

**ANNUAL REPORT**

**OF**

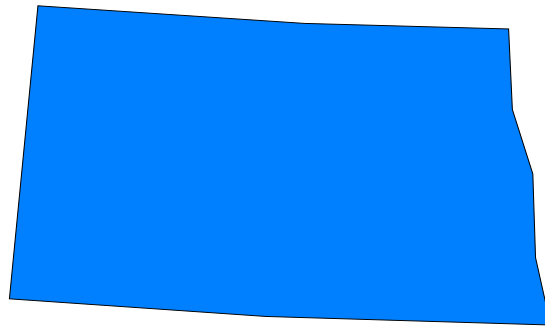
**NORTHERN STATES POWER COMPANY**  
(A MINNESOTA CORPORATION)

**TO THE**

**NORTH DAKOTA PUBLIC SERVICE COMMISSION**

**FOR THE YEAR ENDING**  
**DECEMBER 31, 2014**

**North Dakota Jurisdiction**  
Electric Utility



**2014**

## **CONTENTS**

	<b>Page</b>
<b><u>Financial</u></b>	
<b>I. Return on Equity</b>	<b>E-1</b>
<b>II. Operating Income</b>	<b>E-2</b>
<b>III. Average Rate Base</b>	<b>E-3</b>
<b>IV. Cost of Capital</b>	<b>E-4</b>
<b><u>Reliability</u></b>	
<b>V. Key Performance Indices</b>	<b>E-5</b>
<b>VI. Electric Outage Causes</b>	<b>E-6</b>
<b>VII. Other Statistics</b>	<b>E-7</b>
<b>VIII. <i>Reliability Performance Plan</i> Results</b>	<b>E-8</b>
<b>IX. 2015 Reliability Plan Summary</b>	<b>E-9</b>
<b><u>Supporting Information</u></b>	
<b>I. Electric Sales, Customer Data</b>	<b>S-1</b>
<b>II. Affiliated Transaction Summary</b>	<b>S-2</b>
<b>III. Affiliated Transactions (Allocations)</b>	<b>S-3</b>

# Northern States Power Company

## Electric Utility - North Dakota

(Dollars In Thousands)

### I. RETURN ON EQUITY (ROE)

<u>Actual Return on Equity (ROE)</u>	<u>2014</u>	<u>2013</u>
1 Operating Income from Electric Operations (E-2):	\$31,669	\$29,471
2 Average Regulated Rate Base (E-3):	\$453,402	\$387,936
3 Rate of Return on Rate Base (ROR) (line 1 / line 2):	6.98%	7.60%
4 Weighted Cost of Debt (E-4):	2.23%	2.29%
5 Weighted Cost of Preferred Stock (E-4):	0.00%	0.00%
6 % of Equity in Capital Structure (E-4):	52.87%	52.67%
7 <b>Return on Equity (ROE):</b>	<b>8.99%</b>	<b>10.08%</b>

<u>ROE, Normalized for Weather Impact on Sales</u>	<u>2014</u>	<u>2013</u>
8 Operating Income from Electric Operations:	\$31,669	\$29,471
9 Impact of weather on Mwh Sales:	22,865	36,729
10 Impact of weather on Electric Operating Income: <sup>1</sup>	\$537	\$1,071
11 Weather-Normalized Operating Income:	\$31,132	\$28,400
12 Average Regulated Rate Base:	\$453,588	\$388,309
13 Weather-Normal Rate of Return on Rate Base (ROR):	6.86%	7.31%
14 <b>Weather-Normalized Return on Equity (ROE):</b>	<b>8.76%</b>	<b>9.54%</b>

<sup>1</sup> The weather impact estimate includes a demand component in addition to sales.

