

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

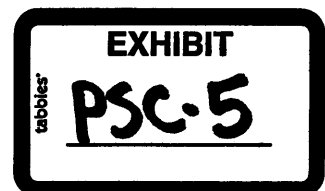
Deferred Accounting – Laurentian PPA Termination, Application, Case No. PU-17-322

DIRECT TESTIMONY
OF
VICTOR SCHOCK

ON BEHALF OF THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADVOCACY STAFF

January 25, 2018

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Exhibit PSC-5 - Direct Testimony of Victor Schock
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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.

