Supplemental Testimony
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-3)

Supplemental Policy Testimony Supporting Settlement Agreements

May 27, 2022

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

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

Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

A. Yes. I took my colleague Mr. Greg P. Chamberlain's place as the Company's Policy witness following Direct Testimony, and adopted his Direct Testimony as if it were my own. I then provided Rebuttal Testimony on April 1, 2022 and Surrebuttal Testimony on May 6, 2022.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

A. The purpose of my testimony is to support the two Settlement Agreements that the Company and Advocacy Staff of the North Dakota Public Service Commission (Advocacy Staff) submitted to the Commission on May 27, 2022. The two Settlement Agreements field by Company and Advocacy Staff are (1) the Revenue Requirements Settlement Agreement, relating to the overall revenue requirement and return on equity (ROE) and (2) the Rate Design Settlement Agreement, relating to the Company's class cost of service study (CCOSS), revenue apportionment, and rate design.

Q. IS INTERVENOR AARP A SIGNATORY TO THE SETTLEMENT AGREEMENTS?

A. No. While AARP did participate in settlement discussions in good faith, they did not join either of the Settlement Agreements. However, I am authorized to state that AARP does not oppose the Revenue Requirements Settlement Agreement.

Q. PLEASE SUMMARIZE THE REVENUE REQUIREMENTS SETTLEMENT AGREEMENT.

A. The Revenue Requirements Settlement Agreement sets forth the agreed-upon overall revenue requirement for the 2022 test year and the authorized ROE. The Company and Advocacy Staff each compromised and agreed to an outcome that will provide the Company an opportunity to earn a reasonable rate of return on the capital invested to serve North Dakota natural gas customers, while also taking into account the positions of Advocacy Staff and AARP. In this way, the Revenue Requirements Settlement Agreement results in a just and reasonable revenue requirement based on the record before the Commission. While the Revenue Requirements Settlement Agreement is not a multi-year settlement, the Company and Advocacy Staff recognized that, with an effective Settlement, rates set in this Case could be in place for some time. Accordingly, to ensure rates remain just and reasonable, the Company and Advocacy Staff agreed to an earnings-sharing mechanism that will be in effect for all calendar years prior to the Company's next rate case test year unless a future settlement or Commission Order provides otherwise.

Q. PLEASE SUMMARIZE THE RATE DESIGN SETTLEMENT AGREEMENT.

A. The Rate Design Settlement Agreement resolves all issues in this Case relating to the CCOSS, revenue apportionment, and rate design between the Company and Advocacy Staff, but I understand that AARP does not support this agreement. The Company and Advocacy Staff reached a compromise that acknowledges and addresses the concerns raised by Advocacy Staff and AARP regarding the impact of the Company's initially-proposed rate increase on residential customers. The Rate Design Settlement Agreement does not alter the Company's existing rate design, but it does reduce the fixed monthly residential Delivery Service Charge by 9 percent below the amount that the Company initially requested in this Case.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. I present my testimony in the following sections:

- Overview of Revenue Requirements Settlement Agreement;
- Overview of Rate Design Settlement Agreement;
- The Settlement Agreements are Just and Reasonable; and
- Conclusion

II. OVERVIEW OF REVENUE REQUIREMENTS SETTLEMENT AGREEMENT

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

A. In this section, I provide an overview of the Revenue Requirements Settlement Agreement. I discuss the overall test year revenue requirement agreed to by the parties, and the adjustments that were made to the Company's Rebuttal position to reach the amount provided for in the Revenue Requirements Settlement Agreement. I also discuss the ROE, capital structure, and earnings sharing mechanism agreed to in the Revenue Requirements Settlement Agreement.

A. Test Year Revenue Requirement

Q. WHAT IS THE AGREED-UPON TEST YEAR REVENUE REQUIREMENT IN THE SETTLEMENT AGREEMENT?

A. The Revenue Requirements Settlement Agreement provides for an overall 2022 test year revenue requirement of $72.377 million, which is a revenue requirement increase of $5.074 million. This agreed-upon amount represents a decrease of $1.985 million from the $7.059 million increase originally sought by the Company. The Company originally requested a 10.5 percent increase in retail revenue, but the agreed-upon revenue requirement reduces that to a 7.5 percent increase.

