

ANNUAL REPORT
OF
JURISDICTIONAL EARNINGS
BY
NORTHERN STATES POWER COMPANY,
doing business as Xcel Energy
TO THE
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

FOR THE YEAR ENDING
DECEMBER 31, 2016

South Dakota Jurisdiction
Electric Utility



2016

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Electric Utility

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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>2016</u>	<u>2015</u>
1 Operating Income from Electric Operations (E-2):	\$42,249	\$29,393
2 Average Regulated Rate Base (E-3):	\$589,109	\$540,883
3 Rate of Return on Rate Base (ROR) (line 1 / line 2):	7.17%	5.43%
4 Weighted Cost of Debt (E-4):	2.23%	2.26%
5 Weighted Cost of Preferred Stock (E-4):	0.00%	0.00%
6 % of Equity in Capital Structure (E-4):	53.16%	53.40%
7 Return on Equity (ROE):	9.30%	5.94%

<u>ROE, Normalized for Weather Impact on Sales</u>	<u>2016</u>	<u>2015</u>
8 Operating Income from Electric Operations:	\$42,249	\$29,394
9 Impact of weather on Mwh Sales:	23,671	(19,030)
10 Impact of weather on Electric Operating Income :	\$1,192	(\$763)
11 Weather-Normalized Operating Income:	\$41,057	\$30,156
12 Average Regulated Rate Base:	\$589,523	\$540,618
13 Weather-Normal Rate of Return on Rate Base (ROR):	6.96%	5.58%
14 Weather-Normalized Return on Equity (ROE):	8.91%	6.21%

Northern States Power Company
Electric Utility - South Dakota

(Dollars In Thousands)

II. OPERATING INCOME

<u>Line</u>	<u>Item</u>	<u>2016</u> <u>Total NSP</u>	<u>2016</u> <u>S.D. Juris.</u>	<u>2015</u> <u>S.D. Juris.</u>	<u>Annual</u> <u>Change</u>
<u>Operating Revenues:</u>					
1	Residential	1,293,150	90,042	84,071	7.1%
2	Small Comm. & Ind.	1,511,565	95,626	90,053	6.2%
3	Large Comm. & Ind.	685,042	28,510	28,983	-1.6%
4	Public Street & Highway Ltg	26,251	1,781	1,734	2.7%
5	Other Sales to Publ Auth	<u>9,130</u>	<u>3</u>	<u>3</u>	0.0%
	Total Retail	3,525,138	215,962	204,844	5.4%
6	Interdepartmental	655	0	0	*
7	Sales for Resale	65,707	4,056	7,150	-43.3%
8	Interchange Agreement	471,638	28,865	28,950	-0.3%
9	Other	<u>260,855</u>	<u>17,039</u>	<u>13,902</u>	<u>22.6%</u>
10	Total Revenues:	<u>4,323,993</u>	<u>265,922</u>	<u>254,846</u>	<u>4.3%</u>
<u>Operating Expenses:</u>					
11	Production	1,835,485	112,475	121,049	-7.1%
12	Transmission	355,752	21,654	19,648	10.2%
13	Distribution	110,969	7,158	7,535	-5.0%
14	Customer Billing	55,996	3,141	4,003	-21.5%
15	Customer Service	138,673	356	1,315	-72.9%
16	Sales & Marketing	106	50	50	0.0%
17	Admin. & General	237,388	16,324	15,680	4.1%
18	Depreciation & Amortization	608,518	36,062	34,294	5.2%
19	Property Taxes	193,728	10,418	10,290	1.2%
20	Other General Taxes ¹	29,287	1,916	2,000	-4.2%
21	Income Taxes	0	0	0	*
22	Deferred Income Taxes & ITC	<u>173,699</u>	<u>14,118</u>	<u>9,589</u>	<u>47.2%</u>
23	Total Expenses:	<u>3,739,600</u>	<u>223,672</u>	<u>225,453</u>	<u>-0.8%</u>
24	Regulated Operating Income	584,393	42,249	29,393	43.7%

¹ Includes payroll taxes.

