

BEFORE THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION

*Northern States Power Company*

*Advance Prudence – 98.9 Mower Co. Wind Facility, Application, Case No. PU-19-310*

DIRECT TESTIMONY  
OF  
VICTOR SCHOCK

ON BEHALF OF THE  
NORTH DAKOTA PUBLIC SERVICE COMMISSION  
ADVOCACY STAFF

February 7, 2020

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 15 years of accounting  
4 experience and five 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 (Staff) in this proceeding.  
15 As such, I will provide the commission with an analysis and recommendation  
16 concerning Northern States Power Company's (NSP) request for an Advance  
17 Determination of Prudence (ADP) for the proposed purchase and operation of  
18 the 98.9 MW Mower County Wind Facility (Project).

19  
20 Q: Please summarize your testimony.

21 A: Staff believes that the proposed purchase results in lower cost to customers  
22 versus the alternative of continuing to pay the existing PPA price through 2026  
23 and replacing with market purchases thereafter.

24  
25 Q: What is your recommendation with regard to approving NSP's application for  
26 an ADP?

27 A: My recommendation is that the Commission conditionally approve the ADP.  
28 This recommendation is based on the comparison of multiple Present Value  
29 Revenue Requirement (PVRR) scenarios with the base case being the

1 purchase of the Project by NSP. The alternative scenarios that the base case  
2 is compared to include continuation of the existing PPA through 2026 which is  
3 replaced by market purchases from 2027 through 2045. The market purchases  
4 are necessary to ensure the PVRR is comparing similar energy cost scenarios  
5 since the existing PPA expires in 2026, and the repowered Project is expected  
6 to produce more energy than the Project otherwise would. The other scenarios  
7 considered against the base case include high, average and low market energy  
8 prices.

9  
10 Q: What were the results of the various PVRR analysis?

11 A: The high market energy price scenario resulted in total system savings of  
12 \$78.8M with the ND share being \$4.3M. The average market energy price  
13 resulted in total system savings of \$33.8M with the ND share being \$1.8M. The  
14 low market energy price resulted in total system savings of \$1.8M with the ND  
15 share being \$3000.

16  
17 Q: Why were the only alternative scenarios related to market energy?

18 A: I believe that the only real alternative to the purchase of the Project is market  
19 energy. Therefore it is appropriate to compare with the forecasted market price  
20 of energy.

21  
22 Q: Does your analysis match the expected savings presented by NSP?

23 A: No. NSP's analysis assumed a North Dakota Return on Equity (ROE) of  
24 10.25% which represents the rate granted during the last rate case, rather than  
25 9.85% which is the rate agreed to by NSP and Staff during the Tax Cuts and  
26 Jobs case PU-18-155. Additionally, NSP's analysis assumed that upon the  
27 expiration of the existing Purchased Power Agreement (PPA) that NSP would  
28 either procure a new PPA or purchase a wind farm of equal size at market  
29 prices rather than rely on the marketplace for energy. These differences in

1 assumptions resulted in NSP estimating total system savings of \$48-49M with  
2 the ND share being \$2.5-3M.

3

4 Q: With the range of savings from \$3,000 to \$4.3 million what do you believe the  
5 most likely scenario is?

6 A: I believe the most likely scenario is between the average and low market  
7 energy price, with a likely savings to ND customers of \$1-1.5M.

8

9 Q: Why do you feel this is the most likely scenario?

10 A: With the addition of intermittent renewables and very cheap available natural  
11 gas generation, the trend of market prices has been flat to downward. While I  
12 do not expect that to continue indefinitely, I believe it will contribute to the price  
13 of energy being lower than currently anticipated.

14

15 Q: Do you view the purchase of this Project as a good thing for ratepayers?

16 A: No. This is simply a less bad scenario than the alternative, which is to continue  
17 paying for the very high priced energy from the existing PPA.

18

19 Q: Would you be recommending approval of this Project if the alternative did not  
20 include paying for the existing PPA?

21 A: No. Both the actual cost per megawatt hour (MWh) on an annual basis and the  
22 levelized cost of ownership (LCOE) are higher than the forecasted market  
23 energy prices for nearly every year of the forecast. The Project results in cost  
24 savings due to the comparison of the PPA price to the cost of ownership.

25

26 Q: What is your recommendation concerning this request for an ADP?

27 A: I recommend the Commission conditionally approve the ADP.

28

29 Q: What conditions are you recommending the commission require?

30 A: 1. The Commission should cap the allowed total purchase price at *[TRADE*

1                   **SECRET BEGINS            TRADE SECRET ENDS]** This is the amount  
2                    NSP is expecting the final purchase price to be.

3                    2.        NSP's shareholders should be responsible for any shortfall as a result  
4                    of not securing 100% of the PTC rate for this Project.

5                    3.        NSP should provide a quarterly construction progress report to the  
6                    Commission until the Project is in service, indicating the development  
7                    status.

8

9        Q:        Why are you proposing to cap the allowed purchase price?

10        A:        Due to the very slim marginal savings between the Project and the existing  
11                    PPA, a material overrun in price could translate into net cost rather than savings  
12                    to customers. A cap will serve to protect customers from the potential higher  
13                    price until such time that NSP can prove the Project results in net savings even  
14                    at the higher price.

15

16        Q:        Why are you proposing that NSP shareholders be responsible if the project  
17                    does not secure 100% of the PTC rate?

18        A:        PTCs represent a significant benefit for any renewable project, and this Project  
19                    is no exception. PTCs are valued at \$25 per MWh as of 2019. This is increased  
20                    annually by the IRS based on inflation-adjustment factors. Using NSP's  
21                    anticipated nameplate capacity of **[TRADE SECRET BEGINS            TRADE**  
22                    **SECRET ENDS]** and a capacity factor of **[TRADE SECRET BEGINS**  
23                    **TRADE SECRET ENDS]**, we can expect the Project to receive approximately  
24                    **[TRADE SECRET BEGINS            TRADE SECRET ENDS]** of PTC value per year  
25                    for the first ten years of operation. The fact is the Project relies heavily on  
26                    receiving 100% of the PTC rate to be cost effective for customers, and if it fails  
27                    to receive 100% of the PTC rate, it may be a net cost rather than a net savings  
28                    to North Dakota ratepayers. In order to protect ratepayers, I believe it is  
29                    necessary to put this condition in place.

30

1 Q: Does this conclude your testimony?

2 A: Yes it does.

