

December 20, 2013

Darrell Nitschke, Executive Secretary
North Dakota Public Service Commission
600 E Blvd Ave
Bismarck, ND 58505

Re: Case No. PU-12-813
Case No. PU-13-194
Case No. PU-13-195
Case No. PU-13-706
Case No. PU-13-707
Case No. PU-13-708
Case No. PU-13-742
Case No. PU-13-743

Northern States Power Company
Comprehensive Settlement Agreement

Dear Mr. Nitschke:

Enclosed for filing is an original copy of Advocacy Staff's direct testimony supporting the Comprehensive Settlement Agreement in the above captioned proceedings.

Northern States Power Company plans to provide testimony after the Informal Hearing scheduled for January 7, 2014 in order to fully respond to any questions or concerns that may arise from the discussion.

I look forward to the Informal Hearing and the formal hearing thereafter.

Sincerely,



Mike Diller
Director of Economic Regulation

Enclosure

54 PU-13-708 Filed: 12/20/2013 Pages: 12
Direct testimony of Advocacy Staff

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Direct testimony of Advocacy Staff

**BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION**

In the Matter of the Comprehensive Settlement Agreement

***Case No. PU-12-813
Case No. PU-13-194
Case No. PU-13-195
Case No. PU-13-706
Case No. PU-13-707
Case No. PU-13-708
Case No. PU-13-742
Case No. PU-13-743***

DIRECT TESTIMONY

OF

MIKE DILLER

ON BEHALF OF THE

**NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADVOCACY STAFF**

January 23, 2014

1 Q: Provide your name and position at the North Dakota Public Service
2 Commission (commission).

3 A: My name is Mike Diller and I am the Director of Economic Regulation.

4
5 Q: What kind of work do you provide to the commission?

6 A: I am a utility analyst and provide direction to a small staff.

7
8 Q: Provide a summary of your educational background and public utility
9 regulatory experience.

10 A: I have about 29 years of public utility regulatory experience including
11 service to both the Oklahoma Corporation Commission and the North
12 Dakota Public Service Commission. I received a Bachelor of Science
13 Degree in Accounting from Oklahoma Christian College in Edmond,
14 Oklahoma in 1981. I am a Certified Public Accountant and I am a member
15 of the American Institute of Certified Public Accountants.

16
17 Q: Have you previously provided testimony to the commission?

18 A: Yes. I have testified before the commission on acquisition proposals, rate
19 cases, settlement offers, advance determination of prudence requests and
20 rule changes.

21
22 Q: What is the purpose of your testimony?

23 A: The purpose of my testimony is to support the Settlement Agreement
24 (Settlement) between the North Dakota Public Service Commission
25 Advocacy Staff (staff) and Northern States Power Company (Xcel Energy
26 or the Company) (collectively, the parties) as filed on December 13, 2013.

27
28 Q: Please summarize what is included in the Settlement.

29 A: The Settlement includes a four-year rate plan and a framework for
30 disposing of several highly contentious and important issues to North
31 Dakota including local thermal generation in the eastern part of the state;
32 a commitment to do an in-depth analysis to determine North Dakota's fair

1 share of generation and transmission costs; a resource mix tied to North
2 Dakota energy policy goals and desires; and much more.

3

4 Q: Why should the commission accept a Settlement that calls for three
5 annual 5% rate increases beginning in 2013 and ending in 2015?

6 A: Xcel Energy has filed for four base rate increases totaling about \$60
7 million since December 7, 2007 and there is no reason to expect that
8 additional rate increase requests will not be filed during the next two or
9 three years absent the Settlement. Such increases will likely not be as
10 moderate or predictable as those contemplated in the Settlement. In
11 addition, rate cases cost a lot of money and internal time to process.
12 Avoiding rate cases in 2014 and 2015 will likely save more than \$500,000
13 per case in consulting and legal fees; costs that are borne by ratepayers
14 at the end of the day. The internal time to process rate cases should not
15 be lost either given the magnitude of the Settlement and the work it
16 requires to be done over the next couple of years.

