

Rebuttal Testimony and Schedules  
Greg P. Chamberlain

Before the North Dakota Public Service Commission  
State of North Dakota

In the Matter of the Application of Northern States Power Company  
for Authority to Increase Rates for Electric Service in North Dakota

Case No. PU-20-441  
Exhibit\_\_(GPC-2)

**Policy Rebuttal**

June 1, 2021

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1 **I. INTRODUCTION**

2  
3 Q. PLEASE STATE YOUR NAME.

4 A. My name is Greg P. Chamberlain, and I am the Regional Vice President for  
5 Northern States Power Company (Xcel Energy or the Company).

6  
7 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I filed Direct Testimony on behalf of the Company providing an overview  
9 of our electric rate case filing, including the key drivers of our request and  
10 related policy issues. I then provided Revised Direct Testimony on March 26,  
11 2021.

12  
13 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14 A. I summarize our response to the Direct Testimony filed on behalf of the  
15 Advocacy Staff of the North Dakota Public Service Commission (Advocacy  
16 Staff) and intervenors the American Association of Retired Persons (AARP)  
17 and Walmart Inc. (Walmart), and identify the Company witnesses sponsoring  
18 Rebuttal Testimony.

19  
20 Q. WHAT KEY ISSUES DO YOU ADDRESS IN YOUR REBUTTAL TESTIMONY?

21 A. The key categories addressed in my testimony are:

- 22 • Return on equity and capital structure. I briefly discuss these topics,  
23 which are also the subject of the Rebuttal Testimony of Dylan W.  
24 D’Ascendis and the Rebuttal Testimony of Company Witness Sarah W.  
25 Soong.
- 26 • The prudence of various resource decisions including the Prairie Island  
27 Extended Power Uprate (PI EPU) Project, the adjusted end of life of

1 Sherco Units 1 and 2, the MEC II PPA, the 187 MW Solar Portfolio, and  
2 the Community Wind and Jeffers Wind projects. I discuss each of those  
3 items below and they are also the subject of the Rebuttal Testimony of  
4 Company Witness Ms. Farah L. Mandich;

- 5 • Whether Advocacy Staff’s proposed normalization concept utilizing  
6 historical three-year averages should be used to determine various  
7 expense and revenue figures, including operation and maintenance  
8 (O&M) expenses, or whether such values should be determined using  
9 forecasted test-year values as provided for by statute. I address this topic  
10 below and the proposed normalization is also discussed in the Rebuttal  
11 Testimony of Company Witness Mr. Benjamin C. Halama.
- 12 • The Company’s response to other miscellaneous adjustments proposed  
13 by Mr. Mugrace, including deferring the costs of the AGIS initiative by  
14 creating a regulatory asset, the Annual Incentive Plan (API),  
15 contributions and membership dues, and aviation costs.
- 16 • Our response to the testimony of the witnesses from Walmart and the  
17 AARP.

18  
19 In addition to those topics, the Company and Advocacy Staff differ on certain  
20 other issues which are not discussed in my Rebuttal Testimony, but which are  
21 the subject of rebuttal testimony from other Company witnesses. Mr. Mark P.  
22 Moeller offers Rebuttal Testimony on the topic of depreciation, Ms. Carolyn  
23 Wetterlin offers Rebuttal Testimony regarding transmission issues, Mr. Michael  
24 Peppin provides Rebuttal Testimony regarding class cost of service, and Mr.  
25 Nicholas Paluck’s Rebuttal Testimony addresses rate design.

1 Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

2 A. I present my testimony in the sections as outlined below.

- 3 • Rate of Return and Capital Structure;
- 4 • The Prudence of Certain Resource Decisions;
- 5 • O&M Normalization;
- 6 • Other Items from Mr. Mugrace's Testimony;
- 7 • Response to Walmart and AARP;
- 8 • Presentation of Rebuttal Witnesses; and,
- 9 • Conclusion.

10

11 **II. RATE OF RETURN AND CAPITAL STRUCTURE**

12

13 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

14 A. In this section, I discuss the Company's concerns with the recommendations of  
15 Dr. Marlon F. Griffing who offered Direct Testimony on behalf of Advocacy  
16 Staff regarding capital structure and return on equity. I start by discussing  
17 capital structure and then discuss return on equity. These issues are discussed  
18 in greater detail in Ms. Soong's Rebuttal Testimony and Mr. D'Ascendis's  
19 Rebuttal Testimony, but I address them here at a high level.

20

21 Q. WHAT RECOMMENDATION DID DR. GRIFFING MAKE REGARDING THE  
22 COMPANY'S CAPITAL STRUCTURE?

23 A. In his Direct Testimony, Dr. Griffing recommended the following capital  
24 structure: 49.50 percent equity, 44.96 percent long-term debt, and 2.48 percent  
25 short-term debt.

1 Q. WHAT IS THE COMPANY'S PROPOSED CAPITAL STRUCTURE?

2 A. The Company is recommending a return on equity of 10.20 percent and the  
3 proposed capital structure, which aligns with the Company's actual capital  
4 structure, is 52.50 percent equity, 46.72 percent long-term debt, and 0.78  
5 percent short-term debt.

6

7 Q. WHAT IS XCEL ENERGY'S RESPONSE TO DR. GRIFFING'S RECOMMENDATION?

8 A. The Company contends that Dr. Griffing's recommendation was the result of  
9 a flawed methodology. As Ms. Soong explains in her Rebuttal Testimony, Dr.  
10 Griffing did not actually use the averages (or some other descriptive statistic)  
11 from his comparison group. Instead, he subjectively selected values from within  
12 the ranges of comparison group values. As a result, his recommended capital  
13 structure is a significant decrease in the Company's equity percentage when  
14 compared to both the values to which the Company manages its business and  
15 the currently authorized values. Dr. Griffing's recommended capital structure  
16 would not make sense for the Company as a meaningful increase in debt would  
17 lead equity investors and lenders to believe the Company is riskier, and they  
18 would then demand greater returns, which would increase finance costs. The  
19 Company's proposed capital structure will continue to position us to maintain  
20 strong credit metrics, which keeps the cost of debt down, while continuing to  
21 supply safe, reliable, and affordable electric service to North Dakota.

