

Rebuttal Testimony
Allen D. Krug

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

For Authority to Increase Rates for
Electric Service in North Dakota

Case No. PU-07-776
Exhibit 7

Wholesale Margins

June 13, 2008

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1 **I. INTRODUCTION**

2

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Allen D. Krug. My business address is 414 Nicollet Mall,
5 Minneapolis, Minnesota 55401.

6

7 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I filed Direct Testimony on behalf of Northern States Power Company,
9 (“Xcel Energy” or the “Company”) a Minnesota corporation operating in
10 North Dakota.

11

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

13 A. I will discuss the recommendations made by witness Mr. Michael Majoros
14 regarding the ratemaking treatment of wholesale margins.

15

16 **II. REGULATORY TREATMENT OF WHOLESALE MARGINS**

17

18 Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.

19 A. My Rebuttal Testimony addresses the recommendations made by
20 Mr. Majoros, presented on behalf of the Advocacy Staff of the North Dakota
21 Public Service Commission (the “Commission”) regarding wholesale margins,
22 as stated on page 22, lines 13 – 16, of his Direct Testimony.

23

24 Q. PLEASE SUMMARIZE MR. MAJOROS’ RECOMMENDATIONS REGARDING
25 WHOLESALE MARGINS.

26 A. On page 22, lines 13–16 of his testimony, Mr. Majoros appears to recommend
27 that 100 percent of wholesale margins be returned to customers through the

1 Fuel Cost Rider (“FCR”). Though he does not specifically differentiate
2 between asset-based and non-asset-based margins, I presume that his
3 recommendation applies to both types. While Mr. Majoros does not propose
4 any sharing of wholesale margins between customers and shareholders, his
5 recommendation is supportive of my proposal to pass the benefits of actual
6 realized wholesale margins to customers through the FCR.

7
8 Q. PLEASE COMMENT ON MR. MAJOROS’ RECOMMENDATION REGARDING
9 MARGINS DERIVED FROM ASSET-BASED SALES.

10 A. In my Direct Testimony, I proposed shareholder retention of 15 percent of
11 the margins derived from asset-based sales. I made this recommendation to
12 more closely align the interests of shareholders and ratepayers, as we attempt
13 to optimize the use of our generation resources in the wholesale market.
14 Incentive regulation and the accompanying alignment of shareholder and
15 ratepayer interests is an important policy goal and has previously been
16 encouraged by the Commission in other proceedings. However, I understand
17 Mr. Majoros’ concern with increasing costs and their impact on our
18 customers. The Company also wishes to do everything possible to keep rates
19 as low as possible, while still maintaining reliable service for all of our
20 customers. Therefore, the Company is willing to adopt Mr. Majoros’
21 recommendation, should the Commission no longer wish to pursue this policy
22 goal.

23

1 Q. PLEASE COMMENT ON MR. MAJOROS' RECOMMENDATION REGARDING
2 MARGINS DERIVED FROM NON ASSET-BASED SALES.

3 A. I believe that non asset-based transactions, as defined in my Direct Testimony,
4 are quite different in nature from asset-based transactions and merit alternative
5 treatment. These transactions do not rely on the generating assets of the
6 Company and do require a certain level of market knowledge and risk taking
7 on behalf of the Company. In my Direct Testimony, I proposed returning 15
8 percent of the net aggregate margins derived from non asset-based trading to
9 customers. Further, I proposed that customers only participate in net
10 aggregate gains, not losses, thus ensuring that customers cannot be harmed by
11 this activity. While I share Mr. Majoros' concerns regarding cost increases for
12 our customers, I believe that the unique nature of non asset-based activity,
13 which is a non-regulated activity, merits an incentive mechanism. Further, as
14 discussed above, my proposal is consistent with the Commission's historical
15 support for incentives as an effective regulatory tool.

16

17 Q. BASED ON THE ABOVE DISCUSSION, WHAT IS YOUR POSITION REGARDING THE
18 REGULATORY TREATMENT OF NON ASSET-BASED SALES?

19 A. I continue to recommend a sharing mechanism for margins derived from non
20 asset-based activity. Consistent with my recommendation provided in my
21 Direct Testimony, I recommend that 15 percent of these margins be shared
22 with customers through the FCR, and that customers bear no risk of net
23 aggregate losses in a calendar year.

24

1 **III. SUMMARY AND CONCLUSIONS**

2

3 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

4 A. I recommend adoption of Mr. Majoros' recommendation regarding margins
5 derived from asset-based sales, should the Commission no longer wish to
6 pursue its current policy regarding incentives. I continue to recommend that
7 15 percent of the margins derived from non asset-based sales be returned to
8 ratepayers through the fuel clause.

9

10 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

11 A. Yes, it does.

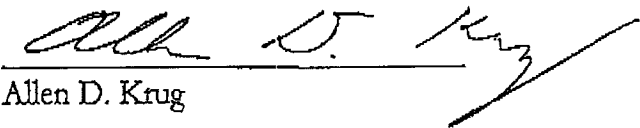
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STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

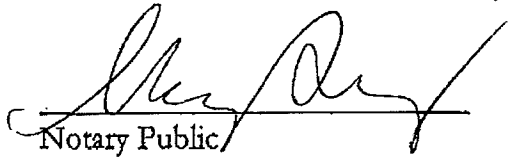
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AFFIDAVIT OF
Allen D. Krug

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


Allen D. Krug

Subscribed and sworn to before me, this 12 day of June, 2008.


Notary Public

