

**BEFORE THE NORTH DAKOTA
PUBLIC SERVICE COMMISSION
STATE OF NORTH DAKOTA**

**IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER
COMPANY FOR AUTHORITY TO INCREASE RATES FOR ELECTRIC
SERVICE IN NORTH DAKOTA**

CASE NO. PU-12-813

EXHIBIT MJM-5

SUPPLEMENTAL DIRECT TESTIMONY OF

MICHAEL J. MAJOROS, JR

**ON BEHALF OF THE STAFF OF THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

I. Introduction

Q. State your name, position, and business address.

A. My name is Michael J. Majoros, Jr. I am President of Snavely King Majoros & Associates, Inc. located at 8100 Professional Place, Landover MD 20785.

Q. What is the purpose of this supplemental direct testimony?

A. First, my direct testimony contained some typographical and verbiage errors which did not adequately summarize my recommendations. Furthermore, my direct testimony did not quantify my recommendations into a revenue requirement adjustment. I explain why and present the quantification here.

Majoros Recommendations

Q. Please summarize your recommendations.

A. My recommendations are summarized below.

1. I propose retention of the whole-life procedure with a separate amortization of any significant reserve imbalances.¹
2. I propose to set fossil decommissioning cost to the present value of the legal asset retirement obligations the company will incur when it retires its plants.²
3. I propose to set net salvage cost estimates for the mass property transmission, distribution and general functions to their present values by direct reference to the legal asset retirement obligations the average amounts of net salvage the company has incurred during the most recent 5-year.³

Q. Recommendation No. 3 does not make sense. First you say “by direct reference to the legal asset retirement obligations,” then you say “the average amounts of net

¹ Majoros Direct Testimony (Majoros), page 3.

² Id.

³ Id.

salvage the company has incurred during the most recent 5-year.” Can you explain this?

A. Yes, originally, I attempted to use the legal asset retirement obligations, but I encountered problems. So, I decided to use the 5-year average, but at the last minute I concluded that the 5-year average numbers were problematic, but I forgot to remove the reference to the 5-year average from my recommendation. I explain this situation in detail later.

Q. Please continue with your summary of your recommendations.

A. Continuing:

4. I recommend the Company be ordered to report, in all future earnings reports, the North Dakota-specific depreciation adopted in this proceeding and the annual North Dakota depreciation expense produced by those depreciation rates. The Company should also be ordered to report in all future earnings reports, the North Dakota-specific depreciation reserves approved in this proceeding and maintain and update those reserves with North Dakota-specific annual activity.⁴

5. I recommend that the Company’s Steam and Other production plant deprecation rates reflect its actual legal AROs as the basis for depreciation rates. I make the same recommendation for transmission, distribution and general. The Commission should order the company to provide the North Dakota-specific amounts in all future earnings reports.⁵

6. The Commission should order the company to use its legal AROs for all future net salvage estimates.⁶

7. I recommend the Company be ordered to report the North Dakota-specific

⁴ Id., page 9.

⁵ Id., page 14.

⁶ Id., page 17.

- depreciation rates and annual expense resulting therefrom in all future Earnings Reports to the NDPSC. These reported expenses should be used in the annual roll-forward of the North Dakota-specific depreciation reserves.⁷
8. I recommend that the Company be ordered to report the total and North Dakota's share of this regulatory liability in all future Earnings reports to this Commission. I also recommend that the Company be ordered to modify its FERC Form 1 language to state that North Dakota's share of the non-legal ARO embedded in accumulated depreciation has been recognized as a regulatory liability.⁸
9. I recommend that the net excess in the Company's nuclear decommissioning fund be recorded in the regulatory liability as requested by the company and that the Commission order the company to report the related balances and activity in all future earnings reports.⁹

Quantifications of Recommendations

Q. Please explain why you did not quantify your recommendations in your direct testimony.

A. I did not quantify my recommendations for several reasons. First, the settlement in Case No. PU-07-776 stated:

The Company will use the principles adopted in this Settlement Agreement in establishing depreciation rates for use in North Dakota.¹⁰

For purposes of determining the overall revenue requirement,

⁷ Id.

⁸ Id., page 21.

