Exhibit 42

BEFORE THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

Northern States Power Company

2021 Electric Rate Increase, Application, Case No. PU-20-441

DIRECT TESTIMONY

OF

VICTOR SCHOCK

ON BEHALF OF THE

NORTH DAKOTA PUBLIC SERVICE COMMISSION

ADVOCACY STAFF

July 15, 2021

Q: Provide your name and qualifications.

A: My name is Victor Schock. I am a Public Utility Analyst for the North Dakota Public Service Commission (Commission). I have 17 years of accounting experience and seven years of utility regulatory experience.

I received a Bachelor of Science Degree in Accounting from Dickinson State University in 2007. I have testified before the commission on damage prevention, advanced determination of prudence, certificate of public convenience and necessity, and rate cases. Prior to my work with the Commission, I completed hundreds of financial reviews of both public and private companies as well as government entities in my work as a Credit & Collections Manager with Unisys Corporation.

Q: What is the purpose of your testimony?

A: The Commission has appointed me to advocacy staff in this proceeding. As such, I will provide the Commission with an analysis and recommendation concerning the settlement agreement (Settlement) submitted by Northern States Power Company (NSP), North Dakota Public Service Commission Advocacy Staff (Staff), Walmart Inc. and AARP.

Q: Please summarize the settlement.

A: The settlement provides for a test year revenue requirement of $213.5 Million (M), a return on equity (ROE) of 9.5%, average rate base of $664.269M and numerous reductions to rate base and operations and maintenance (O&M) expenses.

Q: What is the total agreed revenue requirement for the test year?

A: All parties have agreed to a test year revenue requirement of $213.5M. This is an increase of $7.1M over present rates. This is a reduction of $12.1M from

NSP's original request of $19.2M. I believe this is a very good outcome for NSP North Dakota ratepayers.

Q: What are the components of the Cost of Capital?

A: The settlement cost of capital includes a capital structure of 52.50% common equity at a cost of 9.5%, 46.72% long term debt at a cost of 4.22% and 0.78% short term debt at a cost of 1%. This structure nets a weighted average cost of capital of 6.97%.

Q: Is this a good outcome for NSP North Dakota ratepayers?

A: Yes. The settlement ROE of 9.5% is what Advocacy Staff's witness Dr. Griffing recommended. I believe the ROE and overall cost of capital is a just and reasonable rate of return on NSP's property, used and useful, for the service and convenience of the public in North Dakota.

Q: Is there anything else you would like to say relative to the settlement cost of capital?

A: Yes. While I do think the split between debt and equity is appropriate in this case, I would like to note that the ratio is at the high end of what the Commission should allow in the future. Cost of capital for regulated utilities is impacted greatly by the ratio and cost of both debt and equity. Traditionally, debt cost is lower than common equity cost. Therefore, increasing the percentage of debt vs equity has the effect of lowering overall cost of capital for customers. In this case NSP is seeking, and we are ultimately agreeing to 52.5% common equity and 47.5% debt. Looking at historical trends, NSP's common equity was 50% or less prior to 2004, and was as low as 37% in 2000. Since 2004 common equity has been between 50% and 52.98%. While I recognize that a higher common equity percentage leads to regulated utilities having better access to more attractively priced debt, there must be a balance. I ask that NSP and the Commission consider this going forward.

Q: What revenue requirement adjustments are specified in the settlement agreement?

A: The revenue requirement adjustments include ROE, Sherco 1 and 2 depreciation, Advanced Grid Intelligence & Security (AGIS), Mankato Energy Center II (MEC II), general operations and maintenance (O&M) & other revenue adjustments, Community Wind North & Jeffers Wind, miscellaneous expenses and amortization, Resource Treatment Framework (RTF), non-plant and other rate base, secondary impacts, and a return on a tax tracker.

Q: What impact did the ROE reduction have on NSPs test year revenue requirement?

A: The ROE reduction from NSP's requested 10.2% to the settlement of 9.5% reduces the test year revenue requirement by $3.319M.

Q: What adjustment was made for Sherco 1 and 2?

A: In this case NSP requested that the depreciable lives be adjusted for Sherco 1 and 2 to end December 31, 2026 and December 31, 2023, respectively. In case PU-07-776, the Commission approved a retirement date of January 1, 2035 for both Sherco 1 and 2. NSP has agreed to keep the retirement date at 2035 for purposes of setting the depreciation rates for Sherco 1 and 2 for the test year revenue requirement. This results in a reduction to the test year revenue requirement of $2.684M.

