# BEFORE THE NORTH DAKOTA PUBLIC SERVICE COMMISSION

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| **Northern States Power Company 2022 Natural Gas Rate Increase Application** | ) ) | **Case No. PU-21-381** |

**Direct Testimony of**

**WILLIAM H. MALCOLM**

**On behalf of**
**AARP**

February 28, 2022

## Introduction

**Q. Please state your name.**

A. My name is William H. Malcolm.

**Q. By whom are you employed and in what capacity?**

A. I am employed by AARP as a Senior Legislative Representative in the Government Affairs Department in our national office in Washington, D.C. In this capacity, I work with AARP state offices on utility interventions and advocacy where we advocate for fair and affordable rates and charges (and reliable service) for residential customers.

**Q. What is AARP's interest in this case?**

A. AARP advocates for the needs of people age 50 and older on a range of issues that impact health, well-being and financial security. That includes advocacy to protect the interests of residential customers of energy, for whom utility costs can represent a significant share of household. Many of our approximately 84,000 members in the state of North Dakota live on fixed incomes, or struggle to make ends meet. Others have been adversely affected by the pandemic. To support these individuals, we fight for the adoption of fair and affordable utility rates and reliable service. Any sizeable proposed increase to their natural gas bill is of great concern to our members area served by Xcel NSP.

**Q. What is the purpose of your testimony in this case?**

A. My testimony addresses concerns with certain Xcel Northern States Power ("NSP", "Xcel NSP", or "Company") proposals in this general rate case.

**Q. What are your qualifications to provide this testimony in this case?**

A. My 45-year career includes positions at Seattle City Light, Pacific Power, PG&E, ANR Pipeline, MISO, and AARP. In these roles I analyzed rate case filings, and managed regulatory affairs. I also was a founding employee at the Midwest Independent System Operator ("MISO") and worked for MISO for 12 years, creating the state regulatory affairs program, which included working with utilities and regulators in North Dakota as well as with utilities. I joined AARP in 2014 where I work with nearly two dozen AARP state offices on utility matters. Among the issues that I have advocated on behalf of AARP include our opposition to piecemeal surcharges that unnecessarily raise the cost of utility bills, excessive rate of return (ROE) requests, and rate design proposals that unfairly increase fixed residential customer charges or that shift extra costs onto residential customers.

**Q. Do you have any experience that is particularly relevant to the issues in this case?**

A. Yes. I was a testifying witness for AARP in last year's Xcel NSP electric rate proceeding, Case No. PU-20-441. Further, I have supervised AARP's rate case activities in several MDU rate cases at this Commission, as well as supervising numerous similar proceedings

in other states, including testimony and other filings in proceedings at the Minnesota Public Utilities Commission concerning the electric companies Xcel Minnesota and Minnesota Power. I have supervised AARP testimony and other filings in the most recent Xcel gas rate cases for AARP before the Colorado Public Utilities Commission ("Colorado PUC"), as well as several other proceedings in Colorado involving the regulation of rates and services for the Xcel affiliate in that state. Further, in my previous employment at power grid operator MISO, I was responsible for working with regulatory officials in North Dakota supporting MISO's membership recruitment efforts (in 2000 and 2001) through market start up.

**Q. What is the primary focus of your direct testimony and recommendations?**

A. AARP views NSP's proposed natural gas rate increase with concern. First and foremost, it comes on top of other rate increases involving recovery of the February 2021 winter storm Uri gas costs and the rate increase related to the recent dramatic rise in gas commodity costs. Based on a review of NSP's initial written testimony, I recommend that the Commission:

- reject NSP's proposal to dramatically increase the residential customer charge from approximately $18.48 to $24.28 per month,

- reduce NSP's requested increase in its allowable return on equity (ROE) to 10.5%,

- Lower the requested 15% rate increase for residential customers which is higher than that for other customer classes, and

- Order NSP to take steps to avoid a repeat of the February 2021 event. This would include an improved gas cost hedging program, better monitoring of upcoming cold spikes, notifying customers to reduce usage, and other steps.

