EXHIBIT 19

Rebuttal Testimony and Schedule
Allen D. Krug

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___(ADK-1)

Policy

April 1, 2022

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Schedule

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND JOB RESPONSIBILITIES.

A. My name is Al Krug. I am Associate Vice President, State Regulatory Policy for Northern States Power Company – Minnesota (NSP or Xcel Energy or the Company).

Q. DID YOU SUBMIT PRE-FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. No. My colleague Mr. Greg P. Chamberlain submitted Direct Policy Testimony on behalf of the Company in this proceeding. I am taking his place as the Company's Policy witness for the remainder of this Case. I adopt his Direct Testimony as if it were my own.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have worked for Xcel Energy since 1998, initially as a Manager of Renewable Energy and Energy Contract Coordinator. I then served as a Regulatory Consultant for a number of years before becoming Regional Vice President, Regulatory Administration in 2008. I began my current position in 2013. Prior to joining the Company, I worked for over a decade at the Minnesota Department of Commerce, first as a Statistical Analyst and later as a Supervisor in the Electric Regulatory Unit. My statement of qualifications is provided as Exhibit___(ADK-1), Schedule 1.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. In my current role, I develop regulatory strategy for NSP across North Dakota, South Dakota, and Minnesota.

Q. FOR WHOM ARE YOU TESTIFYING?

A. I am testifying on behalf of Xcel Energy.

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

A. The purpose of my Rebuttal Testimony is to summarize the Company's response to the Direct Testimony filed on behalf of the Advocacy Staff of the North Dakota Public Service Commission (Advocacy Staff) by PCMG and Associates, LLC (Staff's Consultants), as well as the Direct Testimony filed by Mr. William H. Malcom on behalf of intervenor the American Association of Retired Persons (AARP). I also introduce the other Company witnesses sponsoring Rebuttal Testimony.

Q. WHAT IS YOUR OVERALL ASSESSMENT OF ADVOCACY STAFF'S TESTIMONY?

A. Staff's Consultants recognize the Company's need for a rate increase, given that the Company's last natural gas base rate case was filed more than 15 years ago, with a 2007 future test year (Case No. PU-06-525). The Company and Staff's Consultants disagree on a handful of key items that together account for the majority of the more than $4 million difference in the revenue requirement increase recommended by the Company in Direct Testimony and Staff's Consultants. I discuss these issues at a high level in my Rebuttal Testimony, and direct the Commission to the Rebuttal Testimony of other Company witnesses for more detailed analysis.

Q. WHAT KEY ISSUES DO YOU ADDRESS IN YOUR REBUTTAL TESTIMONY?

A. The key issues addressed in my Rebuttal Testimony are:

- The return on equity (ROE) recommended by Staff's Consultants and AARP. I briefly discuss this topic, which is discussed in more detail in the Rebuttal Testimony of Company witness Mr. Dylan W. D'Ascendis.

- Whether Staff's Consultants' proposed expense adjustments utilizing historical three-year averages should be used to determine various operation and maintenance (O&M) expenses, or whether such values should be determined using forecasted test year values as provided for by statute. Staff's Consultants' proposed "normalization" is also discussed in the Rebuttal Testimony of Company witness Mr. Benjamin C. Halama.
- The appropriateness of the Company's proposed Class Cost of Service Study (CCOSS) and rate design, which is also discussed in the Rebuttal Testimony of Company witness Mr. Christopher J. Barthol.
- The Company's response to other issues raised in the testimony of Staff's Consultants and AARP.

Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.

A. I present my testimony in the following sections:

- Summary of Rebuttal Position;
- Rate of Return and ROE;
- Revenue Requirements;
- Class Cost of Service Study;
- Rate Design;
- Response to Other Issues Raised by AARP;
- Presentation of Rebuttal Witnesses; and
- Conclusion

II. SUMMARY OF REBUTTAL POSITION

Q. PLEASE PROVIDE A SUMMARY OF THE COMPANY'S POSITION IN REBUTTAL TESTIMONY.

A. On rebuttal, the Company is proposing a revenue requirement of $73.295 million reflecting a revenue deficiency of $5.993 million, based on a 10.50 percent cost of equity and 52.54 equity percentage capital structure. The bulk of the Company's proposed downward adjustment to the revenue requirement request results from the fact that the Company was able to complete the Fargo Capacity Project ahead of schedule and under budget.

The Company stands by its requested ROE of 10.50 percent. As described further by Mr. D'Ascendis, the Company's requested ROE was conservative when we filed our direct case in September of 2021. Since that time, inflation has hit its highest levels in decades, and in March the Federal Reserve announced it is raising the Federal Funds rate for the first time in four years, with additional increases expected later this year. This puts upward pressure on the cost of capital for all companies and increases the required ROE for the Company. Thus the Company's originally-requested ROE, which was conservative at the time and a decrease from the Company's authorized ROE from the last rate case, is abundantly reasonable.

