



2302 Great N. Drive
Fargo, North Dakota 58102

February 3, 2014

— VIA E-MAIL & FEDERAL EXPRESS —

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
State Capitol Building
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

RE: ELECTRIC RATE SETTLEMENT
RATE PATTERN ANALYSIS
CASE NOS. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742, PU-13-743, PU-13-194, PU-13-195

Dear Mr. Nitschke:

In a follow-up to the Commission’s January 24, 2014 Work Session on the Comprehensive Settlement in the above referenced Cases, Northern States Power Company submits the attached summary of our analysis of two 4 year rate plans.

In response to the Commissioners questions during the Work Session, the Company evaluated two versions of a four-year rate increase pattern. One approach includes an interim rate refund in 2014 while the other amortizes the refund over the four year period to augment Company revenues due to the lower annual base rate increases. Neither scenario provides an acceptable annual match of revenues to costs, nor provides sufficient opportunity for the Company to achieve on a year-by-year basis its authorized ROE. Both alternatives also eliminate a rate freeze in 2016. Neither of these alternatives is supported by the Company or Advocacy Staff as superior to the 5-5-5-0 rate plan agreed to in the Settlement.

The Company first analyzed a simple base rate increase pattern of 3.75%-3.75%-3.75%-3.75% over the four-year rate plan period. This is shown as Rate Pattern A on the attached schedule. The lower increase in 2013 results in a larger interim rate refund for 2014 compared to the Settlement, but the lower percentage

	77	PU-13-195	Filed 02/03/2014	Pages: 3		71	PU-13-742	Filed 02/03/2014	Pages: 3		70	PU-13-706	Filed 02/03/2014	Pages: 3
		Rate pattern analysis					Rate pattern analysis					Rate pattern analysis		
	71	PU-13-194	Filed 02/03/2014	Pages: 3		70	PU-13-708	Filed 02/03/2014	Pages: 3	185	PU-12-813	Filed 02/03/2014	Pages: 3	
		Rate pattern analysis					Rate pattern analysis				Rate pattern analysis			

increase also reduces revenues by about \$2.5 million in each of 2013, 2014, and 2015. Even with an equivalent percent increase in 2016, the overall result of this scenario is to reduce 2013 ROE to about 9.2 percent and levelize the forecasted ROEs for 2014 through 2016 within the low to mid 8% range, well below the authorized levels of 10.00% to 10.25% in those years.

The same four-year 3.75% pattern was also modeled with the 2014 interim refund being retained by the Company and amortized evenly (about \$1.5 million per year) over the four year period to augment the Company's annual earnings. This is shown in Rate Pattern B on the attached schedule. This approach helps to offset the degradation of projected ROEs during each year by about 0.4 percent. However, the amortized amount is insufficient to increase projected ROE adequately during the last three years; in 2014 -2016 annual ROEs move to the upper 8 percent range—still well below the authorized levels in those years.

Please contact me if you have any questions regarding the information included in this response. I can be reached at dave.sederquist@xcelenergy.com or 701-241-8632.

Sincerely,



DAVE SEDERQUIST
SR. REGULATORY/FINANCIAL CONSULTANT
NORTHERN STATES POWER COMPANY

cc: Via Electronic Mail Only:
Patrick Ward, Administrative Law Judge
Illona Jeffcoat-Sacco, NDPSC Advisory Staff Counsel
Mitch Armstrong, NDPSC Advisory Staff Counsel
Ryan Norrell, NDPSC Advocacy Staff Counsel
Kari Valley, NSP Counsel
Zeviel Simpson, Briggs & Morgan Outside Counsel for NSP
Mike Diller, NDPSC Advocacy Staff
Sara Cardwell, NDPSC Advocacy Staff
Pat Fahn, NDPSC Advisory Staff
Jerry Lein, NDPSC Advisory Staff