

Memorandum

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

From: Adam Renfandt

Date: May 23, 2019

Re: Northern States Power Company, 2018 Natural Gas, Annual Report

Case No. PU-19-177

I recommend the commission close the above captioned case, which is Northern States Power Company's (NSP) North Dakota annual natural gas report filing for 2018. I will include a motion to close the case on the May 29, 2019 agenda.

NSP provides natural gas service to approximately 57,778 customers in North Dakota. Staff has reviewed NSP's annual report filing for 2018. The commission authorized a rate of return of 10.75% in the most recent rate case (case no. PU-06-525). NSP's actual return on equity (ROE) was 11.14% in 2018. When normalized for weather, NSP's ROE was 10.32%.

NSP agreed to offset the remediation costs associated with the Fargo manufactured gas facility using earnings over 9.75% ROE. In 2018, NSP exceeded an ROE of 9.75%, and in compliance with case no. PU-15-514, NSP expensed approximately \$0.24 million to offset remediation costs. Also, on November 8, 2018, the commission approved a settlement (Case No. 18-156) that authorized NSP, effective the beginning of 2018, to pass on the savings of the Tax Cut and Savings act, at a rate of \$1.25 million per year, by applying them to the recovery of the deferred costs associated with the Fargo manufactured gas facility remediation.

Given that NSP is offsetting their remediation costs with earnings over an ROE of 9.75%, staff sees no reason to further investigate and recommends that the commission close the above captioned case. Attached are staff generated summaries of NSP ND natural gas earnings for the last ten years.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

c: Dave Sederquist, NSP

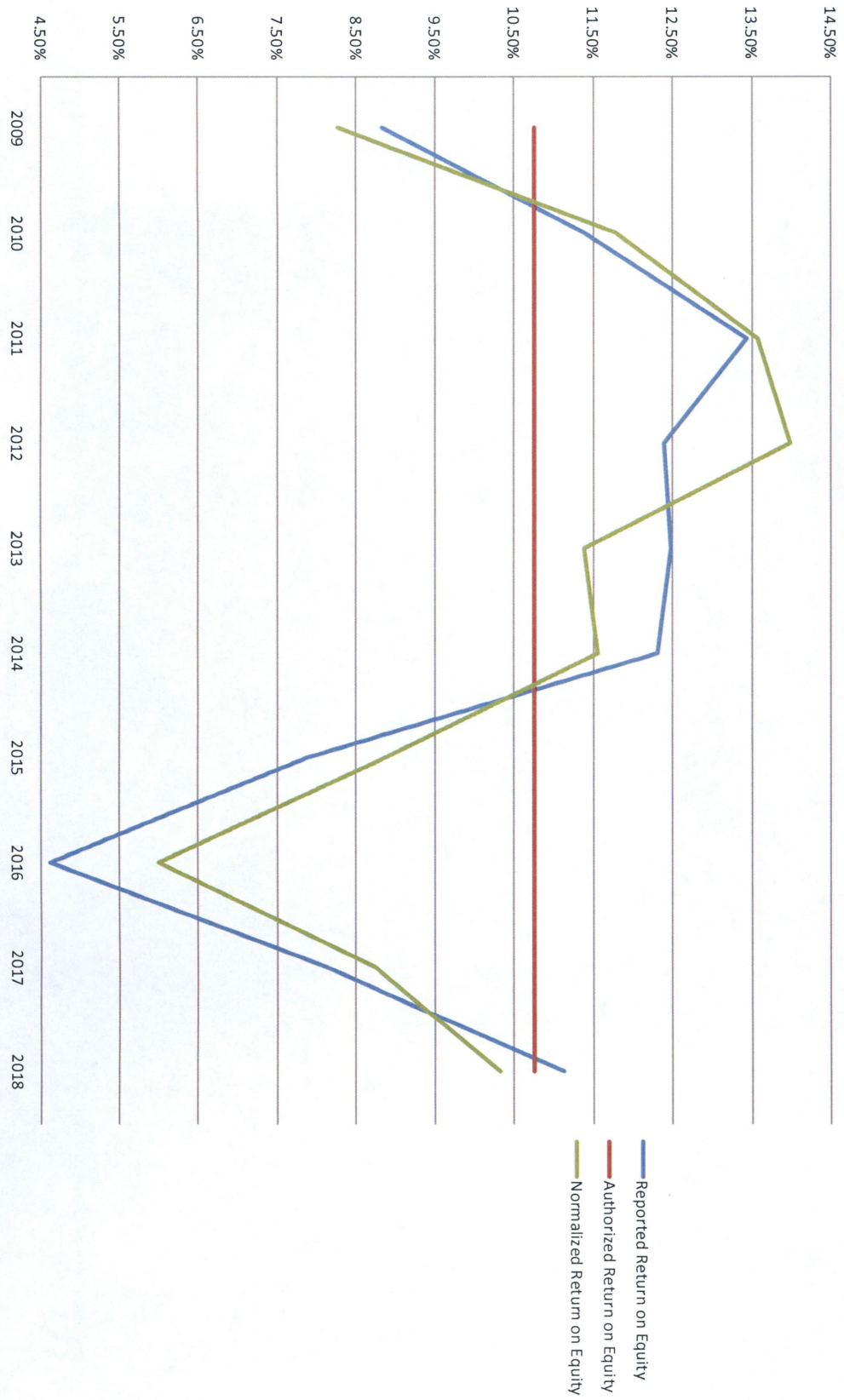
Northern States Power Company
 Gas Utility - North Dakota
 Return Calculation
 (Dollars in Thousands)