⁹ Id., page 28.

the Parties agree to: recover removal costs in depreciation rates for transmission and distribution based on a net present value methodology rather than on a future cost methodology (using Staffs alternative five year historical average for the purposes of this case).¹¹

It is clear that the Company was to calculate depreciation rates intended to recover removal costs on a net present value basis. It is also clear that in Case No. PU-07-776, the five year average was used as a surrogate for the net present value for the purposes of that case.

The Company did not comply with this portion of the Settlement. It did not use a net present value methodology, and it did not provide the net present value calculations to staff when requested.

Q. Given these circumstances what did you do?

A. I had intended to use the Company's legal AROs as the basis for my net salvage recommendations, however I encountered several problems attempting to quantify the result, hence I decided to use the 5-year historical average. At the last minute, I realized by examination of the Company's data, that it had made an obvious accounting change which increased the percentage of replacement costs it was allocating to cost of removal; especially for directly assigned North Dakota distribution plant. This would have increased North Dakota depreciation expense as a result of an arbitrary accounting change to surrogate numbers. Hence, I did not use that data and did not make the adjustment.

Q. Did you fail to make the adjustment because in this case the data went against you?

¹¹ Order Adopting Settlement Dated December 31, 2008 Case PU-07-776 Page 10. (Emphasis added.)

A. No, it was obvious by observation that the Company had implemented an accounting change since Case No. PU-07-776 which threw the negative net salvage numbers out of whack.

Q. Does Ms. Perkett acknowledge that the Company allocates a percentage of replacement costs to Cost of Removal?

A. Yes, at page 9 of her rebuttal, Ms. Perkett admits that the company allocates 10 percent of replacement costs to Cost of Removal. She says:

Our review of the historical removal cost relationship includes an operational review of the trended results to assure the chosen rate is appropriate. That is, if historically, the cost of removal for a type of asset is equal to 10 percent of the initial investment cost, then we use a 10 percent removal cost for newly acquired assets.¹²

Q. Why is it important to understand that the Company uses a ratio to allocate replacement costs to cost of removal?

A. It is important to understand that the Company uses a ratio to allocate replacement costs to cost of removal, because the Company controls the allocation ratio, just as it does with other allocation ratios. The higher the ratio, the more cost allocated to cost of removal. Based on Ms. Perkett's rebuttal testimony, I suspect the Company increased its prior allocation factors to 10 percent in recent years and that may account for the increase in the amount of replacement cost dollars it has allocated to Cost of Removal.

Q. Can you provide any evidence of the accounting change?

A. Exhibit___(MJM-6) demonstrates my point. The exhibit compares the company's recorded cost of removal to additions. The increase in the ratio

¹² Perkett Rebuttal, page 9.

demonstrates the Company's accounting change. In recent years, the five year average skyrockets for several major accounts. Consequently, I did not choose to use that data to make an adjustment that would be harmful to ratepayers.

Quantification of Recommendations

Q. Have you subsequently quantified your recommendations?

A. Yes, Exhibit___(MJM-7) quantifies my recommendations. I propose a \$730 thousand reduction compared to the \$1.1 million increase shown in Ms. Perkett's testimony and workpapers.

Q. Does this conclude your supplemental direct testimony?

A. Yes, it does.

STATE OF NORTH DAKOTA

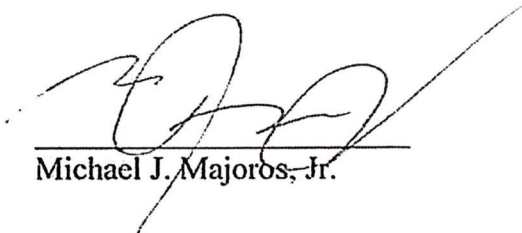
BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

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-12-813

AFFIDAVIT OF
Michael J. Majoros, Jr.

I, the undersigned, being duly sworn, depose and say that the foregoing is the Supplemental Direct Testimony of the undersigned, and that such Supplemental Direct 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.



Michael J. Majoros, Jr.

Subscribed and sworn to before me, this 22nd day of August, 2013

Notary Public



DONNA ANN JEFFRIES
NOTARY PUBLIC DISTRICT OF COLUMBIA
My Commission Expires July 14, 2015