# Northern States Power Company

## Electric Utility - North Dakota

(Dollars In Thousands)

### II. OPERATING INCOME

<u>Line</u>	<u>Item</u>	<u>2014</u> <u>Total NSP</u>	<u>2014</u> <u>N.D. Juris.</u>	<u>N. D. %</u>	<u>2013</u> <u>N.D. Juris.</u>	<u>Annual</u> <u>Change</u>
<b><u>Operating Revenues:</u></b>						
1	Residential	1,256,128	81,066	6.5%	81,128	-0.1%
2	Small Comm. & Ind.	1,452,343	98,244	6.8%	96,704	1.6%
3	Large Comm. & Ind.	673,360	24,600	3.7%	23,654	4.0%
4	Public Street & Highway Ltg	26,332	1,577	6.0%	1,648	-4.3%
5	Other Sales to Publ Auth	<u>8,964</u>	<u>1,376</u>	<u>15.3%</u>	<u>1,378</u>	<u>-0.2%</u>
	Total Retail	3,417,126	206,861	6.1%	204,512	1.1%
6	Interdepartmental	937	0	0.0%	0	*
7	Sales for Resale	137,882	9,009	6.5%	5,022	79.4%
8	Interchange Agreement	474,542	30,419	6.4%	28,858	5.4%
9	Other	<u>172,052</u>	<u>11,608</u>	<u>6.7%</u>	<u>11,666</u>	<u>-0.5%</u>
10	Total Revenues:	4,202,540	257,897	6.1%	250,058	3.1%
<b><u>Operating Expenses:</u></b>						
11	Fuel & Purchased Energy	1,310,709	85,188	6.5%	86,068	-1.0%
12	Production	801,325	49,767	6.2%	48,239	3.2%
13	Transmission	272,848	17,224	6.3%	14,921	15.4%
14	Distribution	117,778	6,727	5.7%	6,784	-0.8%
15	Customer Billing	58,047	4,300	7.4%	4,121	4.3%
16	Customer Service	124,049	439	0.4%	348	26.1%
17	Sales & Marketing	9	0	4.3%	1	-64.6%
18	Admin. & General	235,222	14,664	6.2%	15,576	-5.9%
19	Depreciation & Amortization	465,380	25,265	5.4%	22,295	13.3%
20	Property Taxes	168,087	8,727	5.2%	7,917	10.2%
21	Payroll & Other Taxes	32,143	2,055	6.4%	2,081	-1.3%
22	Income Taxes	0	0	*	0	*
23	Deferred Income Taxes & ITC	<u>156,248</u>	<u>11,871</u>	<u>7.6%</u>	<u>12,236</u>	<u>-3.0%</u>
24	Total Expenses:	3,741,845	226,228	6.0%	220,587	2.6%
25	<b>Regulated Operating Income</b>	<b>460,695</b>	<b>31,669</b>	<b>6.9%</b>	<b>29,471</b>	<b>7.5%</b>

Percentage calculations based on whole numbers

**Northern States Power Company**  
**Electric Utility - North Dakota**

(Dollars In Thousands)

**III. AVERAGE RATE BASE**

<u>Line</u>	<u>Item</u>	<u>2014</u> <u>Total NSP</u>	<u>2014</u> <u>N.D. Juris.</u>	<u>N. D. %</u>	<u>2013</u> <u>N.D. Juris.</u>	<u>Annual</u> <u>Change</u>
1	Plant in Service	16,356,201	980,723	6.0%	873,044	12.3%
2	Accumulated Depreciation	<u>7,445,510</u>	<u>445,595</u>	<u>6.0%</u>	<u>412,555</u>	<u>8.0%</u>
3	Net Plant in Service	8,910,691	535,128	6.0%	460,489	16.2%
4	Plant Held for Future Use	0	0	*	0	*
5	Construct Work in Progress	39,738	2,527	6.4%	1,765	43.2%
6	Materials and Supplies	147,257	9,305	6.3%	8,461	10.0%
7	Fuel Stocks	72,740	4,753	6.5%	5,620	-15.4%
8	Prepayments & Other Rate Base	177,018	7,980	4.5%	7,504	6.3%
9	Customer Deposits	(5,827)	(179)	3.1%	(186)	-3.8%
10	Cash Working Capital	0	0	*	0	*
11	Other Rate Base <sup>1</sup>	3,746	95	2.5%	(2,826)	-103.4%
12	Accum. Deferred Taxes	<u>(1,903,812)</u>	<u>(106,208)</u>	<u>5.6%</u>	<u>(92,891)</u>	<u>14.3%</u>
13	Total Other Rate Base	(1,469,140)	(81,727)	5.6%	(72,553)	12.6%
14	<b>Total Average Rate Base</b>	<b>7,441,551</b>	<b>453,402</b>	<b>6.1%</b>	<b>387,936</b>	<b>16.9%</b>

