Exhibit 36

Rebuttal Testimony
Michael A. Peppin

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___(MAP-2)

Cost of Service Study

June 1, 2021

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND QUALIFICATIONS.

A. My name is Michael A. Peppin, and I am a Principal Pricing Analyst.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony on behalf of Northern States Power Company regarding the Company's proposed Class Cost of Service Study (CCOSS).

Q. DID ANY OTHER PARTIES PROVIDE DIRECT TESTIMONY REGARDING THE COMPANY'S PROPOSED CCOSS?

A. Yes. The following witnesses provided testimony related to the Company's proposed CCOSS:

- Mr. Karl R. Pavlovic, who submitted testimony on behalf of the Advocacy Staff of the North Dakota Public Service Commission; and,
- Mr. Steve W. Chriss, who submitted testimony of behalf of Walmart Inc.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I respond to the Direct Testimony of the witnesses listed above regarding the Company's proposed CCOSS.

II. RESPONSE TO RECOMMENDED CCOSS CHANGES

Q. MR. PEPPIN, WHAT CCOSS-RELATED ISSUES WERE RAISED BY OTHER PARTIES?

A. Witnesses for the other parties addressed the following issues:

- *Plant Stratification Methodology.* Mr. Chriss on behalf of Walmart Inc. opines that the Company's Plant Stratification method that the Company

uses to classify and allocate generation plant investment costs does not represent the fixed nature of these investments. He also states that the stratification method does not take into account the dispatch order when the system is operating.

- *Minimum System and Zero Intercept Methodology.* Mr. Pavlovic on behalf of Advocacy Staff of the North Dakota Public Service Commission objects to the Company classifying FERC accounts 364 through 368 as both demand and customer-related. He asserts that these facilities should be classified as demand-related and allocated to class based on class demand levels.

Q. HOW IS YOUR REBUTTAL TESTIMONY ORGANIZED?

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

- Plant Stratification Analysis; and,
- Minimum System/Zero Intercept Analysis

A. Plant Stratification Analysis

Q. HOW LONG HAS THE COMPANY USED THE PLANT STRATIFICATION OR EQUIVALENT METHODOLOGY FOR CLASSIFYING PRODUCTION PLANT EQUIPMENT COSTS?

A. Although the process has been refined over the years, the Company has used the Stratification methodology with support of the Commissions in North Dakota, South Dakota and Minnesota since the 1970s.

Q. WHY IS THE COMPANY'S STRATIFICATION METHODOLOGY THE MOST APPROPRIATE CLASSIFICATION AND ALLOCATION FOR PRODUCTION PLANT COSTS?

A. The Company's methodology is the most theoretically sound of the methodologies available, as it:

- Recognizes that the Company plans, builds and economically operates over time an optimum mix of generation plant types, which minimizes the total system costs (fixed and variable) over the life of the plants;
- Recognizes that peaking plants with low capital costs but high operating costs are built to serve customer demand when there are no lower-cost resources available – during times of peak demand. As such, these costs should be allocated based on customer demand at peak times;
- Recognizes that intermediate and baseload generation resources with higher capital costs are added to provide low-cost energy, which benefits customer classes with high energy consumption. As such, the portion of these costs that are in excess of the cost of a peaking plant should be allocated to classes based on energy consumption; and,
- Is particularly well-suited for utilities such as NSPM that have a generation mix with various levels of capital intensity.

When selecting a classification and allocation methodology, the ultimate goal is to select methods that best reflect the reasons the Company incurred a given cost. The long-accepted Stratification methodology fulfills that purpose and has withstood scrutiny over many rate cases.

Q. DOES THE COMPANY'S STRATIFICATION METHOD REFLECT THE DISPATCH ORDER OF THE COMPANY'S PRODUCTION PLANTS?

A. Yes. It is hard for me to comment on Mr. Chriss' concern regarding dispatch issues since he does not provide any details. However, I would respond by saying that Midcontinent Independent System Operator (MISO) dispatches

production resources primarily based on their operating costs. While transmission capacity limitations may impact dispatch of renewable resources at times, operating cost is the primary driver for the dispatch order of all production resources.

Q. HAS MR. CHRISS PROPOSED AN ALTERNATIVE METHOD FOR CLASSIFYING AND ALLOCATING PRODUCTION PLANT COSTS?

A. No, he has not proposed an alternative method.

B. Classification of Distribution Plant Using the Minimum System and Zero Intercept Methods

Q. IS IT WIDELY ACCEPTED THAT ELECTRIC DISTRIBUTION COSTS SHOULD BE CLASSIFIED AS BOTH CUSTOMER- AND DEMAND-RELATED?

A. Yes. It is widely accepted at the state, regional, and national levels that distribution costs are driven by two factors: 1) the number of customers on the distribution system, and 2) the demand those customers place on the system. With regard to the national prevalence of this classification, the National Association of Regulatory Utility Commissioners (NARUC) Electric Utility Cost Allocation manual clearly states that both demand and customer components should be considered in classifying distribution costs. Table 6-1 on page 87 of the NARUC manual shows FERC accounts 364-368 should be classified as having demand and energy classifications.

