BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES	))))	**SETTLEMENT STIPULATION** **EL11-019**

I. SETTLEMENT STIPULATION

On June 30, 2011, Northern States Power Company d/b/a Xcel Energy (Xcel Energy or Company) filed with the Public Utilities Commission (Commission) an application for approval to increase rates for electric service to customers in its South Dakota service territory by approximately $14.6 million annually or approximately 9.28% based on the Company's 2010 test year. In addition, Xcel Energy proposed to recover approximately $1 million of ongoing investments in its Monticello nuclear generating plant through a Nuclear Cost Recovery Rider intended to go into effect with final rates. Under the requested increase, a residential electric customer using 750 kWh per month would have seen an increase of 9.48%, or $6.93 per month. The proposed rates would potentially affect approximately 84,000 customers in Xcel Energy's South Dakota service territory. On January 2, 2012, Xcel Energy implemented an interim rate increase of approximately $12.7 million, subject to refund.

Commission Staff and Xcel Energy (jointly the Parties) held several negotiating sessions in an effort to arrive at a jointly acceptable resolution of this matter. As a result of those negotiations, the Parties have resolved all issues subject to this proceeding except (i) cost recovery for the Nobles wind plant and the adjustments associated with the level of the Nobles wind plant cost recovery allowed, and (ii) rate of return on equity, cost of debt, and capital structure. Although the Parties are unable to reach a resolution regarding these issues, and will notice these items for

Commission consideration, this Settlement Stipulation (Stipulation) addresses all issues other than those items in dispute related to the proposed rate increase. Because the revenue requirement will vary based on the Commission's resolution of these items in dispute, this Stipulation will set forth the range of the revenue requirement that will be established dependent on the Commission's final determination. The Commission's resolution of these contested issues, in combination with the items agreed to in this Stipulation, will determine the rates that result from this proceeding.

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of settlement of those issues in Docket No. EL11-019 other than cost recovery for the Nobles wind plant and the adjustments associated with the level of Nobles wind plant cost recovery allowed, rate of return on equity, cost of debt, and capital structure. The Parties acknowledge that they may have differing views that justify the end result of the Stipulation, but each Party deems the end result to be just and reasonable. In light of such differences, the Parties agree that the resolution of any single issue, whether express or implied by the Stipulation, should not be viewed as precedent setting. In consideration of the mutual promises hereinafter set forth, the Parties agree as follows:

1. Upon execution of this Stipulation, the Parties shall immediately file this Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Stipulation in its entirety without condition or modification.

2. This Stipulation includes all terms of settlement other than cost recovery for the Nobles wind plant and the adjustments associated with the level of Nobles wind plant cost recovery allowed, rate of return on equity, cost

of debt, and capital structure. The Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes in or conditions to this Stipulation, this Stipulation may, at the option of either Party, be withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding nor be used for any other purpose in this case or in any other proceeding before the Commission.

3. This Stipulation shall become binding upon execution by the Parties; provided however, if this Stipulation is withdrawn in accordance with Paragraph 2 above, it shall be null, void, and privileged. This Stipulation is intended to relate only to the specific matters referred to herein; neither Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; neither Party shall be deemed to have approved, accepted, agreed or consented to any ratemaking principle, or any method of cost of service determination, or any method of cost allocation underlying the provisions of this Stipulation, or either be advantaged or prejudiced or bound thereby in any other current or future proceeding before the Commission. Neither Party nor representative thereof shall directly or indirectly refer to this Stipulation or that part of any order of the Commission accepting this Stipulation as precedent in any other current or future rate proceeding or any other proceeding before the Commission.

4. The Parties to this proceeding stipulate that all pre-filed testimony, exhibits, and workpapers on the settled issues be made a part of the record in this proceeding. The Parties understand that if the issues settled in this matter had not been settled, Commission Staff would have filed direct testimony on those issues, Xcel Energy would have filed rebuttal testimony

responding to certain of the positions contained in the testimony of Commission Staff, and an evidentiary hearing would have been conducted where the witnesses providing testimony on the settled issues would have been subject to examination.

5. It is understood that Commission Staff enters into this Stipulation for the benefit of Xcel Energy's South Dakota customers affected by this docket.

III. ELEMENTS OF THE STIPULATION

1. Revenue Requirement

The Parties agree that the final revenue requirement in this case will be dependent upon the Commission's decision resolving the contested issues.

a. The Parties agree on the rate treatment of a significant number of issues and that the treatment of settled issues is not dependent on the Commission's decision on the contested issues described above. However, the precise revenue requirement value of certain of the settled issues would be impacted by the Commission's decisions on the disputed issues of the Nobles Wind plant, rate of return on equity, cost of debt, and capital structure.

All recalculation necessary and resulting from Commission decisions on the disputed issues will be reflected in compliance with the Commission's Order after hearing. Additionally, parties agree there are five financial elements that cannot be determined until the final revenue requirement is known and those are the impact of Net Operating Loss, Cash Working Capital, Tax Collections Available, Weather Normalized Allocators, and Interest Synchronization. These recalculations will also be completed and presented for review in compliance with the Commission's Order after hearing.

b. The Parties agree that if the Commission adopts the position of Xcel Energy on all the contested issues, which assumes an overall rate of return of 8.52% and full cost recovery for the Nobles wind plant, the final revenue deficiency will be $11.886 million. The Company's rate of return is determined as shown in the rebuttal testimony of Company witness Mr. James M. Coyne and included here as Exhibit A.

c. The Parties agree that if the Commission adopts the position of Commission Staff on all the contested issues, which assumes an overall rate of return of 7.60% and 30% disallowance of the costs of the Nobles wind plant allocable to South Dakota, the final revenue deficiency will be $6.315 million. Staff's rate of return is determined as shown in the direct testimony of staff witness Mr. Basil L. Copeland Jr. and included here as Exhibit B.

