

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 Natural Gas Service in North Dakota

Case No. PU-21-381
Exhibit__(BCH-2)

OVERALL REVENUE REQUIREMENTS

**Rate Base
Income Statement**

April 1, 2022

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1 **I. INTRODUCTION**

2

3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

4 A. My name is Benjamin C. Halama. I am Manager of Revenue Analysis for Xcel
5 Energy Services Inc.

6

7 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

8 A. Yes. I filed Direct Testimony on behalf of Northern States Power Company,
9 a Minnesota corporation (Xcel Energy, NSP or Company) supporting the
10 Company's financial data and request for a general and interim rate increase,
11 specifically:

- 12 • the overall retail revenue requirement of \$74.362 million and revenue
13 deficiency of \$7.059 million, determined by the 2022 test year cost of
14 service study (COSS); and
- 15 • the interim increase of \$8.245 million as discussed in our Petition for
16 Interim Rates. The interim rate petition was updated per Advocacy
17 Staff's recommendation to remove the MGP amortization resulting in
18 final interim rates of \$6.990 million.

19

20 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

21 A. My Rebuttal Testimony and supporting schedules address issues raised by the
22 Commission Advocacy Staff witnesses. Specifically, I respond to the financial
23 adjustments suggested by Mr. Dante Mugrace. I also update our financial
24 statements to reflect those adjustments recommended or accepted by the
25 Company. My Rebuttal Testimony supports an updated North Dakota
26 jurisdictional gas utility operation overall retail revenue requirement of \$73.295
27 million and revenue deficiency of \$5.993 million.

1 Q. WERE THE SCHEDULES PRESENTED WITH YOUR REBUTTAL TESTIMONY
2 PREPARED BY YOU OR UNDER YOUR SUPERVISION?

3 A. Yes, they were.
4

5 **II. SUMMARY AND ORGANIZATION**
6

7 Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY

8 A. My Rebuttal Testimony will present the Company's proposed rebuttal revenue
9 requirement of \$73.295 million for a deficiency of \$5.993 million. I will also
10 focus on the Direct Testimony of Mr. Dante Mugrace with respect to the
11 overall revenue requirement, the test-year revenue deficiency, and
12 jurisdictional cost of service. I present an issue-by-issue analysis, discussion,
13 and supporting schedules that produce an overall revenue requirement and
14 revenue deficiency for the 2022 North Dakota jurisdiction gas utility.
15

16 In my testimony, I also correct Mr. Mugrace's proposed adjustment of \$4.069
17 million to \$3.190 million and revise his proposed revenue deficiency from
18 \$2.990 million to \$3.869 million. This is consistent with corrections made by
19 Mr. Mugrace, following the exchange of Discovery Requests between parties,
20 adjusting his proposed \$2.990 million revenue deficiency to \$3.876 million.
21

22 The overall cost of service is presented in Exhibit____(BCH-2), Schedule 1,
23 2022 test year Rebuttal Cost of Service Study. Comparisons between the
24 detailed Income Statement in our Notice of Change in Rates and the
25 Company's proposed Rebuttal request are included in Exhibit____(BCH-2),
26 Schedule 2. Each of the Company's proposed Rebuttal adjustments is included
27 in Exhibit____(BCH-2), Schedule 3 and Exhibit____(BCH-2), Schedule 4,

1 which bridges our original Application to our Rebuttal request and shows the
2 resulting impact on rate base and operating income, respectively. My
3 calculations of Mr. Mugrace’s proposal are provided in Exhibit____(BCH-2),
4 Schedule 5, 2022 Mugrace Corrected Bridge Schedule.

5
6 Q. DO YOU CONCUR WITH MR. MUGRACE’S PROPOSED REVENUE DEFICIENCY?

7 A. No. I do not agree with the proposed revenue deficiency that Mr. Mugrace
8 proposed in his Direct Testimony. Following the exchange of Discovery
9 Requests between parties, Mr. Mugrace’s and my calculation of his test year
10 revenue deficiency are within approximately \$7,000 of each other. I contend
11 that the correct calculation of Mr. Mugrace’s proposed adjustments should
12 result in a revenue deficiency of approximately \$3.869 million.

13
14 Q. HOW HAVE YOU ORGANIZED YOUR REBUTTAL TESTIMONY?

15 A. My Rebuttal Testimony is organized as follows:

16 I. Introduction

17 II. Summary and Organization

18 III. Company’s Proposed Adjustments

19 A. Fargo Capacity Plant Project

20 B. AGIS Removal

21 C. Depreciation Study TD&G Update

22 D. Summary

23 IV. Advocacy Staff Adjustments Opposed

24 A. Historical Adjustments

25 1. O&M Expense Adjustment

26 2. Secondary O&M Adjustments

27 3. O&M Expense Adjustments Conclusion

- 1 B. Labor Adjustments
- 2 C. Meter Installation Costs
- 3 D. Economic Development Donations
- 4 E. Donations and Chamber of Commerce Dues
- 5 F. Incentive Compensation
- 6 G. Income Tax Tracker
- 7 H. Rate Case Expenses
- 8 I. Property Taxes
- 9 J. Payroll Tax
- 10 V. Secondary Calculations
- 11 A. Net Operating Loss
- 12 B. Cash Working Capital
- 13 C. Federal and State Income Taxes
- 14 D. Interest Synchronization
- 15 VII. Conclusion

1 **III. COMPANY’S PROPOSED ADJUSTMENTS**

2

3 **A. Fargo Capacity Plant Project**

4 Q. WHAT ADJUSTMENT IS THE COMPANY MAKING WITH RESPECT TO THE FARGO
5 CAPACITY PROJECT?

6 A. The Company is adjusting our proposed test year revenue requirement down
7 \$0.879 million to reflect the \$7.498 million in capital expenditure savings
8 resulting from the Company’s management of costs for the Fargo Capacity
9 Project. This adjustment impacts the 2022 Test Year revenue requirement as
10 shown on Schedule 4, page 1, row 39, column 11. The Company’s
11 management efforts and consequent cost savings are discussed further by
12 Company witness Ms. Joni H. Zich in her Rebuttal Testimony. However,
13 given that the Test Year revenue deficiency is significantly driven by the
14 Project, the Company believes it is appropriate to adjust the Test Year revenue
15 requirement to reflect the actual costs of the project.

16

17 Q. DID MR. MUGRACE PROPOSE AN ADJUSTMENT FOR THE FARGO CAPACITY
18 PROJECT?

19 A. Yes. Mr. Mugrace recommended a reduction of \$0.6 million to the capital
20 addition representing the Fargo Capacity Project. This adjustment reflects
21 removal of the contingency built into the Company’s project budget.

22

23 Q. DO YOU AGREE WITH THE MANNER IN WHICH MR. MUGRACE CALCULATED HIS
24 PROPOSED ADJUSTMENT FOR THE FARGO CAPACITY PROJECT?

25 A. No. Mr. Mugrace incorrectly calculated his adjustment by using a composite
26 book depreciation rate as opposed to using the actual book lives for the assets.
27 He also assumed the project expenditure contingency he removed did not

1 have a corresponding impact to tax depreciation and deferred income tax.
2 The correct adjustment is (\$0.072) million as shown on Schedule 5, column
3 10, row 86.

4
5 Q. DO YOU AGREE THAT HIS ADJUSTMENT IS APPROPRIATE?

6 A. No, but the issue is moot. The Company disagrees with the removal of the
7 project contingency. The contingency represents costs that are not readily
8 known or identified when the project's expenditure budget is created and is
9 appropriate for inclusion in rates in a future test year. However, the
10 Company's adjustment reflects the actual costs of the Fargo Project after
11 contingencies have been accounted for and, therefore, effectively incorporates
12 Mr. Mugrace's proposed adjustment.

13
14 **B. AGIS Removal**

15 Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO THE AGIS REMOVAL.

16 A. The AGIS Field Area Network (FAN) plant values have been transferred
17 from the common utility to the electric utility in the Company's plant records.
18 Therefore, the Company is removing this cost from the 2022 test year COSS.
19 This adjustment impacts the 2022 test year revenue requirement by the
20 amounts shown on Schedule 4, page 1, row 39, column 9.

