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December 8, 2017

— VIA E-MAIL & FEDERAL EXPRESS —

Darrell Nitschke
Executive Secretary
North Dakota Public Service Commission
State Capitol Building
600 East Boulevard, Dept. 408
Bismarck, ND 58505-0480

RE: APPLICATION FOR CONSIDERATION OF A RESOURCE TREATMENT
FRAMEWORK TO ADDRESS JURISDICTIONAL COST ALLOCATION ISSUES
CASE NOS. PU-12-813, PU-13-706, PU-13-707, PU-13-708, PU-13-742,
PU-13-743, PU-13-194, PU-13-195
OAH FILE NO. 20170091

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy (the “Company” or “Xcel Energy”) submits an original and ten (10) copies of our rebuttal testimony in the above-referenced case.

The following rebuttal testimony is being filed:

- Policy – Aakash Chandarana
- Implementation Structures – Richard Starkweather
- Resource Planning – Philip Joseph “P.J.” Martin

Please contact me if you have any questions regarding this filing at david.sedquist@xcelenergy.com or 701-241-8632.

193 PU-13-742 Filed 12/08/2017 Pages: 27
 Prefiled Rebuttal Testimony of Richard Starkweather

189 PU-13-708 Filed 12/08/2017 Pages: 27
 Prefiled Rebuttal Testimony of Richard Starkweather

190 PU-13-707 Filed 12/08/2017 Pages: 27
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 Northern States Power Company
 David Sederquist

Darrell Nitschke
December 8, 2017
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Sincerely,



David H. Sederquist
Sr. Consultant, Regulation & Finance
Northern States Power Company

Enclosures

cc: Via Email:
S. Cardwell
P. Fahn
I. Jeffcoat-Sacco
J. Lein
J. Schuh
ALJ Dawson
Jim Heidell

REBUTTAL TESTIMONY
RICHARD D. STARKWEATHER

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of Northern States Power Company, a Minnesota Corporation d/b/a
Xcel Energy Jurisdictional Cost Allocation Matters

Case Nos. PU-12-813, PU-13-706, PU-13-707, PU-13-708,
PU-13-742, PU-13-743, PU-13-194, PU-13-195
Exhibit __ (RDS-2)

RTF Implementation Structures

December 8, 2017

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1 **I. INTRODUCTION**

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

4 A. My name is Richard D. “Rick” Starkweather. My business address is 2626
5 Glenwood Avenue, Suite 480, Raleigh, North Carolina, 27608.

6
7 Q. ARE YOU THE SAME RICK STARKWEATHER WHO PROVIDED DIRECT
8 TESTIMONY IN THIS PROCEEDING?

9 A. Yes.

10
11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12 A. I respond to several of Mr. James A. Heidell’s specific concerns and support
13 the revised Resource Treatment Framework (RTF) proposal of Northern
14 States Power Company, a Minnesota corporation (NSPM or the Company).
15 Based on Mr. Heidell’s testimony, filed on behalf of the Advocacy Staff of
16 the North Dakota Public Service Commission (Staff), there appears to be
17 general areas of agreement between the Company and Staff regarding the
18 proposed implementation options for the RTF. In particular, the parties
19 appear to be in accord on: the implementation of a more formalized
20 resource planning process in North Dakota, which should provide greater
21 certainty in resource selection; possible options for a path forward to
22 separately address the future resource needs of the different jurisdictions that
23 NSPM serves, including desires for different generation portfolios and
24 varying resource procurement needs; and, the consideration of alternative
25 pricing constructs to address differences in the perceived “value” or costs of
26 certain resources between the different jurisdictions.

1 It also appears, however, that there are areas of the Company's Direct
2 Testimony, including my own, where we may not have provided sufficient
3 clarity around the Company's proposed solutions. As a result, Mr. Heidell
4 and the Staff may have misunderstood the Company's position on certain
5 matters. My Rebuttal Testimony provides additional information to help
6 address these potential misunderstandings.

7
8 Q. WHAT IS YOUR OVERALL RESPONSE TO MR. HEIDELL'S TESTIMONY?

9 A. Overall, I believe Mr. Heidell evaluated the Company's analyses and
10 proposals regarding the RTF as a fully-developed request to the North
11 Dakota Public Service Commission (NDPSC or the Commission) for
12 approval. This is not the case. Rather, the Company's presentation of
13 information in its Application for Consideration of a Resource Treatment
14 Framework (Application) and in Direct Testimony was intended to
15 demonstrate the feasibility and equity of various options. After receiving
16 feedback from the Commission on these options, the Company could then
17 further refine its proposals for actual approval by the Commission. To the
18 extent Mr. Heidell's testimony addresses specific analyses, such as the
19 Company's resource planning analysis and its analysis of the cost impacts of
20 the creation of a new operating company, I wish to emphasize that the
21 information provided by the Company was merely to support an assessment
22 of feasibility.