With respect to adjustments to the Company's revenue requirement, the Company has proposed to remove the additional costs of the Fargo Capacity Project that were not spent because the project came in well under budget. This results in a downward adjustment of the Company's revenue requirement of $0.879 million. However, the Company rejects the other adjustments proposed by Staff's Consultants, particularly the reduction of the Company's O&M costs based on an average of historical expenses. The Company is entitled to use a future test year and has demonstrated that its projected revenue requirement will result in just and reasonable rates. As described further by Mr. Halama, the adjustments proposed by Staff's Consultants are not credible in that only certain categories of spending were arbitrarily selected, and the historical period included two pandemic-affected years. This approach resulted in a level of O&M expenditure for the test year that does not reflect our cost of service. The Company believes it is appropriate for the Commission to accept the Company's forecasted revenue requirement for the test year. To address the potential that doing so could result in higher than authorized earnings, the Commission may wish to consider establishing an earnings sharing mechanism which the Company has operated under in both its North Dakota electric and natural gas operations in recent years.

Lastly, as described further below and in the testimony of Mr. Barthol, the Company stands by its Class Cost of Service Study and Rate Design and urges the Commission to reject the recommendations of Staff's Consultants.

III. ROE AND CAPITAL STRUCTURE

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

A. In this section, I discuss the Company's concerns with the recommendations of Dr. Marlon F. Griffing, who offered Direct Testimony on behalf of Advocacy Staff regarding capital structure and return on equity. I also briefly address the recommendation of Mr. Malcolm, testifying on behalf of intervenor AARP, with respect to ROE. These issues are discussed in greater detail in Mr. D'Ascendis's Rebuttal Testimony, but I address them here at a high level.

Q. WHAT RECOMMENDATION DID DR. GRIFFING MAKE REGARDING THE COMPANY'S CAPITAL STRUCTURE AND ROE?

A. In his Direct Testimony, Dr. Griffing accepted the Company's proposed cost of long-term debt of 4.10 percent and short-term debt cost of 1.09 percent, and recommended a capital structure of 47.57 percent long-term debt, 0.43 percent short-term debt, and 52.00 percent common equity.[1] Based on his analysis, Dr. Griffing recommended an ROE of 9.43 percent for the Company,[2] which, using his recommended capital structure, equates to a recommended rate of return (ROR) of 6.86 percent.[3]

Q. WHAT DID AARP RECOMMEND WITH RESPECT TO THE COMPANY'S ROE?

A. Mr. Malcolm did not conduct an independent analysis based on a comparison group of utilities, but he noted generally that the Company's requested 10.5 percent ROE is out of line with what AARP is seeing nationally and regionally. In particular, Mr. Malcolm pointed to the 9.2 percent ROE recently approved for the Public Service Company of Colorado, and argued that an ROE range of 9.0 to 9.5 percent would be appropriate for the Company.

Q. WHAT RATE OF RETURN DID THE COMPANY PROPOSE IN ITS APPLICATION?

A. As discussed in the Direct Testimony of Mr. D'Ascendis, the Company's

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[1] Direct Testimony of Marlon F. Griffing (Griffing Dir.), 44:3-11.
[2] Griffing Dir. 56:16-18. I note that elsewhere in Dr. Griffing's Direct Testimony he recommends an ROE of 9.40 percent, but it appears this was included inadvertently in the introductory section of his Testimony. *See* Griffing Dir. 3:5.
[3] Griffing Dir. 46:17-19. Similar to the above, Dr. Griffing recommends an ROR of 6.84 percent in the introductory section of his Direct Testimony. *See* Griffing Dir. 3:7-9.

proposed revenue requirement reflects an overall ROR of 7.45 percent, based on an average common equity ratio of 52.54 percent and an ROE of 10.50 percent.

Q. WHAT IS THE COMPANY'S RESPONSE TO DR. GRIFFING'S RECOMMENDED CAPITAL STRUCTURE?

A. As described by Mr. D'Ascendis, the Company's equity ratio reflects its actual capital structure and is consistent with industry norms, therefore it should be accepted by the Commission.

Q. WHAT IS THE COMPANY'S CURRENTLY AUTHORIZED ROE?

A. Pursuant to the Settlement Agreement in the Company's last gas rate case, Case No. PU-06-525, the Company's authorized ROE is 10.75 percent. However, the Settlement Agreement in Case No. PU-15-514, relating to the Company's request for deferred accounting treatment for the costs of remediating the former Fargo Manufactured Gas Plant site, established an earnings-sharing mechanism. In that agreement, the Company agreed to write-down the MGP deferral by all earnings exceeding a 9.75 percent ROE.

Q. WHAT IS THE COMPANY'S RESPONSE TO DR. GRIFFING'S RECOMMENDATION WITH RESPECT TO ROE?

A. For the reasons explained in Mr. D'Ascendis's Rebuttal Testimony, the Company continues to recommend a return on equity of 10.50 percent, and takes issue with several aspects of Dr. Griffing's analysis. In fact, major changes to capital market conditions and inflationary pressures since the Company initially filed this Case have further increased Mr. D'Ascendis's recommended ROE range for the Company to 10.63 percent to 13.01 percent. Thus, the

Company's recommended ROE of 10.50 percent is even more conservative now than when the Company first proposed it, and Dr. Griffing's proposed ROE of 9.43 percent is even further outside the realm of reasonableness.

