

Supplemental Direct Testimony
Benjamin C. Halama

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 Electric Service in North Dakota

Case No. PU-24-376
Exhibit____(BCH-2)

Earnings Share Mechanism Issues

May 9, 2025

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1 **I. INTRODUCTION**

2

3 Q. PLEASE STATE YOUR NAME AND TITLE.

4 A. My name is Benjamin C. Halama. I am Director of Revenue Analysis for Xcel
5 Energy Services Inc., the service company for Xcel Energy Inc. and its operating
6 company subsidiaries, including Northern States Power Company–Minnesota
7 (NSPM or the Company).

8

9 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS MATTER?

10 A. Yes. I provided Direct Testimony that was filed on December 2, 2024.

11

12 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY IN THIS
13 MATTER?

14 A. I support the Company's position regarding two issues that the Company has
15 not been able to resolve with the Commission's Advocacy Staff (Staff) that both
16 relate to the amount of the refund due to customers pursuant to the earnings
17 share mechanism agreed to in settling the prior rate case. Specifically, I am
18 discussing the following items: (1) the appropriate calculation for how the
19 "disputed resources" should be accounted for in determining the portion of the
20 refund due to North Dakota customers arising out of the wholesale revenue the
21 Company received from 2022-2023 Planning Resource Auction (PRA)
22 conducted by the Midcontinent Independent Systems Operator (MISO); and
23 (2) certain adjustments made to the Company's method for weather
24 normalization of its earnings in response to the unusual usage patterns that
25 arose due to the COVID-19 pandemic, which it referred to as the COVID
26 Topside Adjustment. The Company is seeking Commission approval for its

1 calculation of the amount of the refund. The total amounts at issue are \$0.4
2 million and \$1.7 million in 2021 and 2022, respectively.

3
4 Q. HAS THE COMPANY DISCUSSED THESE ISSUES IN ITS DIRECT TESTIMONY IN THIS
5 CASE?

6 A. Yes, but only briefly. Company witness Allen D. Krug referenced these issues
7 in Section VII of his Direct Testimony, but did not provide details. My
8 testimony provides background and explains the Company's positions.

9
10 Q. DID THE ISSUES YOU ARE DISCUSSING IN THIS TESTIMONY POSTPONE REFUNDS
11 TO CUSTOMERS?

12 A. No. The Company is refunding customers the full amount that is not in dispute.
13 In Case No. PU-24-362 the Company proposed to make refund payments from
14 January 1, 2025 through December 31, 2025 via the Bill Credit Rider. The
15 Commission approved that request in an Order dated December 18, 2024. The
16 total refund amount included the North Dakota jurisdictional shares of land
17 sale revenues, the 15th Department of Energy settlement payment, and the
18 earnings share mechanism amounts of \$7,107,218 for 2021 and \$7,434,207 for
19 2022. In its Order, the Commission noted that those amounts did not include
20 the PRA revenues, which was proposed to be determined in this case. Staff also
21 raised concerns with the COVID Topside Adjustment, and the parties agreed
22 to attempt to resolve that issue in this proceeding. In summary, the portion of
23 the customer refund that Staff and the Company agreed upon is being paid and
24 the issues in dispute relating to whether additional refunds are due are being
25 presented to the Commission for it to decide.

1 Q. PLEASE DESCRIBE HOW YOUR SUPPLEMENTAL DIRECT TESTIMONY IS
2 ORGANIZED.

3 A. My Supplemental Direct Testimony is organized in the following sections:

- 4 • Background;
- 5 • Planning Resource Auction Revenue;
- 6 • Adjustment to Weather Normalization; and
- 7 • Conclusion.

8
9 **II. BACKGROUND**

10
11 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR SUPPLEMENTAL DIRECT
12 TESTIMONY?

13 A. In this section I provide some background relevant to the amount of the refund
14 due under the earnings share mechanism arising out of the Commission-
15 approved settlement agreement that resolved Case No. PU-20-441 (2021
16 Settlement Agreement).

17
18 Q. PLEASE DISCUSS THE BASIS FOR THE EARNINGS SHARE MECHANISM.