23
24 For example, the Company concurs with Mr. Heidell that a system
25 comprised only of combustion turbines or a single combined cycle facility is
26 likely not a prudent way to serve North Dakota customers. These illustrative
27 scenarios were intended to demonstrate extreme low-cost and extreme high-

1 cost sensitivities to exhibit the feasibility of serving a 500 MW system on a
2 standalone basis. The Company's analysis demonstrated, and Mr. Heidell
3 appears to agree, that the concept of separation (whether legal or pseudo) is
4 feasible, although not under every modeled scenario. Accordingly, should
5 the Commission direct the Company to move forward with the RTF, the
6 Company will perform the additional analyses necessary to structure a final,
7 implementable proposal.

8
9 Similarly, the cost impacts and benefits of creating a separate operating
10 company to serve North Dakota customers are, again, estimates developed
11 to demonstrate feasibility. Final cost allocation methods and transmission
12 plans, for example, would need to be developed before creating a separate
13 operating company, not to mention the material due diligence and more
14 detailed financial planning that would be required. The Company's analyses
15 simply demonstrate that it is viable to create a separate operating company
16 to serve North Dakota customers and that it can be done with reasonable
17 cost impacts to all of the Company's customers in all of the states it serves.

18
19 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

20 A. First, I discuss the need for structural changes and the Company's
21 recommendations for implementation of these structural changes to support
22 an RTF. I then discuss supply options for the Company's North Dakota
23 customers. Next, I provide support for Mr. Chandarana's discussion of how
24 the Company's proposal retains the Commission's oversight of the
25 Company's North Dakota resource procurement process. Lastly, I address
26 resource procurement options to meet the needs of North Dakota
27 customers.

1
2 **II. SUPPORTING STRUCTURES FOR THE RTF**
3

4 Q. WHAT IS DRIVING THE NEED FOR AN RTF?

5 A. The Company's current resource procurement process is, by design, fully
6 integrated. There is an assumption that every resource will serve customers
7 in every jurisdiction in the NSP System. With respect to the existing process
8 for resource procurement for North Dakota, the Company must make
9 significant progress on the underlying business arrangements to procure the
10 resource under consideration before applying for an Advance Determination
11 of Prudence (ADP) from the Commission. (The ADP application must
12 include a projection of costs to the date of the anticipated commercial
13 operation of the resource addition.) The result is that the Company enters
14 into procurement contracts (or considers other new generation sources) for
15 a resource addition which is sized to serve the entire NSP System before
16 receiving any feedback from the Commission. The Commission then has
17 seven months from the date of the application to render a decision regarding
18 the proposed resource.

19
20 The timing of this process is such that the Commission is given an ex-post
21 "option" on that resource. Specifically, it can decide after the fact whether it
22 wants to take advantage of the inherent cost benefits of a proposed fully
23 integrated resource (due to larger economies of scale, etc.); or, if it disagrees
24 with the underlying premise for the new resource (i.e., if it is not the least-
25 cost option), the Commission can require the Company to allocate all of the
26 costs of the new resource to other jurisdictions. The end result is the
27 Company must either cancel the project, obtain approval from the other

1 states to fully absorb the costs of the resource, or pass the costs on to
2 shareholders.

3
4 Q. WHY DOES THIS SITUATION REQUIRE AN RTF?

5 A. The “option” provided to North Dakota customers described above results
6 in fundamental cost and benefit inequities accruing to customers in the
7 jurisdictions served by the NSP System. Additionally, this model is
8 unsustainable for the Company. Due to the trend of increasing jurisdictional
9 misalignment in recent years, the Company has been unable to fully recover
10 the costs of resources disallowed by North Dakota. Other NSPM states
11 have refused to take on North Dakota’s disputed resource costs that were
12 originally planned and proposed with the assumption of full integration. As
13 a result, the Company has been forced to absorb those costs and pass them
14 on to shareholders. Ultimately, the current model does not provide an
15 effective and equitable mechanism to plan for and implement separate
16 resource procurement for the NSP System states.

