

Memorandum

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

From: Adam Renfandt

Date: November 23, 2021

Re: Northern States Power Company (NSP), 2020 Electric, Annual Report

Case Nos. PU-21-160 & PU-18-155

On April 30, 2021, NSP filed its electric annual report for 2020. After issuing several data requests, Staff discovered NSP had included the full costs associated with 22 disputed resources in its reporting.

On November 11, 2021, NSP revised its electric annual report for 2020 to exclude the costs of the 22 disputed resources over and above the average system fuel costs allowed by the Commission as well as all MISO market energy revenues.

NSP's revised return on equity (ROE) was 10.12%, and their under-earnings was approximately \$592,000. When normalized for weather, NSP's 2020 revised ROE was slightly above 9.85%, and their under-earnings was approximately \$1.7 million. The ROE authorized by the Commission is 10.25% (Case No. PU-12-813).

The Tax Cut and Jobs Act Settlement approved by the Commission in February 2019 (Case No. PU-18-155) included a provision whereby NSP shall refund to customers weather-normalized earnings above an ROE of 9.85%. Therefore, the refund due to customers is \$25,584.

Given the small amount of the refund, Staff recommends NSP refund this over-earnings amount in the fuel clause rider, and close the annual report case.

Attached are Staff generated summaries of NSP's ND electric earnings since 2010.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

c: David Sederquist

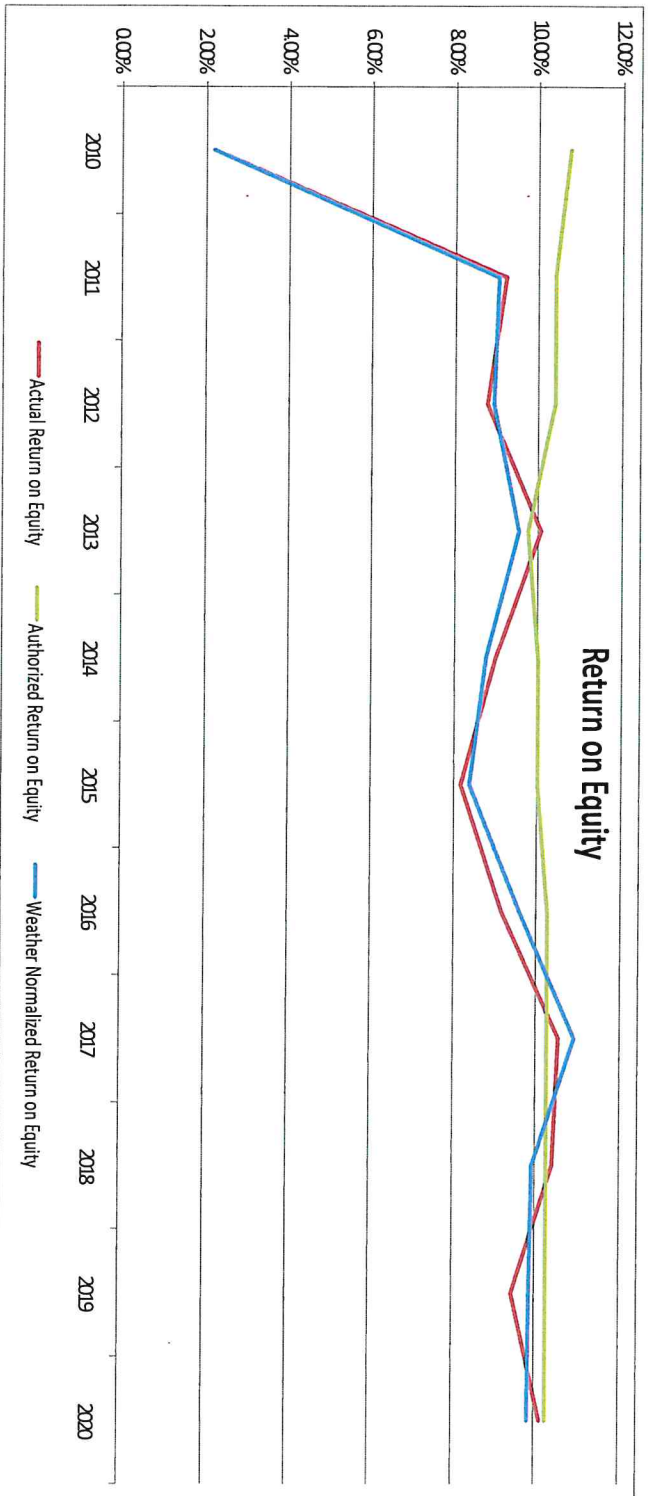
Northern States Power Company
 Electric Utility - North Dakota
 Return on Equity & Revenue Deficiency Calculation
 \$000s