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

III. AVERAGE RATE BASE

<u>Line</u>	<u>Item</u>	2016 ² <u>Total NSP</u>	2016 ² <u>S.D. Juris.</u>	2015 ² <u>S.D. Juris.</u>	<u>Annual Change</u>
1	Plant in Service	18,871,488	1,212,715	1,144,437	6.0%
2	Accumulated Depreciation	8,552,393	523,562	510,293	2.6%
3	Net Plant in Service	10,319,095	689,153	634,144	8.7%
4	Plant Held for Future Use	0	0	0	*
5	Construct Work in Progress	0	0	0	*
6	Materials and Supplies	208,146	12,689	10,975	15.6%
7	Fuel Stocks	90,512	5,588	5,711	-2.2%
8	Prepayments & Other Rate Base	80,039	6,991	8,828	-20.8%
9	Customer Deposits	(105,027)	(142)	(170)	-16.5%
10	Cash Working Capital	0	0	0	*
11	Other Rate Base ¹	67,083	4,712	4,320	9.1%
12	Accum. Deferred Taxes	(2,262,462)	(129,882)	(122,925)	5.7%
13	Total Other Rate Base	(1,921,709)	(100,044)	(93,261)	7.3%
14	Total Average Rate Base	8,397,386	589,109	540,883	8.9%

¹ 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.

² Average rate base is based on 13 monthly averages.

Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

IV. COST OF CAPITAL

2016 Actual

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Long-Term Debt ¹	\$4,663,667	46.84%	4.77%	2.23%
2	Short-Term Debt	<u>\$0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
3	Total Debt	\$4,663,667	46.84%	4.77%	2.23%
4	Preferred Stock ²	\$0	0.00%	0.00%	0.00%
5	Common Equity ²	<u>\$5,292,680</u>	<u>53.16%</u>	9.30%	4.94%
6	Total Equity	\$5,292,680	53.16%		
7	Total Capital	\$9,956,347	100.00%		7.17%

2016 Normalized

<u>Line</u>	<u>Item</u>	<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Weighted Cost</u>
8	Long-Term Debt ¹	\$4,663,667	46.84%	4.77%	2.23%
9	Short-Term Debt	<u>\$0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
10	Total Debt	4,663,667	46.84%	4.77%	2.23%
11	Preferred Stock ²	\$0	0.00%		0.00%
12	Common Equity ²	<u>\$5,292,680</u>	<u>53.16%</u>	8.91%	4.74%
13	Total Equity	\$5,292,680	53.16%		
14	Total Capital	\$9,956,347	100.00%		6.96%

¹ Long-term debt is a 13 month average

² Preferred stock and common stock are 13 month averages

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Northern States Power Company
Electric Utility - South Dakota

(Dollars In Thousands)

V. REQUIRED RATE OF RETURN

<u>2016 Based on authorized ROE</u>						
<u>Line</u>	<u>Item</u>	[TRADE SECRET BEGINS			Weighted	
		<u>Amount</u>	<u>% of Total</u>	<u>Cost</u>	<u>Cost</u>	
1	Long-Term Debt ¹					
2	Short-Term Debt					
3	Total Debt					
4	Preferred Stock ²					
5	Common Equity ²					
6	Total Equity					
7	Total Capital					

]TRADE SECRET ENDS]

¹ Long-term debt is a 13 month average

² Preferred stock and common stock are 13 month averages

³ Confidential per Settlement in Docket EL14-058

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Northern States Power Company

Electric Utility - South Dakota

(Dollars In Thousands)

VI. REVENUE DEFICIENCY

2016 Based on authorized ROE

<u>Line</u>	<u>Item</u>	Actual 2016 <u>S.D. Juris.</u>	Weather Normalized 2016 <u>S.D. Juris.</u>
	<u>Revenue Deficiency</u>	[TRADE SECRET BEGINS]	
1	Total Operating Income		
2	Total Average Rate Base		
3	Require Operating Income (Rate Base * Required Return)		
4	Operating Income	_____	_____
5	Operating Income Deficiency	_____	_____
6	Revenue Conversion Factor (1/(1-Composite Tax Rate))	_____	_____
7	Revenue Deficiency (Income Deficiency * Conversion Factor)		
		[TRADE SECRET ENDS]	

ROE = 9.30%

ADDENDUM

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**Northern States Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2016 Actuals**

Summary Reports

June 1, 2017

Northern States Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2016 Actuals
(Dollars in Thousands)

Rate Base Summary

Line No.	NSPM - 01 Rate Base Schedule	Total	SD Electric	Other
1	Plant Investment	18,871,488	1,212,715	17,658,773
2	Depreciation Reserve	<u>8,552,393</u>	<u>523,562</u>	<u>8,028,831</u>
3	Net Utility Plant	10,319,095	689,153	9,629,942
4	CWIP	0	0	0
5	Accumulated Deferred Taxes	2,735,501	180,448	2,555,054
6	DTA - NOL Average Balance	(300,807)	(42,790)	(258,017)
7	DTA - State Tax Credit Average Balance	(901)	(25)	(876)
8	<u>DTA - Federal Tax Credit Average Balance</u>	<u>(171,332)</u>	<u>(7,751)</u>	<u>(163,581)</u>
9	Total Accumulated Deferred Income Taxes	2,262,462	129,882	2,132,580
10	Materials and Supplies	208,146	12,689	195,457
11	Fuel Inventory	90,512	5,588	84,924
12	Non-plant Assets and Liabilities	67,083	4,712	62,371
13	Customer Advances	(10,792)	(2,238)	(8,554)
14	Customer Deposits	(105,027)	(142)	(104,885)
15	Prepays and Other	86,917	5,316	81,601
16	<u>Regulatory Amortizations</u>	3,914	3,914	0
17	Total Other RB Items	340,753	29,838	310,915
18	Total Rate Base	8,397,386	589,109	7,808,277