17

18 Second, the base rate increases will provide an opportunity for Xcel
19 Energy to recover their costs and earn a reasonable return on its
20 investment in ND. However, actually earning a reasonable return will
21 require vigilance and careful cost management on the part of the
22 Company, given that the rate increases are fixed. In the event things do
23 not go as planned or budgeted, the asymmetrical design of the plan
24 protects customers more than the Company. If the Company over-earns
25 then ratepayers will receive a refund for one-half of the over-earnings. If
26 the Company under-earns then the Company will not receive any
27 additional compensation from ratepayers, with the exception of material
28 changes beyond the control of Xcel Energy (as described in the Force
29 Majeure clause, Section VIII, F. of Settlement). Even under Force
30 Majeure, ratepayers are just as likely to benefit from material changes as
31 they are to incur additional cost.

1 Third, the need for additional rate increases at the end of the term of this
2 agreement will diminish. If ratepayers can withstand the current program
3 of infrastructure improvements and build-out for a few more years, I think
4 Xcel Energy should be in a position to maintain stable rates for many
5 years to come. From a customer perception standpoint, rates have
6 already gone up by about 8% in accordance with North Dakota's interim
7 rate law. The Settlement requires a sizable refund for 2013 revenues
8 collected in excess of 5% and only a small increase above interim levels
9 to implement the second 5% increase in 2014. Said another way, two-
10 thirds of the rate increases envisioned in this Settlement would be
11 implemented with little customer impact beyond the already approved
12 interim rates that are in effect today.

13
14 Last, the long term rate agreement has opened the door to achieving long
15 term solutions to significant issues that have been troublesome to the
16 commission for a long time. I believe the discomfort and cost to
17 ratepayers in terms of rate increases is minimized when considering the
18 other provisions of the Settlement.

19

20 Q: Couldn't the commission just order the company to allocate its
21 jurisdictional demand costs using the single coincident peak (1CP) method
22 rather than the traditional 12 coincident peak (12CP) method and save
23 Xcel Energy's North Dakota customers \$20 million a year in allocated
24 costs and eliminate the need for rate increases altogether? If so, why
25 should the commission approve the Settlement?

26 A: Advocacy staff advanced the idea of using 1CP in the rate case
27 proceeding. In the absence of the Settlement, advocacy staff would
28 continue to argue its case for 1CP. However, I am not so naïve as to think
29 that ordering 1CP would be the end of the matter. NSP would certainly
30 appeal such a monumental decision, and after all the legal kerfuffle I

1 would not bet money on which side would win. Following are a few things
2 the commission should think about before going down that path.

- 3 ○ Does the record support movement away from 12CP which is the
4 method that has been used by the commission for the past 20
5 years or more?
- 6 ○ How accurately does either the 1CP or 12CP reflect the North
7 Dakota contribution to the system-wide demand for generation and
8 transmission resources?
- 9 ○ Are there other methods or perhaps even a blend of methods that
10 could better determine cost apportionment to North Dakota than
11 1CP or 12CP?

12
13 Both the 12CP and 1CP allocation methods represent “proxies” or
14 estimates of a jurisdiction’s contribution to the majority of fixed generation
15 and transmission costs. They are methods that have been devised to
16 cleanly and clearly allocate integrated resources using a fairly simple
17 mathematical approach. The 1CP method assumes that all generation
18 resources are built or acquired solely to meet a single system wide peak.
19 The 12CP method assumes that generation resources are built to meet a
20 system wide peak each month.

21
22 I believe that 1CP makes a lot of sense when allocating combustion
23 turbines that only run a few hours each year during high peak periods. I
24 believe the 12CP method or even an energy allocator would be better for
25 allocating the large base load units that run all the time. Transmission
26 lines are generally built to meet summer demand because the warmer the
27 weather the less efficient those line are at transporting energy. Therefore,
28 a summer coincident peak factor using a 3CP or 4CP for the summer
29 months may be best.

30

1 Experts have a hard time agreeing on cost allocation methods so a
2 cautious, measured and studied approach will increase the odds of
3 “getting it right” on such a significant factor used in the determination of
4 revenue requirements.

5
6 The Settlement requires the parties to look into the matter deeper -
7 perhaps on a resource by resource basis - to determine more accurately
8 the demand costs that are being incurred for the benefit of North Dakota
9 consumers. The Settlement does not advocate one method over another,
10 but instead is a commitment to take a longer and fuller look at cost
11 causation before making a dramatic change that could have significant
12 ramifications to the Company’s financial health and, ultimately, it’s
13 provision of electric service. Once that analysis is complete, better
14 knowledge on both sides will likely lead to a clearer and more constructive
15 resolution going forward. It is better to settle matters based on well
16 thought out facts rather than go to court prematurely.