Table 6-1 from page 87 of NARUC Electric Utility Cost Allocation Manual

FERC Account	Description	Demand Related	Customer Related
364	Poles, towers and fixtures	X	X
365	Overhead conductors	X	X
366	Underground conduit	X	X
367	Underground conductors	X	X
368	Line transformers	X	X

Page 90 of the NARUC manual goes on to say:

> Two methods are used to determine the demand and customer components of distribution facilities. They are, the minimum-size-of-facilities method, and the minimum-intercept cost (zero-intercept or positive-intercept cost, as applicable) of facilities.

With respect to the regional and state prevalence of the classification, all Commissions in the four-state region (Minnesota, North Dakota, South Dakota and Wisconsin) accept the customer- and demand-related components of distribution costs. Additionally, all Commissions have accepted the Minimum System method as a means to separate distribution facilities into demand and customer components since the 1990s.

Q. WHAT IS THE PURPOSE OF CLASSIFYING ELECTRIC DISTRIBUTION COSTS AS BOTH CUSTOMER- AND DEMAND-RELATED?

A. The purpose of this classification is to allocate costs according to causation. The *customer*-related portion of the distribution system is that portion that simply makes service available to the customer. The balance of distribution system costs are *capacity*-related. The costs a utility incurs to connect a customer to the distribution grid without regard to the level of customer load is reasonably classified as customer-related and allocated based on number of customers. The

capacity-related cost component – those that are not customer-related – has cost causation based on the level of power demanded by customers above the minimum customer-related level. These costs should be allocated on customer demand and are appropriate to recover through volumetric charges.

Q. CAN YOU PLEASE PROVIDE A REAL-WORLD EXAMPLE OF HOW DISTRIBUTION COSTS ARE INCURRED, CLASSIFIED, AND ALLOCATED?

A. Yes. The simple fact that customers are added to the system, in a new development for example, means the distribution system must be extended with new distribution feeders or extensions to existing feeders regardless of the load of those customers. These new connections can be made with the minimum-sized equipment. Additional costs are then required to upgrade distribution facilities that are needed to serve whatever the customer's load will be.

Also, consider a distribution construction job where the Company deploys construction crews, bucket trucks, trenchers, and other equipment on site. Labor, equipment and overhead costs are incurred to dig trenches and set poles before any conductor or load-related costs are incurred. These are real distribution costs that the utility incurs before any load is planned for the system. Incremental costs are incurred to plan for and install load-related costs that make up the demand-related component of distribution system costs.

Q. IS IT APPROPRIATE TO CLASSIFY AND ALLOCATE ALL DISTRIBUTION COSTS AS DEMAND-RELATED BASED ON CUSTOMER DEMANDS?

A. No. Classifying distribution plant as only demand-related is the most extreme position that can be taken on this issue. This method allocates primary conductors, secondary conductors and transformers based only on demand

with no recognition of the customer component. Further, it ignores cost causation and the well-established tenet that the addition of customers is a significant determinant of distribution system costs.

Q. WOULD CLASSIFYING DISTRIBUTION PLANT AS DEMAND-RELATED RESULT IN A SIGNIFICANT SHIFT IN CLASS COST RESPONSIBILITY?

A. Yes. Compared to past practice established over several rate cases, adopting this approach would result in a significant sudden shift in costs to the commercial and industrial demand-billed class. The cost-based revenue deficiency of the C&I demand class would increase by 25 percent. The change in the adjusted deficiency for each customer class is shown in Table 1 below.

Table 1

Change in the Adjusted Deficiency by Customer Class

Distribution Plant Classified as Customer and Demand-Related versus Classified as Demand Only

	Adjusted Deficiency ($000)			
	Distribution Plant Classified as Customer and Demand-Related	Distribution Plant Classified as Demand-Related Only	Change	Percent Change
Residential	$7,633	$5,199	-$2,434	-31.9%
Non-Demand	$339	$111	-$228	-67.4%
Demand	$10,424	$13,067	$2,643	25.4%
Street Ltg	$801	$820	$19	2.4%
Total	$19,197	$19,197	$0	0.0%

III. CONCLUSION

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. The methods the Company has used for classifying and allocating production and distribution plant costs are well-established methods accepted by the Commission in past rate cases and most accurately reflect the reasons these costs are incurred. Any alternative approaches should be rejected.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

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

AFFIDAVIT OF
Michael A. Peppin

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

Michael A. Peppin

Subscribed and sworn to before me, this 24 day of May, 2021.

Notary Public
My Commission Expires: 1/31/2025

STEVEN DELMONT SPIESS
NOTARY PUBLIC
MINNESOTA
My Commission Expires Jan. 31, 2025