We also urge the Commission to consider improving the public comment hearing process to focus more on the public's comments.

**Q. Does AARP support Xcel NSP's proposal to increase the customer charge from $18.48 to $24.28 a month?**

A. No. AARP urges the Commission to reject the proposal to increase the monthly customer charge from $18.48 to a dramatically high $24.28 a month – among the highest requests AARP has seen around the country. The current charge is already too high and unfairly burdens low-usage customers.

**Q. Why does AARP oppose increases to the Xcel North Dakota customer charge?**

A. High fixed charges make controlling your energy bill more difficult. This is because they raise the fixed monthly charge, but lower the volumetric rate, thereby unduly burdening those who use less energy or seek to reduce costs.

**Q. Does AARP agree that the customer charge should include all or some fixed costs?**

**A. No. Historically the customer charge has recovered metering, customer service and billing costs, and a few other costs. AARP supports that model of customer charge calculation. We question the use of creative or selective cost studies to support increasing the fixed monthly charge. Rate design and cost allocation is an art not a science. Cost allocation is an important factor, but so are gradualism, public acceptance, and public policy goals such as encouraging energy conservation. The PSC should not rely on a single cost study without balancing it against other important ratemaking principles.**

**Q. Can you elaborate?**

A. Yes, putting more costs into the customer charge is poor public policy. It also suppresses the volumetric charge which reduces consumer direction over their own bill an discourages energy conservation. This makes it more difficult for residential consumers to control their monthly energy bills.

Q. **Doesn't a high customer charge make bills more predictable and flatter?**

A. Not exactly. There are better and more equitable ways to achieve predictable payments. Customers that want a flatter and more predictable monthly bill can enroll in "budget billing". This allows them to pay the same amount every month.

**Q. What are your other concerns?**

**A. High fixed customer charges -- such as those included in this proposal -- disadvantage many older consumers who use less energy. The rate increase filing represents a much larger increase for the lower user.**

**Q. Please elaborate on Xcel's cost allocation methods.**

**A. Xcel North Dakota uses a version of the "minimum system" allocation method to support its proposal to raise the customer charge. The choice of method pre-determines the outcome. AARP opposes this method. AARP supports using the "customer method" for determining the appropriate level for setting the residential customer charge, allocating the costs associated with metering, customer service and billing costs only. We urge the PSC to adopt avoid adopting allocation methods, such as the "minimum system" method, that unnecessarily increase the customer charge.**

**Q. Do other Xcel operating companies in its other states see the need for a $24 customer charge?**

**A. No. Xcel's largest service area is in metro Denver and much of Colorado. Xcel Colorado (in their natural gas rate case filed on January 25, 2022) says it plans to keep the customer charge at a more reasonable $12.00 a month. That is, Xcel is proposing no change to the current $12 a month customer charge for their Colorado customers. (Colorado PUC Docket 22AL-0046G see page 19 testimony of N. Mason Hanson and the testimony of witness Steven Wishart on page 24). AARP questions the judgment and motivations of Xcel North Dakota proposing another dramatic**

**increase in North Dakota when it appears to be satisfied with the $12 charge in its largest service territory in Colorado.**

**We urge the PSC to roll back the North Dakota charge to this level as well. <u>There is no reason why North Dakota customers should pay a fixed charge that is double what is paid in Colorado</u>. The PSC should be the final arbiter for determining the best level for setting the fixed customer charge, after considering all relevant rate-setting factors.**

**Q. Does AARP also have a view on the overall residential rate increase?**

A. Yes, a residential rate increase of 15% is too high and should be reduced. We see no reasonable justification for residential customers to pay a higher percentage of cost increases than other classes. The impact is even more pronounced for small gas users using 10 therms a month, who could see as much as a 26% increase in their bills, while those using 40 therms a month could see an 18% increase.

