

Memorandum

To: Commissioners Brian P. Kalk, Randy Christmann and Julie Fedorchak

From: Victor Schock - Public Utility Analyst

Date: September 13, 2016

Re: Northern States Power Company 2015 Electric Annual Report

Case No. PU-16-196

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2015. I will include a motion to close the case on the September 21, 2016 consent agenda.

Northern States Power Company (NSP) provides electric service to about 93,323 customers in North Dakota. Staff has reviewed the company's annual report filing for 2015. The company's return on equity was 8.15% in 2015. When considering the impact of weather, the rate of return would have been 8.38% if it were a 'normal' year. The commission authorized a rate of return of 10% in the most recent rate case (PU-12-813). With that in mind, the company under earned by about \$8M in 2015. However, due to settlement agreements in past rate cases and the recent Negotiated Agreement, NSP is prohibited from filing a rate case until 2018.

This is not to say that we should not be concerned with NSP's under-earnings. Since a rate filing is very likely in 2018, we should remain aware and watchful with the ever growing rate base and expenditures as this could cause a large rate shock (increase) when that rate case is concluded. Staff remains optimistic that the upcoming Resource Treatment Framework (RTF) proposal by NSP will be structured in such a way to help reduce large changes in rates upon its implementation.

Due to the factors mentioned, staff sees no reason to further investigate and recommends that the commission close the above captioned case. Attached are staff generated summaries of NSP ND electric earnings for the last ten years.

Attachment 1 – Return Calculation

Attachment 2 – Net Operating Income

C: David Sederquist, NSP

Northern States Power Company
 Electric Utility - North Dakota
 Return on Equity & Revenue Deficiency Calculation
 (Dollars In Thousands)