21
22 **C. Depreciation Study TD&G Update**

23 Q. PLEASE DESCRIBE THE REBUTTAL ADJUSTMENT RELATED TO THE
24 DEPRECIATION STUDY (TD&G) UPDATE.

25 A. As noted in my Direct Testimony and in the Company's response to Data
26 Request 1-43, when completing a final validation of the depreciation expense
27 in the COSS, we identified that a depreciation adjustment was needed for the

1 2022 Test year COSS. This adjustment impacts the 2022 revenue requirement
2 by the amounts shown on Schedule 4, page 1, row 39, column 10.

3
4 **D. Summary**

5 Q. WHAT IS THE TOTAL VALUE OF THE COMPANY'S PROPOSED ADJUSTMENTS?

6 A. In total, the Company has reduced the proposed revenue requirement and
7 deficiency by \$1.066 million.

8
9 Q. WITH THE INCLUSION OF THESE ADJUSTMENTS AND THE SECONDARY
10 CALCULATIONS PROVIDED IN SECTION V, BELOW – WHAT IS THE COMPANY'S
11 REBUTTAL POSITION FOR ITS RATE REQUEST?

12 A. The Company's proposed rebuttal revenue requirement is \$73.295 million,
13 producing a test year revenue deficiency of \$5.993 million.

14
15 **IV. ADVOCACY STAFF ADJUSTMENTS OPPOSED**

16
17 **A. Historical Adjustments**

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

19 A. In this section, I respond to Mr. Mugrace's proposed reduction of certain
20 O&M and other expenses based on historical averages of those costs. I
21 demonstrate that Mr. Mugrace's proposed approach, which he refers to as
22 "normalization," is not appropriate; therefore, I have not included these
23 adjustments in my Rebuttal 2022 test year COSS.

1 Q. WHAT TEST YEAR DID THE COMPANY SELECT FOR DETERMINING THE
2 REVENUE REQUIREMENT?

3 A. We selected a projected future test year of calendar year 2022. The Company
4 utilized its forecasted 2022 budget of revenues and expenses as the basis of its
5 2022 test year. Use of the forecasted budget is consistent with the Company's
6 long-standing practice and is consistent with North Dakota statute and
7 Commission precedent.

8

9 Q. WHY IS A FUTURE TEST YEAR APPROPRIATE?

10 A. The purpose of a test period is to establish the level of revenues and expenses
11 "representative of those that will be experienced during the time the rates are
12 likely to remain in effect."¹ North Dakota Statute (N.D.C.C. § 49-05-04.1)
13 expressly provides for the use of a future test year. And, the Commission has
14 found forecasted test years to be an appropriate method of matching rates to
15 the period during which the rates will be in effect:

16 Because the Commission sets rates for the future, it is appropriate to
17 examine a period during which those rates will be in effect. The
18 utilization of a forecast test year adjusted for known and measurable
19 changes permits an accurate basis for setting rates for the future and
20 contributes to rate stability.²

¹ NARUC Electric Utility Cost Allocation Manual, January 1992 at 24.

² *In re Otter Tail Power Co.*, North Dakota Public Service Commission Case No. 10,334, Order (April 19, 1983); *see also In re Montana Dakota Utilities Company*, Case No. 10,280, 46 P.U.R. 193 (April 12, 1982).

1 Q. DID MR. MUGRACE ACCEPT THE USE OF A PROJECTED CALENDAR YEAR 2022
2 TEST YEAR?

3 A. Yes. At page 5 of his Direct Testimony, Mr. Mugrace accepts the Company's
4 proposed test year ending December 31, 2022.³

5

6 1. *O&M Expense Adjustment*

7

8 Q. WHAT IS MR. MUGRACE PROPOSING THROUGH HIS O&M EXPENSE
9 ADJUSTMENT?

10 A. Mr. Mugrace proposed to adjust the Company's forecasted Test year cost of
11 service using a three-year historical average to determine a significant portion
12 of expense. Through his application of this adjustment, Mr. Mugrace
13 recommends the removal of \$1.698 million in total O&M expenses from the
14 Company's cost of service.

15

16 Q. WHICH EXPENSES DID MR. MUGRACE PROPOSE TO ADJUST?

17 A. Mr. Mugrace proposed to adjust only the following FERC accounts, and not
18 all O&M expense:

19 • Gas Transmission: Non-labor O&M expenses in FERC accounts 850-
20 866, which include the equipment used for transmitting gas from a
21 production plant, delivery point of purchased gas, gathering system,
22 storage area, or other source of gas, to the distribution areas.

23 • Gas Distribution: Non-labor O&M expenses in FERC accounts 870-
24 894, which are related primarily to distributing gas within the

³ Mr. Mugrace appears to have incorrectly identified the Company's test year as ending on December 31, 2021. The Company believes this was a typographical error and will treat it as such.

1 distribution area, including land, structures, valves, regulators, services
2 and measuring devices.

- 3 • Customer Accounting: Non-labor O&M expenses in FERC accounts
4 901-905 that represent common customer service administrative
5 activities.
- 6 • Customer Service and Information: Non-labor O&M expenses
7 recorded in FERC accounts 908-910, including costs associated with
8 informational and instructional advertising.
- 9 • Damage Prevention: Labor and non-labor O&M expenses in Gas
10 Transmission and Gas Distribution FERC accounts that helps
11 excavators and customers locate underground gas infrastructure to
12 avoid accidental damage and safety incidents.

13
14 Q. DID MR. MUGRACE EXPLAIN WHY HE CHOSE THESE EXPENSES TO ADJUST?

15 A. Not in sufficient detail to justify his approach. Mr. Mugrace merely uses a
16 recurring justification that these costs can “fluctuate and vary from year to
17 year,” and in some cases the O&M expenses during the 2019-2021 period
18 appear to be “abnormal and irregular” compared to the Company’s proposed
19 2022 test year. As a result, Mr. Mugrace argues that the use of a three-year
20 historical average provides a smoothing of the costs.⁴

⁴ See e.g., Mugrace Direct at 16, discussing O&M expenses.

1 Q. IS THE THREE-YEAR HISTORICAL AVERAGE OF EXPENSES SELECTIVELY
2 CHOSEN BY MR. MUGRACE REPRESENTATIVE OF THE COST OF SERVICE
3 DURING THE PERIOD RATES WILL BE IN EFFECT?

4 A. No. The Company's forecasted test year incorporates factors that did not
5 exist in prior year historical data. This is consistent with the use of a future
6 test year and accounts for the fact that costs do, in fact, change from year to
7 year.

8

9 Q. ARE THERE OTHER REASONS WHY MR. MUGRACE'S HISTORICAL AVERAGING
10 APPROACH IS INAPPROPRIATE FOR SETTING RATES?

11 A. Yes. In addition to Mr. Mugrace's approach creating a mismatch between
12 revenues and expenses during the period rates are in effect, his approach
13 ignores the fact that expenses fluctuate from year-to-year for valid reasons. A
14 future test year of forecasted costs should be representative overall, and the
15 various "ups" and "downs" of certain expenses should generally offset.
16 Consequently, just because actual past expenses fluctuate year-to-year, is not a
17 valid reason to use historical averages of broad cost categories to supersede an
18 expense forecast developed with the understanding and acknowledgement of
19 changing factors impacting the costs of service reflected in the test year.

20

21 Ironically, Mr. Mugrace's approach is both too narrow and too broad. He is
22 proposing to reduce broad categories of non-labor O&M expenses based on
23 historical averages but he does not capture the entire cost of service, or even
24 labor costs, so that all ups and downs are taken into consideration. He also
25 did not identify any particular cost centers that warranted further examination
26 to determine if they should be adjusted. Consequently, his approach will
27 necessarily produce arbitrary results based on a subjective analysis of a subset

1 of accounts that do nothing more than fluctuate. Additionally, Mr. Mugrace's
2 approach assumes that the level of historical costs will continue into the
3 future, and he makes no allowance for changing circumstances and
4 inflationary pressures that tend to increase the expenses of providing natural
5 gas services.

