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** **EL22-017**

I. SETTLEMENT STIPULATION

On June 30, 2022, Northern States Power Company doing business as Xcel Energy (Xcel Energy or Company) filed with the South Dakota Public Utilities Commission (Commission) an application for approval to increase rates for electric service to customers in its South Dakota service territory by a net annual incremental increase of approximately $44.1 million annually or approximately 17.9% based on the Company's 2021 historical test year. Under the requested increase, a residential customer using 750 kWh per month would have seen an increase of 19.75%, or $19.58 per month. Xcel Energy's rates affect approximately 97,500 customers in the Company's South Dakota service territory.

Commission Staff and Xcel Energy held several negotiating sessions to arrive at a mutually acceptable resolution of this matter. As a result of the negotiations, Commission Staff and Xcel Energy (jointly 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. Staff and Xcel Energy have sought the concurrence of intervenor Steven Wegman (Intervenor).

II. PURPOSE

This Stipulation has been prepared and executed by the Parties for the sole purpose of resolving Docket No. EL22-017. 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 explicit or implied by the Stipulation, should not be viewed as precedent for this or future rate proceedings involving Xcel Energy or any other South Dakota regulated public utility under the Commission's jurisdiction. 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 case.

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; no Party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no 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. No 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, a procedural schedule would have been established, Commission Staff would have formalized their positions in testimony, and Xcel Energy would have filed rebuttal testimony, Commission Staff would have responded to certain positions contained in Xcel Energy's rebuttal testimony, and an evidentiary hearing would have been conducted where the witnesses providing testimony would have been made available for direct and cross-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 annual increase in base rates to recover a total base net revenue deficiency of approximately $3.6 million, including gross receipts taxes, or approximately 1.5% annually for retail electric service sales in South Dakota. The Parties agree to a 6.82% 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. Depreciation

The Parties agree that the depreciation lives and rates presented in this rate case will be the ones proposed by Xcel Energy except as follows:

a. Sherco 3 and King

Xcel Energy proposed to shorten the remaining lives of Unit 3 of the Sherburne County Generating Station (Sherco 3) and the Allen S. King plant (King) to reflect Xcel Energy's planned retirement of these units in 2030 and 2028, respectively. The Parties agree, for purposes of settlement only, that the depreciation lives and rates for Sherco 3 and King will remain unchanged for the purposes of establishing rates in this Docket. This outcome makes no determination regarding, and is without prejudice to, the prudence of Xcel Energy's currently proposed retirement of Sherco 3 in 2030 and King in 2028. Xcel Energy may request to alter the depreciation lives and rates for Sherco 3 and King in its next rate case; provided, however, that if Xcel Energy has not commenced a rate case to change base rates prior to the retirement of Sherco 3 and/or King, the Company may include any undepreciated plant amounts for each plant in a regulatory asset (with a return at WACC) for each plant and amortize such regulatory asset(s) over the remaining authorized depreciable life of such plant. The creation of such regulatory asset and its amortization period allows for then in effect rates to reflect the current return of and return on Sherco 3 and King reflected in base rates as a result of this Settlement. Such creation of regulatory balances shall not preclude Commission review of these amounts for reasonableness for rate recovery in any determination of rates and does not guarantee any such recovery. If Xcel Energy has not commenced a rate case to change base rates prior to the retirement of Sherco 3 and/or King, and any O&M savings resulting from the retirement of Sherco 3 and/or King result in the Company earning more than its authorized rate of return, then the Company shall refund to customers any earnings related to O&M savings amounts arising from the retirement of Sherco 3 and/or King above its authorized rate of return for that year.

b. Monticello Nuclear Generating Station

To coincide with Xcel Energy's expected ten-year extension to operations of the Monticello Nuclear Generating Station (Monticello) in its most recent resource planning process, the depreciation lives and rates for Monticello will be extended to represent a useful life to the end of 2040.

c. Wind Generation

The depreciation lives and rates for Xcel Energy's wind facilities will be adjusted to align with current expectations as shown on Exhibit C.

4. <u>Nuclear Decommissioning Expense</u>

The Parties agree that the nuclear decommissioning expense presented in this rate case will be the expense in effect with the approval of this Stipulation with the following adjustments: (a) removal of all contingency amounts; and (b) recalculation of the expense to account for the extended depreciable life of Monticello.

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. <u>Amortization</u>

The Parties agree that amortizations being recovered in rates under the terms of the Stipulation from the EL14-058 rate 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:

Item	Amount Amortized ($)	Amortization Period	Annual Amount ($)
Rate Case Expenses	$715,461	3 years	$238,487
PI EPU	$4,136,308	Remaining life of PI	$364,968

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 May 8, 2023, will be deferred and amortized and recovered over three (3) years. The Parties agree that the average unamortized balance of $357,730 will be included as a component of other rate base.

6. Fuel Clause Rider (FCR)

New tariff language to be included in the FCR is provided in Exhibit A. The new tariff language implements the following:

a. MISO Planning Resource Auction

Beginning with the 2023-2024 planning year Midcontinent Independent System Operator, Inc. (MISO) Planning Resource Auction (PRA) and thereafter, the Company will return all gains on the sale of capacity in the PRA to customers through the FCR. Tariff language to be included upon the implementation of final rates is provided in Exhibit A.

b. Nuclear Production Tax Credits

Any nuclear production tax credits established by the Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818 (2022), and earned by the Company will be allocated to South Dakota jurisdiction and returned to customers through the FCR within 90 days of receiving the credits.

c. Good Neighbor Rule

The Company may petition the Commission to include the costs of complying with the recent rulemaking related to United States Environmental Protection Agency's ("EPA") proposed rule for the Federal Implementation Plan for the 2015 8-hour Ozone National Ambient Air Quality Standards, Docket ID No. EPA-R05-OAR-2021-0068, for recovery in the FCR.

d. Property Tax

The Parties agree to language in the Fuel Clause Rider to allow for the collection of ad valorem taxes as permitted by SDCL §49-34A-25. The 2023 incremental amount will be collected as an expense through the annual true-up mechanism.