19 A. The 2021 Settlement Agreement provided in Section I.B.1 for an earnings share
20 mechanism for rates in effect beyond 2021. In that section, the Company agreed
21 that if its “weather-normalized earnings” exceeded 9.75 percent, it would refund
22 100 percent of the excess to customers.

23
24 Q. DOES THE 2021 SETTLEMENT AGREEMENT CONTAIN ANY SPECIFIC PROVISIONS
25 DISCUSSING THE METHODOLOGY FOR WEATHER NORMALIZATION?

26 A. No. Section I.B.1 refers twice to the earnings share mechanism applying to
27 “weather-normalized earnings” but does not contain any language specifically

1 discussing methodology, and weather normalization is not discussed elsewhere
2 in the 2021 Settlement Agreement.

3
4 Q. DID THE 2021 SETTLEMENT AGREEMENT CONTAIN ANY EXCEPTIONS FOR
5 TYPES OF REVENUE TO BE CONSIDERED FOR THE EARNINGS SHARE
6 MECHANISM?

7 A. Yes. Section I.B.2 contained an explicit carve-out for certain specific generation
8 resources which are listed on Attachment A to the 2021 Settlement Agreement.
9 These are the generation resources that are sometimes referred to as the
10 “disputed resources.” They consist of power purchase agreements (PPAs) and
11 two Company-owned resources that the Commission has not approved. The
12 resources in question are mostly wind and solar generation facilities but the PPA
13 for the gas-powered Mankato Energy Center expansion (MEC II) is also
14 included. As I discuss further below, the costs and volumes of most of the
15 disputed resources are removed from the calculation of the system average cost
16 of fuel, which results in the rates determined for the Company’s Fuel Cost Rider
17 being calculated as if the resources did not exist.

18
19 Q. WHAT DID SECTION I.B.2 STATE ABOUT THE DISPUTED RESOURCES WITH
20 RESPECT TO THE EARNINGS SHARE MECHANISM?

21 A. The Settlement Agreement provides, “the Company may retain all non-energy
22 or non-capacity related attributes (e.g., PTCs, Renewable Energy Credits
23 (RECs), etc.) and all wholesale revenue (i.e., asset-based margins) for these
24 resources. The value of such attributes and revenues will not be reflected in the
25 Company’s annual calculation of jurisdictional earnings for purposes of the
26 earnings-sharing mechanism.”

1 Q. DOES THE 2021 SETTLEMENT AGREEMENT CONTAIN ANY ADDITIONAL
2 SPECIFIC DISCUSSION OF ANY DISPUTED RESOURCES?

3 A. Yes. It contains specific provisions in Section I.A regarding the Community
4 Wind North and Jeffers Wind facilities, and the MEC II PPA.

5
6 Q. WHAT ARE COMMUNITY WIND NORTH AND JEFFERS WIND?

7 A. Community Wind North and Jeffers Wind are two generation facilities that had
8 previously served customers via PPAs. The Company acquired and repowered
9 them and sought to add them to rate base in the prior rate case.

10
11 Q. WHAT SPECIFICALLY DOES THE 2021 SETTLEMENT AGREEMENT SAY ABOUT
12 COMMUNITY WIND NORTH AND JEFFERS WIND?

13 A. Section I.A.6 of the 2021 Settlement Agreement removed them as capital
14 additions from the 2021 test year revenue requirement, but also stated that the
15 Company may seek to prospectively recover them in a future rate case (the
16 Company is exercising that option as reflected in the Direct Testimony of
17 Company witness Christopher J. Shaw). The parties further agreed that the
18 Company “may continue to recover a portion of the costs of these projects as
19 if they continued to be ‘disputed resources,’ notwithstanding that the existing
20 PPAs will have terminated.” As I explain further below, this involves customers
21 paying for energy served to them via the Fuel Cost Rider at a rate determined
22 using a system average cost of fuel calculated without any consideration of the
23 disputed resources.

