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February 8, 2018

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VIA E-MAIL AND FEDERAL EXPRESS

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
Department 408
600 East Boulevard
Bismarck, ND 58505-0480

RE: NORTHERN STATES POWER COMPANY
ADVANCE PRUDENCE — BIOMASS PPA'S
APPLICATION
CASE No. PU-17-270
OAH FILE No. 20170431

NORTHERN STATES POWER COMPANY
DEFERRED ACCOUNTING — BIOMASS PPA'S
APPLICATION
CASE No. PU-17-271|
OAH FILE No. 20170432

NORTHERN STATES POWER COMPANY
DEFERRED ACCOUNTING — LAURENTIAN PPA TERMINATION
APPLICATION
CASE No. PU-17-322
OAH FILE No. 20170433

Dear Mr. Nitschke:

Enclosed for filing, please find the following:

- Northern State Power Company and Advocacy Staff's Late Filed Exhibit – Rider Analysis; and
- Northern States Power Company's Proposed Order Adopting Settlement.

51 PU-17-322 Filed: 2/8/2018 Pages: 6
Exhibit NSP-11-LF - Rider Analysis

57 PU-17-271 Filed: 2/8/2018 Pages: 6
Exhibit NSP-11-LF - Rider Analysis

57 PU-17-270 Filed: 2/8/2018 Pages: 6
Exhibit NSP-11-LF - Rider Analysis



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Please feel free to contact me or Dave Sederquist with any questions or concerns.

Sincerely,

BRIGGS AND MORGAN, P.A.

/s/ Zeviel T. Simpser

Zeviel T. Simpser

ZTS/ts

Enclosures

cc: Patrick J. Ward
Illona A. Jeffcoat-Sacco
John M. Schuh
Mitchell D. Armstrong
Jerry Lein
Ryan J. Long

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

Northern States Power Company
Advance Prudence – Biomass PPAs
Application

Case No. PU-17-270
OAH File No. 20170431

Northern States Power Company
Deferred Accounting – Biomass PPAs
Application

Case No. PU-17-271
OAH File No. 20170432

Northern States Power Company
Deferred Accounting – Laurentian PPA
Termination Application

Case No. PU-17-322
OAH File No. 20170433

JOINT LATE-FILED EXHIBIT: RIDER ANALYSIS

Northern States Power Company (NSP or the Company) and North Dakota Public Service Commission Advocacy Staff (Staff) entered into a Settlement Agreement on January 18, 2018, to address the Company's requests in the above-captioned cases. As part of the Settlement Agreement, NSP and Staff agreed that the costs of terminating the Pine Bend, Laurentian, and Benson power purchase agreements (PPAs) would be recovered through the Fuel Cost Rider (FCR). At the February 2, 2018, consolidated public hearing regarding these transactions, an issue was raised with respect to the use of the FCR for recovery of the costs associated with the termination of the Pine Bend, Laurentian, and Benson PPAs. NSP and Staff submit this joint late-filed exhibit detailing the workings of the cost recovery mechanisms addressed at the hearing – the FCR and the Renewable Energy Rider (RER).

OVERVIEW OF THE RIDER MECHANISMS

NSP currently recovers the costs of the Pine Bend, Laurentian, and Benson PPAs through the Company's Commission-approved FCR tariff, consistent with Commission rules.¹ The title "fuel cost rider" is not fully descriptive of the costs recovered through it. The costs of the Company's energy purchases are also included in the FCR charge, as NSP's tariff allows, in part, for recovery of "energy purchased

¹ N.D. Admin. Code § 69-09-02-39.

from a renewable energy source” as a qualifying system cost of fuel.² It is this provision of the Company’s tariff that allows for recovery through the FCR of the biomass PPAs, and the now associated termination costs, at issue in these consolidated cases.³

NSP’s tariff provides that the FCR charge is added to monthly customer bills to recover energy purchase and fuel costs. With respect to how the FCR charge is calculated and allocated, a Fuel Cost Factor for each service category (Residential, C&I Non-Demand, C&I Demand Non-TOD, C&I Demand TOD On-Peak, C&I Demand TOD Off-Peak, and Outdoor Lighting) is, in simple terms, calculated on a per/kWh basis and multiplied by a corresponding service category ratio.⁴ This calculation helps ensure that the FCR costs are allocated appropriately across customer classes, matching costs to benefits.