Income Statement Summary

Line No. NSPM - 02 Income Statement Schedule	Total	SD Electric	Other	
1	<u>Operating Revenues</u>			
2	Retail	3,525,138	215,962	3,309,176
3	Interdepartmental	655	0	655
4	Transportation	0	0	0
5	Other Operating Rev - Non-Retail	<u>798,201</u>	<u>49,960</u>	<u>748,241</u>
6	Total Operating Revenues	4,323,993	265,922	4,058,072
7				
8	<u>Expenses</u>			
9	Operating Expenses:			
10	Fuel	1,061,401	65,514	995,887
11	Deferred Fuel	0	0	0
12	Variable IA Production Fuel	13,135	811	12,324
13	<u>Purchased Energy - Windsource</u>	<u>5,078</u>	<u>0</u>	<u>5,078</u>
14	Fuel & Purchased Energy Total	1,079,614	66,325	1,013,288
15	Production - Fixed	428,537	26,084	402,453
16	Production - Fixed IA Investment	29,146	1,799	27,346
17	Production - Fixed IA O&M	17,456	1,078	16,378
18	Production - Variable	114,655	7,077	107,578
19	Production - Variable IA O&M	3,281,191	202,568	3,078,623
20	Production - Purchased Demand	153,213	9,326	143,888
21	<u>Production - Other</u>	<u>(0)</u>	<u>0</u>	<u>(0)</u>
22	Production Total	746,289	45,566	700,722
23	Regional Markets	9,583	583	9,000
24	Transmission IA	107,466	6,541	100,924
25	Transmission	248,286	15,113	233,173
26	Distribution	110,969	7,158	103,811
27	Customer Accounting	55,996	3,141	52,855
28	Customer Service & Information	138,673	356	138,317
29	Sales, Econ Dvlp & Other	106	50	56
30	Administrative & General	<u>237,388</u>	<u>16,324</u>	<u>221,063</u>
31	Total Operating Expenses	2,734,369	161,159	2,573,210
32				
33	Depreciation	571,620	36,622	534,999
34	Amortization	36,898	(560)	37,458
35				
36	<u>Taxes:</u>			
37	Property Taxes	193,728	10,418	183,309
38	ITC Amortization	(1,463)	(69)	(1,394)
39	Deferred Taxes	190,085	18,269	171,816
40	Deferred Taxes - NOL	48,393	(174)	48,568
41	Less Deferred State Tax Credits	(818)	(50)	(768)
42	Less Deferred Federal Tax Credits	<u>(62,498)</u>	<u>(3,858)</u>	<u>(58,640)</u>
43	Deferred Income Tax & ITC	173,699	14,118	159,581
44	Payroll & Other Taxes	29,287	1,916	27,371
45	Total Taxes Other Than Income	396,714	26,452	370,262
46	Total State & Federal Income Taxes	(0)	(0)	(0)
47				
48	Total Taxes	396,714	26,452	370,262
49	Total Expenses	3,739,600	223,672	3,515,928
50	Total Operating Income	584,393	42,249	542,143
51		0	0	0
52	AFDC Debt	0	0	0
53	AFDC Equity	0	0	0
54		0	0	0
55	Net Income	584,393	42,249	542,143

