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

| | | |
|---|----------|--------------------|
| IN THE MATTER OF THE APPLICATION |) | SETTLEMENT |
| OF NORTHERN STATES POWER |) | STIPULATION |
| COMPANY DBA XCEL ENERGY FOR |) | |
| AUTHORITY TO INCREASE ITS |) | EL14-058 |
| ELECTRIC RATES |) | |

I. SETTLEMENT STIPULATION

On June 23, 2014, Northern States Power Company doing business as 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 an annual incremental increase of approximately \$15.6 million annually or approximately 8.0% based on the Company's 2013 test year. Under the requested increase, a residential electric customer using 750 kWh per month would have seen an increase of 9.71%, or \$8.49 per month. The proposed rates would have affected approximately 85,000 customers in Xcel Energy's South Dakota service territory.

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 in this proceeding and have entered into this Settlement Stipulation (Stipulation), which, if accepted and ordered by the Commission, 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 resolving Docket No. EL14-058. The Parties acknowledge that they may have differing views and reasons to support and 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. 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.

3. This Stipulation shall become binding on the Parties upon execution by the Parties, provided however, if this Stipulation is withdrawn in accordance with Paragraph 2 above, it shall be null, void, and inadmissible in this case or in any other case. 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 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 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, the procedural

schedule would have continued, Commission Staff would have formalized their position in testimony and Xcel Energy would have filed rebuttal testimony; Commission Staff would have responded to certain of the positions contained in Xcel Energy's rebuttal testimony, and an evidentiary hearing would have been conducted where the witnesses providing testimony 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 Xcel Energy's rate schedules attached as Exhibit A are designed to produce an ongoing annual increase in base rates to recover a total revenue deficiency of \$6.922 million, including gross receipts taxes, or approximately 3.6% annually for retail electric service sales in South Dakota. The Parties agree to a 7.22% rate of return on rate base.

2. Allocation to Customer Classes

The Parties agree that the final revenue requirement will be allocated to the affected rate classes with the resulting increases as shown on attached Exhibit B.

3. Asset and Non-Asset based Margins

Consistent with the treatment established in Docket EL12-046, 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.

4. Nuclear Decommissioning Expense

The Parties agree that the nuclear decommissioning expense presented in this rate case will be the one in effect with the approval of this Stipulation.

The Parties agree that the Company may seek recovery of all costs for decommissioning not otherwise recovered from ratepayers in a future rate case or other proceeding.

5. Amortization

The Parties agree that except for Private Fuel Storage, amortizations being recovered in rates under the terms of the Stipulation from the EL12-046 case have expired. Rates under the terms of this Stipulation include the following where the cost (Amounts Amortized) will be deferred and amortized over the periods shown:

| | Amount | Amortization | Annual |
|----------------------|----------------|----------------|-------------|
| Item | Amortized (\$) | Period (years) | Amount (\$) |
| Private Fuel Storage | \$ 168,333 | 3 | \$ 56,111 |
| Rate Case Expenses | \$ 357,579 | 3 | \$119,193 |

a. Private Fuel Storage (PFS)

The Parties agree that the PFS deferred balance approved in Docket EL09-009 of \$1,010,000 amortized over 6 years in an amount of \$168,000 per year will be re-amortized and recovered in the amount of \$56,111 per year. The Parties agree that the average unamortized balance of \$84,167 will be amortized over an additional 3 years and included as a component of other rate base.

b. Rate Case Expenses

The Parties agree that recovery of the deferred and amortized actual rate case expenses from prior dockets has been completed. The current Rate Case actual expenses

through January 31, 2015¹, will be deferred and amortized and recovered over three (3) years. The Parties agree that the average unamortized balance of \$178,790 will be included as a component of other rate base.

6. 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 Monticello and Prairie Island nuclear plants. The Commission accepted this method of ratemaking treatment in the Company's last three rate cases, Docket Nos. EL09-009, EL11-019, and EL12-046. It is agreed that this methodology is appropriate for ratemaking purposes in the present docket.

7. Depreciation

The Parties agree that the depreciation lives and rates presented in this rate case will be the ones in effect with the approval of this Stipulation.

8. Infrastructure Rider

The Parties agree that the Company will refresh the existing Infrastructure Rider to recover specifically evaluated and discrete costs for capital projects for 2015 that are not included in the revenue deficiency outlined in Section III.1 for purposes of setting base rates and to recover costs for other capital projects as further described in this Section III.8. The Infrastructure Rider is to be implemented concurrent with new rates in this case and with recovery of these costs over the remainder of 2015 calendar year and thereafter as provided in this Section III.8.

¹ Actual Rate Case expenses through January 31, 2015 were updated to include SDPUC Staff and Staff consultant amounts invoiced February 9, 2015 and February 6, 2015 respectively.

a. Costs included in Infrastructure Rider

The amount included in the Infrastructure Rider for these capital projects will initially reflect a full year of revenue requirements for amounts that went into service in 2014 and a partial year of revenue requirements for amounts going into service in 2015 based on the expected in-service dates in 2015 as of March 2015. These projects are outlined on the attached Exhibit C as well as a specific group of capital projects planned to go in service between 2014 and 2017 that are not already included in base rates. Projects outlined on Exhibit C with projected in service dates in 2016 and 2017 are included as projects to be considered in future annual filings. The Company has represented that the opportunity for recovery of the projects outlined on Exhibit C is a necessary component for a rate moratorium. Approval of this Stipulation does not constitute pre-approval of inclusion of the 2016 and 2017 projects. The Parties agree the Company may also request recovery of additional projects not outlined on Exhibit C for consideration of inclusion in future annual filings. The projected project costs to be included in the rider for 2015 are shown on Exhibit E.

