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May 23, 2018

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

Re: 2017 REPORTS OF REGULATED EARNINGS FOR XCEL ENERGY'S
NORTH DAKOTA ELECTRIC AND NATURAL GAS OPERATIONS

Dear Mr. Nitschke:

Attached are electronic versions of Xcel Energy's Annual Reports of 2017 regulated earnings for our electric and natural gas operations in North Dakota. Also included for your reference are the 2017 Shareholder's Annual Report and a copy of Northern States Power Company–Minnesota's 2015 FERC Form 1. One original and two copies of each report will be sent by mail under this cover letter to the Commission.

North Dakota Electric Earnings

The Company's regulated electric earnings in 2017 resulted in a Return on Equity (ROE) of 10.52 percent. This reflects an increase in jurisdictional earnings compared to the 9.14 percent reported for 2016. The increase is due primarily to a lower allocation of energy production and transmission costs resulting from a lower contribution by North Dakota load to the company's system-wide monthly peaks.

Normalizing for less than favorable weather, electric ROE in 2017 increased to 10.91 percent, which exceeds the authorized level of 10.25 percent. Per provisions of the First Revised Negotiated Agreement approved in Case No. PU-12-813, the Company is obligated to refund 100 percent of the revenues contributing to the excess earnings, or \$2,983,461. The Company intends to work with Staff to develop and propose an efficient and timely refund plan in the coming weeks.

North Dakota Natural Gas Earnings

The Company's regulated natural gas earnings in 2017 resulted in an ROE of 8.13 percent. This reflects an increase in jurisdictional earnings compared to the 4.62

percent reported for 2016. The increase is due primarily to customer growth, increased natural gas usage, and lower O&M expenses. The Company's authorized ROE for natural gas is 10.75 percent, approved June 13, 2007 in Case No. PU-06-525.

Please contact me if you have any questions or comments.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive style with a distinct loop at the end of the last name.

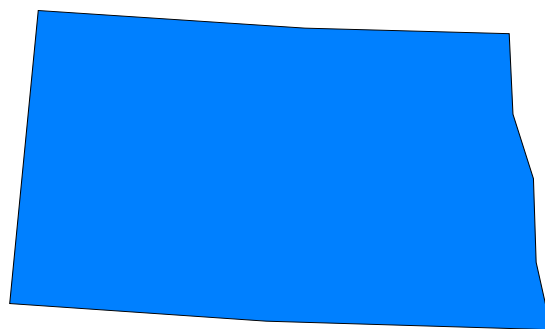
DAVID H. SEDERQUIST
SR. CONSULTANT, REGULATION/FINANCE

c: Patrick Fahn

Enclosures

ANNUAL REPORT
OF
NORTHERN STATES POWER COMPANY
(A MINNESOTA CORPORATION)
TO THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
FOR THE YEAR ENDING
DECEMBER 31, 2017

Natural Gas Utility
North Dakota Jurisdiction



2017

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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>2017</u>	<u>2016</u>
1 Operating Income from Gas Operations (G-2):	\$3,560	\$2,456
2 Average Regulated Rate Base (G-3):	\$54,994	\$52,816
3 Rate of Return on Rate Base (ROR) (line 1 / line 2):	6.47%	4.65%
4 Weighted Cost of Debt (G-4):	2.20%	2.22%
5 Weighted Cost of Preferred Stock (G-4):	0.00%	0.00%
6 % of Equity in Capital Structure (G-4):	52.54%	52.61%
7 Return on Equity (ROE):	8.13%	4.62%

<u>ROE, Normalized for Weather Impact on Sales</u>	<u>2017</u>	<u>2016</u>
8 Operating Income from Gas Operations:	\$3,560	\$2,456
9 Impact of weather on Mcf Sales:	(501,440)	(1,116,340)
10 Impact of weather on Gas Operating Income :	(\$178)	(\$376)
11 Weather-Normalized Operating Income:	\$3,738	\$2,832
12 Average Regulated Rate Base:	\$54,994	\$52,686
13 Weather-Normal Rate of Return on Rate Base (ROR):	6.80%	5.37%
14 Weather-Normalized Return on Equity (ROE):	8.75%	6.00%

**Northern States Power Company
Natural Gas Utility - North Dakota**

(Dollars In Thousands)

