

Memorandum

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

From: Adam Renfandt

Date: June 5, 2020

Re: Northern States Power Company (NSP), 2019 Electric, Annual Report

Case No. PU-20-185

Staff has reviewed the company's annual report filing for 2019. NSP provides electric service to about 94,583 customers in North Dakota. The company's return on equity (ROE) was 10.27% in 2019, which represents an over-earnings of approximately \$21,000. The weather-normalized ROE was 9.86%, which represents an under-earnings of approximately \$1.2 million. The ROE authorized by the Commission is weather normalized, and the authorized ROE was 10.25% (Case No. PU-12-813).

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. After discussions with Staff, NSP will propose a method to return the 2019 earnings above 9.85% ROE to ratepayers.

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

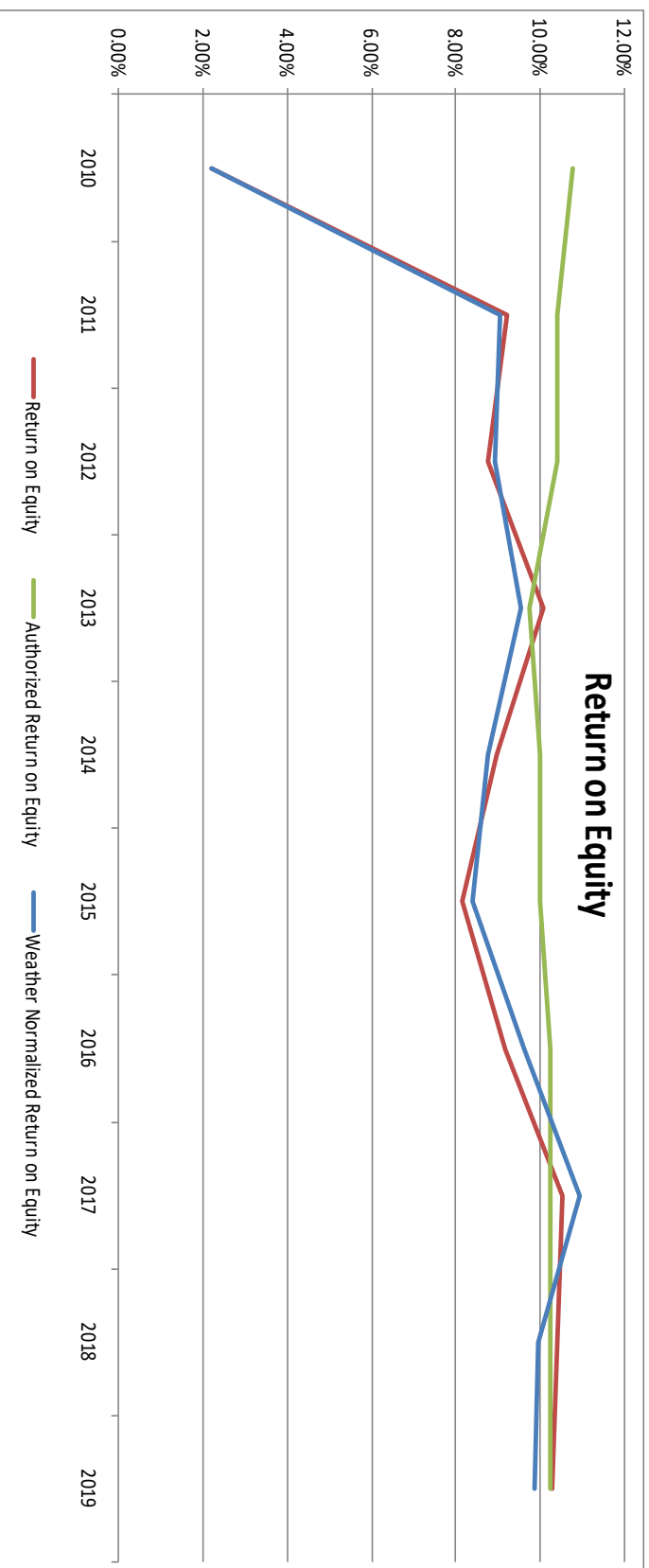
Northern States Power Company
 Electric Utility - North Dakota
 Return on Equity & Revenue Deficiency Calculation
 (\$ in 000s)

Attachment 1

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Equity										
Operating Income from Operations	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 44,315
PBR Deficiency (Earnings)										
Adjusted Income	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 44,315
Average Regulated Rate Base	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767	587,833
Rate of Return on Rate Base (Line 1 / Line 2)	4.13%	7.73%	7.24%	7.59%	6.98%	6.55%	7.03%	7.73%	7.63%	7.54%
Less: Weighted Cost of Debt	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%	2.22%	2.20%	2.14%	2.10%
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	1.14%	4.85%	4.63%	5.30%	4.75%	4.30%	4.81%	5.53%	5.49%	5.44%
% of Equity in Capital Structure	51.99%	52.67%	52.78%	52.67%	52.87%	52.75%	52.61%	52.54%	52.83%	52.98%
Actual Return on Equity	2.20%	9.20%	8.77%	10.07%	8.98%	8.15%	9.15%	10.52%	10.39%	10.27%
Authorized Return on Equity	10.75%	10.40%	10.40%	9.75%	10.00%	10.00%	10.25%	10.25%	10.25%	10.25%