22

23 Q. WHAT RECOMMENDATION DID DR. GRIFFING MAKE RETURN ON EQUITY?

24 A. In his Direct Testimony, Dr. Griffing recommended a return on equity of 9.50  
25 percent.

1 Q. WHAT IS THE COMPANY'S PROPOSED RETURN ON EQUITY?

2 A. The Company is recommending a return on equity of 10.20 percent.

3

4 Q. WHAT IS XCEL ENERGY'S RESPONSE TO DR. GRIFFING'S RECOMMENDATION?

5 A. For the reasons explained in Mr. D'Ascendis's Rebuttal Testimony, the  
6 Company continues to recommend a return on equity of 10.20 percent, and  
7 takes issues with several aspects of Dr. Griffing's analysis. In broad categories,  
8 the issues with Dr. Griffing's methodology, which are explained in detail by Mr.  
9 D'Ascendis, are:

- 10 • His recommended proxy group includes two companies that are not  
11 comparable because they do not own generation resources;
- 12 • He did not apply a size adjustment to his Constant Growth Discounted  
13 Cash Flow (DCF) model even though he did so for his Capital Asset  
14 Pricing Model (CAPM);
- 15 • He used a Multi-Stage DCF Model even though public utilities, like the  
16 Company, are classic examples of mature companies in the steady-state  
17 stage of the corporate life-cycle; and,
- 18 • There were questionable assumptions and methodological choices in his  
19 CAPM.

20

### 21 **III. THE PRUDENCE OF CERTAIN RESOURCE DECISIONS**

22

23 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

24 A. In this section, I discuss some key areas of disagreement with the witnesses for  
25 Advocacy Staff regarding the prudence of several decisions regarding the  
26 Company's generation resources. I start by discussing the change in the closure  
27 dates for Sherco Units 1 and 2, then discuss the PI EPU Project, and then move

1 on to the MEC II PPA, the 187 MW Solar Portfolio, and the Community Winds  
2 North and Jeffers Wind projects. The prudence of these investments is  
3 discussed in greater detail in the Ms. Mandich's Rebuttal Testimony, but I  
4 address them here at a high level and, in particular, focus on the policy  
5 implications of the recommendations of Advocacy Staff's witnesses.

6  
7 **A. Sherco Units 1 and 2**

8  
9 Q. WHAT RECOMMENDATION DID ADVOCACY STAFF'S WITNESSES MAKE  
10 REGARDING THE RETIREMENT OF SHERCO UNITS 1 AND 2?

11 A. In his Rebuttal Testimony, Mr. Mugrace recommends maintaining the current  
12 North Dakota depreciable lives for Sherco Units 1 and 2, which is based on the  
13 2034 end of remaining life date approved by the Commission as part of the  
14 settlement of Case No. PU-07-776. Advocacy Staff Witness Mr. Pavlovic  
15 opines that the 2015 decision to advance the retirement dates for the two units  
16 was not prudent.

17  
18 Q. WHAT REASONS DO THE WITNESSES FOR THE ADVOCACY STAFF PROVIDE FOR  
19 THEIR RECOMMENDATIONS?

20 A. In addition to referring to the settlement in Case No. PU-07-776, Mr. Mugrace  
21 notes that the Commission did not take any action in response to the  
22 Company's Resource Plan, refers to positions taken by Commission Staff, and  
23 asserts that regulatory uncertainty is not a valid argument. For his part, Mr.  
24 Pavlovic notes that the Commission has not approved a change to the  
25 retirement dates, notes a 2015 revenue requirements analysis showing additional  
26 costs from the change in retirement dates, references more recent analyses, and  
27 concludes that the 2015 decision was not prudent based on the 2015 analysis.

1 Q. WHAT IS XCEL ENERGY'S RESPONSE TO THIS RECOMMENDATION?

2 A. The Company's decision regarding the retirement of Sherco Units 1 and 2 was  
3 prudent in 2015 and remains prudent now for the reasons discussed in the  
4 Direct Testimony of Mr. Shaw and the Rebuttal Testimony of Ms. Mandich. In  
5 response to the testimony stating that the Commission has not approved a  
6 change to the 2034 end to the remaining life period, we note that this is the first  
7 opportunity to adjust the remaining lives of the plants since the Company's  
8 announcement of the planned retirement dates. Further, the Company  
9 informed the Commission of its plans in resource planning filings provided to  
10 the Commission in Case Nos. PU-15-019 and PU-19-220. Consistent with  
11 Commission practice, the Commission held informal hearings in these cases,  
12 but took no action. Consequently, the Commission has been fully informed of  
13 the Company's plans since they were announced. The Commission, through  
14 its Staff, has also sought significant additional information and additional  
15 resource planning analyses with respect to Sherco Units 1 and 2 since at least  
16 2015. Accordingly, the Company has kept the Commission apprised of its  
17 decision and this rate case offers an appropriate venue for Xcel Energy to  
18 propose a change in the depreciable lives of Sherco Units 1 and 2.

19

20 Q. IS THE COMPANY REQUESTING THE COMMISSION DETERMINE THAT ITS  
21 PLANNED RETIREMENT DATES FOR SHERCO 1 AND 2 ARE PRUDENT?

