

Memorandum

To: Commissioners Christmann, Haugen-Hoffart and Kringstad

From: Chris Hanson, Public Utility Analyst

Date: March 21, 2025
CH

Re: Northern States Power, 2022 Electric, Annual Report, Case No. PU-23-168

On May 1, 2023, NSP filed its 2022 report containing the electric earnings for the North Dakota jurisdiction. In that report, Northern States Power (NSP) reported net operating income of \$56.995 million and a return on equity of 11.74%. NSP's prior rate case (Case No. PU-20-441) set a cap on earnings of 9.75%, resulting in an estimated refund of \$9.704MM. However, that same case also allowed NSP to weather-normalize the earnings, which NSP calculated to be \$1.683 million, resulting in weather-normalized over-earnings of \$7.434 million or 11.28%.

As part of its earnings analysis, Staff determined that NSP was not only adjusting earnings using algorithms based upon heating and cooling degrees days but also applying what it referred to as a "topside adjustment". Staff concluded that this topside adjustment was essentially a manual modification intended to reconcile the weather-normalized electric consumption with the forecasted amounts. In this case, NSP justified higher-than-forecasted consumption by attributing it to people working from home during and after the COVID pandemic.

Staff agrees that consumption may have been elevated due to individuals working from home. However, this type of behavioral adjustment was neither approved nor discussed as part of the PU-20-441 settlement. Therefore, Staff's position is that only weather adjustments related to temperature deviations should be considered as part of the weather-normalization calculation. This top-side adjustment reduced refunds by \$405,000 in 2022, and Staff believes the total amount that should be refunded to ratepayers is the \$7.839 million, rather than the \$7.434 million originally calculated by NSP.

On October 25, 2024, in Case No. PU-24-362, NSP stated "Staff had concerns with how Covid related weather normalization adjustments were made in 2021 and 2022" and refunded the uncontested amount of \$7.434 million through the Bill Credit Rider, to be applied over a 12-month period effective January 1, 2025. This represents the refund owed to customers for NSP's over-earnings above 9.75%. However, Staff still disagrees with NSP's application of the topside COVID adjustment to reduce residential sales by \$405,000 in 2022. Staff believes the additional refunds can be sorted out in the rate case currently before the Commission. Staff recommends that the Commission close the case.

Northern States Power Company
Electric Utility - North Dakota

(Dollars In Thousands)

I. RETURN ON EQUITY (ROE)

	As filed		Updated		Staff Proposed Adjustment		Delta	
	2022	2021	2022	2021	2022	2021	2022	2021
Actual Return on Equity (ROE)								
1	Operating Income from Electric Operations (E-2):	\$56,995	\$51,213	\$56,995	\$51,213	\$0	\$0	
2	Average Regulated Rate Base (E-3):	\$697,757	\$636,340	\$697,757	\$636,340	\$0	\$0	
3	Rate of Return on Rate Base (ROR) (line 1 / line 2):	8.17%	8.05%	8.17%	8.05%	0.00%	0.00%	
4	Weighted Cost of Debt (E-4):	1.99%	1.95%	1.99%	1.95%	0.00%	0.00%	
5	Weighted Cost of Preferred Stock (E-4):	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
6	% of Equity in Capital Structure (E-4):	52.62%	52.75%	52.62%	52.75%	0.00%	0.00%	
7	Return on Equity (ROE):	11.74%	11.56%	11.74%	11.56%	0.00%	0.00%	
ROE, Normalized for Weather Impact								
		2022 *	2021 *	2022 *	2021 *	2022 *	2021 *	
8	Operating Income from Electric Operations:	\$55,312	\$50,494	\$55,717	\$50,870	\$405	\$376	
9	Average Regulated Rate Base (E-3):	697,927	636,412	697,927	636,412	-	-	
10	Rate of Return on Rate Base (ROR) (line 1 / line 2):	7.93%	7.93%	7.98%	7.99%	0.05%	0.06%	
11	Weighted Cost of Debt (E-4):	1.99%	1.95%	1.99%	1.95%	0.00%	0.00%	
12	Weighted Cost of Preferred Stock (E-4):	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
	% of Equity in Capital Structure (E-4):	52.62%	52.75%	52.62%	52.75%	0.00%	0.00%	
13	Weather-Normalized Return on Equity (ROE):	11.28%	11.34%	11.37%	11.45%	0.10%	0.11%	
14	Earnings Sharing Refund	(\$7,434)	(\$7,107)	(\$7,839)	(\$7,483)	(\$405)	(\$376)	

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II. OPERATING INCOME

<u>Line</u>	<u>Item</u>	As Filed 2022 Actual N.D. Juris.	Updated 2021 Actual N.D. Juris.
	<u>Operating Revenues:</u>		
1	Residential	96,408	90,859
2	Small Comm. & Ind.	115,100	103,401
3	Large Comm. & Ind.	32,366	31,217
4	Public Street & Highway Ltg	1,744	1,649
5	Other Sales to Publ Auth	<u>1,816</u>	<u>1,528</u>
	Total Retail	247,434	228,654
6	Interdepartmental	0	0
7	Sales for Resale	19,642	18,702
8	Interchange Agreement	31,442	30,450
9	Other	<u>22,312</u>	<u>16,379</u>
10	Total Revenues:	320,829	294,186
	<u>Operating Expenses:</u>		
11	Fuel & Purchased Energy	101,998	86,934
12	Production	39,651	39,117
13	Transmission	25,077	23,865
14	Distribution	6,404	6,262
15	Customer Billing	3,986	3,976
16	Customer Service	197	238
17	Sales & Marketing	91	179
18	Admin. & General	17,238	16,439
19	Depreciation & Amortization	64,108	56,698
20	Property Taxes	10,745	10,314
21	Payroll & Other Taxes	1,782	1,919
22	Income Taxes	2,762	2,372
23	Deferred Income Taxes & ITC	<u>(10,203)</u>	<u>(5,340)</u>
24	Total Expenses:	263,835	242,973
25	Regulated Operating Income	56,995	51,213