

Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Fedorchak

From: Robert Frank - Public Utility Analyst 

Date: June 26, 2023

Re: Northern States Power Company, 2022 Gas Operations Annual Report

Case No. PU-23-167

Northern States Power Company (NSP) provided gas service to approximately 62,826 customers in North Dakota in 2022. In Case No. PU-21-381, the Commission authorized a return on equity (ROE) of 9.8% after weather normalization for NSP's gas operations with an earnings-sharing mechanism of 50% refund to customers above 9.8% ROE and 100% above 10.25% ROE.

Staff reviewed NSP's North Dakota gas operations annual report for 2022. The average cost of gas across customer class in 2022 increased approximately 44% from 2021. Average use across customer class in 2022 increased by approximately 14% from 2021. NSP reports an ROE of 10.64% from its regulated natural gas earnings in 2022. After normalizing for weather, the result is an ROE of 9.8% for 2022 and no refund obligation to customers.

Given that no over-earnings were reported, staff recommends the Commission close the case.

Attached are staff generated summaries of NSP's ND natural gas earnings since 2011.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

C: Alex Nisbet, NSP

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Memorandum
Public Service Commission Staff
Robert Frank

Northern States Power Company
Gas Utility - North Dakota
Return Calculation
(Dollars In Thousands)

Attachment 1

Line	Return	Deficiency	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1	Rate Base		\$41,871	\$40,626	\$43,432	\$48,341	\$50,287	\$52,816	\$54,993	\$60,336	\$67,654	\$76,166	\$108,525	\$120,724
2	Rate of Return Required		8.55%	8.28%	7.95%	7.92%	7.92%	7.87%	7.85%	7.82%	7.79%	7.71%	7.62%	7.14%
3	Return Required		\$3,578	\$3,365	\$3,453	\$3,827	\$3,983	\$4,158	\$4,316	\$4,718	\$5,271	\$5,872	\$8,274	\$8,622
4	Return Earned		4,172	3,719	3,851	4,224	3,219	2,456	3,561	4,841	3,235	4,186	4,412	9,159
5	Return Deficiency/(Excess)		(\$594)	(\$354)	(\$398)	(\$397)	\$764	\$1,702	\$755	(\$123)	\$2,036	\$1,687	\$3,862	(\$537)
6	Tax Factor		1.6220	1.6220	1.6220	1.6115	1.6078	1.6041	1.5985	1.3228	1.3228	1.3228	1.3228	1.3228
7	Rev. Deficiency/(Excess)		(\$963)	(\$574)	(\$645)	(\$639)	\$1,228	\$2,730	\$1,207	(\$163)	\$2,693	\$2,231	\$5,109	(\$711)

