

# Memorandum

To: Commissioners Randy Christmann, Julie Fedorchak and Brian Kroshus

From: Victor Schock - Public Utility Analyst

VS

Date: May 25, 2017

Re: Northern States Power Company 2016 Electric Annual Report

Case No. PU-17-186

I recommend the commission close the above captioned case which is the North Dakota annual report filing for 2016. I will include a motion to close the case on the June 16, 2017 agenda.

Northern States Power Company (NSP) provides electric service to about 93,768 customers in North Dakota. Staff has reviewed the company's annual report filing for 2016. The company's return on equity was 9.15% in 2016, which is up from 8.15% in 2015. When considering the impact of weather, the rate of return would have been 9.6% if it were a 'normal' year. The commission authorized a rate of return of 10.25% for 2016 and 2017 in the most recent rate case (PU-12-813). With that in mind, the company under earned by about \$5M in 2016. However, due to settlement agreements in past rate cases and the recent Negotiated Agreement, NSP is prohibited from filing a rate case until 2018. More specifically, they may not have final rates for a rate case go into effect until January 1, 2018 at the earliest, meaning they may file a case as early as mid/late 2017.

This is not to say that we should not be concerned with NSP's under-earnings. Since a rate filing is likely in late 2017 or early 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.

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)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Return on Equity</b>											
Operating Income from Operations	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025
PBR Deficiency (Earnings)	187,518	201,735	243,713	264,909	282,316	322,995	338,666	388,195	453,401	514,809	540,927
Adjusted Income	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025
Average Regulated Rate Base	7.68%	5.05%	8.64%	8.19%	4.13%	7.73%	7.24%	7.59%	6.98%	6.55%	7.03%
Rate of Return on Rate Base (Line 1 / Line 2)	3.29%	3.32%	3.24%	3.06%	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%	2.22%
Less: Weighted Cost of Debt	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Less: Weighted Cost of Preferred Stock	4.39%	1.73%	5.40%	5.13%	1.14%	4.85%	4.63%	5.30%	4.75%	4.30%	4.81%
Return Remaining for Common Stock	51.59%	50.57%	50.76%	52.23%	51.99%	52.67%	52.78%	52.67%	52.87%	52.75%	52.61%
% of Equity in Capital Structure	<b>8.51%</b>	<b>3.43%</b>	<b>10.63%</b>	<b>9.82%</b>	<b>2.20%</b>	<b>9.20%</b>	<b>8.77%</b>	<b>10.07%</b>	<b>8.98%</b>	<b>8.15%</b>	<b>9.15%</b>
<b>Actual Return on Equity</b>	10.75%	10.75%	10.75%	10.75%	10.75%	10.40%	10.40%	9.75%	10.00%	10.00%	10.25%
<b>Authorized Return on Equity</b>											

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	\$38,025
Impact of Weather on Operating Income	317	(461)	138	139	140	141	142	143	144	622	1,262
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	\$34,335	\$39,287
Average Regulated Rate Base	187,518	201,735	243,713	264,909	282,316	322,995	338,666	388,195	453,401	514,809	540,927
Weather Normalized Return on Rate Base	7.85%	4.82%	8.70%	8.25%	4.18%	7.77%	7.29%	7.63%	7.02%	6.67%	7.26%
<b>Weather Normalized Return on Equity</b>	<b>8.85%</b>	<b>2.96%</b>	<b>10.73%</b>	<b>10.16%</b>	<b>2.19%</b>	<b>9.05%</b>	<b>8.92%</b>	<b>9.54%</b>	<b>8.76%</b>	<b>8.38%</b>	<b>9.60%</b>

