

Direct Testimony and Schedules  
Kent T. Larson

Before the North Dakota Public Service Commission  
State of North Dakota

In the Matter of the Application of Northern States Power Company,  
a Minnesota corporation and wholly owned subsidiary of Xcel Energy Inc.  
For Authority to Increase Rates for  
Natural Gas Service in North Dakota

Case No. PU-06-\_\_\_\_  
Exhibit\_\_\_\_

**Policy Testimony**

December 15, 2006

## Table of Contents

I.	Introduction and Qualifications	1
II.	Company Witnesses	4
III.	Company Overview	5
IV.	Primary Rate Case Drivers	7
V.	Managing High Gas Bills	11
VI.	Conclusion	13

1                                   **I. INTRODUCTION AND QUALIFICATIONS**

2  
3    Q.   PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4    A.   I am Kent T. Larson, Vice-President, Jurisdictional Relations for Xcel Energy  
5        Inc. I am employed by Xcel Energy Services Inc. (“XES”), the service  
6        company for Xcel Energy Inc. My office is at 414 Nicollet Mall Minneapolis,  
7        Minnesota, 55401. My resume is included as Exhibit\_\_\_\_(KTL-1), Schedule 1.

8  
9    Q.   PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

10   A.   From 1997 to 2000, I was Chief Executive and Managing Director, Dakotas  
11        for Northern States Power Company, and in 2000, I was named State Vice  
12        President, MN. In 2001, I was named State Vice President for Minnesota and  
13        the Dakotas. I became Vice President of Jurisdictional Relations in 2004,  
14        with varying levels of responsibility for governmental, regulatory, and  
15        community affairs in ten of the states served by the Xcel Energy Inc.  
16        operating companies. In 2006, Xcel Energy Inc. increased its jurisdictional  
17        focus by reorganizing along operating companies, and I was named Vice  
18        President, Customer and Community Relations for Northern States Power  
19        Company, a Minnesota corporation and wholly owned subsidiary of Xcel  
20        Energy Inc. (“NSP”) In all the positions I have held since 1997, except for a  
21        one-year period, I have had management responsibility for public affairs and  
22        jurisdictional financial results for the natural gas and electric utility operations  
23        in North Dakota.

1 Q. FOR WHOM ARE YOU TESTIFYING?

2 A. I am testifying on behalf of the Xcel Energy Inc. utility operating company  
3 providing natural gas and electric service in North Dakota, South Dakota and  
4 Minnesota (“Xcel Energy” or the “Company”).

5

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

7 A. I will briefly describe our North Dakota gas operations, summarize the need  
8 for a base natural gas rate increase in North Dakota, and introduce the other  
9 Company-sponsored witnesses and exhibits in this petition.

10

11 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

12 A. The Company requires a rate increase of \$2,801,000 or 3.0 percent in order to  
13 recover our prudent costs of service and earn a reasonable rate of return.  
14 While we continue to exercise prudent and effective management, increases in  
15 revenues from customer and sales growth in our North Dakota service area is  
16 not sufficient to offset the increased costs of installing new mains and  
17 services, operating and maintaining our natural gas distribution system, and  
18 providing the type of service our customers have come to expect. Thus, this  
19 rate increase is needed to provide the Company with an opportunity to earn  
20 its authorized return and restore North Dakota natural gas operations to  
21 financial health.

1 The Company is requesting that the North Dakota Public Service  
2 Commission (the “Commission”) grant an authorized return on equity  
3 (“ROE”) of 11.3 percent – slightly below the last formally authorized ROE of  
4 11.5 percent approved by the Commission in Case No. PU-400-00-195.<sup>1</sup> The  
5 Company’s proposed interim rates also reflect an 11.3 percent ROE, and  
6 would go into effect on February 13, 2007 if the Commission suspends the  
7 requested rate increase.

8  
9 It should be noted that in this Application, the Company is not proposing any  
10 material changes in rate design, modifications in miscellaneous charges and  
11 service fees; or any accounting changes. We are proposing changes to the  
12 Large Commercial Interruptible Transportation service tariff to improve the  
13 nomination process and to improve customer knowledge.

