

**Revised June 1st, 2014**  
**ANNUAL REPORT**  
**OF**  
**JURISDICTIONAL EARNINGS**  
**BY**  
**NORTHERN STATES POWER COMPANY,**  
**A MINNESOTA CORPORATION**  
**TO THE**  
**SOUTH DAKOTA PUBLIC UTILITIES COMMISSION**

**FOR THE YEAR ENDING**  
**DECEMBER 31, 2012**

**South Dakota Jurisdiction**  
**Electric Utility**



**2012**

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# Northern States Power Company

## Electric Utility - South Dakota

(Dollars In Thousands)

### I. RETURN ON EQUITY (ROE)

<u>Actual Return on Equity (ROE)</u>	<u>2012</u>	<u>2011</u>
1 Operating Income from Electric Operations (E-2):	\$21,180	\$18,043
2 Average Regulated Rate Base (E-3):	\$379,423	\$355,130
3 Rate of Return on Rate Base (ROR) (line 1 / line 2):	5.58%	5.08%
4 Weighted Cost of Debt (E-4):	2.65%	2.88%
5 Weighted Cost of Preferred Stock (E-4):	0.00%	0.00%
6 % of Equity in Capital Structure (E-4):	53.81%	52.89%
7 Return on Equity (ROE):	5.45%	4.16%

<u>ROE, Normalized for Weather Impact on Sales</u>	<u>2012</u>	<u>2011</u>
8 Operating Income from Electric Operations:	\$21,180	\$18,043
9 Impact of weather on Mwh Sales:	27,388	13,194
10 Impact of weather on Electric Operating Income :	\$1,035	\$484
11 Weather-Normalized Operating Income:	\$20,145	\$17,559
12 Average Regulated Rate Base:	\$379,423	\$355,130
13 Weather-Normal Rate of Return on Rate Base (ROR):	5.30%	4.94%
14 Weather-Normalized Return on Equity (ROE):	4.93%	3.90%

**Northern States Power Company**  
**Electric Utility - South Dakota**

(Dollars In Thousands)

**II. OPERATING INCOME**

<u>Line</u>	<u>Item</u>	<u>2012</u> <u>Total NSP</u>	<u>2012</u> <u>S.D. Juris.</u>	<u>2011</u> <u>S.D. Juris.</u>	<u>Annual</u> <u>Change</u>
<b><u>Operating Revenues:</u></b>					
1	Residential	1,166,495	74,152	68,487	8.3%
2	Small Comm. & Ind.	1,326,542	78,355	71,630	9.4%
3	Large Comm. & Ind.	633,557	22,548	20,428	10.4%
4	Public Street & Highway Ltg	26,142	1,378	1,312	5.0%
5	Other Sales to Publ Auth	<u>8,330</u>	<u>3</u>	<u>3</u>	13.8%
	Total Retail	3,161,066	176,436	161,860	9.0%
6	Interdepartmental	532	0	0	*
7	Sales for Resale	69,229	3,997	3,892	2.7%
8	Interchange Agreement	449,958	26,740	25,123	6.4%
9	Other	<u>117,641</u>	<u>7,633</u>	<u>6,964</u>	<u>9.6%</u>
10	Total Revenues:	<u>3,798,426</u>	<u>214,806</u>	<u>197,839</u>	<u>8.6%</u>
<b><u>Operating Expenses:</u></b>					
11	Production	1,970,640	116,522	111,760	4.3%
12	Transmission	210,577	12,953	11,258	15.1%
13	Distribution	111,134	6,949	6,927	0.3%
14	Customer Billing	53,705	3,596	3,918	-8.2%
15	Customer Service	103,566	1,005	436	130.5%
16	Sales & Marketing	68	2	52	-96.2%
17	Admin. & General	222,517	13,545	11,128	21.7%
18	Depreciation & Amortization	371,167	21,975	22,260	-1.3%
19	Property Taxes	151,204	7,313	5,701	28.3%
20	Other General Taxes <sup>1</sup>	31,462	1,941	1,846	5.1%
21	Income Taxes	0	0	0	*
22	Deferred Income Taxes & ITC	<u>169,933</u>	<u>7,825</u>	<u>4,510</u>	<u>73.5%</u>
23	Total Expenses:	<u>3,395,973</u>	<u>193,626</u>	<u>179,796</u>	<u>7.7%</u>
24	<b>Regulated Operating Income</b>	<b>402,453</b>	<b>21,180</b>	<b>18,043</b>	<b>17.4%</b>

<sup>1</sup> Includes payroll taxes.

