

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

## Table of Contents

1	I.	Introduction.....	1
2	II.	Revenue Requirements: Test Year Adjustments.....	2
3	A.	Cost of Capital.....	3
4	B.	Depreciation Expense for Sherco Units 1 and 2.....	3
5	C.	Deferral of Advanced Grid Intelligence and Security (AGIS)	
6		Initiative Costs .....	4
7	D.	Mankato Energy Center Expansion (MEC II) Demand Costs .....	5
8	E.	General O&M and Other Revenue Adjustment.....	5
9	F.	Community Wind North & Jeffers Repowering Projects.....	6
10	G.	Proposed Recovery of Certain Miscellaneous Expenses and	
11		Amortization Periods.....	7
12	H.	Resource Treatment Framework (RTF) Costs .....	7
13	I.	Non-Plant and Other Rate Base .....	8
14	J.	Revenue Requirement Corrections and Secondary Calculations.....	8
15	K.	Return on Tax Tracker .....	9
16	III.	Earnings Share Mechanism And Jurisdictional Reporting Reform .....	9
17	IV.	Conclusion .....	14

1 I. INTRODUCTION

2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

- 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.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

**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  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

**C. Deferral of Advanced Grid Intelligence and Security (AGIS) Initiative Costs**

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

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

Q. HOW WILL THE COMPANY IMPLEMENT THE AGIS DEFERRAL?

A. If the Commission approves the Settlement Agreement, the Company proposes to make a compliance filing within 60 days of such approval that outlines the specific design of the AGIS deferral. The parties also recognized that the 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..

25

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           K.       **Return on Tax Tracker**

2  
3       Q.   PLEASE DESCRIBE HOW THE SETTLEMENT AGREEMENT ADDRESSES THE  
4       COMPANY'S TAX TRACKER.

5       A.   The parties agreed in the Settlement Agreement that the Company will not earn  
6       a return on the Tax Tracker amortization balance, and the term of the  
7       amortization will be extended from 3 to 3.5 years, resulting in a reduction to the  
8       test year revenue requirement of less than \$0.1 million.

9  
10       **III.   EARNINGS SHARE MECHANISM AND JURISDICTIONAL**  
11       **REPORTING REFORM**

12  
13       Q.   HOW DOES THE SETTLEMENT AGREEMENT ENSURE THAT THE RATES SET IN  
14       THE SETTLEMENT ARE JUST AND REASONABLE?

15       A.   In addition to the reductions to the Company's revenue requirement I describe  
16       above, the Settlement Agreement also implements an earnings-sharing  
17       mechanism and jurisdictional reporting reform since the rates set in this case  
18       may be in effect for a period of time beyond 2021.

19  
20       Q.   PLEASE DESCRIBE THE EARNINGS-SHARING MECHANISM ESTABLISHED BY THE  
21       SETTLEMENT AGREEMENT IN MORE DETAIL.

22       A.   The earnings-sharing mechanism will include a weather-normalized earnings  
23       threshold of 9.75 percent ROE in recognition of the jurisdictional reporting  
24       reform described in more detail below. If the Company's annual weather-  
25       normalized earnings exceed 9.75 percent, the Company will refund to North  
26       Dakota customers 100 percent of the weather-normalized revenue contributing  
27       to earnings in excess of 9.75 percent, as calculated in the Company's

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  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27

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

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

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

Q. WHAT ARE THE WHOLESALE REVENUES AND NON-ENERGY AND NON-CAPACITY RELATED ATTRIBUTES?

A. Pursuant to the Settlement in Case No. PU-12-813, the Company currently passes 100% of wholesale asset-based margins to customers through a credit 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?

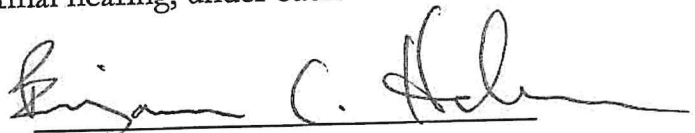
15 A. Yes, it does.

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 AFFIDAVIT OF  
13 Benjamin C. Halama  
14  
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: 1/31/2025  
36