14  
15 Q. ARE YOU PROPOSING ANY NEW PROGRAMS FOR THE COMMISSION TO  
16 CONSIDER IN THIS PROCEEDING?

17 A. Along with granting the requested increase in natural gas distribution  
18 revenues, I request that the Commission consider approving the Company’s  
19 natural gas demand side management (“DSM”) program being proposed to  
20 help residential customers in North Dakota conserve energy and lower natural  
21 gas bills. In Xcel Energy’s previous natural gas rate case (Case No. PU-400-  
22 04-578) the Commission approved a fixed monthly “Delivery Services”  
23 charge for residential customers. This type of rate allows Xcel Energy to  
24 promote more efficient energy use without incurring financial harm due to

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<sup>1</sup> In its previous natural gas rate case, Case No. PU-400-04-578, the Company agreed to a rate settlement, which did not specify an authorized ROE.

1 and conservation devices to customers seeking to reduce natural gas usage,  
2 and has included \$138,000 in the test year to fund those initiatives.

3  
4 **II. COMPANY WITNESSES**

5  
6 Q. PLEASE IDENTIFY THE WITNESSES THE COMPANY IS SPONSORING IN THIS  
7 PROCEEDING.

8 A. In addition to my Policy Testimony, the Company sponsors the following  
9 witnesses:

- 10 • *Jeffrey C. Robinson*, who sponsors the overall revenue requirement for  
11 the case. Mr. Robinson sponsors the schedules supporting our  
12 income statement, rate base, revenue deficiency, test year capital  
13 structure and jurisdictional allocations;
- 14 • *Jannell E. Marks*, who sponsors the 2007 test year customer and sales  
15 forecast;
- 16 • *Michael C. Connelly*, who sponsors the Company's compensation  
17 programs and test year compensation expense;
- 18 • *Debra Sundin*, who sponsors the proposed natural gas demand side  
19 management programs;
- 20 • *Donald Dahl*, who sponsors the class cost of service study and our rate  
21 design proposals and tariff sheets; and
- 22 • *Dr. Karl A. McDermott* of NERA Economic Consulting, who sponsors  
23 testimony on the appropriate cost of common equity. Dr.  
24 McDermott recommends a cost of common equity of 11.32 percent.
- 25



1 Rice. About 85 percent of our North Dakota customers are in the Residential  
2 class, and 15 percent are in the Commercial and Industrial classes.  
3 Approximately 36 percent of our annual natural gas retail sales are to  
4 residential customers, while 43 percent are commercial and industrial firm  
5 service sales. Approximately 21 percent are from interruptible service sales  
6 (typically larger customers with alternate fuel capability).

7  
8 Xcel Energy has about 105 employees either dedicated strictly to North  
9 Dakota natural gas operations or working in a gas support area such as  
10 engineering, project design, warehousing, garage, meter department, and  
11 others located in the Fargo and Grand Forks service centers. North Dakota  
12 natural gas operations are also supported by the Company's operational  
13 employees and Xcel Energy Service Company (corporate) employees located  
14 in Minnesota, Wisconsin, and Colorado.

15  
16 Xcel Energy's North Dakota gas distribution system is connected directly to  
17 the interstate pipeline systems of Viking Gas Transmission Company  
18 ("Viking") and Williston Basin Interstate Pipeline Company ("WBI"), two  
19 non-affiliated pipelines regulated by the Federal Energy Regulatory  
20 Commission ("FERC"). However, the Company uses upstream  
21 transportation and underground storage services on several interstate (*e.g.*,  
22 Northern Natural Gas Company, ANR Pipeline Company, Northern Border  
23 Pipeline) and Canadian gas pipelines (*e.g.*, TransCanada) to deliver natural gas  
24 to our retail gas customers in North Dakota.