Q: What is AGIS and what adjustment was made for it?

A: AGIS is a customer metering and distribution management system which is being implemented by NSP over the next several years. The recovery of the capital and O&M expenses attributed to AGIS are deferred to the next rate case when the system may be operational, consistent with the testimony of Staff witness Dante Mugrace. The settlement makes no determination of prudence for any of the expenditures; it simply provides NSP with an opportunity to recover them in the future. The elimination of the O&M and capital expenditures results in a reduction to the test year revenue requirement of $1.615M.

Q: What adjustment was made for MEC II?

A: Similar to prior treatment by the Commission, the demand costs associated with MEC II have been removed from the test year revenue requirement. This results in a $1.425M reduction to the test year revenue requirement.

Q: What are the general O&M expense and other revenue adjustments?

A: The overall O&M expenses have been adjusted to reflect a differing opinion between NSP and Staff as to the appropriate method to estimate certain O&M expense items that fluctuate from year to year. Similarly, other electric revenues have been adjusted in a similar fashion. The Settlement provides for a portion of Staff's recommended adjustment to NSP's estimates and results in a decrease to the test year revenue requirement of $1.407M.

Q: What are Community Wind North and Jeffers wind repowering projects, and how are they being treated?

A: Community Wind North and Jeffers Wind are small wind power facilities that NSP has held power purchase agreements (PPAs) with since 2010 and 2006, respectively. Per the settlement from NSP's last rate case (PU-12-813), these PPAs were considered disputed resources for ratemaking purposes, and were proxy priced, meaning North Dakota customers paid an adjusted system average cost for their share of the power generation from the units rather than paying the cost of the actual PPA. In December 2019, NSP purchased and repowered these wind power facilities. This Settlement removes the cost of these facilities from rate base entirely, but allows NSP to recover the adjusted system average cost for the associated generation for the resources in the same manner as it was permitted to when the projects were under their respective PPAs. This adjustment reduced the test year revenue requirement by $689,000. However, there will be an increase to the fuel cost rider (FCR) in the amount of $338,000. This is listed as an increase to that rider because NSP has not been able to recover any amount for these facilities in the FCR since it purchased them.

Q: What are the miscellaneous expenses and amortization adjustments?

A: These adjustments include an elimination of incentive compensation above 15% of base pay, economic development, charitable contributions, brand and image advertising, chamber and association dues, customer deposits and corporate aviation costs as recommended by Staff witness Mugrace. It also includes adjusting amortization of rate case expenses from 3 years to 3.5 years. These adjustments are made in recognition of past Commission preferences in addition to Staff's witnesses recommendations. The cumulative impact of these adjustments is a decrease to the test year revenue requirement of $484,000.

Q: What is the RTF and why are we still talking about it?

A: The RTF or resource treatment framework is the result of many years of disagreements between the Commission and NSP when it comes to resources. The RTF was intended to find a way to develop a framework for the handling of future resource decisions and disagreements. It has ultimately stalled out procedurally, with no way to move forward other than the most recent discussions between the Commission and NSP exploring the merits of a more formal integrated resource planning (IRP) process in North Dakota. The North Dakota legislature has granted the Commission this authority effective August 2021. Because of these factors, the Settlement recommends and I request the Commission to close the cases in that proceeding. Additionally, the Settlement eliminates NSP's recovery of the costs associated with developing the RTF proposals and filings. This results in a reduction to the test year revenue requirement of $184,000.

Q: What are the non-plant and other rate base adjustments?

A: These adjustments were recommended by Staff witness Mugrace and relate to deferred tax asset/liability estimates for the test year. In his review of the backup and workpapers for NSP's proposed balances, Mugrace discovered several small discrepancies that he has recommended be corrected. These adjustments cumulatively result in a reduction to the test year revenue requirement in the amount of $141,000.

Q: What is the secondary impacts adjustment?