1 Q. HOW IS COST RECOVERY FOR THE OTHER DISPUTED RESOURCES ADDRESSED IN
2 THE SETTLEMENT AGREEMENT?

3 A. Section I.B.2 provided that the resources identified on Attachment A would
4 continue to be treated as previously agreed in Case No. PU-12-813, except for
5 MEC II, Community Wind North, and Jeffers Wind, for which cost recovery
6 would be governed by specific provisions of the 2021 Settlement Agreement.¹
7

8 Q. THE 2021 SETTLEMENT AGREEMENT PROVIDED THAT MOST OF THE
9 ATTACHMENT A RESOURCES WOULD CONTINUE TO HAVE THE SAME
10 TREATMENT AS HAD BEEN AGREED TO PREVIOUSLY. WHAT WAS THE PRIOR
11 TREATMENT OF THOSE RESOURCES?

12 A. Rate treatment for those resources had been previously addressed by an
13 agreement in Case No. PU-12-813 approved by the Commission on March 9,
14 2016 (the 2016 Agreement). Section III.A of that earlier agreement states that,
15 “the resources listed in Attachment A to this Agreement are to be excluded
16 from the calculation of the Company’s North Dakota Fuel Cost Rider.”
17

18 Q. HOW DOES IT WORK TO EXCLUDE THOSE RESOURCES FROM THE CALCULATION
19 OF THE FUEL COST RIDER?

20 A. The Fuel Cost Rider is used for the costs of fuel (fossil and nuclear), purchased
21 power, and certain MISO charges. There are various adjustments made based
22 on past orders and agreements, but in broad terms, the total costs subject to the
23 rider are summed up and then divided by energy sales to arrive at a system
24 average cost of fuel. That resulting average is then used to determine the dollar

¹ There was no past precedent for Company-owned disputed resources, so Community Wind North and Jeffers Wind were treated as if they were PPAs like the other solar and wind disputed resources.

1 per kWh rider rates for each customer class. The Company provides the
2 calculations supporting the rider amounts to the Commission in monthly filings.

3
4 Under the treatment for these resources agreed to in the 2016 Agreement and
5 continued by the 2021 Settlement Agreement, disputed resources are totally
6 removed from the calculation presented in the monthly filings. The costs of
7 those resources are not included in the total costs, the numerator, and the
8 energy sales from them are not included in the energy sales total used as the
9 denominator. The resulting average, calculated without any consideration of the
10 disputed resources, is then used to determine the amounts paid by individual
11 customers for energy.

12
13 Q. IS THIS TREATMENT OF DISPUTED RESOURCES A LONG-STANDING PRACTICE?

14 A. Yes. The removal of costs and volumes from the Fuel Cost Rider calculation
15 was first undertaken for the Prairie Rose Wind Farm PPA in Case No. PU-12-
16 59. Similar rate treatment for disputed resources has been ongoing ever since.

17
18 Q. HOW DOES THE 2021 SETTLEMENT AGREEMENT ADDRESS COST RECOVERY FOR
19 MEC II?

20 A. Section I.A.4 of the 2021 Settlement Agreement removed the demand costs of
21 the MEC II PPA from the test year revenue requirement. PPA demand costs
22 are recovered in base rates, and not in the Fuel Cost Rider, which is used to
23 recover energy costs. This exclusion of the MEC II demand costs was without
24 prejudice to a future determination of prudence and the Company's ability to
25 recover prospective demand costs in a future rate case (the Company is seeking
26 to prospectively recover demand costs for MEC II as reflected in Company
27 witness Shaw's Direct Testimony). Consequently, while the energy costs for

1 MEC II are included in the Fuel Cost Rider; the North Dakota share of demand
2 costs of the MEC II PPA are not recovered anywhere in rates.

3
4 Q. AS A REMINDER, HOW IS COST RECOVERY FOR JEFFERS WIND AND COMMUNITY
5 WIND NORTH HANDLED?

6 A. Though those resources are not PPAs, they are treated like disputed resource
7 PPAs pursuant to Section I.A.6 of the 2021 Settlement Agreement. They are
8 not in rate base, and for the generation produced, the Company's Fuel Cost
9 Rider provides for payment of energy used by North Dakota customers based
10 on the system average cost of fuel using the average of costs for the non-
11 disputed resources that I just described.

12
13 Q. WHAT IS THE OVERALL IMPACT OF THE AGREED-UPON APPROACH FOR THE
14 DISPUTED RESOURCES?