Q. PLEASE DESCRIBE HOW THE CONDITIONS OF CAPITAL MARKETS AND INFLATIONARY PRESSURES AFFECT THE COMPANY'S ROE.

A. Simply put, inflationary pressures will cause interest rates to rise as well as investor-required return—thereby increasing the Company's cost of capital. At the time that the Company was preparing its proposed rate increase and Direct Testimony in this proceeding, it did not foresee inflation increasing as dramatically as it has in recent months. As described further by Mr. D'Ascendis, higher inflation rates increase the level of ROE that is required for a gas distribution utility to attract capital. In a world with annual inflation rates near or exceeding 8 percent on an annual basis, the Company's requested ROE of 10.50 percent is certainly reasonable.

Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MALCOLM'S RECOMMENDATION WITH RESPECT TO ROE?

A. For the reasons stated above, the Company stands by its robust analysis presented in Mr. D'Ascendis's Direct Testimony. Mr. Malcolm did not conduct any such analysis and instead provides anecdotal evidence and sweeping claims about ROE trends around the country, without support. Furthermore, Mr. Malcolm's approach of looking to the ROEs previously set for other utilities in other states does not factor in the effects of inflationary pressures on ROE, as I just described. As a result, the Company urges the Commission to reject Mr. Malcolm's ROE recommendation.

IV. REVENUE REQUIREMENTS

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

A. In this section, I discuss the Company's response to the recommendation of Advocacy Staff witness Mr. Dante Mugrace regarding adjustments to the Company's revenue requirement. The Company proposes to make an adjustment to the revenue requirement to reflect the actual costs of the Fargo Capacity Project. However, the Company urges the Commission to reject all other reductions to the revenue requirement proposed by Mr. Mugrace. In particular, Mr. Mugrace's use of an average of three years of historical data for certain of the Company's O&M expenses instead of forecasted test year amounts is not consistent with North Dakota or Commission policy, nor is it a credible reflection of the Company's actual cost of service. Mr. Halama discusses this topic in detail in his Rebuttal Testimony.

A. Fargo Capacity Project

Q. PLEASE REMIND US, WHAT IS THE FARGO CAPACITY PROJECT?

A. As described in the Direct Testimony of Mr. Chamberlain, the Company constructed a new 12-inch gas distribution main to increase the capacity of its distribution system in the Fargo and West Fargo area. The Company originally budgeted $27.6 million for the project. As Company witness Ms. Joni H. Zich describes in her Rebuttal Testimony, since the time the Company filed this case, the Fargo Capacity Project has been completed early and under budget by approximately $7.5 million. This project is an excellent example of efficient project management and execution of a significant infrastructure project to reliably serve a rapidly growing area within and near North Dakota's largest city.

Q. IS THE COMPANY PROPOSING AN ADJUSTMENT TO THE REVENUE REQUIREMENT RELATING TO THE FARGO CAPACITY PROJECT?

A. Yes. As I noted above, the project was originally budgeted at $27.6 million and the Company's rate case test year revenue requirement reflects this amount. However, the actual capital additions for the Fargo Capacity Project were approximately $20.1 million. As a result, the Company proposes to reduce its test year revenue requirement by $0.879 million, to reflect the reduction project costs.

Q. WHAT DID STAFF'S CONSULTANTS RECOMMEND WITH RESPECT TO THE FARGO CAPACITY PROJECT?

A. Mr. Mugrace recommends removal of the $0.600 contingency that the Company included in its project expenditure budget for potential restoration work associated with the Fargo Capacity Project.

Q. IS MR. MUGRACE'S ADJUSTMENT NECESSARY GIVEN THE COMPANY'S PROPOSED ADJUSTMENT?

A. No. The unspent $600,000 contingency is included in the approximately $7.5 million of budgeted and unspent project capital expenditures described above, which the Company is proposing to remove from the 2022 test year.

B. O&M Adjustments

Q. WHAT RECOMMENDATIONS DID MR. MUGRACE MAKE REGARDING THE USE OF HISTORIC DATA TO DETERMINE CERTAIN TEST YEAR AMOUNTS?

A. In his Direct Testimony, Mr. Mugrace recommended that the Commission adopt an approach of changing certain Company O&M expenses by substituting a three-year average of 2019, 2020, and 2021 values for various costs presented by the Company for the 2022 test year. Mr. Mugrace does not propose a similar approach for the Company's labor costs, which have generally decreased over the last three years. Instead, he recommends an adjustment to the Company's labor costs based on a three-year average of vacancy rates, which were arrived at by comparing the number of employees allocated to North Dakota Gas Operations and the number of employees who depart the Company each year. Mr. Mugrace's proposed labor and non-labor O&M adjustments represent the bulk of the difference in the proposed revenue requirement of the Company and Staff's Consultants.