A: This is actually several smaller items. First is an adjustment to the revenue requirement for the Mower Wind project. The Mower Wind project was granted an advanced determination of prudence (ADP) by the Commission on August 26, 2020 in case PU-19-310. The project has not yet been included in NSP's renewable energy rider (RER) and therefore has not been required to utilize the levelized cost method (LCM) to amortize the production tax credits (PTCs) associated with the project. This adjustment utilizes the LCM in accordance with the Commission order in recent NSP RER cases. The next adjustment is related to software cost assignment to NSP's non-utility affiliates as required by a federal energy regulatory commission audit. The final adjustments in this category is secondary or follow-on adjustments. These are simply the tax and cash implications of the settlement adjustments. The cumulative effect of these adjustments is a reduction in the test year revenue requirement of $122,000.

Q: What is the return on tax tracker adjustment?

A: Internal Revenue Service and Minnesota Department of Revenue audits discovered that NSP underpaid income taxes and must pay additional amounts relative to its utility business. Staff witness Mugrace recommended that while we should allow NSP to recover this additional cost, we should not permit NSP to earn a return on the expense and we should extend the amortization period from 3 to 3.5 years. Consistent with that recommendation, the Settlement reduces the test year revenue requirement by $53,000.

Q: Is an earning sharing mechanism (ESM) part of this Settlement?

A: Yes. Under the terms of the ESM, NSP must return to customers 100% of earnings in excess of 9.75% ROE. Along with the ESM is jurisdictional reporting reform (JRR) which clarifies the way in which North Dakota jurisdictional earnings will be calculated for 2021 and going forward. Specifically, the JRR requires that NSP remove expenses in excess of the amounts North Dakota has allowed recovery of in the FCR when calculating annual jurisdictional earnings. This will ensure that future earnings reports and sharing are calculated in line with what was approved by the Commission.

Q: What is the reason for the spread between the granted ROE of 9.5% and the ESM set at 9.75%?

A: Staff agreed to this provision in recognition that NSP has real expenses relative to the disputed resources (primarily based on cost and/or lack of need of resource selections) that are providing some benefits to North Dakota ratepayers even though it is not obtaining rate recovery. This dead zone of ROE provides NSP an incentive to operate more cost effectively by allowing an opportunity to recoup some costs before being required to refund 100% of the overearnings to North Dakota customers.

Q: What is the COVID deferral item in the settlement?

A: This is a withdrawal of NSP's COVID deferral. As part of this Settlement NSP has agreed to withdraw its COVID related expense and revenue deferral and not seek recovery in any future North Dakota proceeding.

Q: Is the class revenue allocation and rate design just and reasonable?

A: Yes, the class revenue allocations as listed in the chart on page 11 of the Settlement move the classes closer to parity with the actual cost of service. This class cost allocation along with the proposed rate design principles will provide for rate schedules designed in such a manner that they will result in a basis of charge to NSP customers that is just and reasonable without undue discrimination and will also provide NSP with a just and reasonable rate of return on its property, used and useful, for the service and convenience of the public in North Dakota. Additionally, the average rate base balance of $664.269 M represents the value of NSP's property used and useful for the service and convenience of the public in North Dakota.

Q: Does this conclude your testimony?

A: Yes, it does.

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company 2021 Electric Rate Increase Application	**Case No. PU-20-441 OAH No. 20200422**

VERIFICATION

STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)

Victor Schock, being first duly sworn on oath, deposes and states that he has read the testimony submitted in the above captioned matters under his name, that it was prepared by him or under his direction, that he knows the contents thereof, and that the same is true and correct to the best of his knowledge and belief.

Victor Schock

Subscribed and sworn to before me this 14th day of July, 2021.

GERALYN R SCHMALTZ
Notary Public
State of North Dakota
My Commission Expires Oct 05, 2022

Notary Public
My Commission Expires: 10/5/2022

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company 2021 Electric Rate Increase Application	**Case No. PU-20-441 OAH No. 20200422**

AFFIDAVIT OF SERVICE

STATE OF NORTH DAKOTA)
)ss
COUNTY OF BURLEIGH)

Anna Heinen states under oath as follows:

1. I swear and affirm upon penalty of perjury that the statements made in this affidavit are true and correct.

2. I am of legal age and on the 15th day of July, 2021, I served a true and correct copy of the following document:

- **Direct Testimony of Victor Schock**

upon the following:

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Anna Heinen

Subscribed and sworn before me this 15th day of July, 2021.

APRIL HEINZ
Notary Public
State of North Dakota
My Commission Expires Nov 09, 2022

Notary Public
Burleigh County, North Dakota