A subsequent annual filing made by October 1 of each year, beginning in 2015 for January 1 implementation, will include a tracker that will true up the Infrastructure Rider for actual costs, revenues, and allocation factors for the prior period, reconciling any differences between estimated cost and in-service date and actual cost and in-service date, and include projected revenue requirements for the tracker projects in the following year. The true-up for the 2014 calendar year will be reflected in the updated Infrastructure Rider to be implemented with new rates in this case. This process of true up to actual costs and reset of the Infrastructure Rider factor based on forecast for the following year will continue until the revenue requirements related to projects in the Infrastructure Rider are moved into base rates in a future rate case.

The Parties agree the Infrastructure Rider is also a reasonable mechanism for implementation of the Phase In Statute and possible recovery of other capital investments consistent with SDCL §49-34A-73.1 that are not yet included in base rates or otherwise recovered through another rate mechanism. In addition to the specific projects listed in

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Exhibit C, the Company may propose to include in the October 1 annual filings other projects or categories of capital investments consistent with the Phase In Statute, as determined eligible for recovery by the Commission.

b. Monticello LCM/EPU

[CONFIDENTIAL BEGINS:

CONFIDENTIAL ENDS]

c. Pleasant Valley and Borders Wind Projects

Once construction of either of Pleasant Valley and Borders projects has been completed and that project is in operation, the Company agrees to report certain information related to capital cost, operating costs and energy production information for that project. These figures will be provided beginning with the first October 1st Annual Rider Update following completion of the project construction and will continue annually until each of these projects is moved into base rates.

d. Infrastructure Tariff Modification and Annual Rider Update

The Parties agree to modify the existing Infrastructure Rider tariff language as shown on Exhibit D to this Stipulation. Under the modified Infrastructure Rider tariff, the Company will submit updates to the rider by October 1 of each year, for January 1 implementation, as described in Section 8.a. above. The Infrastructure Rider Adjustment Factor may be adjusted annually subject to review and Commission approval. Parties

acknowledge Commission review and approval may also take into consideration changed circumstances associated with projects included in the Infrastructure Rider.

The Parties agree that the Rider update is intended to be implemented January 1 following the October 1 filing. If Commission approval does not occur in time to permit the new Infrastructure Rider adjustment factor to begin January 1, the designated recovery period will be determined as part of the October 1 annual update proceeding, with the intent to allow opportunity for a full year's recovery. An Infrastructure Rider adjustment factor will remain in effect until changed, either by a subsequent update or by other Commission action.

9. Property Tax

The Parties agree to modified language in the Fuel Clause Rider to allow for the collection of ad valorem taxes as permitted by SDCL §49-34A-25. The Company will annually calculate the difference between the amount of property taxes forecast for current calendar-year and the amount included in base rates, plus a true-up for prior year actual property tax recorded compared to that year's forecast, and include 1/12th of this difference with the monthly fuel clause calculations. The amount for each year would reflect that year's property tax accrual, which includes the true-up for the prior year's property tax invoices received and paid in the spring of that year. Forecasted amounts will use forecast allocation factors and actual amounts will use actual allocation factors. Base rates to be implemented in this case reflect 2014 recorded property taxes. The 2015 incremental amount of \$961,705 will be collected through an even monthly amount beginning with new rates under this Stipulation or as soon as is practicable through March 2016. Tariff language to be implemented with final rates is included in Exhibit F.

10. Earnings Sharing Mechanism

To ensure rates are appropriately set under the Stipulation, the Parties agree to establish an earning sharing mechanism to share with customers any weather-normalized earnings above the ROE agreed to in this Stipulation. The earnings sharing mechanism

requires that in the event the Company's annual weather normalized earnings exceed the agreed to ROE in this Stipulation during any year of the Stipulation term, the Company will refund to customers 50 percent of any weather-normalized revenue that corresponds to the earnings in excess of its authorized ROE for a particular year. The Company's annual weather normalized earnings are reported each year by June 1 in its Jurisdictional Annual Report, which will be used to determine the earnings level for purposes of calculating any refund hereunder. Weather-normalized ROE as shown in Jurisdictional Annual Report (page E-1) in excess of the authorized ROE will trigger earnings sharing as described in this paragraph and under this circumstance, the refund amount will be 50% of a reported sufficiency shown in the Jurisdictional Annual Report (page E-6, line 7). In the event a refund is due under this provision, the Company will notify the Commission of the refund amount and plan for crediting customers within 30 days of filing the Jurisdictional Annual Report.

11. Rate Moratorium

The Parties agree that if the Commission adopts this Stipulation without condition or modification, the Company shall not file any petition to increase base rates for electric service, for rates proposed to be in effect prior to January 1, 2018. The Parties agree that this rate moratorium does not apply to any rider or other adjustment, including, but not limited to, the transmission cost recovery rider, environmental cost recovery rider, infrastructure rider, fuel cost adjustment, and demand side management cost adjustment factor.

12. Implementation of Rates

The revised rate schedules shall be implemented with service rendered on July 1, 2015, with bills prorated so that usage prior to that date is billed at the interim rate and usage on and after that date is billed at the new rates. The revised rate schedules are attached as Exhibit A.

13. Interim Rate Refund

Interim rates were implemented on January 1, 2015. Approval of this Stipulation will authorize a rate increase less than the interim rate level in effect. The Company agrees to refund customers a portion of the interim rates collected during the period January 1 through June 30, 2015, with new rates beginning July 1, 2015. The Interim Refund Plan is described and included in Exhibit G.

14. Customer Notice

Customers will be notified of the change in rates through a bill insert provided with the first month of bills to which new rates apply. The bill insert is provided in Exhibit H.

This Stipulation is entered into this 1st day of June, 2015.

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

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DATED: June 1, 2015

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