<sup>1</sup> Includes deferred assets and liabilities such as accrued vacations, post-retirement medical benefits (FASB 106), post employment benefits (FASB 112), unfunded pension liability, environmental cleanup, severance accrual, etc.  
Percentage calculations based on whole numbers

# Northern States Power Company

## Electric Utility - North Dakota

(Dollars In Thousands)

### IV. COST OF CAPITAL

#### 2014 Actual

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$4,002,684	45.47%	4.89%	2.22%
2	Short-Term Debt	<u>\$146,333</u>	<u>1.66%</u>	<u>0.65%</u>	<u>0.01%</u>
3	Total Debt	\$4,149,017	47.13%	4.74%	2.23%
4	Preferred Stock	\$0	0.00%	0.00%	0.00%
5	Common Equity	<u>\$4,653,572</u>	<u>52.87%</u>	<u>8.99%</u>	4.75%
6	Total Equity	\$4,653,572	52.87%		
7	<b>Total Capital</b>	<b>\$8,802,589</b>	<b>100.00%</b>		<b>6.98%</b>

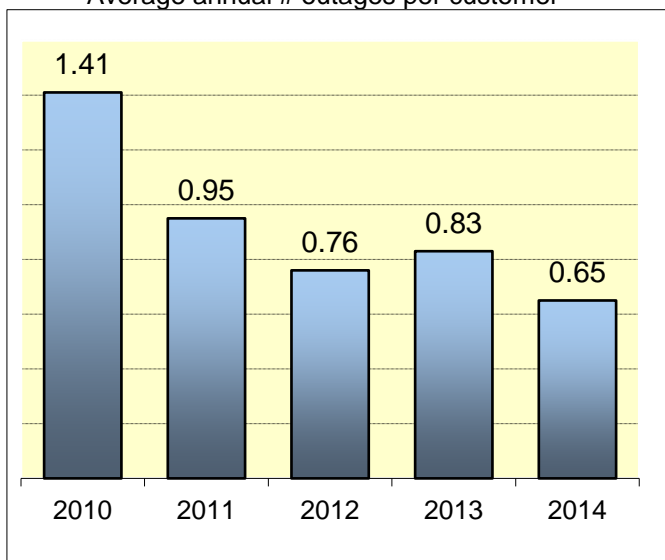
#### 2014 Normalized

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$4,002,684	45.47%	4.89%	2.22%
9	Short-Term Debt	<u>\$146,333</u>	<u>1.66%</u>	<u>0.65%</u>	<u>0.01%</u>
10	Total Debt	4,149,017	47.13%	4.74%	2.23%
11	Preferred Stock	\$0	0.00%		0.00%
12	Common Equity	<u>\$4,653,572</u>	<u>52.87%</u>	<u>8.76%</u>	4.63%
13	Total Equity	\$4,653,572	52.87%		
14	<b>Total Capital</b>	<b>\$8,802,589</b>	<b>100.00%</b>		<b>6.86%</b>