17
18 Q. COULDN’T THE COMPANY CHOOSE TO CANCEL PROJECTS THAT DO NOT
19 OBTAIN AN ADP FROM THE COMMISSION TO MITIGATE ITS FINANCIAL RISK?

20 A. Yes. However, this would result in the Commission holding veto power
21 over each and every resource addition to the NSP System. A veto it would
22 necessarily exercise after the business arrangements for a resource have been
23 undertaken. The Company is somewhat unique in that such a large part of
24 the total NSP System load is driven from one of the five states it serves. If
25 there were a more balanced distribution of load across the system,
26 cancellation of projects may be a viable option. However, it is unreasonable
27 for a small percentage of the NSP System to be able to drive the direction of

1 the entire system at the tail end of the resource planning process after the
2 resource procurement process has already begun.

3
4 Q. MUST STRUCTURAL CHANGES BE IMPLEMENTED FOR THE RTF TO BE
5 SUCCESSFUL?

6 A. Yes. In the end, a successful RTF will provide the Company with the tools
7 necessary to procure separate resources for different jurisdictions should
8 circumstances warrant. Because the Company's existing resource planning
9 process is premised on the full integration of the NSP System, some
10 structural changes must be implemented to allow for separate resource
11 procurement. I believe that this is a point on which the Company and Staff
12 agree.

13
14 Q. DO THESE TOOLS REQUIRE THE "SEPARATION" OF RESOURCES PROPOSED BY
15 THE COMPANY?

16 A. In its direct testimony, the Company premised its RTF on gradual separation
17 of North Dakota from the remainder of the NSP System, and proposed
18 different structures to implement this separation. As Mr. Chandarana
19 discusses in his rebuttal testimony, the Company believes that Staff's
20 proposal to implement a North-Dakota-based resource planning process can
21 mitigate some of Staff's concerns with respect to the "separation" aspect of
22 the Company's proposed RTF. However, even with the presumption of
23 integration proposed by Mr. Chandarana, additional structural changes must
24 be implemented to manage areas of jurisdictional misalignment.

25

1 Q. WHY DID THE COMPANY RECOMMEND THE CREATION OF A SEPARATE
2 OPERATING COMPANY AS THE APPROPRIATE IMPLEMENTATION STRUCTURE
3 FOR THE RTF?

4 A. The primary reason is that the Company requires more outcome certainty to
5 effectively plan and operate the NSP System. The entire premise of the RTF
6 is to provide the Company with sufficient certainty so that it may plan for
7 and address different jurisdictional resource priorities in a way that can meet
8 the needs of its customers in all of its jurisdictions. In my opinion, the
9 creation of a separate operating company in each jurisdiction provides the
10 most autonomy for states to make separate determinations on a range of
11 regulatory issues, not just on resource procurement.

12
13 Separate operating companies provide more certainty for the Company, and
14 also allow for jurisdictional oversight by the individual state commissions
15 with respect to all aspects of regulated electric service. The Company would
16 no longer be actively managing disagreements regarding resource additions,
17 remaining lives of existing assets, purchases and sales of assets, cost
18 allocation methodologies, ratemaking treatments, and other aspects of
19 operating a utility that are subject to state regulatory oversight. By creating
20 separate operating companies, the Company would also no longer need to
21 seek jurisdictional alignment to ensure recovery of its full cost of service.

22

23 Q. DOES THE COST ALLOCATION MECHANISM SUPPORTING THE COMPANY'S
24 PSEUDO SEPARATION PROPOSAL PROVIDE THIS CERTAINTY?

25 A. No. The ratemaking and cost allocation methodologies underlying Pseudo
26 Separation would not provide the same level of certainty as the creation of a
27 new operating company. The cost allocation solutions underlying the

1 Pseudo Separation proposal still require that all affected commissions
2 approve the allocation methodologies in a way that would be fully aligned.
3 This provides new and different opportunities for jurisdictional
4 misalignment to occur with respect to implementing the ratemaking
5 structures necessary for this approach. As a result, Pseudo Separation would
6 fail to fully mitigate a significant risk of uncertainty for the Company.

7
8 Q. HAS THE COMPANY FULLY ANALYZED EVERY DETAIL OF CREATING A NEW
9 OPERATING COMPANY?

10 A. No. The Company has analyzed only the main issues necessary to determine
11 the viability of creating a separate operating company. Through this analysis,
12 the Company has confirmed that creating a new operating company is a
13 reasonable option for the RTF and can be accomplished.

