

Memorandum

To: Commissioners Christmann, Haugen-Hoffart, and Fedorchak

From: *CH* Chris Hanson, Public Utility Analyst

Date: July 31, 2024

Re: Northern States Power Company, 2023 Gas Operations Annual Report
Case No. PU-24-178

Northern States Power Company (NSP) provided gas service to approximately 63,992 customers in North Dakota in 2023. 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 2023. The average cost of gas across customer class in 2023 was \$5.01 per Dekatherm, a decrease of approximately 30% from 2022. Average use across customer class in 2023 decreased by approximately 6% from 2022. NSP reports an ROE of 5.87% from its regulated natural gas earnings in 2023. After normalizing for weather, the result is an ROE of 6.05% for 2023 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 2012.

Attachment 1 – Return Calculation

Attachment 2 – Return on Equity Chart

Attachment 3 – Net Operating Income

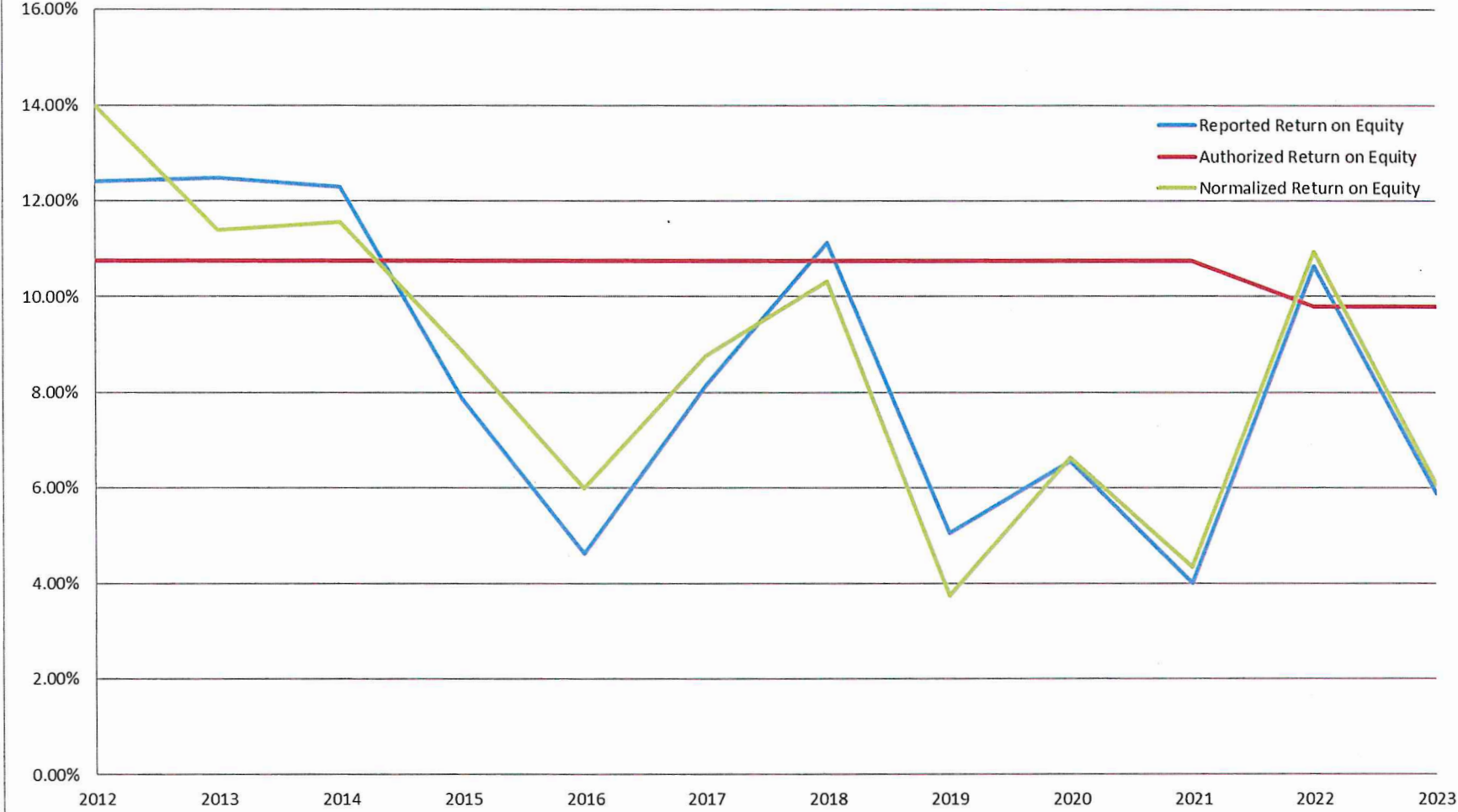
C: Alex Nisbet, NSP

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

Attachment 1

<u>Line</u>	<u>Return Deficiency</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>	<u>2023</u>
1	Rate Base	\$40,626	\$43,432	\$48,341	\$50,287	\$52,816	\$54,993	\$60,336	\$67,654	\$76,166	\$108,525	\$120,724	\$143,121
2	Rate of Return Required	8.28%	7.95%	7.92%	7.92%	7.87%	7.85%	7.82%	7.79%	7.71%	7.62%	7.14%	7.22%
3	Return Required	\$3,365	\$3,453	\$3,827	\$3,983	\$4,158	\$4,316	\$4,718	\$5,271	\$5,872	\$8,274	\$8,623	\$10,332
4	Return Earned	3,719	3,851	4,224	3,219	2,456	3,561	4,841	3,235	4,186	4,412	9,159	7,392
5	Return Deficiency/(Excess)	(\$354)	(\$398)	(\$397)	\$764	\$1,702	\$755	(\$123)	\$2,036	\$1,687	\$3,862	(\$536)	\$2,940
6	Tax Factor	1.6220	1.6220	1.6115	1.6078	1.6041	1.5985	1.3228	1.3228	1.3228	1.3228	1.3228	1.3228
7	Rev. Deficiency/(Excess)	(\$574)	(\$645)	(\$639)	\$1,228	\$2,730	\$1,207	(\$163)	\$2,693	\$2,231	\$5,109	(\$708)	\$3,889
<u>Return on Equity Calculation</u>													
10	Net Operating Income	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235	\$ 4,186	\$ 4,412	\$ 9,159	\$ 7,392
11	Rate Base	40,626	43,432	48,341	50,287	52,816	54,993	60,336	67,654	76,166	108,525	120,724	143,121
12	Rate of Return on Rate Base	9.15%	8.87%	8.74%	6.40%	4.65%	6.48%	8.02%	4.78%	5.50%	4.07%	7.59%	5.16%
13	Less: Cost of Debt	2.61%	2.29%	2.23%	2.25%	2.22%	2.20%	2.14%	2.10%	2.05%	1.95%	1.99%	2.07%
14	Return Available for Common	6.54%	6.58%	6.50%	4.15%	2.43%	4.27%	5.88%	2.69%	3.44%	2.11%	5.60%	3.09%
15	Common Equity Percentage	52.78%	52.67%	52.87%	52.75%	52.61%	52.54%	52.83%	52.98%	52.62%	52.75%	52.62%	52.54%