**Northern States Power Company  
Electric Utility - North Dakota  
Outage Frequency and Duration Indices - 2014**

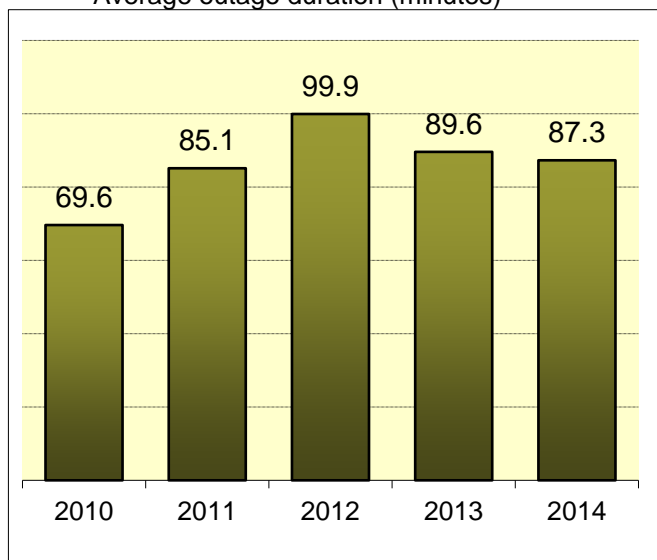
**System Avg Interruption Frequency Index  
(SAIFI)**

Average annual # outages per customer



**Customer Avg Interruption Duration Index  
(CAIDI)**

Average outage duration (minutes)



**SAIFI - Largest Five Substations**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>5 Yr. Avg</u>
Souris (Mnt)	0.29	0.88	0.36	1.08	0.40	0.60
Cass County (Fgo)	0.67	0.82	0.71	0.90	0.36	0.69
Gateway (GF)	0.68	0.78	0.59	0.54	1.74	0.86
Red River (Fgo)	1.96	1.02	0.70	0.86	0.78	1.06
Nordic (GF)	2.52	0.88	1.01	0.58	0.41	1.08

**CAIDI - Largest Five Substations**

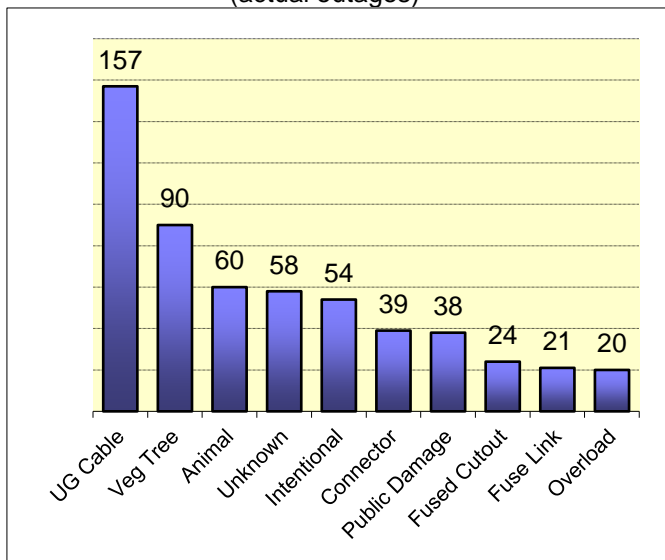
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>5 Yr. Avg</u>
Gateway (GF)	47.9	109.1	89.1	100.3	54.9	80.3
Souris (Mnt)	82.7	71.2	105.8	72.4	80.5	82.5
Red River (Fgo)	70.3	73.8	110.1	88.7	88.7	86.3
Nordic (GF)	61.8	95.7	74.1	104.7	97.6	86.8
Cass County (Fgo)	115.2	103.3	78.6	109.3	158.7	113.0

Data reflects normalized outages lasting 5 minutes or longer. 2014 Major Event Days: June 22, July 21.

