

Memorandum

To: Commissioners Fedorchak, Christmann, and Haugen-Hoffart

From: Adam Renfandt

Date: May 12, 2022

Re: Northern States Power Company (NSP), 2021 Gas, Annual Report, Case No. PU-22-182

In Case No. PU-06-525, the Commission authorized a return on equity (ROE) of 10.75%.

Staff reviewed NSP's North Dakota gas annual report for 2021. NSP's ROE was approximately 4.01% in 2021, and its under-earnings was approximately \$5.1 million.

Given the level of under-earnings and with the pending NSP gas rate case in front of the Commission for review, Staff recommends the Commission close the case.

Attached are staff generated summaries of NSP ND natural gas earnings since 2010.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

Term States Power Company
 Utility - North Dakota
 Form Calculation
 Rates In Thousands)

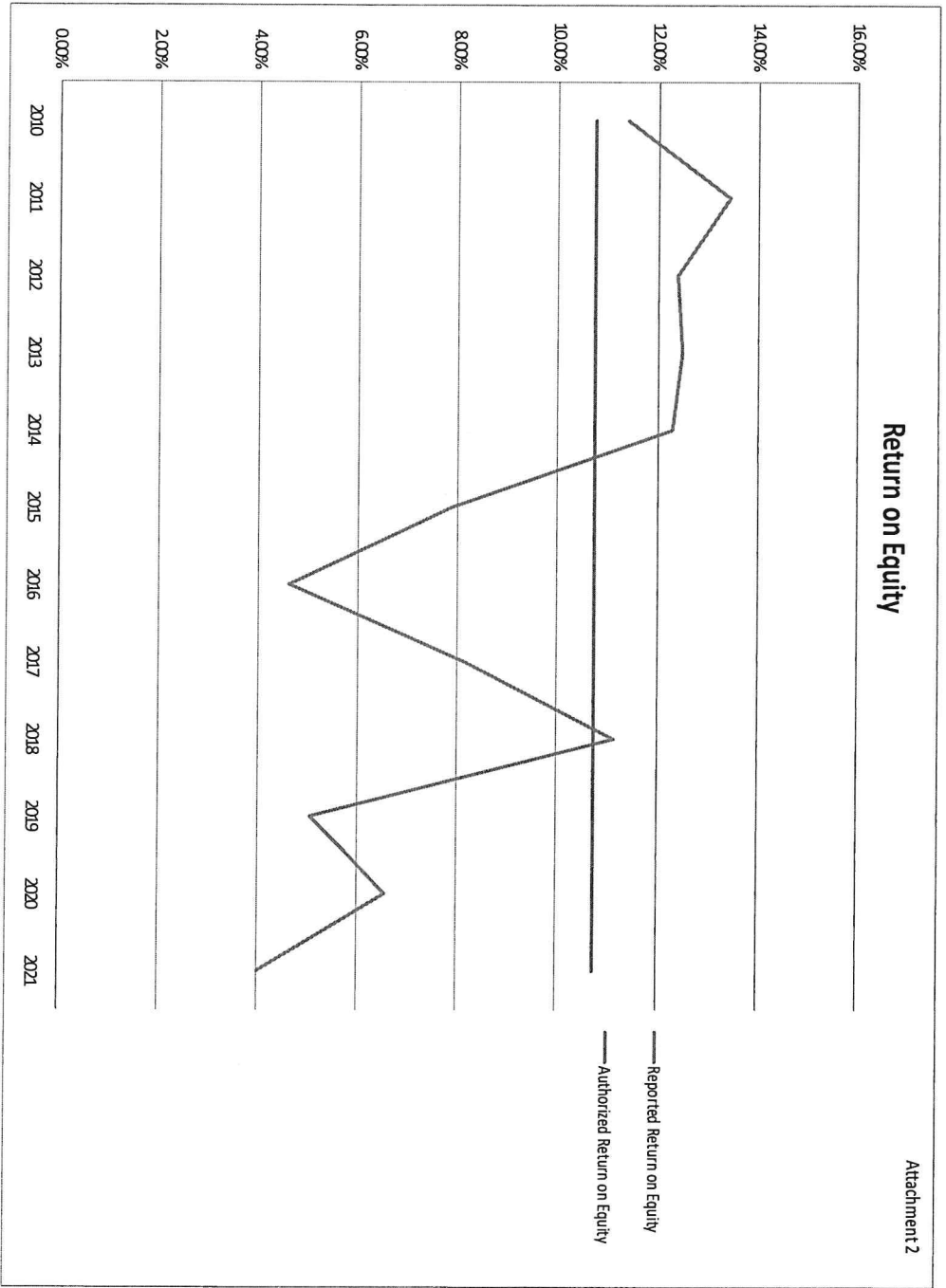
Attachment 1

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|
| Return Deficiency | \$41,301 | \$41,871 | \$40,626 | \$43,432 | \$48,341 | \$50,287 | \$52,816 | \$54,993 | \$60,336 | \$67,654 | \$76,166 | \$108,525 |
| Rate Base | 8.58% | 8.55% | 8.28% | 7.95% | 7.92% | 7.92% | 7.87% | 7.85% | 7.82% | 7.79% | 7.71% | 7.62% |
| Rate of Return Required | \$3,543 | \$3,578 | \$3,365 | \$3,453 | \$3,827 | \$3,983 | \$4,158 | \$4,316 | \$4,718 | \$5,271 | \$5,872 | \$8,274 |
| Return Required | 3,679 | 4,172 | 3,719 | 3,851 | 4,224 | 3,219 | 2,456 | 3,561 | 4,841 | 3,235 | 4,186 | 4,412 |
| Return Earned | (\$136) | (\$594) | (\$354) | (\$398) | (\$397) | \$764 | \$1,702 | \$755 | (\$123) | \$2,036 | \$1,687 | \$3,862 |