Q. HOW DID THE PARTIES DETERMINE THE REVENUE REQUIREMENT AMOUNT IN THE SETTLEMENT AGREEMENT?

A. As shown in Table 1 of the Revenue Requirements Settlement Agreement, the parties began with the Company's requested rate increase presented in Rebuttal Testimony and then deducted various agreed-upon adjustments from that total. In some cases, the adjustments represent an acceptance of other parties' positions with regard to particular items, in others the adjustment is a compromise between the Company's position and that of Advocacy Staff. I describe these adjustments in more detail below.

Q. HOW DOES THE AGREED-UPON REVENUE REQUIREMENT COMPARE TO THE REVENUE REQUIREMENT FIGURES PRESENTED IN PARTIES' EARLIER TESTIMONY?

A. With the additional adjustments agreed to in the Revenue Requirements Settlement Agreement, the agreed-upon revenue requirement of $5.074 million represents a $1.985 million decrease from the Company's original request, and a $1.115 million increase above Advocacy Staff's revised recommendation on Surrebuttal.

As I noted earlier, the Company initially requested a $7.059 million increase in the revenue requirement, representing a 10.5 percent increase. On Rebuttal, the Company revised its rate increase request to $5.993 million, representing an 8.9 percent increase over current revenues. The reduction in the Company's proposed revenue requirement on Rebuttal was driven largely by the cost savings associated with the Company's completion of the Fargo Capacity Project under budget. The Settlement Agreement amount is $1.985 million, or 28 percent, below the Company's original request.

In Direct Testimony, Advocacy Staff identified proposed adjustments to the Company's rate request and recommended a total rate increase of $2.990 million, or a 4.44 percent increase in retail revenue. After making certain corrections and applying an updated ROE value, on Surrebuttal Advocacy Staff calculated a revised revenue requirement increase of $3.959 million or approximately 5.88 percent (afterward corrected to $3.193 million, or 4.7 percent). The agreed-upon revenue requirement of $5.074 million represents a $1.115 million increase above the Advocacy Staff's recommended revenue requirement on Surrebuttal.

AARP did not propose specific adjustments to the Company's revenue requirement request or recommend a specific revenue requirement figure in Direct or Surrebuttal Testimony.

Q. WHAT CAPITAL STRUCTURE, COST OF CAPITAL, AND RETURN ON EQUITY WERE USED TO DETERMINE THE REVENUE REQUIREMENT FIGURE IN THE SETTLEMENT AGREEMENT?

A. The Revenue Requirements Settlement Agreement provides that the Company's test year capital structure of 52.54 percent common equity, 47.03 percent long-term debt, and 0.43 percent short-term debt is reasonable and appropriate. The agreed-upon return on equity (ROE) under the Revenue Requirements Settlement Agreement is 9.80 percent. This is a compromise between the 10.50 percent ROE requested by the Company and the 9.54 percent ROE recommended by Advocacy Staff witness Dr. Marlon Griffing in Surrebuttal Testimony. Additionally, as I discuss further below, the Company and Advocacy Staff agree to an earnings sharing mechanism for earnings above the authorized ROE of 9.80 percent. The ROE is thus a reasonable compromise that protects customers while providing the Company with a reasonable opportunity to earn its rate of return.

Q. IN ADDITION TO ROE, WHAT OTHER ADJUSTMENTS WERE AGREED TO IN THE REVENUE REQUIREMENTS SETTLEMENT AGREEMENT?

A. The other adjustments are to (a) extend the rate case amortization, (b) reduce the test year property tax forecast, (c) remove certain incentive compensation costs, (d) remove certain dues and donation expenses, and (e) update secondary calculations. These adjustments generally reflect Advocacy Staff's proposals or compromises between the Company and Advocacy Staff.