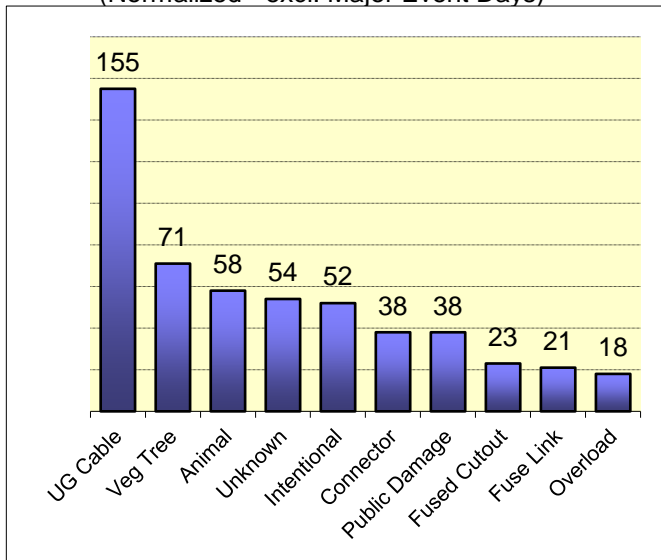
**Northern States Power Company  
Electric Utility - North Dakota  
Most Common Outage Causes - 2014**

**Top 10 Outage Causes**

(actual outages)



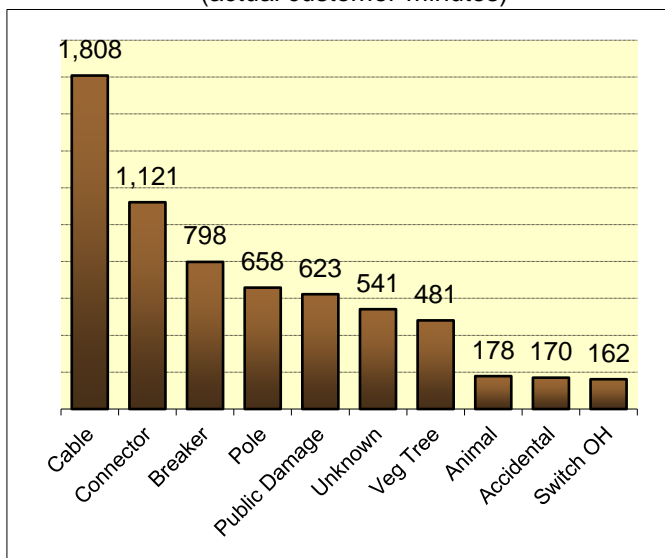
(Normalized - excl. Major Event Days)



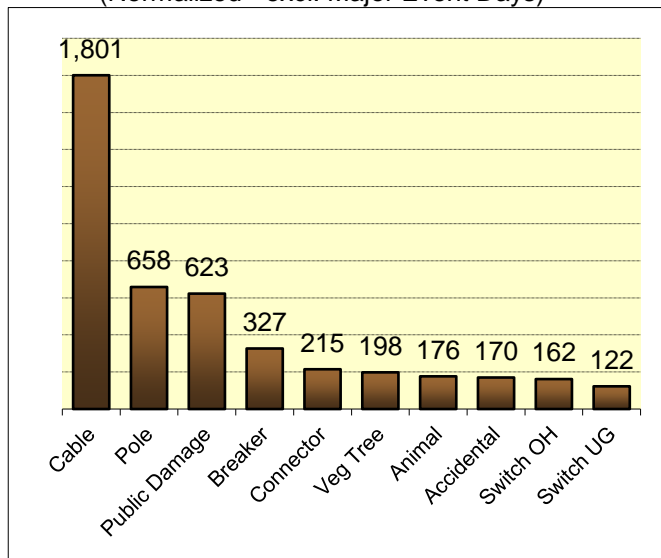
**Top 10 Causes of Lengthy or Wide-spread Interruptions**

(measured in customer-minutes without power - 000's)

(actual customer-minutes)