2. <u>Tariffs</u>

Xcel Energy will submit tariffs through a compliance filing after the Commission renders a final decision on all matters in this case. The Parties agree that the final revenue requirement will be allocated to the affected rate classes as shown on attached Exhibit C.

3. Nobles Wind Plant

The level of cost recovery for the Nobles wind plant is disputed and presented in testimony to the Commission. As such, issues related to cost recovery and the associated impacts for energy, sales of emission allowances, federal production tax credits ("PTCs") and Renewable energy Credits will be determined by the Commission.

4. Asset and Non-Asset based Margins

South Dakota customers will be credited 100 percent of the jurisdictional portion of actual asset-based margins and 30 percent of the jurisdictional share of non-asset based margins from intersystem sales as described in the Company's South Dakota Fuel Clause Rider. For asset-based margins sharing, the Company agrees to continue to include a tracker in the monthly Fuel Clause Adjustment Reports showing the monthly amount credited to South Dakota customers. The Company will maintain a similar tracker for the non-asset based margins sharing credit. The retail share of the non-asset based margins will be computed annually after the close of the calendar year. The Company will provide both a fully allocated cost study and an incremental cost study showing the costs incurred to realize non-asset based margins in its next general rate filing.

5. Fuel Clause Rider Adjustments

a. The Company will credit to the Fuel Clause Rider any emission allowances allocable to the South Dakota jurisdiction that are sold on and after January 2, 2012.

b. The Company will credit PTCs related to wind production allocated to Xcel Energy South Dakota jurisdiction customers through the Fuel Clause Rider for PTCs earned on and after January 2, 2012.

c. Parties agree the Fuel Clause Rider Tariff will be modified to include the following language needed to allow emissions allowances and PTCs to flow through the fuel clause:

"EMISSION ALLOWANCES AND FEDERAL PRODUCTION TAX CREDITS
The South Dakota state jurisdictional share of revenue generated by the sale of emission allowances and the revenue requirements from federal production tax credits (PTC) associated with wind generation allocated to South Dakota shall be credited to customers."

7. MISO Schedule 26 Costs

The Parties agree that MISO Schedule 26 costs and revenues will be removed from base rates. The Parties agree the Commission will review the South Dakota jurisdictional portion of MISO Schedule 26 costs and revenues in the Transmission Cost Recovery Rider docket.

8. Amortization

The Parties agree that amortizations being recovered in rates under the terms of the Stipulation include the following where the cost will be deferred and amortized over the periods shown:

Item	Amount Amortized	Amortization Period	Annual Amount
	($)	(Years)	($)
Rate Case Expenses	340,000	3	113,333
Private Fuel Storage	1,010,000	6	168,000
Emission Sales Credit	(219,000)	5	(44,000)

a. Rate Case Expenses

The Parties agree that the unamortized actual rate case expense from Docket EL09-009 will be combined with the current Rate Case expenses and will be deferred and amortized over three (3) years. Further, the Parties agree that the average unamortized balance of $170,000 will be included as a component of other rate base. Section

III.7.b. of the Settlement Stipulation in Docket EL09-009 shall be null and void upon the approval of this Stipulation.

The Parties agree that the actual rate case costs incurred (excluding accruals) through March 31, 2012, is $178,000 and is included in the Rate Case Expense identified above. The Parties also agree that rate case expenses incurred after March 31, 2012, through the conclusion of this proceeding, will be deferred on the Company's balance sheet and reviewed for recovery in the Company's next general rate filing in South Dakota.

b. Private Fuel Storage ("PFS")

The Parties agree that the PFS deferred balance approved in EL09-009 of $1,010,000 to be amortized over 6 years in an amount of $168,000 annually will continue. Further, the Parties agree that the average unamortized balance of $505,000 will be included as a component of other rate base.

c. Emission Sales Credits

The Parties agree that the Emission Sales Credits deferred balance approved in EL09-009 of $(219,000) to be amortized over 5 years in an amount of $(44,000) annually will continue. Further, the Parties agree that the average unamortized balance of $(110,000) will be included as a component of other rate base.

d. Treatment of Amortizations in Future Proceedings

Parties acknowledge that the Company intends to file for a rate increase in 2012 and the annual amount of these amortizations will be included by the Company as a test year cost in that filing. The deferral accounting method and the resulting creation of a regulatory asset or deferred debit (the deferred balance) shall not preclude Commission review of these amounts for reasonableness for rate recovery in any future determination of rates, including both rate filings by the Company and rate reviews initiated by the Commission.

9. Nuclear Fuel Outage Costs.

In Docket EL07-035, the Commission approved Xcel Energy's petition to change from a direct-expense accounting to a deferral/amortization method and the resulting creation of a regulatory asset (the deferred balance) for planned refueling outages at the three nuclear plants. The Commission accepted this method of ratemaking treatment in the Company's last rate case, Docket EL09-009. It is agreed that this methodology is appropriate for ratemaking purposes in the present docket.

10. Service Reconnection Charge

The Parties agree that the service reconnection charge shall be set at $35.

11. Depreciation

The parties agreed to an adjustment for depreciation expense to restore generational equity and provide rate mitigation benefit for ratepayers in challenging economic conditions. This Settlement Stipulation reflects an adjustment for depreciation of $2,273,000. All depreciation expense reductions are based on changes to the annual depreciation expense accrual and are to be effective as of January 2, 2012.

This Stipulation is entered into this 8th day of May, 2012.

Northern States Power Co.
d/b/a Xcel Energy

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DATED: May 7, 2012

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