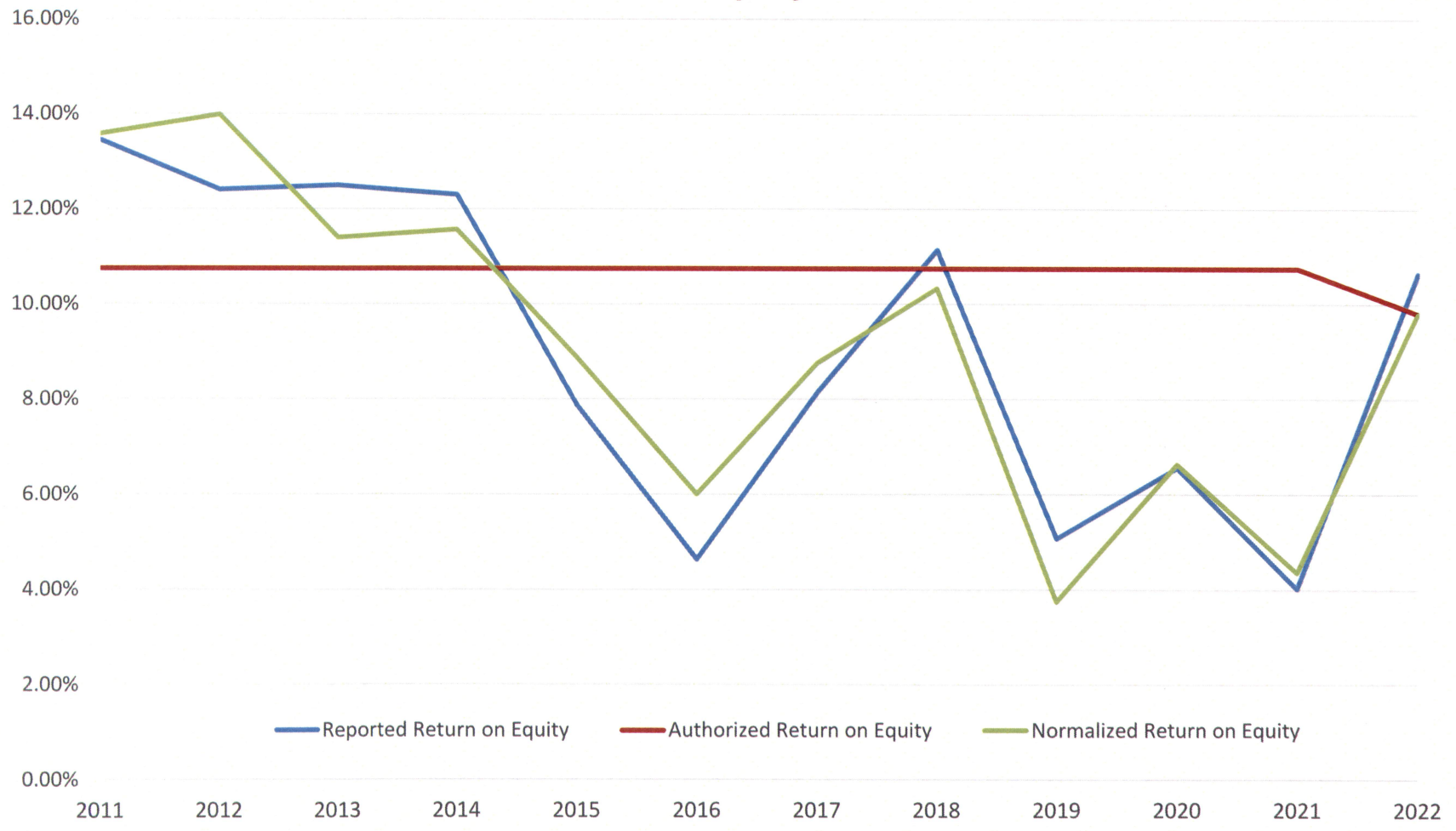
Return on Equity Calculation

10	Net Operating Income	\$	4,172	\$	3,719	\$	3,851	\$	4,224	\$	3,219	\$	2,456	\$	3,561	\$	4,841	\$	3,235	\$	4,186	\$	4,412	\$	9,159
11	Rate Base		41,871		40,626		43,432		48,341		50,287		52,816		54,993		60,336		67,654		76,166		108,525		120,724
12	Rate of Return on Rate Base		9.96%		9.15%		8.87%		8.74%		6.40%		4.65%		6.48%		8.02%		4.78%		5.50%		4.07%		7.59%
13	Less: Cost of Debt		2.88%		2.61%		2.29%		2.23%		2.25%		2.22%		2.20%		2.14%		2.10%		2.05%		1.95%		1.99%
14	Return Available for Common		7.08%		6.54%		6.58%		6.50%		4.15%		2.43%		4.27%		5.88%		2.69%		3.44%		2.11%		5.60%
15	Common Equity Percentage		52.67%		52.78%		52.67%		52.87%		52.75%		52.61%		52.54%		52.83%		52.98%		52.62%		52.75%		52.62%
16	Return on Equity (ROE)		13.44%		12.40%		12.49%		12.30%		7.87%		4.63%		8.14%		11.14%		5.06%		6.55%		4.01%		10.64%