# Northern States Power Company

## Electric Utility - South Dakota

(Dollars In Thousands)

### III. AVERAGE RATE BASE

<u>Line</u> <u>Item</u>	2012 <sup>2</sup>	2012 <sup>2</sup>	2011 <sup>2</sup>	<u>Annual</u> <u>Change</u>
	<u>Total NSP</u>	<u>S.D. Juris.</u>	<u>S.D. Juris.</u>	
1 Plant in Service	14,348,575	873,550	797,885	9.5%
2 Accumulated Depreciation	6,968,216	423,062	390,459	8.3%
3 Net Plant in Service	7,380,359	450,488	407,426	10.6%
4 Plant Held for Future Use	0	0	0	*
5 Construct Work in Progress	0	0	0	*
6 Materials and Supplies	128,683	7,793	7,206	8.1%
7 Fuel Stocks	90,424	5,256	4,958	6.0%
8 Prepayments & Other Rate Base	89,284	9,465	9,874	-4.1%
9 Customer Deposits	(3,334)	(202)	(201)	0.5%
10 Cash Working Capital	0	0	0	*
11 Other Rate Base <sup>1</sup>	6,456	333	(713)	-146.7%
12 Accum. Deferred Taxes	(1,760,866)	(93,710)	(73,420)	27.6%
13 Total Other Rate Base	(1,449,353)	(71,065)	(52,296)	35.9%
14 <b>Total Average Rate Base</b>	<b>5,931,006</b>	<b>379,423</b>	<b>355,130</b>	<b>6.8%</b>

<sup>1</sup> Includes deferred assets and liabilities such as accrued vacations, post-retirement medical benefits (FASB 106), post employment benefits (FASB 112), unfunded pension liability, environmental cleanup, severance accrual, etc.

<sup>2</sup> Average rate base is based on 13 monthly averages. This convention was used because of the close proximity of this report to the general rate case.

# Northern States Power Company

## Electric Utility - South Dakota

(Dollars In Thousands)

### IV. COST OF CAPITAL

<u>2012 Actual</u>					
<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt <sup>1</sup>	\$3,354,765	46.19%	5.74%	2.65%
2	Short-Term Debt	\$0	0.00%	0.00%	0.00%
3	Total Debt	\$3,354,765	46.19%	5.74%	2.65%
4	Preferred Stock <sup>2</sup>	\$0	0.00%	0.00%	0.00%
5	Common Equity <sup>2</sup>	\$3,908,649	53.81%	5.45%	2.93%
6	Total Equity	\$3,908,649	53.81%		
7	Total Capital	\$7,263,414	100.00%		5.58%

<u>2012 Normalized</u>					
<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt <sup>1</sup>	\$3,354,765	46.19%	5.74%	2.65%
9	Short-Term Debt	\$0	0.00%	0.00%	0.00%
10	Total Debt	3,354,765	46.19%	5.74%	2.65%
11	Preferred Stock <sup>2</sup>	\$0	0.00%		0.00%
12	Common Equity <sup>2</sup>	\$3,908,649	53.81%	4.93%	2.65%
13	Total Equity	\$3,908,649	53.81%		
14	Total Capital	\$7,263,414	100.00%		5.30%

<sup>1</sup> Long-term debt is a 13 month average

<sup>2</sup> Preferred stock and common stock are 13 month averages

# Northern States Power Company Electric Utility - South Dakota

(Dollars In Thousands)