22 A. No. Although we have submitted testimony supporting the prudence of our  
23 plan, the Company is merely seeking to adjust the remaining lives of Sherco 1  
24 and 2 consistent with the true remaining lives of the plants. This would result  
25 in the depreciation expense and recovery of removal costs matching the actual  
26 continued life of the plant. The Commission does not need to make any  
27 determination of prudence with respect to the Company's choice to retire these

1 units in 2026 and 2023, respectively. The units will continue to operate for  
2 several more years, and there are not yet any stranded costs to recover.  
3 Consequently, there is no need to make any determination on the prudence of  
4 the retirement dates. Any stranded cost recovery can be addressed when it is  
5 requested. I stress, the Company is merely seeking to ensure that the  
6 depreciable lives of the plants match their actual remaining lives, a fact that is  
7 not contested in this case.

8  
9 **B. Prairie Island EPU Project**

10  
11 Q WHAT RECOMMENDATIONS DID THE WITNESSES FOR THE ADVOCACY STAFF  
12 MAKE REGARDING THE PRAIRIE ISLAND EPU PROJECT?

13 A. Mr. Mugrace recommends in his Rebuttal Testimony that the costs of the PI  
14 EPU Project be removed from the Company's rate base and that corresponding  
15 reductions be made to the Company's regulatory amortization balance,  
16 amortization expenses, and property tax balance.

17  
18 Q. WHAT EXPLANATION DOES MR. MUGRACE PROVIDE FOR HIS  
19 RECOMMENDATIONS REGARDING THE PI EPU?

20 A. Mr. Mugrace states that the investment was not prudent in nature, but does not  
21 elaborate on or explain that opinion. Instead, he states that the project will not  
22 benefit North Dakota customer because it was cancelled, that the decision to  
23 undertake the project and later to cancel it are business decisions, and that  
24 allowing cost recovery in such circumstances would result in the Company  
25 having "no responsibility to curtail and restrict what dollars the Company will  
26 invest in."

1 Q. WHAT IS XCEL ENERGY'S RESPONSE TO THOSE CONTENTIONS?

2 A. Contrary to Mr. Mugrace's assertions, our actions with regard to the PI EPU  
3 show that the Company, in fact, takes its responsibilities quite seriously and  
4 avoids taking actions that are not prudent. With respect to the PI EPU, when  
5 it was clear that continuing with the project was not prudent, the Company  
6 terminated its work. As an initial matter, it should be noted that Mr. Mugrace  
7 provides no arguments or evidence showing why either the initiation of the PI  
8 EPU Project or its subsequent cancellation was imprudent. For the reasons  
9 outlined in Mr. Shaw's Direct Testimony and Ms. Mandich's Rebuttal  
10 Testimony, both decisions were prudent. The Project was prudent when it was  
11 initiated based on the then-current analyses, which showed substantial savings  
12 for customers; however, later circumstances, including the Fukushima Daiichi  
13 incident in 2011 and a decrease in natural gas prices, led us to believe that the  
14 PI EPU Project was no longer prudent.

15

16 As Mr. Mugrace notes in his testimony, the Company sought an ADP for the  
17 PI EPU Project in Case No. PU-10-127. If the Company had continued with  
18 its petition and obtained the requested ADP, we would have been able to recover  
19 the costs of the Project even after a subsequent cancellation pursuant to  
20 N.D.C.C. § 49-05-16(6). The Company, however, acted responsibly and  
21 prudently by both cancelling the PI EPU Project and suspending and later  
22 withdrawing the request for an ADP. The Company acted prudently and was  
23 transparent with the Commission. If the Company is denied rate recovery in  
24 these circumstances, it would create a disincentive to cancel projects even when  
25 doing so is the prudent course of action. The Company acted prudently and it  
26 should, therefore, be able to recover the relevant costs.

1           **C.     MEC II PPA**

2  
3    Q.   WHAT RECOMMENDATION DID ADVOCACY STAFF'S WITNESSES MAKE  
4       REGARDING THE MEC II PPA?

5    A.   In his Direct Testimony, Mr. Pavlovic recommended that the Commission find  
6       that Company's decision to enter into the MEC II PPA was not prudent. Mr.  
7       Pavlovic provided only limited insight into the basis for his recommendation.  
8       He briefly discusses Case No. PU-15-96, without noting that the Commission  
9       dismissed that matter without prejudice to the Company's ability to raise the  
10      issue again in the future, shortly summarizes certain points made by Company  
11      Witness Mr. Shaw, states that the Company has not provided any  
12      contemporaneous information that was not before the Commission in 2015,  
13      and concludes, without offering a substantive explanation, that the PPA was  
14      not prudent.

15  
16     In his Direct Testimony, Mr. Mugrace provides a somewhat more fulsome  
17     explanation for the recommendations made by the witnesses appearing for  
18     Advocacy Staff. In summary, Mr. Mugrace contends that the capacity acquired  
19     by the MEC II PPA is not yet needed and that the costs and risks of acquiring  
20     capacity in order to adopt a conservative approach and deal with unexpected  
21     capacity deficits should be paid by shareholders. Mr. Mugrace also suggests that  
22     regardless of whether or not the uncertain regulatory environment at the time  
23     of the acquisition made the PPA prudent at the time, that decision is not  
24     prudent now.

1 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. PAVLOVIC AND MR. MUGRACE  
2 WITH REGARD TO THE MEC II PPA?

3 A. Company Witness Ms. Farah L. Mandich offers the Company's response with  
4 regard to the prudence of the acquisition in her Rebuttal Testimony. In broad  
5 terms, the MEC II PPA was prudent at the time because the Company's  
6 forecasts showed a developing need for dispatchable capacity and MEC II  
7 offered competitive pricing -- a CC facility at CT pricing. The competitive  
8 pricing made the decision prudent despite some mismatch in the timing of the  
9 need for the capacity that developed during the acquisition process.