Q. WHAT WAS MR. MUGRACE'S STATED JUSTIFICATION FOR USING THREE-YEAR HISTORICAL AVERAGE O&M FOR THE 2022 TEST YEAR?

A. In his Direct Testimony, Mr. Mugrace stated that some of the Company's O&M expenses "fluctuate and vary from year to year," and that, in some accounts, "the balances during the same period appear to be abnormal and irregular from what the Company is proposing to utilize and set in the test year 2022 period." He notes that "use of a three-year normalization period smooths out fluctuations in setting rates going forward."[4]

Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MUGRACE'S PROPOSED APPROACH?

A. Mr. Mugrace's proposal is not consistent with traditional principles of utility ratemaking or North Dakota policy, nor does it reflect the Company's 2022 cost of service. Section 49-05-04.1(1) of the North Dakota Century Code gives the Company the choice "at its option" between a historical test year, a current test

[4] Mugrace Dir. 16:20-17:6.

year, or a future test year. As allowed by the Legislature, Xcel Energy opted to file using a 2022 future test year. While historic data can provide important context for understanding trends and considering the accuracy of forecasted test year revenues and expenses, the wholesale use of three years of historic data for significant portions of our cost of service, including O&M expenses, is inconsistent with Xcel Energy's statutory right to choose a future test year. It may be appropriate in some cases to use a historical average approach for a particular line item to address a specific anomaly, but Mr. Mugrace is proposing something far more expansive: the replacement of large portions of the Company's budgeted O&M expenses with historical averages.

Q. WHAT IS THE COMPANY'S OBJECTION TO THE CATEGORIES FOR WHICH MR. MUGRACE IS RECOMMENDING NORMALIZATION?

A. Mr. Mugrace proposes to replace multiple categories of Company expenses with three-year averages, while normalizing labor costs according to a different and inconsistent methodology, with no obvious reasoning for doing so, other than that he appeared to select only costs that are trending upward. If the Company's falling labor costs were included, the overall impact of the historical average method would be larger increase in rates compared to the Company's request. However, Mr. Mugrace arbitrarily applied this method only to those non-labor costs that were forecasted to rise in the test year.

Q. WHAT WOULD BE THE PRACTICAL IMPACT OF SETTING RATES BASED ON HISTORICAL EXPENSES?

A. The three-year averaging approach will result in larger future revenue deficiencies.

Q. WHY IS THAT?

A. The Company's test year budget is based on what we expect to spend in 2022, and generally what we expect to spend in the following years. By treating all differences from a historical three-year average as mere fluctuations to be smoothed out, Mr. Mugrace's proposed approach would not allow the Company to recover those costs that are expected to increase in the test year. In his Direct Testimony, Mr. Mugrace discusses his proposed approach in terms of smoothing out variability, but such a view presumes that the multiple O&M expense categories at issue bounce up and down randomly from year to year with no discernable trend. Mr. Mugrace, however, has not presented any evidence that is the case, and as Company witnesses Mr. Halama and Ms. Zich explain, the Company's actual forecasted O&M needs and the Company's cost of service are increasing as it manages a growing gas system. Further, our proposed 2021 cost of service should be considered conservative given the inflationary period we are currently experiencing but did not forecast for when we were preparing this case. Obviously, some fluctuation is normal, but it has never been an impediment to setting rates. However, by treating all differences from historical three-year averages as variabilities to be smoothed out, Mr. Mugrace's proposed approach would not allow the Company to recover for increasing expenses, regardless of the cause of such increases. The result of applying this approach only to those costs that are increasing is an inappropriate downward adjustment of the Company's revenue requirement.

Q. DOES THE COMPANY HAVE ANY OTHER METHODOLOGICAL ISSUES WITH MR. MUGRACE'S HISTORICAL AVERAGE METHOD?

A. Yes. Mr. Mugrace has not shown that the multiple categories selected were appropriate for using historical averages and, as Mr. Halama discusses in his Rebuttal Testimony, the Company's review of Mr. Mugrace's calculations uncovered issues with his approach. For example, in some instances Mr. Mugrace double-counted reductions in certain O&M expenses by averaging overall costs for a particular category, and then separately averaging specific costs a second time—thus duplicating his adjustment.

Q. ARE THERE OTHER FACTORS THAT WEIGH AGAINST ADJUSTING THE COMPANY'S TEST YEAR O&M EXPENSES BASED ON HISTORICAL AVERAGES?

A. Yes. As I noted above, when the Company was calculating its cost of service for the purposes of this rate case, it did not foresee inflation increasing as dramatically as it has over the last several months. While it is not within the scope of the Company's proposed rate increase in this proceeding, we do expect our O&M expenses to increase due to inflation, along with our labor costs.