Attachment 1

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Equity	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 41,771	\$ 45,208
Operating Income from Operations	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 41,771	\$ 45,208
PBR Deficiency (Earnings)											
Adjusted Income	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767	588,620	613,105
Average Regulated Rate Base	4,13%	7,73%	7,24%	7,59%	6,98%	6,55%	7,03%	7,73%	7,63%	7,10%	7,37%
Rate of Return on Rate Base (Line 1 / Line 2)	2,99%	2,88%	2,61%	2,29%	2,23%	2,25%	2,22%	2,20%	2,14%	2,10%	2,05%
Less: Weighted Cost of Debt	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Less: Weighted Cost of Preferred Stock	1,14%	4,85%	4,63%	5,30%	4,75%	4,30%	4,81%	5,53%	5,49%	5,00%	5,32%
Return Remaining for Common Stock	51,99%	52,67%	52,78%	52,67%	52,87%	52,75%	52,61%	52,54%	52,83%	52,98%	52,62%
% of Equity in Capital Structure	2,20%	9,20%	8,77%	10,07%	8,98%	8,15%	9,15%	10,52%	10,39%	9,44%	10,12%
Actual Return on Equity	10,75%	10,40%	10,40%	9,75%	10,00%	10,00%	10,25%	10,25%	10,25%	10,25%	10,25%
Authorized Return on Equity											

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Weather Normalized Earnings Before Sharing	\$11,664	\$24,952	\$24,536	\$29,471	\$31,670	\$33,713	\$38,025	\$41,670	\$40,942	\$41,771	\$45,208
Operating Income from Operations	140	141	142	143	144	622	1,282	1,079	(1,288)	(1,249)	(855)
Impact of Weather on Operating Income	\$11,804	\$25,093	\$24,678	\$29,614	\$31,814	\$34,335	\$39,287	\$42,749	\$39,654	\$40,522	\$44,353
Weather Normalized Income (Line 9 - Line 11)	282,316	322,995	338,666	388,195	453,401	514,809	540,927	539,153	536,767	588,620	613,290
Average Regulated Rate Base	4,18%	7,77%	7,29%	7,63%	7,02%	6,67%	7,26%	7,93%	7,39%	6,87%	7,23%
Weather Normalized Return on Rate Base	2,19%	9,05%	8,92%	9,54%	8,76%	8,38%	9,60%	10,91%	9,93%	9,86%	9,85%

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Rate Base	\$ 282,316	\$ 322,995	\$ 338,666	\$ 388,195	\$ 453,401	\$ 514,809	\$ 540,927	\$ 539,153	\$ 536,767	\$ 588,620	\$ 613,105
Rate of Return Allowed	8,38%	8,36%	8,10%	7,42%	7,52%	7,52%	7,61%	7,59%	7,56%	7,54%	7,45%
Return Allowed (Line 1 x Line 2)	\$ 24,215	\$ 27,006	\$ 27,427	\$ 28,818	\$ 34,100	\$ 38,734	\$ 41,161	\$ 40,901	\$ 40,554	\$ 44,359	\$ 45,656
Return Earned (non-weather normalized)	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 41,771	\$ 45,208
Return Deficiency (Excess)	\$ 12,551	\$ 2,054	\$ 2,891	\$ (653)	\$ 2,430	\$ 5,021	\$ 3,136	\$ (769)	\$ (388)	\$ 2,587	\$ 448
Tax Factor	1,644	1,622	1,622	1,612	1,612	1,608	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)	\$ 3,423	\$ 592