6
7 Q. WOULD ADJUSTMENT OF O&M EXPENSE IN A FUTURE TEST YEAR BASED ON
8 HISTORICAL AVERAGES EVER BE APPROPRIATE?

9 A. Potentially. If the information presented to Advocacy Staff indicated that the
10 Company's forecasts for certain expenses were generally increasing or
11 decreasing at unusually high or low rates, then utilizing historical actual
12 amounts could be a reasonable method for proposing targeted adjustments to
13 the cost of service, provided that historical actuals could be shown to
14 demonstrate an appropriate forecasting trend for the future test year. To the
15 extent Mr. Mugrace had concerns with the Company's forecasted amounts for
16 certain expenses, he could have proposed an adjustment for those. However,
17 Mr. Mugrace selected broad categories of expenses and not specific expenses
18 to justify his proposed adjustment.

19
20 Q. DO YOU HAVE OTHER CONCERNS WITH THE DATA SET MR. MUGRACE
21 UTILIZED FOR HIS O&M EXPENSE ADJUSTMENT?

22 A. Yes. I am also concerned with his choices of 2019, 2020, and 2021 to create
23 his historical data set and his choice to utilize North Dakota jurisdictionally-
24 allocated amounts in his calculation. This choice seems wholly arbitrary and
25 there is no support for his selection of this averaging period. This calls into
26 question the analytical rigor of his proposed adjustment.

1 Q. IN ADDITION TO NOT RESULTING IN JUST AND REASONABLE RATES, DO YOU
2 FIND THE OUTCOME OF MR. MUGRACE’S PROPOSED ADJUSTMENT CREDIBLE?

3 A. No, I do not. In light of Mr. Mugrace’s proposed O&M adjustment, which
4 was primarily made to non-labor expenses, the Company performed an
5 analysis of historic total (labor and non-labor) O&M expenses in the period
6 identified by Mr. Mugrace and then applied Mr. Mugrace’s proposed
7 adjustment to the total 2022 O&M amount included in the Company’s cost of
8 service.

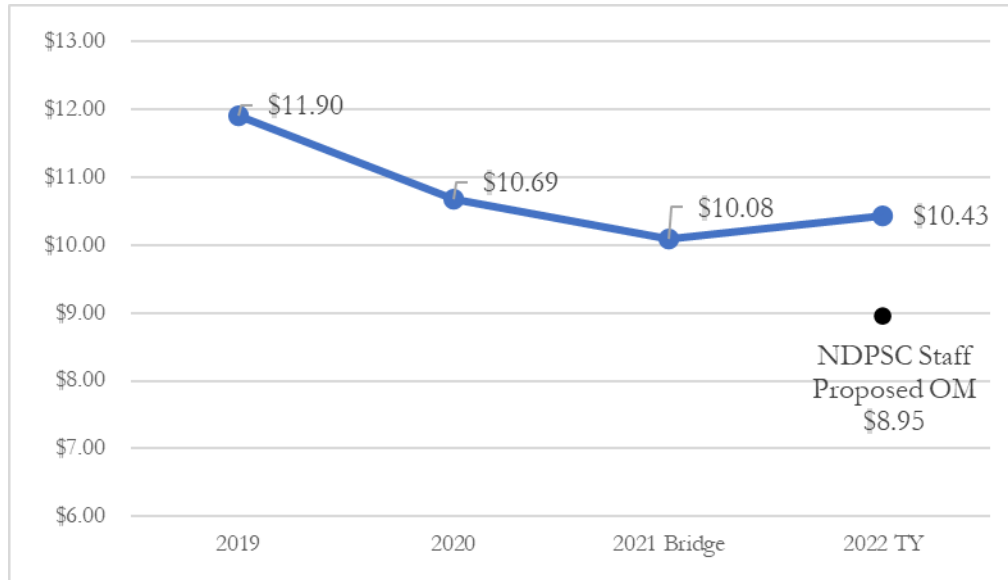
9

10 Q. WHAT WERE THE RESULTS OF THAT ANALYSIS?

11 A. The Company’s analysis indicates that Mr. Mugrace’s adjustment results in a
12 test year total O&M cost that is \$1.48 million or 14 percent below our
13 proposed test year cost of service and \$2.95 million or 25 percent lower than
14 our 2019 cost of service, the last non-COVID impacted year in the data set.
15 Based on this, it is likely that Mr. Mugrace’s proposed adjustment could
16 eliminate the opportunity for the Company to earn its authorized rate of
17 return due to rates reflecting O&M expenses significantly below historic
18 actuals, the test year budgeted amount, and any discernable trend in O&M
19 costs. In light of that, the adjustment would not result in just and reasonable
20 rates. Figure 1, below, illustrates this.

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Figure 1
North Dakota Gas O&M Expense
(\$ mil)



15 Q. WHAT DO YOU CONCLUDE FROM THE COMPANY'S ANALYSIS?

16 A. I conclude that Mr. Mugrace's methodology results in an outcome that is not
17 credible.

18
19 Q. THE COMPANY'S ANALYSIS UTILIZED A TOTAL O&M COST APPROACH. WHY IS
20 IT APPROPRIATE TO LOOK AT TOTAL O&M AS OPPOSED TO NON-LABOR O&M
21 AS MR. MUGRACE DID?

22 A. As a general matter, the Company budgets for its gas operations at a total
23 company level, which includes both labor and non-labor. Therefore, it is
24 appropriate to analyze O&M as a total of labor and non-labor. As stated in
25 our Cost Assignment and Allocation Manual (CAAM), we direct assign costs
26 whenever possible. However, when we budget, it is not possible to directly
27 assign all costs, so when actual costs are incurred, a variance appears between

1 dollars budgeted for labor and non-labor. To further illustrate this point, if we
2 were to adjust total O&M based on a historical average consistent with Mr.
3 Mugrace's proposal as compared to our 2022 test year COSS, we would
4 actually increase our 2022 test year COSS by approximately \$0.457 million. As
5 Ms. Zich discusses in her rebuttal testimony, we have not budgeted for, nor
6 are we experiencing a material increase in, overall gas operations O&M.

7
8 Further, I disagree with Mr. Mugrace that allocations impact this analysis
9 because unlike our electric utility operations where allocation factors can and
10 do change annually and can and do impact our overall cost of service in
11 significant ways, North Dakota gas jurisdictional costs are primarily direct
12 assigned or allocated based on the Design Day Demand and Customer
13 allocation factors, which do not significantly fluctuate from year to year.

14
15 Q. WHAT IS THE CAUSE OF THE INCREASE IN O&M EXPENSE BETWEEN 2021 AND
16 THE 2022 TEST YEAR SHOWN IN FIGURE 1?

17 A. The increase from 2021 to the 2022 test year O&M budget is driven by higher
18 meter reading costs associated with customer experience and meter reading
19 management software. These increased meter reading costs are primarily
20 driven by the need to upgrade our existing meter reading software to integrate
21 with new technologies for reaching our customers. For example, the
22 Company is now able to provide usage and billing information to customers
23 directly through our MyAccount smartphone application. Providing these
24 new user experiences and integrating meter reading into our other systems is
25 driving a slight increase in operations and maintenance expense in the 2022
26 test year. Further, the Company is also deploying new meter reading

1 management software to facilitate meter reading at all of our customer
2 locations.

3
4 I note that even with this small increase in O&M costs, the 2022 test year
5 budget is still likely very conservative. As described further in the Rebuttal
6 Testimony of Mr. Al Krug and Mr. Dylan D'Ascendis, we are entering a
7 period of inflationary pressures affecting all aspects of the economy, including
8 the Company's cost of service. The test year budget was developed prior to
9 the appearance of the overall inflationary pressures in the economy as a whole,
10 thus it is likely even more conservative now than when initially developed.

11
12 Q. ARE THERE OTHER ISSUES CAUSING SIGNIFICANT FLUCTUATIONS IN THE
13 THREE YEARS MR. MUGRACE IS USING FOR HIS O&M ADJUSTMENT?