10

11 Q. DID ADVOCACY STAFF'S WITNESSES OFFER ANY RECOMMENDATIONS  
12 REGARDING THE FUTURE TREATMENT OF THE MEC II PPA?

13 A. No, they did not. As a practical matter, the MEC II PPA is providing capacity  
14 and energy for the NSP System. In fact, MEC II was supporting the system  
15 and was available for full load the entire period of Winter Storm Uri from  
16 February 6 through February 18 of 2021. The unit was dispatched at peak load  
17 for many hours during that time and otherwise available to ramp up, helping to  
18 keep the system reliable. Further, being dual fuel capable allowed us to keep  
19 MEC II available and also conserve gas by running on fuel oil to mitigate gas  
20 exposure, and we successfully switched to fuel oil on February 15th and 16th  
21 for this purpose. If the recommendations of Advocacy Staff were to be  
22 accepted by the Commission and no other mechanism put in place, the result  
23 would be that North Dakota ratepayers would receive the substantial benefits  
24 from MEC II without paying their share of the costs for a 345 MW combined  
25 cycle unit.

1 Q. DOES THE COMPANY HAVE A PROPOSAL FOR HOW TO ADDRESS THE MEC II  
2 PPA?

3 A. Yes. The disagreement regarding the MEC II PPA appears to result from the  
4 mismatch in timing between when the PPA began and when the Company will  
5 have a need for the capacity from MEC II. Accordingly, while we continue to  
6 maintain that the MEC II PPA is prudent and should be recovered in rates  
7 based on the competitive pricing, it would also be prudent to defer the  
8 Company's recovery and amortize it over the remaining period of the PPA  
9 beginning in 2025.

10

11 **D. 187 MW Solar Portfolio**

12

13 Q. WHAT RECOMMENDATION DID ADVOCACY STAFF'S WITNESSES MAKE  
14 REGARDING THE SOLAR PORTFOLIO?

15 A. In his Direct Testimony, Mr. Pavlovic recommends that the Commission  
16 determine that the acquisition of the Solar Portfolio was not prudent. Mr.  
17 Pavlovic notes the Commission's decision in Case No. PU-14-810, states that  
18 the Company has not provided any contemporaneous information or data that  
19 was not before the Commission in 2015, and recommends that the Commission  
20 conclude that acquisition of the solar PPAs was not prudent. Mr. Mugrace also  
21 briefly discussed the Solar Portfolio concluding that costs for the projects  
22 should not be recovered from North Dakota ratepayers. In reaching that  
23 conclusion, Mr. Mugrace references the Commission's prior determination and  
24 Mr. Pavlovic's testimony.

1 Q. WHAT IS THE COMPANY'S RESPONSE REGARDING THE 187 MW SOLAR  
2 PORTFOLIO?

3 A. Company Witness Ms. Farah L. Mandich offers the Company's response with  
4 regard to the prudence of the 187 Solar Portfolio in her Rebuttal Testimony.  
5 The Solar Portfolio allows Xcel Energy to satisfy Minnesota's Solar Energy  
6 Standards at a reasonable cost, and North Dakota customers benefit from the  
7 Company's large and integrated NSP System.

8

9 Q. DID ADVOCACY STAFF'S WITNESSES OFFER ANY RECOMMENDATIONS  
10 REGARDING THE FUTURE TREATMENT OF SOLAR PORTFOLIO?

11 A. No, they do not. The Solar Portfolio projects provide energy to the NSP System  
12 as well as over 90 MW of accredited capacity and Solar Renewable Energy  
13 Credits (S-RECs). Currently, North Dakota ratepayers receive those benefits,  
14 but do not pay their share of the costs. However, Advocacy Staff do not suggest  
15 any mechanism to address the issue. Should the Commission not deem the 187  
16 MW solar portfolio prudent, then it should allow for the current treatment of  
17 the projects to continue.

18

19 **E. Jeffers Wind and Community Wind North**

20

21 Q. WHAT RECOMMENDATION DID ADVOCACY STAFF'S WITNESSES MAKE  
22 REGARDING THE ACQUISITION OF THE REPOWERED JEFFERS WIND AND  
23 COMMUNITY WIND NORTH PROJECTS?

24 A. Mr. Pavlovic did not offer any testimony regarding Jeffers Wind and  
25 Community Wind North; however, Mr. Mugrace discusses the projects in his  
26 testimony and suggests that the Commission determine that the two  
27 acquisitions were not prudent and not allow them to be included in the rate

1 base. Mr. Mugrace provides only a limited explanation for his position. He  
2 notes that the Company did not seek an ADP for the acquisitions (which it was  
3 not required to do), claims that the Company is asking the Commission to rely  
4 on the MPUC's decision, and, somewhat confusedly, references the 2006 and  
5 2010 PPA dates to suggest that the 2019 analyses done by Xcel Energy prior to  
6 the acquisitions of the repowered projects are not sufficient. He concludes by  
7 stating that the risk of the acquisitions should be with Xcel Energy "since the  
8 Company has made the sole determination of acquiring these Projects, not  
9 knowing or addressing what the outcome the ND Commission directives  
10 mandates might be." Essentially, although the settlement in PU-07-776 only  
11 required the Company to seek an ADP for acquisitions that are 50 MW or  
12 greater, Mr. Mugrace is asking the Commission to penalize Xcel Energy for not  
13 having sought ADPs for the Community Wind North and Jeffers Wind  
14 acquisitions. Crucially, Mr. Mugrace does not offer any testimony rebutting or  
15 calling into question the Company's pro forma analyses of the Projects or the  
16 Strategist resource planning analyses of them, which demonstrated savings from  
17 both projects on a PVRR basis.

18  
19 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. PAVLOVIC AND MR. MUGRACE  
20 WITH REGARD TO THE MEC II PPA?

21 A. Company Witness Ms. Farah L. Mandich offers the Company's response with  
22 regard to the prudence of the acquisition in her Rebuttal Testimony. In brief,  
23 Ms. Mandich notes that our uncontested analyses of both projects show savings  
24 for Xcel Energy's customers.