Northern States Power Company
Electric Utility - North Dakota

Attachment 3

Net Operating Income
(\$ in 000s)

Description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 ⁵	2020
Residential	\$ 61,131	\$ 68,744	\$ 69,329	\$ 81,128	\$ 81,066	\$ 82,172	\$ 78,298	\$ 80,013	\$ 82,625	\$ 78,813	80,947
Small Commercial & Industrial	72,918	83,167	85,328	96,704	98,244	101,810	98,996	99,278	98,195	91,850	90,264
Large Commercial & Industrial	19,074	21,516	22,301	23,654	24,600	27,904	26,257	26,996	26,829	25,578	25,043
Other ¹	43,697	40,457	42,928	48,572	53,987	54,781	54,157	54,802	43,874	59,265	55,665
Total Revenues	\$ 196,820	\$ 213,884	\$ 219,886	\$ 250,058	\$ 257,897	\$ 266,667	\$ 257,708	\$ 261,089	\$ 251,523	\$ 255,507	\$ 251,919
Fuel & Prod. Expense	127,106	119,260	120,355	134,307	134,955	127,077	115,476	112,791	113,334	110,805	100,483
Gross Margins	\$ 69,714	\$ 94,624	\$ 99,531	\$ 115,751	\$ 122,942	\$ 139,590	\$ 142,232	\$ 148,298	\$ 138,189	\$ 144,702	\$ 151,436
Transmission Expense	9,725	11,219	12,309	14,921	17,224	19,777	21,953	21,833	20,811	24,202	22,002
Distribution Expense	5,779	6,737	6,387	6,784	6,727	6,319	6,886	6,201	6,671	6,528	5,650
Customer Billing	4,394	4,411	4,128	4,121	4,300	4,198	3,307	3,319	3,380	3,379	3,787
Customer Service	262	489	370	348	439	425	68	321	261	425	240
Sales & Marketing ³	151	135	2	1	0	0	0	0	0	3	151
Admin. & General ⁴	12,374	11,770	12,969	15,576	14,664	15,462	15,380	16,077	15,966	15,129	16,909
Depreciation	15,981	17,885	20,400	22,295	25,265	32,204	33,004	35,910	36,600	38,069	46,758
% of Plant in Service	2.37%	2.41%	2.61%	2.55%	2.58%	2.97%	2.91%	3.12%	3.13%	2.93%	3.47%
Property Taxes	5,585	5,881	6,690	7,917	8,727	9,404	10,367	10,117	9,813	11,096	10,506
% of Plant in Service	0.83%	0.79%	0.86%	0.91%	0.89%	0.87%	0.91%	0.88%	0.84%	0.85%	0.78%
Other General Taxes ²	1,731	1,820	1,866	2,081	2,055	2,014	1,875	1,941	1,933	2,019	1,882
Income Tax Net of Deferred	2,068	9,325	9,874	12,236	11,871	16,074	11,367	10,909	1,812	2,080	(1,659)
% of Income before Income Tax	15.06%	27.20%	28.70%	29.34%	27.26%	32.29%	23.01%	20.75%	4.24%	4.74%	-3.81%
Net Operating Income	\$ 11,664	\$ 24,952	\$ 24,536	\$ 29,471	\$ 31,670	\$ 33,713	\$ 38,025	\$ 41,670	\$ 40,942	\$ 41,771	\$ 45,208

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.
⁵ Refined