

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

<b>IN THE MATTER OF THE PETITION OF</b>	)	
<b>NORTHERN STATES POWER COMPANY</b>	)	
<b>D/B/A XCEL ENERGY FOR APPROVAL OF</b>	)	<b>SETTLEMENT STIPULATION</b>
<b>ITS 2011-2012 TRANSMISSION COST</b>	)	
<b>RECOVERY ELIGIBILITY AND RATE</b>	)	<b>EL12-035</b>
<b>ADJUSTMENT</b>	)	

**I. SETTLEMENT STIPULATION**

On April 30, 2012, the South Dakota Public Utilities Commission (“Commission”) received a petition from Northern States Power Company d/b/a Xcel Energy (“Xcel Energy” or “Company”) for approval of its 2011-2012 transmission cost recovery (“TCR”) project eligibility and rate adjustment.

This petition replaced the Company's docket filing EL10-014, filed on October 6, 2010. At the request of Commission Staff, Xcel Energy resubmitted its TCR petition as a 2011-2012 consolidated filing. This updated filing was necessary to resolve cost allocation issues pertaining to regional transmission projects, which were not at issue at the time Xcel Energy filed its EL10-014 petition. Specifically, this updated petition incorporates the cost recovery methodology; referred to as the “hybrid” or “split method” approach Commission Staff believes is an acceptable approach to recognizing the state and federal jurisdictional split Staff believes is present in these regional transmission projects. For additional information on the “hybrid” approach, refer to Commission Docket EL10-015 Settlement Stipulation and Staff Memorandum.

In its updated 2011-2012 petition, Xcel Energy proposes to begin recovery of the South Dakota jurisdictional portion of the revenue requirements related to fifteen (15) transmission projects located throughout its service territory. Xcel Energy proposed to recover approximately \$2.5 million associated with these projects for the 2012 calendar year. The total of the transmission investment costs and the tracker balance would have resulted in an

average bill impact of a \$1.09 per month for a typical residential electric customer using 750 kWh per month. This is an increase of \$1.02 per month from the current TCR recovery. Xcel Energy proposed to implement a rate of \$0.001453 per kWh applied to all energy billed to each customer class for the year ending December 2012. This represents an increase of \$0.001359 from the existing rate of \$0.000094 per kWh.

Commission Staff and Xcel Energy (“Parties”) held several discussions regarding the Company’s petition and, as a result of these discussions, the Parties have been able to resolve all issues identified in this proceeding. The Parties have reached an agreement in the form of this Settlement Stipulation, which, if accepted and ordered by the Commission, will determine the rates that result from this proceeding.

## **II. PURPOSE**

This Settlement Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. EL12-035. The Parties acknowledge that they may have differing views that justify the end result, 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 Settlement 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 Settlement Stipulation, the Parties shall immediately file this Settlement Stipulation with the Commission together with a joint motion requesting that the Commission issue an order approving this Settlement Stipulation in its entirety without condition or modification.
2. This Settlement Stipulation includes all terms of settlement. The Settlement Stipulation is filed conditioned on the understanding that, in the event the Commission imposes any changes in or conditions to this Settlement Stipulation, this Settlement 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.
3. This Settlement Stipulation shall become binding upon execution by the Parties, provided however, if this Settlement Stipulation is withdrawn in accordance with Paragraph 2 above, it

shall be null, void and privileged. This Settlement 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 allocation underlying the provisions of this Settlement Stipulation, or 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 Settlement Stipulation or that part of any order of the Commission as precedent in any other current or future rate proceeding or any other proceeding before the Commission.

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

### **III. ELEMENTS OF THE STIPULATION**

1. **Revenue Requirement.** The Attachments 1 - 40 to this Settlement Stipulation reflect the estimated 2012 revenue requirement subject to later true up to the actual costs and recoveries. The Parties agree the estimated 2012 revenue requirement is \$2,094,106. Included in the \$2.1 million figure is the 2011 unrecovered balance of \$532,704, consisting of 2011 revenue requirements, the 2010 tracker balance, and the TCR revenues received in 2011.

2. **Transmission Facilities Ineligible for Regional Cost Sharing.** The Parties agree the South Dakota jurisdictional share of Xcel Energy's entire investment in the following transmission projects shall be included in retail rate base for recovery through the TCR mechanism.

- a. Chisago-Apple River
- b. North Mankato
- c. Pleasant Valley Byron
- d. Glencoe-Waconia
- e. St. Cloud Loop
- f. Sioux Falls Northern
- g. Grove Lake-Glenwood

- h. Sauk Center-Osakis
- i. Hollydale
- j. Meadow Lake
- k. CapX2020 Twin Cities – La Crosse (Part 1)

The parties agree the Hiawatha project is ineligible for recovery in the TCR rider.