Q. PLEASE DESCRIBE THE RATE CASE EXPENSE AMORTIZATION ADJUSTMENT.

A. The Revenue Requirements Settlement Agreement provides that the Company will extend the amortization period for Rate Case Expense associated with this Case from three years to five years, consistent with the recommendation of Advocacy Staff witness Mr. Dante Mugrace. This adjustment results in a $0.163 million reduction to the test year revenue requirement.

Q. PLEASE DESCRIBE THE AGREED-UPON REDUCTION IN PROPERTY TAX EXPENSE.

A. The Revenue Requirements Settlement Agreement provides that the Company will reduce its forecasted Property Tax expense for the 2022 test year by 10 percent. This is a compromise based on Advocacy Staff witness Mr. Mugrace's testimony questioning the forecasted property tax expense for the 2022 test year in light of recent fluctuations in the Company's Property Tax expense. The Company anticipates an increase in Property Tax expense in the test year due to the Fargo Capacity Project being added to rate base; however, in the interest of reaching a settlement and in recognition of Advocacy Staff's position, the Company was willing to compromise. This adjustment results in a $0.159 million reduction to the test year revenue requirement.

Q. PLEASE DESCRIBE THE ADJUSTMENTS RELATING TO INCENTIVE COMPENSATION.

A. The Revenue Requirements Settlement Agreement provides that certain Incentive Compensation expenses will be removed from the 2022 test year, consistent with the recommendations of Advocacy Staff witness Mr. Mugrace. The specific expenses excluded are: (a) $17,060 for environmental long-term incentive (LTI) compensation; and (b) $10,979 for time-based LTI compensation. As I stated in my Rebuttal Testimony, the LTI program is important for attracting and retaining key, senior leaders and encouraging them to effectively manage the Company. However, the Company was willing to compromise on these adjustments in the interest of settlement, and the Revenue Requirements Settlement Agreement expressly provides that the Company may seek to recover these costs on a prospective basis in future rate cases. These adjustments result in a $0.028 million reduction of the test year revenue requirement.

Q. PLEASE DESCRIBE THE AGREED-UPON ADJUSTMENTS TO ORGANIZATIONAL DUES, CHARITABLE DONATIONS, AND ECONOMIC DEVELOPMENT COSTS.

A. The Revenue Requirements Settlement Agreement provides that the following expenses will be removed from the 2022 test year revenue requirement, consistent with the recommendations of Advocacy Staff witness Mr. Mugrace: a) $7,382 for Economic Development; (b) $2,221 for Chamber of Commerce Dues; and (c) $6,226 for Charitable Contributions. I opposed these adjustments in my Rebuttal Testimony, noting that these expenses are a normal cost of doing business for a large corporation and provide benefits to North Dakota customers. However, as with LTI expenses discussed above, the Company was willing to compromise on these adjustments in the interest of Settlement, and the Settlement Agreement expressly provides that the Company may seek to recover these costs on a prospective basis in future rate cases. These adjustments result in a $0.016 million reduction of the test year revenue requirement.

Q. PLEASE DESCRIBE THE SECONDARY CALCULATIONS ADJUSTMENT.

A. The Revenue Requirements Settlement Agreement provides that the Company and Advocacy Staff accept the Company's calculation of the "secondary" impacts of the adjustments I described above. This adjustment results in a $848 reduction of the test year revenue requirement.

Q. DO THESE ADJUSTMENTS REPRESENT A REASONABLE COMPROMISE?

A. Yes, I believe the adjustments to the revenue requirement agreed to by the Company and Advocacy Staff represent a reasonable compromise between the parties' recommendations and will result in just and reasonable rates. This is the particularly the case in light of the earnings sharing mechanism that I describe below.

