

July 12, 2021

**VIA ELECTRONIC MAIL and**  
**FEDERAL EXPRESS**

North Dakota Public Service Commission  
Attention: Steven M. Kahl, Executive Secretary  
600 East Boulevard Ave., Dept. 408  
Bismarck, ND 58505-0480

Re: Supplemental Testimony  
Northern States Power Company  
2021 Electric Rate Increase  
Case No. PU-20-441  
OAH File No. 20200422

Dear Mr. Kahl:

Northern States Power Company, doing business as Xcel Energy, respectfully submits an original and seven (7) copies of the following Supplemental Testimony offered in support of the Settlement Agreement filed on July 1, 2021 in the above-noted case:

Revenue Requirements - Benjamin C. Halama  
Policy - Greg P. Chamberlain

Please contact me at (612) 492-6129 or [simpser.zev@dorsey.com](mailto:simpser.zev@dorsey.com) or David Sederquist at (701) 241-8632 or [dave.sederquist@xcelenergy.com](mailto:dave.sederquist@xcelenergy.com) if you have any questions regarding this filing.

Sincerely,

DORSEY & WHITNEY LLP



Zev Simpson

ZS/tjb  
Enclosures

125 PU-20-441 Filed 07/12/2021 Pages: 37  
Supplemental Testimony in Support of 1 July 2021 Settlement Agreement  
Northern States Power Company  
Zeviel Simpson, Dorsey & Whitney, LLP



July 12, 2021

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cc: Via Email and Certified Mail -  
Hope L. Hogan, Administrative Law Judge (w/encl.)  
John M. Schuh, Advisory Counsel, Public Service Commission (w/encl.)  
Mitchell D. Armstrong, Special Assistant Attorney General (w/encl.)  
Jon C. Lengowski, Special Assistant Attorney General (w/encl.)  
Victor Schock, Advocacy Staff, Public Service Commission (w/encl.)  
John B. Coffman, Attorney for AARP (w/encl.)  
David A. Tschider, Attorney for AARP (w/encl.)  
Julie A. Clark, Attorney for Walmart Inc. (w/encl.)

Supplemental Testimony  
**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

**Supplemental Policy Testimony Supporting Settlement Agreement**

July 12, 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 of  
5 Regulatory and Government Affairs for Northern States Power Company (Xcel  
6 Energy or the Company).

7

8 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

9 A. Yes. I filed Direct Testimony on behalf of the Company providing an overview  
10 of our electric rate case filing, including the key drivers of our request and  
11 related policy issues. I then provided Revised Direct Testimony on March 26,  
12 2021 and Rebuttal Testimony on June 1, 2021. .

13

14 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

15 A. The purpose of my testimony is to support the Settlement Agreement that the  
16 Company, the Advocacy Staff of the North Dakota Public Service Commission  
17 (Advocacy Staff) and intervenors AARP and Walmart Inc. (Walmart) submitted  
18 to the Commission on July 1, 2021 (the “Settlement Agreement”).

19

20 Q. ARE ANY OTHER COMPANY WITNESSES PROVIDING SUPPLEMENTAL  
21 TESTIMONY IN SUPPORT OF THE SETTLEMENT AGREEMENT?

22 A. Yes, Company Witness Benjamin C. Halama is providing Supplemental  
23 Testimony discussing the Revenue Requirements aspects of the Settlement  
24 Agreement.

25

26 Q. PLEASE SUMMARIZE THE SETTLEMENT AGREEMENT.

1 A. The Settlement Agreement will result in just and reasonable rates for the  
2 Company's retail operations in North Dakota. The parties compromised and  
3 arrived at a settlement that recognizes the Company's need for additional  
4 revenue so that it may have an opportunity to earn a reasonable rate of return  
5 on the capital invested to serve North Dakota customers, while also taking into  
6 account the positions of Advocacy Staff, Walmart, and AARP. Specifically, the  
7 Settlement results in a just and reasonable revenue requirement based on the  
8 record before the Commission. While the Settlement Agreement is not a multi-  
9 year settlement, the parties recognized that rates set in this Case could be in  
10 place for some time. Accordingly, in order to make sure rates continue to be  
11 just and reasonable, we have agreed to an earnings-sharing mechanism that will  
12 be in effect for all calendar years prior to the Company's next rate case test year  
13 unless a future settlement or Commission Order provides otherwise. I describe  
14 this earnings-sharing mechanism in greater detail below. The Settlement  
15 Agreement also reforms the manner in which the Company reports its annual  
16 jurisdictional earnings to reflect the reality that there are certain generation  
17 resources on the integrated NSP System for which recovery is disallowed.

18

19 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

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

- 21 • Overview of Revenue Terms of Settlement;
- 22 • Earnings Sharing and Jurisdictional Reporting Reform;
- 23 • Rate Design; and,
- 24 • Conclusion.

25

1           **II. OVERVIEW OF REVENUE TERMS OF SETTLEMENT**

2  
3    Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

4    A. In this section, I provide an overview of the revenue requirement terms of the  
5       Settlement Agreement. While I do not discuss every revenue requirements  
6       provision of the Settlement Agreement, I address the largest adjustments (those  
7       in excess of a half-million dollars). In addition to my discussion below, Mr.  
8       Halama addresses all of the revenue requirement adjustments in his Testimony.

9  
10   Q. WHAT IS THE AGREED-UPON TEST YEAR REVENUE REQUIREMENT IN THE  
11       SETTLEMENT AGREEMENT?