II. OPERATING INCOME

<u>Line</u>	<u>Item</u>	<u>2017 Total NSP</u>	<u>2017 N.D. Juris.</u>	<u>N. D. %</u>	<u>2016 N.D. Juris.</u>	<u>Annual Change</u>
<u>Operating Revenues:</u>						
1	Residential	123,937	10,582	8.5%	10,327	2.5%
2	Firm C & I	61,459	8,561	13.9%	7,824	9.4%
3	Interruptible C & I	<u>17,504</u>	<u>1,595</u>	<u>9.1%</u>	<u>1,511</u>	<u>5.5%</u>
4	Total Retail	202,900	20,738	10.2%	19,662	5.5%
5	Interdepartmental Generation	468	0	0.0%	0	0.0%
6	Transportation	10,662	168	1.6%	202	-17.0%
7	Other	<u>1,541</u>	<u>456</u>	<u>29.6%</u>	<u>503</u>	<u>-9.2%</u>
8	Total Revenues:	<u>215,570</u>	<u>21,362</u>	<u>9.9%</u>	<u>20,367</u>	<u>4.9%</u>
<u>Operating Expenses:</u>						
9	Production	3,388	407	12.0%	723	-43.7%
10	Transmission	2,205	348	15.8%	321	8.6%
11	Distribution	38,477	4,347	11.3%	5,135	-15.3%
12	Customer Billing	12,732	1,140	9.0%	1,162	-1.9%
13	Customer Service	18,929	161	0.9%	133	21.2%
14	Sales & Marketing	1	0	9.5%	0	219.4%
15	Admin. & General	25,552	2,772	10.8%	2,483	11.6%
16	Depreciation & Amortizations	38,780	5,383	13.9%	5,404	-0.4%
17	Property Taxes	17,988	1,067	5.9%	1,099	-2.9%
18	Payroll & Other Taxes	2,830	291	10.3%	620	-53.0%
19	Income Taxes	8,620	328	0.0%	0	0.0%
20	Deferred Income Taxes	<u>9,150</u>	<u>1,557</u>	<u>17.0%</u>	<u>831</u>	<u>87.4%</u>
21	Total Expenses:	<u>178,653</u>	<u>17,802</u>	<u>10.0%</u>	<u>17,911</u>	<u>-0.6%</u>
22	Regulated Operating Income	36,917	3,560	9.6%	2,456	44.9%

Note: Gas commodity costs and revenues have been removed per prior request from NDPSC staff

Northern States Power Company
Natural Gas Utility - North Dakota

(Dollars In Thousands)

III. AVERAGE RATE BASE

<u>Line</u>	<u>Item</u>	<u>2017</u> <u>Total NSP</u>	<u>2017</u> <u>N.D. Juris.</u>	<u>N. D. %</u>	<u>2016</u> <u>N.D. Juris.</u>	<u>Annual</u> <u>Change</u>
1	Plant in Service	1,362,262	137,011	10.1%	132,245	3.6%
2	Accumulated Depreciation	<u>631,885</u>	<u>64,823</u>	<u>10.3%</u>	<u>63,169</u>	<u>2.6%</u>
3	Net Plant in Service	730,376	72,189	9.9%	69,077	4.5%
4	Plant Held for Future Use			*	0	*
5	Construct Work in Progress	5,616	510	9.1%	304	67.7%
6	Materials and Supplies	1,217	133	10.9%	129	2.9%
7	Fuel Stocks	26,772	3,120	11.7%	3,057	2.1%
8	Prepayments & Other	(134)	(1,030)	769.6%	(989)	4.2%
9	Customer Deposits	(532)	(58)	10.9%	(85)	-31.6%
10	Cash Working Capital	0	0	*	0	*
11	Other Rate Base 1	(10,941)	(1,360)	12.4%	(724)	88.0%
12	Accum. Deferred Taxes	<u>(192,780)</u>	<u>(18,510)</u>	<u>9.6%</u>	<u>(17,954)</u>	<u>3.1%</u>
13	Total Other Rate Base	(170,782)	(17,195)	10.1%	(16,260)	5.7%
14	Total Average Rate Base	559,595	54,994	9.8%	52,816	4.1%

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.

