

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

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Q. PLEASE STATE YOUR NAME.

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

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony on behalf of the Company providing an overview of our electric rate case filing, including the key drivers of our request and related policy issues. 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 purpose of my testimony is to support the Settlement Agreement that the Company, the Advocacy Staff of the North Dakota Public Service Commission (Advocacy Staff) and intervenors AARP and Walmart Inc. (Walmart) submitted to the Commission on July 1, 2021 (the “Settlement Agreement”).

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

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

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**

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

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

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

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

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

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

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 ¹	\$0	\$43		\$43	
Total Revenue	\$206,416	\$225,613	9.3%	\$213,490	3.4%

1

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

7

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

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

16

¹ 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

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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?

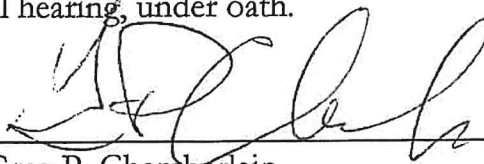
23 A. Yes, it does.

1 STATE OF NORTH DAKOTA
2 BEFORE THE
3 PUBLIC SERVICE COMMISSION
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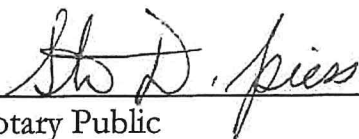
6 In the Matter of the Application of Northern)
7 States Power Company, a Minnesota Corporation) Case No. PU-20-441
8 For Authority to Increase Rates for Electric Service) OAH File No. 20200422
9 in North Dakota)

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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.
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Greg P. Chamberlain

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

32
33 
34 Notary Public

35 My Commission Expires: 1/31/2025
36

