

Rebuttal Testimony  
Joni H. Zich

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\_\_(JHZ-2)

**Gas Operations**

April 1, 2022

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## I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Joni H. Zich. I am the Senior Director, Strategy, Governance and Planning for Xcel Energy Services Inc. (XES), the service company affiliate of Northern States Power Company (NSP), a Minnesota corporation and an operating company of Xcel Energy Inc. (Xcel Energy) that provides natural gas service in North Dakota.

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. On September 1, 2021, I filed Direct Testimony on behalf of the Company supporting the revenue requirement increases attributable to the Gas Operations (Gas Ops) system investments and operations and maintenance (O&M) expenditures that drove the need for this rate case.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my Rebuttal Testimony is to respond to recommendations of NDPSC Advocacy Staff witness Mr. Dante Mugrace related to Gas Ops system investments and O&M expenses in the test year. First, I address Mr. Mugrace's recommended adjustments to the Inside Meter Move Out and the Fargo Capacity Project capital costs. I then respond to Mr. Mugrace's recommended adjustments to Gas Operations O&M expenses in the test year.

Q. HOW HAVE YOU ORGANIZED YOUR TESTIMONY?

A. The remainder of my testimony is organized into the following sections:

- *Section II* – Capital Projects
- *Section III* – O&M Expenses
- *Section IV* – Conclusion

1 **II. CAPITAL PROJECTS**

2  
3 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR REBUTTAL TESTIMONY?

4 A. In this section, I first respond to Mr. Mugrace’s recommended adjustment to  
5 the Insider Meter Move Out program. I then provide an update on the Fargo  
6 Capacity Project, which was completed in 2021.

7  
8 **A. Inside Meter Move Out Program**

9 Q. WHAT DID MR. MUGRACE RECOMMEND WITH RESPECT TO THE INSIDE  
10 METER MOVE OUT PROGRAM?

11 A. Mr. Mugrace recommended an adjustment to remove a 2 percent escalation  
12 factor from the budget for the Inside Meter Move Out program I discussed  
13 in my Direct Testimony, based on his belief that the escalation factor may not  
14 reflect the true cost incurred by the Company. The total recommended  
15 adjustment is approximately \$8,000.

16  
17 Q. FOR CONTEXT, PLEASE REITERATE BRIEFLY WHAT THE INSIDE METER MOVE  
18 OUT PROGRAM ENTAILS.

19 A. The Inside Meter Move Out program will move most of our gas meters still  
20 located inside of customer premises to outside locations to ensure accessibility  
21 to meters as required by federal code and to allow the Company to more  
22 efficiently perform routine required inspection and maintenance. This is also  
23 a safety measure, because moving the meters to outside locations reduces the  
24 risk of gas accumulating in a confined space, where there are more sources of  
25 ignition. This program will move more than 550 meters to outside locations  
26 over a period of five years, beginning with a projected 111 meters in 2022.

1 Q. WHY DID THE COMPANY INCLUDE A 2 PERCENT ESCALATION FACTOR IN 2022  
2 COSTS ASSOCIATED WITH THE INSIDE METER MOVE OUT PROGRAM?

3 A. The Inside Meter Move Out program was planned in 2019 and based on 2019  
4 actual costs to relocate a typical meter to an outside location. The  
5 representative 2019 actual per unit cost was \$3,500, which is primarily the cost  
6 of labor for design and installation, with material costs making up a small  
7 percentage of the total. To appropriately reflect the anticipated higher  
8 relocation costs for 2022, the Company applied a 2 percent escalation factor  
9 to the 2019 actual costs. The forecasted per unit cost for 2022 was calculated  
10 as follows:  $\$3,500 \times 1.02 = \$3,570$ . Forecasted expenditures for 2022 are:  
11  $\$3,570 \times 111 \text{ meters} = \$396,270$ .

12

13 Q. DOES THE COMPANY AGREE WITH MR. MUGRACE'S RECOMMENDED  
14 ADJUSTMENT?

15 A. No. First, Mr. Mugrace's recommended adjustment subtracts the 2 percent  
16 escalation from the 2019 costs rather than the 2022 costs, which if accepted,  
17 would reduce forecasted 2022 costs below 2019 actual costs. He first  
18 calculated total expenditures as follows:  $\$3,500$  (the 2019 per unit cost)  $\times 111$   
19 (the number of meters planned to be relocated in 2022)  $= \$388,500$ . He then  
20 removed a 2 percent escalation factor from that amount ( $\$388,500 / 1.02\%$   
21 minus  $\$380,882 = \$7,617$  proposed adjustment) rather than from the  
22 Company's 2022 forecasted capital expenditures of  $\$396,270$  as shown above.