14
15 Q. MR. HEIDELL USES THE COMPANY'S PRELIMINARY VIABILITY ANALYSIS TO
16 CONCLUDE THAT HE DOES NOT EXPECT THERE TO BE "SAVINGS TO NSPD
17 UNDER LEGAL SEPARATION." DO YOU AGREE?

18 A. No. The Company's analyses were not intended to provide definitive
19 estimates of the cost of implementation of any particular option. The
20 analyses completed by the Company suggest that creation of a separate
21 operating company, while a complex endeavor, can provide a reasonable
22 path forward for North Dakota customers. In future years, a separate
23 operating company may prove to be economically advantageous. That said,
24 additional analysis, development, and refinement of this option is required to
25 reach a definitive conclusion.

26

1 The reality is that in order to more accurately project the effects of creating a
2 separate operating company on things such as transmission costs, general
3 and administrative costs, service company costs, the cost of debt, and
4 distribution costs (as Mr. Heidell does at page 23 of his Direct Testimony),
5 the Company will need to more specifically determine the structure of the
6 new company and the contractual and operational relationship it will have
7 with NSPM. These details will be developed if, based upon the current
8 feasibility analysis, the Commission concurs that creating a separate
9 operating company for North Dakota operations should be further analyzed
10 and formally proposed.

11
12 While definitive conclusions regarding the effects of Legal Separation cannot
13 be made at this time, the concerns raised by Mr. Heidell should be addressed
14 through further discussion and development of a potential RTF. For
15 example, the Company recognizes that complete separation of NSPD from
16 the rest of the NSP system would likely result in the loss of economies of
17 scale benefits. This potential drawback could be largely mitigated, however,
18 by the Company's proposal that system additions be initially planned with a
19 presumption of integration between NSPM and NSPD, which I discuss
20 further below. This would allow North Dakota to take advantage of the
21 economies of scale associated with integrated resource additions when they
22 are consistent with North Dakota standards, most obviously when they
23 serve a need and present the least cost option.

24
25 Q. MR. HEIDELL ALSO STATES AT PAGE 15, LINES 22-24 OF HIS TESTIMONY THAT
26 "...IF NSP WANTS TO BE A VERTICALLY INTEGRATED UTILITY SERVING

1 NORTH DAKOTA AND IS WILLING TO MEET THE NEEDS OF NORTH DAKOTA
2 THEN LEGAL SEPARATION IS NOT NECESSARY.” DO YOU AGREE?

3 A. Perhaps, but as I describe above it requires structural changes. As Mr.
4 Chandarana discusses in his rebuttal testimony, and as I mentioned above,
5 the Company believes that the creation of a separate operating company is
6 the most appropriate structural change; the Company also agrees that
7 implementing the cost allocation methodologies underlying its Pseudo
8 Separation proposal could also be viable, though this is not the preferred
9 solution.

10
11 Q. COULD PROXY PRICING BE A REASONABLE STRUCTURE TO SUPPORT THE
12 RTF?

13 A. No. The Company’s experience in North Dakota indicates that proxy
14 pricing is less capable of addressing different views regarding resource
15 additions where they are not easily defined as mandated or ordered by a
16 particular jurisdiction, where there is a disagreement regarding resource
17 timing, or where there is disagreement regarding the underlying value of a
18 particular resource to the NSP System. Identifying a proxy price that fairly
19 attributes the underlying value of the resource’s energy, capacity, and offset
20 of future system investments is key to a successful outcome. Fairly
21 developing a proxy price ensures that customers are appropriately
22 supporting the Company’s investments and allows the Company an
23 opportunity to recover the difference between the actual price and the proxy
24 price from other jurisdictions served by the NSP System.

25
26 Accordingly, a proxy pricing structure requires ongoing inter-jurisdictional
27 coordination, and is most effective when the resources that would be subject

1 to proxy pricing are more limited and clearly defined. As a result, the
2 Company believes that the proxy pricing option alone is unworkable given
3 that the RTF is intended to seek a solution for each and every resource
4 disagreement that occurs now and into the future.

5
6 Q. MR. HEIDELL STATES IN HIS TESTIMONY AT PAGE 7, LINE 2, THAT PROXY
7 PRICING “IS A PRACTICE NSP ALREADY USES”. DO YOU AGREE?

