

Memorandum

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

From: Adam Renfandt

Date: June 5, 2020

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

Case No. PU-20-198

Staff has reviewed NSP's 2019 Gas Annual Report. NSP provides natural gas service to approximately 58,871 customers in North Dakota. NSP's return on equity (ROE) was 5.06% in 2019, and its under-earnings was approximately \$2.7 million. When normalized for weather, NSP's ROE was 3.74%, and its under-earnings was approximately \$3.2 million. The ROE authorized by the Commission is weather normalized, and the authorized ROE was 10.75% (Case No. PU-06-525).

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

Return Deficiency	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Rate Base	\$41,301	\$41,871	\$40,626	\$43,432	\$48,341	\$50,287	\$52,816	\$54,993	\$60,336	\$67,654
Rate of Return Required	8.58%	8.55%	8.28%	7.95%	7.92%	7.92%	7.87%	7.85%	7.82%	7.79%
Return Required	\$3,543	\$3,578	\$3,365	\$3,453	\$3,827	\$3,983	\$4,158	\$4,316	\$4,718	\$5,271
Return Earned	3,679	4,172	3,719	3,851	4,224	3,219	2,456	3,561	4,841	3,235
Return Deficiency/(Excess)	(\$136)	(\$594)	(\$354)	(\$398)	(\$397)	\$764	\$1,702	\$755	(\$123)	\$2,036
Tax Factor	1.6437	1.6220	1.6220	1.6220	1.6115	1.6078	1.6041	1.5985	1.3228	1.3228
Rev. Deficiency/(Excess)	(\$224)	(\$963)	(\$574)	(\$645)	(\$639)	\$1,228	\$2,730	\$1,207	(\$163)	\$2,693
Impact of Weather	83	29	339	(251)	(186)	260	376	178	(259)	(474)
Norm. Deficiency/(Excess)	\$ (307)	\$ (992)	\$ (913)	\$ (394)	\$ (453)	\$ 968	\$ 2,354	\$ 1,029	\$ 96	\$ 3,167
Return on Equity Calculation										
Net Operating Income	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235
Rate Base	41,301	41,871	40,626	43,432	48,341	50,287	52,816	54,993	60,336	67,654
Rate of Return on Rate Base	8.91%	9.96%	9.15%	8.87%	8.74%	6.40%	4.65%	6.48%	8.02%	4.78%
Less: Cost of Debt	2.99%	2.88%	2.61%	2.29%	2.23%	2.25%	2.22%	2.20%	2.14%	2.10%
Return Available for Common	5.92%	7.08%	6.54%	6.58%	6.50%	4.15%	2.43%	4.27%	5.88%	2.69%
Common Equity Percentage	52.00%	52.67%	52.78%	52.67%	52.87%	52.75%	52.61%	52.54%	52.83%	52.98%
Return on Equity (ROE)	11.38%	13.44%	12.40%	12.49%	12.30%	7.87%	4.63%	8.14%	11.14%	5.06%
Weather Normalized ROE										
Net Operating Income	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235
Impact of Weather	83	29	339	(251)	(186)	260	376	178	(259)	(474)
Weather-Normalized NOI	\$3,762	\$4,201	\$4,058	\$3,600	\$4,038	\$3,479	\$2,832	\$3,739	\$4,582	\$2,761
Weather Adjusted ROE	11.77%	13.57%	13.98%	11.39%	11.57%	8.85%	5.98%	8.75%	10.32%	3.74%
Reported Return on Equity	11.38%	13.44%	12.40%	12.49%	12.30%	7.87%	4.63%	8.14%	11.14%	5.06%
Authorized Return on Equity	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%	10.75%
Normalized Return on Equity	11.77%	13.57%	13.98%	11.39%	11.56%	8.87%	6.00%	8.75%	10.32%	3.74%

Return Deficiency
Rate Base
Rate of Return Required
Return Required
Return Earned
Return Deficiency/(Excess)
Tax Factor
Rev. Deficiency/(Excess)
Impact of Weather
Norm. Deficiency/(Excess)