1 Q. DID ADVOCACY STAFF’S WITNESSES OFFER ANY RECOMMENDATIONS  
2 REGARDING THE FUTURE TREATMENT OF THE COMMUNITY WIND NORTH AND  
3 JEFFERS WIND PROJECTS?

4 A. No, as with the MEC II PPA and the Solar Portfolio, they do not. Previously,  
5 Jeffers Wind and Community Wind North were PPAs and so the cost recovery  
6 for these projects was through the Fuel Cost Rider (FCR). Now that they are  
7 Company-owned, that is no longer the case. If these two projects are kept out  
8 of rate base, North Dakota customers will receive the energy they generate, but  
9 will not pay any part of the costs. Should the Commission not allow the  
10 Company to recover the costs of these projects in base rates, then some  
11 mechanism must be employed to prevent the allocation of energy and capacity  
12 generated from these projects to North Dakota customers at no cost.

13

14 **F. Resource Treatment Framework**

15

16 Q. DO THE POSITIONS TAKEN BY ADVOCACY STAFF WITNESSES WITH REGARD TO  
17 RESOURCE ADDITIONS HAVE ANY IMPLICATIONS FOR THE RESOURCE  
18 TREATMENT FRAMEWORK (RTF)?

19 A. Yes, they do. The RTF or some similar approach will be needed if the  
20 Commission adopts the recommendations made by Advocacy Staff with regard  
21 to the MEC II PPA, the Solar Portfolio, and the Community North Wind and  
22 Jeffers Wind acquisitions. Advocacy Staff does not address the issue, but its  
23 recommendations, if followed, would result in materially different regulatory  
24 outcomes for resources already serving the integrated NSP System. This would  
25 stress the integrated nature of the system by apportioning the benefits of these  
26 resources without allocating the costs. Over the medium and long-term, it is  
27 not tenable for the Company to operate the NSP System with material

1 differences of the treatment of major resources without some appropriate  
2 mechanism, like the RTF. This possible need for the RTF highlights its  
3 relevance and continued usefulness, which support rate recovery for Company's  
4 costs in developing it.

#### 6 **IV. O&M NORMALIZATION**

7  
8 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

9 A. In this section, I discuss the Company's response to Mr. Mugrace's  
10 recommendation regarding the use of the average of three-years of historical  
11 data for certain operating revenues and the Company's O&M expenses instead  
12 of forecasted test-year amounts. I explain why the Company believes the  
13 proposed approach is not consistent with North Dakota or Commission policy  
14 and briefly describe practical and methodological problems with the approach.  
15 Company Witness Mr. Benjamin Halama discusses this topic further in his  
16 Rebuttal Testimony.

17  
18 Q. WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING THE USE OF  
19 HISTORIC DATA TO DETERMINE CERTAIN TEST-YEAR AMOUNTS?

20 A. In his Direct Testimony, Mr. Mugrace recommended that the Commission  
21 adopt an approach of normalizing certain Company revenues and expenses by  
22 substituting a three-year average of 2018, 2019, and 2020 values for various  
23 costs presented by the Company for the 2021 test year and by substituting a  
24 three-year average of 2019, 2020, and 2021 for one portion of the operating  
25 revenues. The O&M expense normalization included the following categories:  
26 power production expenses, transmission expenses that are not part of the  
27 Interchange Agreement, distribution expenses, bad debt expenses, customer

1 service and information expenses, certain administrative and general expenses,  
2 all O&M labor by functional group, distribution labor, non-labor O&M  
3 employee costs, and certain pension expenses.

4  
5 Q. WHAT WAS MR. MUGRACE'S STATED JUSTIFICATION FOR THE PROPOSED THREE-  
6 YEAR NORMALIZATION?

7 A. In his Direct Testimony, Mr. Mugrace stated that some expenses are "variable  
8 in nature and can change from period to period." He further stated that it is  
9 "appropriate to normalize these types of costs to set rates in this proceeding."  
10 He also stated that "certain costs are usually out of the Company's control in  
11 that they related to outside vendors or third-party providers."

12  
13 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MUGRACE'S PROPOSED  
14 APPROACH?

15 A. Mr. Mugrace's proposal is not consistent with traditional principles of  
16 ratemaking. Section 49-05-04.1(1) of the North Dakota Century Code gives  
17 Company the choice "at its option" between a historical test year, a current test  
18 year, or a future test year. As allowed by the Legislature, Xcel Energy opted to  
19 file using a 2021 future test year. While historic data can provide important  
20 context to use in understanding trends and considering the accuracy of  
21 forecasted test year revenues and expenses, the wholesale use of three years of  
22 historic data for significant portions of our cost of service, including O&M  
23 expenses, is inconsistent with Xcel Energy's statutory right to choose a future  
24 test year. We also note that the approach suggested by Mr. Mugrace results  
25 in a mismatch between historic data, for O&M expenses and operating

1 revenues, and forecasted future test-year figures for the remainder of the case.  
2 The Commission has traditionally disfavored such an approach.<sup>1</sup>

3  
4 It may be appropriate in some cases to use a normalization approach for a  
5 particular line item to address a specific anomaly, but Mr. Mugrace is proposing  
6 something different and more troubling: the replacement of revenue and O&M  
7 expenses in multiple categories with historical averages.

8  
9 Q. WHAT IS THE COMPANY'S OBJECTION TO THE CATEGORIES FOR WHICH MR.  
10 MUGRACE IS RECOMMENDING NORMALIZATION?

