



**SMITH PORSBORG**  
Schweigert Armstrong Moldenhauer & Smith  
ATTORNEYS AT LAW

January 25, 2018

**VIA HAND DELIVERY**

Public Service Commission  
Attention: Darrell Nitschke  
600 East Boulevard Avenue, Dept. 480  
Bismarck, ND 58505-0480

In re: Northern States Power Company  
Advance Prudence - Biomass PPAs  
Application  
PU-17-270

Northern States Power Company  
Deferred Accounting - Biomass PPAs  
Application  
PU-17-271

Northern States Power Company  
Deferred Accounting - Laurentian PPA Termination  
Application  
PU-17-322

Sheldon A. Smith\*  
Scott K. Porsborg\*\*\*  
Suzanne M. Schweigert\*  
Mitchell D. Armstrong\*\*  
Stacy M. Moldenhauer\*\*  
David J. Smith\*\*  
Brian D. Schmidt\*  
Tyler J. Malm\*  
Sarah E. Wall\*\*  
Austin T. Lafferty\*  
Ian J. Arendt\*

Dear Mr. Nitschke:

Enclosed for filing in the above-referenced matter please find the original and seven copies of the following:

1. Direct Testimony of Victor Schock;
2. Verification; and
3. Affidavit of Service.

\* Licensed in North Dakota

\*\* Licensed in Minnesota

\*\*\* Licensed in South Dakota

▲ Licensed in Montana

\* Board Certified Civil Trial Specialist by National College of Trial Advocacy

December 26, 2017

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Thank you for your attention to this matter.

Respectfully,



MITCHELL D. ARMSTRONG  
Special Assistant Attorney General for  
Public Service Commission Advocacy Staff

amh

enclosures

cc: ALJ Ward (via e-mail only) (w/enc.)  
Illona Jeffcoat Sacco (via e-mail only) (w/enc.)  
Zeviel Simpser (via e-mail only) (w/enc.)  
Dave Sederquist (via e-mail only) (w/enc.)

PSC.4

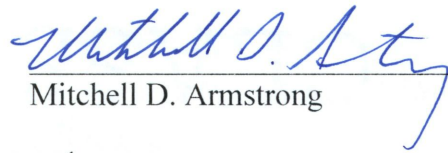


Patrick J. Ward  
Zuger, Kirmis, & Smith  
P.O. Box 1695  
Bismarck, ND 58502-1695  
[pward@zkslaw.com](mailto:pward@zkslaw.com)

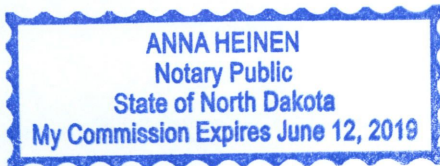
Zeviel Simpser  
Briggs and Morgan, P.A.  
2200 IDS Center  
80 South Eight Street  
Minneapolis, MN 55402-2157  
[zsimpser@briggs.com](mailto:zsimpser@briggs.com)

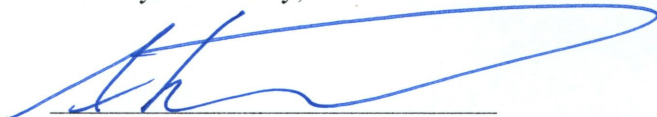
Dave Sederquist  
Sr. Consultant, Regulatory & Finance  
Xcel Energy  
2302 Great N Drive  
Fargo, ND 58102  
[dave.sederquist@xcelenergy.com](mailto:dave.sederquist@xcelenergy.com)

Illona Jeffcoat-Sacco  
General Counsel  
600 E. Blvd. Ave. Dept. 408  
Bismarck, ND 58505-0480  
[ijs@nd.gov](mailto:ijs@nd.gov)

  
Mitchell D. Armstrong

Subscribed and sworn before me this 25<sup>th</sup> day of January, 2018.



  
Notary Public  
Burleigh County, North Dakota

BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

*Northern States Power Company*

*Advance Prudence – Biomass PPAs, Application, Case No. PU-17-270*

*Deferred Accounting – Biomass PPAs, Application, Case No. PU-17-271*

*Deferred Accounting – Laurentian PPA Termination, Application, Case No. PU-17-322*

DIRECT TESTIMONY  
OF  
VICTOR SCHOCK

ON BEHALF OF THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION  
ADVOCACY STAFF

January 25, 2018

1 Q: Provide your name and qualifications.

2 A: My name is Victor Schock. I am a Public Utility Analyst for the North Dakota  
3 Public Service Commission (commission). I have 13 years of accounting  
4 experience and three years of utility regulatory experience.

5 I received a Bachelor of Science Degree in Accounting from Dickinson State  
6 University in 2007. I have testified before the commission on damage  
7 prevention, advanced determination of prudence, certificate of public  
8 convenience and necessity, and rate cases. Prior to my work with the  
9 commission I completed hundreds of financial reviews of both public and  
10 private companies as well as government entities in my work as a Credit &  
11 Collections Manager with Unisys Corporation.

12  
13 Q: What is the purpose of your testimony?

14 A: The commission has appointed me to advocacy staff in this proceeding. As  
15 such, I will provide the commission with an analysis and recommendation  
16 concerning the settlement agreement submitted by Northern States Power  
17 Company (NSP) and North Dakota Public Service Commission Advocacy Staff  
18 (Staff).

19  
20 Q: Please summarize your testimony.