8 A. No. First, I disagree that the Commission has instituted a proxy pricing
9 structure in North Dakota. Second, the instance of Southwestern Public
10 Service Company (SPS) instituting a proxy pricing outcome is inherently
11 unique and, most importantly, was implemented by the state (New Mexico)
12 that imposed the solar energy mandate on SPS. Third, the Company has
13 proposed a potential proxy pricing outcome for a limited set of resources in
14 South Dakota, but it is not a comprehensive forward-looking solution.
15 Therefore, I do not believe that it is reasonable to consider proxy pricing
16 either a “practice” or one that NSP is using on a sufficiently regular basis
17 that it should be applicable in all jurisdictions as a solution.

18
19 Q. IS THE COMPANY CURRENTLY SUBJECT TO PROXY PRICING REQUIREMENTS
20 OR OBLIGATIONS IN NORTH DAKOTA?

21 A. No. I acknowledge that for certain power purchase agreements (PPAs) –
22 namely those that have been disallowed for recovery by the Commission,
23 that are structured based on energy pricing only, and whose costs are
24 recovered solely through NSP’s Fuel Cost Rider (FCR) – that the Company
25 is recovering its adjusted system average cost of fuel for those PPAs rather
26 than the PPA price. However, this is an outcome of the mechanics of the

1 FCR and should not be considered the “repricing” of these PPAs, as would
2 occur under a proxy pricing structure.

3
4 At a high level, and consistent with the Commission’s rules, the Company’s
5 FCR is structured as a rider to customers’ bills that recovers the Company’s
6 system average cost of fuel and purchased power on a per kWh basis for
7 every kWh that a customer consumes. The system average cost of fuel and
8 purchased power is calculated by totaling the cost of the Company’s fuel and
9 purchased power for a given period and dividing it by the total amount of
10 sales during that period to arrive at the system-wide average cost of fuel and
11 purchased power expressed in cents per kWh.

12
13 When a PPA is disallowed, where it is priced on an energy-only basis and
14 wholly recovered through the FCR, both the numerator (the total system
15 cost of fuel and purchased power) and the denominator (the total purchased
16 volume of energy) of the PPA are adjusted to zero to reflect the
17 disallowances. This results in the total system average cost of fuel and
18 purchased power being adjusted to reflect the regulatory outcome of
19 disallowing the cost of a specific PPA in rates.

20
21 However, because the FCR is a per kWh adder to every kWh consumed by a
22 North Dakota customer, and because the PPAs that are disallowed are still
23 serving North Dakota customers notwithstanding the disallowance by the
24 Commission, the Company collects the adjusted system average cost of fuel
25 and purchased power for the volumes generated by the disallowed PPA.
26 This is merely the application of the FCR mechanisms.

27

1 Q. PLEASE EXPLAIN WHY THAT IS.

2 A. First, as I mentioned, the replacement of the PPA cost with the system
3 average cost is merely an application of the mechanics of the FCR in light of
4 the disallowance of a specific resource.

5

6 Second, this outcome would not result in a proxy price being applied to any
7 PPA that was structured as having both a capacity payment (normally
8 recovered in base rates) and an energy payment (recovered in the FCR). The
9 Company would not be able to recover any capacity costs for the disallowed
10 PPA in base rates until at least the next general rate case. As a result, no
11 proxy capacity value could be timely applied.

12

13 Third, this methodology does not work well for a Company-owned resource
14 where, like the capacity portion of a PPA, a disallowance would result in
15 exclusion or at best delayed recovery of the resource costs through base
16 rates.

17

18 Ultimately, for proxy pricing to be a useful practice it must be applicable to
19 all types of resources, or, as the Company contends in South Dakota, must
20 be confined to a small, definable subset of resources. In any event, proxy
21 pricing cannot merely be the result of ratemaking mechanics, but must be
22 consciously developed and implemented to fully capture the value of the
23 resource to the NSP System.

24

25 Q. PLEASE DESCRIBE THE SPS PROXY PRICING STRUCTURE.

26 A. SPS implemented a proxy pricing structure to accommodate Texas and New
27 Mexico jurisdictional policy differences regarding five PPAs required to

1 comply with New Mexico’s Renewable Portfolio Standard. To retain the
2 integration of the Texas/New Mexico system, SPS proposed, and the New
3 Mexico Public Regulation Commission approved, a proxy pricing model that
4 allowed: (1) Texas to pay its allocated share of the costs of the purchased
5 power agreements up to the system avoided energy costs, which meant
6 Texas retail customers were indifferent as to the PPAs; and, (2) New Mexico
7 to pay the remainder of the PPA costs to keep SPS whole.