17
18 Q: If local thermal generation is important to the eastern part of the State,
19 why does the Settlement push the deadline for generation out to 2036?

20 A: The commission is well aware of my testimony in the Company’s ADP
21 case for building two gas turbines in Hankinson, ND. I have not changed
22 my mind on the value of local generation to Xcel Energy’s North Dakota
23 customers; namely the idea of energy security and reliability for eastern
24 North Dakota.

25
26 The long time frame included in the Settlement is intended to ensure
27 deployment of generation in North Dakota at the best possible time and
28 place. Staff does not support the idea of building generation regardless of
29 whether there is a need or not. Instead, we continue advocating the age
30 old principal of least cost planning in assessing Xcel Energy’s resource
31 needs.

1

2 Q: Xcel Energy has been slow to fulfill its commitments to North Dakota for
3 in-state wind generation and so why should the commission trust the
4 Company to make good on this commitment to build thermal generation in
5 the eastern part of the State?

6 A: While the Company was slow to meet its North Dakota wind commitment,
7 it will soon far exceed its 200 MW goal with the anticipated Courtenay and
8 Border Winds projects (350 MW total). I think these proceedings and the
9 resulting Settlement are clear indications that Xcel Energy intends to
10 permanently change the way it does business in North Dakota. I fully
11 expect the Company to fulfill its obligation to build thermal generation well
12 ahead of the 2036 but the long time frame allows for the efficient
13 placement of the turbines in the Red River Valley both in terms of location
14 and cost.

15

16 Q: Xcel Energy has long advocated for the value and efficiency of managing
17 its operations on an integrated system basis and then allocating costs
18 proportionately across its multiple jurisdictions. What can North Dakota
19 expect to gain from defining and directing its own energy supply mix rather
20 than simply retaining its share of the system wide mix?

21 A: It is no secret that Minnesota rules, laws and policies are highly influenced
22 by various environmental groups and ideas. North Dakota has a
23 renewable energy objective of 10% while Xcel Energy has a renewable
24 portfolio standard (RPS) of 30% in Minnesota plus a recently added solar
25 energy requirement of 1.5%. The environmental concerns of North
26 Dakota are different than those of Minnesota and the cost of compliance
27 with the environmental and energy policies in Minnesota is becoming a
28 burden to North Dakota ratepayers. Staff certainly does not oppose
29 anything Minnesota chooses to build for its resource needs; we only object
30 to paying for it when it is not the least cost or the best available resource
31 to meet our needs.

1 Reshuffling the generation mix for purposes of meeting North Dakota's
2 energy needs should assist Xcel Energy to better meet the needs of both
3 jurisdictions and to reduce the future cost of energy to North Dakota. It
4 would seem to be advantageous to the Minnesota jurisdiction to take a
5 larger share of renewable generation assets given its high RPS. Solar
6 energy is expensive and less efficient in the Northern clime and therefore
7 is currently not an efficient allocation of resources. So, when Xcel Energy
8 embarks on meeting Minnesota's solar mandate; it should assign all solar
9 costs to its Minnesota jurisdiction. Allocating part of those high cost
10 projects to North Dakota under the old integrated system approach would
11 require Xcel Energy to build even more solar than necessary to meet the
12 Minnesota mandates.

13

14 Similarly, the CBED projects, many of which are quite expensive, built in
15 Minnesota for Minnesotans are currently being assigned proportionately to
16 the Company's North Dakota customers. North Dakotans have no interest
17 in continuing to pay for expensive energy that does not benefit its citizenry
18 and is required to be built in Minnesota. Forgetting about the real
19 possibility of solar deployment in Minnesota, ridding North Dakota's
20 energy mix of the Minnesota CBED projects alone will save North Dakota
21 ratepayers about \$2 million a year in lower fuel cost adjustment charges.

22

23 Advocacy staff is not unsympathetic to the challenge before Xcel Energy
24 to recover 100% of its cost to provide service. Even though the energy
25 mix conundrum has been brought on by the choices made in Minnesota,
26 staff has taken a pragmatic approach and has agreed to diminish some of
27 the cost shifting that will occur between North Dakota and Minnesota
28 during the "restacking" of resources that will occur if the Settlement is
29 approved. We have already begun that process by incorporating into the
30 Settlement our agreement to forego North Dakota's participation in both
31 the Odell (PPA) and Pleasant Valley Wind (owned) Projects in Minnesota

1 which will provide very low cost energy. While there are immediate
2 benefits to resetting the North Dakota resource mix, the Settlement was
3 crafted more for handling future divergent policy views and how those
4 costs will be shared or not shared.

