STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company **2024 Natural Gas Rate Increase** **Application**	**Case No. PU-23-367**

FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

November 7, 2024

Commissioners Randy Christmann, Julie Fedorchak and Sheri Haugen-Hoffart

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Brian L. Johnson, Special Assistant Attorney General, Public Service Commission, State Capitol, 600 E. Boulevard Avenue, Bismarck, ND 58505, appearing on behalf of Public Service Commission Advocacy Staff.

John B. Coffman, 871 Tuxedo Boulevard, St. Louis, MO 63119-2044, 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 December 29, 2023, 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 $8.463 million or 9.4 percent retail revenue increase for its provision of retail natural gas service in North Dakota.

Also on December 29, 2023, NSP filed an alternative petition for interim rates, requesting an interim rate increase of $7.889 million or 8.77% percent of retail revenues.

On January 24, 2024, the Commission suspended NSP's tariffs and rates.

On February 21, 2024, the Commission approved NSP's proposed interim rates to be effective for service rendered on or after March 1, 2024.

89 PU-23-367 Filed 11/07/2024 Pages: 18
Findings of Fact, Conclusions of Law and Order
Public Service Commission

On May 29, 2024, the American Association of Retired Persons (AARP) filed a Petition to Intervene, which was granted by the Administrative Law Judge (ALJ) on July 19, 2024.

On July 1, 2024, Advocacy Staff filed Direct Testimony identifying proposed adjustments on NSP's rate request and recommending a total rate increase of $6.344 million or 7.013 percent. AARP also filed Direct Testimony on July 1, 2024.

On July 8, 2024, the Commission issued a Notice of Public Input Sessions and Public Hearing indicating that it would conduct public input sessions on July 29, 2024, and a public hearing beginning on September 3, 2024. 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 undue discrimination?

On August 14, 2024, NSP, AARP and Advocacy Staff filed with the Commission a Settlement Agreement reflecting the parties' negotiated agreement on revenue requirements, class cost of service study, revenue apportionment, and rate design.

On September 3, 2024, the Commission held the public hearing, as scheduled.

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 natural gas utility headquartered in Minneapolis, Minnesota, authorized to provide public utility service in North Dakota under the regulatory jurisdiction of the Commission.

2. The Settlement Agreement proposes an overall test year revenue requirement of $97.337 million, representing a revenue requirement increase in NSP's natural gas rates for retail customers of $7.348 million, or 8.2 percent. This agreed-upon amount represents a decrease of $1.115 million from the $8.463 million, or 9.4 percent, increase originally sought by NSP.

3. The Settlement Agreement includes the following adjustments to the revenue requirement.

a. Reduction to the ROE 30 basis points to 9.9 percent ($349,000).

b. Removal of flood mitigation project in West Fargo ($296,000).

c. Operations and maintenance adjustment ($179,000).

d. Removal of short term construction work in progress ($63,000).

e. Removal of long-term incentive compensation, charitable donations, organizational dues, economic development, staff recognition and advertising ($121,000).

f. True-up to actual rate case expenses (estimated $100,000).

g. Secondary calculations such as payroll tax and bad debt ($7,000).

4. The Settlement Agreement includes an agreed upon return on equity (ROE) of 9.90 percent, which is 0.30 percentage points lower than the ROE initially proposed by NSP in its direct testimony.

5. The Settlement Agreement provides that NSP's actual capital structure of 52.50 percent common equity, 47.38 percent long-term debt, and 0.12 percent short-term debt is reasonable and appropriate.

6. The Settlement Agreement provides that NSP's fixed monthly Delivery Service Charge for residential customers will be maintained at the current fixed monthly rate of $22.25, representing a decrease of 11 percent from NSP's initial request of $25 per month.

7. The Settlement Agreement proposed acceptance of NSP's new volumetric Distribution Charge for residential class customers, for which NSP will calculate the amount based on the agreed-upon revenue requirement, revenue apportionment, and Delivery Service Charge amount.

8. The Settlement Agreement proposes a class revenue apportionment that assigns a 9.0 percent increase to the residential class, a 7.3 percent increase to the commercial firm class, an 8.0 percent increase to the small interruptible class, and an 8.9 percent increase to the large interruptible class, compared to the overall increase of 8.2 percent. The parties to the Settlement Agreement expressly do not agree upon any allocation methodology used to develop the agreed-upon revenue apportionment.