**Q. What is AARP's view of NSP's request for a 10.5% ROE?**

**A. This request is out of line with what is being granted nationally and in this region. AARP urges the Commission to review recent decisions in other states as a check on the reasonableness of allowed ROEs, as the request in this case is far out of line with what we are seeing nationally and regionally. For example, the Public Utility**

**Commission of Colorado recently granted just 9.2% ROE for the Xcel PSCO in its gas rate case. (Case No. 20AL-0049G). (See also CO PUC Docket 22al-0046g). Xcel is proposing a 10.5% return on common equity in this gas case, much higher than any Midwestern utility is currently allowed. A range of 9% to 9.5% is what Xcel and other gas utilities has been authorized in other jurisdictions. A higher corporate profit is not justified for this monopoly service, and we believe that NSP's request is unjustified in this case.**

**Q. Does AARP have any other recommendations in this proceeding?**

A. Yes. The public comment process should prioritize ratepayers' needs by better focusing on hearing from the public We recommend that public comment hearings should start with a brief summary from the Commission Staff who will present the information in an unbiased manner, and then the public should quickly be allowed to be make comments. The current process, with the extensive utility presentation upfront takes too much time, it also allows them to make a sophisticated sales pitch and makes it inconvenient for the public to comment. If the utility wants to hold its own workshop, it is free to do so independently. AARP also urges the public comment hearings be moved to a later time in the proceeding schedule, preferably after the testimony of other parties has been filed, including the PSC staff recommendations. At that time, consumers will be informed by more than just the utility request.

**Q. Please elaborate on your recommendations to avoid a repeat of the February 2021 winter storm Uri fallout which resulted in excessive gas purchases off the high-priced spot market.**

**A. AARP believes that a failure to sufficiently hedge its gas costs has led to unnecessary increases to Xcel North Dakota's natural gas rates. The costs incurred when Xcel bought gas off the spot market in February 2021 during storm Uri and are now the subject of a surcharge on customer bills should be an area of concern for the Commission. Few utilities nationally faced a similar problem. The PSC should open an investigation to require Commission and other natural gas companies to improve hedging their natural gas purchases whereby prices for certain supplies are locked in in advance to avoid having to purchase off the natural gas spot market. The problem that Xcel faced last year would not have been as large, had the utility appropriately hedged (or locked in) a portion of their gas supplies. We believe that the Commission should review the NSP gas hedging proposal for approval going forward. Further, NSP should be ordered to better notify customers to voluntarily reduce gas usage during such times as well as perhaps to develop programs where as certain customers can be paid for reducing or interrupting gas usage. It is my understanding this has**

**also been an issue in the above-mentioned Xcel natural gas rate case in Colorado as well.**

**Q. Please review your recommendations.**

A. AARP recommends the proposed rate impact on NSP's residential gas customers be trimmed as follows:

- No increase to the customer charge.
- Lower NSP's requested ROE, and approve a ROE commensurate with other recently approved around the country and in the region, including for other Xcel subsidiaries.
- Keep the allocation of costs for residential customer class at the system average.
- Redesign the public comment process.
- Order NSP to take steps to avoid a repeat of the Feb 2021 purchasing off the spot market issue.

**Q. Does this conclude your prepared testimony?**

**A. Yes, it does.**

**STATE OF NORTH DAKOTA**
**PUBLIC SERVICE COMMISSION**

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## CERTIFICATE OF SERVICE

I hereby certify that the original and seven (7) copies, of the Direct Testimony of William Malcolm were hand delivered/mailed/emailed, on this 28th day of February, 2022 to the following:

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I further certify that on the 28th day of February, 2022 a copy of the foregoing was hand delivered to:

Administrative Law Judge Hope L. Hogan

I further certify that on this 28th day of February, 2022, a copy of the foregoing were e-mailed to the following persons:

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