Weather Normalized ROE

17	Net Operating Income	\$	4,172	\$	3,719	\$	3,851	\$	4,224	\$	3,219	\$	2,456	\$	3,561	\$	4,841	\$	3,235	\$	4,186	\$	4,412	\$	9,159
18	Impact of Weather		29		339		(251)		(186)		260		376		178		(259)		(475)		31		192		(532)
19	Weather-Normalized NOI		\$4,201		\$4,058		\$3,600		\$4,038		\$3,479		\$2,832		\$3,739		\$4,582		\$2,761		\$4,217		\$4,604		\$8,627
20	Weather Adjusted ROE		13.57%		13.98%		11.39%		11.57%		8.85%		5.98%		8.75%		10.32%		3.74%		6.63%		4.35%		9.80%

Return on Equity



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

Attachment 3

<u>Line</u>	<u>Operating Revenues</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>	<u>2020</u>	<u>2021</u>	<u>2022</u>
1	Residential	\$25,160	\$9,179	\$9,385	\$9,686	\$10,024	\$10,327	\$10,582	\$10,754	\$11,055	\$11,319	\$12,032	\$13,515
2	Firm C & I	\$28,549	\$6,691	\$7,951	\$8,464	\$7,986	\$7,824	\$8,561	\$9,328	\$9,951	\$9,976	\$10,545	\$12,624
3	Interruptible C & I	\$9,670	\$1,354	\$1,524	\$1,732	\$1,603	\$1,511	\$1,595	\$1,976	\$1,984	\$1,443	\$1,614	\$2,303
4	Transportation/Other	\$544	\$651	\$547	\$923	\$635	\$705	\$624	\$622	\$604	\$747	\$1,290	\$3,021
5	Total Revenues	\$63,923	\$17,876	\$19,407	\$20,805	\$20,248	\$20,367	\$21,362	\$22,680	\$23,594	\$23,485	\$25,481	\$31,463
<u>Expenses</u>													
6	Production	46,486	427	474	655	177	723	407	2,281	2,451	2027	2467	1630
7	Gross Margins	\$ 17,437	\$ 17,449	\$ 18,933	\$ 20,150	\$ 20,071	\$ 19,644	\$ 20,955	\$ 20,399	\$ 21,143	\$ 21,458	\$ 23,014	\$ 29,833
8	Transmission	147	176	229	228	444	321	348	329	307	316	193	143
9	Distribution	3,277	3,209	3,732	4,065	4,675	5,135	4,347	4,408	5,997	5263	5533	5260
10	Customer Billing	1,624	1,512	1,493	1,543	1,527	1,162	1,140	1,129	1,225	1320	1426	1441
11	Customer Service	261	234	262	271	270	133	161	160	214	183	228	140
12	Sales & Marketing	12	0	6	0	0	0	0	0	1	5	4	10
13	Admin. & General	1,910	2,022	2,135	2,216	2,334	2,483	2,772	2,839	3,230	2829	3153	3172
14	Depreciation	3,428	3,503	3,589	4,312	4,982	5,404	5,383	4,296	4,644	5073	6103	6529
15	Property Taxes	907	1,138	1,002	916	937	1,099	1,067	1,063	1,302	1190	1243	1490
16	Franchise & Payroll Taxes	228	243	260	250	271	620	291	266	430	367	382	339
17	Inc. Taxes (Cur. & Def.)	\$ 1,471	\$ 1,693	\$ 2,374	\$ 2,125	\$ 1,412	\$ 831	\$ 1,885	\$ 1,068	\$ 558	726	337	2150
18	Total Expenses	\$ 59,751	\$ 14,157	\$ 15,556	\$ 16,581	\$ 17,029	\$ 17,911	\$ 17,801	\$ 17,839	\$ 20,359	\$ 19,299	\$ 21,069	\$ 22,304
19	Net Operating Income	\$ 4,172	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235	\$ 4,186	\$ 4,412	\$ 9,159