

BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Northern States Power Company
2021 Natural Gas Rate Increase, Application, Case No. PU-21-381

DIRECT TESTIMONY
OF
VICTOR SCHOCK

ON BEHALF OF THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADVOCACY STAFF

May 31, 2022

1 Q: Provide your name and qualifications.

2 A: My name is Victor Schock. I am the Director of Public Utilities for the North
3 Dakota Public Service Commission (Commission). I have 17 years of
4 accounting experience and eight 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.

9 Q: What is the purpose of your testimony?

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

15

16 Q: Please summarize the settlement.

17 A: The settlement provides for a test year revenue requirement of \$72.377 Million
18 (M), a return on equity (ROE) of 9.8%, average rate base of \$115.395 M and
19 numerous reductions to rate base and operations and maintenance (O&M)
20 expenses.

21

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

23 A: All parties have agreed to a 2022 test year revenue requirement of \$72.37M.
24 This is an increase of \$5.074M over present rates. This is a reduction of
25 \$1.985M from NSP's original request of \$7.059M. I believe this is a very good
26 outcome for NSP North Dakota ratepayers.

27

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

1 A: The settlement cost of capital includes a capital structure of 52.54% common
2 equity at a cost of 9.8%, 47.03% long term debt at a cost of 4.10% and 0.43%
3 short term debt at a cost of 1.09%. This structure nets a weighted average cost
4 of capital of 7.08%.

5

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

7 A: Yes. While the settlement ROE of 9.8% is slightly higher than Staff's witness
8 Dr. Griffing recommended, this appropriately recognizes both the current
9 market conditions and the fact NSP has managed to stay out of a natural gas
10 rate case for fifteen years. I believe the ROE and overall cost of capital are a
11 just and reasonable rate of return on NSP's property, used and useful, for the
12 service and convenience of the public in North Dakota.

13

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

16 A: The revenue requirement adjustments include ROE, rate case amortization,
17 property taxes, incentive compensation, donations and miscellaneous follow-
18 on adjustments.

19

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

22 A: The ROE reduction from NSP's requested 10.5% to the settlement of 9.8%
23 reduces the test year revenue requirement by \$551 K.

24

25 Q: What adjustment was made to rate case amortization expense?

26 A: In this case NSP requested that the rate case expenses be amortized over a
27 period of three years. In the settlement, NSP has agreed to amortize the
28 expense over a period of five years. This results in a reduction to the test year
29 revenue requirement of \$163 K.

30

1 Q: What adjustment was made to property tax expense?

2 A: Staff's witness Dante Mugrace recommended a reduction to property tax
3 expense of \$329K based on a three-year average. The settlement recognizes
4 that NSP's natural gas plant in service and therefore property taxes are likely
5 to increase in 2022 due to the completion of the Fargo capacity project. This
6 provides for an adjustment of approximately half of Mr. Mugrace's
7 recommendation. The adjustment results in a reduction to the test year
8 revenue requirement of \$159 K.

9

10 Q: What adjustment was made for incentive compensation expense?

11 A: Recognizing prior treatment by the Commission, incentive compensation that
12 was not proven to have a customer benefit has been removed from the revenue
13 requirement. This results in a \$28 K reduction to the test year revenue
14 requirement.

15

16 Q: What adjustments were made for donations, economic development and
17 chamber of commerce?

18 A: Similar to incentive compensation, economic development, chamber of
19 commerce dues, and charitable contribution expenses have been removed
20 from the revenue requirement. This results in a decrease to the test year
21 revenue requirement of \$16 K.

22

23 Q: What other follow-on adjustments were made to the revenue requirement?

24 A: Due to the large amounts in both rate base and expenses that have been
25 modified, there are secondary adjustments necessary to ensure proper
26 calculation of the revenue requirement. These adjustments include items such
27 as accumulated deferred income taxes and cash working capital which are
28 generally based on percentages of other amounts. These secondary
29 adjustments result in a reduction to the test year revenue requirement of \$848.

1 However, due to rounding up or down on other individual items, it is listed on
2 the settlement summary as \$2 K.

3

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

5 A: Yes. Under the terms of the ESM, NSP must return to customers 50% of
6 weather normalized earnings in excess of 9.80% ROE up to 10.25% ROE. In
7 the event earnings exceed 10.25%, NSP must return to customers 100% of the
8 weather normalized earnings exceeding 10.25%. Overall, this ESM works to
9 ensure customers are not overpaying for natural gas service and provides an
10 incentive to NSP to keep their costs down over the long term since the ESM
11 will remain in place until NSP's next natural gas rate case.

12

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

14 A: Yes, the class revenue allocations as listed in the chart on page 3 of the class
15 cost of service Settlement move the classes closer to parity with the actual cost
16 of service. This class cost allocation along with the proposed rate design
17 principles will provide for rate schedules designed in such a manner that they
18 will result in a basis of charge to NSP customers that is just and reasonable
19 without undue discrimination and will also provide NSP with a just and
20 reasonable rate of return on its property, used and useful, for the service and
21 convenience of the public in North Dakota. Additionally, the average rate base
22 balance of \$115.395 M represents the value of NSP's property used and useful
23 for the service and convenience of the public in North Dakota.

24

25 Q: Does this conclude your testimony?

26 A: Yes it does.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Northern States Power Company
2021 Natural Gas Rate Increase
Application

Case No. PU-21-381
OAH No. 20210357

VERIFICATION

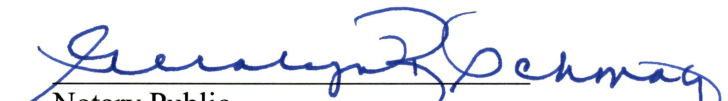
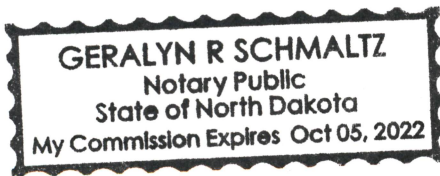
STATE OF NORTH DAKOTA)
) ss.
COUNTY OF BURLEIGH)

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 31 day of May, 2022.



Notary Public
My Commission Expires: 10/5/22