



Public Service Commission

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August 27, 2024

Public Service Commission
Attention: Steve Kahl
600 East Boulevard Avenue, Dept 408
Bismarck, ND 58505-0480

In re: Northern States Power Company
2024 Natural Gas Rate Increase
Application
Case No. PU-23-367

Dear Mr. Kahl,

Enclosed for filing in the above referenced matter please find the original copy of the following public document:

1. Direct Testimony of Chris Hanson in Support of Settlement

Respectfully,

A handwritten signature in black ink, appearing to read "Brian Johnson".

Brian Johnson
Special Assistant Attorney General Bar ID 07937
North Dakota Public Service Commission
600 East Boulevard Avenue Dept. 408
Bismarck ND, 58505
701-328-2407

BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Northern States Power Company
2024 Natural Gas Rate Increase

DIRECT TESTIMONY
OF
CHRIS HANSON

ON BEHALF OF THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION
ADVOCACY STAFF

August 27, 2024

1 Q: Provide your name and qualifications.

2 A: My name is Chris Hanson. I am a Public Utility Analyst for the North Dakota
3 Public Service Commission (commission). I have 32 years of accounting
4 experience and just under two years of utility regulatory experience.

5 I received a Bachelor of Arts Degree in Accounting and International Relations
6 from Concordia College in 1992. Prior to my work with the commission, I
7 worked in public accounting, had various roles in corporate accounting, auditing
8 and analysis in the utility industry, was a controller in the transportation industry
9 and a business manager for the North Dakota Dept of Corrections.

10

11 Q: What is the purpose of your testimony?

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

17

18 Q: Please summarize your testimony.

19 A: The settlement provides for a 2024 test year revenue requirement of \$97.338
20 Million (M), a return on equity (ROE) of 9.90%, an average rate base of
21 \$164.918M, and reductions to various operations and maintenance expenses
22 (O&M).

23

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

25 A: All parties have agreed to a 2024 test year revenue requirement of \$97.338M,
26 an increase of \$7.348M over current rates. This represents a reduction of
27 \$1.115M from NSP's original request of \$8.463M.

28

1 Q: What is the Weighted Average Cost of Capital (WACC) and how was it
2 calculated?

3 A: The settlement cost of capital (COC) includes a capital structure of 52.50%
4 equity with a return of 9.90%, 47.38% long-term debt with a cost of 4.54%, and
5 0.12% short-term debt with a cost of 7.72%. This structure results in a WACC
6 of 7.36%.

7

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

9 A: Yes. The \$7.348M settlement represents a slightly greater than 50%
10 compromise by NSP on rates between the initial NSP request of \$8.463M and
11 the \$6.344M initial staff recommendations. While the 9.9% ROE is slightly
12 higher than the 9.8% recommended by the staff's witness, Dr. Griffing, this
13 represents a 0.10% increase from the current rate of 9.8% and is reasonable
14 given the current environment. I believe the ROE and overall cost of capital are
15 a just and reasonable rate of return on NSP's property, are used and useful
16 and are for the service and convenience of the public of North Dakota.

17

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

19 A: No.

20

21 Q. What are the revenue requirement adjustments between the initial NSP
22 proposal and the settlement agreement?

23 A: The adjustments from the initial NSP proposal and the settlement agreement
24 are comprised of a reduction of the ROE, removal of the Fargo Flood Mitigation
25 Project from rate base, agreed upon O&M adjustments, removal of the short-
26 term CWIP, specific Disallowed Expenses, the removal of unused rate case
27 expenses and secondary calculations.

28

29 Q: What impact did the ROE reduction have on NSP's test year revenue
30 requirement?

1 A: The reduction of the ROE from the 10.2% requested to the 9.9% agreed upon
2 represents a savings of \$349k from the initial proposal or approximately 31.3%
3 of the total adjustment. This is significant due in part to the fact that the NSP
4 rate base increased by 37% from the 2022 test year (for the 2021 rate case
5 PU-21-381) and has increased by 117% in the four years from 2020-2024. So,
6 keeping the ROE level reasonable will have an outsized effect going forward
7 as the average rate base continues to increase in the future.

8

9 Q: What were the adjustments made for the removal of the Fargo Flood Mitigation
10 Project?

11 A: As part of the informal hearing, NSP noted that a portion of their increased rate
12 base was related to cost incurred to relocate assets as part of the Fargo-
13 Moorhead Flood Mitigation Project. Commissioner Haugen-Hoffart inquired
14 regarding whether there were funds available as part of this project to
15 reimburse the utilities for these expenses. NSP responded shortly thereafter
16 that they had, in fact, just recently received reimbursement from the federal
17 government that would reduce the rate base by \$2.4MM, which in turn reduced
18 the revenue requirement by \$296k.

19

20 Q: What were the O&M adjustments?

21 A: O&M expenses were set at the 2022 actual level. This reduced the revenue
22 requirement by \$179k.

23

24 Q: What was the adjustment related to the removal of short-term CWIP?

25 A: The removal of the CWIP was made with the premise that assets that are not
26 placed in service prior to the test year should not be included in rate base. This
27 resulted in a revenue requirement reduction of \$63k.

28

29 Q: What were the adjustments made for the Disallowed Expenses?

1 A: These were \$121k of expenses related to long-term incentives, organizational
2 dues, charitable donations, economic development, advertising and staff
3 recognition that Advocacy staff regarded as not for the benefit of customers
4

5 Q: What were the adjustments related to the Rate Case Expenses

6 A: These were the cost savings related to rate case costs avoided by reaching a
7 settlement prior to final testimony. This company is utilizing a three-year
8 amortization, which is reasonable. This amount will be the larger of \$100k or
9 actual cost savings.
10

11 Q: What were the Secondary Calculations?

12 A: These are \$7k of savings resulting from the reduction of items such as payroll
13 taxes, bad debt, deferred income taxes and changes in work capital-
14

15 Q: Is the class revenue allocation just and reasonable?

16 A: Yes. Staff agrees that maintaining the monthly delivery fee of \$22.25 is just and
17 reasonable and that the class revenue allocations as listed in Table 2 on page
18 7 of the Settlement Agreement moves the classes closer to parity with the
19 actual cost of service. This class cost allocation along with the proposed rate
20 design principles will provide for rate schedules designed in such a manner that
21 they will result in a basis of charge to NSP customers that is just and reasonable
22 without undue discrimination.
23

24 Q: Does this conclude your testimony?

25 A: Yes it does.