch.

On November 26, 2013, a public hearing was held in Case Nos. PU-13-194 and PU-13-195 as scheduled, including ALJ Ward.

On December 13, 2013, the Company and Advocacy Staff entered into and filed with the Commission a Comprehensive Settlement Agreement resolving all open issues in Case Nos. PU-12-813, PU-13-194, PU-13-195, PU-13-706, PU-13-707, PU-13-708, PU-13-742 and PU-13-743. Specifically, the Settlement Agreement provided for, among other things:

- A multi-year rate plan with five percent base rate increases in each of 2013, 2014 and 2015 and a base rate increase moratorium in 2016.
- Authorized return on equity (ROE) of 9.75 percent, 10.0 percent, 10.0 percent, and 10.25 percent in 2013, 2014, 2015, and 2016, respectively.
- An earnings sharing mechanism through which NSP will refund to customers fifty percent of any earnings above the authorized ROE during the term of the rate plan.
- Reforms to the Company's Fuel Cost Rider (FCR).
- Implementation of Transmission Cost Rider (TCR) and Renewable Energy Rider (RER) tariffs.
- A negotiating framework for the virtual modification or "restack" of the Company's electric supply resources serving North Dakota. Through this restack the Company will adjust rates in North Dakota to reflect a resource mix more consistent with North Dakota energy priorities. If such a framework cannot be developed to suitably address existing and future resources, the Settlement Agreement provides for significant financial penalties for the Company.
- A commitment by the Company to build up to 400 MW of thermal generation in the Red River Valley of North Dakota by 2036, consistent with prudent resource planning principles.
- The performance of a study to analyze the contribution of the Company's North Dakota jurisdiction toward the Company's overall system-wide production and transmission costs, and the available demand allocation methodologies which may be implemented to reflect such cost causation.
- Finding that the Company's proposal in Case Nos. PU-13-194 is reasonable and prudent and that a PC&N should be granted as requested in Case No. PU-13-195.
- The Company's proposals in Case Nos. PU-13-706, PU-13-742 and PU-13-743 enjoy a rebuttable presumption of prudence as resource additions located within the State of North Dakota and are prudent resource additions to the Company's integrated system.
- The disposition of the Company's requests in Case Nos. PU-13-707 and PU-13-708 will be addressed as part of the "restack" or the penalty provisions thereof.

- Acceptance by the Company of all proposed test year adjustments in Case No PU-12-813 specifically related to: pension loss amortization, annual incentive plan, charitable donations and economic development contributions, and asset-based margins on wholesale sales.
- The Company will retain remaining Department of Energy (DOE) proceeds to offset the need for additional revenues in 2013 and 2014.
- Rate Design:
 - Implementation of the multi-year rate plan consistent with the Company's originally proposed class apportionment;
 - Instituting single customer charge for several rate classes;
 - Elimination of account history charge; and
 - Performance of a study with respect to Time-of-Day rates.
- Company will return one hundred percent of all proceeds from the sale of renewable energy credits to customers.
- Any amounts over collected through interim rates will be refunded to customers.
- Additional reliability improvement commitments.

On December 16, 2013, the Commission issued a Notice of Hearing in Case Nos. PU-12-813, PU-13-194, PU-13-195, PU-13-706, PU-13-707, PU-13-708, PU-13-742 and PU-13-743, scheduling a hearing for January 23, 2014, Commission Hearing Room, 12th Floor, State Capitol, Bismarck, North Dakota. The Notice of Hearing provided that the issue to be considered is whether the settlement is reasonable and should be adopted by the Commission.

On January 23, 2014 a hearing was held as scheduled, including ALJ Ward.

On February 3, 2014, the Company and Advocacy Staff filed an Amended Settlement Agreement. The Amended Settlement Agreement modified the original Comprehensive Settlement Agreement by providing additional terms and conditions with respect to the conduct of the demand allocator study.

On February 18, 2014, the Company and Advocacy Staff filed the Second Amended Settlement Agreement. The Second Amended Settlement Agreement modified the multi-year rate plan provided for in the Comprehensive Settlement Agreement by lowering the five percent base rate increases in 2013, 2014 and 2015 to a 4.9 percent base rate increase in each of those years, respectively.

Discussion

Case No. PU-12-813 is the Company's third electric base rate application request since 2007. The Company has explained that these filings are driven by the Company's current investments to upgrade and refresh its system to safely and reliably serve

customers, as well as additional costs to comply with new regulatory requirements and cost increases due to general economic trends. Specifically, the Company has identified significant investments in its nuclear fleet, thermal generation fleet, transmission and distribution systems as the key drivers of its investment cycle. The Company has stated that its system investments are expected to significantly decrease beginning in 2016.

Case Nos. PU-13-194 and Case No. PU-13-195 relate to additional investments the Company is making to ensure that it has sufficient resources to meet expected growth in customer demand in the 2017-2019 time frame.

Case Nos. PU-13-706, PU-13-707, PU-13-708, PU-13-742 and PU-13-743 relate to additional energy purchases that the Company is making to capture low market prices for wind generation and reduce overall system costs over the life of these projects.

The Commission finds that the Second Amended Settlement Agreement provides for a reasonable resolution to all of the pending issues in these Cases.

The Commission finds that the multi-year rate plan provides fixed, predictable increases resulting in a reasonable amount of revenue to the Company during the peak of its investment cycle, and also provides a moratorium on base rate increases in the final year in recognition of the impact to customers of the Company's investment cycle.

The Commission finds that the authorized ROEs provided for in the Second Amended Settlement are just and reasonable.

The Commission finds that the earnings sharing mechanism provided for in the Second Amended Settlement provides reasonable customer protections in the unlikely event that the Company earns above its authorized ROEs on a weather normalized basis.

The Commission finds that the FCR reforms provided for in the Second Amended Settlement are reasonable and responsive to the Commission's interests in providing for more transparency for this cost recovery mechanism.

The Commission finds that the implementation of the TCR and RER riders are just and reasonable and consistent with the Commission's precedent.

The Commission finds that the "restack" proposal is a significant opportunity to address the Commission's growing concerns regarding the impact of the energy policies of other state jurisdictions on the rates of NSP's North Dakota customers. The Commission further finds that the default provisions in place should an appropriate "restack" process not be established are a reasonable resolution with respect to the disposition of the energy resources identified in Case Nos. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742 and PU-13-743.

The Commission finds that the Company's proposal in Case Nos. PU-13-194 and Case No. PU-13-195 is reasonable and prudent and if the Company moves forward with a resource addition other than what it proposed in these cases, it must seek separate Commission approval.

The Commission finds that the Second Amended Settlement is reasonable.

Having considered this matter, the Commission issues the following:

Order

1. The Second Amended Settlement Agreement, a copy of which is attached to this Order, is made a part of this Order and is APPROVED.
2. NSP is authorized to implement changes in its electric rates consistent with the Second Amended Settlement.
3. NSP shall file compliance tariffs consistent with this Order and the Second Amended Settlement Agreement within 10 days after the date of this Order.
4. Within 90 days from the effective date of rates filed in compliance with this Order, NSP shall issue to customers a refund consistent with the Second Amended Settlement.
5. NSP shall make all necessary filings as required by this order and in the Second Amended Settlement Agreement as provided herein and therein.

PUBLIC SERVICE COMMISSION