STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company
2021 Natural Gas Rate Increase Application

Case No. PU-21-381

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

October 27, 2022

Commissioners Julie Fedorchak, Randy Christmann and Sheri Haugen-Hoffart

Zeviel T. Simpser, Dorsey & Whitney LLP, 50 South 6th Street Suite 1500, Minneapolis, Minnesota 55402, and Matthew Harris, Lead Assistant General Counsel, Xcel Energy Services Inc., 414 Nicollet Mall, Minneapolis, Minnesota 55401, appearing on behalf of Northern States Power Company.

Brian L. Johnson, Legal Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, ND 58505, appearing on behalf of Public Service Commission Advocacy Staff.

John B. Coffman, John B. Coffman, LLC, 871 Tuxedo Blvd., St. Louis, MO 63119-2044, and David Tschider, Tschider & Smith, 418 E. Rosser Ave., Suite 200, Bismarck, ND 58501, appearing on behalf of AARP.

John M. Schuh, General Counsel, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, North Dakota 58505, appearing on behalf of the Public Service Commission Advisory Staff.

Hope L. Hogan, Administrative Law Judge, Office of Administrative Hearings, 2911 North 14th Street, Suite 303, Bismarck, North Dakota 58503, as Procedural Hearing Officer.

Preliminary Statement

On September 2, 2021, Northern States Power Company (NSP) filed with the Commission an application for an increase in rates for natural gas service. NSP requested a rate increase of $7.059 million or 10.49 percent retail revenue increase for its provision of retail natural gas service in North Dakota. NSP concurrently submitted an Alternative Petition for Interim Rates, requesting an interim rate increase of $8.245 million, or 12.25 percent, to be effective on November 1, 2021.

On October 12, 2021, NSP filed revised interim rate schedules and interim tariffs in response to a request from Advocacy Staff. The revised interim rate schedules provided for an interim rate increase of $6.990 million or 10.39 percent.

At its regular meeting on September 22, 2021, the Commission suspended NSP's tariffs and rates. On October 20, 2021, the Commission approved NSP's proposed revised interim rates to be effective for service rendered on or after November 1, 2021.

On February 9, 2022, the American Association of Retired Persons (AARP) filed a Petition to Intervene, which was granted by the Administrative Law Judge (ALJ) on February 15, 2022.

On March 1, 2022, Advocacy Staff filed Direct Testimony identifying proposed adjustments on NSP's rate request and recommending a total rate increase of $2.990 million or 4.44 percent. AARP also filed Direct Testimony on April 28, 2022.

On April 1, 2022, NSP revised its request in Rebuttal Testimony to reflect a $5.993 million or 8.9 percent retail revenue increase.

On April 21, 2022, AARP filed its surrebuttal testimony.

On April 22, 2022, Advocacy Staff filed its surrebuttal testimony. Advocacy's surrebuttal was revised and submitted on May 9, 2022.

On April 28, 2022, the Commission issued a Notice of Public Hearing indicating that it would conduct a public hearing beginning on June 1, 2022. The Notice provided the following issues to be considered at the hearing:

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 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?
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?

On May 5, 2022, NSP filed its surrebuttal testimony.

On May 27, 2022, NSP and Advocacy Staff filed with the Commission (1) the Revenue Requirements Settlement Agreement, and (2) the Rate Design Settlement Agreement (Settlement Agreements). NSP also filed Supplemental Testimony in support of the Settlement Agreements, which indicated that AARP does not oppose the Revenue Requirements Settlement Agreement.

On May 31, 2022, AARP filed an objection to the Rate Design Settlement Agreement. AARP did not file an objection to the Revenue Requirements Settlement Agreement.

The Commission held the public hearing, as noticed, on June 1, 2022, in the Commission Hearing Room, State Capitol, 600 E. Boulevard Avenue, 12th Floor, Bismarck, ND 58505.

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

Findings of Fact

1. NSP is an investor-owned electric utility headquartered in Minneapolis, Minnesota, authorized to provide public utility service in North Dakota under the regulatory jurisdiction of the Commission.

2. The Revenue Requirements Settlement Agreement proposes an overall increase in NSP's natural gas rates for retail customers of $5.074 million, or 7.5 percent. This agreed-upon amount represents a decrease of $1.985 million from the $7.059 million, or 10.5 percent, increase originally sought by NSP.

3. The Revenue Requirements Settlement Agreement includes an agreed-upon return on equity (ROE) of 9.80 percent. Recognizing that the agreed-to rates may be in effect past 2022, the Parties agreed in the Revenue Requirements Settlement Agreement to an earnings-sharing mechanism whereby NSP 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 the weather normalized earnings over 10.25 percent ROE.