15 A. The \$/kWh rates applied to customers via the Fuel Cost Rider represents the
16 Company's energy costs as if these resources were not serving the system. For
17 Community Wind North and Jeffers Wind, the cost recovery does not reflect
18 that these are Company-owned resources, and the exclusion of the demand
19 costs of the MEC II PPA from recovery in North Dakota results in recovery of
20 no demand costs. The Company is also not recovering demand costs from
21 North Dakota customers for the other disputed resources PPAs. The overall
22 result is that North Dakota customers are not paying the costs of the generation
23 resources. Rather, customers are paying for every kWh of energy through the
24 Fuel Cost Rider using the system average cost of fuel, which excludes the
25 disputed resources as described above.

1 Q. WHAT IS YOUR UNDERSTANDING FOR WHY STAFF AND THE COMPANY AGREED
2 TO THIS OUTCOME FOR THESE RESOURCES?

3 A. In its March 9, 2016 Order approving the 2016 Agreement that established the
4 removal of these disputed resource costs and volumes from the Fuel Cost Rider
5 calculation, the Commission referred to that agreement as representing “a
6 reasonable path towards addressing the impacts of divergent energy policies on
7 NSP’s resource decisions.” Along similar lines, that 2016 Agreement itself states
8 in Section I that the parties concurred that “varying state energy policies within
9 the NSP System footprint have led to differences in each state’s approach to
10 generation resource development.” I think it is reasonable to conclude that the
11 mechanisms used to exclude the disputed resources from the Fuel Cost Rider
12 calculations were agreed to and approved based on Staff contending that these
13 resources are not consistent with North Dakota’s energy policies, and the 2021
14 Settlement Agreement and the 2016 Agreement were compromises.

15
16 **III. PLANNING RESOURCE ADEQUACY AUCTION REVENUE**
17

18 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR SUPPLEMENTAL DIRECT
19 TESTIMONY?

20 A. Now that I have discussed the background to the two disputes, including
21 relevant portions of the 2021 Settlement Agreement and the 2016 Agreement,
22 I am moving to the specific disputes with Staff. In this Section, I discuss the
23 dispute regarding the revenue from MISO’s planning resource adequacy
24 auction, and then the next section will cover the COVID Topside Adjustment
25 issue.

1 Q. WHAT IS PLANNING RESOURCE AUCTION?

2 A. As part of its resource adequacy process, MISO has load serving entities, like
3 the Company, demonstrate whether they have sufficient accredited capacity to
4 serve expected load plus a planning reserve margin. If load serving entities have
5 more capacity than needed, they can sell that excess capacity in the MISO
6 planning resource auction. Such capacity sales generate wholesale revenue for
7 the Company.

8
9 Q. HOW DID THE COMPANY ANALYZE THE REVENUE FROM THE DISPUTED
10 RESOURCES, COMMUNITY WIND NORTH, JEFFERS WIND, AND MEC II, WHEN
11 DETERMINING ITS 2022 AND 2023 JURISDICTIONAL EARNINGS?

12 A. The Company performed two sets of calculations, which it then compared. In
13 the first calculation, the Company determined the North Dakota jurisdictional
14 share of PRA revenues for 2022-2023 without making any adjustments. This
15 version included PRA wholesale revenues from all the disputed resources,
16 including MEC II. In the second calculation, the Company used the same
17 underlying basic assumptions, except that it determined the North Dakota
18 jurisdictional share of PRA revenue that would have been earned if it did not
19 have any of the disputed resources. The Company's position is that the
20 difference between these two figures is the "wholesale revenue" from the
21 resources that should not be included when calculating jurisdictional earnings
22 as provided for in the 2021 Settlement Agreement.

23
24 Q. PLEASE EXPLAIN THAT FURTHER.