12   A. The parties agreed to an overall 2021 test year revenue requirement of \$213.5  
13       million, which is a revenue requirement increase of \$7.1 million, a decrease of  
14       \$12.1 million from the \$19.2 million increase sought by the Company. The  
15       Company requested a 9.3 percent increase in retail revenue, but the agreed-upon  
16       revenue requirement represents only a 3.4 percent increase.

17  
18   Q. HOW DID THE PARTIES DETERMINE THE REVENUE REQUIREMENT AMOUNT FOR  
19       THE SETTLEMENT AGREEMENT?

20   A. As can be seen on page 3 of the Settlement Agreement, the Parties began with  
21       the Company's proposed adjustment to base rates and then deducted various  
22       adjustments from that total. In some cases, the adjustments represent an  
23       acceptance of other parties' positions with regard to particular items, in others  
24       the adjustment is a compromise between the Company's position and that of  
25       Advocacy Staff.

26

1 Q. HOW DOES THE AGREED-UPON REVENUE REQUIREMENT COMPARE TO THE  
2 REVENUE REQUIREMENT FIGURES PRESENTED IN THE PARTIES' EARLIER  
3 TESTIMONY?

4 A. In our Application and supporting testimony, the Company initially requested  
5 \$228.6 million. However, in revised testimony filed on March 26, 2021, the  
6 Company revised that to \$225.6 million, which, as noted above, would have  
7 been a \$19.2 million increase. For its part, in Direct Testimony filed on April  
8 23, 2021, Advocacy Staff recommended a total increase of \$3.6 million.  
9 Walmart and AARP proposed certain adjustments, but did not advocate for  
10 specific revenue requirement amounts.

11

12 Q. WHAT CAPITAL STRUCTURE, COST OF CAPITAL, AND RETURN ON EQUITY WERE  
13 USED TO DETERMINE THE REVENUE REQUIREMENT FIGURE IN THE  
14 SETTLEMENT AGREEMENT?

15 A. The parties used a weighted average cost of capital of 6.97 percent. The agreed-  
16 upon capital structure is 52.50 percent equity and 47.50 percent debt (46.72  
17 percent long term debt and 0.78 percent short term debt). The agreed return  
18 on equity is 9.50 percent, the cost of long-term debt is 4.22 percent, and the  
19 cost of short-term debt is 1.00 percent. The agreed-upon capital structure is the  
20 one proposed by the Company's witnesses, based on the Company's actual  
21 capital structure, and the agreed-upon return on equity was recommended by  
22 Dr. Marlon Griffing, Advocacy Staff's witness, and is consistent with the  
23 testimony of the AARP and Walmart witnesses. The weighted cost of capital  
24 in the Settlement Agreement is, thus, a reasonable compromise.

25

1 Q. WHAT RECOMMENDATIONS DID PARTY WITNESSES MAKE REGARDING COST OF  
2 DEBT AND RETURN ON EQUITY?

3 A. The witnesses for Advocacy Staff and the Company agreed regarding the costs  
4 of long and short term debt. Return on equity, however, was a matter of  
5 disagreement. Testifying on behalf of the Company, Mr. D'Ascendis  
6 recommended a return on equity of 10.20% and, as noted above, Dr. Griffing  
7 recommended a 9.50% return on equity. AARP witness William H. Malcolm  
8 did not recommend a specific return on equity, but contended that 10.20% is  
9 not in line with national and regional trends. Testifying for Walmart, Steve W.  
10 Chriss similarly did not recommend a specific return on equity while expressing  
11 concern that 10.20% would be out of line with recent trends. Among other  
12 data, Mr. Chriss referred to the average of authorized returns on equity from  
13 2017 to the 2021, including a 9.55 percent average in 2020 and a 9.50 percent  
14 average in 2021 (which were slightly lower than averages for 2017, 2018, and  
15 2019). The return on equity agreed to in the Settlement Agreement is consistent  
16 with the trends described by Mr. Chriss in his testimony and is responsive to  
17 the concern expressed by Mr. Malcolm.

18  
19 Q. IN ADDITION TO RETURN ON EQUITY, WHAT OTHER MATERIAL ADJUSTMENTS  
20 ARE AGREED UPON IN THE SETTLEMENT?

21 A. The other significant adjustments—those totaling more than half a million  
22 dollars—are to maintain the current Sherco Units 1 and 2 depreciation rates, to  
23 defer recovery for the Advanced Grid Intelligence and Security (AGIS)  
24 initiative, to remove the MEC II demand costs, to adjust operations and  
25 maintenance (O&M) costs and Other Revenue, and to maintain the current  
26 treatment for the Community Wind North and Jeffers Wind projects. All of  
27 these adjustments are consistent with Staff's proposals. In addition to those

1 adjustments, each of which I discuss below, there are additional adjustments  
2 discussed in Mr. Halama's Supplemental Testimony.

3  
4 Q. WHAT IS THE SHERCO UNIT 1 AND 2 ADJUSTMENT?

5 A. The parties agreed that for purposes of the test year revenue requirement, the  
6 Company will not adjust the depreciable lives of Sherco Units 1 and 2 to reflect  
7 its plan to retire those units on December 31, 2026 and December 31, 2023,  
8 respectively. Instead, the depreciation expense for both units will be based on  
9 a retirement date of January 1, 2035, as set in Case No. PU-07-776.

10  
11 Q. DID THE PARTIES MAKE AN AGREEMENT REGARDING THE RETIREMENT OF  
12 SHERCO UNITS 1 AND 2?