Q. WHEN TAKEN AS A WHOLE, IS MR. MUGRACE'S APPROACH CREDIBLE?

A. No. As described further by Mr. Halama, the Company conducted an analysis of Mr. Mugrace's proposed adjustment based on its historic total O&M costs over the 2019-2021 period. This analysis found that Mr. Mugrace's approach would result in rates reflecting O&M expenses significantly below historical actuals, the test year budgeted amount, and any discernable trend in O&M costs. In other words, Mr. Mugrace's flawed methodology results in a test year revenue requirement that bears little relationship to the Company's actual cost of service.

Q. WHAT IS THE COMPANY'S RECOMMENDATION WITH RESPECT TO ADJUSTING CERTAIN O&M COSTS AS RECOMMENDED BY MR. MUGRACE?

A. In light of the above discussion and the many flaws in his approach, the

Company recommends that the Commission reject Mr. Mugrace's proposed O&M adjustments.

C. Incentive Compensation

Q. WHAT RECOMMENDATIONS DID STAFF'S CONSULTANTS MAKE WITH RESPECT TO INCENTIVE COMPENSATION?

A. Mr. Mugrace recommends removal of the Company's environmental and time-based long-term incentive (LTI) compensation from our cost of service. As described in Mr. Chamberlain's Direct Testimony, LTI is an incentive program available to our more senior and executive level employees that is intended to incentivize these employees to effectively manage the Company toward its overall corporate goals and in the best interest of our customers and shareholders. Mr. Mugrace argues that the LTI costs for the 2022 test year are not known and measurable because the Scorecard that the Company uses to determine LTI awards was not available at the time this Case was filed.

Q. WHAT IS THE COMPANY'S RESPONSE TO MR. MUGRACE'S RECOMMENDATION?

A. The Company disagrees with Mr. Mugrace's recommendation. The LTI costs presented in the Company's cost of service study are known and measurable because they represent the Company's forecasted LTI costs in the 2022 future test year. In that sense they are no different than other test year costs that the Company has forecasted, and Mr. Mugrace has agreed are known and measurable. From a broader perspective, the LTI program is an important tool that allows the Company to attract and retain key, senior leaders and ensure they effectively manage the Company consistent with the customer-focused goals of environmental excellence and efficient management. For this reason and as described further by Mr. Halama, the Company urges the Commission to reject Mr. Mugrace's adjustment to LTI costs.

D. Association Dues and Contributions

Q. WHAT RECOMMENDATIONS DID STAFF'S CONSULTANTS MAKE WITH RESPECT TO CHARITABLE CONTRIBUTIONS AND DUES?

A. Mr. Mugrace recommends that the Company not be allowed to recover the cost of economic development donations, charitable contributions, or chamber of commerce dues in North Dakota.

Q. WHAT IS THE COMPANY'S RESPONSE TO THIS RECOMMENDATION?

A. As discussed in Mr. Chamberlain's Direct Testimony, the expenses in question are appropriate and provide benefits for North Dakota, including the Company's North Dakota customers. In particular, we note chamber of commerce dues facilitate communication with an important category of customers, and charitable contributions are a normal and expected expense for a business, particularly for a corporation of Xcel Energy's size and prominence in the community. The Company is better positioned to serve its customers, including those in North Dakota, because it communicates appropriately within its industry and with other stakeholders. As a result, the Company stands by its request for recovery of 50 percent of these costs, which we believe is reasonable given the Commission's historic resistance to allowing full recovery of these types of costs.

E. Summary of the Company's Position

Q. PLEASE SUMMARIZE THE COMPANY'S POSITION WITH RESPECT TO THE COST OF SERVICE AND STAFF'S ADJUSTMENT TO THE REVENUE REQUIREMENT.

A. The adjustments to the revenue requirement proposed by Mr. Mugrace, based on his arbitrary normalization of costs, do not reflect the Company's actual cost of service in the forecasted test year, or in any recent year for that matter. The Company recognizes that it is important for rates to be just and reasonable, based on a reasonable and accurate cost of service that is adjusted for known and measurable changes in revenues, expenses, and costs. The Company believes it has demonstrated that its revenue requirement as presented in Rebuttal Testimony is a reasonable reflection of the cost of service and will result in just and reasonable rates. However, to the extent the Commission is concerned about customers being over-charged or the utility over-earning, we believe continuing an earnings-sharing mechanism, like the one that is currently in place, is a more appropriate method to protect customers than reducing the revenue requirement in the test year.

Q. PLEASE DESCRIBE THE BENEFITS OF AN EARNINGS-SHARING MECHANISM FROM A POLICY PERSPECTIVE.

A. Under an earnings sharing structure, the Company has an incentive to keep costs low, because the risk of under-earning is placed on the Company. To the extent the utility experiences further increases in its cost of service due to inflation or otherwise, it would need to file a new rate case sooner, giving the Commission more opportunity for oversight and input. If the Company exceeds the earnings cap, the surplus amount would be refunded to customers.