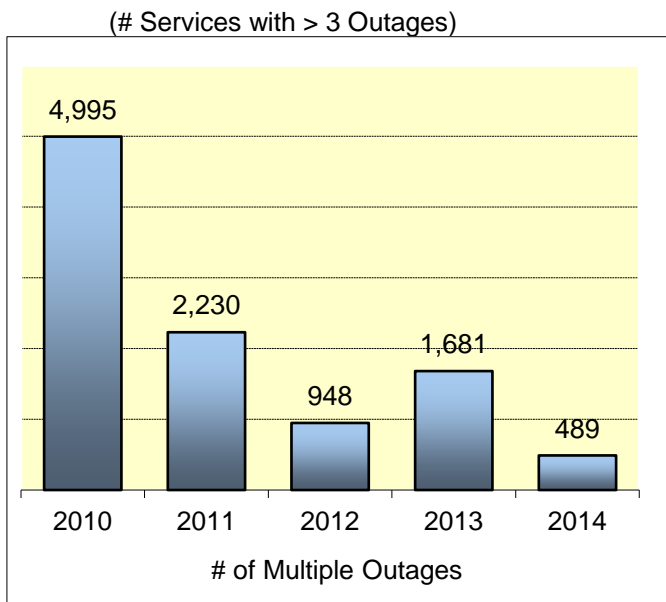
(Normalized - excl. Major Event Days)



Note: Date reflects outages lasting 5 minutes or longer.

**Northern States Power Company  
Electric Utility - North Dakota  
CEMI, Feeder Outages, and Underground Cable Failures - 2014**

**Customers Experiencing Multiple Interruptions  
(CEMI)**



Note: Pre-2013 CEMI counts are approximations.

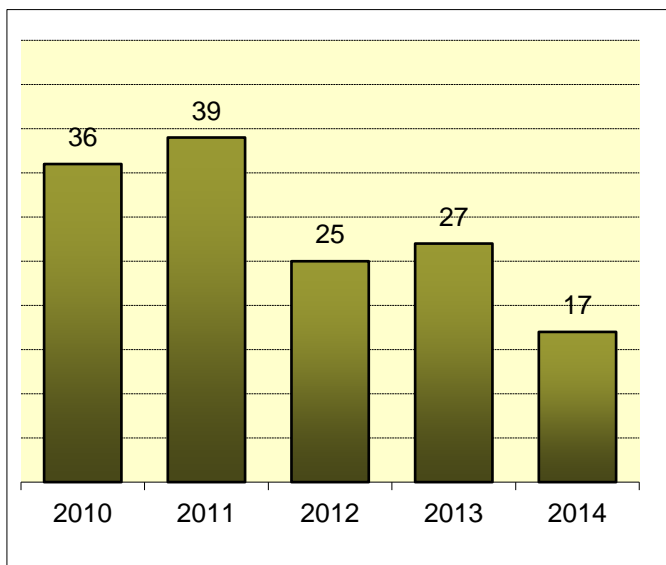
**Breakdown of 2014 CEMI Levels**

# Outages	Count
4	360
5	95
6+	34
	489

**CEMI Credits Issued**

2013	\$84,050
2014	\$24,650
2015	
2016	

**Feeder-Level Outages**



**Underground Cable Failures**

Year	UG Cable Failures
2010	137
2011	147
2012	139
2013	159
2014	157

(reflects primary, secondary cable failures)

Data reflects outages lasting 5 minutes or longer; Major Event Days and public damage events excluded.

**Northern States Power Company  
Electric Utility - North Dakota  
Reliability Performance Plan Results**

**A. SAIDI (System Average Interruption Duration Index)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
1 Excellence Threshold (minutes):	57.0	57.0		
2 Actual SAIDI Result (minutes):	74.3	57.1		
3 Base Award:	\$0	\$0		
4 Authorized Return on Equity:	9.75%	10.00%		
5 Actual Return on Equity:	9.19%	8.99%		
6 Revenue Deficiency:	\$1,856,153	\$3,910,149		
<b>7 Final SAIDI Award:</b>	<b>\$0</b>	<b>\$0</b>		

**B. CEMI (Customers Experiencing Multiple Interruptions)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
8 # Customers receiving credits:	1,651	489		
<b>9 Total CEMI Payout:</b>	<b>\$84,050</b>	<b>\$24,650</b>		

**C. Reliability Satisfaction Survey**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
10 % Customers Rating "Positive" (6-10):	97%	98%		
11 % Customers Rating "Excellent" (8-10):	86%	88%		