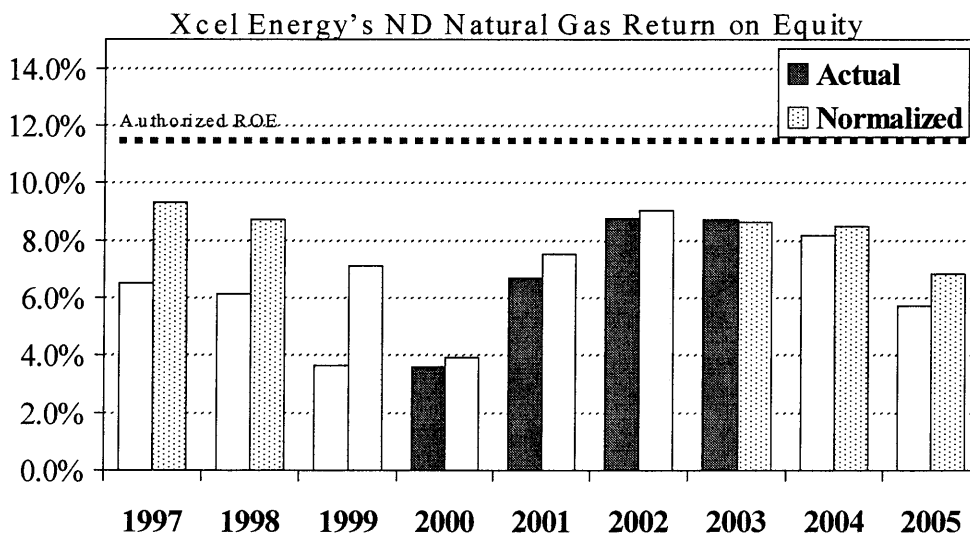
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1 Q. WHAT HAS BEEN THE EARNINGS HISTORY OF XCEL ENERGY'S NORTH  
2 DAKOTA GAS OPERATIONS?

3 A. Since 1997, the year in which the most devastating Red River flood in  
4 recorded history damaged over half of the Company's gas distribution system  
5 in the Grand Forks area, the Company has earned annual returns on equity  
6 ("ROE") in the range of 3.7% -- 8.5%. Chart 1 (below) shows the actual and  
7 weather-adjusted earnings since 1997 for Xcel Energy's North Dakota natural  
8 gas operations, as reported to the Commission in our annually filed  
9 Jurisdictional Earnings Report.

10 **CHART KTL-1**



30 \* Normalized: adjusted for weather and Cost of Gas recovery timing

32  
33  
34 Q. IS SUCH A RANGE OF RETURNS ACCEPTABLE FOR CONTINUED SUCCESSFUL  
35 OPERATIONS OF A NATURAL GAS UTILITY?

36 A. No. Such returns are significantly below authorized levels, detrimental to the  
37 Company's financial health, and hinder the Company's ability to attract the  
38 capital needed to provide reliable, high-quality service to customers. The

1 Compared to our last natural gas rate case test year three years ago, operation  
2 and maintenance (“O&M”) expenses have increased about \$1.7 million as a  
3 result of wage increases and inflation, changes in the jurisdictional assignment  
4 of costs to North Dakota, and higher incidences of uncollectible accounts. In  
5 addition, the Company is proposing to implement selected gas demand side  
6 management (conservation) initiatives, which adds about \$138,000 of new  
7 costs to the 2007 test year. Based on industry cost trends as compiled by  
8 Global Insight, a respected economic forecasting firm, annual inflation for  
9 utility costs for the period is approximately in the 4.0 percent to 4.5 percent  
10 range. Also, improvements in the jurisdictional assignment of budgeted  
11 natural gas O&M expenses have corrected certain misallocations of costs to  
12 areas outside of North Dakota. Mr. Jeffrey Robinson discusses this further in  
13 his Revenue Requirement testimony.