13 A. No. As this is a rate case, the only issue that had to be resolved was how to  
14 calculate the depreciation used in determining the test-year revenue  
15 requirement. Accordingly, the parties agreed that this settlement only relates to  
16 that depreciation expense. The Sherco units have not closed and so no stranded  
17 costs have yet been accrued. Accordingly, the Settlement Agreement  
18 contemplates that the Company may raise such post-closure issues in a future  
19 rate case when they would be ripe.

20  
21 Q. WHAT AGREEMENT DID THE PARTIES REACH REGARDING THE AGIS  
22 INITIATIVE?

23 A. In his Direct Testimony, Advocacy Staff witness Dante Mugrace recommended  
24 that the Company defer seeking cost recovery for AGIS until all portions of the  
25 foundational projects are placed in service. In Rebuttal Testimony, Company  
26 witnesses expressed agreement with that concept. Accordingly, the Settlement  
27 Agreement provides that the Company will defer all capital-related and O&M

1 AGIS expenses until such time as the foundational elements of AGIS are in  
2 place. Mr. Halama discusses the agreed-upon deferral in greater detail in his  
3 Supplemental Testimony. The Settlement Agreement takes no position on the  
4 prudence of the AGIS initiative investments.

5  
6 Q. WHAT IS THE MEC II ADJUSTMENT?

7 A. The parties agreed that, in determining the test year revenue requirement, the  
8 demand costs of the MEC II PPA will be removed. However, the parties also  
9 agreed that this adjustment is without prejudice to a determination regarding  
10 the prudence of the MEC II PPA in a future rate case. The disagreement  
11 regarding the MEC II PPA has centered on the timing of the resource addition,  
12 and the Company's forecasts have continued to show a need for the resource  
13 in the mid-2020s, as Company Witness Mr. Christopher J. Shaw explained in  
14 his Direct Testimony. Accordingly, the Settlement Agreement will allow the  
15 Company to seek approval of the PPA on a prospective basis consistent with  
16 the demonstration of need.

17  
18 Q. WHAT ADJUSTMENT WAS MADE TO O&M EXPENSES AND THE COMPANY'S  
19 OTHER REVENUE?

20 A. In his Direct Testimony, Mr. Mugrace proposed using a three-year average to  
21 normalize the Company's Other Revenue and several categories of O&M costs.  
22 In Rebuttal Testimony, Mr. Halama and I objected to that proposed  
23 normalization. In total, Mr. Mugrace proposed normalization adjustments in  
24 his Direct Testimony totaling \$4.772 million. In the Settlement Agreement, the  
25 parties agreed to a \$1.407 million adjustment. The agreed-upon adjustment thus  
26 reflects a partial acceptance of Advocacy Staff's position. Test year O&M costs

1 and test year Other Revenue were adjusted to make them more consistent with  
2 the 3-year historical average for 2018, 2019, and 2020.

3  
4 Q. HOW DOES THE SETTLEMENT ADDRESS THE COMMUNITY WIND NORTH AND  
5 JEFFERS WIND PROJECTS?

6 A. The parties agreed that base rate recovery for the additions of the Community  
7 Wind and Jeffers Wind projects will be removed from the test year revenue  
8 requirement. However, the parties also agreed that the Company may continue  
9 to recover a portion of the costs of these two projects as “disputed resources”  
10 through the Company’s Fuel Cost Rider (FCR), the same treatment used for the  
11 projects when they were the subject of PPAs. Under the terms of the Settlement  
12 Agreement, the FCR cost recovery will be for energy produced as of January 1,  
13 2021 and implemented in a monthly FCR filing soon after approval of the  
14 Settlement.

15  
16 Q. ARE THERE OTHER REVENUE REQUIREMENT ADJUSTMENTS AGREED TO IN THE  
17 SETTLEMENT?

18 A. Yes, there are five additional adjustments contained in the Settlement  
19 Agreement, which are addressed in Mr. Halama’s Supplemental Testimony.

20  
21 **III. EARNINGS SHARING AND JURISDICTIONAL REPORTING**  
22 **REFORM**

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

25 A. In this section of my testimony, I discuss two additional important provisions  
26 of the Settlement Agreement: the earnings sharing mechanism and a change in

1       how the Company reports its annual jurisdictional earnings. I also briefly  
2       address the Resource Treatment Framework (RTF).

3  
4   Q.   WHAT IS THE EARNINGS SHARING MECHANISM AGREED TO IN THE SETTLEMENT  
5       AGREEMENT?

6   A.   As I noted above, the Parties recognize that the rates determined by the  
7       Settlement Agreement could be in effect past 2021 and that an earnings sharing  
8       mechanism would thus be appropriate to ensure that rates will continue to be  
9       just and reasonable in future years. The Settlement Agreement provides that,  
10      in the event the Company's annual weather normalized earnings, as calculated  
11      in the Company's jurisdictional annual reports (which I discuss below), exceed  
12      9.75 percent, the Company will refund 100 percent of the earnings in excess of  
13      9.75 percent to customers. Under the terms of the Settlement Agreement, this  
14      mechanism will be in effect for all calendar years prior to the Company's next  
15      rate case test year, unless a future Commission Order or settlement provides  
16      otherwise. It should also be noted that the earnings sharing mechanism is  
17      asymmetrical: the Company will refund money to customers if the return on  
18      equity exceeds 9.75 percent in future years, but the mechanism does not provide  
19      additional revenue should the return on equity fail to achieve any level.

20  
21   Q.   WHY DOES THE EARNINGS MECHANISM REFUND EARNINGS IN EXCESS OF 9.75  
22       PERCENT AND NOT THOSE IN EXCESS OF 9.5 PERCENT?