9. The Settlement Agreement requires NSP, in its next natural gas general rate case, to file a class cost of service study utilizing the Basic Service Method, as

described by AARP's witness in this proceeding, but does not require NSP to support or endorse the methodologies of such study.

10. Because the Settlement Agreement increase for 2024 is less than the interim increase that became effective March 1, 2024, the Settlement Agreement provides for a refund of excess interim rates collected by NSP, which will be issued within 60 days of implementation of final rates.

11. NSP, AARP and Advocacy Staff provided testimony in support of the Settlement Agreement.

12. NSP testified that it is reasonable to apply a larger percentage 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 the Settlement Agreement will result in just and reasonable rates without undue discrimination.

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

Conclusions of Law

1. The Commission has jurisdiction in these proceedings.

2. The Settlement Agreement provides 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 Settlement Agreement are designed to result in a basis of charge to customers that is just and reasonable without undue discrimination.

4. The Commission finds the Settlement Agreement is reasonable and provides 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 Agreement, a copy of which is attached to this Order, is adopted and approved in its entirety.

2. NSP 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 Settlement Agreement.

4. NSP shall study the impacts of increased volumetric charge in rate design on energy conservation and usage and provide an analysis in its next rate case application.

PUBLIC SERVICE COMMISSION

Sheri Haugen-Hoffart	Randy Christmann	Julie Fedorchak
Sheri Haugen-Hoffart	**Randy Christmann**	**Julie Fedorchak**
Commissioner	**Chair**	**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-23-367

SETTLEMENT AGREEMENT

This Settlement Agreement (Settlement) is entered into this day, August 14, 2024, by and between the North Dakota Public Service Commission Advocacy Staff (Advocacy Staff), intervenor AARP, 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 2024. Through this Settlement, the Parties have resolved all contested issues in the above-captioned Case.

PRELIMINARY STATEMENT

On December 29, 2023, the Company filed its Notice of Change in Rates for Natural Gas Service in the above-captioned Case requesting a $8.463 million or 9.40 percent retail revenue increase for its provision of retail natural gas service in North Dakota. The Company also presented a proposed class cost of service study (CCOSS), revenue apportionment, and rate design. On July 1, 2024, Advocacy Staff filed Direct Testimony identifying proposed adjustments to the Company's rate request and recommending a total rate increase of 6.344 million or 7.013 percent. Advocacy Staff also objected to aspects of the Company's CCOSS, revenue apportionment, and rate design. In particular, Advocacy Staff disagreed with the Company with regard to the classification of distribution main costs. AARP also filed Direct Testimony on July 1, 2024 in which it also disagreed with the Company's method for classifying distribution main costs. AARP also objected to the Company's proposal regarding the amount of the Delivery Services Charge for residential class customers.

The Company, Advocacy Staff, and AARP negotiated a potential settlement 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 revenue requirement, CCOSS, revenue apportionment, and rate design 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 thatgoal.

SETTLEMENT TERMS

The Parties agree to the provisions provided below:

I. REVENUE REQUIREMENTS

The Parties agree to an overall test year revenue requirement of $97.337 million, representing a revenue requirement increase of $7.348 million. The agreed-upon return on equity (ROE) is 9.90 percent, and the Parties agree that the Company's actual capital structure of 52.50 percent common equity, 47.38 percent long-term debt, and 0.12 percent short-term debt is reasonable and appropriate.

Noted below are adjustments to the Company's position of revenue requirements increase of $8.463 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
(amounts $000, rounded to nearest $000)

Rate Increase Request Agreed-Upon Adjustments	**$8,463**
1. Reduce ROE 30 bps to 9.90 percent	($349)
2. Remove Flood Mitigation Project	($296)
3. Settlement O&M Adjustment	($179)
4. Remove Short Term CWIP	($63)
5. LTI, Donations, Dues, Econ. Development, Staff Recognition, Advertising	($121)
6. Rate Case Expenses	($100) est.
7. Secondary Calcs (including Payroll Tax and Bad Debt)	($7)
Settlement Revenue Requirement	$7,348

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 9.90 percent for the 2024 test year. 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. Changes to the Cost of Capital as provided herein result in a $0.349 million reduction to the test year revenue requirement.

2. Remove Fargo-Moorhead Flood Mitigation Project Relocation

After questions from the Commissioners and further investigation by Staff, the Parties determined that this project was federally reimbursable and have reflected that in a reduction to rate base of $2.40 million. This results in a reduction of $0.296 million to test year revenue requirement.