| Return Deficiency/(Excess) | 1,6437 | 1,6220 | 1,6220 | 1,6220 | 1,6115 | 1,6078 | 1,6041 | 1,5985 | 1,3228 | 1,3228 | 1,3228 | 1,3228 |
| Tax Factor | | | | | | | | | | | | |
| Rev. Deficiency/(Excess) | (\$224) | (\$963) | (\$574) | (\$645) | (\$639) | \$1,228 | \$2,730 | \$1,207 | (\$163) | \$2,693 | \$2,231 | \$5,109 |

| Return on Equity Calculation | | | | | | | | | | | | |
|------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Net Operating Income | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Rate Base | \$ 3,679 | \$ 4,172 | \$ 3,719 | \$ 3,851 | \$ 4,224 | \$ 3,219 | \$ 2,456 | \$ 3,561 | \$ 4,841 | \$ 3,235 | \$ 4,186 | \$ 4,412 |
| Rate of Return on Rate Base | 41.301 | 41.871 | 40.626 | 43.432 | 48.341 | 50.287 | 52.816 | 54.993 | 60.336 | 67.654 | 76.166 | 108.525 |
| Less: Cost of Debt | 8.91% | 9.96% | 9.15% | 8.87% | 8.74% | 6.40% | 4.65% | 6.48% | 8.02% | 4.78% | 5.50% | 4.07% |
| Return Available for Common | 2.99% | 2.88% | 2.61% | 2.29% | 2.23% | 2.25% | 2.22% | 2.20% | 2.14% | 2.10% | 2.05% | 1.95% |
| Common Equity Percentage | 5.92% | 7.08% | 6.54% | 6.58% | 6.50% | 4.15% | 2.43% | 4.27% | 5.88% | 2.69% | 3.44% | 2.11% |
| Return on Equity (ROE) | 52.00% | 52.67% | 52.78% | 52.67% | 52.87% | 52.75% | 52.61% | 52.54% | 52.83% | 52.98% | 52.62% | 52.75% |
| | 11.38% | 13.44% | 12.40% | 12.49% | 12.30% | 7.87% | 4.63% | 8.14% | 11.14% | 5.06% | 6.55% | 4.01% |

Return on Equity

Attachment 2



Northern States Power Company
 Gas Utility - North Dakota
 Net Operating Income
 (Dollars in Thousands)