Return on Equity Calculation

Weather Normalized ROE

Reported Return on Equity

Authorized Return on Equity

Normalized Return on Equity

Weather-Normalized NOI

Weather Adjusted ROE

Impact of Weather

Net Operating Income

Rate Base

Rate of Return on Rate Base

Less: Cost of Debt

Return Available for Common

Common Equity Percentage

Return on Equity (ROE)

Weather Normalized ROE

Net Operating Income

Impact of Weather

Weather-Normalized NOI

Weather Adjusted ROE

Reported Return on Equity

Authorized Return on Equity

Normalized Return on Equity

Weather-Normalized NOI

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Impact of Weather

Net Operating Income

Rate Base

Rate of Return on Rate Base

Less: Cost of Debt

Return Available for Common

Common Equity Percentage

Return on Equity (ROE)

Weather Normalized ROE

Net Operating Income

Impact of Weather

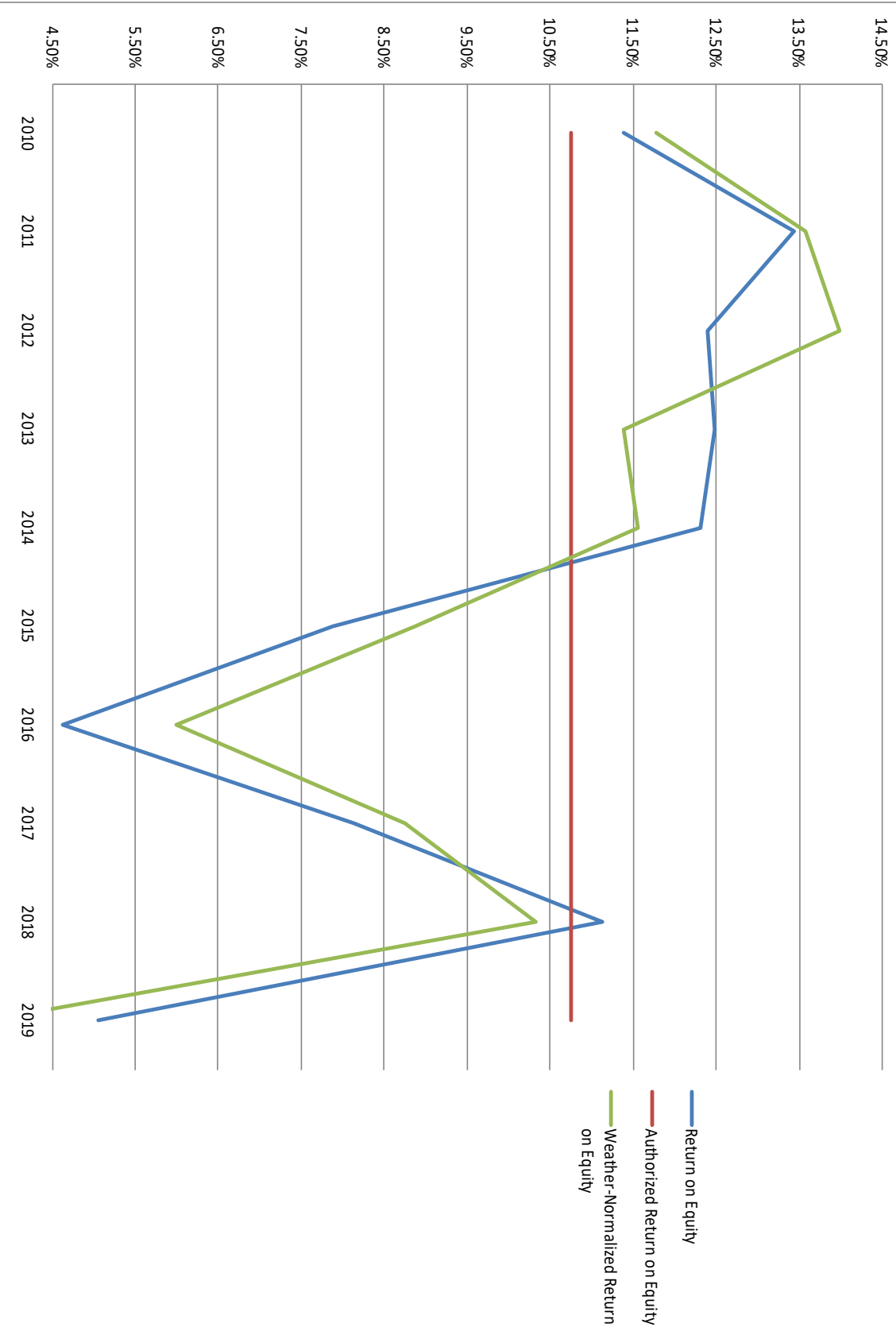
Weather-Normalized NOI

Weather Adjusted ROE

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Return on Equity

Attachment 2



Northern States Power Company

Attachment 3

Gas Utility - North Dakota

Net Operating Income
(Dollars In Thousands)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Line Operating Revenues										
1 Residential	\$ 25,110	\$ 25,160	\$ 9,179	\$ 9,385	\$ 9,686	\$ 10,024	\$ 10,327	\$ 10,582	\$ 10,754	\$ 11,055
2 Firm C & I	27,965	28,549	6,691	7,951	8,464	7,986	7,824	8,561	9,328	9,951