B. Earnings Sharing

Q. WHAT IS THE EARNINGS SHARING MECHANISM AGREED TO IN THE SETTLEMENT AGREEMENT?

A. As I noted above, the parties recognize that the rates determined by the Revenue Requirements Settlement Agreement could be in effect past 2021 and that an earnings sharing mechanism would thus be appropriate to ensure that rates will continue to be just and reasonable in future years. Accordingly, the Revenue Requirements Settlement Agreement provides that, in the event the Company's annual weather-normalized earnings exceed 9.80 percent, the Company will refund to customers 50 percent of the weather-normalized revenue contributing to earnings in excess of 9.80 percent up to 10.25 percent. In the event the Company's annual weather-normalized earnings exceed 10.25 percent, the Company will refund to customers 100 percent of the weather-normalized revenue contributing to earnings in excess of 10.25 percent. Under the terms of the Revenue Requirements Settlement Agreement, this mechanism will be in effect for all calendar years prior to the Company's next rate case test year, unless a future Commission Order or settlement provides otherwise. It should also be noted that the earnings sharing mechanism is asymmetrical: the Company will refund money to customers if the weather-normalized return on equity exceeds 9.80 percent in future years, but the mechanism does not provide additional revenue should the return on equity fail to achieve any level. Thus, the Company bears the risk of under-earning while customers receive the benefit in the event the Company over-earns (on a weather-normalized basis) its authorized ROE.

Q. ARE THERE ANY OTHER SETTLEMENT TERMS RELATING TO JUST AND REASONABLE RATES FOR CUSTOMERS?

A. Yes. The Revenue Requirements Settlement Agreement provides, consistent with the Settlement Agreement in Case No. PU-18-156, the Company will move the annual $1.25 million Fargo manufactured gas plant (MGP) remediation amortization expense to the Cost of Gas (COG) Rider once new base rates go into effect.

III. OVERVIEW OF RATE DESIGN SETTLEMENT AGREEMENT

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

A. In this section of my testimony, I provide an overview of the Rate Design Settlement Agreement. Specifically, I describe the compromises agreed to by the parties with respect to the CCOSS, revenue apportionment, and rate design.

Q. PLEASE REMIND US, WHAT DID THE PARTIES RECOMMEND IN TESTIMONY WITH RESPECT TO THE CCOSS, REVENUE APPORTIONMENT, AND RATE DESIGN IN THIS CASE?

A. The Company prepared its CCOSS in this Case using the same methodology as used in our last natural gas rate case (Case No. PU-06-525), including with respect to classifying and allocating costs. The Company did not propose any material changes to its existing rate design for North Dakota in this Case, but did propose to increase the fixed monthly Delivery Services Charge from $18.48 to $24.48.

In Direct and Surrebuttal Testimony, Advocacy Staff witness Mr. Karl R. Pavlovic took issue with the Company's methods for classifying distribution mains costs and allocating transmission and regulator station costs, arguing that this resulted in an over-allocation of these costs to the Residential rate class. Intervenor AARP witness Mr. William H. Malcolm testified that the Company's proposed Residential revenue apportionment of 15.0 percent was too high, and also objected to the Company's proposed increase to the residential Delivery Services Charge.

Q. WHAT DOES THE RATE DESIGN SETTLEMENT AGREEMENT PROVIDE WITH RESPECT TO RATE DESIGN AND CUSTOMER CHARGES?

A. The Company and Advocacy Staff agree that the Company's existing rate design results in just and reasonable rates for North Dakota residential customers. In an effort to address the AARP's objections to the Delivery Services Charge, the Rate Design Settlement Agreement provides that the fixed monthly Delivery Services Charge for residential customers will be $22.25, a decrease of 9.1 percent from the Company's original requested amount of $24.48.

Q. WHAT DOES THE RATE DESIGN SETTLEMENT AGREEMENT PROVIDE WITH RESPECT TO REVENUE APPORTIONMENT AMONG RATE CLASSES?

A. The Rate Design Settlement Agreement provides that the Company and Advocacy Staff agree on class revenue increases as follows:

Table 1 – Settlement Revenue Apportionment (000's)

Customer Class	Current Revenues	Proposed Increase	Percent Increase
Residential	$26,797	$2,344	8.75%
Commercial Firm	$31,902	$2,150	6.74%
Interruptible	$8,604	$580	6.74%
Total	$67,303	$5,074	7.54%

Q. HOW DOES THE AGREED-UPON REVENUE APPORTIONMENT COMPARE TO THE RECOMMENDATIONS PRESENTED IN PARTIES' EARLIER TESTIMONY?