Attachment 3

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <u>Line Operating Revenues</u> | | | | | | | | | | | | |
| 1 Residential | \$25,110 | \$25,160 | \$9,179 | \$9,385 | \$9,686 | \$10,024 | \$10,327 | \$10,582 | \$10,754 | \$11,055 | \$11,319 | \$12,032 |
| 2 Firm C & I | \$27,965 | \$28,549 | \$6,691 | \$7,951 | \$8,464 | \$7,986 | \$7,824 | \$8,561 | \$9,328 | \$9,951 | \$9,976 | \$10,545 |
| 3 Interruptible C & I | \$9,356 | \$9,670 | \$1,354 | \$1,524 | \$1,732 | \$1,603 | \$1,511 | \$1,595 | \$1,976 | \$1,984 | \$1,443 | \$1,614 |
| 4 Transportation/Other | \$885 | \$544 | \$651 | \$547 | \$923 | \$635 | \$705 | \$624 | \$622 | \$604 | \$747 | \$1,290 |
| 5 Total Revenues | \$63,316 | \$63,923 | \$17,876 | \$19,407 | \$20,805 | \$20,248 | \$20,367 | \$21,362 | \$22,680 | \$23,594 | \$23,485 | \$25,481 |
| <u>Expenses</u> | | | | | | | | | | | | |
| 6 Production | 46,076 | 46,486 | 427 | 474 | 655 | 177 | 723 | 407 | 2,281 | 2,451 | 2,027 | 2,467 |
| 7 Gross Margins | \$ 17,240 | \$ 17,437 | \$ 17,449 | \$ 18,933 | \$ 20,150 | \$ 20,071 | \$ 19,644 | \$ 20,955 | \$ 20,399 | \$ 21,143 | \$ 21,458 | \$ 23,014 |
| 8 Transmission | 177 | 147 | 176 | 229 | 228 | 444 | 321 | 348 | 329 | 307 | 316 | 193 |
| 9 Distribution | 3,484 | 3,277 | 3,209 | 3,732 | 4,065 | 4,675 | 5,135 | 4,347 | 4,408 | 5,997 | 5,263 | 5,533 |
| 10 Customer Billing | 1,610 | 1,624 | 1,512 | 1,493 | 1,543 | 1,527 | 1,162 | 1,140 | 1,129 | 1,225 | 1,320 | 1,426 |
| 11 Customer Service | 255 | 261 | 234 | 262 | 271 | 270 | 133 | 161 | 160 | 214 | 183 | 228 |
| 12 Sales & Marketing | 14 | 12 | 0 | 6 | 0 | 0 | 0 | 0 | 0 | 1 | 5 | 4 |
| 13 Admin. & General | 1,948 | 1,910 | 2,022 | 2,135 | 2,216 | 2,334 | 2,483 | 2,772 | 2,839 | 3,230 | 2,829 | 3,153 |
| 14 Depreciation | 3,317 | 3,428 | 3,503 | 3,589 | 4,312 | 4,982 | 5,404 | 5,383 | 4,296 | 4,644 | 5,073 | 6,103 |
| 15 Property Taxes | 1,080 | 907 | 1,138 | 1,002 | 916 | 937 | 1,099 | 1,067 | 1,063 | 1,302 | 1,190 | 1,243 |
| 16 Franchise & Payroll Taxes | 245 | 228 | 243 | 260 | 250 | 271 | 620 | 291 | 266 | 430 | 367 | 382 |
| 17 Inc. Taxes (Cur. & Def.) | \$ 1,431 | \$ 1,471 | \$ 1,693 | \$ 2,374 | \$ 2,125 | \$ 1,412 | \$ 831 | \$ 1,885 | \$ 1,068 | \$ 558 | \$ 726 | \$ 337 |
| 18 Total Expenses | \$ 59,637 | \$ 59,751 | \$ 14,157 | \$ 15,556 | \$ 16,581 | \$ 17,029 | \$ 17,911 | \$ 17,801 | \$ 17,839 | \$ 20,359 | \$ 19,299 | \$ 21,069 |
| 19 Net Operating Income | \$ 3,679 | \$ 4,172 | \$ 3,719 | \$ 3,851 | \$ 4,224 | \$ 3,219 | \$ 2,456 | \$ 3,561 | \$ 4,841 | \$ 3,235 | \$ 4,186 | \$ 4,412 |