



**Public Service Commission**  
State of North Dakota

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August 31, 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-18-156  
Northern States Power Company  
Tax Reform Effects – Gas Utility  
Rates

Dear Mr. Nitschke:

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

Best Regards,

Victor Schock – Advocacy Staff  
Public Utilities Division

Enclosure


7 **PU-18-156** Filed: 8/31/2018 Pages: 3  
**Memorandum**

Public Service Commission Staff

Victor Schock

# Memorandum

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

From: Victor Schock - Public Utility Analyst 

Date: August 31, 2018

Re: Northern States Power Company North Dakota Natural Gas Tax Reform Effects Settlement Agreement

Case No. PU-18-156

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 17, 2018 the commission opened a separate docket under Case No. PU-18-156 to address NSP Natural Gas separately from the original TCJA docket. On April 20, 2018 Advocacy Staff filed its Initial Review and Comments Regarding Rate Impact and Accounting Treatment in this docket.

On June 21 NSP filed comments in response to Staff's analysis, outlining its work on a concept whereby the TCJA savings could began to immediately pay for the costs of the Fargo Manufactured Gas Plant (MGP) remediation without triggering a rate increase.

In recent months, 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 North Dakota natural gas 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 is estimated to be \$1,201,000. This reflects the revenue requirement effect of the income tax rate change from 35% to 21%.
- 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, this approach is 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 estimated 2018 reversal attributable to NSP North Dakota natural gas operations is valued at approximately \$117,000.
- Non-plant EDIT: Non-plant EDIT relates to the remaining company assets attributable to natural gas 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 (\$225,000), which is a net asset or addition to rate base.

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 August 27, 2018 NSP and Staff filed a settlement agreement for Commission approval intended to resolve the outstanding TCJA issues relative to NSP's North Dakota natural gas operations.

The settlement agreement provides for the company to begin amortizing, in 2018, the costs of the MGP cleanup. The amortization amount will be \$1.25 million per year. NSP will not increase rates at this time to recover the amortization expense, but will instead offset the expense by retaining the approximately equivalent TCJA savings.

When NSP files its next natural gas rate case, the TCJA savings will be incorporated into the case Test Year, ultimately lowering base rates compared to what they would have been. The \$1.25 million MGP amortization will continue, but will be included in - and recovered through - the Company's Cost of Gas Rider until the total MGP project cost approved by the Commission has been fully amortized.

While this method does not result in an immediate rate reduction, it does allow customers to begin recognizing the full value of the TCJA immediately, as it begins to buy down the costs of the remediation project even before the project is completed.

The \$1.25M amortization was based on an approximation of the total annual value of TCJA impacts (savings) as follows:

- Income tax expense reduction: 100% of the \$1,201,000 in reduced income tax expense.
- Plant EDIT: 100% of the 2018 ARAM reversal (customer credit) of \$117,000.
- Non-plant EDIT: The 3 year amortization of the non-plant EDIT asset will result in a reduction of the annual TCJA savings by approximately \$75,000.
- The net of these three components of TCJA impacts results in a reduced revenue requirement of approximately \$1,243,000.

In its February 15, 2018 filing, NSP estimated the total reduction to the revenue requirement to be between \$1.2 to \$1.3 million per year. The settlement position of \$1,250,000 is essentially the midpoint between these two estimates and \$7000 more than the TCJA savings as calculated above.

Based on the foregoing facts, staff believes this settlement results in just and reasonable, timely, and efficient treatment of the TCJA effects for NSP's North Dakota natural gas customers.

C: Dave Sederquist, NSP