Northern States Power Company

Natural Gas Utility - North Dakota

(Dollars In Thousands)

IV. COST OF CAPITAL

<u>2017 Actual</u>					
<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt	\$4,829,106	46.47%	4.70%	2.18%
2	Short-Term Debt	<u>\$103,333</u>	<u>0.99%</u>	<u>1.71%</u>	<u>0.02%</u>
3	Total Debt	\$4,932,439	47.46%	4.64%	2.20%
4	Preferred Stock	\$0	0.00%	0.00%	0.00%
5	Common Equity	<u>\$5,459,858</u>	<u>52.54%</u>	<u>8.13%</u>	4.27%
6	Total Equity	\$5,459,858	52.54%		
7	Total Capital	\$10,392,297	100.00%		6.47%

<u>2017 Normalized</u>					
<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt	\$4,829,106	46.47%	4.70%	2.18%
9	Short-Term Debt	<u>\$103,333</u>	<u>0.99%</u>	<u>1.71%</u>	<u>0.02%</u>
10	Total Debt	\$4,932,439	47.46%	4.64%	2.20%
11	Preferred Stock	\$0	0.00%	0.00%	0.00%
12	Common Equity	<u>\$5,459,858</u>	<u>52.54%</u>	<u>8.75%</u>	4.60%
13	Total Equity	\$5,459,858	52.54%		
14	Total Capital	\$10,392,297	100.00%		6.80%

Xcel Energy
Natural Gas Utility - State of North Dakota
2017 Demand Side Management Activity Report

2017 Results

<u>Program</u>	<u>Customers</u>	<u>Dkth Savings</u>	<u>Expenses</u>
Home Energy Audits	19	na	\$6,535
Furnace/Boiler Rebates	616	10,336	\$122,947
Water Heater Rebates	16	120	\$5,184
Efficiency Showerheads	<u>171</u>	<u>325</u>	<u>\$3,228</u>
Totals	<u>822</u>	<u>10,781</u>	<u>\$137,894</u>

Test Year Projections*

<u>Program</u>	<u>Customers</u>	<u>Dkth Savings</u>	<u>Expense</u>
Home Energy Audits	55	na	\$26,084
Furnace/Boiler Rebates	725	11,673	\$104,500
Water Heater Rebates	30	153	\$4,020
Efficiency Showerheads	<u>200</u>	<u>446</u>	<u>\$3,656</u>
Totals	<u>1,010</u>	<u>12,272</u>	<u>\$138,260</u>

Notes:

The ND natural gas rebate programs and Home Energy Audit program were marketed through a variety of channels, including monthly bill "onserts." In 2017 a sizable advertising campaign was implemented with a strategy to boost 2017 year-end participation while increasing awareness for Q1 2018. Trade partner promotions were implemented as always to promote participation in the Heating System Rebate and Water Heating Rebate programs; the Xcel Energy Channel Manager engages this audience through a quarterly trade newsletter that reaches ND (and MN) trade partners. A Q4 Water Heater Rebate trade promotion was implemented with some success, adding 5 rebated units in December. The Energy Efficient Showerhead program targeted a small group of customers and performed well in comparison to that target. In its 10th year, the Showerhead program is best balanced among the other programs by reaching out to a smaller customer base. Home Energy Audit program participation continues to be a challenge; we do cross-promote the program with rebate programs via bill onserts and advertising.

* Per Settlement in Case No. PU-06-525. In 2017, program participation and energy savings goals within the portfolio were adjusted while the overall portfolio costs were held at or near the Test Year expense of \$138,260. The new program goals reflected more closely the historical performance and customer participation. Thus, the \$138,260 Test Year budget was redistributed among the four programs to more appropriately align their respective budgets with more realistic participant goals.