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Weather Normalized Earnings before Sharing										
Operating Income from Operations	\$11,664	\$24,952	\$24,536	\$29,471	\$31,670	\$33,713	\$38,025	\$41,670	\$40,942	\$44,315
Impact of Weather on Operating Income	140	141	142	143	144	622	1,262	1,079	(1,288)	(1,249)
Weather Normalized Income (Line 9 - Line 11)	\$11,804	\$25,093	\$24,678	\$29,614	\$31,814	\$34,335	\$39,287	\$42,749	\$39,654	\$43,066
Average Regulated Rate Base	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767	587,833
Weather Normalized Return on Rate Base	4.18%	7.77%	7.29%	7.63%	7.02%	6.67%	7.26%	7.93%	7.39%	7.32%
Weather Normalized Return on Equity	2.19%	9.05%	8.92%	9.54%	8.75%	8.38%	9.60%	10.91%	9.93%	9.86%

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Rate Base	\$282,316	\$322,995	\$338,666	\$388,195	\$453,401	\$514,809	\$540,927	\$539,153	\$536,767	\$587,833
Return of Return Allowed	8.58%	8.36%	8.10%	7.42%	7.52%	7.52%	7.61%	7.59%	7.56%	7.54%
Return Allowed (Line 1 x Line2)	\$ 24,215	\$ 27,006	\$ 27,427	\$ 28,818	\$ 34,100	\$ 38,734	\$ 41,161	\$ 40,901	\$ 40,554	\$ 44,299
Return Earned (non-weather normalized)	11,664	24,952	24,536	29,471	31,670	33,713	38,025	41,670	40,942	44,315
Return Deficiency (Excess)	\$ 12,551	\$ 2,054	\$ 2,891	\$ (653)	\$ 2,430	\$ 5,021	\$ 3,136	\$ (769)	\$ (388)	\$ (16)
Tax Factor	1,644	1,622	1,622	1,612	1,612	1,608	1,608	1,608	1,323	1,323
Revenue Deficiency (Excess) - non-weather normalized	\$ 20,633	\$ 3,331	\$ 4,689	\$ (1,052)	\$ 3,916	\$ 8,073	\$ 5,041	\$ (1,237)	\$ (513)	\$ (21)



Northern States Power Company

Attachment 3

Electric Utility - North Dakota

Net Operating Income
(\$ in 000s)

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Residential	\$ 61,131	\$ 68,744	\$ 69,329	\$ 81,128	\$ 81,066	\$ 82,172	\$ 78,298	\$ 80,013	\$ 82,625	\$ 78,813
Small Commercial & Industrial	72,918	83,167	85,328	96,704	98,244	101,810	98,996	99,278	98,195	91,850
Large Commercial & Industrial	19,074	21,516	22,301	23,654	24,600	27,904	26,257	26,996	26,829	25,578
Other ¹	43,697	40,457	42,928	48,572	53,987	54,781	54,157	54,802	43,874	59,265
Total Revenues	\$ 196,820	\$ 213,884	\$ 219,886	\$ 250,058	\$ 257,897	\$ 266,667	\$ 257,708	\$ 261,089	\$ 251,523	\$ 255,507
Fuel & Prod. Expense	127,106	119,260	120,355	134,307	134,955	127,077	115,476	112,791	113,394	107,296
Gross Margins	\$ 69,714	\$ 94,624	\$ 99,531	\$ 115,751	\$ 122,942	\$ 139,590	\$ 142,232	\$ 148,298	\$ 138,189	\$ 148,211
Transmission Expense	9,725	11,219	12,309	14,921	17,224	19,777	21,953	21,833	20,811	24,202
Distribution Expense	5,779	6,737	6,387	6,784	6,727	6,319	6,886	6,201	6,671	6,528
Customer Billing	4,394	4,411	4,128	4,121	4,300	4,198	3,307	3,319	3,380	3,379
Customer Service	262	489	370	348	439	425	68	321	261	425
Sales & Marketing ³	151	135	2	1	0	0	0	0	0	3
Admin. & General ⁴	12,374	11,770	12,969	15,576	14,664	15,462	15,380	16,077	15,966	15,129
Depreciation	15,981	17,885	20,400	22,295	25,265	32,204	33,004	35,910	36,600	38,069
% of Plant in Service	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%	2.91%	3.12%	3.13%	2.93%
Property Taxes	5,585	5,881	6,690	7,917	8,727	9,404	10,367	10,117	9,813	11,096
% of Plant in Service	0.83%	0.79%	0.86%	0.91%	0.89%	0.87%	0.91%	0.88%	0.84%	0.85%
Other General Taxes ²	1,731	1,820	1,866	2,081	2,055	2,014	1,875	1,941	1,933	2,438
Income Tax Expense	2,068	9,325	9,874	12,236	11,871	16,074	11,367	10,909	1,812	2,626
% of Income before Income Tax	15.06%	27.20%	28.70%	29.34%	27.26%	32.29%	23.01%	20.75%	4.24%	5.59%
Net Operating Income	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 44,315