3 Interruptible C & I	9,356	9,670	1,354	1,524	1,732	1,603	1,511	1,595	1,976	1,984
4 Transportation/Other	885	544	651	547	923	635	705	624	622	604
5 Total Revenues	\$ 63,316	\$ 63,923	\$ 17,876	\$ 19,407	\$ 20,805	\$ 20,248	\$ 20,367	\$ 21,362	\$ 22,680	\$ 23,594
Expenses										
6 Production	46,076	46,486	427	474	655	177	723	407	2,281	2,451
7 Gross Margins	\$ 17,240	\$ 17,437	\$ 17,449	\$ 18,933	\$ 20,150	\$ 20,071	\$ 19,644	\$ 20,955	\$ 20,399	\$ 21,143
8 Weather Normalized Margins	\$ 17,323	\$ 17,466	\$ 17,788	\$ 18,682	\$ 19,964	\$ 20,331	\$ 20,020	\$ 21,133	\$ 20,140	\$ 20,669
8 Transmission	177	147	176	229	228	444	321	348	329	307
9 Distribution	3,484	3,277	3,209	3,732	4,065	4,675	5,135	4,347	4,408	5,997
10 Customer Billing	1,610	1,624	1,512	1,493	1,543	1,527	1,162	1,140	1,129	1,225
11 Customer Service	255	261	234	262	271	270	133	161	160	214
12 Sales & Marketing	14	12	0	6	0	0	0	0	0	1
13 Admin. & General	1,948	1,910	2,022	2,135	2,216	2,334	2,483	2,772	2,839	3,230
14 Depreciation	3,317	3,428	3,503	3,589	4,312	4,982	5,404	5,383	4,296	4,644
15 Property Taxes	1,080	907	1,138	1,002	916	937	1,099	1,067	1,063	1,302
16 Franchise & Payroll Taxes	245	228	243	260	250	271	620	291	266	430
17 Inc. Taxes (Cur. & Def.)	\$ 1,431	\$ 1,471	\$ 1,693	\$ 2,374	\$ 2,125	\$ 1,412	\$ 831	\$ 1,885	\$ 1,068	\$ 558
18 Total Expenses	\$ 59,637	\$ 59,751	\$ 14,157	\$ 15,556	\$ 16,581	\$ 17,029	\$ 17,911	\$ 17,801	\$ 17,839	\$ 20,359
19 Net Operating Income	\$ 3,679	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235