11 A. Mr. Mugrace is proposing to replace Company revenue and multiple categories  
12 of expenses with three-year averages. This proposal is not appropriate for a few  
13 reasons. First, adjusting sub-sets of O&M expenses does not allow for changes  
14 in operations and expenses, including those areas in which costs have increased.  
15 Second, the Company does not manage its business at the jurisdictional  
16 allocator level. Third, the data does not support the need for normalization.  
17 Mr. Mugrace is not addressing any specific issues with particular line items in  
18 the test year forecast.

19  
20 Q. WHAT WOULD BE THE PRACTICAL IMPACT OF SETTING RATES BASED ON  
21 HISTORIC EXPENSES?

22 A. The three-year averaging approach will result in larger future revenue  
23 deficiencies.

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<sup>1</sup> See *In re MDU Nat. Gas Rate Increase Application*, Case No. PU-399-02-183, 2002 N.D. PUC LEXIS 45, at ¶¶ 8-17 (Dec. 18, 2002).

1 Q. WHY IS THAT?

2 A. The Company's test year budget is based on what we expect to spend and no  
3 witness has challenged the accuracy of those projections. By treating all  
4 differences from a historical three-year average as mere fluctuations to be  
5 smoothed out the proposed approach from Advocacy Staff's witness would not  
6 allow the Company to recover for those of Xcel Energy's costs that are expected  
7 to increase. In his Direct Testimony, Mr. Mugrace discusses his proposed  
8 normalization in terms of smoothing out variability, but such a view presumes  
9 that the revenues in question and the multiple O&M expense categories at issue  
10 bounce up and down randomly from year to year. Mr. Mugrace, however, has  
11 not presented any evidence that is the case. Obviously, some fluctuation is  
12 normal and has never been an impediment to setting rates. However, by  
13 treating all differences from a historical three-year average as mere variabilities  
14 to be smoothed out Advocacy Staff's proposed approach would not allow the  
15 Company to recover for increasing expenses.

16

17 Q. CAN YOU PROVIDE ANY EXAMPLES OF COSTS THAT ARE EXPECTED TO  
18 INCREASE?

19 A. To take one obvious example, the Company is not immune to inflation in the  
20 marketplace, including labor inflation. In her Direct Testimony, Company  
21 Witness Ms. Kelly Bloch testified that the Company budgeted using a 2.5  
22 percent annual labor inflation over a two-year period. Advocacy Staff has not  
23 presented any testimony suggesting that this budgeting assumption is  
24 inappropriate or unwarranted, and, in fact, the Company's labor costs have  
25 historically increased consistent with this amount. Certain labor markets have  
26 been tightening and the Company needs to keep up with increases in cost of

1 living to remain a competitive employer. Determining O&M labor costs based  
2 on historic data disregards the real world impact of increasing labor costs.

3  
4 Another example is the damage prevention program. As Ms. Bloch explained  
5 in her Direct Testimony, those costs have increased due to tight labor markets  
6 and increased insurance premiums, which have impacted the pricing when the  
7 Company contracts out such work. Indeed, even Mr. Mugrace recognized in  
8 his testimony that the Company can find it hard to limit some cost increases of  
9 this sort when he stated that certain costs are “usually out of the Company’s  
10 control in that they related to outside vendors or third-party providers.”

11  
12 The overall issue is that the Company has forecasted increases in various budget  
13 categories and the testimony presented on behalf of Advocacy Staff has not  
14 challenged the accuracy of those forecasts. As I noted above, it might be  
15 appropriate in some instances to use normalization for a particular line item if  
16 there was unusually high or low expenses or revenues due to factors that are not  
17 expected to continue or be repeated; however, that is not what Advocacy Staff  
18 has proposed. Advocacy Staff has not shown that the multiple categories  
19 selected for normalization were appropriate for normalization and did not even  
20 inquire during discovery about the nature of all the increases or fluctuations in  
21 various O&M categories to determine whether or not normalization was  
22 appropriate for particular categories.

1 Q. DID MR. MUGRACE PROVIDE ANY JUSTIFICATION FOR THE METHODOLOGY  
2 USED TO SELECT THE 2018, 2019, AND 2020 YEARS USED FOR EXPENSE  
3 NORMALIZATION?

4 A. It appears that the three years were chosen because they are the three most  
5 recent complete years. If normalization were appropriate for particular line  
6 items, which is not something shown by Advocacy Staff, in many instances it  
7 might make sense to choose the most recent years or a 5-year trend. However,  
8 in this instance the choice appears arbitrary.

9

10 Q. WHY DOES THE COMPANY DISAGREE WITH THE THREE YEARS USED FOR MR.  
11 MUGRACE'S NORMALIZATION?

12 A. The 2018 to 2020 three-year period is particularly ill-suited for use in  
13 normalization. The 2020 year is obviously an anomalous year due to the  
14 COVID-19 pandemic and its impacts on business activities and energy  
15 consumption. The Company's sales revenue decreased as a result of the  
16 pandemic and the Company also reduced certain expenses, such as a one-year  
17 reduction in vegetation management discussed by Ms. Bloch in her Direct  
18 Testimony. The result of using such an unusual year is that some of the  
19 fluctuation in costs being "smoothed out" by the normalization have no  
20 particular relationship to the Company's appropriate future test-year costs. By  
21 normalizing certain categories, Mr. Mugrace's proposed approach would  
22 actually accentuate the impact of the pandemic on the Company's cost of  
23 service. This issue, and others related to the proposed normalization, are  
24 discussed in greater depth in the Rebuttal Testimony of Company Witness  
25 Benjamin C. Halama.

1 Q. DOES THE COMPANY HAVE ANY OTHER METHODOLOGICAL ISSUES WITH MR.  
2 MUGRACE'S NORMALIZATION?

3 A. Yes, as Mr. Halama discusses in his Rebuttal Testimony, the Company's review  
4 of the normalization uncovered issues with the normalization. In particular, in  
5 some instances Mr. Mugrace averaged overall costs for a particular category,  
6 including labor, and then separately averaged those labor costs a second time.  
7 The result was that Advocacy Staff's recommended costs were lower than  
8 would have been the case if there were only a single averaging. As Mr. Halama  
9 explains, the decision to average costs at a North Dakota jurisdictional level,  
10 rather than average costs on a Company-wide basis and then apply jurisdictional  
11 allocators, also increased the amount of the recommended disallowance.