## V. REQUIRED RATE OF RETURN

### 2012 Based on authorized ROE

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt <sup>1</sup>	\$3,354,765	46.19%	5.74%	2.65%
2	Short-Term Debt	\$0	0.00%	0.00%	0.00%
3	Total Debt	\$3,354,765	46.19%	5.75%	2.65%
4	Preferred Stock <sup>2</sup>	\$0	0.00%	0.00%	0.00%
5	Common Equity <sup>2</sup>	\$3,908,649	53.81%	9.25% <sup>3</sup>	4.98%
6	Total Equity	\$3,908,649	53.81%		
7	Total Capital	\$7,263,414	100.00%		7.63%

<sup>1</sup> Long-term debt is a 13 month average

<sup>2</sup> Preferred stock and common stock are 13 month averages

<sup>3</sup> ROE approved in Docket EL11-019

**Northern States Power Company**  
**Electric Utility - South Dakota**

(Dollars In Thousands)

**VI. REVENUE DEFICIENCY**

<b>2012 Based on authorized ROE</b>		<b>Actual</b>	<b>Weather</b>
<b>Line</b>	<b>Item</b>	<b>2012</b>	<b>Normalized</b>
		<b><u>S.D. Juris.</u></b>	<b><u>S.D. Juris.</u></b>
	<b><u>Revenue Deficiency</u></b>		
1	Total Operating Income	21,180	20,145
2	Total Average Rate Base	379,423	379,834
3	Require Operating Income (Rate Base * Required Return)	28,950	28,981
4	Operating Income	<u>21,180</u>	<u>20,145</u>
5	Operating Income Deficiency	7,770	8,836
6	Revenue Conversion Factor ( 1/(1-Composite Tax Rate) )	<u>1.53846</u>	<u>1.53846</u>
7	<b>Revenue Deficiency</b> (Income Deficiency * Conversion Factor)	<b>11,954</b>	<b>13,594</b>



**ROE = 5.38%**

**ADDENDUM**

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**Northern States Power Company (SD)  
Electric Utility - South Dakota Retail Jurisdiction  
Cost of Service Study  
2012 Actuals**

**Summary Reports**

**June 3, 2013**

**Northern States Power Company (SD)**  
**Electric Utility - South Dakota Retail Jurisdiction**  
**Cost of Service Study**  
**2012 Actuals**

(Dollars in Thousands)

**Rate Base Summary**

	<b>Total Company Electric</b>			<b>SD Retail Electric</b>			<b>All Other</b>		
	<b><u>Beginning Balance</u></b>	<b><u>Ending Balance</u></b>	<b><u>Average Balance</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Ending Balance</u></b>	<b><u>Average Balance</u></b>	<b><u>Beginning Balance</u></b>	<b><u>Ending Balance</u></b>	<b><u>Average Balance</u></b>
1 Plant Investment	14,121,388	14,575,762	14,348,575	857,571	889,529	873,550	13,263,817	13,686,233	13,475,025
2 Depreciation Reserve	(6,843,134)	(7,093,298)	(6,968,216)	(415,369)	(430,754)	(423,062)	(6,427,765)	(6,662,544)	(6,545,154)
3 Net Utility Plant	7,278,254	7,482,464	7,380,359	442,202	458,775	450,488	6,836,052	7,023,689	6,929,871
4 C.W.I.P.	0	0	0	0	0	0	0	0	0
5 Accumulated Deferred Taxes	(1,657,764)	(1,863,754)	(1,760,759)	(88,781)	(98,540)	(93,660)	(1,568,983)	(1,765,214)	(1,667,099)
Other Rate Base:									
6 Cash Working Capital	0	0	0	0	0	0	0	0	0
7 Materials & Supplies	128,683	128,683	128,683	7,793	7,793	7,793	120,890	120,890	120,890
8 Fuel Inventory	90,424	90,424	90,424	5,256	5,256	5,256	85,168	85,168	85,168
9 Non-Plant Assets & Liab	44,175	(31,264)	6,456	2,678	(2,013)	333	41,497	(29,251)	6,123
10 Prepays & Other	71,197	100,703	85,950	8,389	10,137	9,263	62,808	90,566	76,687
<b>11 Total Rate Base</b>	<b>5,954,969</b>	<b>5,907,256</b>	<b>5,931,113</b>	<b>377,537</b>	<b>381,408</b>	<b>379,473</b>	<b>5,577,432</b>	<b>5,525,848</b>	<b>5,551,640</b>