21 A: Staff believes that the settlement agreement provides the best overall outcome  
22 for North Dakota ratepayers versus the alternative of continuing to pay the  
23 existing power purchase agreements for their remaining contractual periods.

24  
25 Q: What are the primary provisions of the settlement agreement?

26 A: The settlement agreements provides:

27 1. An advanced determination of prudence (ADP) for the Pine Bend and  
28 Laurentian transactions.

- 1           2. An ADP for the Benson transaction with a disallowance for costs to
- 2           be reimbursed to the city of Benson for certain stranded assets.
- 3           3. A withdrawal of the ADP request for HERC.
- 4           4. Granting deferred accounting treatment for the Pine Bend,
- 5           Laurentian and Benson transaction costs and defining the recovery
- 6           method.

7

8   Q:    What are the provisions of this settlement related to the Pine Bend transaction?

9   A:    The settlement agreement grants an ADP and deferred accounting treatment  
10       for the Pine Bend transaction and allows for recovery of the costs as they are  
11       incurred through NSP's Fuel Cost Rider (FCR). Staff believes that this will result  
12       in net savings to North Dakota ratepayers versus the alternative of continuing  
13       to pay the purchased power agreement (PPA) currently in place for Pine Bend.  
14       We estimate the net present value (NPV) savings for North Dakota ratepayers  
15       to be \$174-292k from 2018 through 2025. Allowing collection through the fuel  
16       cost rider would be appropriate as the cost of the current PPA is collected via  
17       the FCR. Additionally, the Pine Bend transaction calls for monthly payments  
18       rather than a lump sum, passing this through the FCA would ensure that there  
19       is no need to add a return component for this transaction.

20

21   Q:    What are the provisions of this settlement related to the Laurentian transaction?

22   A:    The settlement agreement grants an ADP and deferred accounting treatment  
23       for the Laurentian transaction and allows for recovery of the costs as they are  
24       incurred through NSP's FCR. Staff believes that this will result in net savings  
25       to North Dakota ratepayers versus the alternative of continuing to pay the PPA  
26       currently in place for Laurentian. We estimate the NPV savings for North  
27       Dakota ratepayers to be \$3.8-4.9M from 2018 through 2026. Allowing collection  
28       through the fuel cost rider would be appropriate as the cost of the current PPA  
29       is collected via the FCR. The Laurentian transaction calls for annual payments  
30       rather than a lump sum. This does not fit as cleanly into the FCR as the Pine

1           Bend transaction does, but staff feels it would still be appropriate to pass it  
2           through the FCR again avoiding adding a return component to the transaction.

3  
4    Q:    What are the provisions of this settlement related to the Benson transaction?

5    A:    The settlement agreement grants conditional ADP and deferred accounting  
6           treatment for the Benson transaction and establishes a regulatory asset for the  
7           allowed costs. The costs that would be disallowed for purposes of recovery in  
8           North Dakota are for reimbursements to the City of Benson for stranded water,  
9           wastewater and electric distribution assets totaling approximately \$607k. The  
10          regulatory asset created for this transaction would accumulate all allowed costs  
11          of the transaction, add in an annual 5% rate of return (rather than the higher  
12          rate that was granted in the last rate case), and then amortize the payback  
13          equally over 132 months (11 years) which is the remaining contractual period  
14          of the existing PPA for Benson. This amortization would be passed through the  
15          FCR similar to the other transactions. This recovery method is certainly not  
16          standard for a transaction such as this, but it is a reasonable approach since  
17          the current PPA costs are passed through the FCR. Staff believes that this will  
18          result in net savings to North Dakota ratepayers versus the alternative of  
19          continuing to pay the PPA currently in place for Benson. We estimate the NPV  
20          savings for North Dakota ratepayers to be \$17.1-19.2M from 2018 through  
21          2028.

22  
23   Q:    What is happening to the HERC transaction?

24   A:    As part of the settlement agreement, NSP is withdrawing the ADP application  
25          for HERC. One of the provisions of the HERC transaction that NSP executed  
26          was regulatory approval. On December 28, 2017 the Minnesota Public Utilities  
27          Commission rejected the HERC transaction, effectively nullifying the  
28          transaction in its current form. With this in mind Staff and NSP agree that  
29          withdrawing the application at this time is appropriate.

30

1 Q: Are there any other provisions of this settlement agreement we should be  
2 aware of?

3 A: Yes. In the First Revised Negotiated Agreement for Case PU-12-813, approved  
4 by order of the Commission on March 9, 2016, NSP agreed to build a  
5 combustion turbine with a capacity of at least 200 MW in eastern North Dakota  
6 by 2025. If they fail to do so, NSP is required to refund to North Dakota  
7 ratepayers fifty percent of the revenues received in excess of the adjusted  
8 system average cost for six biomass PPA contracts. Three of those six  
9 contracts are Pine Bend, Laurentian and Benson. This settlement agreement  
10 extends the terms from the PU-12-813 biomass PPAs to the Pine Bend,  
11 Laurentian and Benson transactions described in these filings. This ensures  
12 we keep the incentive in place for NSP to build North Dakota generation in  
13 place.

14

15 Q: Do you recommend the Commission approve this settlement agreement and  
16 why?

17 A: Yes, I recommend approval of this settlement. I believe it results in a just and  
18 reasonable outcome for both North Dakota ratepayers and NSP.

19

20 Q: Does this conclude your testimony?

21 A: Yes it does.