14 A. In 2020 and 2021, the COVID-19 pandemic impacted how we manage our
15 operations. The Company made a number of operational changes as
16 discussed in detail in Case No. PU-20-220. An example of the impact of the
17 pandemic to the Company's cost of service includes the fact that the
18 Company's late payment revenues were abnormally low in 2020 in light of
19 customer protection measures due to the COVID-19 pandemic.

20
21 Q. IN SUMMARY, DO YOU AGREE THAT MR. MUGRACE'S O&M EXPENSE
22 ADJUSTMENTS ARE APPROPRIATE?

23 A. No. As discussed above, I believe the adjustments proposed by Mr. Mugrace
24 are inappropriate since adjusting subsets of O&M based on historical averages
25 does not allow for needed changes in operations and expense types.
26 Therefore, I believe the Commission should not adopt Mr. Mugrace's
27 recommended O&M adjustments.

1 2. *Secondary O&M Adjustments*

2
3 Q. DID MR. MUGRACE PROPOSE ANY OTHER O&M ADJUSTMENTS?

4 A. Yes. In addition to the non-labor O&M adjustments I just discussed, Mr.
5 Mugrace proposed to reduce the Company's Damage Prevention expenses by
6 using a simple average of expenses over the same three-year period of 2019-
7 2021. Using this methodology, Mr. Mugrace is proposing an adjustment of
8 \$0.245 million in addition to his O&M expense adjustment discussed earlier.

9
10 Q. DO YOU AGREE WITH MR. MUGRACE'S PROPOSED DAMAGE PREVENTION
11 PROGRAM (DPP) ADJUSTMENT?

12 A. No. For the same reasons I do not agree with Mr. Mugrace's proposed O&M
13 adjustment discussed above, I also disagree with his damage prevention
14 adjustment. At base, his damage prevention adjustment is arbitrary and not
15 reflective of the Company's expected DPP costs in 2022.

16
17 Q. DO YOU HAVE OTHER CONCERN'S WITH MR. MUGRACE'S PROPOSED DPP
18 ADJUSTMENT?

19 A. Yes. Mr. Mugrace's damage prevention program adjustment: (1) creates
20 duplicative adjustments with his O&M expense adjustment; and (2) does not
21 factor in the Company's increasing costs for damage prevention.

22
23 Q. HOW IS MR. MUGRACE'S PROPOSED DPP ADJUSTMENT DUPLICATIVE?

24 A. In brief, damage prevention is a sub-set of total O&M, and therefore some of
25 the same costs are being adjusted from the cost of service twice. Table 2
26 below shows the double adjustment on the Distribution O&M function:

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Table 2
Damage Prevention O&M Double Counted

Distribution O&M	2022 Test Year	Proposed Mugrace Adjustments
Labor and Labor Related Benefits	\$ 1,851,272	
Non-Labor	3,278,109	\$ (901,253)
Total O&M Expense	\$ 5,129,381	\$ (901,253)
Damage Prevention-Labor		\$ (22,340)
Damage Prevention-Non-Labor		\$ (223,610)
Total Damage Prevention O&M		\$ (245,950)

In reducing both damage prevention and total non-labor Distribution O&M expense, Mr. Mugrace is removing \$0.224 million in non-labor O&M expense twice.

3. O&M Expense Adjustments Conclusion

- Q. WHAT IS THE PROPER CALCULATION OF MR. MUGRACE’S O&M EXPENSE ADJUSTMENTS?
- A. While, as noted above, I fundamentally disagree with Mr. Mugrace’s O&M adjustment approach, I have also calculated a revised version of his recommendation that corrects for his duplicative adjustment. Mr. Mugrace proposed a \$1.235 million decrease in non-labor O&M and \$0.246 million decrease in labor and non-labor damage prevention for a grand total of \$1.481 million. When corrected for the \$0.224 million duplicative damage prevention adjustment, Mr. Mugrace’s actual O&M adjustment would be a \$1.257 million

1 decrease inclusive of these categories. My calculations are provided in BCH-3
2 Schedule 5, 2022 Mugrace Corrected Bridge Schedule.

3
4 Q. HAVE YOU INCORPORATED THESE ADJUSTMENTS IN YOUR REBUTTAL COST OF
5 SERVICE?

6 A. No. Since the Company has demonstrated that these adjustments are not
7 appropriate, I have not included them in my rebuttal cost of service.

8
9 **B. Labor Adjustment**

10 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO LABOR?

11 A. Mr. Mugrace recommends a vacancy rate removal from the Company's 2022
12 test year COSS since the Company has not conducted a formal vacancy rate
13 analysis as noted in our response to Data Request 1-18. Mr. Mugrace's
14 proposal results in a reduction of \$0.173 million.

15
16 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

17 A. No. While the Company has not conducted a formal vacancy rate analysis,
18 since the 2009-2010 timeframe, the Company has included a negative labor
19 loading rate to account for attrition in our workforce, in response to
20 regulatory concerns in other jurisdictions. As a result, the Company's budgets
21 already include an offset to labor in the 2022 test year COSS using an attrition
22 rate of 4 percent on productive labor. The 4 percent offset was developed
23 based on historical attrition and other vacancy rates. That the offset is
24 consistent with Mr. Mugrace's proposed adjustment demonstrates its
25 reasonableness. Therefore, Mr. Mugrace's adjustment is duplicative, and I did
26 not include his reduction to the 2022 test year COSS.

1 **C. Meter Installation Costs**

2 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO METER
3 INSTALLATION COSTS?

4 A. Mr. Mugrace recommends removal of the 2 percent escalation factor included
5 in the meter installation forecast, or approximately \$7,600, from the
6 Company's 2022 test year COSS. Mr. Mugrace argues this adjustment is
7 necessary because the escalation factor does not provide the true costs of an
8 item.

9
10 Q. WAS THIS ADJUSTMENT CALCULATED CORRECTLY?

11 A. No. Mr. Mugrace calculated a composite book depreciation rate as opposed
12 to using the actual book lives for the assets and he also assumed the forecasted
13 dollars he removed did not have a corresponding impact to tax depreciation
14 and deferred income tax. The correct calculation of his adjustment should be
15 less than \$500 as shown on Schedule 5, column 11, row 86.

16
17 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

18 A. No. Ms. Zich discusses why Mr. Mugrace's adjustment is not appropriate.
19 Therefore, I am not making an adjustment to remove the meter installation
20 costs from the 2022 test year COSS.

21
22 **D. Economic Development Donations**

23 Q. WHAT DID MR. MUGRACE RECOMMEND WITH RESPECT TO ECONOMIC
24 DEVELOPMENT?

25 A. Mr. Mugrace recommends denial of approximately \$7,000 included for
26 Economic Development.

1 Q. DOES THE COMPANY AGREE WITH THAT ADJUSTMENT?

2 A. No. As Mr. Krug explains in his Rebuttal Testimony, the economic
3 development expenses in question provide benefits for North Dakota,
4 including Xcel Energy customers. We request that the Commission continue
5 to support our economic development efforts on behalf of the communities
6 we serve, and I have included those costs in our calculation of the revenue
7 requirement.

8

9 **E. Donations and Chamber of Commerce Dues**

10 Q. WHAT ADJUSTMENT IS MADE WITH RESPECT TO CHAMBER OF COMMERCE
11 DUES AND CHARITABLE CONTRIBUTIONS?

12 A. Mr. Mugrace proposes disallowing all Chamber of Commerce dues and
13 charitable contributions. He asserts that these dues and charitable
14 contributions provide no benefit to ratepayers.

15

16 Q. DOES THE COMPANY AGREE WITH THIS ADJUSTMENT?

17 A. No. As Mr. Krug explains in his Rebuttal Testimony, Chamber of Commerce
18 dues and charitable contributions are normal and expected business expenses
19 that provide benefits to North Dakota ratepayers. The Company is seeking
20 recovery of the costs for these important mechanisms for supporting the
21 communities and organizations in the areas we serve. Consequently, I have
22 included those costs in our calculation of the revenue requirement.

1 **F. Incentive Compensation**

2 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO INCENTIVE
3 COMPENSATION?

4 A. Mr. Mugrace recommends removal of the Company's environmental and time
5 based long term incentive since the Company has not finalized its scorecard
6 which would determine the payout and therefore, he argues, the costs are not
7 known and measurable for the 2022 test year COSS. Mr. Mugrace's proposal
8 results in a reduction of approximately \$28,000.

