

This late filed exhibit responds to Commission Advisory Staff's request for information on Company treatment of litigation related expenses associated with contracts or investments made on behalf of our Customers. In general, the Company has limited instances in which it has had a recovery in a litigated matter.

That said, on occasion the Company has received offsetting revenues or compensation recovered as a result of the terms of or litigation related to contracts, investments, or expenditures paid for by our customers. These can include delay damages under a power purchase agreement (PPA) or recovery of disputed costs paid to contractors. These recoveries are credited back to the Company's ratepayers via the fuel cost recovery rider (FCR), through adjustments to rate base, depending on the type of investment for which the recovery was achieved, or as bill credits. For example, damages paid under a PPA are credited back through the FCR while recovery of disputed construction costs for Company-owned plants are credited back as an adjustment to rate base. Generally, we refund the entirety of the recovered amount to our ratepayers. However, we may, if the recovered amount and related expenses are sufficiently material, request that any refund be netted against the cost of obtaining the recovery. This is illustrated by the U.S. Department of Energy (DOE) settlements described below.

Uranium Enrichment Services Settlement

Pursuant to the Commission's December 29, 2006 Order in Case No. PU-06-475, the Company refunded to our North Dakota customers the North Dakota jurisdictional portion of the proceeds of a settlement entered into with the DOE. That settlement was in respect to the Company's claim that the DOE overcharged for uranium enrichment services. The credit was refunded net of legal fees. To effectuate the refund, the Company included a credit to its Nuclear Fuel Expense Account (FERC Account 518) and also included a special adjustment debit in the Company's FCR reflecting North Dakota's portion of legal expense of the DOE settlement refund.

Breach of Contract Settlement

In 1998, the Company filed the first of two suits against the DOE seeking to recover damages associated with storage of spent nuclear fuel at our Prairie Island and Monticello nuclear generating plants. The Company's claims were for partial breach of the Standard Contract for Disposal of Spent Nuclear Fuel for failing to take title to, transport, and dispose of spent nuclear fuel beginning no later than January 31, 1998. The first lawsuit sought damages through 2004; the second sought damages through 2008. The Company reached a settlement with the U.S. Government on these suits on July 7, 2011. The 2011 Settlement Agreement provided a mechanism for the

Company to recover its spent nuclear fuel storage damages through December 31, 2013.

In 2012, the settlement funds received from DOE were credited to North Dakota customer bills, net of legal expenses, through a one-time bill credit as part of the interim rate refund in Case No. PU-10-657. The Revised Second Amended Settlement Agreement approved by the Commission in the Company's most recent rate case, Case No. PU-12-813, provided for NSP to retain remaining DOE payments, net of legal expenses, to offset the need for additional revenues in 2013 and 2014.

On January 24, 2014, the Company and the Government agreed to extend the Settlement Agreement to allow for the recovery of spent fuel storage damages through December 31, 2016. We expect the first payment under the extension to be received in late 2015 or early 2016 for damages in 2014, with the subsequent payments following a similar schedule. We intend to file a proposal for the disposition of these funds, net of legal expenses, later this year.

enXco Litigation

We also provide additional information with respect to litigation with enXco Development Corporation (enXco) to ensure clarity of the record. On May 4, 2011, enXco filed a breach of contract action against the Company in the District of Minnesota related to enXco's development of the Merricourt Wind Project. The Company was a defendant in the case and did not advance any affirmative claims seeking damages. Accordingly, although the Company prevailed on summary judgment, the Company did not recover any damages. The Company did not seek to recover from customers the costs of defending enXco's claim.