3. **Schedule 26 Expenses.** The Parties agree it is proper to utilize the TCR as the mechanism to flow through the jurisdictional share of Schedule 26 expenses incurred by Xcel Energy as an active member of MISO. Pursuant to SDCL 49-34A-25.1, the TCR rider applies only to new or modified transmission facilities with a design capacity of thirty-four and one-half kilovolts (34.5 kV) or more and which are more than five (5) miles in length. Under the MISO tariff, transmission projects eligible for cost allocation under Attachment FF are of the capacity and nature to comply with these SDCL requirements. The TCR rider reflects recovery of Schedule 26 expenses beginning in 2011, adjusted for the amount included in base rates in Docket EL09-009. Beginning in 2012, the TCR rider reflects full recovery of the South Dakota jurisdictional share of Schedule 26 expenses.

4. **Regional Transmission Investment Allocation.** For the purpose of determining inclusion of regional transmission investments (those that qualify for regional cost allocation through MISO's tariff) in the TCR rider, the Parties agree to utilize a method of project cost allocation referred to by the Parties as the "refined split" method. The Parties find this method best conforms to traditional ratemaking philosophy and facilitates proper jurisdictional allocation of the transmission investments. Under this method, the Company's regional transmission investments will be allocated into state or FERC jurisdictions for recovery as follows:

- a. The portion of the regional transmission investments associated with the Company's MISO determined retail responsibility of its investment in the projects will be included in retail rate base for recovery through the TCR mechanism.
- b. Retail customers will be assessed Schedule 26 expenses relating to the Company's full responsibility of total project costs, as discussed in Clause 2.
- c. Retail customers will be credited a pro-rata share of FERC authorized MISO

Schedule 26 revenues associated with the Company's MISO determined responsibility for its investment in the regional transmission projects, offsetting this portion of the Schedule 26 expenses. The Company will retain the portion of its Schedule 26 revenues associated with other MISO members' responsibility for Xcel Energy's investment in the projects.

The Parties agree the MISO determined retail responsibility of the Company's investment in the following regional transmission investments shall be included in retail rate base for rate recovery through the TCR mechanism.

- a. CapX2020 Twin Cities – La Crosse (Part 2)
- b. CapX2020 Fargo – Twin Cities
- c. CapX2020 Bemidji – Grand Rapids
- d. CapX2020 Brookings – Twin Cities

5. **Rate of Return.** The Parties agree that the overall rates of return applicable to the eligible investments included in the TCR rider shall be 8.18% in 2008, 8.12% in 2009, 8.12% in 2010, 7.68% in 2011, and 7.79% in 2012. The overall returns are based on an agreed upon ROE for 2008-2010, and a separate agreed upon ROE for 2011-2012. Overall rates of return are based on the Company's actual capital structure and long-term debt costs at the end of the preceding calendar year.

6. **Demand Allocation.** The Parties agree that the demand allocators used to allocate costs to the South Dakota jurisdiction reflect the actual demand allocation for the given year (i.e. – 2012 revenue requirements based on the 2012 demand allocation).

7. **Carrying Charge on Over/Under Recoveries.** The Parties agree that a carrying charge calculated at the TCR overall rate of return, adjusted for related Federal income taxes, shall be applied to the monthly over-or-under-recoveries determined as the estimated TCR revenues and costs are trued-up to actual revenues and costs.

8. **Rate Design.** The Parties agree that, as proposed in the filing, a single uniform rate per kWh will apply to all customers.

9. **Implementation of Rates.** The revised rate of \$0.003038 shall be implemented with service rendered on and after September 1, 2012, with bills prorated so that usage prior to September 1, 2012, will be billed at the previous rate and usage on and after September 1, 2012, will be billed at the new rate. The rate is designed to be effective through December 2012.

10. **Tariffs.** Xcel Energy will submit revised tariff sheets through a compliance filing after the Commission renders a final decision in this docket.

11. **Annual Reports of South Dakota Jurisdictional Earnings.** The Parties agree that, by June 1 of each year, beginning June 1, 2013, the Company will file with the Commission a report of its South Dakota jurisdictional earnings (Cost of Service Study) for the preceding calendar year showing, among other things, the overall rate of return and ROE earned, and the South Dakota revenue excess or deficiency based on the ROE reflected in the last general rate case. The determinations will be presented on an actual and weather-normalized basis and will reflect South Dakota ratemaking practices.

**South Dakota Public Utilities**

**Commission Staff**

By: Brittany Mehlhaff (Print)

Brittany Mehlhaff (Sign)

Title: Staff Analyst

Date: 08/07/2012

**Northern States Power Company d/b/a**

**Xcel Energy**

By: Laura McCarten (Print)

Laura McCarten (Sign)

Title: Regional Vice President

Date: August 7, 2012