**Xcel Energy**  
**Electric Utility - State of North Dakota**  
**2015 RELIABILITY PLAN SUMMARY**

**Overhead Line Upgrades - \$1,120,000**

Xcel Energy's 2015 capital budget includes about \$1,120,000 to upgrade its electric overhead system in North Dakota. These improvements include replacing failed devices, installing upgrades necessary to the backbone system to serve new customers, and improvements to enhance reliability. This amount also funds maintenance of our Reliability Exception Monitoring System ("REMS") program. This outage tracking and reporting system initiates an engineering review of a part of our system by flagging any device that has tripped more than twice in a rolling 12 month period. Following such a review, corrective actions are identified and implemented where appropriate. While the Company will be working on installing new overhead circuits in our Minot, Grand Forks, and Fargo areas, the 2015 budget is reduced from the prior year to address other priorities relating to our underground cable.

**Underground Cable Upgrade - \$1,859,000**

In 2015, Xcel Energy plans to spend about \$1,859,000, or about double what was spent in 2014, to upgrade its underground cable system in North Dakota. Approximately \$850,000 of these expenditures will include replacing cables that have failed but are not fit to be repaired and returned to service. However, the Company will repair cables that have experienced multiple failures in the past if such repairs still present a viable remedy. Key projects will involve the installation of additional backbone system capacity to serve new load or relieve load on existing facilities. Xcel Energy will also be replacing all head-end cables in our Gateway substation in Grand Forks. This will reinforce the reliability of that substation as well as add capacity for future growth in the area.

These funds also reflect the Company's continued efforts to proactively locate and remove non-jacketed 500 MCM cable as part of an initial 3 year (2012-2014), \$750,000 commitment included in the Settlement of Case No. PU-10-657. In our most recent rate Settlement (Case No. PU-12-813) the project was extended an additional year (2015) and the overall expenditure level increased to \$1.7 million using funds available from the Company's completed Intelliteam project. The company plans to spend about \$400,000 in 2015.

**Distribution Pole Testing - \$270,000**

Xcel Energy's 2015 pole replacement plan includes an operating and maintenance expense budget of \$270,000 for testing wood distribution poles in North Dakota. The testing methodology conforms to a scientific procedure that is utilized throughout the industry. It includes a visual check and test of remaining pole strength. If a pole is identified as having strength characteristics below acceptable standards, the pole is scheduled for replacement or reinforcement. The expense budget for this program is subject to ongoing adjustments based on the Company's overall financial situation throughout the plan year.

# Northern States Power Company

## Electric Utility - North Dakota

### I. SALES AND CUSTOMER DATA

#### Electric Utility (N. D. Jurisdiction)

<u>Line</u>	<u>Customers (@ Dec)</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
1	Residential	79,206	78,156	77,231	76,126	76,319
2	Small C & I	12,475	12,317	12,182	12,033	12,078
3	Large C & I	18	20	21	20	20
4	PSHL/OSPA	<u>342</u>	<u>330</u>	<u>322</u>	<u>280</u>	<u>284</u>
5	Total Retail	92,041	90,823	89,756	88,459	88,701
<u>Line</u>	<u>Mwh Sales</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
6	Residential	818,018	827,062	758,810	776,125	769,024
7	Small C & I	1,117,581	1,108,370	1,069,443	1,085,821	1,057,747
8	Large C & I	335,058	335,530	349,595	350,764	349,581
9	PSHL/OSPA	<u>29,944</u>	<u>30,582</u>	<u>29,553</u>	<u>29,790</u>	<u>29,528</u>
10	Total Retail	2,300,601	2,301,544	2,207,401	2,242,500	2,205,880
11	Ave. ¢/Kwh	9.08¢	8.86¢	8.10¢	7.85¢	7.24¢
12	Ave. Res. Mo. Usage (kwh)	861	882	819	850	840
13	Ave. Res. Monthly Bill	\$86.01	\$86.26	\$74.46	\$75.16	\$68.32

