STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company
Tax Reform Effects - Electric Utility Rates

Case No. PU-18-155

ORDER

December 21, 2018

Preliminary Statement

On January 10, 2018, in Case No. PU-17-490, the Commission opened an investigation into the effects of federal tax reform, H.R. 1, Tax Cuts and Jobs Bill Act of 2017 (TCJA), on North Dakota regulated utilities, and required jurisdictional utilities to file information on the impact, supporting calculations, and the appropriate regulatory accounting treatment.

On February 15, 2018, Northern States Power Company (NSP) filed its initial comments in Case No. PU-17-490.

Subsequently, the Commission opened the instant case to specifically address the impacts of this federal tax reform on NSP's electric distribution utility operations and affected ratepayers.

On May 17, 2018, NSP filed a letter requesting that its previous filings in Case No. PU-17-490 also be filed in the instant case.

On October 1, 2018, Public Service Commission Advocacy Staff (Advocacy Staff) filed a Settlement Agreement between NSP and Advocacy Staff, proposing to resolve the issue of how the benefits of the TCJA will be provided to NSP's electric customers.

On October 10, 2018, the Commission issued a Notice of Opportunity for Hearing that provided until November 15, 2018 for receiving written comments and hearing requests. No response was received.

The Notice identified the issue to be considered in this matter is whether the Settlement Agreement is just and reasonable.

On November 27, 2018, the Commission discussed the matter with NSP and Advocacy Staff during an Informal Hearing.

On December 18, 2018, NSP filed a letter providing additional clarification regarding a 2018 TCJA refund and requesting an informal hearing with the Commission to address the remaining elements of the Settlement Agreement.

Discussion

The Tax Cuts and Jobs Act of 2017 (TCJA) impacts NSP's cost of providing electric service, including a reduction in the income tax rate from 35 percent to 21 percent, the creation of plant (protected) excess deferred income taxes (EDIT), and the creation of non-plant (unprotected) EDIT. The net result of these TCJA impacts is a decrease in NSP's most recent test year revenue requirement equal to approximately $9.6 million.

The Settlement Agreement provides a $9,763,400 refund to NSP customers of record in 2018 within 90 days of approval. The refund is a single bill credit or payment to customer classes based on each class' most recent revenue allocation approved by the Commission. NSP indicated it would not object if the Commission orders this refund prior to acting on the Settlement Agreement.

The Settlement Agreement provides that, in lieu of making additional TCJA-related refunds beyond 2018, NSP agrees to a base rate moratorium for 2019 and 2020. Specifically, NSP agrees not to file another general rate increase prior to November 1, 2020 with new rates not in effect prior to January 1, 2021. Additionally, in its next general rate case, NSP's Test Year costs of service would reflect the cost savings of the TCJA.

The Settlement Agreement further provides that NSP's existing Renewable Energy Rider (RER) would be expanded to include Company-owned renewable energy resources located outside of North Dakota for which NSP has received an Advanced Determination of Prudence (ADP) from the Commission. Thus for ADPs granted for 1,850 MW of wind projects in Case Nos. PU-17-120 and PU-17-372, the Settlement Agreement provides that NSP could recover the costs of the owned wind investments (as well as other future company-owned renewable energy investments that receive an ADP from the Commission) in the RER as of their in-service date.

The Settlement Agreement establishes an earnings sharing mechanism during the 2019 and 2020 base rate moratorium. Specifically, in the event NSP's annual weather normalized earnings during either of fiscal years 2019 or 2020 exceed a Return on Equity (ROE) of 9.85 percent, NSP will refund to customers 100 percent of the weather-normalized revenue contributing to the excess earnings. This earnings sharing framework is asymmetrical; customers will not be charged for weather-normalized earnings below 9.85 percent.

The Commission finds further investigation and hearing is necessary before acting on the Settlement Agreement. However, the Commission does not find reason to delay refunding to NSP's customers the estimated over-collected revenue for 2018 tax expense of $9,763,400. Further investigation is necessary to determine the precise over-collected revenue for 2018 tax expense.

Therefore, the Commission issues the following:

Order

The Commission Orders:

1. NSP shall file, within 30 days, a plan detailing refund allocations, calculations, and the process for a $9,763,400 refund; and shall implement the refund within 90 days of this Order.

2. NSP shall continue to apply the appropriate regulatory accounting treatment, including the use of regulatory assets and liability accounts, to record the impact of the TCJA.

3. The Commission will issue a Notice of Hearing regarding the proposed actions described in the Settlement Agreement.

PUBLIC SERVICE COMMISSION

Brian Kroshus **Commissioner**	**Randy Christmann** **Chairman**	**Julie Fedorchak** **Commissioner**