A. In Direct Testimony, the Company proposed a 15.0 percent revenue increase for the Residential class, a 10.5 percent increase for the C&I Firm class, and a 10.0 percent increase for the Interruptible class. Company witness Mr. Christopher Barthol testified that it is reasonable to apply a larger percent increase for the Residential class, because the Test Year Class Cost of Service Study showed that the Residential class needed to generate 33.72 percent more revenues to match the costs to serve.

AARP witness Mr. Malcolm testified that the Residential rate increase of 15.0 percent was too high, and that there was no reasonable justification for the residential class to pay a higher percentage of cost increases than other classes. In recognition of this concern, the Rate Design Settlement Agreement mitigates the impacts to the Residential class by bringing the cost increase for the Residential class closer to the overall average increase for all classes.

Q. DO ALL PARTIES TO THIS CASE SUPPORT THE RATE DESIGN SETTLEMENT AGREEMENT?

A. No. AARP is not a signatory to the Rate Design Settlement Agreement. My understanding is that AARP does not support continuing with the same cost of service methodologies and residential rate design that has been in place in North Dakota since 2004.

Q. DOES THE SETTLEMENT AGREEMENT PROVIDE FOR ANY DEADLINES FOR THE COMPANY'S TARIFF REVISIONS TO REFLECT FINAL RATES?

A. Yes. The Settlement Agreement provides that the Company will file compliance tariff pages setting forth the revised natural gas rates and tariffs provided by the Settlement Agreement within at least thirty (30) days of the date of approval of the Settlement.

IV. THE SETTLEMENT AGREEMENTS ARE JUST AND REASONABLE

Q. PLEASE SUMMARIZE WHY THE REVENUE REQUIREMENTS SETTLEMENT AGREEMENT IS JUST AND REASONABLE.

A. Given that the Company filed our last rate case over 15 years ago and has made numerous capital additions during that period, the Company is experiencing a revenue shortfall and does not have the opportunity to earn a reasonable rate of return. The Revenue Requirements Settlement Agreement will result in just and reasonable rates because it allows for increased revenue, while also limiting the amount of that increase in response to the positions of Advocacy Staff and AARP through the revenue requirements adjustments I described above. Specifically, the Company agreed to reduce our revenue requirement increase by 28 percent below our initial request, which is a significant amount in terms of our North Dakota business. In addition, the earnings sharing mechanism provided for in the Revenue Requirements Settlement Agreement will serve to keep rates just and reasonable into the future, given the likelihood that the agreed-upon rates will be in place beyond 2022.

Overall, the revenue requirement increase and adjustments agreed to in the Revenue Requirements Settlement Agreement represent a good compromise that will provide the Company with the opportunity to earn a reasonable rate of return while protecting North Dakota customers from rate shock surrounding this rate case.

Q. PLEASE SUMMARIZE WHY THE RATE DESIGN SETTLEMENT AGREEMENT IS JUST AND REASONABLE.

A. The Rate Design Settlement Agreement will ensure that the Company continues to have just and reasonable rates and push the need for another rate filing further into the future. In response to concerns raised in testimony regarding disproportionate rate impacts to the Residential class, the Rate Design Settlement Agreement reduces the relative rate increase applied to the Residential class, thereby mitigating the rate impacts of this Case on residential customers. Additionally, the Rate Design Settlement Agreement retains the residential rate design that the Company has used in North Dakota for many years. We believe this rate design is a good fit for our North Dakota business and in the past has allowed the Company to avoid repeated rate cases to increase retail natural gas rates. This is demonstrated by the fact that the Company has not filed a rate increase in North Dakota in over 15 years, despite several major capital additions and significant customer growth over that period. Overall, the

Rate Design Settlement Agreement will result in just and reasonable rates for all customers.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

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 Supplemental Testimony of the undersigned, and that such Supplemental 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 24th day of May, 2022.

Susan M. Nerheim
Notary Public
My Commission Expires:

SUSAN M NERHEIM
Notary Public
State of Minnesota
My Commission Expires
January 31, 2023