4. The proposed earnings sharing mechanism provides that NSP will refund money to customers if the weather-normalized ROE exceeds 9.80 percent in future years, but the mechanism does not provide additional revenue should the ROE fail to achieve any level. Thus, the Revenue Requirements Settlement Agreement is structured such that NSP bears the risk of under-earning while customers receive the benefit in the event NSP earns more than (on a weather-normalized basis) its authorized ROE.

5. The Revenue Requirements Settlement Agreement acknowledges 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 remediation amortization expenses will be recovered via the Cost of Gas Rider until the remaining deferred balance has been fully amortized.

6. Both NSP and Advocacy Staff testified in support of the Revenue Requirements Settlement Agreement at the hearing. AARP did not object to the Revenue Requirements Settlement Agreement.

7. Advocacy Staff agreed to a 2022 test year revenue requirement of $72.37 million. This is an increase of $5.075 million over present rates, but it is a reduction of $1.985 million from NSP's original request of $7.059 million. Advocacy Staff testified that it is a good outcome for NSP ratepayers. The Settlement Agreement included the following

adjustments: (a) extending rate case amortization, (b) reducing the test year property tax forecast, (c) removing certain incentive compensation costs, (d) removing certain dues and donation expenses, and (e) updating secondary calculations.

8. The Class Cost of Service, Revenue Apportionment, and Rate Design Settlement Agreement (Rate Design Settlement Agreement) proposes acceptance of NSP's class cost of service study, a decreased revenue apportionment to the residential customer, and allows NSP to retain its existing straight fixed variable rate design (SFV). The SFV rate design results in a fixed monthly Delivery Services Charge for residential customers of $22.25, a decrease of 9.1 percent from NSP's original requested amount of $24.48. The Rate Design Settlement Agreement was supported by NSP and Advocacy Staff. AARP objected to the agreement.

9. The class cost of service study follows a minimum system classification, attributes a portion of distribution mains as customer-related, and allocates costs to classes using the average and peak demand method. AARP largely relied on the class cost of service study provided by Advocacy Staff's consultant in arguing against the minimum system classification of distribution mains. Advocacy Staff did not ultimately support the consultant's proposal.

10. The minimum system study assumes there is a minimum size main necessary to connect the customer to the system. This affords the customer an opportunity to take service if desired. The Commission understands the counterargument in that mains and services are installed to serve the demands of the customers but disagrees with the practical justification from a cost causation perspective. The minimum system study has been accepted in North Dakota for almost two decades. The Commission does not find the consultant's position, unsupported by Advocacy Staff, persuasive to depart from precedent.

11. The Rate Design Settlement Agreement proposes a class revenue apportionment that would assign an 8.75 percent rate increase to the Residential class, and a 6.75 percent increase to the Commercial Firm and Interruptible classes, compared to the overall agreed-upon rate increase of 7.54 percent. AARP requests the Commission adopt class cost allocations equal among customer classes of 7.5% in the spirit of compromise to curtail impacts on the residential class.

12. NSP testified that it is reasonable to apply a larger percent increase to the Residential class because the Test Year Class Cost of Service Study showed that the Residential classes needed to generate 33.72 percent more revenues to match the costs to serve.

13. The Commission finds that cost causation requires some movement towards parity. The increase of 8.75% to the residential class is moderated from the initial request. Advocacy Staff and NSP agree that the revenue allocation is just and reasonable without undue discrimination and appropriately moves the class apportionment. The Commission agrees that the settled revenue apportionment moves toward cost causation consistent with gradualism.

The Rate Design Settlement Agreement supports the straight-fixed variable (SFV) rate design currently in use for the residential class. The application of SFV results in a fixed monthly delivery services charge for residential customers of $22.25.

14. NSP and Advocacy Staff testified that NSP's existing rate design reflects the actual costs to serve them and eliminates intra-class subsidization of low-volume customers by high-volume customers. It was testified that stable returns mitigate the need for frequent rate cases. NSP further testified that its rate design helps moderate bills throughout the year by increasing the share of the bill that is not affected by variability in weather and usage.

15. NSP testified that by continuing the SFV rate design, customers receive multiple benefits through simplicity in billing, a lower return on equity due to stable rates, and the removal of disincentives for NSP to promote energy conservation by decoupling returns from customer usage. Customers also retain control over the majority of their bill and incentive to conserve due to 70 to 80 percent of a residential winter bill still being driven by usage.

16. AARP testified that the fixed monthly Delivery Service Charge for residential service should remain at its current level of $18.48, and that any revenue increase for residential customers should be collected through a volumetric distribution charge based on usage. AARP further testified that the Residential class should receive the system average revenue increase, meaning all classes should be increased by the agreed-upon increase of 7.54 percent. AARP testified that putting more costs into the customer charge reduces consumer discretion over their own bill and discourages energy conservation.