12

13 **V. OTHER ITEMS FROM MR. MUGRACE'S TESTIMONY**

14

15 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

16 A. In this section, I provide our response to other miscellaneous recommendations  
17 made by Mr. Mugrace in his testimony including, AGIS, incentive pay,  
18 membership dues, donations, and aviation expenses.

19

20 **A. AGIS**

21

22 Q. WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING AGIS?

23 A. In his Direct Testimony, Mr. Mugrace recommended that AGIS costs not be  
24 included in the rate base and not be recovered "at this time." He further  
25 suggested that the Company ask the Commission to allow the AGIS  
26 investments to be booked in a regulatory asset and that Xcel Energy could then  
27 request recovery in the future when the various AGIS components have been

1 installed. Mr. Mugrace also recommended disallowing AGIS O&M costs and  
2 accumulated depreciation.

3  
4 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MUGRACE'S RECOMMENDATIONS  
5 REGARDING AGIS?

6 A. While the Company believes that its AGIS investments are used and useful and  
7 therefore appropriate to include in rate base, Mr. Mugrace has suggested a  
8 reasonable alternative. The Company requests that the Commission adopt Mr.  
9 Mugrace's proposal and allow it to place the costs of the AGIS program into a  
10 regulatory asset on an ongoing basis until all components of the AGIS program  
11 are placed in service. As Mr. Mugrace is recommending that O&M and  
12 depreciation expenses for AGIS be disallowed because he contends the project  
13 is not yet used and useful, we would propose to include those AGIS O&M and  
14 depreciation expenses in the regulatory asset along with the capital investment  
15 amounts, and that the regulatory asset be treated as if the AGIS components  
16 were not yet in service. Mr. Halama discusses the Company's response to Mr.  
17 Mugrace's proposal in greater detail in his Rebuttal Testimony.

18  
19 **B. Annual Incentive Plan (AIP)**

20  
21 Q. WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING INCENTIVE  
22 COMPENSATION?

23 A. Mr. Mugrace recommended in his Direct Testimony that the Company not be  
24 allowed to recover the cost of incentive pay beyond fifteen percent of base pay.

1 Q. WHAT EXPLANATION DID MR. MUGRACE GIVE FOR HIS RECOMMENDATION?

2 A. Mr. Mugrace noted that the Company had justified the need for incentive  
3 compensation by referencing its need to attract and retain employees, reviewed  
4 information provided by Xcel Energy regarding employee turnover showing  
5 that there had not been a “great outflow” of employees, and concluded that the  
6 Company had not therefore shown that it needs to “increase” its LTI, AIP, and  
7 other incentive programs to maintain its level of employees.

8

9 Q. WHAT IS THE COMPANY’S RESPONSE TO THAT RATIONALE?

10 A. There has apparently been a misunderstanding. As I explained in my Direct  
11 Testimony, the Company is seeking permission to recover through ratemaking  
12 incentive pay of up to twenty percent of base pay. Currently, Xcel Energy is  
13 able to only recover up to fifteen percent in rates. However, it should be noted  
14 that fifteen percent cap is a limit on rate recovery, not a limit on the actual  
15 incentive pay the Company uses to attract, incentivize, and retain employees.  
16 Mr. Mugrace is correct in noting that the Company has not suffered from a  
17 significant outflow of talent. However, he is incorrect in attributing that  
18 outcome to incentive pay limited to fifteen percent of base pay. Instead, Xcel  
19 Energy’s ability to retain quality employees is a testament to Company’s  
20 successful use of its incentive programs, which are not actually limited to fifteen  
21 percent. Given its success in keeping key employees, which benefits ratepayers,  
22 the Company is seeking to increase the extent to which it is able to recover the  
23 cost of incentive pay through rates. Accordingly, given the success noted by  
24 Mr. Mugrace and for the reasons outline in my Direct Testimony, the  
25 Company’s request to recover AIP costs of twenty percent of base pay is clearly  
26 prudent and would be just and reasonable.

1           **C.     Association Dues and Contributions**

2  
3    Q.   WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING  
4       CHARITABLE CONTRIBUTIONS AND DUES?

5    A.   Mr. Mugrace recommended in his Direct Testimony that the Company not be  
6       allowed to recover the cost of economic development donations in North  
7       Dakota, fifty percent of charitable contributions, chamber of commerce dues,  
8       or association dues.

9  
10   Q.   WHAT IS THE COMPANY'S RESPONSE?

11   A.   As discussed in my Direct Testimony, the expenses in question are appropriate  
12       and provide benefits for North Dakota, including ratepayers. In particular, we  
13       note chamber of commerce dues facilitate communication with an important  
14       category of customers and the membership dues include memberships in  
15       industry and professional organizations, like the IEEE. The Company is better  
16       positioned to serve its customers, including those in North Dakota, because it  
17       communicates appropriately within its industry and with other stakeholders.

18  
19           **D.     Aviation Expenses**

20  
21   Q.   WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING AVIATION  
22       EXPENSES?

23   A.   Mr. Mugrace recommended against allowing recovery of aviation expenses  
24       allocated to the North Dakota jurisdiction.

1 Q. WHAT IS THE COMPANY'S RESPONSE TO THIS PROPOSED REDUCTION?

2 A. We disagree with Mr. Mugrace's recommendation. As an initial matter, the  
3 Company is not seeking to recover all of the aviation expenses allocated to  
4 North Dakota. We are only requesting half. Furthermore, North Dakota  
5 ratepayers benefit from the Company's use of its airplanes. When executives  
6 travel on corporate aircraft, it saves them substantial amounts of time and allows  
7 them to efficiently carry out their work. Also, in some instances the aircraft are  
8 used to efficiently transport non-executive technical staff, which can facilitate  
9 the prompt resolution of technical issues.

