

Memorandum

To: Darrell Nitschke

From: Mike Diller, Director of Economic Regulation

Date: November 14, 2014

Re: Response to Northern States Power Company's Compliance Filing
2015 Rate Increase
Case No. PU-12-813

On February 26, 2014, the commission issued an Order Adopting Settlement in the above referenced case. The Order allows NSP to increase its electric rates 4.9% for each of the years 2013-2015 followed by a rate freeze in 2016. The significant increases are due primarily to large investments in upgrading and building new transmission and generation facilities. On October 31, 2014 NSP filed for its last of three rate increases to be effective January 1, 2015. The Settlement prohibits further rate increases for the next two years through December 31, 2016 except through certain cost rider adjustments or an extraordinary event beyond the control of NSP as defined in the Force Majeure clause of the Settlement.

After this last rate increase goes into effect, staff believes that NSP's electric prices in North Dakota should remain stable in the immediate future. A large part of electric prices to consumers is based on the cost of fuel used to generate electricity and such costs continue to be flowed through to ratepayers via the fuel cost adjustment. Coal prices continue to remain stable. Nuclear fuel prices increased dramatically beginning in 2007 but have decreased over the last couple of years with lots of room for further decline. Natural gas is abundant despite the nation's penchant for using it for base load generation and prices remain stable. Significant cost savings are expected in mid-2015 when staff and NSP expect to propose generation resource "restacking" to conform more closely to North Dakota's energy policies. However, some of these anticipated savings will be offset with increased usage of the transmission and renewable energy riders.

The Settlement Agreement requires that the rate increase for 2015 be evenly distributed across the various customer classes. Attachment 6 of the Compliance Filing describes the impact of the rate increase to the various classes at various usage levels. An average residential customer using 750 kWh's per month will see an average bill increase of \$3.68 per month.

Staff has reviewed NSP's Compliance Filing and believes that the proposed rates are in accordance with the commission's Order Adopting Settlement. In accordance with Attachment C of the Settlement Agreement, no additional commission action is required.

cc: Dave Sederquist

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