8
9 I note that the SPS experience contains two important attributes. It is
10 confined to a very specific set of resources, and it is being applied by the
11 state imposing the renewable energy standard. This is important because the
12 SPS proxy pricing outcome is not far ranging, but applicable only to a very
13 small subset of resources. And, because New Mexico approved the proxy
14 pricing outcome, they also agreed to absorb the difference between the
15 contract price and the proxy price thereby keeping SPS whole.

16
17 Q. PLEASE DESCRIBE THE SOUTH DAKOTA PROXY PRICING FRAMEWORK.

18 A. In South Dakota, the Company recently reached a settlement that requires
19 the Company to propose a proxy pricing framework to address cost recovery
20 for certain PPAs currently included in the fuel cost rider. As outlined above,
21 the resources subject to proxy pricing pursuant to the settlement constitute a
22 subset of narrowly-defined resources and the limited solution does not, in
23 the Company’s view, constitute a comprehensive, forward-looking solution.

1 Q. WHY IS THE RELATIVE SHARE OF THE TOTAL RESOURCE PORTFOLIO THAT IS
2 SUBJECT TO PROXY PRICING RELEVANT?

3 A. As Mr. Heidell points out, managing regulatory disallowances is part of
4 operating a utility. By clearly defining a small subset of resources subject to
5 proxy pricing, it is possible for the Company to manage around those
6 disallowances. It provides the Company sufficient certainty moving forward
7 to continue the broader integrated resource planning and resource
8 procurement process.

9
10 In contrast, an open-ended proxy pricing outcome that could be applicable
11 to any future resource addition merely gives a particular jurisdiction an
12 option on each and every resource added to the system. A resource may be
13 prudent even if it is more expensive than the least-cost option but could,
14 nevertheless, be subject to proxy pricing. As more and more resources
15 become subject to proxy pricing, rates become less reflective of the
16 underlying cost of service and could be more reflective of the artificial
17 outcome resulting from the imposition of a proxy price. I believe strongly
18 that proxy pricing is not an appropriate solution when the disputed
19 resources at issue are unknown. Rather, I view proxy pricing as a tool to be
20 selectively deployed in order to reach resolution around a narrowly defined
21 subset of identified resources.

22
23
24
25
26
27
28

1 **III. FUTURE RESOURCE PROCUREMENT**

2

3 Q. MR. HEIDELL SUGGESTS THAT THERE ARE SEVERAL OPTIONS AVAILABLE TO
4 THE COMPANY TO ACQUIRE RESOURCES ON BEHALF OF NORTH DAKOTA
5 CUSTOMERS. SPECIFICALLY, HE STATES THAT “RESOURCES CAN BE
6 PURCHASED SEPARATELY”, AND THAT “SEPARATE RESOURCES NEED ONLY BE
7 PURCHASED WHEN STATES DO NOT AGREE ON WHETHER A PHYSICAL
8 RESOURCE IS NEEDED OR IN THE PUBLIC INTEREST” (PAGE 50, LINES 18-22).
9 IS THIS A REASONABLE SOLUTION THE COMPANY SHOULD CONSIDER?

10 A. Yes. It forms the basis of the current proposed RTF and underlies the need
11 for the structural changes I describe.

12

13 Q. AT PAGE 61 OF HIS DIRECT TESTIMONY, MR. HEIDELL STATES THAT “NSP
14 HAS NOT DEMONSTRATED HOW THE FUTURE RESOURCE NEEDS OF NSPD,
15 WHICH ARE IN SMALL INCREMENTS, WILL ACHIEVE ANY ECONOMIES OF
16 SCALE”. DO YOU AGREE WITH MR. HEIDELL?

17 A. No. At the outset, achieving economies of scale should not be the standard
18 to which the Commission holds the Company’s proposal. Because of the
19 load ratio share of the different jurisdictions served by the NSP system, the
20 economies of scale available to North Dakota customers are almost entirely
21 due to Minnesota customers’ contributions to the system. Preserving those
22 economies while choosing not to participate in a system driven by Minnesota
23 priorities is not appropriate. To the extent the resources approved by the
24 Commission may not be aligned with Minnesota priorities, it follows that the
25 economies of scale driven by Minnesota priorities may not be realized by
26 North Dakota customers.