16	Return on Equity (ROE)	12.40%	12.49%	12.30%	7.87%	4.63%	8.14%	11.14%	5.06%	6.55%	4.00%	10.64%	5.89%
<u>Weather Normalized ROE</u>													
17	Net Operating Income	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235	\$ 4,186	\$ 4,412	\$ 9,159	\$ 7,392
18	Impact of Weather	339	(251)	(186)	260	376	178	(259)	(475)	31	192	192	132
19	Weather-Normalized NOI	\$4,058	\$3,600	\$4,038	\$3,479	\$2,832	\$3,739	\$4,582	\$2,761	\$4,217	\$4,604	\$9,351	\$7,524
20	Weather Adjusted ROE	13.98%	11.39%	11.57%	8.85%	5.98%	8.75%	10.32%	3.74%	6.63%	4.35%	10.95%	6.07%

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>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>	<u>2023</u>
1	Residential	\$9,179	\$9,385	\$9,686	\$10,024	\$10,327	\$10,582	\$10,754	\$11,055	\$11,319	\$12,032	\$13,515	\$14,596
2	Firm C & I	6,691	7,951	8,464	7,986	7,824	8,561	9,328	9,951	9,976	10,545	12,624	13,327
3	Interruptible C & I	1,354	1,524	1,732	1,603	1,511	1,595	1,976	1,984	1,443	1,614	2,303	2,220
4	Transportation/Other	651	547	923	635	705	624	622	604	747	1,290	3,021	2,435
5	Total Revenues	\$17,876	\$19,407	\$20,805	\$20,248	\$20,367	\$21,362	\$22,680	\$23,594	\$23,485	\$25,481	\$31,463	\$32,578
Expenses													
6	Production	\$ 427	\$ 474	\$ 655	\$ 177	\$ 723	\$ 407	\$ 2,281	\$ 2,451	\$ 2,027	\$ 2,467	\$ 1,630	\$ 2,542
7	Gross Margins	\$ 17,449	\$ 18,933	\$ 20,150	\$ 20,071	\$ 19,644	\$ 20,955	\$ 20,399	\$ 21,143	\$ 21,458	\$ 23,014	\$ 29,833	\$ 30,036
8	Transmission	176	229	228	444	321	348	329	307	316	193	143	191
9	Distribution	3,209	3,732	4,065	4,675	5,135	4,347	4,408	5,997	5,263	5,533	5,260	5,381
10	Customer Billing	1,512	1,493	1,543	1,527	1,162	1,140	1,129	1,225	1,320	1,426	1,441	1,691
11	Customer Service	234	262	271	270	133	161	160	214	183	228	140	277
12	Sales & Marketing	-	6	-	-	-	-	-	1	5	4	10	7
13	Admin. & General	2,022	2,135	2,216	2,334	2,483	2,772	2,839	3,230	2,829	3,153	3,172	3,935
14	Depreciation	3,503	3,589	4,312	4,982	5,404	5,383	4,296	4,644	5,073	6,103	6,529	7,786
15	Property Taxes	1,138	1,002	916	937	1,099	1,067	1,063	1,302	1,190	1,243	1,490	1,828
16	Franchise & Payroll Taxes	243	260	250	271	620	291	266	430	367	382	339	441
17	Inc. Taxes (Cur. & Def.)	1,693	2,374	2,125	1,412	831	1,885	1,068	558	726	337	2,150	1,107
18	Total Expenses	\$ 14,157	\$ 15,556	\$ 16,581	\$ 17,029	\$ 17,911	\$ 17,801	\$ 17,839	\$ 20,359	\$ 19,299	\$ 21,069	\$ 22,304	\$ 25,186
19	Net Operating Income	\$ 3,719	\$ 3,851	\$ 4,224	\$ 3,219	\$ 2,456	\$ 3,561	\$ 4,841	\$ 3,235	\$ 4,186	\$ 4,412	\$ 9,159	\$ 7,392