



Public Service Commission

State of North Dakota

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October 6, 2021

Executive Director
North Dakota Public Service Commission
600 E. Blvd. Ave. Dept. 408
Bismarck, ND 58505-0480

Re: Northern States Power Company
2021 Natural Gas Rate Increase
Application

Case No. PU-21-381

Northern States Power Company (NSP) filed for a natural gas rate increase on September 2, 2021. The Company used a 2022 projected test year to calculate its interim rate relief request of \$8.245 million in increased revenue collections or an overall increase in revenue collections of 12.25%. This equates to an average increase per month for residential customers of \$6.51.

Staff finds NSP's interim rate request largely in compliance with the laws and rules governing interim rate increases. The following is staff's analysis.

Staff reviewed the Commission's last rate case order (PU-06-525) and the Company's current interim rate request for compliance with the laws and rules governing interim rate increases. The applicable section of law reads:

49-05-06. Hearing by commission on proposed change of rates.

2. Notwithstanding that the commission may suspend a filing and order a hearing, a public utility may file for interim rate relief as part of its general rate increase application and filing. If interim rates are requested, the commission shall order that the interim rate schedule take effect no later than sixty days after the initial filing date and without a public hearing. The interim rate schedule must be calculated using the proposed test year cost of capital, rate base, and expenses, except that the schedule must include:

- a. A rate of return on common equity for the public utility equal to that authorized by the commission in the public utility's most recent rate proceeding;**
- b. Rate base or expense items the same in nature and kind as those allowed by a currently effective commission order in the public utility's most recent rate proceeding; and**

c. No change in existing rate design.

3. In ordering an interim rate schedule, the commission may require a bond to secure any projected refund required by subsection 4. The terms of the bond, including the amount and surety, are subject to the commission's approval.

4. As ordered by the commission, the utility shall promptly refund to persons entitled thereto all interim rate amounts collected by the public utility in excess of the final rates approved by the commission plus reasonable interest at a rate to be determined by the commission.

NSP calculated its interim rates by using a return on common equity (ROE) of 10.50%. NSP would be permitted under 49-05-06(2)(a) to utilize a 10.75% ROE, as this was the rate approved in case PU-06-525. Staff appreciates NSP's reduction to the lower requested ROE of 10.50%.

NSP's rate base and expenses are the "same in nature and kind" as allowed by the Commission in NSP's last rate order apart from the Fargo manufactured gas plant (Fargo MGP) cleanup costs.

The Fargo MGP cleanup costs were granted deferred accounting treatment on December 16, 2015 in case no. PU-15-514. This action permitted NSP to track the costs of the Fargo MGP cleanup for future consideration of recovery. Beginning in 2018, NSP was directed to expense \$1.25M of the North Dakota share of these costs annually until final rates are approved in their next general rate case. This is per an Order and associated settlement agreement which was issued on November 8, 2018 in case PU-18-156. The expense allocation was in lieu of a rate reduction that would have otherwise been necessitated by the Tax Cuts and Jobs Act of 2017 reduction to the federal corporate income tax rates. The specific language from the settlement agreement that applies reads:

1. ***Company to Begin Amortization of MGP Clean-up Costs*** - Applicant and Advocacy Staff agree that the Applicant will begin to amortize deferred Fargo MGP remediation costs, beginning in the current year (2018), at a rate of \$1.25 million per year. The Company will continue to recognize this annual expense each year until the regulatory asset has been fully recovered. The Parties agree that the final amount of MGP remediation costs attributable to North Dakota and subject to the amortization described in this section must be filed with the Commission within 90 days of completion of all remediation work. The amount is subject to the review, potential adjustment, and approval of the Commission for purposes of determining the recoverable portion.

4. ***Future Recovery of MGP Costs To Be Through the Cost of Gas Rider***—Applicant and Advocacy Staff agree that upon implementation of new commission-approved base rates following a future natural gas base rate proceeding, recovery of the remaining, pro-rated portion of the annual \$1.25 million amortization in the calendar year new base rates take effect will be effected through the Cost Of Gas (COG) Rider. For all subsequent years, recovery of the annual \$1.25 million amortization will continue to be achieved through

the COG Rider until the allowed balance of MGP remediation costs has been fully amortized; no portion of the \$1.25 million annual amortization will be included in a future rate case Test Year for purposes of setting base rates. Consistent with the Commissions' past decision on the Grand Forks MGP remediation cost in case PU-400-00-521, the Applicant will not receive a shareholder return on the Fargo MGP remediation costs.

Staff believes NSP made a reasonable interpretation of these provisions in requesting recovery of the Fargo MGP cleanup costs in interim rates. However, Staff believes it would be a better interpretation and less burdensome on North Dakota ratepayers if these costs were removed from interim rates, and upon final rates taking effect in this case, the costs added on a prorated basis to the COG rider.

NSP's proposed interim rates do not change the existing rate design. Because the overall increase is only applied to the base rate revenues, the basic service charge and distribution charge portion of the customers' bills will increase 35.20% for all classes other than those receiving service provided under a discounted contract rate. The difference between the overall increase and the increase applied only to the non-fuel portion of the bill occurs because approximately 65% of NSP's cost to provide natural gas service is gas related.

Even though the commission may require a bond to ensure a refund in the event that the commission does not find in NSP's favor, staff believes the financial security of NSP is sufficient so as to not require a bond.

In summary, staff believes that NSP's interim rate request should be reduced by removing the \$1.25 M expense for the Fargo MGP cleanup amortization. Once that adjustment is made, the interim rate complies with the laws and rules and should be approved for use on or after November 1, 2021.

Sincerely,



Victor Schock
Public Service Commission
Advocacy Staff

c: David Sederquist