23   A.   As I discuss below, following the conclusion of the prior rate case the Company  
24       and Staff anticipated a longer-term solution to account for the jurisdictional  
25       differences in approval of generation resources might be forthcoming.  
26       However, the parties now contemplate moving forward without such a  
27       mechanism. The difference of 0.25 percent (or 25 basis points) between the

1 authorized return on equity used to develop rates and the return on equity that  
2 triggers a refund accounts for this transition and the permanence of the decision  
3 not to allow recovery in North Dakota for certain generation resources that  
4 serve the integrated NSP System.

5  
6 Q. HOW DID THE PARTIES AGREE TO CHANGE THE MANNER IN WHICH THE  
7 COMPANY ANNUALLY REPORTS ITS JURISDICTIONAL EARNINGS?

8 A. The reform in how the Company reports its annual jurisdictional earnings  
9 relates to disputed resources. When the prior rate case, Case No. PU-12-813,  
10 was resolved, certain resources were disallowed. However, the parties  
11 anticipated that those generation assets would likely be revisited in the future in  
12 some manner; in particular, it was contemplated that the RTF process might  
13 result in some agreed-upon mechanism to address differing jurisdictional  
14 policies with regard to the energy resource mix. Accordingly, the parties to that  
15 settlement agreed that the disputed resources would continue to be included in  
16 the Company's calculation of jurisdictional earnings.

17  
18 Now, however, with the passage of time and the joint recognition that the RTF  
19 process has run its course, the parties have determined that it is most  
20 appropriate to recognize that those and other disallowances are not temporary.  
21 Accordingly, the parties have agreed that the expenses in excess of those  
22 recovered through the FCR will be excluded from annual jurisdictional  
23 reporting of operating income for those generation resources listed on  
24 Appendix A to the Settlement Agreement and, going forward, for those  
25 resources for which the Commission denies an ADP or otherwise disallows cost  
26 recovery. Consistent with that treatment, the Company will also exclude from  
27 its annual reporting of operating income the financial impacts of all non-energy

1 and non-capacity related attributes (e.g., PTCs, Renewable Energy Credits, etc.)  
2 and all wholesale revenue (i.e., asset-based margins) for those resources.. This  
3 settlement term is a just and reasonable response to the reality that there are  
4 generation resources on the NSP System which have not been approved by the  
5 Commission.

6  
7 Q. ARE THERE ANY OTHER SETTLEMENT PROVISIONS RELATED TO DISPUTED  
8 RESOURCES?

9 A. The parties agreed to remove the cost of the RTF from the test year, have agreed  
10 that the RTF proceeding has run its course, and are recommending that the  
11 Commission close Case Nos. PU-12-813, PU-13-706, PU-13-707, PU-13-708,  
12 PU-13-742, PU-13-743, PU-13-194, and PU-13-195.

#### 13 IV. RATE DESIGN

14  
15 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

16 A. In this section of my testimony, I describe the agreement reached in the  
17 Settlement Agreement regarding rate design.

18  
19 Q. WHAT AGREEMENT HAVE THE PARTIES REACHED REGARDING RATE DESIGN?

20 A. In an effort to ensure that the rates proposed in the Settlement Agreement  
21 remain just and reasonable, and balancing the objective of moving customer  
22 classes to cost with the objective of avoiding rate shock, the parties have agreed  
23 to an apportionment of customer class revenue increases reflecting the  
24 customer class percentage changes that are consistent with the Company's  
25 proposed revenue increases in this rate case, as shown in the below table  
26 (revenues are shown in \$1,000s):

	Present Revenue	Proposed Revenue	Proposed Increase	Settlement Revenue	Settlement Increase
Residential	\$83,739	\$91,526	9.3%	\$86,598	3.4%
C&I Non-Demand	\$11,379	\$11,742	3.2%	\$11,512	1.2%
C&I Demand	\$109,232	\$119,904	9.8%	\$113,148	3.6%
Lighting	\$2,066	\$2,399	16.1%	\$2,188	5.9%
Total Retail	\$206,416	\$225,570	9.3%	\$213,447	3.4%
Other Increases <sup>1</sup>	\$0	\$43		\$43	
Total Revenue	\$206,416	\$225,613	9.3%	\$213,490	3.4%

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Instead of the Company’s proposed monthly residential fixed charge of \$15.25, the parties have agreed that the monthly residential fixed charge will increase from \$14.50 to \$15.00, which is a 3.4 percent increase and is approximately in line with the settlement outcome on a percentage basis. The agreed upon rate design is essentially unchanged from the Company’s current basic rate structure.

Q. HOW DO THE PARTIES ANTICIPATE FINAL RATES IN THIS CASE WILL BE DEVELOPED?

A. Under the terms of the Settlement Agreement, the Company will file the tariff changes proposed in the Company’s initial filing as-filed in compliance with the Second Amended Settlement Agreement in Case No. PU-12-813, and we will use the rate design principles we proposed in this case in developing final rates to implement the approved revenue requirement contained in the Settlement Agreement.

---

<sup>1</sup> Includes changes in late payment fees, winter construction charges, and excess service footage charges.

1 Q. DOES THE SETTLEMENT AGREEMENT PROVIDE ANY DEADLINES FOR THE  
2 COMPANY'S TARIFF REVISIONS?

3 A. Yes. The parties agree that, if the Settlement Agreement is approved by the  
4 Commission, the Company will file compliance tariff pages detailing the revised  
5 electric rates and tariffs for North Dakota retail customers within at least 30  
6 days from the date the Commission approves the Settlement Agreement.

