

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Northern States Power Company
Advance Prudence – 98.9 Mower Co. Wind Facility
Application

Case No. PU-19-310

AFFIDAVIT OF SERVICE BY REGULAR AND ELECTRONIC MAIL

STATE OF NORTH DAKOTA
COUNTY OF BURLEIGH

Geralyn R. Schmaltz deposes and says that:

she is over the age of 18 years and not a party to this action and, on the **7th** day of **February 2020**, she deposited in the United States Mail, Bismarck, North Dakota, **2** envelopes by first class mail, fully prepaid, securely sealed each containing a photocopy of:

- **Prefiled Direct Testimony of Victor Schock**

The envelopes were addressed as follows:

Zeviel Simpser
Attorney for Northern States Power Co.
Dorsey & Whitney LLP
50 South Sixth Street, Suite 1500
Minneapolis, MN 55402-1498

Hope Hogan
Administrative Law Judge
Office of Administrative Hearing
2911 North 14th Street Suite 303
Bismarck, ND 58503

Geralyn R. Schmaltz further deposes and says that on the **7th day of February 2020**, she sent an electronic message to **2** addressees, each including an electronic copy in portable document format of the same document.

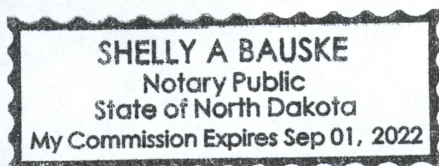
The electronic mails were addressed as follows:

Zeviel Simpser
Attorney for Northern States Power Co.
Dorsey & Whitney LLP
simpser.zev@dorsey.com

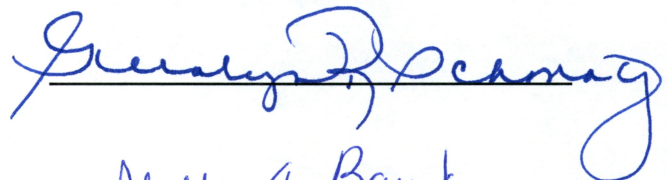
Hope Hogan
Administrative Law Judge
Office of Administrative Hearing
hlhogan@nd.gov

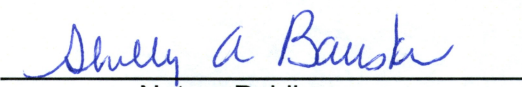
The addresses shown are the respective addressee's last reasonably ascertainable post office and electronic mail addresses.

Subscribed and sworn to before me
this **7th day of February 2020**.



(SEAL)





Notary Public

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 (PVR) 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.