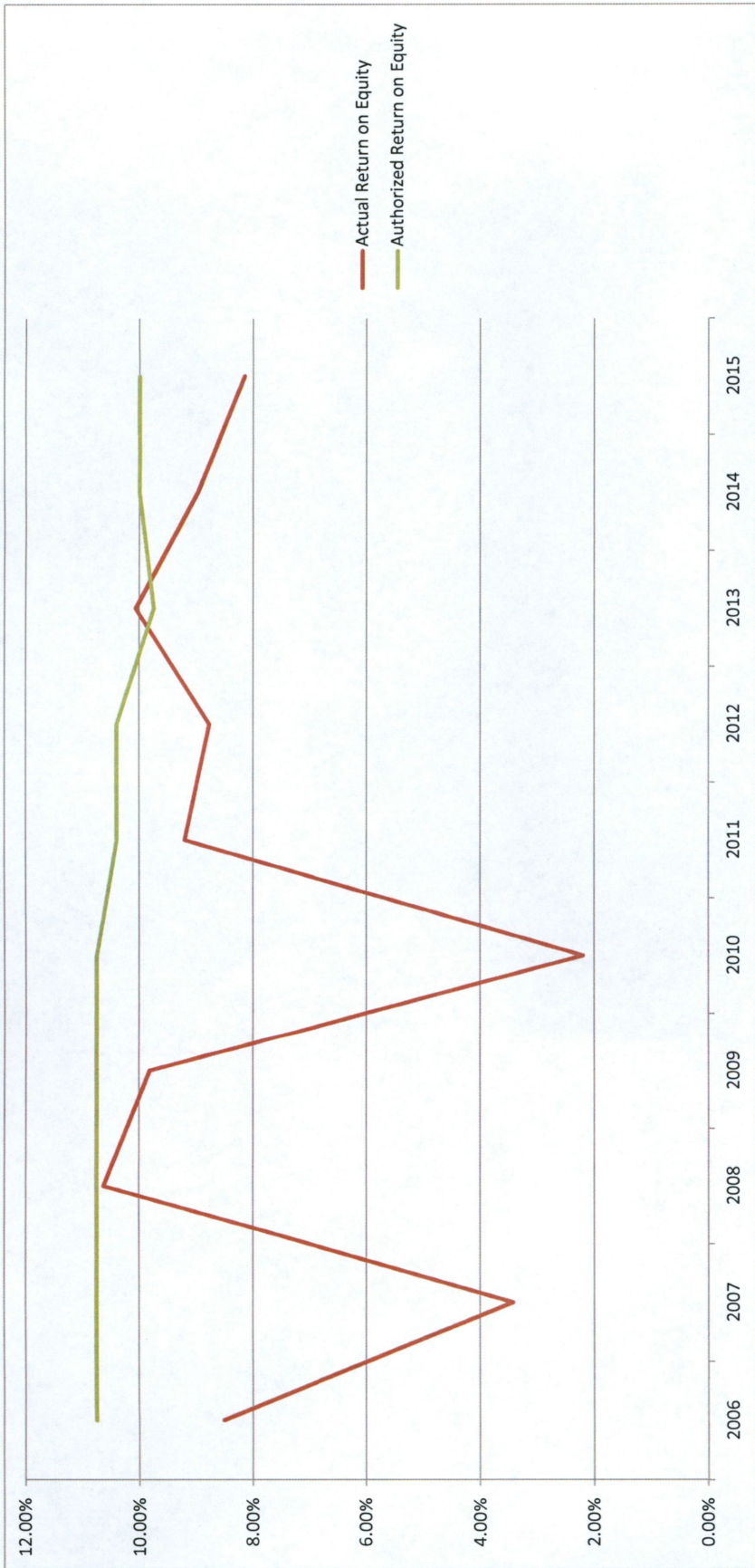
Return on Equity	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Operating Income from Operations	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713
PBR Deficiency (Earnings)	187,518	201,735	243,713	264,909	282,316	322,995	338,666	388,195	453,401	514,809
Adjusted Income	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713
Average Regulated Rate Base	187,518	201,735	243,713	264,909	282,316	322,995	338,666	388,195	453,401	514,809
Rate of Return on Rate Base (Line 1 / Line 2)	7.68%	5.05%	8.64%	8.19%	4.13%	7.73%	7.24%	7.59%	6.98%	6.55%
Less: Weighted Cost of Debt	3.29%	3.32%	3.24%	3.06%	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%
Less: Weighted Cost of Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Return Remaining for Common Stock	4.39%	1.73%	5.40%	5.13%	1.14%	4.85%	4.63%	5.30%	4.75%	4.30%
% of Equity in Capital Structure	51.59%	50.57%	50.76%	52.23%	51.99%	52.67%	52.78%	52.67%	52.87%	52.75%
Actual Return on Equity	8.51%	3.43%	10.63%	9.82%	2.20%	9.20%	8.77%	10.07%	8.98%	8.15%
Authorized Return on Equity	10.75%	10.75%	10.75%	10.75%	10.75%	10.40%	10.40%	9.75%	10.00%	10.00%

Weather Normalized Earnings before Sharing

Operating Income from Operations	\$14,395	\$10,181	\$21,056	\$21,709	\$11,664	\$24,952	\$24,536	\$29,471	\$31,670	\$33,713
Impact of Weather on Operating Income	317	(461)	138	139	140	141	142	143	144	145
Weather Normalized Income (Line 9 - Line 11)	\$14,712	\$9,720	\$21,194	\$21,848	\$11,804	\$25,093	\$24,678	\$29,614	\$31,814	\$33,858
Average Regulated Rate Base	187,518	201,735	243,713	264,909	282,316	322,995	338,666	388,195	453,401	514,809
Weather Normalized Return on Rate Base	7.85%	4.82%	8.70%	8.25%	4.18%	7.77%	7.29%	7.63%	7.02%	6.58%
Weather Normalized Return on Equity	8.85%	2.96%	10.73%	10.16%	2.19%	9.05%	8.92%	9.54%	8.76%	8.38%