7

8

## V. CONCLUSION

9

10 Q. PLEASE SUMMARIZE WHY THE SETTLEMENT AGREEMENT IS JUST AND  
11 REASONABLE.

12 A. Given the passage of time since the last base rate increase and various capital  
13 additions and cost increases during that period, the Company needs increased  
14 revenue in order to have the opportunity to earn a reasonable rate of return.  
15 The Settlement will result in just and reasonable rates because it does allow for  
16 increased revenue, while also limiting the amount of that increase in response  
17 to the positions taken by other parties through the revenue requirement  
18 adjustments agreed upon by the parties. In addition, the earning sharing  
19 mechanism anticipates that the agreed-upon rates may be in place beyond 2022  
20 and, if that happens, will operate to keep rates just and reasonable.

21

22 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

23 A. Yes, it does.

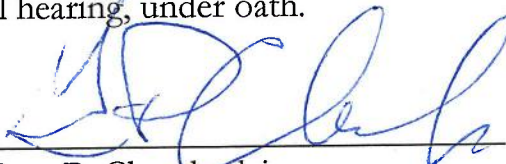
1 STATE OF NORTH DAKOTA  
2 BEFORE THE  
3 PUBLIC SERVICE COMMISSION  
4  
5

6 In the Matter of the Application of Northern )  
7 States Power Company, a Minnesota Corporation ) Case No. PU-20-441  
8 For Authority to Increase Rates for Electric Service ) OAH File No. 20200422  
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 Supplemental Testimony of the undersigned, and that such Supplemental Testimony  
19 and the exhibits or schedules sponsored by me to the best of my knowledge,  
20 information and belief, are true, correct, accurate and complete, and I hereby adopt  
21 said testimony as if given by me in formal hearing, under oath.  
22

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Greg P. Chamberlain

Subscribed and sworn to before me, this 8 day of July, 2021.

  
\_\_\_\_\_  
Notary Public  
My Commission Expires: 1/31/2025



Supplemental Testimony  
Benjamin C. Halama

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

**Supplemental Revenue Requirements Testimony  
Supporting Settlement Agreement**

July 12, 2021

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1 **I. INTRODUCTION**

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Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Benjamin C. Halama. I am Manager of Revenue Analysis for Xcel Energy Services Inc.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony on behalf of Applicant Northern States Power Company (Xcel Energy, NSP, or the Company) providing an overview of our electric rate case filing, including the key drivers of our request. I then provided Revised Direct Testimony on March 26, 2021 and Rebuttal Testimony on June 1, 2021.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The Company, North Dakota Public Service Commission Advocacy Staff (Advocacy Staff), AARP, and Walmart Inc. (Walmart) have reached a Settlement Agreement that resolves all issues in this rate case. The Settlement Agreement was filed with the North Dakota Public Service Commission (Commission) on July 1, 2021. The purpose of this Supplemental Testimony is to support the Settlement Agreement, explain the adjustments to the Company's North Dakota jurisdictional electric utility operation overall retail revenue requirements agreed-to by the parties in this Case, and address some of the rate making issues raised by the Settlement.

1       **II. REVENUE REQUIREMENTS: TEST YEAR ADJUSTMENTS**

2  
3       Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE COMPANY'S APPLICATION FOR A  
4       RATE INCREASE AND ADVOCACY STAFF'S PROPOSED ADJUSTMENTS TO THE  
5       REVENUE REQUIREMENT.

6       A. The Company's revised application for an increase in rates for electric service  
7       in North Dakota supported an overall retail revenue requirement of \$225.613  
8       million and revenue deficiency of \$19.197 million, determined by the 2021 test  
9       year cost of service study (COSS). Advocacy Staff recommended a total rate  
10      increase of \$3.6 million.

11  
12      Q. HAVE THE PARTIES REACHED AN AGREEMENT WITH RESPECT TO THE  
13      COMPANY'S REVENUE REQUIREMENTS?

14      A. Yes. Recognizing the issues raised by Advocacy Staff, AARP, and Walmart in  
15      each party's pre-filed testimony and the Company's need for additional revenue  
16      to have the opportunity to earn a reasonable rate of return on the capital used  
17      to reliably serve North Dakota retail customers, the parties have agreed to an  
18      overall test year revenue requirement of \$213.5 million, representing a revenue  
19      requirement increase of \$7.069 million or 3.4 percent. The parties arrived at  
20      these figures by agreeing to a variety of reductions, totaling \$12.128 million, to  
21      the Company's proposed revenue requirement increase.

22  
23      Q. HOW IS THE REST OF YOUR TESTIMONY ORGANIZED?

24      A. I next discuss each of the adjustments to the Company's revenue requirements  
25      agreed to by the parties in the Settlement Agreement. I also describe how the  
26      Settlement terms will ensure just and reasonable rates for North Dakota retail  
27      customers.

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**A. Cost of Capital**

Q. PLEASE DESCRIBE HOW COST OF CAPITAL IS TREATED IN THE SETTLEMENT AGREEMENT.

A. The parties have agreed to use a weighted average cost of capital (WACC) of 6.97 percent. The proposed WACC incorporates Advocacy Staff Witness Marlon Griffing’s proposed return on equity (ROE) of 9.50 percent and the Company’s proposed capital structure of 52.50 percent equity and 47.50 percent debt, which is based on the Company’s actual capital structure.

The Cost of Capital proposed in the Settlement Agreement strikes an appropriate balance between rate affordability, system reliability, and giving the Company the opportunity to earn a reasonable return on its investment to ensure financial health. This agreed-upon WACC results in a \$3.3 million reduction to the test year revenue requirement.