Q. WHAT LEVEL OF EARNINGS SHARING DOES THE COMPANY PROPOSE?

A. The Company would propose to refund all revenues above its authorized return on equity.

Q. DOES THE COMPANY EXPECT TO EXCEED ITS AUTHORIZED RETURN ON EQUITY?

A. Given the inflationary pressures on the Company's cost of capital and O&M expenses as I described above, the Company does not anticipate exceeding its authorized ROE. If inflation continues to rise, it is more likely that the Company would need to file another rate case due to a rapidly rising cost of service. Additionally, as further described by Mr. Halama, North Dakota gas jurisdictional costs are allocated differently than costs of the electric utility, which can result in large impacts to the cost of service of the electric utility. This means there is less likelihood of a jurisdictional allocation resulting in over-earning by the North Dakota gas jurisdiction.

V. CLASS COST OF SERVICE STUDY

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

A. In this section of my testimony, I provide an overview of the Company's response to certain issues raised by Staff's Consultants regarding the Class Cost of Service Study presented in the Direct Testimony of Mr. Barthol.

Q. WHAT RECOMMENDATIONS DID THE PARTIES MAKE REGARDING THE COMPANY'S PROPOSED CCOSS?

A. Mr. Karl R. Pavlovic, testifying on behalf of Advocacy Staff, takes issue with (1) the Company's use of the minimum size main theory for classification of distribution mains, and (2) the Company's classifying a portion of the distribution mains costs as customer-related, rather than as demand-related. Mr. Pavlovic argues that this results in an unjustified over-allocation of distribution costs to NSP's residential rate class, and he recommends that NSP's distribution mains be classified as wholly demand-related with no customer-related component.

Q. IS IT WIDELY ACCEPTED THAT GAS DISTRIBUTION MAINS BE CLASSIFIED AS BOTH CUSTOMER- AND DEMAND-RELATED?

A. Yes. As described further in Mr. Barthol's Rebuttal Testimony, it is widely accepted at the state, regional, and national levels that gas distribution costs are driven by two factors: (1) the number of customers on the distribution system, and (2) the demand those customers place on the system. This is reflected in the National Association of Regulatory Utility Commissioners (NARUC) Gas Distribution Rate Design Manual, which clearly states that both demand and customer components should be considered in classifying distribution costs, as well as in the practice of all Commissions in the four-state region (North Dakota, South Dakota, Minnesota, and Wisconsin).

Q. WHAT IS THE RATIONALE BEHIND CLASSIFYING GAS DISTRIBUTION COSTS AS BOTH CUSTOMER- AND DEMAND-RELATED?

A. The purpose of this classification is to allocate costs according to causation. The *customer*-related portion of the distribution system is that portion that simply makes service available to the customer. The balance of distribution system costs are *capacity*-related. The costs the utility incurs to connect a customer to the distribution grid without regard to the level of customer load are reasonably classified as customer-related and allocated based on the number of customers. The capacity-related cost component has cost causation based on the level of gas demanded by customers above the minimum customer-related level. These costs should be allocated based on customer demand. Mr. Barthol discusses this issue in more detail in his Rebuttal Testimony.

Q. DOES MR. PAVLOVIC RAISE ANY OTHER ISSUES WITH RESPECT TO THE CCOSS?

A. Yes. Mr. Pavlovic argues that the Company erred in allocating transmission and regulator station costs using the average and peak demand method, and allocating demand-related mains costs using the average and excess demand method, which he argues over-allocates costs to the commercial and industrial (C&I) rate classes. Instead, he recommends that all of these costs be allocated using the Design Day demand method. The result of his recommendations is a reduction in the residential classes' cost of service and an increase in the C&I classes' cost of service.

Q. WHAT IS THE COMPANY'S RESPONSE TO THIS CONCERN?

A. As discussed further by Mr. Barthol, per the NARUC manual the Company classified transmission and regulator station costs as demand-related and allocated the costs using an Average and Peak allocator. Use of this allocator recognizes that that transmission and regulator stations are built to serve two different functions: (1) to deliver gas all year round to all customers and (2) to meet peak day capacity needs for firm customers.

VI. RATE DESIGN

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

A. In this section, I provide an overview of our response to certain concerns raised by AARP and Staff's Consultants regarding the Company's proposed rate design.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPANY'S PROPOSED RATE DESIGN FOR THIS CASE.

A. As I noted in my Direct Testimony, the Company has not proposed any material changes to our current rate design. In particular, the Company proposes to retain its existing straight fixed variable (SFV) rate design in North Dakota. Under this rate design, residential customers pay a fixed monthly "Delivery Services Charge," which would increase from $18.48 to $24.28 under the Company's proposal.

Q. WHAT CONCERNS DID THE PARTIES RAISE WITH RESPECT TO THE COMPANY'S PROPOSED RATE DESIGN?

A. Mr. Malcolm, testifying on behalf of AARP, recommends that the Commission reject the Company's proposed rate design. He argues that charging only a fixed customer charge for delivery service is bad policy because it reduces the amount of a bill a customer can reduce through lower gas usage, which represents a larger rate increase for many older customers who he presumes use less energy. Mr. Malcolm also notes that AARP opposes the use of the "minimum system" allocation method to set the residential customer charge and argues that it should instead be set based on the "customer method," allocating only the costs associated with metering, customer service, and billing to the fixed customer charge. Mr. Malcolm recommends that the residential customer charge be set at $12.00, which is the customer charge approved for the Company's affiliate, Public Service Company of Colorado (PSCo), in a recent gas rate case in Colorado.