Description

Rate Base	\$187,518	\$201,735	\$243,713	\$264,909	\$282,316	\$322,995	\$338,666	\$388,195	\$453,401	\$514,809
Rate of Return Allowed	8.83%	8.75%	8.70%	8.68%	8.58%	8.36%	8.10%	7.42%	7.52%	7.52%
Return Allowed (Line 1 x Line2)	\$ 16,565	\$ 17,659	\$ 21,201	\$ 22,982	\$ 24,215	\$ 27,006	\$ 27,427	\$ 28,818	\$ 34,100	\$ 38,734
Return Earned	14,395	10,181	21,056	21,709	11,664	24,952	24,536	29,471	31,670	33,713
Return Deficiency (Excess)	\$ 2,170	\$ 7,478	\$ 145	\$ 1,273	\$ 12,551	\$ 2,054	\$ 2,891	\$ (653)	\$ 2,430	\$ 5,021
Tax Factor	1.654	1.645	1.645	1.644	1.644	1.622	1.622	1.622	1.622	1.622
Revenue Deficiency (Excess)	\$ 3,589	\$ 12,305	\$ 239	\$ 2,093	\$ 20,633	\$ 3,331	\$ 4,689	\$ (1,059)	\$ 3,942	\$ 8,144



Northern States Power Company
 Electric Utility - North Dakota
 Net Operating Income
 (Dollars in Thousands)

Description	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Residential	\$ 53,651	\$ 55,479	\$ 62,302	\$ 63,471	\$ 61,131	\$ 68,744	\$ 69,329	\$ 81,128	\$ 81,066	\$ 82,172
Small Commercial & Industrial	65,847	69,305	76,508	76,388	72,918	83,167	85,328	96,704	98,244	101,810
Large Commercial & Industrial	17,036	18,759	20,644	17,424	19,074	21,516	22,301	23,654	24,600	27,904
Other ¹	44,511	46,194	42,921	39,133	43,697	40,457	42,928	48,572	53,987	54,781
Total Revenues	\$ 181,045	\$ 189,737	\$ 202,375	\$ 196,416	\$ 196,820	\$ 213,884	\$ 219,886	\$ 250,058	\$ 257,897	\$ 266,667
Fuel & Prod. Expense	107,776	123,221	121,265	111,422	127,106	119,260	120,355	134,307	134,955	127,077
Gross Margins	\$ 73,269	\$ 66,516	\$ 81,110	\$ 84,994	\$ 69,714	\$ 94,624	\$ 99,531	\$ 115,751	\$ 122,942	\$ 139,590
Transmission Expense	6,621	7,618	8,333	9,301	9,725	11,219	12,309	14,921	17,224	19,777
Distribution Expense	4,792	5,426	5,305	5,612	5,779	6,737	6,387	6,784	6,727	6,319
Customer Billing	4,677	4,619	4,757	4,583	4,394	4,411	4,128	4,121	4,300	4,198
Customer Service	271	312	362	280	262	489	370	348	439	425
Sales & Marketing ³	4	4	3	50	151	135	2	1	0	0
Admin. & General ⁴	10,520	10,383	11,612	12,070	12,374	11,770	12,969	15,576	14,664	15,462
Depreciation	19,533	18,105	14,024	14,892	15,981	17,885	20,400	22,295	25,265	32,204
% of Plant in Service	3.64%	3.35%	2.38%	2.34%	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%
Property Taxes	5,607	4,903	4,898	5,065	5,585	5,881	6,690	7,917	8,727	9,404
% of Plant in Service ²	1.05%	0.91%	0.83%	0.80%	0.83%	0.79%	0.86%	0.91%	0.89%	0.87%
Other General Taxes	1,105	1,179	1,561	1,743	1,731	1,820	1,866	2,081	2,055	2,014
Income Tax Expense	5,744	3,786	9,199	9,689	2,068	9,325	9,874	12,236	11,871	16,074
% of Income before Income Tax	28.52%	27.11%	30.40%	30.86%	15.06%	27.20%	28.70%	29.34%	27.26%	32.29%
Net Operating Income	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713
Depreciation Rate	3.64%	3.35%	2.38%	2.34%	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%
Income Tax Rate	29%	27%	30%	31%	15%	27%	29%	29%	27%	32%