

Memorandum

To: Commissioners Randy Christmann and Julie Fedorchak

From: Victor Schock - Public Utility Analyst

Date: February 1, 2017

Re: Northern States Power Company 2012 through 2015 Natural Gas Operations Annual Reports

Case Nos. PU-13-208, PU-14-404, PU-14-747, PU-16-195

I recommend the commission close the above captioned cases which are the North Dakota annual report filings for 2012 through 2015. I will include motions to close the cases on the February 16, 2017 consent agenda.

Northern States Power Company (NSP) provides natural gas service to about 53,928 customers in North Dakota. Staff has reviewed the company's annual report filings for 2012 through 2015. The company's reported return on equity was as follows: 2012 - 12.40%, 2013 - 12.49%, 2014 - 12.30% and 2015 - 7.87%. The commission authorized a rate of return of 10.75% in the most recent rate case (PU-06-525). With that in mind, the company over earned by about \$1,960,000 between 2012 and 2015. When considering the impact of weather, their return rate would have ranged from a high of 13.98% in 2012 to a low of 8.87% in 2015 if each were a 'normal' year.

Due to the relatively low value of over-earning, and 2015 moving to under-earning, staff sees no reason to further investigate and recommends that the commission close the above captioned cases.

Attached are staff generated summaries of NSP ND natural gas earnings for the last ten years.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

C: Dave Sederquist, NSP

3 **PU-16-195** Filed: 2/1/2017 Pages: 4
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3 **PU-14-747** Filed: 2/1/2017 Pages: 4
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2 **PU-14-404** Filed: 2/1/2017 Pages: 4
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2 **PU-13-208** Filed: 2/1/2017 Pages: 4
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Northern States Power Company
Gas Utility - North Dakota
Return Calculation
(Dollars In Thousands)

Line	Return Deficiency	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
1	Rate Base	\$43,882	\$43,945	\$45,474	\$42,186	\$41,301	\$41,871	\$40,626	\$43,432	\$48,341	\$50,287
2	Rate of Return Required	8.75%	8.75%	8.70%	8.68%	8.58%	8.02%	7.89%	7.56%	7.52%	7.52%
3	Return Required	\$3,838	\$3,847	\$3,956	\$3,660	\$3,543	\$3,358	\$3,204	\$3,281	\$3,636	\$3,784
4	Return Earned	2,881	3,133	4,122	3,238	3,679	4,172	3,719	3,851	4,224	3,219
5	Return Deficiency/(Excess)	\$957	\$714	(\$166)	\$422	(\$136)	(\$814)	(\$514)	(\$570)	(\$588)	\$565
6	Tax Factor	1.6543	1.6454	1.6454	1.6437	1.6437	1.6220	1.6220	1.6220	1.6115	1.6078
7	Rev. Deficiency/(Excess)	\$1,583	\$1,175	(\$273)	\$693	(\$224)	(\$1,321)	(\$834)	(\$924)	(\$948)	\$908
8	Impact of Weather	263	28	(200)	(126)	83	29	339	(251)	(186)	260
9	Norm. Deficiency/(Excess)	\$ 1,320	\$ 1,147	\$ (73)	\$ 819	\$ (307)	\$ (1,350)	\$ (1,173)	\$ (673)	\$ (762)	\$ 648

Return on Equity Calculation

10	Net Operating Income	\$ 2,881	\$ 3,133	\$ 4,122	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219
11	Rate Base	43,882	43,945	45,474	42,186	41,301	41,871	40,626	43,432	48,341	50,287
12	Rate of Return on Rate Base	6.57%	7.13%	9.06%	7.68%	8.91%	9.96%	9.15%	8.87%	8.74%	6.40%
13	Less: Cost of Debt	3.44%	3.32%	3.24%	3.06%	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%
14	Return Available for Common	3.13%	3.81%	5.82%	4.62%	5.92%	7.08%	6.54%	6.58%	6.50%	4.15%
15	Common Equity Percentage	49.35%	50.57%	50.77%	52.24%	52.00%	52.67%	52.78%	52.67%	52.87%	52.75%
16	Return on Equity (ROE)	6.33%	7.54%	11.47%	8.84%	11.38%	13.44%	12.40%	12.49%	12.30%	7.87%

Weather Normalized ROE

17	Net Operating Income	\$ 2,881	\$ 3,133	\$ 4,122	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219
18	Impact of Weather	263	28	(200)	(126)	83	29	339	(251)	(186)	260
19	Weather-Normalized NOI	\$3,144	\$3,161	\$3,922	\$3,112	\$3,762	\$4,201	\$4,058	\$3,600	\$4,038	\$3,479
20	Weather Adjusted ROE	7.55%	7.66%	10.60%	8.26%	11.77%	13.57%	13.98%	11.39%	11.57%	8.85%

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Reported Return on Equity	6.33%	7.54%	11.47%	8.84%	11.38%	13.44%	12.40%	12.49%	12.30%	7.87%
Authorized Return on Equity	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%
Normalized Return on Equity							13.98%	11.39%	11.56%	8.87%