Mr. Pavlovic, for his part, notes that the absence of a volumetric distribution charge for the residential rate class eliminates intraclass subsidization of low-volume customers by high-volume customers, but otherwise does not propose structural changes to the Company's proposed rate design.

Q. DOES THE COMPANY AGREE WITH MR. MALCOLM'S ASSESSMENT OF THE DELIVERY SERVICES CHARGE?

A. No. The Company believes that its proposal is preferable to a fixed and variable rate design. A fixed monthly service charge helps moderate bills throughout the year by increasing the share of the bill that is *not* affected by variability in weather and usage. This results in a more stable bill throughout the year, which may be particularly significant for older customers on fixed incomes.

Further, a fixed monthly delivery services charge protects customers who reside in older, less energy efficient homes from subsidizing the distribution costs of customers in newer, more energy efficient homes who would normally use less gas. To the extent the older customers that make up AARP's membership reside in older homes, a higher volumetric charge could result in these customers subsidizing customers in newer homes. Mr. Barthol discusses this further in his Rebuttal Testimony.

Q. WHAT ABOUT MR. MALCOLM'S ARGUMENT THAT A FIXED DELIVERY SERVICES CHARGE REDUCES CUSTOMER DISCRETION OVER THEIR BILL?

A. As counterintuitive as it may seem, shifting to a volumetric charge for recovering a portion of distribution costs does not necessarily give customers substantially more control over their bill. As Mr. Barthol discusses further in his Rebuttal Testimony, the charge for distribution-related services on a typical customer's bill is a small portion of the overall customer bill, with the majority being related to the commodity cost of gas. Therefore, customers can still reduce their bills significantly by reducing gas usage even under the Company's proposed rate design.

Q. Are there other reasons to support a fixed monthly delivery services charge from a policy perspective?

A. Yes. From an overall energy conservation perspective, a fixed monthly delivery services charge eliminates any disincentives for the utility to actively promote energy conservation, since Company distribution revenues are not adversely impacted by declines in customer usage resulting from conservation. Under the Company's proposed rate design, customers still have a strong incentive to conserve, because roughly 75 percent of each residential bill is based on the commodity cost of gas and is driven by usage.

Q. What is the Company's response to Mr. Malcolm's proposed fixed delivery charge?

A. The Company opposes Mr. Malcolm's proposed fixed delivery charge of $12.00 and stands by its originally requested amount for the Delivery Services Charge.

VII. RESPONSE TO OTHER ISSUES RAISED BY AARP

Q. What is the purpose of this section of your Rebuttal Testimony?

A. In this section of my testimony, I respond to other issues raised by Mr. Malcolm on behalf of AARP.

A. Gas Supply Planning and Purchasing

Q. What issues have been raised with respect to the Company's cost of gas and gas contracting practices?

A. Mr. Malcolm recommends the Commission open an investigation to require the Company and other gas companies to improve hedging of their natural gas purchases to lock in prices, in light of the costs incurred by the Company to purchase gas on the spot market during Winter Storm Uri in February 2021. He recommends that the Commission review the Company's gas hedging proposal for approval going forward, and require the Company to better notify customers to voluntarily reduce gas usage during times of shortage, or develop programs to pay customers to reduce or interrupt gas usage. In its Work Session, Commissioners raised questions regarding the Company's gas contracting practices, and whether or how to incentivize the most cost-effective gas contracting by the Company.

Q. WHAT IS THE COMPANY'S RESPONSE TO THESE CONCERNS?

A. The Company believes that in general, Mr. Malcolm's recommendations with respect to the cost of gas are outside the scope of this proceeding. However, because the Commission has expressed interest in this issue, the Company is offering the Rebuttal Testimony of Mr. Richard L. Derryberry regarding the Company's gas supply and hedging strategies; how the Company prepares for the winter heating season and extreme cold events; the impacts of and lessons learned from Winter Storm Uri; and other related issues. In general, the Company is happy to provide further information regarding our gas contracting practices to the Commission in this or another proceeding.

Q. COULD THE COMPANY DO MORE TO PREPARE FOR OR HEDGE AGAINST EXTREME WEATHER EVENTS SUCH AS WINTER STORM URI?

A. The Company stands by its existing gas supply and planning strategies as a cost-effective way to hedge against extreme weather. That said, the Company could always do more. If the Company were to procure more natural gas storage or financial hedging, for example, there would be a corresponding increase in costs to customers.

Q. DOES THE COMPANY HAVE EXISTING PROGRAMS TO PAY CUSTOMERS TO REDUCE OR INTERRUPT THEIR GAS USAGE DURING EXTREME WEATHER EVENTS OR OTHER PEAK PERIODS, AS SUGGESTED BY MR. MALCOLM?