9
10 Q. HOW DOES THE COMPANY'S CORPORATE SCORECARD IMPACT THE INCENTIVE
11 COMPENSATION?

12 A. The Company's corporate scorecard is used to determine the level of incentive
13 compensation that will be paid in the subsequent year. The incentive expense,
14 associated with the applicable scorecard, are accrued in the year the incentive
15 is earned. For example, the 2021 Corporate Scorecard that Mr. Mugrace
16 mentions in his Direct Testimony determines the level of incentive to be paid
17 in 2022, however the incentive expense associated with the 2022 incentive
18 payment was accrued in 2021. Therefore, the 2021 Corporate Scorecard
19 results have no impact on the 2022 test year.

20
21 Q. HOW DOES THIS RELATE TO THE 2022 TEST YEAR INCENTIVE COMPENSATION?

22 A. The incentive compensation included in the 2022 test year will be based on
23 the 2022 Corporate Scorecard. Consistent with the future test year the
24 Company proposed in this rate case, the test year COSS included a
25 representative level of incentive compensation for the 2022 test year. The
26 actual payment of the incentive expense included in 2022 test year COSS will
27 be paid in March 2023 based on the 2022 Corporate Scorecard.

1 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

2 A. No. As explained by Mr. Krug in his Rebuttal Testimony, the Company's
3 proposal would increase our ability to attract and keep key employees, which
4 benefits ratepayers. Therefore, I did not include Mr. Mugrace's reduction to
5 Incentive Compensation costs.

6

7 **G. Income Tax Tracker**

8 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO THE INCOME
9 TAX TRACKER?

10 A. Mr. Mugrace recommends removing the income tax tracker from other rate
11 base and an amortization period of 5 years instead of 3 years as proposed by
12 the Company. He notes the Company's prior rate case applications with the
13 Commission as a basis for his 5-year recommendation for rate case expenses
14 and the Company's Income Tax Tracker.

15

16 Q. WHY HAS THE COMPANY PROPOSED A THREE-YEAR AMORTIZATION OF ONE-
17 TIME EXPENSES?

18 A. As I explained in my Direct Testimony at pages 39 and 40, we proposed the
19 amortization of one-time expenses over a three-year period. This period was
20 chosen to match the period we expect rates to remain in effect as a result of
21 this rate case.

22

23 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

24 A. No. We believe a 3-year amortization better aligns with the estimated time
25 between rate cases. However, if the Commission agrees with Mr. Mugrace's
26 assessment, the Company will change its assumed amortization period to 5
27 years.

1 **H. Rate Case Expenses**

2 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO RATE CASE
3 EXPENSES?

4 A. Mr. Mugrace recommends an amortization period of 5 years for rate case
5 expenses instead of 3 years as proposed by the Company. Mr. Mugrace's
6 proposal results in a reduction of \$0.163 million.

7
8 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

9 A. No. As I discussed above, the Company proposed amortization of one-time
10 expenses over a 3-year period to match the period we expect rates to remain
11 in effect as a result of this rate case. However, if the Commission agrees with
12 Mr. Mugrace's assessment, the Company will change its assumed amortization
13 period to 5 years.

14
15 **I. Property Taxes**

16 Q. WHAT ADJUSTMENT HAS MR. MUGRACE MADE WITH RESPECT TO PROPERTY
17 TAXES?

18 A. Mr. Mugrace recommends using a historical three-year average of property
19 taxes consistent with his non-labor O&M adjustment discussed above given
20 the fluctuations from year to year. Mr. Mugrace's proposal results in a
21 reduction of \$0.329 million.

22
23 Q. DO YOU AGREE THAT THIS ADJUSTMENT IS APPROPRIATE?

24 A. No. The Company's property tax forecast uses plant data consistent with the
25 data used in the cost of service filed in this rate case, which accounts for the
26 investments the Company has made and is making across NSPM, including
27 investment in North Dakota like the Fargo Capacity project. Mr. Mugrace's

1 proposal to use a 3-year average of historical property taxes does not consider
2 the investments the Company has made in the system over the last three years
3 and is not consistent with how property tax valuations and assessments are
4 prepared by the North Dakota Office of the State Tax Commissioner.
5 Therefore, I have not made an adjustment to the 2022 COSS to account for
6 the removal.

7
8 **J. Payroll Tax**

9 Q. WHY DID MR. MUGRACE MAKE AN ADJUSTMENT TO PAYROLL TAXES?

10 A. Mr. Mugrace proposes to adjust the Company's Payroll Taxes to correspond
11 with his adjustments to labor and incentive. Specifically, proposes a reduction
12 of approximately \$13,000 to Payroll Expense.

13
14 Q. IS THIS ADJUSTMENT APPROPRIATE?

15 A. No. If the Commission accepts the Company's position on the recovery of
16 labor and incentive, this adjustment becomes unnecessary. I have not included
17 it in calculating our revenue requirement.

18
19 **V. SECONDARY CALCULATIONS**

20
21 **A. Net Operating Loss**

22 Q. PLEASE DESCRIBE THE ADJUSTMENT RELATED TO THE NET OPERATING LOSS.

23 A. As noted in my Direct Testimony on page 44, we inadvertently excluded an
24 adjustment to the net operating loss adjustment. This has been corrected in
25 the 2022 Rebuttal test year COSS.

1 The updated adjustment and its impact on the COSS are shown on Schedule
2 4, page 1, row 39, column 14.

3
4 **B. Cash Working Capital**

5 Q. DID MR. MUGRACE RECOMMEND ANY ADJUSTMENT TO CASH WORKING
6 CAPITAL FOR THE TEST YEAR?

7 A. Yes, Mr. Mugrace included a recalculation of Cash Working Capital (CWC)
8 based upon applying his recommended adjustments for revenues, O&M
9 expenses, and taxes to the Company's cash working capital formula from the
10 Cost of Service model.

11
12 Q. DOES THE COMPANY AGREE WITH THE CWC CALCULATIONS PROPOSED BY
13 MR. MUGRACE?

14 A. Not completely. The Company agrees with the calculation methodology, but
15 not with the amount calculated by Mr. Mugrace. The final level of CWC to be
16 included in this proceeding is a function of the final Commission-approved
17 revenue and expenses and tax calculations. This calculation will need to be
18 revised after the Commission determines the final revenue requirement as
19 these decisions will impact the level of CWC. Once the final adjustments
20 have been ordered, the Company will recalculate the CWC level to be included
21 in final rates. The calculation of the final CWC level is historically performed
22 as part of a compliance filing proposing final rates.

1 **C. Federal and State Income Taxes**

2 Q. DID MR. MUGRACE CALCULATE A LEVEL OF FEDERAL AND STATE INCOME
3 TAXES TO BE INCLUDED IN THE TEST YEAR?

4 A. Yes. Mr. Mugrace included a calculation of both Federal and State Income
5 Taxes in his Schedule DM-23.

6
7 Q. DID THE COMPANY REVIEW MR. MUGRACE'S SCHEDULE DM-23, AND DO YOU
8 HAVE ANY ISSUES WITH THE CALCULATIONS OF FEDERAL AND STATE INCOME
9 TAXES TO BE INCLUDED IN THE TEST YEAR?

10 A. Yes, the Company reviewed Mr. Mugrace's calculations and identified the
11 following errors in his Schedule DM-23 calculation of State and Federal
12 Income Taxes.

13 1) The proposed operating income adjustments on Mugrace's
14 Schedule DM-4 are not included in the subsequent
15 recalculation of state and federal income taxes.

16 2) The proposed plant adjustments of \$0.607 million does not
17 include a corresponding change to tax depreciation and
18 deferred tax expense.

19 3) The tax deduction for interest synchronization, discussed in
20 further detail below, was not updated to reflect the proposed
21 changes to weighted cost of debt and rate base.

22
23 Q. WHAT IS THE IMPACT OF THESE ERRORS ON MR. MUGRACE'S INCOME TAX
24 CALCULATIONS?