27

1 I note that the Company’s proposal to continue to serve North Dakota from
2 the Legacy System mitigates this risk. Continued service by the bulk of the
3 existing NSP System would allow North Dakota customers to continue to be
4 served by resources that they have long supported to take advantage of the
5 economies of scale. The advantages of the NSP System include load
6 diversity and access to a diverse mix of generation types and sources
7 (including baseload, intermediate, and peaking facilities), PPAs, and energy
8 exchanges, all of which help control costs under a variety of conditions.
9

10 Q. AT PAGE 26, LINES 9-11, MR. HEIDELL EXPRESSES CONCERN THAT WHILE
11 NSP COULD ALSO IDENTIFY PARTNERS FOR POTENTIAL JOINT PURCHASES
12 TO SEPARATELY ADDRESS THE RESOURCE NEEDS OF NORTH DAKOTA
13 CUSTOMERS, “NSP WILL NOT HAVE THE APPROPRIATE INCENTIVES, OR...
14 THERE MAY BE INSTITUTIONAL BARRIERS TO JOINT OWNERSHIP OF
15 RESOURCES WITH POTENTIAL COMPETITORS.” DO YOU AGREE WITH MR.
16 HEIDELL ON THIS ISSUE?

17 A. No. As Mr. Chandarana discusses in his rebuttal testimony, retaining a
18 presumption of integration can materially mitigate any potential disincentives
19 to the extent resource procurement priorities in the various NSP System
20 jurisdictions align.
21

22 Q. DID MR. HEIDELL EXPRESS ANY CONCERNS ABOUT THE SITUATION WHERE
23 NORTH DAKOTA CUSTOMERS MIGHT ELECT TO NOT PARTICIPATE IN THE
24 NSP SYSTEM?

25 A. Yes. Mr. Heidell expressed concerns regarding the “potential for higher
26 costs associated with future resource procurement as a result of separate
27 procurement of resources for NSPD (page 26, lines 3-4).” As stated by Mr.

1 Heidell, the “NSPD system would be relatively small with a peak demand of
2 less than 500 MW. As legacy resources retire and PPAs expire, NSPD could
3 be in the market for relatively small amounts of energy and capacity, and
4 may not have either the need or the financial resources to purchase larger
5 projects with their associated economies of scale (page 26, lines 5-11).”

6
7 Q. DO YOU SHARE MR. HEIDELL’S CONCERNS?

8 A. Not completely. The Company’s proposal where all states within the NSP
9 System would continue to be served by the Legacy System tempers the
10 potential effects of structural changes on customers by mitigating the
11 immediate impact of procuring separate resources for North Dakota
12 customers. The Company is proposing that the Legacy System be the core
13 generation portfolio serving all states upon implementation of the RTF.
14 This Legacy System will also create a baseline for the forward-looking
15 integrated resource planning process advocated by Mr. Heidell in his Direct
16 Testimony (see page 59, lines 10-12). Additionally, the proposed
17 presumption of future integration will allow North Dakota to participate in
18 system-wide resource additions in the future when it chooses to do so. The
19 scheduled plant retirements and PPA expirations over the next several
20 decades should create a concurrent resource need across the entire system
21 and provide opportunities for fully-integrated resource additions that would
22 take advantage of the economies of scale benefits of a larger system. Mr.
23 Martin discusses this further in his rebuttal testimony.

1 Q. AT PAGE 47 OF HIS DIRECT TESTIMONY, MR. HEIDELL SUGGESTS THE
2 MODEL OF JOINT ACTION AGENCIES AND PARTIAL REQUIREMENTS UTILITIES
3 IS RELEVANT TO RESOLVING NSPD'S POWER PROCUREMENT CHALLENGES.
4 DO YOU AGREE WITH MR. HEIDELL'S SUGGESTION REGARDING JOINT
5 ACTION AGENCIES AND PARTIAL REQUIREMENTS UTILITIES?

6 A. Yes. I agree with Mr. Heidell that there are regulatory precedents in the
7 utility industry that provide more tailored resource procurement approaches,
8 recognizing that different parties may value different resource types in
9 different ways. Mr. Heidell's suggestions clearly provide a path for North
10 Dakota customers to reliably and economically source resources separate
11 from the NSP System.

12
13 Q. IF THE COMPANY WERE TO PURSUE THIS TYPE OF APPROACH TO RESOURCE
14 PROCUREMENT FOR NORTH DAKOTA CUSTOMERS, WHAT WOULD BE
15 REQUIRED FOR IMPLEMENTATION?

16 A. Ultimately, the Company would require the ability to secure individual
17 resources on behalf of North Dakota customers separate and distinct from
18 the integrated NSP System. This might suggest the Legal Separation option,
19 as partial requirements utilities are legally separate from their suppliers, or a
20 rate-making approach similar to the Pseudo Separation proposal might also
21 be utilized to allow different resources to be allocated to different
22 jurisdictions.