A. The Company offers interruptible rates under which a customer is offered a discounted rate on gas service in exchange for the Company having the right to interrupt service during certain gas supply or system pressure events in order to maintain reliable service to its Firm customers. Interruptible rates are one of the many tools the Company uses to manage gas supply interruptions on our system. However, these rates are not a good fit for all customers. The Company is always willing to work with potential and existing customers to craft an appropriate interruptible rate.

B. Public Input

Q. WHAT DID AARP RECOMMEND WITH RESPECT TO PUBLIC INPUT?

A. AARP recommends that public input sessions associated with utility rate increases begin with a brief overview by Commission Staff followed by public comment, rather than an extensive utility presentation up front. AARP also recommends that the input sessions be moved to later in the procedural schedule, after the testimony of other parties and Staff has been filed.

Q. DOES THE COMPANY SUPPORT THESE RECOMMENDATIONS?

A. The Company believes there is value in a Company-led overview presentation at the start of the public input session to ensure that the participants have basic information regarding the Company's rate structure, efforts to control costs, programs for helping customers save energy, and the reasons for its proposed increase. That said, the Company is amenable to changes in the format and/or cadence of public input sessions as the Commission may deem appropriate.

VIII. PRESENTATION OF REBUTTAL WITNESSES

Q. PLEASE INTRODUCE THE COMPANY'S REBUTTAL WITNESSES.

A. In addition to my Policy Rebuttal Testimony, the Company sponsors the following witnesses:

- *Mr. Benjamin C. Halama,* who responds to recommended financial adjustments and addresses the Company's overall revenue requirement;
- *Mr. Dylan D'Ascendis,* of ScottMadden, Inc., who responds to Staff's Consultants' and AARP's recommendations regarding the appropriate return on equity;
- *Ms. Joni H. Zich*, who responds to recommended adjustments relating to the Company's Gas Operations, including capital investments and O&M expenditures;
- *Mr. Christopher J. Barthol*, who responds to recommendations regarding our Class Cost of Service Study and Rate Design; and
- *Mr. Richard L. Derryberry*, who responds to questions raised regarding the Company's gas planning and supply strategies.

IX. CONCLUSION

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. Overall, my Rebuttal Testimony demonstrates that the Company's requested ROE and revenue requirement will result in just and reasonable rates for our North Dakota customers. As a result, the Company requests that the Commission accept the Company's requested ROE and proposed test year revenue requirement, and reject the historical averaging of O&M expenses proposed by Staff's Consultants. The Commission should follow traditional ratemaking practices and North Dakota law by using Xcel Energy's forecast for the future 2021 test year, the accuracy of which has not been seriously disputed. We expect the overall inflationary trend to further increase the Company's cost of service, but to the extent the Commission is concerned about the Company over-earning, we would be amenable to an earnings-sharing mechanism similar to what is currently in place.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

Al Krug

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EDUCATION

1980 — University of California, Los Angeles
MA, Economics

1978 — Queens College, City University of New York
BA, Economics

WORK EXPERIENCE

2013-Present — **Xcel Energy Services, Inc., Minneapolis MN**
Associate Vice President, State Regulatory Policy
- Develop regulatory strategy for NSPM.

2008-2013 — **Xcel Energy Services, Inc., Minneapolis MN**
Regional Vice President, Regulatory Administration
- Coordinate regulatory compliance and strategy for NSPM.

2003-2008 — **Xcel Energy Services, Inc., Denver, Colorado**
Regulatory Consultant
- Develop regulatory strategy for Commercial Operations.
- Coordinate compliance activity.
- Coordinate internal and external audits of trading activity.

1998-2003 — **Xcel Energy Services, Inc., Minneapolis, MN**
Manager Renewable Energy/Regulatory Contract Coordinator
- Develop corporate strategies for renewable energy development.
- Represent Company at state regulatory and legislative proceedings regarding renewable energy issues.
- Negotiate purchased power contracts for renewable energy.
- Manage Energy Market's regulatory interactions with internal and external stakeholders.

1994-1998

Minnesota Department of Commerce, St. Paul, MN
Supervisor, Electric Regulatory Unit

- Manage regulatory staff to participate in state regulatory proceedings before the Minnesota Public Utilities Commission.
- Submit expert testimony in regulatory proceedings.
- Represent the Department of Commerce before the Minnesota legislature.

1982-1994

Minnesota Department of Commerce, St. Paul, MN
Principal Statistical Analyst

- Submit expert testimony in regulatory proceedings.
- Perform economic and statistical analysis to support regulatory and energy policy initiatives.

STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

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

AFFIDAVIT OF
Allen D. Krug

I, the undersigned, being duly sworn, depose and say that the foregoing is the Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and the exhibits or schedules sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.

____
Allen D. Krug

Subscribed and sworn to before me, this 29 day of March, 2022.

____
Notary Public
My Commission Expires:

MARY ANN MARTINEZ
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2025