7. <u>Infrastructure Rider</u>

The Parties agree that the Company will refresh the existing Infrastructure Rider to recover certain discrete costs for capital additions in 2023 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. The Parties further agree that the Company may recover certain other future capital costs in the Infrastructure Rider as provided for in this Section III.7. The Infrastructure Rider is to be implemented concurrent with new rates in this case and with recovery of these costs over the remainder of 2023 calendar year and thereafter as provided in this Section III.7.

a. Known and Measurable Costs for 2023

The amount included in the Infrastructure Rider for capital projects in 2023 will initially reflect a partial year of revenue requirements for amounts going into service in 2023 based on the expected in-service dates in 2023. These projects are provided for in Exhibit D. The Company has represented that the opportunity for recovery of the projects outlined on Exhibit D is a necessary component for a rate moratorium. In the event certain projects are unable to be completed in 2023, the Company may include different projects that are completed in 2023 as long as such projects do not have offsetting cost savings and are not required for the provision of service to new customers or increased load for existing customers and, in aggregate, total no more than $13.9 million in 2023 South Dakota revenue requirements. For clarity, the Parties agree that "offsetting cost savings" is intended to reflect that the project will result in a material reduction in O&M costs when compared to the overall revenue requirement of the project.

b. PTC Floor

The South Dakota jurisdictional share of Production Tax Credits (PTCs) associated with wind generation are currently credited to customers through the FCR. In order to reduce volatility from month to month in FCR rates, the Parties agree that going forward these wind PTCs will be credited to customers through the Infrastructure Rider.

In addition, the Parties agree that the Company will incorporate a mechanism in the Infrastructure Rider to ensure that customers receive the benefits of the wind projects identified in Exhibit C and all future wind projects by holding customers harmless for material failure to achieve the amount of PTCs assumed by the Company in determining that such wind project was prudent. A baseline PTC floor will be established equal to 90 percent of the PTC forecasts the Company used to justify the prudence of the wind projects identified in Exhibit C. A tracker mechanism will be established and actual PTCs received will be tracked and compared to the floor annually. If PTCs earned and allocated to the South Dakota jurisdiction are above the floor: (i) no changes to actual PTCs credited to the Infrastructure Rider are made; and (ii) any amounts of PTCs above the PTC Floor will be carried forward as a positive balance in the tracker for the following year. In the event that PTCs earned and allocated to the South Dakota jurisdiction are below the 90 percent floor, then Xcel Energy will (iii) refund to customers the value of the difference between actual PTCs received and the 90 percent floor through the Infrastructure Rider net of the any positive balances in the tracker mechanism established under this Section III.7.b. The baseline PTC floor and the actual PTCs received will be calculated on a portfolio basis. The tracker mechanism shall be established for the wind production in 2021 and carry a net balance each year thereafter. The first refund will occur in 2024 if actual production for 2021-2023 is below the established floor. In each year thereafter, the net tracker balance will be compared to the baseline and a refund will be issued if the balance is below the established floor.

c. Wind Recovery

The return on, return of, and operating and maintenance expenses for the wind projects listed in Exhibit D will be recovered in the Infrastructure Rider.

d. Additional Terms

A subsequent annual filing made by September 1 of each year, beginning in 2023 for January 1, 2024 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. 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 to help ensure rates remain just and reasonable in light of future investments that the Company may make and are not yet included in base rates or otherwise recovered through another rate mechanism. In addition to the 2023 projects totaling no more than $13.9 million in 2023 South Dakota revenue requirements described in this Section III.7, the Company may propose to include in the September 1 annual filings, beginning with projects in-service in 2024, other projects, as determined eligible for recovery by the Commission, with an annual South Dakota revenue requirement of no less than $250,000 and that do not have offsetting cost savings and are not required for the provision of service to new customers or increased load for existing customers.

The Parties agree that the Rider update is intended to be implemented January 1 following the September 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 September 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.

e. Sherburne County Land Sale

The Parties agree the Infrastructure Rider will also include the return to customers of the gains on sale (net of expenses) of the sale of a parcel of land in Sherburne County identified in Exhibit E.

8. Incentive Pay

The Parties agree that Incentive Pay, as proposed in this case by the Company, will be included in the revenue requirement provided that if the Company does not payout the Incentive Pay during any plan year, the total amount of Incentive Pay included in the revenue requirement will be refunded to customers in the next rate case. If multiple years of Incentive Pay are not paid to employees prior to the next rate case, then each time the Incentive Pay is not paid, the Company will refund, in the next rate case, the total amount of Incentive Pay in the revenue requirement times the number of years Incentive Pay was not paid.

9. 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, 2026. 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.

10. Implementation of Rates

The revised rate schedules shall be implemented with service rendered on July 1, 2023, 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.

11. Interim Rate Refund

Interim rates were implemented on January 1, 2023. 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, 2023, with new rates beginning July 1, 2023. The Interim Rate Refund will also include the return to customers of the gains on sale (net of expenses) of the sale of the Inver Hills storage tanks identified in Exhibit F. The Interim Refund Plan is described and included in Exhibit G.

12. 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 _______ day of _______, 2023.

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

BY: Amy A. Liberkowski

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DATED: May 24, 2023

SD Public Utilities Commission Staff

BY: Amanda M. Reiss

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DATED: May 24, 2023