Northern States Power Company

Supporting Information - North Dakota

I. SALES AND CUSTOMER DATA

Natural Gas Utility (N: D. Jurisdiction)

Line	Customers (@ Dec)	2017	2016	2015	2014	2013
1	Residential	48,110	47,130	45,846	44,569	43,100
2	Firm C & I	8,405	8,235	7,974	7,670	7,397
3	Interruptible C & I	<u>93</u>	<u>108</u>	<u>108</u>	<u>110</u>	<u>118</u>
4	Total Retail	56,608	55,473	53,928	52,349	50,615
5	Transportation	1	1	1	1	2
	<u>Mcf Sales</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
6	Residential	3,522	3,091	3,281	3,852	3,660
7	Firm C & I	5,113	4,524	4,760	5,303	4,902
8	Interruptible C & I	<u>2,367</u>	<u>2,218</u>	<u>2,040</u>	<u>2,370</u>	<u>2,158</u>
9	Total Retail	11,001	9,834	10,081	11,524	10,720
10	Transportation	839	751	710	782	947
	<u>Retail Revenues</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	<i>Distribution Services</i>					
11	Residential	10,582	10,327	10,024	9,686	9,385
12	Firm C & I	8,561	7,824	7,986	8,464	7,951
13	Interruptible C & I	<u>1,595</u>	<u>1,511</u>	<u>1,603</u>	<u>1,732</u>	<u>1,524</u>
14	Total Distribution Svcs	20,738	19,662	19,613	19,881	18,860
	<i>Gas Cost Recovery</i>					
15	Residential	13,852	10,902	14,988	23,069	16,561
16	Firm C & I	19,998	15,848	21,608	31,628	22,400
17	Interruptible C & I	<u>7,265</u>	<u>6,250</u>	<u>7,502</u>	<u>12,234</u>	<u>8,158</u>
18	Total Gas Cost Recovery	<u>41,116</u>	<u>33,000</u>	<u>44,098</u>	<u>66,931</u>	<u>47,119</u>
19	Total Revenues	<u>61,854</u>	<u>52,663</u>	<u>63,711</u>	<u>86,812</u>	<u>65,978</u>
20	Ave. Retail \$/mcf	\$5.62	\$5.36	\$6.32	\$7.53	\$6.15
21	Ave. Res. Mo. Usage (ccf)	61	55	60	72	71
22	Ave. Res. Monthly Bill	\$42.32	\$37.54	\$45.46	\$61.24	\$50.17

Northern States Power Company Gas 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	10,684,143	30,733,713
2	Public Service of Colorado	Electric and Gas Utility	25,879	13,225
3	Southwestern Public Service	Electric Utility	7,116	6,691
4	Hayden Joint Venture	Electric Utility	-	-
5	Xcel Energy Services	Xcel Energy Inc. Service Company	101,209,097	62,232,647
6	Xcel Energy, Inc.	Engineering services	(16,500,924)	509
			95,425,312	92,986,785

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
Gas 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	\$ 588,837	\$ 8,704,284	92.4276%	7.5724%	6.4072%	10.9326%
PSCo	403,906	206,404	100.0000%	0.0000%	6.4072%	0.0000%
SPS	111,068	104,432	100.0000%	0.0000%	6.4072%	0.0000%
Hayden Joint Venture	0	0				
XES	1,499,420,384	921,981,349	92.4276%	7.5724%	6.4072%	10.9326%
XEI	(257,537,214)	7,951	100.0000%	0.0000%	6.4072%	0.0000%
	<u>\$1,242,986,981</u>	<u>\$931,004,420</u>				

Notes:

Allocation of Revenues & Expenses between NSP Minnesota and Affiliates

Common Allocation Method: Labor

	<u>Electric</u>	<u>Gas</u>		
Utility Labor Allocator	92.4276%	7.5724%	Load Dispatch	11.5032%
ND Jur. Customer Allocator	6.4072%	10.9326%	Design Day	12.0160%

Factor Formula: ((Util Elec)*ND Jur Ele)+((Util Gas)*ND Jur Gas) = 6.7499%

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	\$237,479,540	\$14,140,007	\$48,769,506	\$2,903,834	Demand	5.9542%
Variable	\$187,264,280	\$12,102,141	\$18,006,880	\$1,163,713	Energy	6.4626%
Transmission	\$65,477,314	\$3,898,650	\$110,457,340	\$6,576,851	Demand	5.9542%
Electric Total	\$490,221,134	\$30,140,798	\$177,233,726	\$10,644,397		

Gas SCADA Agreement

	<u>Total Rev</u>	<u>ND Alloc.</u>	<u>Alloc Method</u>	<u>ND Alloc %</u>
SCADA	46,824	5,386	Load Dispatch	11.5032%