14  
15 Our ability to earn our authorized return is also unfavorably impacted by  
16 significantly depressed commercial firm service sales relative to what was  
17 projected in the 2004 test year in Case No. PU-400-04-578. In that case, Xcel  
18 Energy forecasted test year *firm service* sales for the commercial class to be  
19 about 3.8 million dekatherms. In fact, sales for the class hovered just over 3.5  
20 million dekatherms in both 2004 and 2005, and final 2006 sales are not  
21 expected to be much higher than 3.6 million. In the 2007 test year filed in  
22 this case, commercial firm service sales are forecasted to be 3.67 dekatherms.  
23 The drop in sales for this class is due primarily to increasing efficiency and  
24 conservation, and customer response to volatile wholesale natural gas prices.



1 Our aggressive pursuit of a diverse supply portfolio led to our ability to make  
2 new arrangements that will provide significant benefits to our customers.

3  
4 Q. WHAT OTHER ACTIONS HAS THE COMPANY TAKEN ON SUPPLY RELATED  
5 ISSUES?

6 A. The Company has changed its purchasing practices to mitigate the extreme  
7 variability in wholesale natural gas supply prices that have become much more  
8 common. Years ago, the Company purchased supplies under contracts linked  
9 to monthly index prices and did not hedge any of its supply portfolio, as the  
10 cost of taking some of the variability out of the wholesale commodity market  
11 was not offset by the benefits. With wholesale commodity prices reaching in  
12 excess of \$12/Dkt during some winter heating months, and the occurrence of  
13 significant month to month variations, the value of hedging a portion of our  
14 supply portfolio for customers has increased dramatically. Today we hedge  
15 up to 50% of our supply through the use of storage gas (providing a seasonal  
16 price hedge) and financial instruments. The Company has responded to the  
17 gas price volatility in managing its business in a way that continues to offer  
18 customers the benefits of its supply acquisition plans.

19  
20 Finally, public policy plays an important role in energy production. We have  
21 worked hard for the past several years to support a national energy bill that  
22 will expand domestic sources of natural gas supply. Although the potential of  
23 expanded LNG and construction of the Alaskan Pipeline may mitigate long-  
24 term wholesale prices, a higher price environment and associated volatility are  
25 expected to continue over the near term.

1 Q. HAVE THESE ACTIONS BEEN SUFFICIENT TO AVOID THE IMPACTS OF A  
2 VOLATILE WHOLESALE COMMODITY MARKET?

3 A. No. While we work hard to manage our portfolio as efficiently as possible,  
4 there is little we can do to prevent the effects of the current wholesale natural  
5 gas market from reaching our customers. That is why it is important to  
6 continue to move toward more fixed retail distribution rate structures to  
7 further manage volatility as it affects our customers and the Company. It is  
8 also important to promote natural gas DSM (conservation) efforts so  
9 customers will lower their energy consumption and save on natural gas  
10 commodity costs.

11

12 Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO PROMOTE NATURAL GAS  
13 CONSERVATION.

14 A. As discussed by Ms. Deb Sundin in her Direct Testimony, Xcel Energy  
15 proposes to play an active role in the promotion of natural gas DSM through  
16 the offering of discounted home energy audits, rebates for the purchasing of  
17 new energy efficient natural gas furnaces and/or water heaters, and free low-  
18 flow showerheads beginning in 2007. The Commission's approval of a  
19 residential fixed Delivery Charge in Case No. PU-400-04-578 has removed  
20 the financial disincentives for the Company to more actively assist customers  
21 in conserving energy, so we are proposing these programs in this case.

22

23

## VI. CONCLUSION

24

25 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

26 A. The Company requires a rate increase of \$2,801,000 or 3.0 percent in order to  
27 recover our prudent costs of providing natural gas service, including a

1 reasonable rate of return on equity. While we have exercised prudent and  
2 effective management over time, we cannot offset the trends of increasing  
3 costs and declining use per commercial customer without a rate increase.  
4 Thus, this rate increase is needed in order for Xcel Energy to have an  
5 opportunity to earn a reasonable and fair rate of return.

