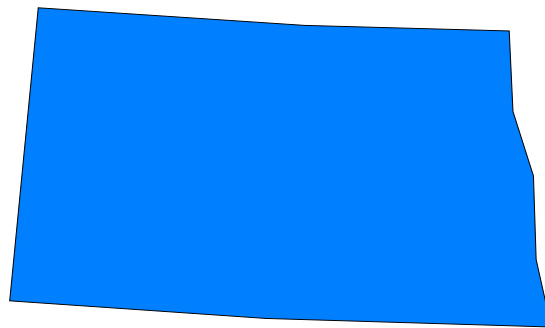


ANNUAL REPORT
OF
NORTHERN STATES POWER COMPANY
(A MINNESOTA CORPORATION)
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
FOR THE YEAR ENDING
DECEMBER 31, 2016

North Dakota Jurisdiction
Natural Gas Utility



2016

CONTENTS

	Page
<u>Financial</u>	
I. Return on Equity	G-1
II. Operating Income	G-2
III. Average Rate Base	G-3
IV. Cost of Capital	G-4
<u>Conservation</u>	
V. Demand Side Management Activity	G-5
<u>Supporting Information</u>	
I. Natural Gas Sales, Customer Data	S-1
II. Affiliated Transaction Summary	S-2
III. Affiliated Transactions (Allocations)	S-3

Northern States Power Company

Natural Gas Utility - North Dakota

(Dollars In Thousands)

I. RETURN ON EQUITY (ROE)

<u>Actual Return on Equity (ROE)</u>	<u>2016</u>	<u>2015</u>
1 Operating Income from Gas Operations (G-2):	\$2,456	\$3,219
2 Average Regulated Rate Base (G-3):	\$52,816	\$50,287
3 Rate of Return on Rate Base (ROR) (line 1 / line 2):	4.65%	6.40%
4 Weighted Cost of Debt (G-4):	2.22%	2.25%
5 Weighted Cost of Preferred Stock (G-4):	0.00%	0.00%
6 % of Equity in Capital Structure (G-4):	52.61%	52.76%
7 Return on Equity (ROE):	4.62%	7.87%

<u>ROE, Normalized for Weather Impact on Sales</u>	<u>2016</u>	<u>2015</u>
8 Operating Income from Gas Operations:	\$2,456	\$3,219
9 Impact of weather on Mcf Sales:	(1,116,340)	(1,524,738)
10 Impact of weather on Gas Operating Income :	(\$376)	(\$260)
11 Weather-Normalized Operating Income:	\$2,832	\$3,479
12 Average Regulated Rate Base:	\$52,686	\$50,197
13 Weather-Normal Rate of Return on Rate Base (ROR):	5.37%	6.93%
14 Weather-Normalized Return on Equity (ROE):	6.00%	8.87%

Northern States Power Company

Natural Gas Utility - North Dakota

(Dollars In Thousands)

II. OPERATING INCOME

<u>Line</u>	<u>Item</u>	<u>2016</u> <u>Total NSP</u>	<u>2016*</u> <u>N.D. Juris.</u>	<u>N. D. %</u>	<u>2015</u> <u>N.D. Juris.</u>	<u>Annual</u> <u>Change</u>
<u>Operating Revenues:</u>						
1	Residential	131,883	10,327	7.8%	10,024	3.02%
2	Firm C & I	55,075	7,824	14.2%	7,986	-2.02%
3	Interruptible C & I	<u>11,270</u>	<u>1,511</u>	<u>13.4%</u>	<u>1,603</u>	<u>-5.72%</u>
4	Total Retail	198,228	19,662	9.9%	19,613	0.25%
5	Interdepartmental Generation	137	0	0.0%	0	0.00%
6	Transportation	8,949	202	2.3%	130	54.75%
7	Other	<u>3,357</u>	<u>503</u>	<u>15.0%</u>	<u>505</u>	<u>-0.44%</u>
8	Total Revenues:	<u>210,672</u>	<u>20,367</u>	<u>9.7%</u>	<u>20,248</u>	<u>0.59%</u>
<u>Operating Expenses:</u>						
9	Production	6,173	723	11.7%	177	309.35%
10	Transmission	2,042	321	15.7%	444	-27.79%
11	Distribution	40,849	5,135	12.6%	4,675	9.83%
12	Customer Billing	12,901	1,162	9.0%	1,527	-23.92%
13	Customer Service	13,354	133	1.0%	270	-50.77%
14	Sales & Marketing	0	0	9.7%	0	-28.00%
15	Admin. & General	23,485	2,483	10.6%	2,334	6.38%
16	Depreciation & Amortizations	50,662	5,404	10.7%	4,982	8.48%
17	Property Taxes	18,489	1,099	5.9%	937	17.26%
18	Payroll & Other Taxes	2,548	620	24.3%	271	129.18%
19	Income Taxes	4,407	0	0.0%	0	0.00%
20	Deferred Income Taxes	<u>6,232</u>	<u>831</u>	<u>13.3%</u>	<u>1,412</u>	<u>-41.16%</u>
21	Total Expenses:	<u>181,142</u>	<u>17,911</u>	<u>9.9%</u>	<u>17,029</u>	<u>5.18%</u>
22	Regulated Operating Income	29,530	2,456	8.3%	3,219	-23.69%

