STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

NORTHERN STATES POWER COMPANY EFFECTS OF TAX CUT AND JOBS ACT OF 2017 ON NATURAL GAS UTILITY RATES	**CASE NOS. PU-17-490** **PU-18-156**

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 27th Day of August, 2018 by and between the North Dakota Public Service Commission Advocacy Staff (Advocacy Staff), and Northern States Power Company (Applicant), a Minnesota corporation with operations in North Dakota (Xcel Energy, the Company, or Applicant) (the Parties). The Settlement resolves the issue of how the benefits of the Tax Cut and Jobs Act pf 2017 will be provided to the Applicant's natural gas customers.

I. BACKGROUND

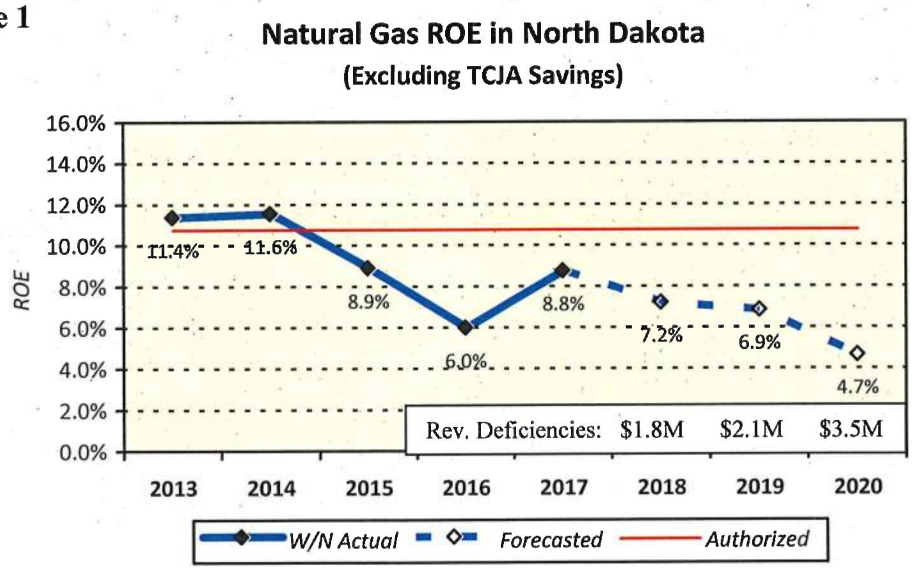
This proceeding involves the Commission investigation, ordered on January 10, 2018, into the natural gas rate impacts of, and accounting treatment for, H.R. 1, the Tax Cuts and Jobs Act of 2017 (TCJA). The TCJA amends the Internal Revenue Code and results in reduced tax rates and other tax policy modifications effective January 1, 2018.

As part of its January 10 Order, the Commission directed the investor-owned electric and natural gas utilities operating in the state of North Dakota to submit, by February 15, 2018, their estimates of the impacts of the TCJA on their respective costs of service. Xcel Energy submitted comments on February 15th which highlighted the various aspects of tax law that were affected by the TCJA and emphasized the complexity in determining the implications of the many subparts of the more than 400 page TCJA.

To comply with the Commission's Order, the Company had to determine how to best reflect the impacts of the TCJA without the benefit of any recent general rate case filings[1] (and related test year data) for either its electric or natural gas operations in North Dakota. The Company determined that it would base its estimate of the impacts of the TCJA on a 2018 – 2020 jurisdictional financial forecast that, while not "rate case quality", would reflect current economic assumptions, resource plans, and other financial data. This analysis sought to generally capture the cost of service impacts of not only the federal tax rate change, but other provisions of the TCJA such as the elimination of certain deductions and the normalized flow-back of deferred tax assets and liabilities. The Company reported that, all things being equal, the annual costs of service (i.e., revenue requirements) for its natural gas operations would decrease by approximately $1.0-$1.5 million, or about 2 percent.

The Company's financial forecasts provided a 2018 - 2020 projection of regulated earnings (expressed as Return on Equity, or ROE) excluding the cost savings attributable to the TCJA, along with the related annual revenue requirement deficiencies. Those projections, in combination with historical (weather-normalized) ROE results for Xcel Energy's natural gas operations in North Dakota, are shown in Figure 1:

Figure 1



As described in the Company's TCJA impact filing submitted to the Commission on February

[1] The most recent electric rate case, PU-12-813, was filed in December 2012 with a 2013 Test Year. The most recent natural gas case, PU-06-525 was filed in December 2006 with a 2007 Test Year.

15, 2018, the tax reforms set forth in the TCJA appear to create net annual benefits for North Dakota natural gas customers of approximately \$1.0 - \$1.5 million. Accordingly, to pass these benefits on to customers in an efficient, timely, and low-cost manner, the Parties agree to the terms outlined in this Settlement to flow TCJA benefits to customers.

II. TERMS OF SETTLEMENT

Both Parties recognize the need and urgency to provide the value of the Tax Cuts and Jobs Act ("TCJA" or "tax reform") to North Dakota customers. Therefore, the following resolution is proposed as a reasonable and timely approach to provide the benefits to natural gas customers with minimal regulatory burden. Given the Company's projected earnings shortfalls in 2018, 2019, and beyond and the consequent need for rate relief in the short term, it is more prudent for the Company to pass the benefits of the TCJA on to customers by applying the TCJA savings toward the recovery of the deferred costs of remediating the site of a former manufactured gas plant (MGP) located in Fargo, North Dakota.