23

24 Second, the 2 percent escalation factor the Company applied to 2019 costs is  
25 appropriate because costs for both the materials and labor are increasing.  
26 Given the passage of time and the general inflationary pressures that affect  
27 both materials and labor costs, escalating 2019 costs by 2 percent to arrive at  
28 costs expected to be incurred in 2022 was appropriate, and in fact

1 conservative. Since the Company filed direct testimony in this case, we have  
2 seen inflation grow at a rate not seen since the 1980s. As such, no adjustment  
3 to the 2022 test year costs for the Insider Meter Move Out program is  
4 warranted.

5  
6 **B. Fargo Capacity Project**

7 Q. WHAT IS THE STATUS OF THE FARGO CAPACITY PROJECT?

8 A. The Company's Fargo Capacity Project, by which we installed approximately  
9 25,500 feet of new 12-inch steel pipe to reinforce the Fargo/West Fargo gas  
10 distribution systems, has been completed ahead of schedule and under budget.  
11 The original schedule included a planned in-service date of November 15,  
12 2021, with restoration work expected to be completed in the spring of 2022.  
13 However, we in-serviced the project on October 13, 2021, and there was no  
14 restoration work needed in 2022. Actual capital additions for the Fargo  
15 Capacity Project were approximately \$20.1 million compared to the \$27.6  
16 million reflected in the rate case test year revenue requirement, which was  
17 based on the Company's February 2021 forecast. Company witness Mr.  
18 Benjamin Halama discusses how project cost reduction is reflected in the  
19 Company's cost of service.

20  
21 Q. WHAT STEPS DID THE COMPANY TAKE TO HELP ENSURE ON-TIME  
22 COMPLETION OF THE PROJECT?

23 A. Completing the project on time was important so that it would be operational  
24 during the 2021-2022 heating season. We were able to complete the project  
25 ahead of schedule due to preconstruction execution planning methods, which  
26 included the following:

- 27 • We facilitated transparency and open lines of communication  
28 throughout the permitting process between Xcel Energy and the

1           permitting agencies to accelerate permitting timelines and mitigate  
2           potential schedule slippages.

- 3           • We re-engineered the installation method from open trench to bore for  
4           approximately 2,100 feet of 12-inch pipe. This reduced installation time  
5           and the need for restoration work that would have been completed  
6           after installation.
- 7           • Our mechanical contactor bid requirements included a minimum  
8           number of installation and restoration crews for the duration of the  
9           project to support timely completion of the work.
- 10          • We conducted an interactive planning session with the project team to  
11          ensure broad project schedule and scope acceptance at an early stage of  
12          the project, to minimize potential obstacles to efficient completion.

13  
14 Q.    WHAT WERE THE DRIVERS OF ACTUAL COSTS BEING LOWER THAN INITIALLY  
15        FORECASTED?

16 A.    The efforts described above helped accelerate the schedule, which in turn  
17        reduced overhead costs necessary to complete the project. These actions,  
18        along with execution of a detailed mechanical bid process to ensure  
19        competitive pricing, contributed to actual project costs being lower than  
20        initially forecasted.

21  
22        Additionally, the Company identified other opportunities to reduce costs – for  
23        example, by utilizing existing road easements in lieu of procuring new  
24        permanent easements. Further, careful scope management and efficient  
25        change management execution enabled us to reduce risk margins and avoid  
26        using contingency amounts that were originally included in the initial project  
27        budget due to the inherent uncertainties of project construction. A  
28        contingency reserve was budgeted to address potential project costs that

1 cannot be identified during the initial budgeting process (for example,  
2 unknown buried infrastructure that may need to be removed or constructed  
3 around). In addition, a quantified risk amount was included in the project  
4 budget, calculated per Company guidelines based on total project costs and  
5 the status of project approval and implementation.

6  
7 Q. MR. MUGRACE RECOMMENDED AN ADJUSTMENT TO THE FARGO CAPACITY  
8 PROJECT CAPITAL COSTS TO REMOVE THE \$600,000 CONTINGENCY RESERVE  
9 INITIALLY BUDGETED FOR THE PROJECT. IS THIS AMOUNT REFLECTED IN THE  
10 COST REDUCTION DISCUSSED ABOVE?

11 A. Yes. Mr. Halama provides the impact of this cost reduction to the cost of  
12 service in this case.

13  
14 **III. O&M EXPENSES**

15  
16 Q. WHAT DO YOU ADDRESS IN THIS SECTION OF YOUR REBUTTAL TESTIMONY?

17 A. In this section, I respond to Mr. Mugrace's recommended adjustments to Gas  
18 Operations' O&M expenses in the test year. While Mr. Halama addresses  
19 these recommendations from a ratemaking and total cost of service  
20 perspective in his Rebuttal Testimony, I highlight why Gas Operations' 2022  
21 test year O&M budget is reasonable and should not be reduced.

22  
23 Q. WHAT DOES MR. MUGRACE RECOMMEND WITH RESPECT TO THE GAS  
24 OPERATIONS O&M COSTS?

25 A. Mr. Mugrace recommends adjustments to both non-labor and labor O&M.  
26 For non-labor Gas Distribution O&M, he recommends a normalizing  
27 adjustment totaling approximately \$900,000, which results from using the  
28 average costs from 2019-2021 to set the 2022 test year non-labor O&M costs.