**B. Depreciation Expense for Sherco Units 1 and 2**

Q. PLEASE DESCRIBE HOW THE DEPRECIATION EXPENSE FOR SHERCO UNITS 1 AND 2 IS ADDRESSED IN THE SETTLEMENT AGREEMENT.

A. The parties agreed to adjust the revenue requirement such that the Company’s depreciation expense for Sherco Units 1 and 2 will reflect a depreciable life of the plant ending on December 31, 2034, as initially set in Case No. PU-07-776. Mr. Chamberlain discuss why this outcome leads to just and reasonable rates in his Supplemental Testimony. This adjustment results in a \$2.7 million reduction to the test year revenue requirement.

1  
2 **C. Deferral of Advanced Grid Intelligence and Security (AGIS)**  
3 **Initiative Costs**  
4

5 Q. HOW ARE COSTS ASSOCIATED WITH THE COMPANY'S AGIS INITIATIVE  
6 TREATED IN THE SETTLEMENT AGREEMENT?

7 A. Consistent with Advocacy Witness Dante Mugrace's recommendation, the  
8 Settlement Agreement provides that all capital-related and operation and  
9 maintenance (O&M) costs related to the Company's AGIS initiative will be  
10 deferred until the foundational elements of the AGIS initiative, namely the  
11 Advanced Distribution Management System, Field Area Network, and  
12 Advanced Metering Infrastructure, are placed in-service. This mechanism  
13 resolves Mr. Mugrace's concern that the capital additions for the AGIS Initiative  
14 were not used and useful unless all components of the foundational elements  
15 were placed in service. This deferral is intended to ensure that all capital-related  
16 and O&M expenses are treated as if they were included in Construction Work  
17 in Process, with an allowance for funds used during the deferral (similar to the  
18 CWIP treatment of Allowance for Funds Used During Construction). I note  
19 that Mr. Mugrace made no recommendation with respect to the prudence of  
20 the Company's investment in AGIS. The deferral results in a reduction to the  
21 test year revenue requirement of \$1.6 million.  
22

23 Q. HOW WILL THE COMPANY IMPLEMENT THE AGIS DEFERRAL?

24 A. If the Commission approves the Settlement Agreement, the Company proposes  
25 to make a compliance filing within 60 days of such approval that outlines the  
26 specific design of the AGIS deferral. The parties also recognized that the  
27 Company may seek to recover the AGIS deferral and propose a reasonable

1 amortization of those costs in its next rate case, so long as the foundational  
2 elements of the AGIS initiative (described above) are already in service, or are  
3 forecasted to be placed in service during the applicable test year. The Settlement  
4 Agreement does not make any findings with respect to the prudence of the  
5 Company's investment in AGIS or its ability to recover these costs.

6  
7 **D. Mankato Energy Center Expansion (MEC II) Demand Costs**

8  
9 Q. PLEASE DESCRIBE HOW DEMAND COSTS OF THE MEC II POWER PURCHASE  
10 AGREEMENT (PPA) ARE TREATED IN THE SETTLEMENT AGREEMENT.

11 A. The Settlement Agreement provides that the Company will exclude the demand  
12 costs of the MEC II PPA in its revenue requirement, resulting in a reduction of  
13 \$1.4 million (net of Interchange billings) to the test year revenue requirement.  
14 Mr. Chamberlain discusses this further in his Supplemental Testimony.

15  
16 **E. General O&M and Other Revenue Adjustment**

17  
18 Q. WHAT ADJUSTMENTS TO O&M DOES THE SETTLEMENT AGREEMENT PROPOSE?

19 A. The parties agreed to further reduce the test year revenue requirement by \$1.4  
20 million to reflect a general reduction to the Company's proposed overall test  
21 year O&M expense as well as an increase in the test year Other Revenue  
22 forecast. As Mr. Chamberlain explains in his Supplemental Testimony, this  
23 adjustment is a compromise of the positions the parties took in their testimony  
24 resulting in a just and reasonable outcome.

25

1           **F.           Community Wind North & Jeffers Repowering Projects**

2  
3    Q.   PLEASE DESCRIBE HOW THE SETTLEMENT AGREEMENT ADDRESSES THE  
4       COMMUNITY WIND NORTH AND JEFFERS REPOWERING PROJECTS.

5    A.   The Settlement Agreement adjusts the Company’s revenue requirement to  
6       disallow base rate recovery of the capital additions of the Community Wind  
7       North and Jeffers wind facility repowering projects. They are removed from  
8       rate base resulting in a \$0.7 million reduction to the test year revenue  
9       requirement. Additionally, because the costs associated with PPAs for the  
10      Community Wind North and Jeffers facilities were being recovered as “disputed  
11      resources” through the Company’s Fuel Cost Rider (FCR) and those facilities  
12      will continue to, in part, serve North Dakota customers, the parties have agreed  
13      that it is appropriate for the Company to continue the current FCR-based rate  
14      treatment for the projects as if they continued to be “disputed resources,” even  
15      though the existing PPAs have now been terminated and the Company has  
16      assumed ownership of the projects.

17  
18      Under the terms of the Settlement Agreement, the parties agreed that FCR cost  
19      recovery of the Community Wind North and Jeffers facilities will be for energy  
20      produced as of January 1, 2021 and will be implemented via the Company’s  
21      monthly FCR soon after the Commission’s adoption of the Settlement. As a  
22      result, the FCR annual revenue requirement will reflect an estimated \$0.3 million  
23      for these projects, consistent with prior FCR costs of the projects under their  
24      PPAs.