25 A. The impact of these errors in the income tax calculations result in an
26 approximately \$0.710 million understatement of the revenue requirements for
27 the test year.

1 Q. DOES THIS ERROR NEED TO BE CORRECTED IN MR. MUGRACE'S CALCULATION
2 OF THE REVENUE REQUIREMENT FOR THE TEST YEAR?

3 A. For purposes of correcting the record in this case, Mr. Mugrace's testimony
4 and schedules impacted by this error should be corrected. However, the final
5 calculation of Federal and State Income Taxes to be included in the test year
6 will be a function of the final approved levels of revenue, expense, rate base
7 and weighted cost of capital approved by the Commission.

8

9 **D. Interest Synchronization**

10 Q. DID MR. MUGRACE RECOMMEND ANY ADJUSTMENT TO INTEREST
11 SYNCHRONIZATION FOR THE TEST YEAR?

12 A. No. Mr. Mugrace did not include a recalculation of Interest Synchronization
13 based on the proposed changes to the capital structure and rate base.

14

15 Q. DOES THIS ERROR NEED TO BE CORRECTED IN MR. MUGRACE'S CALCULATION
16 OF THE REVENUE REQUIREMENT FOR THE TEST YEAR?

17 A. For purposes of correcting the record in this case, Mr. Mugrace's testimony
18 and schedules impacted by this error should be corrected. However, the final
19 level of interest synchronization to be included in this proceeding is a function
20 of the final Commission-approved rate base, the final approved debt/equity
21 capitalization ratio, and the approved weighted cost of debt. After the
22 Commission rules on these issues, the interest synchronization calculation can
23 be finalized. The calculation of the final interest synchronization level is
24 historically performed as part of a compliance filing proposing final rates.

1 **VI. CONCLUSION**

2

3 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

4 A. I recommend the Commission determine an overall retail revenue requirement
5 of \$73.295 million and a 2021 revenue deficiency of \$5.993 million for the
6 Company's North Dakota jurisdictional gas operations, determined by the cost
7 of service for the 2022 test year.

8

9 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

10 A. Yes, it does.

2022 Test Year Cost of Service
(000s)

	2022 Test Year - Rebuttal		
	Total	ND Gas	Other
<u>Composite Income Tax Rate</u>			
State Tax Rate	4.31%	4.31%	4.31%
Federal Statutory Tax Rate	21.00%	21.00%	21.00%
Federal Effective Tax Rate	<u>20.09%</u>	<u>20.09%</u>	<u>20.09%</u>
Composite Tax Rate	24.40%	24.40%	24.40%
Revenue Conversion Factor (1/(1--Composite Tax Rate)	1.322837	1.322837	1.322837
<u>Weighted Cost of Capital</u>			
Active Rates and Ratios Version	Proposed	Proposed	Proposed
Cost of Short Term Debt	1.09%	1.09%	1.09%
Cost of Long Term Debt	4.10%	4.10%	4.10%
Cost of Common Equity	10.50%	10.50%	10.50%
Ratio of Short Term Debt	0.43%	0.43%	0.43%
Ratio of Long Term Debt	47.03%	47.03%	47.03%
Ratio of Common Equity	52.54%	52.54%	52.54%
Weighted Cost of STD			
Weighted Cost of LTD	1.93%	1.93%	1.93%
Weighted Cost of Debt	1.93%	1.93%	1.93%
Weighted Cost of Equity	<u>5.52%</u>	<u>5.52%</u>	<u>5.52%</u>
Required Rate of Return	7.45%	7.45%	7.45%
<u>Rate Base</u>			
Plant Investment	2,017,579	215,496	1,802,083
<u>Depreciation Reserve</u>	<u>793,528</u>	<u>83,354</u>	<u>710,174</u>
Net Utility Plant	1,224,052	132,143	1,091,909
CWIP	3,373	188	3,186
Accumulated Deferred Taxes	219,826	19,635	200,191
DTA - NOL Average Balance	(882)		(882)
DTA - Federal Tax Credit Average Balance	=	=	=
Total Accum Deferred Taxes	218,944	19,635	199,309
Cash Working Capital	(14,362)	(728)	(13,634)
Materials and Supplies	1,331	150	1,181
Fuel Inventory	17,532	2,098	15,434
Non-plant Assets and Liabilities	12,975	1,463	11,512
Customer Advances	(1,566)	(1,340)	(226)
Customer Deposits	(374)	(42)	(331)
Prepays and Other	4,603	523	4,080
<u>Regulatory Amortizations</u>	<u>440</u>	<u>440</u>	=
Total Other Rate Base Items	20,579	2,564	18,015
Total Rate Base	1,029,060	115,259	913,800
<u>Operating Revenues</u>			
Retail	566,184	67,303	498,882
Interdepartmental			
<u>Other Operating Rev - Non-Retail</u>	<u>6,315</u>	<u>550</u>	<u>5,764</u>
Total Operating Revenues	572,499	67,853	504,646

2022 Test Year Cost of Service
(000s)

	2022 Test Year - Rebuttal		
	Total	ND Gas	Other
<u>Expenses</u>			
Operating Expenses:			
Purchased Gas	318,027	43,934	274,092
Gas Production & Storage	5,020	635	4,385
Gas Transmission	3,294	387	2,908
Gas Distribution	41,033	5,129	35,904
Customer Accounting	14,801	1,613	13,188
Customer Service & Information	17,425	149	17,276
Sales, Econ Dvlp & Other	(30)	10	(40)
<u>Administrative & General</u>	<u>24,291</u>	<u>2,508</u>	<u>21,783</u>
Total Operating Expenses	423,862	54,365	369,496
Depreciation	59,043	6,669	52,374
Amortization	667	440	227
<u>Taxes:</u>			
Property Taxes	23,188	1,587	21,600
ITC Amortization	(107)	(0)	(107)
Deferred Taxes	3,538	465	3,073
Deferred Taxes - NOL			
Less State Tax Credits deferred			
Less Federal Tax Credits deferred			
Deferred Income Tax & ITC	3,431	465	2,966
Payroll & Other Taxes	<u>2,937</u>	<u>263</u>	<u>2,674</u>
Total Taxes Other Than Income	29,555	2,315	27,240
<u>Income Before Taxes</u>			
Total Operating Revenues	572,499	67,853	504,646
less: Total Operating Expenses	423,862	54,365	369,496
Book Depreciation	59,043	6,669	52,374
Amortization	667	440	227
<u>Taxes Other than Income</u>	<u>29,555</u>	<u>2,315</u>	<u>27,240</u>
Total Before Tax Book Income	59,372	4,063	55,309
<u>Tax Additions</u>			
Book Depreciation	59,043	6,669	52,374
Deferred Income Taxes and ITC	3,431	465	2,966
Nuclear Fuel Burn (ex. D&D)			
Nuclear Outage Accounting			
Avoided Tax Interest	917	30	887
<u>Other Book Additions</u>	<u>23</u>	<u>23</u>	<u>-</u>
Total Tax Additions	63,414	7,187	56,228
<u>Tax Deductions</u>			
Total Rate Base	1,029,060	115,259	913,800
Weighted Cost of Debt	1.93%	1.93%	1.93%
Debt Interest Expense	19,861	2,225	17,636
Nuclear Outage Accounting			
Tax Depreciation and Removals	78,991	9,087	69,904
NOL Utilized / (Generated)			
<u>Other Tax / Book Timing Differences</u>	<u>(791)</u>	<u>(88)</u>	<u>(703)</u>
Total Tax Deductions	98,061	11,223	86,838