Therefore, the Applicant and Advocacy Staff agree to the specific provisions described below and supported by this Settlement Agreement and the record in this proceeding.

1. ***Company to Begin Amortization of MGP Clean-up Costs*** - Applicant and Advocacy Staff agree that the Applicant will begin to amortize deferred Fargo MGP remediation costs, beginning in the current year (2018), at a rate of \$1.25 million per year. The Company will continue to recognize this annual expense each year until the regulatory asset has been fully recovered[2]. The Parties agree that the final amount of MGP remediation costs attributable to North Dakota and subject to the amortization described in this section must be filed with the Commission within 90 days of completion of all remediation work. The amount is subject to the review, potential adjustment, and approval of the Commission for purposes of determining the recoverable portion.

2. ***Company to Initially Retain TCJA Savings*** - Applicant and Advocacy Staff agree that, until the completion of a future rate proceeding, the Applicant's natural gas base rates in North Dakota will not be reduced to reflect the impact of the TCJA, and as such the

[2] At the time of execution of this Agreement, the estimated North Dakota jurisdictional portion of the total MGP remediation project cost net of insurance proceeds is \$15-\$20 million.

Company will initially retain the TCJA savings attributable to its natural gas operations in the state. Therefore, beginning in 2018 the savings will offset the annual amortization of remediation costs, thereby reducing the balance of the deferred MGP costs that the Company will ultimately propose to recover in rates.

3. ***TCJA Savings To Reduce Future Base Rates*** – Applicant and Advocacy Staff agree that Applicant may file a natural gas base rate application at any time if it determines that its costs of providing natural gas service are not being adequately recovered. The Parties also agree that if and when the Company files its next general natural gas base rate application, all TCJA savings will be fully reflected in the applicable Test Year, thereby reducing the overall Test Year revenue requirement and corresponding rate increase request. For all general base rate applications filed thereafter, TCJA impacts will continue to be reflected in the corresponding rate case Test Years.

4. ***Future Recovery of MGP Costs To Be Through the Cost of Gas Rider*** – Applicant and Advocacy Staff agree that upon implementation of new commission-approved base rates following a future natural gas base rate proceeding, recovery of the remaining, pro-rated portion of the annual $1.25 million amortization in the calendar year new base rates take effect will be effected through the Cost Of Gas (COG) Rider. For all subsequent years, recovery of the annual $1.25 million amortization will continue to be achieved through the COG Rider[3] until the allowed balance of MGP remediation costs has been fully amortized; no portion of the $1.25 million annual amortization will be included in a future rate case Test Year for purposes of setting base rates. Consistent with the Commissions' past decision on the Grand Forks MGP remediation cost in case PU-400-00-521, the Applicant will not receive a shareholder return on the Fargo MGP remediation costs[4].

5. ***Company To Amortize Excess Accumulated Deferred Income Taxes (ADIT)*** – Applicant and Advocacy Staff agree that all excess protected and plant-related ADIT and

[3] This approach is consistent with Commission precedent. *See* PU-400-00-521 (NSP's Grand Forks MGP remediation); *see also* PU-10-589 and PU-13-803 (Montana-Dakota Utility's Bismarck MGP remediation).

[4] Advocacy staff agrees, however, that given the remediation costs and length of time over which the recovery will take place, a return approximating the Company's related debt costs is appropriate, subject to future Commission guidance. As described in Part II-1 of this Settlement the Commission will make a determination of all recoverable costs, including debt costs, after the project is completed.

Net Operating Loss ADIT will be amortized over the remaining book life of the Company's plant using the Average Rate Assumption Method (ARAM). All unprotected, non-plant-related excess ADIT will be amortized over a three-year period, commencing January 1, 2018 and ending December 31, 2020.

6. ***No Precedential Effect* -** This Settlement Agreement will have no precedential effect on any future tax law changes, and Applicant reserves any rights under state and federal law or equity not specifically waived in the Settlement Agreement.

III. 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 Applicant 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 Applicant or Advocacy Staff as to the merits of any specific allegation or contention made by the Applicant and Advocacy Staff in this proceeding.

D. **Effective Date.** This Settlement Agreement is effective on the date of the Commission Order approving the Settlement Agreement.

E. **Modification.** Applicant and Advocacy Staff reserve the right to withdraw from the Settlement Agreement if the Commission rejects or modifies any element of the Settlement Agreement.

CONCLUSION

Applicant and Advocacy Staff agree to the forgoing terms to bring closure to the Commission's investigation of the impacts of the TCJA on the Company's costs of providing natural gas service and timely deliver the benefits of the TCJA to North Dakota natural gas customers. For these reasons, Applicant and Advocacy Staff respectfully urge the Commission to approve this Settlement Agreement.

[Signature Pages Follow]

Northern States Power Company, a Minnesota Corporation

By: ____

Aakash Chandarana
Regional VP, Rates and Regulatory Affairs, NSPM Regulatory

Dated this 27th day of August, 2018.

[SIGNATURE PAGE TO SETTLEMENT AGREEMENT
CASE NOS. PU-17-490, PU-18-155]

North Dakota Public Service Commission Advocacy Staff

By: ______________________________
John M. Schuh
Legal Counsel

Dated this 22nd day of August, 2018.

[SIGNATURE PAGE TO SETTLEMENT AGREEMENT CASE NOS. PU-17-490, PU-18-155]