Attachment 1

Line	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Rate Base	\$42,186	\$41,301	\$41,871	\$40,626	\$43,432	\$48,341	\$50,287	\$52,816	\$54,993	\$60,336
2 Rate of Return Required	8.68%	8.58%	8.55%	8.28%	7.95%	7.92%	7.92%	7.87%	7.85%	7.82%
3 Return Required	\$3,660	\$3,543	\$3,578	\$3,365	\$3,453	\$3,827	\$3,983	\$4,158	\$4,316	\$4,718
4 Return Earned	3,238	3,679	4,172	3,719	3,851	4,224	3,219	2,456	3,561	4,841
5 Return Deficiency/(Excess)	\$422	(\$136)	(\$594)	(\$354)	(\$398)	(\$397)	\$764	\$1,702	\$755	(\$123)
6 Tax Factor	1.6437	1.6437	1.6220	1.6220	1.6220	1.6115	1.6078	1.6041	1.5985	1.3228
7 Rev. Deficiency/(Excess)	\$693	(\$224)	(\$963)	(\$574)	(\$645)	(\$639)	\$1,228	\$2,730	\$1,207	(\$163)
8 Impact of Weather	(126)	83	29	339	(251)	(186)	260	376	178	(259)
9 Norm. Deficiency/(Excess)	\$ 819	\$ (307)	\$ (992)	\$ (913)	\$ (394)	\$ (453)	\$ 968	\$ 2,354	\$ 1,029	\$ 96
Return on Equity Calculation										
10 Net Operating Income	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841
11 Rate Base	42,186	41,301	41,871	40,626	43,432	48,341	50,287	52,816	54,993	60,336
12 Rate of Return on Rate Base	7.68%	8.91%	9.96%	9.15%	8.87%	8.74%	6.40%	4.65%	6.48%	8.02%
13 Less: Cost of Debt	3.06%	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%	2.22%	2.20%	2.14%
14 Return Available for Common	4.62%	5.92%	7.08%	6.54%	6.58%	6.50%	4.15%	2.43%	4.27%	5.88%
15 Common Equity Percentage	52.24%	52.00%	52.67%	52.78%	52.67%	52.87%	52.75%	52.61%	52.54%	52.83%
16 Return on Equity (ROE)	8.84%	11.38%	13.44%	12.40%	12.49%	12.30%	7.87%	4.63%	8.14%	11.14%
Weather Normalized ROE										
17 Net Operating Income	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841
18 Impact of Weather	(126)	83	29	339	(251)	(186)	260	376	178	(259)
19 Weather-Normalized NOI	\$3,112	\$3,762	\$4,201	\$4,058	\$3,600	\$4,038	\$3,479	\$2,832	\$3,739	\$4,582
20 Weather Adjusted ROE	8.26%	11.77%	13.57%	13.98%	11.39%	11.57%	8.85%	5.98%	8.75%	10.32%

Return on Equity

Attachment 2



Northern States Power Company													
Gas Utility - North Dakota													
Net Operating Income													
(Dollars In Thousands)		Removed cost of gas from calculations beginning in 2012											
Line	Operating Revenues	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018		
1	Residential	\$ 27,189	\$ 25,110	\$ 25,160	\$ 9,179	\$ 9,385	\$ 9,686	\$ 10,024	\$ 10,327	\$ 10,582	\$ 10,754		
2	Firm C & I	32,043	27,965	28,549	6,691	7,951	8,464	7,986	7,824	8,561	9,328		
3	Interruptible C & I	11,172	9,356	9,670	1,354	1,524	1,732	1,603	1,511	1,595	1,976		
4	Transportation/Other	358	885	544	651	547	923	635	705	624	622		
5	Total Revenues	\$ 70,762	\$ 63,316	\$ 63,923	\$ 17,876	\$ 19,407	\$ 20,805	\$ 20,248	\$ 20,367	\$ 21,362	\$ 22,680		
Expenses													
6	Production	54,705	46,076	46,486	427	474	655	177	723	407	2,281		
7	Gross Margins	\$ 16,057	\$ 17,240	\$ 17,437	\$ 17,449	\$ 18,933	\$ 20,150	\$ 20,071	\$ 19,644	\$ 20,955	\$ 20,399		
8	Weather Normalized Margins	\$ 15,931	\$ 17,323	\$ 17,466	\$ 17,788	\$ 18,682	\$ 19,964	\$ 20,331	\$ 19,644	\$ 20,955	\$ 20,399		
8	Transmission	121	177	147	176	229	228	444	321	348	329		
9	Distribution	3,528	3,484	3,277	3,209	3,732	4,065	4,675	5,135	4,347	4,408		
10	Customer Billing	1,715	1,610	1,624	1,512	1,493	1,543	1,527	1,162	1,140	1,129		
11	Customer Service	234	255	261	234	262	271	270	133	161	160		
12	Sales & Marketing	4	14	12	0	6	0	0	0	0	0		
13	Admin. & General	1,898	1,948	1,910	2,022	2,135	2,216	2,334	2,483	2,772	2,839		
14	Depreciation	3,141	3,317	3,428	3,503	3,589	4,312	4,982	5,404	5,383	4,296		
15	Property Taxes	940	1,080	907	1,138	1,002	916	937	1,099	1,067	1,063		
16	Franchise & Payroll Taxes	248	245	228	243	260	250	271	620	291	266		
17	Inc. Taxes (Cur. & Def.)	\$ 990	\$ 1,431	\$ 1,471	\$ 1,693	\$ 2,374	\$ 2,125	\$ 1,412	\$ 831	\$ 1,885	\$ 1,068		
18	Total Expenses	\$ 67,524	\$ 59,637	\$ 59,751	\$ 14,157	\$ 15,556	\$ 16,581	\$ 17,029	\$ 17,911	\$ 17,801	\$ 17,839		
19	Net Operating Income	\$ 3,238	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841		