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1 **IV. JURISDICTIONAL OVERSIGHT**

2
3 Q. MR. HEIDELL SUGGESTS THAT THE CREATION OF A NEW OPERATING
4 COMPANY IS INTENDED TO SHIFT JURISDICTIONAL OVERSIGHT OF POWER
5 COSTS FOR THE NEW OPERATING COMPANY FROM THE COMMISSION TO THE
6 FEDERAL ENERGY REGULATORY COMMISSION (FERC). IS THIS YOUR
7 UNDERSTANDING AS WELL?

8 A. No. Mr. Heidell states in his testimony at page 8, lines 9-12 that “(w)hile
9 NSP may perceive a shareholder benefit for shifting power cost and
10 transmission cost recovery from NDPSC to FERC jurisdiction, NSP has not
11 identified any benefits to North Dakota rate payers for changing
12 jurisdictional oversight of power costs.” He further suggests at page 44 of
13 his Direct Testimony that “NSP is specifically seeking to remove the
14 Commission from being able to rule on cost recovery regarding legacy
15 resources” based on a Company response to a discovery request where NSP
16 refers to the FERC as a “neutral third party to resolve disputes rather than
17 relying on (the) states” and that the Company is “proposing solutions to
18 move power and transmission costs from the regulatory oversight of the
19 NDPSC” (page 52, lines 8-9).

20
21 The recommendation to establish a separate operating company was to
22 isolate the North Dakota customers from the impacts of the evolving
23 resource portfolio of the NSP System that is more consistent with
24 Minnesota’s energy policy priorities, especially with respect to carbon
25 reduction. The change in jurisdiction is simply the result of the
26 establishment of this separate entity. The Company does not determine
27 what power contracts are governed by the FERC.

1

2 Q. WOULD THE COMMISSION'S OVERSIGHT BE IMPACTED IF A SEPARATE
3 OPERATING COMPANY WAS CREATED?

4 A. Yes. The goal of creating a separate operating company is to fully
5 disentangle any decision made in North Dakota from the impact of other
6 regulatory outcomes in other states, as well as to give the Commission
7 control in the oversight of a new operating company.

8

9 Most importantly, the Commission will have oversight over any incremental
10 new resources that the Company selects to serve North Dakota customers
11 without regard to the regulatory oversight of other states or FERC, unless
12 and until Northern States Power Dakotas (NSPD) joins the NSP System as a
13 fully-integrated partner under an interchange agreement arrangement like the
14 one between NSPM and Northern States Power, a Wisconsin corporation.
15 Therefore, the Commission will have control over the resource procurement
16 direction that NSPD could take and the resource portfolio serving North
17 Dakota customers. The main trade-off is that the choices available to a new
18 operating company will reflect a 500 MW load profile rather than the 10,000
19 MW load profile of the NSP System. This creates different, but not
20 necessarily inferior, choices.

21

22

V. CONCLUSION

23

24 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

25 A. Yes, it does.

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

Northern States Power Company 2013 Electric Rate Increase Application	Case No. PU-12-813
Northern States Power Company Advanced Determination of Prudence – Courtenay Wind Application	Case No. PU-13-706
Northern States Power Company Advanced Determination of Prudence – Odell Wind Application	Case No. PU-13-707
Northern States Power Company Advanced Determination of Prudence – Pleasant Valley Application	Case No. PU-13-708
Northern States Power Company Advanced Determination of Prudence – Border Winds Application	Case No. PU-13-742
Northern States Power Company 150 MW Border Winds Project – Rolette County, ND Public Convenience & Necessity	Case No. PU-13-743
Northern States Power Company Advanced Determination of Prudence – NG Generators Application	Case No. PU-13-194
Northern States Power Company Red River Valley NG Unites 1&2 – Hankinson, ND Public Convenience &Necessity	Case No. PU-13-195

VERIFICATION

STATE OF INDIANA)
) ss.
COUNTY OF HAMILTON)

Richard D. Starkweather, being first duly sworn on oath, deposes and says that he is a Partner with ScottMadden Inc. on behalf of Applicant Northern States Power Company, a Minnesota corporation, in the above-captioned matter, that the rebuttal testimony submitted in the above-captioned matters under his name was prepared under his direction, that he knows the contents thereof, and that the same is true and correct to the best of his knowledge and belief.

Richard D. Starkweather

Richard D. Starkweather

Subscribed and sworn to before me this 5th day of December, 2017.

Rhiannon Rena Shelley

Notary Public

My commission expires: 9/27/2025

