

Memorandum

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

From: Adam Renfandt

Date: May 30, 2019

Re: Northern States Power Company 2018 Electric Annual Report

Case No. PU-19-176

I recommend the Commission close the above-captioned case, which is Northern States Power Company's (NSP) North Dakota annual electric report filing for 2018. I will include a motion to close the case on the June 12, 2019 consent agenda.

NSP provides electric service to about 94,278 customers in North Dakota. Staff has reviewed the company's annual report filing for 2018. The company's return on equity (ROE) was 10.39% in 2018. No current or previous order set an ROE for 2018. However, using the 2017 authorized ROE of 10.25% in compliance with the rate moratorium in Case No. PU-13-741, NSP over-earned by approximately \$0.5 million. When considering the impact of weather, the ROE would have been 9.93%, and NSP would have under-earned by approximately \$1.2 million. NSP agreed to refund approximately \$9.7 million to customers for rates collected in 2018 in response to the federal Tax Cut and Jobs Act.

In compliance with the Commission's February 6, 2018 order (Case No. PU-18-155), NSP agreed to refund to customers earnings that exceed a weather-normalized ROE of 9.85% in 2019 and 2020.

Given that NSP refunded \$9.7 million to customers and that NSP has agreed in Case No. PU-18-155 to refund earnings over 9.85% for 2019 and 2020, staff recommends the Commission close the above-captioned case.

Attached are staff generated summaries of NSP's ND electric earnings for the prior ten years.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

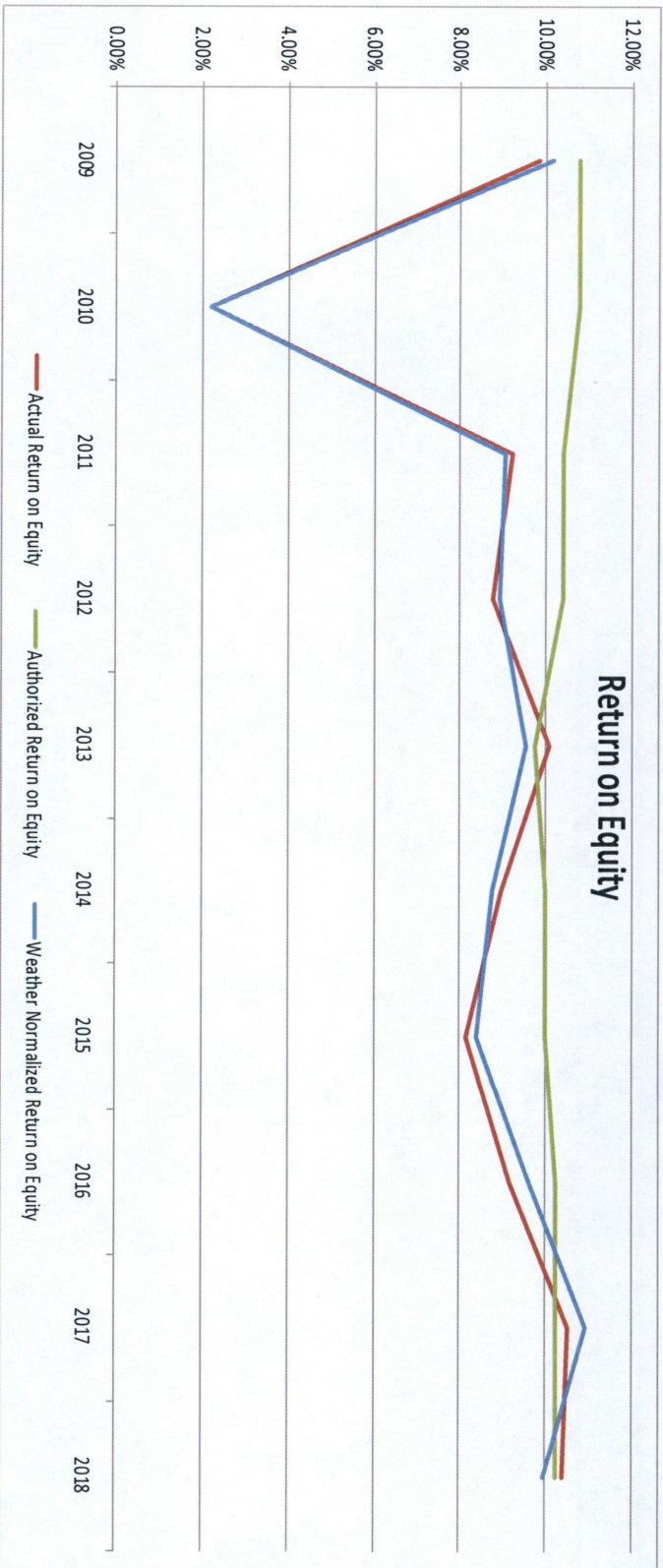
c: David Sederquist

Northern States Power Company
 Electric Utility - North Dakota
 Return on Equity & Revenue Deficiency Calculation
 (\$ in 000s)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Equity										
Operating Income from Operations	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942
PBR Deficiency (Earnings)	264,909	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767
Adjusted Income	\$ 21,709	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942
Average Regulated Rate Base	264,909	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767
Rate of Return on Rate Base (Line 1 / Line 2)	8.19%	4.13%	7.73%	7.24%	7.59%	6.98%	6.55%	7.03%	7.73%	7.63%
Less: Weighted Cost of Debt	3.06%	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%	2.22%	2.20%	2.14%
Less: Weighted Cost of Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Return Remaining for Common Stock	5.13%	1.14%	4.85%	4.63%	5.30%	4.75%	4.30%	4.81%	5.53%	5.49%
% of Equity in Capital Structure	52.23%	51.99%	52.67%	52.78%	52.67%	52.87%	52.75%	52.61%	52.54%	52.83%
Actual Return on Equity	9.82%	2.20%	9.20%	8.77%	10.07%	8.98%	8.15%	9.15%	10.52%	10.39%
Authorized Return on Equity	10.75%	10.75%	10.40%	10.40%	9.75%	10.00%	10.00%	10.25%	10.25%	10.25%