6  
7 We propose to implement a \$138,000 natural gas DSM initiative to assist  
8 customers in using less energy and lowering their natural gas bills. We see this  
9 effort as an important step in helping customers manage high and fluctuating  
10 winter natural gas bills.

11  
12 We propose to recover costs through a rate design that fairly and  
13 appropriately allocates costs to the various customer classes while at the same  
14 time moving rates closer to costs as indicated in the Company's Class Cost of  
15 Service Study.

16  
17 Therefore, the Company respectfully requests that the Commission approve:

- 18 • Our requested revenue increase of \$2,801,000 or 3.0 percent;
- 19 • A overall rate of return of 9.24 percent, which includes a rate of  
20 return on equity of 11.3 percent; and
- 21 • Our proposed tariff changes.

22  
23 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

24 A. Yes, it does.


25

1  
2 STATE OF NORTH DAKOTA  
3 BEFORE THE  
4 PUBLIC SERVICE COMMISSION  
5  
6

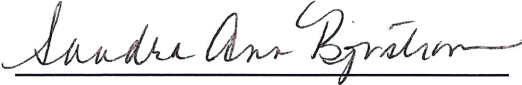
7 In the Matter of the Application of Northern )  
8 States Power Company, a Minnesota corporation ) **Notice of Change in Rates**  
9 and wholly owned Subsidiary of Xcel Energy Inc. )  
10 for Authority to Increase Rates For Natural Gas ) Case No. PU-06-\_\_\_\_  
11 Service in North Dakota )  
12  
13  
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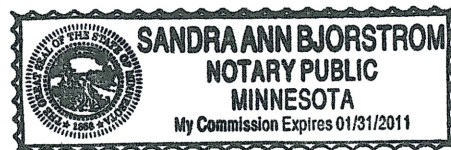
15 **AFFIDAVIT OF**  
16 **Kent T. Larson**  
17  
18

19 I, the undersigned, being duly sworn, depose and say that the foregoing is  
20 the Direct Testimony of the undersigned, and that such Direct Testimony and the  
21 exhibits or schedules sponsored by me to the best of my knowledge, information  
22 and belief, are true, correct, accurate and complete, and I hereby adopt said  
23 testimony as if given by me in formal hearing, under oath.  
24

25   
26 \_\_\_\_\_  
27 Kent T. Larson  
28  
29  
30  
31

32 Subscribed and sworn to before me, this 13 day of December, 2006.  
33

34   
35 \_\_\_\_\_  
36 Notary Public  
37  
38



Mr. Kent T. Larson  
Vice President, Customer & Community Relations  
414 Nicollet Mall, Minneapolis, MN 55401

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### **CURRENT RESPONSIBILITIES**

Leadership and management of Xcel Energy's customer and community relations, local government, and community affairs for Minnesota, North Dakota and South Dakota, and leadership of regulatory and legislative affairs in North Dakota and South Dakota.

### **PREVIOUS EMPLOYMENT**

Vice President, Cust. & Community Relations	Xcel Energy Services Inc	2006-Pres
Vice President, Jurisdictions	Xcel Energy Services Inc.	2004-2005
State Vice President, MN and Dakotas	Xcel Energy Services Inc	2001-2004
State Vice President, MN		2000-2001
Chief Executive and Managing Director - Dakotas	Northern States Power Company	1997-2000
Director, Sales – MN		1994-1997
Manager, White Bear Lake Area		1992-1994
Manager, Operations – South Dakota		1990-1992
Engineering and Engineering Leadership		1982-1990

### **EDUCATION**

- Master of Business Administration, University of St. Thomas, 1985
- Bachelor of Science, Electrical Engineering, Iowa State University 1981
- Registered Professional Engineer – Minnesota – Current

### **PREVIOUS TESTIMONY**

North Dakota PSC	Northern States Power Company	Case No. PU-400-99-418 (merger filing)
North Dakota PSC	Northern States Power Company	Case No. PU-400-04-578 (natural gas rates)



**Xcel Energy Inc.**  
(MN - 1989)