3. O&M Adjustments

Recognizing the increasing pressures on operations and maintenance expenses and the need to incentivize the Company to control such expenses, the Parties agree that, subject to the additional O&M adjustments that are detailed below, the total O&M expenses for the 2024 test year shall be adjusted to the actual total O&M expenses incurred in 2022. These adjustments result in a $0.179 million reduction of the test year revenue requirement.

4. Long-Term Incentive, Organizational Dues, Charitable Donations, Economic Development, Advertising, and Staff Recognition

The Parties agree that, for the purposes of determining the test year revenue requirement, the following approximate expenses will be excluded, consistent with Advocacy Staff's recommendation: (a) $16,000 for environmental long-term incentive compensation; (b) $62,000 for time-based long-term incentive compensation (c) $4,000 for Economic Development; (d) $3,000 for Chamber of Commerce Dues; (e) $22,000 for Charitable Contributions; (f) $5,000 for advertising expenses; and (g) $9,000 for Staff Recognition expenses. These adjustments result in a $0.121 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. Rate Case Expenses

The Parties agree that the Company shall collect its actual rate case expense incurred upon the completion of the case. The Company shall use a three-year amortization period for its rate case expenses and will use the actual expenses incurred when implementing final rates. The Parties recognize that prompt settlement of this Case will lower actual rate case expenses and the Company currently estimates those savings as at least $0.100 million.

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 payroll taxes, bad debt, the proration of accumulated deferred income taxes (ADIT) and change in cash working capital. These adjustments net to approximately a $7,000 reduction of the test year revenue requirement.

II. RATE DESIGN, CCOSS, AND REVENUE APPORTIONMENT

The Parties agree the Company's fixed monthly Delivery Services Charge for residential customers will be maintained at the current fixed monthly Delivery System Charge of $22.25, a decrease of 11 percent from the Company's original requested amount of $25. The Parties further agree to the Company's proposed addition of a new volumetric Distribution Charge for residential class customers; the Company shall calculate the amount of the charge based on the agreed-upon revenue requirement, revenue apportionment, and Delivery Services Charge amount.

The Parties agree the revenue requirement shall be apportioned among customer classes as set forth in Table 2 below.

Table 2 – Settlement Revenue Apportionment (in thousands)

Customer Class	Current Revenues	Proposed Increase	Percent Increase
Residential	$35,610	$3,221	9.0%
Commercial Firm	$45,208	$3,318	7.3%
Small Interruptible	$2,472	$198	8.0%
Large Interruptible	$6,700	$597	8.9%
Other Revenue Increase		$15	
Total	$89,990	$7,348	8.2%

No party agrees on any allocation method or underlying methodology used to develop the agreed upon revenue apportionment above.

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. Additionally, along with the class cost of service study the Company utilizes to determine its class allocations, in its next gas rate case the Company will also file a class cost of service study utilizing the "Basic Service Method", as described by AARP's witness in this proceeding. The Company is not obligated to support or endorse the methodologies in this study.

III. IMPLEMENTATION

The Parties agree that all Company proposals not explicitly addressed in this

Settlement shall be implemented as proposed by the Company; provided, however, that they shall not be precedential in nature.

IV. INTERIM RATE REFUNDS

Since the Parties have agreed to a base rate increase for 2024 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 March 1, 2024. 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 this fall, the estimated interim rate refund of approximately $297,000[1] results in an average refund of approximately $3.07 per residential customer. The refund is expected to be issued to customers beginning approximately 30-60 days from the implementation of final rates.

V. 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. The settlement is a product of negotiation, and the parties recognize that the issues agreed upon in this case may be litigated in future cases before 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

[1] Assumes final rates effective November 1, 2024.

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.

VI. 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.

Dated this 14th day of August, 2024

Northern States Power Company,
a Minnesota corporation

By: ______________________

Its: President NSPM

[NSP SIGNATURE PAGE TO SETTLEMENT CASE NO. PU-23-367]

Dated this 12 day of August, 2024

North Dakota Public Service Commission, Advocacy Staff

By: ____________________

Its: Advocacy Staff Counsel

[ADVOCACY STAFF SIGNATURE PAGE TO SETTLEMENT CASE NO. PU-23-367]

Dated this 14th day of August, 2024

AARP

By: John B Coffman

Its: Attorney

[AARP SIGNATURE PAGE TO SETTLEMENT CASE NO. PU-23-367]