STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

In the Matter of Northern States Power Company's Natural Gas Rate Increase Application	Case No. PU-21-381

SETTLEMENT AGREEMENT (REVENUE REQUIREMENTS)

This Settlement Agreement (Settlement) is entered into this day, May 27, 2022, by and between the North Dakota Public Service Commission Advocacy Staff (Advocacy Staff) and Northern States Power Company (Xcel Energy or the Company)(each a Party, and collectively, the Parties). This Settlement will result in just and reasonable rates for the Company's retail natural gas operations in North Dakota for 2022. Through this Settlement, the Parties have resolved all revenue requirement issues in the above captioned Case. The Parties will file a separate Settlement Agreement related to issues of class cost of service, revenue apportionment, and rate design on a date even herewith.

PRELIMINARY STATEMENT

On September 2, 2021, the Company filed its Notice of Change in Rates for Natural Gas Service in the above-captioned Case requesting a $7.059 million or 10.5 percent retail revenue increase for its provision of retail natural gas service in North Dakota. On March 1, 2022, Advocacy Staff filed Direct Testimony identifying proposed adjustments to the Company's rate request and recommending a total rate increase of

$2.990 million or 4.44 percent. In Rebuttal Testimony filed on April 1, 2022, the Company revised its request to reflect a $5.993 million or 8.9 percent retail revenue increase. The reduction in the Company's proposed revenue requirement on Rebuttal was driven largely by the cost savings associated with the Company's completion of the Fargo Capacity Project under budget.

The Company, Advocacy Staff, and intervenor AARP all negotiated a potential settlement of revenue terms in good faith. Recognizing the positions of all parties to this Case and the Company's need for additional revenue to have an opportunity to earn a reasonable rate of return on the capital invested to serve North Dakota customers, the Parties have conferred and agreed to this Settlement. The Parties have been authorized to state that intervenor AARP does not oppose this Settlement Agreement regarding revenue requirements.

The revenue requirement agreed to in this Settlement reflects the efforts of the Parties to ensure just and reasonable rates for the Company's provision of retail natural gas service to its North Dakota customers. The Parties agree that the implementation of the terms of this Settlement will accomplish that goal.

SETTLEMENT TERMS

The Parties agree to the provisions provided below:

I. REVENUE REQUIREMENTS

The Parties agree to an overall test year revenue requirement of $72.377 million, representing a revenue requirement increase of $5.074 million. The agreed-upon return on equity (ROE) is 9.80 percent, and the Parties agree that the Company's actual capital structure of 52.54 percent common equity, 47.03 percent long-term debt, and 0.43 percent short-term debt is reasonable and appropriate. As described further in Section

I.B below, the Parties agree that the Company will refund to customers 50 percent of revenues contributing to weather-normalized earnings above 9.80 percent ROE up to 10.25 percent ROE, and will refund to customers 100 percent of revenues contributing to weather-normalized earnings over 10.25 percent ROE.

Noted below are adjustments to the Company's Rebuttal position of revenue requirements increase of $5.993 million to arrive at the revenue requirement provided for in this Settlement.

A. Test Year Adjustments

For purposes of resolving issues in this proceeding only, and without prejudice to positions the Parties may otherwise take in other proceedings, the Parties agree to a series of test year adjustments as summarized in Table 1, below, and discussed further herein.

Table 1 - Revenue Requirement Adjustments

Rebuttal Rate Increase Request	**$5,993**	8.9%
Agreed-Upon Adjustments		
1. Reduce ROE 70 bps to 9.80 percent	($551)	
2. Extend Rate Case Expense Amortization from 3 to 5 Years	($163)	
3. Reduce Test Year Property Tax Forecast by 10%	($159)	
4. Remove LT Incentive - Environmental & Time-based	($28)	
5. Remove Dues, Donations, Econ. Development Support	($16)	
6. Secondary Rev Req Calculations, rounding	($2)	
Total Settlement Items	($919)	
Proposed Settlement Rate Increase	**$5,074**	7.5%

1. Cost of Capital

To ensure a balance between rate affordability, system reliability, and the utility's financial health, the Parties agree for settlement purposes to an authorized ROE of 9.80 percent for the 2022 test year, subject to the earnings sharing mechanism described in Section I.B of this Settlement. The weighted average cost of capital (WACC) will be calculated using the Capital Structure proposed by the Company, as detailed above. Until such time as the Company's cost of capital is modified by the Commission, the Company will use this Settlement Cost of Capital for its natural gas business. For annual jurisdictional earnings reporting, the Company will use its actual capital structure and actual cost of debt. Changes to the Cost of Capital as provided herein result in a $0.551 million reduction to the test year revenue requirement.

2. Rate Case Expense Amortization

The Parties agree that, for purposes of determining the overall test year revenue requirement, the Company will extend the amortization period for Rate Case Expense associated with this Case from three years to five years, consistent with the recommendation of Advocacy Staff. Extension of the Rate Case Expense amortization period to five years as provided herein results in a $0.163 million reduction to the test year revenue requirement.

3. Reduction in Property Tax Expense

The Parties agree that, for purposes of determining the overall test year revenue requirement, the Company will reduce its forecasted Property Tax expense for the 2022 test year by 10 percent. Advocacy Staff questioned the forecasted property tax expense in the test year in light of fluctuations in the Company's Property Tax expense in recent years. Although the Company anticipates an increase in Property Tax in the test year due to the addition of the Fargo Capacity Project to rate base, in light of Advocacy

Staff's concerns about recent fluctuations in Property Tax expense, the Parties agree to reduce the amount of the Property Tax in the 2022 test year by 10 percent. Reducing the Property Tax expense as provided herein results in a $0.159 million reduction to the test year revenue requirement.