The RER, on the other hand, is used specifically to recover capital and operating costs of Company-owned renewable energy generation located in North Dakota.⁵ Per the Company’s tariff, costs that qualify for RER recovery include, but are not limited to, depreciation expense, property taxes, and operation and maintenance expenses related to Company-owned renewable energy project costs and capacity-related renewable energy purchased power costs not currently being recovered in base rates or eligible for recovery through the FCR.⁶ Projects eligible for RER recovery must have previously been granted an ADP by the Commission.⁷

With respect to the calculation and allocation of costs under the RER, the RER charge is determined by multiplying a customer’s monthly billed kWh for electric service by the current RER rate.⁸ All customer classes are therefore subject to the same RER rate, allocating RER costs among all customer classes uniformly without

² Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-76.1 (effective Mar. 9, 2016) (“The qualifying system cost of fuel [for the FCR] includes: . . . [t]he cost of energy purchases . . . including, but not limited to . . . [e]nergy purchased from a renewable energy source.”).

³ Of note, the tariff excludes recovery of the costs and volumes of fifteen Community-Based Energy Development and two small solar PPAs from the calculation of the Company’s FCR charge, consistent with the Commission’s March 9, 2016, Order Adopting Settlement in Case Nos. PU-12-813, *et al.* See Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-76.2 (effective Mar. 9, 2016).

⁴ Currently, the service categories and ratios are as follows: Residential – 0.9969; C&I Non-Demand – 1.0318; C&I Demand Non-TOD – 1.0184; C&I Demand TOD On-Peak – 1.2798; C&I Demand TOD Off-Peak – 0.7954; and Outdoor Lighting – 0.7341. Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-76.1 (effective date Mar. 9, 2016).

⁵ Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-87 (effective date Jan. 1, 2018).

⁶ Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-87 (effective date Jan. 1, 2018).

⁷ Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-87 (effective date Jan. 1, 2018).

⁸ Northern States Power Co., North Dakota Elec. Rate Book, Sheet No. 5-87 (effective date Jan. 1, 2018). The current RER rate for all classes is \$0.000285 per kWh. This rate is recalculated annually, with the approval of the Commission.

matching customer costs to the benefits gained by specific renewable energy generation. This differs from the allocation of costs under the FCR, which is determined on a customer class basis.

COST RECOVERY UNDER THE FCR IS APPROPRIATE

The discussion above detailing the workings of the FCR and RER supports recovery of the termination costs for the Pine Bend, Laurentian, and Benson PPAs through the FCR for several reasons. First, the language of the Commission-approved FCR specifically allows for the recovery of costs associated with energy purchases. The current Pine Bend, Laurentian, and Benson PPAs have been recovered through the FCR since their inception under the Company's tariffed FCR. Likewise, the costs associated with terminating these agreements for purchased energy qualify for recovery under the same FCR.⁹

Second, the allocation of costs under the FCR, as opposed to the RER, provides for a better matching of costs and benefits assigned to customers. As explained above, the FCR offers an allocation process that rations costs based on customer service categories to help ensure appropriate cost allocation. Conversely, the RER offers a uniform per/kWh rate across all customer classes and therefore results in a mismatched apportionment of costs and benefits. Allowing the termination costs associated with the Pine Bend, Laurentian, and Benson transactions to flow through the FCR will permit the continued proper pairing of costs and benefits.

Additionally, no variance of or deviation from a rule or requirement is needed in this proceeding to allow the costs of the Pine Bend, Laurentian, and Benson transactions to be recovered through the FCR. The Commission's rules allow for deviation from a standard for good cause shown,¹⁰ the record compiled in these consolidated cases demonstrates such good cause for use of the FCR. As explained in the Direct Testimony of Staff witness Mr. Victor Schock supporting the Settlement Agreement, recovering the costs of the transactions through the FCR would ensure that there is no need to add a return component to the transactions, as the transactions call for periodic payments rather than a lump sum, and will result in a net savings to customers.¹¹ Approval of the Settlement is sufficient authority for NSP to deviate from the Commission's rules. The Company will make all required

⁹ See Schock Direct Testimony at 2 ("Allowing collection through the fuel cost rider would be appropriate as the cost of the current PPA is collected via the FCR.")

¹⁰ N.D. Admin Code § 69-09-02-39(10) ("If a particular circumstance prevents the use of a standard or its use would result in an undue burden, the Commission may for good cause shown, permit deviation from a standard.")

¹¹ Schock Direct at 2-4 (Jan. 23, 2018).

compliance filings and FCR filings to ensure proper oversight and notice is provided upon cost recovery.