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Weather Normalized Earnings before Sharing										
Operating Income from Operations	\$21,709	\$11,664	\$24,952	\$24,536	\$29,471	\$31,670	\$33,713	\$38,025	\$41,670	\$40,942
Impact of Weather on Operating Income	139	140	141	142	143	144	622	1,262	1,079	(1,288)
Weather Normalized Income (Line 9 - Line 11)	\$21,848	\$11,804	\$25,093	\$24,678	\$29,614	\$31,814	\$34,335	\$39,287	\$42,749	\$39,654
Average Regulated Rate Base	264,909	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767
Weather Normalized Return on Rate Base	8.25%	4.18%	7.77%	7.29%	7.63%	7.02%	6.67%	7.26%	7.93%	7.39%
Weather Normalized Return on Equity	10.16%	2.19%	9.05%	8.92%	9.54%	8.75%	8.38%	9.60%	10.91%	9.93%

Description	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rate Base	\$ 264,909	\$ 282,316	\$ 322,995	\$ 338,666	\$ 388,195	\$ 453,401	\$ 514,809	\$ 540,927	\$ 539,153	\$ 536,767
Rate of Return Allowed	8.68%	8.58%	8.36%	8.10%	7.42%	7.52%	7.52%	7.61%	7.59%	7.56%
Return Allowed (Line 1 x Line2)	\$ 22,982	\$ 24,215	\$ 27,006	\$ 27,427	\$ 28,818	\$ 34,100	\$ 38,734	\$ 41,161	\$ 40,901	\$ 40,554
Return Earned (non-weather normalized)	21,709	11,664	24,952	24,536	29,471	31,670	33,713	38,025	41,670	40,942
Return Deficiency (Excess)	\$ 1,273	\$ 12,551	\$ 2,054	\$ 2,891	\$ (653)	\$ 2,430	\$ 5,021	\$ 3,136	\$ (769)	\$ (388)
Tax Factor	1.644	1.644	1.622	1.622	1.612	1.612	1.608	1.608	1.608	1.323
Revenue Deficiency (Excess) - non-weather normalized	\$ 2,093	\$ 20,633	\$ 3,331	\$ 4,689	\$ (1,052)	\$ 3,916	\$ 8,073	\$ 5,041	\$ (1,237)	\$ (513)



Northern States Power Company

Electric Utility - North Dakota
 Net Operating Income
 (\$ in 000s)

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018
Residential	\$ 61,131	\$ 68,744	\$ 69,329	\$ 81,128	\$ 81,066	\$ 82,172	\$ 78,298	\$ 80,013	\$ 82,625
Small Commercial & Industrial	72,918	83,167	85,328	96,704	98,244	101,810	98,996	99,278	98,195
Large Commercial & Industrial	19,074	21,516	22,301	23,654	24,600	27,904	26,257	26,996	26,829
Other ¹	43,697	40,457	42,928	48,572	53,987	54,781	54,157	54,802	43,874
Total Revenues	\$ 196,820	\$ 213,884	\$ 219,886	\$ 250,058	\$ 257,897	\$ 266,667	\$ 257,708	\$ 261,089	\$ 251,523
Fuel & Prod. Expense	127,106	119,260	120,355	134,307	134,955	127,077	115,476	112,791	113,334
Gross Margins	\$ 69,714	\$ 94,624	\$ 99,531	\$ 115,751	\$ 122,942	\$ 139,590	\$ 142,232	\$ 148,298	\$ 138,189
Transmission Expense	9,725	11,219	12,309	14,921	17,224	19,777	21,953	21,833	20,811
Distribution Expense	5,779	6,737	6,387	6,784	6,727	6,319	6,886	6,201	6,671
Customer Billing	4,394	4,411	4,128	4,121	4,300	4,198	3,307	3,319	3,380
Customer Service	262	489	370	348	439	425	68	321	261
Sales & Marketing ³	151	135	2	1	0	0	0	0	0
Admin. & General ⁴	12,374	11,770	12,969	15,576	14,664	15,462	15,380	16,077	15,966
Depreciation	15,981	17,885	20,400	22,295	25,265	32,204	33,004	35,910	36,600
% of Plant in Service	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%	2.91%	3.12%	3.13%
Property Taxes	5,585	5,881	6,690	7,917	8,727	9,404	10,367	10,117	9,813
% of Plant in Service	0.83%	0.79%	0.86%	0.91%	0.89%	0.87%	0.91%	0.88%	0.84%
Other General Taxes ²	1,731	1,820	1,866	2,081	2,055	2,014	1,875	1,941	1,933
Income Tax Expense	2,068	9,325	9,874	12,236	11,871	16,074	11,367	10,909	1,812
% of Income before Income Tax	15.06%	27.20%	28.70%	29.34%	27.26%	32.29%	23.01%	20.75%	4.24%
Net Operating Income	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942

¹ Includes primarily public street & highway lighting, sales to public authorities, interchange billings, other electric operating revenues.
² Includes gross earnings taxes (franchise fees) and payroll taxes.
³ Includes economic development, demand side management and conservation incentive programs.
⁴ Includes other miscellaneous expenses and SFAS amortization.