Northern States Power Company (SD)  
 Electric Utility - South Dakota Retail Jurisdiction  
 Cost of Service Study  
 2012 Actuals

(Dollars in Thousands)

**Income Statement Summary**

	<b><u>Total Company Electric</u></b>	<b><u>SD Retail Electric</u></b>	<b><u>All Other</u></b>	
<b><u>Operating Revenues</u></b>				
1	Retail	3,124,045	176,435	2,947,610
2	CIP Adjustment to Program Costs	0	-	0
3	Interdepartmental	532	-	532
4	Other Operating	673,326	38,128	635,198
5	Gross Earnings Tax	0	-	0
6	<b>Total Operating Revenues</b>	<b>3,797,903</b>	<b>214,563</b>	<b>3,583,340</b>
<b><u>Expenses</u></b>				
Operating Expenses:				
7	Fuel & Purchased Energy	1,242,746	72,590	1,170,156
8	Power Production	727,894	43,932	683,962
9	Transmission	210,577	12,953	197,624
10	Distribution	111,134	6,949	104,185
11	Customer Accounting	53,705	3,596	50,109
12	Customer Service & Information	103,566	1,005	102,561
13	Sales, Econ Dvlp & Other	68	2	66
14	Administrative & General	222,517	13,545	208,972
15	<b>Total Operating Expenses</b>	<b>2,672,207</b>	<b>154,572</b>	<b>2,517,635</b>
16	Depreciation	351,275	21,582	329,693
17	Amortization	19,892	393	19,499
Taxes:				
18	Property	151,204	7,313	143,891
19	Gross Earnings	0	-	0
20	Deferred Income Tax & ITC	169,718	7,725	161,993
21	State & Federal Income (see Page 3)	0	0	(0)
22	Payroll & Other	31,462	1,941	29,521
23	<b>Total Taxes</b>	<b>352,384</b>	<b>16,979</b>	<b>335,405</b>
24	<b>Total Expenses</b>	<b>3,395,758</b>	<b>193,526</b>	<b>3,202,232</b>
25	AFUDC	0	-	0
26	<b>Total Operating Income</b>	<b>402,145</b>	<b>21,037</b>	<b>381,108</b>

(Dollars in Thousands)

Income Tax Summary

	<u>Total Company Electric</u>	<u>SD Retail Electric</u>	<u>All Other</u>
<b><u>Income Before Taxes</u></b>			
1 Total Operating Revenues	3,797,903	214,563	3,583,340
2 less: Total Operating Expenses	(2,672,207)	(154,572)	(2,517,635)
3 Book Depreciation & Amortization	(371,167)	(21,975)	(349,192)
4 Taxes (Other Than Current Income)	(352,384)	(16,979)	(335,405)
5 <b>Total Before Tax Book Income</b>	<b>402,145</b>	<b>21,037</b>	<b>381,108</b>
<b><u>Tax Additions</u></b>			
6 Book Depreciation	351,275	21,582	329,693
7 Deferred Income Taxes & ITC	169,718	7,725	161,993
8 Nuclear Fuel Burn (ex D&D)	114,221	6,919	107,302
9 Nuclear Outage Accounting	57,969	3,443	54,526
10 Avoided Tax Interest	30,012	1,826	28,186
11 Open Line	0	0	0
12 Open Line	0	0	0
13 Open Line	0	0	0
14 Open Line	0	0	0
15 Open Line	0	0	0
16 Other Book Additions	0	0	0
17 <b>Total Tax Additions</b>	<b>723,195</b>	<b>41,495</b>	<b>681,700</b>
<b><u>Tax Deductions</u></b>			
18 Debt Interest Expense	157,174	10,056	147,118
19 Tax Depreciation & Removal	1,047,898	57,427	990,471
20 Manufacture Production Deduction	0	0	0
21 Open	0	0	0
22 Open	0	0	0
23 Open	0	0	0
24 Other Tax/Book Timing Differences	(79,732)	(4,951)	(74,781)
25 Net Preferred Stock Deduction	0	0	0
26 <b>Total Tax Deductions</b>	<b>1,125,340</b>	<b>62,532</b>	<b>1,062,808</b>
27 <b>State Taxable Income</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
28 State Income Tax Rate	9.08%	0.00%	N/A
29 State Taxes before Credits	0	0	0
30 State Credits	0	0	0
31 <b>Total State Income Taxes</b>	<b>0</b>	<b>0</b>	<b>0</b>
32 <b>Federal Taxable Income</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
33 Federal Income Tax Rate	35.00%	35.00%	35.00%
34 Federal Tax before Credits	0	0	(0)
35 Federal Tax Credits	0	0	0
36 <b>Total Federal Income Taxes</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
37 <b>Total Federal &amp; State Income Taxes</b>	<b>0</b>	<b>0</b>	<b>(0)</b>