1 For the labor portion of O&M costs, he recommends an adjustment of  
2 \$173,000 for North Dakota Gas Operations in total based on a calculated  
3 vacancy rate. In other words, Mr. Mugrace uses different methods to come  
4 up with adjustments to labor versus non-labor O&M costs. Mr. Halama  
5 addresses the recommended labor adjustment in his Rebuttal Testimony.

6  
7 Q. DOES THE COMPANY AGREE WITH THE RECOMMENDED NON-LABOR  
8 ADJUSTMENT?

9 A. No. Averaging costs for 2019, 2020 and 2021 would not be representative of  
10 costs that the Company expects to incur in the 2022 test year. Our forecasted  
11 2022 O&M incorporates factors that do not exist in prior-year historical data,  
12 especially because COVID-19 impacted our work and expenses in 2020 and  
13 2021. In 2020 in particular, our work was affected by such things as reduced  
14 access to homes, quarantines, and material availability/supply chain issues.  
15 The 2022 O&M is based on the Company's forecast as of February 2021 and  
16 reflects projected work in the 2022 test year. It also is directionally consistent  
17 with our expectations for ongoing O&M expenses beyond 2022 – and  
18 certainly more than the COVID-19-impacted years of 2020 and 2021. As  
19 such, we continue to recommend that the Commission approve, without  
20 adjustment, the Company's proposed Gas Operations O&M included in the  
21 2022 test year cost of service.

22  
23 Q. WHY IS THE COMPANY'S PROPOSED GAS OPERATIONS DISTRIBUTION O&M  
24 IN THE 2022 TEST YEAR REASONABLE?

25 A. As discussed in my Direct Testimony, our O&M costs have increased since  
26 the 2007 test year in our last rate case due in large part to customer growth  
27 over the same period, as well as inflation, with the increases partially offset by  
28 ongoing efficiency efforts. That said, O&M has been generally flat since 2015,

1 and the 2022 forecast was projected to be lower than recent years. This is the  
2 result of the Company's ongoing efforts to increase efficiency, contain O&M  
3 expenditures, and deploy cost reductions for customers' benefit. These efforts  
4 generally offset cost increases due to inflation and other areas such as Damage  
5 Prevention. For the reasons as discussed in my Direct Testimony, our  
6 forecasted O&M for the 2022 test year was reasonable.

7  
8 Q. COULD THE COMPANY'S 2022 O&M EXPENDITURES EXCEED THE  
9 FORECASTED AMOUNT INCLUDED IN THE TEST YEAR COST OF SERVICE?

10 A. Yes. Actual O&M expenditures can exceed budgeted amounts for a number  
11 of reasons, including upward cost pressures that are outside of the Company's  
12 control, or due to additional work that the Company completes to serve our  
13 customers. For example, in 2021, Gas Ops completed more meter  
14 installations than initially forecasted and therefore incurred higher levels of  
15 Gas Distribution costs. As a result of work like this, which is undertaken to  
16 benefit our customers, actual O&M costs can exceed budgeted amounts.

17  
18 Q. GIVEN THE FOREGOING DISCUSSION, WHAT DO YOU CONCLUDE WITH  
19 RESPECT TO MR. MUGRACE'S PROPOSED ADJUSTMENT TO GAS DISTRIBUTION  
20 O&M?

21 A. Mr. Mugrace's proposed adjustment would not result in a reasonable outcome.  
22 As discussed above, the Company makes efforts to manage O&M costs, and  
23 the 2022 forecast was lower than recent years. This O&M level is reasonable  
24 and necessary to provide safe and reliable service to our customers. The  
25 Company continues to recommend that the Commission approve, without  
26 adjustment, the Company's proposed Gas Operations O&M included in the  
27 2022 test year cost of service.

#### IV. CONCLUSION

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3 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

4 A. I recommend that the Commission approve, without adjustment, the  
5 Company's forecasted capital additions for the Insider Meter Move Out  
6 program and the Gas Operations O&M costs included in the 2022 test year.  
7 Mr. Halama provides the impact to the cost of service resulting from the Fargo  
8 Capacity Project cost reduction.

9

10 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

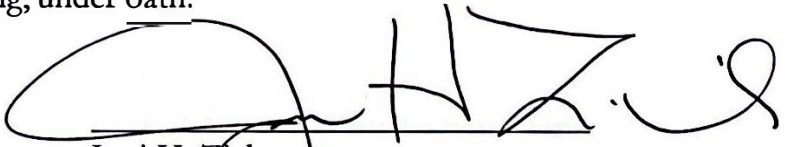
11 A. Yes.

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 )

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12  
13 AFFIDAVIT OF  
14 Joni H. Zich  
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 Joni H. Zich  
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30 Subscribed and sworn to before me, this 22<sup>nd</sup> day of March, 2022.  
31

32   
33 Notary Public  
34 My Commission Expires: December 18, 2023  
35  
36