# Northern States Power Company Electric Utility - North Dakota

## II. AFFILIATED TRANSACTION SUMMARY

			<b>North Dakota Jurisdiction Electric and Gas Totals (1)</b>	
<b>Affiliate Name</b>	<b>Services Rendered</b>	<b>Expense (2)</b>	<b>Revenue (3)</b>	
1	NSP Wisconsin	Electric and Gas Utility	9,248,901	31,707,511
2	Public Service of Colorado	Electric and Gas Utility	4,961	20,102
3	Southwestern Public Service	Electric Utility	930	3,380
4	Hayden Joint Venture	Electric Utility	-	152
5	Xcel Energy Services	Xcel Energy Inc. Service Company	84,061,214	55,963,055
6	Xcel Energy, Inc.	Engineering services	10,708,267	-
			<b>104,024,273</b>	<b>87,694,200</b>

### Notes:

- (1) The amounts allocated to North Dakota electric and gas jurisdictions represent an estimate based on an overall allocation factor applied to the revenues and expenses for each affiliate. To derive the actual amounts by jurisdiction would require an allocation of each transaction by account number and would require significant analysis and expense to perform.
- (2) Expense to North Dakota electric and gas jurisdictions. Revenue to affiliate for services provided to NSP (MN)
- (3) Revenue to North Dakota electric and gas jurisdictions. Expense to the affiliate for services provided to the affiliate by NSP (MN).

# Northern States Power Company Electric Utility - North Dakota

## III. AFFILIATED TRANSACTION ALLOCATION DETAIL

	<u>Total Expense</u>	<u>Total Revenue</u>	<u>Elec % (Labor)</u>	<u>Gas % (Labor)</u>	<u>ND Elec % (Customers)</u>	<u>ND Gas % (Customers)</u>
NSP Wisconsin	620,425	19,070,216	92.1480%	7.8520%	6.3908%	10.3422%
PSCo	77,629	314,550	100.0000%	0.0000%	6.3908%	0.0000%
SPS	14,559	52,894	100.0000%	0.0000%	6.3908%	0.0000%
Hayden Joint Venture	-	2,371	100.0000%	0.0000%	6.3908%	0.0000%
XES	1,254,445,783	835,136,859	92.1480%	7.8520%	6.3908%	10.3422%
XEI	167,557,531	-	100.0000%	0.0000%	6.3908%	0.0000%
	<u>\$1,422,715,928</u>	<u>\$854,576,890</u>				

### Notes:

#### Allocation of Revenues & Expenses between NSP Minnesota and Affiliates

Common Allocation Method: Labor

	<u>Electric</u>	<u>Gas</u>		
Utility Labor Allocator	92.1480%	7.8520%	Load Dispatch	11.1726%
ND Jur. Customer Allocator	6.3908%	10.3422%	Design Day	11.0438%

Factor Formula: ((Util Elec)\*ND Jur Ele)+((Util Gas)\*ND Jur Gas) = 6.7011%

#### Affiliated Transactions between Minnesota and Wisconsin (Interchange Agreement)

	<u>Total Revenue</u>	<u>ND Alloc.</u>	<u>Total Expense</u>	<u>ND Alloc.</u>	<u>Alloc Method</u>	<u>ND Alloc %</u>
Fixed	\$229,487,573	\$14,487,092	\$47,367,936	\$2,990,243	Demand	6.3128%
Variable	\$208,187,681	\$13,604,440	\$21,335,007	\$1,394,179	Energy	6.5347%
Transmission	\$36,866,599	\$2,327,315	\$76,398,802	\$4,822,904	Demand	6.3128%
Electric Total	<u>\$474,541,853</u>	<u>\$30,418,847</u>	<u>\$145,101,746</u>	<u>\$9,207,325</u>		

#### Gas SCADA Agreement

	<u>Total Rev</u>	<u>ND Alloc.</u>	<u>Alloc Method</u>	<u>ND Alloc %</u>
SCADA	96,284	10,757	Load Dispatch	11.1726%