Description

Rate Base	\$187,518	\$201,735	\$243,713	\$264,909	\$282,316	\$322,995	\$338,666	\$388,195	\$453,401	\$514,809	\$540,927
Rate of Return Allowed	8.83%	8.75%	8.70%	8.68%	8.58%	8.36%	8.10%	7.42%	7.52%	7.52%	7.61%
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	\$ 41,161
Return Earned	14,395	10,181	21,056	21,709	11,664	24,952	24,536	29,471	31,670	33,713	38,025
Return Deficiency (Excess)	\$ 2,170	\$ 7,478	\$ 145	\$ 1,273	\$ 12,551	\$ 2,054	\$ 2,891	\$ (653)	\$ 2,430	\$ 5,021	\$ 3,136
Tax Factor	1.654	1.645	1.645	1.644	1.644	1.622	1.622	1.612	1.612	1.608	1.608
<b>Revenue Deficiency (Excess)</b>	\$ 3,589	\$ 12,305	\$ 239	\$ 2,093	\$ 20,633	\$ 3,331	\$ 4,689	\$ (1,052)	\$ 3,916	\$ 8,073	\$ 5,041



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	2016
Residential	\$ 53,651	\$ 55,479	\$ 62,302	\$ 63,471	\$ 61,131	\$ 68,744	\$ 69,329	\$ 81,128	\$ 81,066	\$ 82,172	\$ 78,298
Small Commercial & Industrial	65,847	69,305	76,508	76,388	72,918	83,167	85,328	96,704	98,244	101,810	98,996
Large Commercial & Industrial	17,036	18,759	20,644	17,424	19,074	21,516	22,301	23,654	24,600	27,904	26,257
Other <sup>1</sup>	44,511	46,194	42,921	39,133	43,697	40,457	42,928	48,572	53,987	54,781	54,157
Total Revenues	\$181,045	\$189,737	\$202,375	\$196,416	\$196,820	\$213,884	\$219,886	\$250,058	\$257,897	\$266,667	\$257,708
Fuel & Prod. Expense	107,776	123,221	121,265	111,422	127,106	119,260	120,355	134,307	134,955	127,077	115,476
Gross Margins	\$ 73,269	\$ 66,516	\$ 81,110	\$ 84,994	\$ 69,714	\$ 94,624	\$ 99,531	\$115,751	\$122,942	\$139,590	\$142,232
Transmission Expense	6,621	7,618	8,333	9,301	9,725	11,219	12,309	14,921	17,224	19,777	21,953
Distribution Expense	4,792	5,426	5,305	5,612	5,779	6,737	6,387	6,784	6,727	6,319	6,886
Customer Billing	4,677	4,619	4,757	4,583	4,394	4,411	4,128	4,121	4,300	4,198	3,307
Customer Service	271	312	362	280	262	489	370	348	439	425	68
Sales & Marketing <sup>3</sup>	4	4	3	50	151	135	2	1	0	0	0
Admin. & General <sup>4</sup>	10,520	10,383	11,612	12,070	12,374	11,770	12,969	15,576	14,664	15,462	15,380
Depreciation	19,533	18,105	14,024	14,892	15,981	17,885	20,400	22,295	25,265	32,204	33,004
% of Plant in Service	3.64%	3.35%	2.38%	2.34%	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%	2.91%
Property Taxes	5,607	4,903	4,898	5,065	5,585	5,881	6,690	7,917	8,727	9,404	10,367
% of Plant in Service	1.05%	0.91%	0.83%	0.80%	0.83%	0.79%	0.86%	0.91%	0.89%	0.87%	0.91%
Other General Taxes <sup>2</sup>	1,105	1,179	1,561	1,743	1,731	1,820	1,866	2,081	2,055	2,014	1,875
Income Tax Expense	5,744	3,786	9,199	9,689	2,068	9,325	9,874	12,236	11,871	16,074	11,367
% 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%	23.01%
Net Operating Income	\$ 14,395	\$ 10,181	\$ 21,056	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025
Depreciation Rate	3.64%	3.35%	2.38%	2.34%	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%	2.91%
Income Tax Rate	29%	27%	30%	31%	15%	27%	29%	29%	27%	32%	23%