Income Tax Summary

Line No.	NSPM - 03 Income Tax Schedule	Total	SD Electric	Other
1	<u>Income Before Taxes</u>			
2	Total Operating Revenues	4,323,993	265,922	4,058,072
3	less: Total Operating Expenses	2,734,369	161,159	2,573,210
4	Book Depreciation	571,620	36,622	534,999
5	Amortization	36,898	(560)	37,458
6	<u>Taxes Other than Income</u>	<u>396,714</u>	<u>26,452</u>	<u>370,262</u>
7	Total Before Tax Book Income	584,393	42,249	542,143
8				
9	<u>Tax Additions</u>			
10	Book Depreciation	571,620	36,622	534,999
11	Deferred Income Taxes and ITC	173,699	14,118	159,581
12	Nuclear Fuel Burn (ex D&D)	116,982	7,120	109,861
13	Nuclear Outage Accounting	69,979	4,288	65,690
14	Avoided Tax Interest	17,200	1,250	15,950
15	Other Book Additions		0	
16	Total Tax Additions	949,480	63,398	886,082
17				
18	Tax Deductions			
19	Total Rate Base	8,397,386	589,109	7,808,277
20	Weighted Cost of Debt	2.23%	2.23%	2.23%
21	Debt Interest Expense (Line 19 x Line 20)	187,262	13,137	174,125
22	Nuclear Outage Accounting	38,468	2,355	36,113
23	Tax Depreciation and Removals	1,196,304	89,794	1,106,510
24	NOL Generated	(427,312)	(427,312)	
25	NOL Utilization	119,127		119,127
26	Other Tax / Book Timing Differences	(6,860)	789	(7,649)
27	Total Tax Deductions	1,533,873	105,648	1,428,225
<hr/>				
1				
2	State Taxes			
3	State Taxable Income	(0)	(0)	(0)
4	State Income Tax Rate		0.00%	
5	State Taxes before Credits (Line 31 x Line 32)		0	
6	Less State Tax Credits	(818)	(50)	(768)
7	Deferred State Tax Credits due to NOL	818	50	768
8	Total State Income Taxes		0	
9				
10	Federal Taxes			
11	Federal Taxable Income	(0)	(0)	(0)
12	Federal Income Tax Rate	35.00%	35.00%	35.00%
13	Federal Tax before Credits (Line 39 x Line 40)	(0)	(0)	(0)
14	Less Federal Tax Credits	(62,498)	(3,858)	(58,640)
15	Deferred Federal Tax Credits due to NOL	62,498	3,858	58,640
16	Total Federal Income Taxes	(0)	(0)	(0)
17				
18	Total Taxes			
19	<u>Total Federal and State Income Taxes</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>

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Northern States Power Company (SD)
Electric Utility - South Dakota Retail Jurisdiction
Cost of Service Study
2016 Actuals
(Dollars in Thousands)

ADDENDUM
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Revenue Requirement & Return Summary

Line No.	NSPM - 04 Revenue Deficiency Schedule	Total	SD Electric	Other
1	Weighted Cost of Capital			
2	Active Rates and Ratios Version	Proposed	Proposed	Proposed
3	Cost of Short Term Debt	[TRADE SECRET BEGINS		
4	Cost of Long Term Debt			
5	Cost of Preferred Stock			
6	Cost of Common Equity			
7	Ratio of Short Term Debt			
8	Ratio of Long Term Debt			
9	Ratio of Preferred Stock			
10	Ratio of Common Equity			
11	Weighted Cost of STD			
12	Weighted Cost of LTD			
13	Weighted Cost of Debt			
14	Weighted Cost of Preferred Stock			
15	Weighted Cost of Equity			
16	Required Rate Of Return			
17				TRADE SECRET ENDS]
18	Composite Income Tax Rate			
19	State Tax Rate			
20	Federal Statutory Tax Rate	35.00%	35.00%	35.00%
21	Federal Effective Tax Rate	<u>35.00%</u>	<u>35.00%</u>	<u>35.00%</u>
22	Composite Tax Rate	35.00%	35.00%	35.00%
23				
24	Rate of Return (ROR)			
25	Total Operating Income	584,393	42,249	542,143
26	Total Rate Base	<u>8,397,386</u>	<u>589,109</u>	<u>7,808,277</u>
27	ROR (Operating Income / Rate Base)	6.96%	7.17%	6.94%
28				
29	Return on Equity (ROE)			
30	Total Operating Income	584,393	42,249	542,143
31	Debt Interest (Rate Base * Weighted Cost of Debt)	(187,262)	(13,137)	(174,125)
32	Earnings Available for Common	397,131	29,112	368,019
33	Equity Rate Base (Rate Base * Equity Ratio)	<u>4,464,050</u>	<u>313,170</u>	<u>4,150,880</u>
34	ROE (earnings for Common/Equity Rate Base)	8.90%	9.30%	8.87%
35				
36	Revenue Deficiency			
37	Required Operating Income (Rate Base * Required Return)	600,413	42,121	558,292
38	Total Operating Income	584,393	42,249	542,143
39	Operating Income Deficiency	16,020	(128)	16,148
40				
41	Revenue Conversion Factor (1/(1-Composite Tax Rate))	1.5385	1.5385	1.5385
42	Revenue Deficiency (Income Deficiency * Conversion Factor)	24,647	(197)	24,844
43				
44	Total Revenue Requirements			
45	Total Retail Revenues	3,525,792	215,962	3,309,831
46	Revenue Deficiency	24,647	(197)	24,844
47	Total Revenue Requirements	3,550,439	215,765	3,334,674