Public Service Commission
State of North Dakota

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October 9, 2018

Darrell Nitschke
Executive Director
ND Public Service Commission
600 E. Boulevard Ave. Dept. 408
Bismarck, ND 58505-0480

Via Hand Delivery

Re: Case No. PU-17-490
Public Service Commission
Rate Impact and Accounting Treatment Investigation

Case No. PU-18-155
Northern States Power Company
Tax Reform Effects – Electric Utility Rates

Dear Mr. Nitschke:

Enclosed is a copy of a Memorandum to be filed in the above captioned cases.

Best Regards,

Victor Schock
Public Utility Analyst

Enclosure

Memorandum

To: Commissioners, Randy Christmann, Julie Fedorchak, and Brian Kroshus

From: Victor Schock - Public Utility Analyst VS

Date: October 9, 2018

Re: Northern States Power Company Electric Tax Reform Effects Settlement Agreement

Case Nos. PU-18-155 PU-17-490

On January 10, 2018 the Commission issued an order initiating investigation to determine the effect of the Tax Cuts and Jobs Act (TCJA) in Case No. PU-17-490.

On February 15, 2018 Northern States Power Company (NSP) filed initial comments with estimates of the effects on its electric and natural gas rates in Case No. PU-17-490.

On May 15, 2018 The Commission opened a new case to separately track NSP's Electric TJCA impacts in Case No. PU-18-155.

On May 17, 2018 NSP filed additional details and backup in case PU-18-155.

Since the May 17, 2018 filing, Advocacy Staff (Staff) has received additional data from NSP and conducted a thorough analysis of the impacts to NSP's reduced tax expenses relative to NSP's North Dakota electric operations. This analysis included determining the estimated value of the actual income tax expense reduction, the plant/protected excess deferred income taxes (EDIT) and non-plant/protected EDIT created by the TCJA.

Staff's findings are as follows:

- Income Tax Reduction: The actual income tax expense reduction in current rates is estimated to be $7M. This reflects the effect of the income tax rate change from 35% to 21% on taxable income.
- Plant EDIT: The Internal Revenue Service (IRS) protects the method of return of the plant EDIT. The IRS specifies the manner and time period in which the EDIT for these assets must be reversed known as the Average Rate Assumption Method (ARAM). ARAM requires the return of EDIT over the remaining life of the asset that created the EDIT. The total protected EDIT balance is estimated at $46,704,397, however using ARAM the 2018 reversal attributable to NSP North Dakota electric operations is valued at $2.7M.
- Non-plant EDIT: Non-plant EDIT relates to the remaining company assets attributable to electric operations that do not qualify for IRS ARAM treatment. The Commission may set the timing and manner of return of the Non-plant EDIT. The total non-protected EDIT balance is estimated at ($211,000).

Based on these findings Staff and NSP engaged in good faith settlement discussions in order to pass the savings back to customers as quickly and accurately as possible.

On October 1, 2018 NSP and Staff filed a settlement agreement for Commission approval that is intended to resolve the outstanding TCJA issues relative to NSP North Dakota electric operations.

The settlement agreement provides for a one-time customer refund, a two year rate moratorium, a lower ROE allowance, an earnings cap in 2019 and 2020, and an expansion of the renewable rider.

The refund provision provides for a one-time refund of 2018 TCJA savings, with interest, totaling $9,763,400. This represents the entirety of the $7M income tax reduction and the $2.7M Plant EDIT, the non-Plant EDIT will be amortized over their remaining useful lives similar to how Plant EDIT items are treated under ARAM. This is an increase for 2018 of approximately $100k. The additional $163,400 is carrying costs through March 31, 2019 which is the anticipated date that refunds to customers would be issued. The refund will be issued as a bill credit to customers based on each customer class' revenue allocation from the PU-12-813 rate case and each customer's 2018 usage.

The rate moratorium prohibits NSP from increasing rates (interim and/or final) prior to 2021, providing for two additional years of rate stability and certainty. This has a significant value to customers, due to the fact that if NSP were to file a rate case, many historical issues would be back on the table and drive rates up higher than they are currently, even while considering the impacts of the TCJA. Staff estimates that if NSP were to file a rate case with a 2019 test year, they would likely request an increase of approximately $15 million, even with the TCJA savings. With a $15M requested increase from the company a conservative estimate of what they may be granted in such a case would be at least $7.5M annually. When added together to account for the two years of the moratorium (2019-2020) this saves customers at least $15M during the moratorium period. Due to these factors Staff felt it would be more beneficial to pass the savings on to customers in the form of a one-time refund and an avoidance of rate increases in 2019 and 2020 rather than require the Company to reduce its base rates and likely trigger an immediate rate increase in January 2019.

The earnings cap provides that NSP must refund 100% of weather-normalized earnings in excess of a 9.85% ROE. This provides protection to ratepayers in the unlikely event that the company would over-earn during 2019 or 2020. This protection also lowers the allowed ROE from the currently authorized 10.25% for purposes of determing the the excess earnings refund.

The expansion of the Renewable Energy Rider (RER) would simply modify the tariff language to allow renewable resources that have received an Advanced Determination of Prudence (ADP) from this commission to be recoverable through the renewable rider. Currently, the RER tariff language limits the recoverable resources to those projects located only in North Dakota. Staff believes this change helps delay a rate case by allowing the company to recover ADP approved investments in cost-effective renewable generation without the expense and effort of a full rate proceeding. As discussed earlier, this has significant value to ratepayers.

Due to these factors, staff recommends the commission approve this settlement agreement.

C: Dave Sederquist, NSP