*Fuel expense and revenue has been removed per request from ND PUC staff

All percentage calculations based on whole numbers

Northern States Power Company

Natural Gas Utility - North Dakota

(Dollars In Thousands)

III. AVERAGE RATE BASE

<u>Line</u>	<u>Item</u>	<u>2016</u> <u>Total NSP</u>	<u>2016</u> <u>N.D. Juris.</u>	<u>N. D. %</u>	<u>2015</u> <u>N.D. Juris.</u>	<u>Annual</u> <u>Change</u>
1	Plant in Service	1,325,155	132,245	10.0%	124,575	6.2%
2	Accumulated Depreciation	<u>625,577</u>	<u>63,169</u>	<u>10.1%</u>	<u>59,074</u>	<u>6.9%</u>
3	Net Plant in Service	699,578	69,077	9.9%	65,501	5.5%
4	Plant Held for Future Use			*	0	*
5	Construct Work in Progress	2,512	304	12.1%	179	70.2%
6	Materials and Supplies	1,199	129	10.8%	90	43.5%
7	Fuel Stocks	26,641	3,057	11.5%	3,536	-13.6%
8	Prepayments & Other	(567)	(989)	174.4%	(686)	44.0%
9	Customer Deposits	(788)	(85)	10.8%	(100)	-15.3%
10	Cash Working Capital	0	0	*	0	*
11	Other Rate Base 1	(5,883)	(724)	12.3%	(147)	393.4%
12	Accum. Deferred Taxes	<u>(186,648)</u>	<u>(17,954)</u>	<u>9.6%</u>	<u>(18,086)</u>	<u>-0.7%</u>
13	Total Other Rate Base	(163,533)	(16,260)	9.9%	(15,214)	6.9%
14	Total Average Rate Base	536,044	52,816	9.9%	50,287	5.0%

¹ 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.

All percentages calculated on whole numbers

Northern States Power Company
Natural Gas Utility - North Dakota

(Dollars In Thousands)

IV. COST OF CAPITAL

2016 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	\$4,681,618	46.54%	4.74%	2.21%
2	Short-Term Debt	<u>\$85,083</u>	<u>0.85%</u>	<u>1.22%</u>	<u>0.01%</u>
3	Total Debt	\$4,766,701	47.39%	4.68%	2.22%
4	Preferred Stock	\$0	0.00%	0.00%	0.00%
5	Common Equity	<u>\$5,292,680</u>	<u>52.61%</u>	<u>4.62%</u>	2.43%
6	Total Equity	\$5,292,680	52.61%		
7	Total Capital	\$10,059,381	100.00%		4.65%

2016 Normalized

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost*</u>
1	Long-Term Debt	\$4,681,618	46.54%	4.74%	2.21%
2	Short-Term Debt	<u>\$85,083</u>	<u>0.85%</u>	<u>1.22%</u>	<u>0.01%</u>
3	Total Debt	\$4,766,701	47.39%	4.68%	2.22%
4	Preferred Stock	\$0	0.00%	0.00%	0.00%
5	Common Equity	<u>\$5,292,680</u>	<u>52.61%</u>	<u>6.00%</u>	3.16%
6	Total Equity	\$5,292,680	52.61%		
7	Total Capital	\$10,059,381	100.00%		5.37%

* Calculation on unrounded values

Xcel Energy
Natural Gas Utility - State of North Dakota
2016 Demand Side Management Activity Report

2016 Results

<u>Program</u>	<u>Customers</u>	<u>Dkth Savings</u>	<u>Expenses</u>
Home Energy Audits	30	na	\$12,356
Furnace/Boiler Rebates	682	11,105	\$73,747
Water Heater Rebates	41	189	\$8,408
Efficiency Showerheads	<u>551</u>	<u>1,212</u>	<u>\$7,242</u>
Totals	<u>1,304</u>	<u>12,506</u>	<u>\$101,753</u>

Test Year Projections (Program Goals)*

<u>Program</u>	<u>Customers</u>	<u>Dkth Savings</u>	<u>Expense</u>
Home Energy Audits	300	na	\$60,260
Furnace/Boiler Rebates	500	6,460	\$61,000
Water Heater Rebates	30	54	\$3,000
Efficiency Showerheads	<u>2,000</u>	<u>3,940</u>	<u>\$14,000</u>
Totals	<u>2,830</u>	<u>10,454</u>	<u>\$138,260</u>

Notes:

As in previous years, the ND natural gas rebate programs and Home Energy Audit program were marketed through a variety of channels. Bill inserts and trade partner promotions were implemented to promote participation in the rebate programs. The quarterly trade newsletter that reaches ND (and MN) trade partners is a strong communications tool with the programs' front line promoters – HVAC installers. The Water Heater Rebate program experienced a significant increase in participants in 2016 compared to 2015, likely due to increased messaging and targeted promotions among the trade partners. In addition, a marketing relationship with an area retailer helped to move that program as well.