2022 Test Year Cost of Service
(000s)

	2022 Test Year - Rebuttal		
	Total	ND Gas	Other
State Taxes			
State Taxable Income	24,725	26	24,698
State Income Tax Rate	<u>4.31%</u>	<u>4.31%</u>	<u>4.31%</u>
State Taxes before Credits	1,066	1	1,065
<u>Less State Tax Credits applied</u>	-	-	-
Total State Income Taxes	1,066	1	1,065
Federal Taxes			
Federal Sec 199 Production Deduction			
Federal Taxable Income	23,659	25	23,634
Federal Income Tax Rate	<u>21.00%</u>	<u>21.00%</u>	<u>21.00%</u>
Federal Tax before Credits	4,968	5	4,963
<u>Less Federal Tax Credits</u>	-	-	-
Total Federal Income Taxes	4,968	5	4,963
Total Taxes			
Total Taxes Other than Income	29,555	2,315	27,240
Total Federal and State Income Taxes	6,034	6	6,028
Total Taxes	35,589	2,322	33,268
Total Operating Revenues	572,499	67,853	504,646
Total Expenses	519,161	63,796	455,365
AFDC Debt			
AFDC Equity			
Net Income	53,338	4,057	49,281
Rate of Return (ROR)			
Total Operating Income	53,338	4,057	49,281
<u>Total Rate Base</u>	<u>1,029,060</u>	<u>115,259</u>	<u>913,800</u>
ROR (Operating Income / Rate Base)	5.18%	3.52%	5.39%
Return on Equity (ROE)			
Net Operating Income	53,338	4,057	49,281
Debt Interest (Rate Base * Weighted Cost of Debt)	(19,861)	(2,225)	(17,636)
Earnings Available for Common	33,477	1,832	31,645
<u>Equity Rate Base (Rate Base * Equity Ratio)</u>	<u>540,668</u>	<u>60,557</u>	<u>480,111</u>
ROE (earnings for Common / Equity)	6.19%	3.03%	6.59%
Revenue Deficiency			
Required Operating Income (Rate Base * Required Return)	76,665	8,587	68,078
<u>Net Operating Income</u>	<u>53,338</u>	<u>4,057</u>	<u>49,281</u>
Operating Income Deficiency	23,327	4,530	18,797
Revenue Conversion Factor (1/(1--Composite Tax Rate))	1.322837	1.322837	1.322837
Revenue Deficiency (Income Deficiency * Conversion Factor)	30,858	5,993	24,866
Total Revenue Requirements			
Total Retail Revenues	566,184	67,303	498,882
<u>Revenue Deficiency</u>	<u>30,858</u>	<u>5,993</u>	<u>24,866</u>
Total Revenue Requirements	597,043	73,295	523,747

Statement of Operating Income
(000's)

Line No.	Description	2022 Test Year As Filed	Rebuttal Adjustments	2022 Rebuttal Test Year
<u>Operating Revenues</u>				
1	Retail	\$67,303	\$0	\$67,303
2	Other Operating	<u>\$550</u>	<u>\$0</u>	<u>\$550</u>
3	Total Operating Revenues	\$67,853	\$0	\$67,853
<u>Expenses</u>				
Operating Expenses:				
4	Purchased Gas	\$43,934	\$0	\$43,934
5	Gas Production & Storage	\$635	\$0	\$635
6	Gas Transmission	\$387	\$0	\$387
7	Gas Distribution	\$5,129	\$0	\$5,129
8	Customer Accounting	\$1,613	\$0	\$1,613
9	Customer Service & Information	\$149	\$0	\$149
10	Sales, Econ Dvlp & Other	\$10	\$0	\$10
11	Administrative & General	<u>\$2,508</u>	<u>\$0</u>	<u>\$2,508</u>
12	Total Operating Expenses	\$54,365	\$0	\$54,365
13	Depreciation	\$6,892	-\$222	\$6,669
14	Amortizations	\$440	\$0	\$440
Taxes:				
15	Property	\$1,587	\$0	\$1,587
16	Deferred Income Tax & ITC	\$551	-\$86	\$465
17	Federal & State Income Tax	-\$164	\$170	\$6
18	Payroll & Other	<u>\$263</u>	<u>\$0</u>	<u>\$263</u>
19	Total Taxes	\$2,237	\$84	\$2,322
20	Total Expenses	\$63,934	-\$138	\$63,796
21	Allowance for Funds Used During Construction	\$0	\$0	\$0
22	Total Operating Income	\$3,919	\$138	\$4,057
23	Rate Base	\$124,227	-\$8,968	\$115,259
24	Required Operating Income	\$9,255	-\$668	\$8,587
25	Operating Income	\$3,919	\$138	\$4,057
26	Income Deficiency	\$5,336	-\$806	\$4,530
27	Revenue Deficiency	\$7,059	-\$1,067	\$5,993

(1) Line No.	(2) Rate Base Bridge Report (000s)	(3)-(8) As Filed						(9)-(14) Secondary Calculations						(15) Total
		(3) Base Data	(4) ADIT Prorate for IRS	(5) Change in Cost of Capital	(6) Cash Working Capital	(7) Net Operating Loss	(8) Request As Filed	(9) AGIS	(10) Depreciation Study: TD&G	(11) Fargo Capacity Project	(12) ADIT Prorate for IRS	(13) Cash Working Capital	(14) Net Operating Loss	
1														
2	Plant as booked													
3	Gas Manufactured Plant	5,340					5,340							5,340
4	Gas Storage	9,341					9,341							9,341
5	Gas Transmission	3,909					3,909							3,909
6	Gas Distribution	181,046					181,046			(7,337)				173,709
7	General	11,871					11,871							11,871
8	Common	11,348					11,348	(22)						11,326
9	Total Utility Plant in Service	222,855					222,855	(22)		(7,337)				215,496
10														
11	Reserve for Depreciation													
14	Gas Manufactured Plant	2,375					2,375							2,375
15	Gas Storage	8,040					8,040							8,040
16	Gas Transmission	1,686					1,686							1,686
17	Gas Distribution	59,632					59,632			468				60,100
18	General	5,606					5,606		1					5,606
19	Common	5,636					5,636	(5)	(84)					5,547
20	Total Reserve for Depreciation	82,973					82,973	(5)	(83)	468				83,354
21														
22	Net Utility Plant													
26	Gas Manufactured Plant	2,966					2,966							2,966
27	Gas Storage	1,301					1,301							1,301
28	Gas Transmission	2,223					2,223							2,223
29	Gas Distribution	121,414					121,414			(7,805)				113,609
30	General	6,266					6,266		(1)					6,265
31	Common	5,712					5,712	(17)	84					5,779
32	Net Utility Plant in Service	139,882					139,882	(17)	83	(7,805)				132,143
33														
34	Utility Plant Held for Future Use													
35														
36	Construction Work in Progress	188					188							188
37														
38	Less: ADIT	19,894	(19)			(93)	19,783	(1)	23	(266)	3		93	19,635
39														
40	Other Rate Base Items													
41	Cash Working Capital				648		648					(1,376)		(728)
42	Materials and Supplies	150					150							150
43	Fuel Inventory	2,098					2,098							2,098
44	Non Plant Assets and Liabilities	1,463					1,463							1,463
45	Customer Advances	(1,340)					(1,340)							(1,340)
46	Customer Deposits	(42)					(42)							(42)
47	Prepayments	523					523							523
48	Regulatory Amortizations	440					440							440
49	Total Other Rate Base	3,292			648		3,940					(1,376)		2,564
50														
51	Total Average Rate Base	123,468	19		648	93	124,227	(16)	60	(7,539)	(3)	(1,376)	(93)	115,259