17. The rate design proposal has been approved by the Commission for almost two decades. The Rate Design Settlement Agreement also proposes a smaller increase to the fixed Delivery Service Charge than NSP initially requested. This addresses some of AARP's objections to the fixed delivery service charge. The Commission finds the Rate Design Settlement Agreement provides transparency in billing and promotes rate balance.

18. The Commission finds that the Rate Design Settlement Agreement is consistent with gradualism and will result in just and reasonable rates without undue discrimination and preferential treatment. However, the Commission finds that there may be a benefit to additional clarity in the energy conservation benefits being realized through the revenue decoupling.

From the foregoing Findings of Fact, the Commission makes the following:

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.

2. The rates Revenue Requirement Settlement Agreement and the Rate Design Settlement Agreement 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.

3. The rates proposed by the Revenue Requirement Settlement Agreement and Rate Design Settlement Agreement are designed to result in a basis of charge to customers that are just and reasonable without discrimination.

4. The Commission finds the Settlement Agreements are reasonable and provide just and reasonable resolution to all pending issues in this matter.

From the foregoing Findings of Fact and Conclusions of Law, the Commission makes the following:

Order

The Commission Orders:

1. The Settlement Agreements, copies of which are attached to this Order, are adopted and approved in their entirety.

2. NSP Company shall file, for Commission approval, compliance rate schedules consistent with this Order within 30 days.

3. NSP shall issue an interim rate refund to its customers as provided for in the Revenue Requirements Settlement Agreement.

4. Upon implementation of the revised natural gas rates, the annual $1.25 million Fargo manufactured gas project remediation amortization expense will be recovered via the Cost of Gas Rider until the remaining deferred balance has been fully amortized.

5. NSP shall provide a filing detailing the existing energy conservation methods employed by the company. To the extent possible, the filing must demonstrate the impact that revenue decoupling has had on encouraging energy efficiency.

PUBLIC SERVICE COMMISSION

Randy Christmann	"Nay"	Sheri Haugen-Hoffart
Randy Christmann **Commissioner**	**Julie Fedorchak** **Chair**	**Sheri Haugen-Hoffart** **Commissioner**

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]

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 (CLASS COST OF SERVICE, REVENUE APPORTIONMENT, AND RATE DESIGN)

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 issues in the above captioned Case relating to the Company's class cost of service study (CCOSS), revenue apportionment, and rate design. The Parties will file a separate Settlement Agreement resolving all revenue requirement issues 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. The Company prepared a CCOSS, which it testified was prepared using the same methodology that the Company used in its last natural gas rate case (Case No. PU-06-525). Additionally, the Company noted in Direct Testimony that it was not proposing any material changes to its existing straight fixed

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Exhibit 35 – Settlement Agreement (Class Cost of Service, Revenue Apportionment, and Rate Design)
Northern States Power Company

EXHIBIT
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variable (SFV) rate design for North Dakota, although the Company did request an increase in the fixed monthly Delivery Services Charge for residential customers from $18.48 to $24.48. On March 1, 2022, Advocacy Staff and intervenor AARP filed Direct Testimony taking issue with certain aspects of the Company's CCOSS, revenue apportionment, and rate design. Specifically, Advocacy Staff objected to the Company's methods for classifying distribution mains costs and allocating transmission and regulator station costs, arguing that this resulted in an over-allocation of these costs to the Residential rate class. AARP testified that the Company's proposed Residential rate increase of 15.0 percent was too high, and also objected to the Company's proposed increase to the residential Delivery Services Charge.

The Company, Advocacy Staff, and intervenor AARP all negotiated a potential settlement in good faith. Recognizing the positions of all parties to this Case, and in particular the concerns raised in testimony regarding impacts of the Company's proposed revenue apportionment and rate design on the Residential rate class, the Parties have conferred and agreed to this Settlement.

The revenue apportionment and rate design agreed to in this Settlement reflect 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. RATE DESIGN AND REVENUE APPORTIONMENT

The Parties agree that the Company's existing SFV rate design results in just and reasonable rates for North Dakota residential customers. The Parties further agree that the Company's fixed monthly Delivery Services Charge for residential customers will be $22.25, a decrease of 9.1 percent from the Company's original requested amount of $24.48.

In futher recognition of the concerns raised regarding potential impacts on the Residential rate class, with respect to revenue apportionment the Parties agree on class revenue increases as shown in Table 2 below.