25

1           **G.       Proposed Recovery of Certain Miscellaneous Expenses and**  
2                           **Amortization Periods**

3  
4    Q.   WHAT OTHER EXPENSES DOES THE SETTLEMENT AGREEMENT EXCLUDE FROM  
5           THE COMPANY’S REVENUE REQUIREMENT?

6    A.   Consistent with Advocacy Staff’s proposed reductions, the Settlement  
7           Agreement excludes from the Company’s revenue requirement and for  
8           purposes of jurisdictional earnings reporting: (a) the test year costs of the  
9           Company’s Annual Incentive Plan (AIP) above 15% of base pay; (b) financial  
10          support for state and local economic development entities; (c) charitable  
11          contributions; (d) certain advertising expenses; (e) chamber and association  
12          dues; (f) certain customer deposits, and (g) corporate aviation costs. The  
13          Company’s proposed rate case amortization is also extended from 3 years to 3.5  
14          years in the Settlement Agreement. These adjustments result in a \$0.5 million  
15          reduction of the test year revenue requirement.

16  
17           **H.       Resource Treatment Framework (RTF) Costs**

18  
19    Q.   HOW DOES THE SETTLEMENT AGREEMENT ADDRESS RTF COSTS?

20    A.   The Settlement Agreement provides that for purposes of determining the test  
21          year revenue requirement, the test year amortization of the incremental costs of  
22          developing the Company’s RTF proposal and related filing in Case No. PU-12-  
23          813 will be excluded, resulting in a \$0.2 million reduction in the Company’s test  
24          year revenue requirement..

1           I.           **Non-Plant and Other Rate Base**

2  
3    Q.   PLEASE DESCRIBE HOW NON-PLANT AND OTHER RATE BASE IS ADDRESSED IN  
4       THE SETTLEMENT AGREEMENT.

5    A.   The parties reached consensus that non-plant and other rate base should also  
6       be reduced, resulting a \$0.3 million reduction of the test year revenue  
7       requirement.

8  
9           J.           **Revenue Requirement Corrections and Secondary Calculations**

10  
11   Q.   DOES THE SETTLEMENT AGREEMENT MAKE ANY OTHER ADJUSTMENTS TO THE  
12       COMPANY'S REVENUE REQUIREMENT?

13   A.   Yes. The Settlement Agreement adopts the rebuttal adjustments proposed in  
14       my Direct Testimony so as to include the Mower wind project in calculating the  
15       revenue requirement impact of Production Tax Credits (using what the  
16       Company calls the Levelized Credit Method) and corrections to the assignment  
17       of software costs to other non-utility affiliates (as required by a recent FERC  
18       audit finding). These adjustments were proposed by the Company to the initial  
19       cost of service and were not contested on the record. Additionally, the  
20       Settlement also addressed "secondary calculations," and the parties agreed to  
21       accept the Company's calculation of secondary impacts of the various revenue  
22       requirement adjustments made in the Settlement Agreement, including the  
23       proration of accumulated deferred income taxes (ADIT) and change in cash  
24       working capital. These adjustments net to a \$0.1 million reduction of the test  
25       year revenue requirement.

26



1 jurisdictional annual reports filed with the Commission. The parties have agreed  
2 that this earnings-sharing mechanism will be in effect for all calendar years prior  
3 to the Company's next rate case test year, unless a future settlement or  
4 Commission Order requires otherwise.

5  
6 Q. WHAT IS THE JURISDICTIONAL REPORTING REFORM YOU MENTIONED?

7 A. As Mr. Chamberlain discusses in his Supplemental Testimony, the parties  
8 agreed that expenses in excess of those recovered through the FCR will be  
9 excluded from annual jurisdictional reporting of operating income for the  
10 generation resources listed in Appendix A to the Settlement Agreement and,  
11 going forward, for those generation resources for which the Commission denies  
12 an ADP or otherwise denies full cost recovery.

13  
14 Q. WHAT RATE RECOVERY IS AVAILABLE FOR THE DISALLOWED GENERATION  
15 RESOURCES?

16 A. The majority of disallowed resources have been Power Purchase Agreements  
17 (PPAs) which are recovered through the Fuel Cost Recovery (FCR) rider.  
18 Under the Commission's rules, the FCR rate is calculated as a rolling 4 month  
19 system average cost of fuel per kWh that is then applied to all kWhs consumed  
20 by the Company's customers in the state. When resources are disallowed, the  
21 cost (numerator) and volumes (denominator) of those resources are removed  
22 from the calculation of the system average cost of fuel as if those resources did  
23 not exist. Consequently, the disallowed generation resources are not taken into  
24 account when calculating the system average cost of fuel used in setting FCR  
25 rates, thus implementing the disallowance of those resources. This is consistent  
26 with the precedent set by the Commission's disallowance of the costs of the  
27 Prairie Rose PPA in Case No. PU-12-59.

1  
2 That said, these disallowed resources do supply energy to the integrated NSP  
3 System. As a result, some of the energy supplied to North Dakota customers  
4 necessarily comes from those resources. Consequently, the Company receives  
5 revenue from customers for each kWh supplied. Some of the revenue the  
6 Company receives through the FCR is thus conceivably attributable to energy  
7 from the disallowed resources even though the FCR rate calculation does not  
8 include the costs of these resources. Under the Settlement Agreement, the  
9 parties have agreed to continue this arrangement for disallowed resources unless  
10 some other treatment is specified.

11  
12 Q. ARE THERE ANY OTHER CHANGES WITH REGARD TO THE DISALLOWED  
13 RESOURCES?