* Per Settlement in Case No. PU-06-525

Northern States Power Company

Supporting Information - North Dakota

I. SALES AND CUSTOMER DATA

Gas Utility (N. D. Jurisdiction)

<u>Line</u>	<u>Customers (@ Dec)</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
14	Residential	47,130	45,846	44,569	43,100	41,815
15	Firm C & I	8,235	7,974	7,670	7,397	7,195
16	Interruptible C & I	108	108	110	118	115
17	Total Retail	55,473	53,928	52,349	50,615	49,125
18	Transportation	1	1	1	2	2
<u>Line</u>	<u>Mcf Sales</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
19	Residential	3,091	3,281	3,852	3,660	2,779
20	Firm C & I	4,524	4,760	5,303	4,902	3,778
21	Interruptible C & I	2,218	2,040	2,370	2,158	1,895
22	Total Retail	9,834	10,081	11,524	10,720	8,452
23	Transportation	751	710	782	947	885
<u>Line</u>	<u>Retail Revenues</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
24	Revenue excluding Cost of Gas	19,662	19,613	19,881	18,860	17,225
25	Cost of Gas	33,000	44,098	66,931	47,119	35,286
26	Total Revenues	52,663	63,711	86,812	65,978	52,511
27	Ave. Retail \$/mcf	\$5.36	\$6.32	\$7.53	\$6.15	\$6.21
28	Ave. Res. Mo. Usage (ccf)	55	60	72	71	55
29	Ave. Res. Monthly Bill	\$37.54	\$45.46	\$61.24	\$50.17	\$42.93

(a) 2011 weather was the last year that the Company included the cost of gas in its annual report to the North Dakota Public Service Commission.

Northern States Power Company Electric Utility - North Dakota

II. AFFILIATED TRANSACTION SUMMARY

			North Dakota Jurisdiction Electric and Gas Totals (1)	
Affiliate Name	Services Rendered	Expense (2)	Revenue (3)	
1	NSP Wisconsin	Electric and Gas Utility	10,571,618	30,342,997
2	Public Service of Colorado	Electric and Gas Utility	4,662	9,034
3	Southwestern Public Service	Electric Utility	626	22,487
4	Hayden Joint Venture	Electric Utility	-	-
5	Xcel Energy Services	Xcel Energy Inc. Service Company	113,981,616	81,987,762
6	Xcel Energy, Inc.	Engineering services	(19,238,719)	1,227
			105,319,803	112,363,507

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 %</u>	<u>Gas %</u>	<u>ND Elec % (Customers)</u>	<u>ND Gas % (Customers)</u>
NSP Wisconsin	\$ 262,647	\$ 9,181,100	92.2457%	7.7543%	6.4296%	10.7874%
PSCo	72,515	140,501	100.0000%	0.0000%	6.4296%	0.0000%
SPS	9,735	349,734	100.0000%	0.0000%	6.4296%	0.0000%
Hayden Joint Venture	0	0				
XES	1,684,245,750	1,211,489,582	92.2457%	7.7543%	6.4296%	10.7874%
XEI	(299,221,089)	19,090	100.0000%	0.0000%	6.4296%	0.0000%
	<u>\$1,385,369,557</u>	<u>\$1,221,180,008</u>				

Notes:

Allocation of Revenues & Expenses between NSP Minnesota and Affiliates

Common Allocation Method: Labor

	<u>Electric</u>	<u>Gas</u>		
Utility Labor Allocator	92.2457%	7.7543%	Load Dispatch	11.1931%
ND Jur. Customer Allocator	6.4296%	10.7874%	Design Day	12.0146%

Factor Formula: ((Util Elec)*ND Jur Ele)+((Util Gas)*ND Jur Gas) = 6.7675%

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	\$239,774,695	\$14,796,017	\$46,601,901	\$2,875,710	Demand	6.1708%
Variable	\$181,754,204	\$11,588,466	\$16,415,715	\$1,046,650	Energy	6.3759%
Transmission	\$54,005,161	\$3,332,550	\$107,465,543	\$6,631,484	Demand	6.1708%
Electric Total	\$475,534,059	\$29,717,034	\$170,483,158	\$10,553,843		

Gas SCADA Agreement

	<u>Total Rev</u>	<u>ND Alloc.</u>	<u>Alloc Method</u>	<u>ND Alloc %</u>
SCADA	41,373	4,631	Load Dispatch	11.1931%