

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

1 Q: Provide your name and qualifications.

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

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

12
13 Q: What is the purpose of your testimony?

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

19
20 Q: Please summarize the settlement.

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

25
26 Q: What is the total agreed revenue requirement for the test year?

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

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

3

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

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

9

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

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

15

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

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

1

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

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

10

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

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

15

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

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

24

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

26 A: AGIS is a customer metering and distribution management system which is
27 being implemented by NSP over the next several years. The recovery of the
28 capital and O&M expenses attributed to AGIS are deferred to the next rate case
29 when the system may be operational, consistent with the testimony of Staff
30 witness Dante Mugrace. The settlement makes no determination of prudence

1 for any of the expenditures; it simply provides NSP with an opportunity to
2 recover them in the future. The elimination of the O&M and capital
3 expenditures results in a reduction to the test year revenue requirement of
4 \$1.615M.

5

6 Q: What adjustment was made for MEC II?

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

10

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

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

18

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

21 A: Community Wind North and Jeffers Wind are small wind power facilities that
22 NSP has held power purchase agreements (PPAs) with since 2010 and 2006,
23 respectively. Per the settlement from NSP's last rate case (PU-12-813), these
24 PPAs were considered disputed resources for ratemaking purposes, and were
25 proxy priced, meaning North Dakota customers paid an adjusted system
26 average cost for their share of the power generation from the units rather than
27 paying the cost of the actual PPA. In December 2019, NSP purchased and
28 repowered these wind power facilities. This Settlement removes the cost of
29 these facilities from rate base entirely, but allows NSP to recover the adjusted
30 system average cost for the associated generation for the resources in the

1 same manner as it was permitted to when the projects were under their
2 respective PPAs. This adjustment reduced the test year revenue requirement
3 by \$689,000. However, there will be an increase to the fuel cost rider (FCR) in
4 the amount of \$338,000. This is listed as an increase to that rider because NSP
5 has not been able to recover any amount for these facilities in the FCR since it
6 purchased them.

7

8 Q: What are the miscellaneous expenses and amortization adjustments?

9 A: These adjustments include an elimination of incentive compensation above
10 15% of base pay, economic development, charitable contributions, brand and
11 image advertising, chamber and association dues, customer deposits and
12 corporate aviation costs as recommended by Staff witness Mgrace. It also
13 includes adjusting amortization of rate case expenses from 3 years to 3.5
14 years. These adjustments are made in recognition of past Commission
15 preferences in addition to Staff's witnesses recommendations. The cumulative
16 impact of these adjustments is a decrease to the test year revenue requirement
17 of \$484,000.

18

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

20 A: The RTF or resource treatment framework is the result of many years of
21 disagreements between the Commission and NSP when it comes to resources.
22 The RTF was intended to find a way to develop a framework for the handling
23 of future resource decisions and disagreements. It has ultimately stalled out
24 procedurally, with no way to move forward other than the most recent
25 discussions between the Commission and NSP exploring the merits of a more
26 formal integrated resource planning (IRP) process in North Dakota. The North
27 Dakota legislature has granted the Commission this authority effective August
28 2021. Because of these factors, the Settlement recommends and I request the
29 Commission to close the cases in that proceeding. Additionally, the Settlement
30 eliminates NSP's recovery of the costs associated with developing the RTF

1 proposals and filings. This results in a reduction to the test year revenue
2 requirement of \$184,000.

3

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

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

11

12 Q: What is the secondary impacts adjustment?

13 A: This is actually several smaller items. First is an adjustment to the revenue
14 requirement for the Mower Wind project. The Mower Wind project was granted
15 an advanced determination of prudence (ADP) by the Commission on August
16 26, 2020 in case PU-19-310. The project has not yet been included in NSP's
17 renewable energy rider (RER) and therefore has not been required to utilize
18 the levelized cost method (LCM) to amortize the production tax credits (PTCs)
19 associated with the project. This adjustment utilizes the LCM in accordance
20 with the Commission order in recent NSP RER cases. The next adjustment is
21 related to software cost assignment to NSP's non-utility affiliates as required
22 by a federal energy regulatory commission audit. The final adjustments in this
23 category is secondary or follow-on adjustments. These are simply the tax and
24 cash implications of the settlement adjustments. The cumulative effect of these
25 adjustments is a reduction in the test year revenue requirement of \$122,000.

26

27 Q: What is the return on tax tracker adjustment?

28 A: Internal Revenue Service and Minnesota Department of Revenue audits
29 discovered that NSP underpaid income taxes and must pay additional amounts
30 relative to its utility business. Staff witness Mugrace recommended that while

1 we should allow NSP to recover this additional cost, we should not permit NSP
2 to earn a return on the expense and we should extend the amortization period
3 from 3 to 3.5 years. Consistent with that recommendation, the Settlement
4 reduces the test year revenue requirement by \$53,000.

5

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

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

15

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

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

25

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

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

30

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

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

12

13 Q: Does this conclude your testimony?

14 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

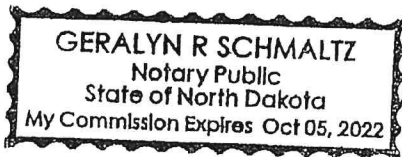
STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)


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.





Notary Public
My Commission Expires: 10/5/2022

VIA EMAIL & U.S. MAIL

Hope L. Hogan
Administrative Law Judge
2911 N 14th Street- Suite 303
Bismarck, ND 58503

VIA EMAIL & HAND-DELIVERY

Steve Kahl
Public Service Commission
600 East Boulevard Avenue, Dept. 480
Bismarck, ND 58505-0480

VIA EMAIL & US MAIL

Matthew B. Harris
Xcel Energy Services Inc
401 Nicollet Mall
Minneapolis, MN 55401

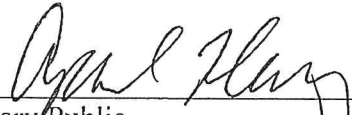
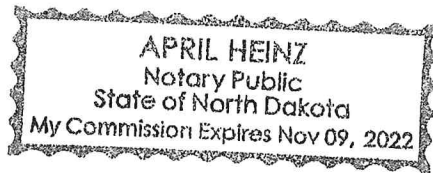
VIA U.S. MAIL

Steve W. Chriss
Director, Energy Services
Walmart Inc
2608 SE J Street
Bentonville, AR 72716



Anna Heinen

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



Notary Public
Burleigh County, North Dakota