Return on Equity



Northern States Power Company
Gas Utility - North Dakota
Net Operating Income
(Dollars In Thousands)

<u>Line</u>	<u>Operating Revenues</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>																																																																													
1	Residential	\$ 30,323	\$ 32,887	\$ 35,876	\$ 27,189	\$ 25,110	\$ 25,160	\$ 9,179	\$ 9,385	\$ 9,686	\$ 10,024																																																																													
2	Firm C & I	33,965	37,842	42,760	32,043	27,965	28,549	6,691	7,951	8,464	7,986																																																																													
3	Interruptible C & I	14,658	14,413	16,034	11,172	9,356	9,670	1,354	1,524	1,732	1,603																																																																													
4	Transportation/Other	503	634	541	358	885	544	651	547	923	635																																																																													
5	Total Revenues	\$ 79,449	\$ 85,776	\$ 95,211	\$ 70,762	\$ 63,316	\$ 63,923	\$ 17,876	\$ 19,407	\$ 20,805	\$ 20,248																																																																													
<u>Expenses</u>																																																																																								
6	Production	65,431	70,589	78,297	54,705	46,076	46,486	427	474	655	177																																																																													
7	Gross Margins	\$ 14,018	\$ 15,187	\$ 16,914	\$ 16,057	\$ 17,240	\$ 17,437	\$ 17,449	\$ 18,933	\$ 20,150	\$ 20,071																																																																													
8	Weather Normalized Margins	\$ 14,281	\$ 15,215	\$ 16,714	\$ 15,931	\$ 17,323	\$ 17,466	\$ 17,788	\$ 18,682	\$ 19,964	\$ 20,331																																																																													
8	Transmission	109	69	82	121	177	147	176	229	228	444																																																																													
9	Distribution	2,256	2,741	3,007	3,528	3,484	3,277	3,209	3,732	4,065	4,675																																																																													
10	Customer Billing	1,709	1,779	1,795	1,715	1,610	1,624	1,512	1,493	1,543	1,527																																																																													
11	Customer Service	227	312	283	234	255	261	234	262	271	270																																																																													
12	Sales & Marketing	0	0	0	4	14	12	0	6	0	0																																																																													
13	Admin. & General	1,804	1,996	1,854	1,898	1,948	1,910	2,022	2,135	2,216	2,334																																																																													
14	Depreciation	2,787	2,890	3,022	3,141	3,317	3,428	3,503	3,589	4,312	4,982																																																																													
15	Property Taxes	1,179	1,019	968	940	1,080	907	1,138	1,002	916	937																																																																													
16	Franchise & Payroll Taxes	195	241	233	248	245	228	243	260	250	271																																																																													
17	Inc. Taxes (Cur. & Def.)	\$ 871	\$ 1,007	\$ 1,548	\$ 990	\$ 1,431	\$ 1,471	\$ 1,693	\$ 2,374	\$ 2,125	\$ 1,412																																																																													
18	Total Expenses	\$ 76,568	\$ 82,643	\$ 91,089	\$ 67,524	\$ 59,637	\$ 59,751	\$ 14,157	\$ 15,556	\$ 16,581	\$ 17,029																																																																													
19	Net Operating Income	\$ 2,881	\$ 3,133	\$ 4,122	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219																																																																													
<u>Income Tax Calculation</u>																																																																																								
20	Net Inc before Inc. Taxes	\$ 3,752	\$ 4,140	\$ 5,670	\$ 4,228	\$ 5,110	\$ 5,643	\$ 5,412	\$ 6,225	\$ 6,349	\$ 4,631																																																																													
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22	Weighted Cost of Debt	3.440%	3.317%	3.242%	3.060%	2.988%	2.884%	2.609%	2.288%	2.234%	2.249%																																																																													
23	Interest Deduction	\$ (1,510)	\$ (1,458)	\$ (1,474)	\$ (1,291)	\$ (1,234)	\$ (1,207)	\$ (1,060)	\$ (994)	\$ (1,080)	\$ (1,131)																																																																													
24	Other Tax Adjustments	\$ (40)	\$ (115)	\$ (249)	\$ (409)	\$ (222)	\$ (600)	\$ 63	\$ 959	\$ 272	\$ (2,480)																																																																													
25	Taxable Income	\$ 2,202	\$ 2,567	\$ 3,946	\$ 2,528	\$ 3,654	\$ 3,836	\$ 4,415	\$ 6,191	\$ 5,541	\$ 1,021																																																																													
26	Combined Tax Rate	39.55%	39.225%	39.225%	39.160%	39.160%	38.348%	38.348%	38.348%	38.348%	138.348%																																																																													
27	Income Tax Expense	\$ 871	\$ 1,007	\$ 1,548	\$ 990	\$ 1,431	\$ 1,471	\$ 1,693	\$ 2,374	\$ 2,125	\$ 1,412																																																																													
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