14 A. Yes. The parties have agreed to a related change for wholesale revenue and  
15 non-energy and non-capacity related attributes of the disallowed resources.  
16 Since expenses for these resources that are in excess of those recovered through  
17 the FCR will be excluded from annual jurisdictional reporting of operating  
18 income, so too will all non-energy and non-capacity related attributes and all  
19 wholesale revenue for those resources be excluded from the calculation of  
20 jurisdictional operating income. In practical terms, this also means that no  
21 portion of such amounts will be credited to North Dakota customers.

22  
23 Q. WHAT ARE THE WHOLESAL REVENUES AND NON-ENERGY AND NON-CAPACITY  
24 RELATED ATTRIBUTES?

25 A. Pursuant to the Settlement in Case No. PU-12-813, the Company currently  
26 passes 100% of wholesale asset-based margins to customers through a credit  
27 used in calculating the FCR rates. However, the Settlement Agreement states

1 that “all wholesale revenue (i.e., asset based margins)” for the specific resources  
2 in question will now be retained by the Company. Since these resources are  
3 now agreed to be disallowed, the Settlement provides that the Company will not  
4 refund any asset based margins for them. Consequently, for the purposes of  
5 the Settlement, references to asset-based margins mean all of the wholesale  
6 revenue for the individual generation resources listed on Attachment A and  
7 those resources that may be placed into that same category as a result of future  
8 disallowance decisions.

9  
10 Similarly, the Company may retain all non-energy and non-capacity related  
11 attributes for the disallowed resources. This specifically includes Renewable  
12 Energy Credits (RECs) and Production Tax Credits, but also any other non-  
13 energy and non-capacity attributes, including any that may arise in the future.

14  
15 Q. DOES THE JURISDICTIONAL REPORTING REFORM OUTLINED IN THE  
16 SETTLEMENT AGREEMENT HAVE ANY OTHER COMPONENTS?

17 A. The parties also agreed that the jurisdictional reporting reform provisions I  
18 describe above are effective as of January 1, 2021 (i.e., jurisdictional earnings for  
19 2021 will be calculated and reported consistent with the methodology outlined  
20 in Section B.2 of the Settlement Agreement). Relatedly, non-energy or non-  
21 capacity related attributes of the resources listed in Attachment A to the  
22 Settlement Agreement will be retained by the Company, as agreed to by the  
23 parties. If any asset-based margins for the resources listed in Attachment A to  
24 the Settlement Agreement have already been returned to customers in 2021  
25 through the FCR mechanism, the parties agree that the Company may true-up  
26 for its retention of those asset-based margins and REC sale proceeds, if any, in  
27 2021 in the Company’s future rider filings.

1 Q. WILL THE SETTLEMENT IMPACT THE COMPANY'S 2020 JURISDICTIONAL  
2 REPORT?

3 A. No, not directly. Our 2020 earnings were not filed with the Commission using  
4 the Settlement approach.

5

6 Q. DOES THE SETTLEMENT AGREEMENT HAVE ANY OTHER COMPONENTS THAT  
7 ENSURE JUST AND REASONABLE RATES FOR NORTH DAKOTA RETAIL  
8 CUSTOMERS?

9 A. Yes. The Company reached consensus with the other parties that, in light of the  
10 proposed Settlement Agreement and resolution of this rate case, the Company  
11 will withdraw its requested deferral of certain electric revenue impacts related  
12 to COVID-19 in Case No. PU-20-192. The Company will not recover any costs  
13 from its North Dakota electric customers related to the impact of COVID-19  
14 on its electric jurisdictional cost of service.

15

16 Q. WHAT DOES THE SETTLEMENT AGREEMENT PRACTICALLY MEAN FOR NORTH  
17 DAKOTA RETAIL CUSTOMERS?

18 A. Because the parties have compromised on a base rate increase for 2021 that is  
19 less than the current interim increase, the Commission's approval of the  
20 Settlement Agreement would result in an interim rate refund to North Dakota  
21 customers. The Company estimates that an interim rate refund of \$5,041,000,  
22 plus interest, will be issued to North Dakota retail customers beginning  
23 approximately 30–60 days from the implementation of the final rates approved  
24 by the Commission. Until final rates are implemented, the parties are in  
25 agreement that the interim rates that went into effect on January 5, 2021 and  
26 updated on April 1, 2021 will remain in effect. Because the final amount of  
27 interim revenues collected was not available at the time this testimony was filed,

1 the Company estimated the above interim refund amount consistent with its  
2 past practices.

3  
4 **IV. CONCLUSION**

5  
6 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

7 A. In sum, the parties have compromised on many issues in this rate case, as  
8 described in more detail above, and have agreed to an overall test year revenue  
9 requirement of \$213.5 million, representing a revenue requirement increase of  
10 \$7.074 million. This rate increase reflects the parties' efforts to ensure that rates  
11 for North Dakota retail customers remain just and reasonable, and I  
12 recommend that the Commission approve the Settlement Agreement.

13  
14 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

15 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 ) Case No. PU-20-441  
8 For Authority to Increase Rates for Electric Service ) OAH File No. 20200422  
9 in North Dakota )

10  
11  
12  
13 AFFIDAVIT OF  
14 Benjamin C. Halama  
15  
16

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

22  
23  
24 

25 Benjamin C. Halama  
26  
27  
28  
29

30 Subscribed and sworn to before me, this 8 day of July, 2021.  
31

32   
33 \_\_\_\_\_  
34 Notary Public

35 My Commission Expires: 11/31/2025  
36





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*Lanai Alexander*  
Lanai Alexander

Subscribed and sworn before me this 12th day of July, 2021.

*Molly Cameron*  
Notary Public  
Hennepin County, Minnesota