(1) Line No.	(2) Income Statement Bridge Schedule (000s)	(3) As Filed						(9) Secondary Calculations					(15) Total	
		(3) Base Data	(4) ADIT Prorate for IRS	(5) Change in Cost of Capital	(6) Cash Working Capital	(7) Net Operating Loss	(8) Request As Filed	(9) AGIS Capital	(10) Depreciation Study: TD&G	(11) Fargo Capacity Project	(12) ADIT Prorate for IRS	(13) Cash Working Capital		(14) Net Operating Loss
1	Operating Revenues													
2	Retail Revenue	67,303					67,303							67,303
3	Other Operating	550					550							550
4	Total Revenue	67,853					67,853							67,853
5														
6	Expenses													
7	Operating Expenses													
8	Purchased Gas	43,934					43,934							43,934
9	Gas Production and Storage	635					635							635
10	Gas Transmission	387					387							387
11	Gas Distribution	5,129					5,129							5,129
12	Customer Accounting	1,613					1,613							1,613
13	Customer Service and Information	149					149							149
14	Sales, Econ Dev, & Other	10					10							10
15	Administrative and General	2,508					2,508							2,508
16	Total Operating Expenses	54,365					54,365							54,365
17														
18	Depreciation	6,892					6,892	(3)	(55)	(165)				6,669
19	Amortization	440					440							440
20														
21	Taxes													
22	Property	1,587					1,587							1,587
23	Deferred Income Tax and ITC	551					551	(1)	16	(101)				465
24	Federal and State Income Tax	(606)	(0)	449	(5)	(1)	(164)	1	(0)	162	0	6	1	6
25	Payroll and Other	263					263							263
26	Total Taxes	1,795	(0)	449	(5)	(1)	2,237	1	15	61	0	6	1	2,322
27														
28	Total Expenses	63,492	(0)	449	(5)	(1)	63,934	(2)	(40)	(103)	0	6	1	63,796
29														
30	AFUDC													
31														
32	Net Income	4,361	0	(449)	5	1	3,919	2	40	103	(0)	(6)	(1)	4,057
33														
34	Calculation of Revenue Requirements													
35	Rate Base	123,468	19		648	93	124,227	(16)	60	(7,539)	(3)	(1,376)	(93)	115,259
36	Required Operating Income	11,063	2	(1,876)	58	8	9,255	(1)	4	(562)	(0)	(103)	(7)	8,587
37	Operating Income	4,361	0	(449)	5	1	3,919	2	40	103	(0)	(6)	(1)	4,057
38	Income Deficiency	6,702	2	(1,427)	53	8	5,336	(3)	(36)	(665)	(0)	(96)	(6)	4,530
39	Revenue Deficiency	8,865	2	(1,888)	70	10	7,059	(4)	(47)	(879)	(0)	(127)	(8)	5,993

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
Line No.	NSPM - 11 Bridge by Report Label	Staff Adjustments and Corrections												
		As Filed	Dues: Chamber of Commerce	Economic Development Donations	Operation and Maintenance Expense	Property Taxes	Rate Case Expenses	Income Tax Tracker	Fargo Capacity Project	IMMO Contingency	Depreciation Study: TD&G	Payroll Tax	AGIS Capital	LTI-Environmental
50	Other Operating	550												
51	Total Revenue	67,853												
52														
53	Expenses													
54	Operating Expenses													
55	Purchased Gas	43,934												
56	Gas Production and Storage	635												
57	Gas Transmission	387			(44)									
58	Gas Distribution	5,129			(901)									
59	Customer Accounting	1,613			(301)									
60	Customer Service and Information	149			12									
61	Sales, Econ Dev, & Other	10		(7)										
62	Administrative and General	2,508	(2)											(17)
63	Total Operating Expenses	54,365	(2)	(7)	(1,235)									(17)
64														
65	Depreciation	6,892							(17)	(0)	(55)		(3)	
66	Amortization	440					(163)	(4)						
67														
68	Taxes													
69	Property	1,587				(329)								
70	Deferred Income Tax and ITC	551							(7)	(0)	16		(1)	
71	Federal and State Income Tax	(164)	1	2	301	80	40	1	13	0	(0)	4	1	4
72	Payroll and Other	263										(14)		
73	Total Taxes	2,237	1	2	301	(249)	40	1	6	0	15	(11)	1	4
74														
75	Total Expenses	63,934	(2)	(6)	(933)	(249)	(123)	(3)	(11)	(0)	(40)	(11)	(2)	(13)
76														
77	Allowance for Funds Used During Construction													
78														
79	Net Income	3,919	2	6	933	249	123	3	11	0	40	11	2	13
80														
81	Calculation of Revenue Requirements													
82	Rate Base	124,227						(23)	(581)	(4)	60		(16)	
83	Required Operating Income	9,255						(2)	(43)	(0)	4		(1)	
84	Operating Income	3,919	2	6	933	249	123	3	11	0	40	11	2	13
85	Income Deficiency	5,336	(2)	(6)	(933)	(249)	(123)	(4)	(55)	(0)	(36)	(11)	(3)	(13)
86	Revenue Deficiency	7,059	(2)	(7)	(1,235)	(329)	(163)	(6)	(72)	(0)	(47)	(14)	(4)	(17)

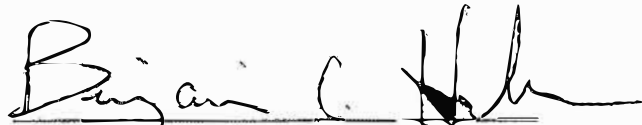
(1) Line No.	(2) NSPM - 11 Bridge by Report Label	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)
		Vacancy Rate	Damage Prev	Donations	LTI-Time Based	ADIT Prorate for IRS	Change in Cost of Capital	Cash Working Capital	Net Operating Loss	Total
50	Other Operating									550
51	Total Revenue									67,853
52										
53	Expenses									
54	Operating Expenses									
55	Purchased Gas									43,934
56	Gas Production and Storage	(15)								621
57	Gas Transmission	(3)								339
58	Gas Distribution	(78)	(22)							4,127
59	Customer Accounting	(17)								1,295
60	Customer Service and Information	(0)								161
61	Sales, Econ Dev, & Other	(0)								2
62	Administrative and General	(60)		(6)	(11)					2,411
63	Total Operating Expenses	(173)	(22)	(6)	(11)					52,891
64										
65	Depreciation									6,816
66	Amortization									273
67										
68	Taxes									
69	Property									1,259
70	Deferred Income Tax and ITC									559
71	Federal and State Income Tax	42	5	2	3	0	(9)	8	1	335
72	Payroll and Other									248
73	Total Taxes	42	5	2	3	0	(9)	8	1	2,400
74										
75	Total Expenses	(131)	(17)	(5)	(8)	0	(9)	8	1	62,381
76										
77	Allowance for Funds Used During Construction									
78										
79	Net Income	131	17	5	8	(0)	9	(8)	(1)	5,473
80										
81	Calculation of Revenue Requirements									
82	Rate Base					0		(1,163)	(93)	122,407
83	Required Operating Income					0	(722)	(87)	(7)	8,397
84	Operating Income	131	17	5	8	(0)	9	(8)	(1)	5,473
85	Income Deficiency	(131)	(17)	(5)	(8)	0	(731)	(79)	(6)	2,925
86	Revenue Deficiency	(173)	(22)	(6)	(11)	0	(967)	(104)	(8)	3,869

1 STATE OF NORTH DAKOTA
2 BEFORE THE
3 PUBLIC SERVICE COMMISSION
4
5

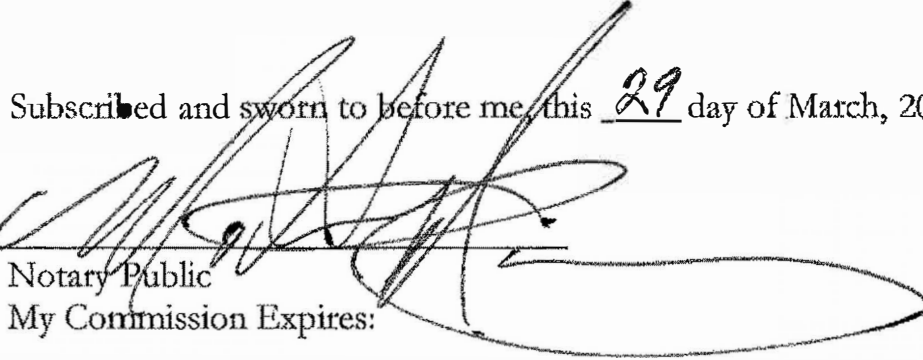
6 In the Matter of the Application of)
7 Northern States Power Company for Authority)
8 To Increase Rates for Natural Gas Service) Case No. PU-21-381
9 In North Dakota)

10
11
12
13 AFFIDAVIT OF
14 Benjamin C. Halama
15
16

17 I, the undersigned, being duly sworn, depose and say that the foregoing is the
18 Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and the
19 exhibits or schedules sponsored by me to the best of my knowledge, information
20 and belief, are true, correct, accurate and complete, and I hereby adopt said testimony
21 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 29 day of March, 2022.
31

32
33 
34 Notary Public
35 My Commission Expires:
36

