



Northern Natural Gas
P.O. Box 3330
Omaha, NE 68103-0330
402 398-7200

May 16, 2024

Via eFiling

Ms. Debbie-Anne Reese, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: OEP/DPC/CB-1
Northern Natural Gas Company
Northern Lights 2025 Expansion Project
Docket No. CP24-60-000
§ 375.308(x)(3)

Dear Ms. Reese:

Northern Natural Gas Company (Northern) hereby submits for filing with the Federal Energy Regulatory Commission (FERC) in the above-referenced docket Northern's response to the data request issued by FERC staff May 9, 2024. FERC's requests and Northern's responses are attached.

Any questions regarding the filing should be directed to the undersigned at (402) 398-7103.

Respectfully submitted,

/signed/ Donna Martens

Donna Martens
Director Property Accounting

cc: Parties of record

VERIFICATION

STATE OF NEBRASKA)

COUNTY OF DOUGLAS)

Nick Marquardt, being duly sworn, on oath, states that he is Vice President, Engineering for Northern Natural Gas and is duly authorized to make this affidavit; that he has read the foregoing Data Response of such Company and is familiar with the contents thereof; that all the facts therein are true and correct to the best of his knowledge, information and belief.

Signed:



Nick Marquardt
Vice President, Engineering

SUBSCRIBED AND SWORN TO, before me, this *16* day of May 2024.



Barbara D. Bischoff

Notary Public in and for
Douglas County, Nebraska

My commission expires: *Dec. 30, 2027*

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated this 16 day of May 2024.



Donna Martens
Senior Regulatory Analyst
P.O. Box 3330
Omaha, Nebraska 68103-0330
Telephone: (402) 398-7103

Northern Natural Gas Company
 Data Response Form For Docket No. CP24-60-000
 Northern Lights 2025 Expansion

Requesting Party: FERC
 Reference No: FERC-DR2-01
 Requester's Name: Andrya C. Torres Pérez
 Subject: Exhibit K - AFUDC

Data Request 1:

In Exhibit K, Northern Natural estimates total capitalized Allowance for Funds Used During Construction (AFUDC) to be \$826,894. Please provide the following in Microsoft Excel:

- i. The worksheet computations on a monthly basis to support the \$826,894 of AFUDC. Separately identify the debt/equity components.
- ii. The computation and methodology to support the debt/equity cost rates used to derive the AFUDC rate.
- iii. Provide the approved return on equity and approved overall rate of return. Indicate the FERC order number approving these rates of return.

The worksheets and/or files for question 1, should retain all notes and any formulas supporting the calculation. If the project components as identified in EXHIBIT K of the application have varying construction start and in-service dates, please provide the calculations in separate worksheets so that the AFUDC start, and end dates are clear for each component.

Response:

In response to FERC request 1 Northern submits Exhibits 1 through 7. Each exhibit shows the calculations used to determine the estimated AFUDC amount for each pipeline segment to be constructed that in total equal the \$826,894 reported in the Exhibit K. The attached work papers also explain the computations and methodology used to determine the AFUDC amount.

- i. See Exhibit 1 for AFUDC summary for each of the 5 pipeline segments that reconcile to the AFUDC amount of \$826,894 stated in Exhibit K.
- ii. See Exhibits 2 through 6 for the AFUDC calculation for each of the 5 projects listed in Exhibit K.

Northern will calculate AFUDC based on actual costs paid. All accruals and retention charges as well as all other non-construction costs paid, such as land and property rights, that are charged to the project will be excluded from the AFUDC base. During construction, the AFUDC base will be equal to the sum of the prior month's project to-date payments, including AFUDC, plus one-half of the current month's payments. See the formula below.

AFUDC base = Prior month project to-date payments + AFUDC + $\frac{1}{2}$ (current month payments)

For the month assets are placed in-service, the AFUDC base is the sum of one-half of the prior month project to-date payments, including AFUDC, plus one-fourth of the current month's payments. See the formula below.

AFUDC base for in service month = $\frac{1}{2}$ (prior month project to-date payments + AFUDC) + $\frac{1}{4}$ (current month payments)

Monthly AFUDC debt and equity accrual amounts are determined by multiplying the monthly debt and equity rates derived using the methodology provided in response to item (ii) times the AFUDC base for the month.

ii. Please see Exhibit 7 of the attached file for Northern's AFUDC monthly rate calculation for year 2024. Northern does not have any short-term debt instruments; therefore, the proration calculation for short-term and long-term debt is not applicable.

As shown on Exhibit 7, Northern first calculates its annual AFUDC rate for the current year based on its capital structure as of December 31 of the prior year. Northern's capital structure is based on its total proprietary capital reported on page 112 of its FERC Form 2, line 15 less line 14, accumulated other comprehensive income, and the sum of long-term debt also reported on page 112 on lines 17 and 20.

For 2024, Northern uses an equity rate of 12.50% for its AFUDC calculation. Northern's RP19-1353 and RP22-1033 rate case settlements approved by the Commission did not stipulate an allowed return on equity. Therefore, beginning with the AFUDC rate for 2021, Northern has used its actual three-year average return on equity. Northern's debt rate is its weighted average cost of debt per the calculations shown on the attached schedules, which was 4.15% as of December 31, 2023. For future years, Northern will update the implied equity and debt rates accordingly.

Once Northern has determined its annual AFUDC rate, it uses the formula below to determine its monthly AFUDC rate, compounded semi-annually.

Monthly AFUDC Rate = $[(1 + \text{annual AFUDC rate}/2)^2]^{(1/12)} - 1$

On May 14, 2019, FERC staff filed in Docket No. PA16-2-000 its findings of an audit to evaluate Northern's compliance with accounting regulations of the Uniform System of Accounts (USofA) under 18 CFR. Part 201 among other items. This audit tested Northern's calculation of AFUDC debt and equity rates, monthly accruals, frequency of compounding, and accounting for a select sample of capital projects. FERC staff examined inputs to each component of debt and equity, compared them with Form No. 2 data and traced the amounts to the general ledger and source documents. As part of this review, FERC staff recalculated the yield to maturity used to derive the cost rate for long-term debt, traced the equity rate to Northern's last approved rate case, and ensured that Northern considered short-term debt as the first source of financing construction as required by GPI 3(17) and Commission Order 561. There were no audit findings or recommendation for change to Northern's calculation of AFUDC. The audit covered January 1, 2013, to December 31, 2017.

Northern Natural Gas Company
Data Response Form For Docket No. CP24-60-000
Northern Lights 2025 Expansion

Requesting Party: FERC
Reference No: FERC-DR2-02
Requester's Name: Andrya C. Torres Pérez
Subject: Contingency Costs

Data Request 2:

Northern estimates contingency costs to be \$2,903,500, please provide details explaining how the estimate of capitalized contingency costs was developed.

Response:

Northern typically includes contingency costs that total 5% of the total estimated project costs; the contingency costs are increased or decreased from the typical 5% based on known project risks. These values have been compared against historical project trends where contingency is added to accommodate unforeseen changes that may occur during construction. The contingency used for each project listed in the Exhibit K was between 3.8% and 6.1%.

Posted: 05/16/2024

Responsibility: Matt Kraft