Northern States Power Company (SD)  
 Electric Utility - South Dakota Retail Jurisdiction  
 Cost of Service Study  
 2012 Actuals

ADDENDUM  
 Page 5 of 5

**Revenue Requirement & Return Summary**

(Dollars in Thousands)

	<u>Capital Structure</u>	<u>Rate</u>	<u>Ratio</u>	<u>Weighted Cost</u>	<u>Composite Income Tax Rates</u>	
1	Long Term Debt	5.7395%	46.1872%	2.6500%	State of South Dakota Tax rate	0.00%
2	Short Term Debt	0.0000%	0.0000%	0.0000%	Federal Statutory Tax rate	35.00%
3	Preferred Stock	0.0000%	0.0000%	0.0000%	Federal Effective Tax Rate (1-State Rate*Fed Rate)	35.00%
4	Common Equity	9.2500%	53.8128%	4.9800%	<b>Total South Dakota Composite Tax Rate</b>	<b>35.00%</b>
5	<b>Required Rate of Return</b>			<b>7.6300%</b>	<b>Total Corporate Composite Tax Rate</b>	<b>40.90%</b>

	<u>Total Company Electric</u>	<u>SD Retail Electric</u>	<u>All Other</u>
<b><u>Rate of Return (ROR)</u></b>			
6	Total Operating Income	402,145	21,037
7	Total Average Rate Base	5,931,113	379,473
8	<b>ROR (Operating Income / Rate Base)</b>	<b>6.78%</b>	<b>5.54%</b>

<b><u>Return on Equity (ROE)</u></b>			
9	Total Operating Income	402,145	21,037
10	Debt Interest (Rate Base * Weighted Debt Cost)	(157,174)	(10,056)
11	Preferred Stock (Rate Base * Weighted Preferred Cost)	0	0
12	Earnings Available for Common	244,970	10,981
13	Equity Rate Base ( Rate Base * Equity Ratio)	3,191,698	204,205
14	<b>ROE (Earnings for Common / Equity Rate Base)</b>	<b>7.68%</b>	<b>5.38%</b>

<b><u>Revenue Deficiency</u></b>			
15	Require Operating Income (Rate Base * Required Return)	452,544	28,954
16	Operating Income	402,145	21,037
17	Operating Income Deficiency	50,399	7,917
18	Revenue Conversion Factor ( 1/(1-Composite Tax Rate) )	1.69207	1.53846
19	<b>Revenue Deficiency (Income Deficiency * Conversion Factor)</b>	<b>85,279</b>	<b>12,180</b>

<b><u>Total Retail Revenue Requirements</u></b>			
20	Retail Related Revenues	3,124,577	176,435
21	Revenue Deficiency	85,279	12,180
22	<b>Total Retail Revenue Requirements</b>	<b>3,209,856</b>	<b>188,615</b>
23	<b><u>Percentage Increase (Decrease)</u></b>	<b>2.73%</b>	<b>6.90%</b>