Table 2 – Settlement Revenue Apportionment (in thousands)

Customer Class	Current Revenues	Proposed Increase	Percent Increase
Residential	$26,797	$2,344	8.75%
Commercial Firm	$31,902	$2,150	6.74%
Interruptible	$8,604	$580	6.74%
Total	$67,303	$5,074	7.54%

The Company will file compliance tariff pages setting forth the revised natural gas rates and tariffs provided by this Settlement Agreement within at least thirty (30) days of the date of approval of this Settlement.

II. 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: ______________________

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]

DISSENT

Commissioner Julie Fedorchak, Chair

October 27, 2022

Northern States Power Company 2021 Natural Gas Rate Increase Application **Case No. PU-21-381**

Northern States Power Company (NSP) filed with the Commission an application to increase rates for North Dakota natural gas customers by $7 million, a 10.5 percent rate increase. In the settlement agreement between the company and advocacy staff, the revenue increase was reduced to $5 million, a 7.5 percent increase. I support the revenue requirement settlement as well as the class cost of service study and class revenue apportionment, which attempts to move the residential class closer to its cost of service thereby reducing the subsidization of that class by the Commercial Firm and Interruptible classes. Moving the rate classes closer to their cost of service is an important goal and helps ensure rates that are just and reasonable without undue discrimination. This proposal does so in a gradual way that improves parity while avoiding rate shock.

Where I depart from the settlement agreement is in its proposed rate design. I acknowledge and, in some respects, agree with the rationale of straight fixed variable (SFV) rate design in theory. In practice, however, the rate design has shortcomings.

NSP has made significant investments in its natural gas system since their last rate case in 2007. In fact, had it not been for the Tax Cuts and Jobs Act of 2017, NSP gas customers would have seen a rate case several years ago already. Regional Vice President for NSP Greg Chamberlain said as much in his direct testimony.[1] Since then, the company has invested even more in system upgrades. In 2018, 2019 and 2020, the company invested $27.4 million in its North Dakota distribution system.[2] These investments likely would've triggered another rate case.

Also in their testimony, the company indicated that compliance with PHMSA's Distribution Integrity Management Program (DIMP) will require "annual programmatic investments in renewing aging mains and service pipe"[3] beginning in 2022. All of this underscores the fact that NSP's system is both aging and growing. The company was understandably clear in this rate case. To continue meeting system needs, additional investments and therefore revenues from customers are going to be required. The facts are quite evident. As the gas system ages, the long period of limited rate increases is in the past.

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[1] Chamberlain Direct, page 3, lines 17-19.

[2] Zich Direct, page 14, Table 1

[3] Direct Testimony and Schedule Joni H. Zich, page 5, lines 7-10.

As the rate regulator, my job is to seek the best, most fair way to generate from customers the revenues needed to maintain system safety and reliability. That's our goal: safety and reliability at the lowest possible cost. As we address this rate case and look ahead to the future, forcing all of these significant new costs into one basic service charge that every residential customer, regardless of use, must pay to receive service is not the best, most fair way to generate these revenues.

The straight fixed variable rate design is not without merit, but it is a blunt instrument that collects every single system cost into one bucket and divides that equally between residential customers. Low users and high users pay the same with no tools to manage these increasing costs. As we enter this era of rate increases, a more refined rate design is warranted that gives customers more control of their bill. Now is the time to re-instill the two-part billing for residential customers that includes a fixed charge and a volumetric usage charge. This is particularly relevant in the current case where many of the system investments that drove the need for the rate case – the Fargo Capacity Project and the peaking plant refurbishments – are capacity improvements. To the extent that demand among residential customers varies, which we know it does, capturing some of the residential customers' rates in a demand-based charge is an important tool for customers that will be more fair and accurate. Customers who want a stable rate throughout the year, can choose balanced billing to mitigate large swings in their monthly costs.

While company benefits of the SFV design are obvious, it is troubling to me that many of the benefits of this rate design that have been touted for customers have not materialized in a meaningful way. The company claims the rate design eliminates any disincentive to promote energy conservation and provides for a lower return on equity. However, NSP did not provide any material evidence of their efforts to promote energy conservation. Nor did they provide any evidence that in the 18 years of using the SFV rate design, North Dakota customers increased conservation or energy efficiency. Regarding return on equity, the promises are equally hollow. In Colorado, for example, Xcel customers have a $12 basic service charge and yet the company has a 9.57 percent ROE, notably less than the 9.8 percent agreed to for North Dakota in this settlement, which assumed the continuation of the SFV rate.

I believe a more reasonable and balanced approach for this commission is to part from the straight fixed variable rate design for residential customers. With the infrastructure investment occurring now and, in the future, as well as volatile gas rates and major changes in our utility systems, customers should have more tools and choices to help them control costs. The two-part rate design I proposed is a measured but important step in that direction and would have been a better approach for this commission and the customers we serve.

Julie Fedorchak

Julie Fedorchak, Commissioner