10

11 **VI. RESPONSE TO WALMART AND AARP**

12

13 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

14 A. In this section, I provide our response to the testimony of witnesses who  
15 testified on behalf of intervenors Walmart and the AARP.

16

17 **A. Walmart**

18

19 Q. WHAT RECOMMENDATIONS DID MR. CHRISS MAKE ON BEHALF OF WALMART IN  
20 HIS TESTIMONY?

21 A. Mr. Chriss expressed concern regarding the return on equity sought by the  
22 Company. He also briefly addressed costs of service methodology, but stated  
23 that Walmart is not proposing an alternative methodology, stated that Walmart  
24 does not oppose the proposed revenue allocation methodology, but would  
25 propose that any reduction in revenue requirement be used to move individual  
26 rate classes closer toward cost of service-based revenue levels, and concluded

1 by stating that Walmart does not oppose the proposed increase in the Energy  
2 Charge Credit.

3  
4 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. CHRISS'S TESTIMONY?

5 A. I briefly discussed return on equity and capital structure above and those topics  
6 are also addressed by Mr. D'Ascendis and Company Witness Ms. Soong in their  
7 Rebuttal Testimony. Company Witness Mr. Michael Peppin addresses class  
8 cost of service in his Rebuttal Testimony.

9  
10 **B. AARP**

11  
12 Q. WHAT RECOMMENDATIONS DID MR. MALCOLM MAKE ON BEHALF OF THE  
13 AARP IN HIS TESTIMONY?

14 A. Mr. Malcolm expressed concern regarding the Company's proposed return on  
15 equity, recommended disallowance of the 187 MW Solar Portfolio and the costs  
16 associated with the change in the closure dates for Sherco Units 1 and 2, argued  
17 for disallowance of the Transmission Cost Rider, recommended disallowance  
18 of charitable contributions, chamber of commerce dues, and economic  
19 development spending, and concluded by recommending that the Commission  
20 open an investigation into RTOs and consider moving all North Dakota utilities  
21 into the Southwest Power Pool (SPP).

22  
23 Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MALCOLM'S TESTIMONY?

24 A. Several of the topics raised by Mr. Malcolm were also raised by witnesses for  
25 Advocacy Staff and for those issues I refer to my testimony above. Mr.  
26 D'Ascendis addresses return on equity in his rebuttal testimony. Transmission

1 costs are the subject of Company Witness Ms. Carolyn Wetterlin’s Rebuttal  
2 Testimony.

3  
4 As for the proposal that the Commission consider requiring Xcel Energy to  
5 leave MISO in North Dakota and join the SPP, I will briefly address the issue  
6 as it has been raised by Mr. Malcolm even though it is not truly a matter for this  
7 rate case. The course of action proposed by Mr. Malcom would create severe  
8 disruption and result in many additional costs. The entire NSP System is  
9 currently within MISO and if one portion of it, the service area in North  
10 Dakota, were to be moved to SPP that would likely require the Company to  
11 create a separate corporation for North Dakota and create another separate  
12 corporation to own the NSP System transmission assets. The Company would  
13 also expect to pay exit fees to MISO. Although the Company has not fully  
14 analyzed the possibility, we are confident that Mr. Malcolm’s proposal would  
15 result in increased costs for North Dakota ratepayers.

16  
17 **VII. PRESENTATION OF REBUTTAL WITNESSES**

18  
19 Q. PLEASE INTRODUCE THE COMPANY’S REBUTTAL WITNESSES.

20 A. In addition to my Policy Rebuttal Testimony, the Company sponsors the  
21 following witnesses:

- 22 • Mr. Benjamin C. Halama, who responds to recommended financial  
23 adjustments and addresses the Company’s overall revenue requirement;
- 24 • Mr. Dylan W. D’Ascendis of ScottMadden, Inc. who responds to  
25 recommendations regarding the appropriate return on equity;
- 26 • Ms. Sarah W. Soong, who responds to recommendations regarding the  
27 appropriate capital structure;



1 Company's operating revenue and O&M costs be determined using three-year  
2 averages. The proposal is not supported by Commission practice, does not  
3 account for those O&M costs that have increased, and suffers from  
4 methodological flaws discussed by Mr. Halama in his Rebuttal Testimony. The  
5 Commission should follow traditional ratemaking practices and North Dakota  
6 law by using Xcel Energy's forecast for the future 2021 test year, the accuracy  
7 of which has not be seriously disputed.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10 A. Yes, it does.

1 STATE OF NORTH DAKOTA  
2 BEFORE THE  
3 PUBLIC SERVICE COMMISSION  
4  
5

6 In the Matter of the Application of Northern )  
7 States Power Company, a Minnesota Corporation )  
8 For Authority to Increase Rates for Electric Service ) Case No. PU-20-441  
9 in North Dakota )  
10  
11

12  
13 **AFFIDAVIT OF**  
14 **Greg P. Chamberlain**  
15  
16

17 I, the undersigned, being duly sworn, depose and say that the foregoing is the  
18 Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and the  
19 exhibits or schedules sponsored by me to the best of my knowledge, information  
20 and belief, are true, correct, accurate and complete, and I hereby adopt said testimony  
21 as if given by me in formal hearing, under oath.  
22

23  
24 

25 \_\_\_\_\_  
26 Greg P. Chamberlain  
27  
28  
29

30 Subscribed and sworn to before me, this 26 day of May, 2021.  
31

32   
33 \_\_\_\_\_

34 Notary Public

35 My Commission Expires: 1/31/2025  
36