4. Incentive Compensation

The Parties agree that, for the purposes of determining the test year revenue requirement, the following Incentive Compensation expenses will be excluded, consistent with Advocacy Staff's recommendation: (a) $17,060 for environmental long-term incentive compensation; and (b) $10,979 for time-based long-term incentive compensation. These adjustments result in a $0.028 million reduction of the test year revenue requirement. The Company may seek to recover these costs on a prospective basis in its next rate case.

5. Organizational Dues, Charitable Donations, and Economic Development

The Parties agree that, for the purposes of determining the test year revenue requirement, the following expenses will be excluded, consistent with Advocacy Staff's recommendation: (a) $7,382 for Economic Development; (b) $2,221 for Chamber of Commerce Dues; and (c) $6,226 for Charitable Contributions. These adjustments result in a $0.016 million reduction of the test year revenue requirement. The Company may seek to recover these costs on a prospective basis in its next rate case.

6. Secondary Calculations

The Parties agree to adopt, for the purposes of determining the test year revenue requirement, the Company's calculation of "secondary" impacts on the various revenue requirement adjustments contained in this Settlement, including the proration of accumulated deferred income taxes (ADIT) and change in cash working capital. These adjustments net to a $848 reduction of the test year revenue requirement.

B. Ensuring Just and Reasonable Rates

1. *Earnings Sharing*

The Parties agree that the natural gas rates set forth in this Settlement are just and reasonable. However, in light of the potential for rates set in this Case to be in effect beyond 2022, the Parties agree to establish an earnings-sharing mechanism. The earnings-sharing mechanism will include a weather-normalized earnings threshold of 9.80 percent ROE in recognition of, among other things, the incentive that an earnings-sharing mechanism provides for the Company to keep its costs low. In the event the Company's annual weather-normalized earnings exceed 9.80 percent ROE, the Company will refund to customers 50 percent of the weather-normalized revenue contributing to earnings in excess of 9.80 percent ROE up to 10.25 percent ROE. In the event the Company's annual weather-normalized earnings exceed 10.25 percent ROE, the Company will refund to customers 100 percent of the weather-normalized revenue contributing to earnings in excess of 10.25 percent ROE.

The Parties agree that this earnings sharing structure helps ensure that rates are just and reasonable while incentivizing the Company to delay additional rate cases and thus is in customers' best interest. The above-described earnings-sharing mechanism will be in effect for all calendar years prior to the Company's next rate case test year, unless a future settlement or Commission Order determines otherwise.

2. *Fargo MGP Amortization*

The Parties acknowledge that the Settlement Agreement in Case No. PU-18-156 provides that, upon implementation of new base rates following this rate case, the annual $1.25 million Fargo manufactured gas project (MGP) remediation amortization expense will be recovered via the Cost of Gas (COG) Rider until the remaining deferred balance has been fully amortized.

II. IMPLEMENTATION

The Parties agree that all Company proposals related to the revenue requirement not explicitly addressed in this Settlement are agreed to and shall be implemented as proposed by the Company; provided, however, that they shall not be precedential in nature.

III. INTERIM RATE REFUNDS

Since the Parties have agreed to a base rate increase for 2022 that is lower than the current interim increase, this Settlement will result in an interim rate refund for North Dakota customers. Interim rates went into effect on November 1, 2021. The Parties agree that the interim rate will remain in effect until final rates are implemented. At the time of this Settlement Agreement, the final amount of interim revenues collected is not available. Assuming final rates go into effect othis fall, the estimated interim rate refund of approximately $1.5 to $2.0 million (plus interest) results in an average refund of approximately $14.00 to $19.00 per residential customer. The refund is expected to be issued to customers beginning approximately 30-60 days from the implementation of final rates.

IV. OTHER TERMS AND CONDITIONS

A. Basis of Settlement

It is agreed that this Settlement is a negotiated settlement agreement subject to approval by the Commission. This Settlement 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.

B. Effect of the Settlement Negotiations

It is understood and agreed that all offers of settlement and discussions related to this Settlement 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, 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 shall be binding on the Parties and their successors, assigns, agents, and representatives. Consistent with the Commission's settlement guidelines, this Settlement does not set policy or overturn precedent. This Settlement 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 shall be binding on the Parties upon the date it is executed by all Parties; provided that this Settlement shall be effective on the date of the Commission Order approving this Settlement. The revised rates and tariff agreed to by this Settlement shall be effective as specified herein.

E. Modification

If a Commission Order modifies or conditions approval of this Settlement, it shall be deemed terminated if any 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 is unacceptable to such party.

F. Mutual Support

Each of the Parties shall support – and not oppose – this Settlement before the Commission.

G. Counterparts

This Settlement may be executed in counterparts with each signature making up the whole.

CONCLUSION

The Parties have agreed to the forgoing terms to resolve all outstanding issues in the above-captioned Case. These terms are a result of negotiations between the Parties, are in the public interest, and will result in just and reasonable rates for natural gas service. For these reasons, the Parties urge the Commission to approve this Settlement.

[SIGNATURE PAGES FOLLOW]

Dated this 27th day of May 2022.

Northern States Power Company,

A Minnesota corporation

By: [signature]

Its: President

[NSP SIGNATURE PAGE TO SETTLEMENT CASE NO. PU-21-381]

Dated this 27 day of May 2022.

Northern Dakota Public Service Commission Staff

By: ______________________

Its: Advocacy Staff Attorney

[ADVOCACY STAFF SIGNATURE PAGE TO SETTLEMENT CASE NO. PU-21-381]