5
6 Restacking the resource mix required a leap-of-faith on the part of Xcel
7 Energy: faith that staff would work with them fairly to bring about a good
8 change for all parties concerned; and faith that the commission would
9 approve such a framework. I imagine that this part of the Settlement was
10 as difficult for Xcel Energy to accept as the multi-year rate increase portion
11 of the Settlement was to staff.

12
13 If and when full implementation of the Settlement is achieved, I believe
14 that Xcel Energy's Minnesota operation will be able to better meet the
15 policy goals of Minnesota; that its North Dakota operation will be able to
16 better meet the policy goals of North Dakota; and that the rancor between
17 the jurisdictions of the states will subside. There should be little reason for
18 staff to continue filing comments or intervening in Minnesota proceedings
19 so long as North Dakota has some control over its mix of energy supply. If
20 Xcel Energy's Minnesota operation embarks on a least cost resource
21 addition without any externality costs attached and it is needed, North
22 Dakota will take its fair share of the new addition. If it is not a least cost or
23 best available resource addition, North Dakota can choose to not
24 participate in the cost of the new resource or the electricity it produces.

25

26 Q: On the first page of your testimony you identified several large and
27 fundamental agreements included in the Settlement and "much more".
28 What are the "much more" components of the Settlement?

29 A: Following is a list of the "much more" components:

30 1) The return on equity of 9.75% for 2013 is the lowest return granted
31 since 1977 (I don't have records beyond that point in time).

- 1 2) A framework has been established to enable the commission to review
2 and approve the types of generation resource additions it desires in the
3 future, including those that are less than 50 MW.
- 4 3) A transmission rider and a North Dakota based renewable energy rider
5 are included to deal with future investments relating specifically to
6 transmission and North Dakota owned wind projects.
- 7 4) Agreement that the Prairie Rose PPA is prudent and recoverable on a
8 going-forward basis.
- 9 5) Advance Determinations of Prudence for Black Dog and Red River
10 Valley combustion turbines.
- 11 6) Advance Determinations of Prudence for the Border Winds Project and
12 the Courtenay Project, both located in North Dakota.
- 13 7) A longer amortization term (with lower costs) and a smoother approach
14 for dealing with the ups and downs of the financial markets and the
15 corresponding impacts on Xcel Energy's pension fund.
- 16 8) Limits Xcel Energy's rate recovery for incentive compensation to 15%
17 of its employees' base pay.
- 18 9) Eliminates all charitable and economic development costs from rate
19 recovery and places this burden of corporate responsibility on Xcel
20 Energy.
- 21 10) Passes on 100 percent of all margins on the wholesale sales of
22 electricity to Xcel Energy's customers.
- 23 11) The four year rate plan allows for a longer amortization (recovery)
24 period for non-recurring costs (such as rate case expenses) compared
25 to the three year period proposed in the rate filing.
- 26 12) Allows Xcel Energy to keep the remaining Department of Energy
27 proceeds resulting from the Company's successful litigation for DOE's
28 failure to provide for storage of spent nuclear fuel in lieu of higher base
29 rate increases in 2013 and 2014.
- 30 13) Establishes a framework for developing time of day rates that provide a
31 clearer price signal to residential customers to minimize North Dakota's

1 contribution to the Company's peak periods and save customers
2 money.

3 14) Requires that 100 percent of North Dakota renewable energy credit
4 sales be passed through to North Dakota customers and initiates the
5 idea and consideration of selling credits from Xcel Energy's North
6 Dakota operations to Xcel Energy's Minnesota operations.

7 15) Provides an average refund of \$21 to residential customers in 2014.

8 16) Extends by an additional year the current reliability program to locate
9 and remove poor-performing underground cable.

10 17) Extends the current Reliability Performance Program another year
11 through 2016.

12 18) Requires that Xcel Energy work with Staff on a review of its tariffs and
13 rules to improve readability and make them more understandable.

14 19) Requires that Xcel Energy develop a jurisdictional financial reporting
15 system that can produce monthly results to allow for better discovery
16 and fact gathering by its various regulatory bodies as well as its own
17 employees.

18

19 Q: Does this conclude your testimony?

20 A: Yes, it does.

21

22