25 A. Under the terms of the 2021 Settlement Agreement, "wholesale revenue" from
26 Community Wind North, Jeffers Wind, MEC II, and the other disputed
27 resources, are not supposed to be included when calculating the jurisdictional

1 earnings for the earnings share mechanism. This portion of the 2021 Settlement
2 Agreement is consistent with fundamental fairness. The customers in North
3 Dakota do not pay for the demand cost of MEC II and only pay for energy
4 from the other resources using a price calculated as if they did not exist.
5 Community Wind North and Jeffers Wind are Company-owned but are not
6 included in rate base for North Dakota. As North Dakota customers do not
7 participate in the costs of the resources, it was appropriate for the Commission-
8 approved 2021 Settlement Agreement to also exclude the wholesale revenues
9 from them when calculating whether and to what extent an earnings share
10 refund should be paid to them.

11
12 Q. WHAT WERE THE RESULTS OF THE COMPANY'S ANALYSIS?

13 A. For 2022 and 2023, the Company earned \$6.4 million on a North Dakota
14 jurisdictional basis net of interchange in PRA revenue. This is based on the
15 Company having 1,496 MWs in Zonal Resource Credits for the auction: 1,408
16 in Zone 1, 78 in Zone 2, and 10 in Zone E20. However, without the disputed
17 resources, the Company would have had 521 fewer Zonal Resource Credits in
18 the auction.

19
20 Q. WHAT WOULD HAVE BEEN THE IMPACT OF HAVING 521 FEWER ZONAL
21 RESOURCE CREDITS?

22 A. At the price per MW/day established in the auction, the result would have been
23 an approximately \$45 million reduction in revenue on NSP System basis, with
24 a reduction of approximately \$2.2 million on a North Dakota jurisdictional basis
25 net of interchange. The Company's position is that it is entitled to keep this \$2.2
26 million of PRA revenues, since this is the amount attributable to capacity from
27 resources that North Dakota customers are not paying for.

1 Q. WHAT IS YOUR UNDERSTANDING OF STAFF'S POSITION ON THIS ISSUE?

2 A. Staff has indicated it agrees that some reduction in the revenue from the PRA
3 auction is appropriate to take account of the disputed resources. However, Staff
4 has taken a different approach than the Company to calculating the amount of
5 that reduction.

6
7 Q. WHAT IS STAFF'S APPROACH?

8 A. As I understand it, Staff contends that the appropriate calculation involves
9 determining the percentage of the accredited capacity the Company puts
10 forward in the MISO resource adequacy process made up of the disputed
11 resources, Community Wind North, Jeffers Wind, and MEC II, and then
12 reducing the Company's total PRA revenues of approximately \$128 million by
13 that percentage. After that calculation and jurisdictional allocation net of
14 interchange, Staff's position is that the Company should have reduced revenue
15 by approximately \$0.3 million, which is the amount in dispute for this issue.

16
17 Q. DO YOU AGREE WITH THAT APPROACH?

18 A. No, I do not.

19
20 Q. WHY NOT?

21 A. Staff's proposed treatment ignores that the Company was able to earn
22 significant PRA revenue for the years in question only because of its marginal
23 accredited capacity. It was the additional capacity beyond that needed to simply
24 satisfy MISO's requirements that resulted in the Company earning the wholesale
25 revenue. The agreed-upon treatment of the disputed resources is based on
26 disagreements about whether the Company should have acquired those
27 resources at all – including, in the case of MEC II if it was needed at the time

1 the PPA was entered into. It is those disagreements that make the resources
2 “disputed.” Essentially, the rate making treatment for those resources is meant
3 to make rates reflect a scenario in which the resources would not have been
4 added to the Company’s system. The calculation of the PRA revenues should
5 therefore be based on the same assumption. However, Staff’s approach to
6 calculating the amount of the earnings refund does not reflect this same
7 assumption or the settlement that was reached based on the state’s policy
8 preferences.

9
10 Q. CAN YOU EXPLAIN FURTHER?

11 A. Yes. Having taken the position that the Company should not have entered into
12 these PPAs (or acquired and repowered Community Wind North and Jeffers
13 Wind) at all, and having agreed upon an approach that prices energy used by
14 customers as if the PPAs, or resources, did not exist, the most consistent
15 approach is to calculate the North Dakota share of the wholesale PRA revenue
16 as if the resources also did not exist for those purposes, too. That is the
17 Company’s proposed approach.

18
19 Q. IS STAFF’S PROPOSED APPROACH CONSISTENT WITH THE AGREED-UPON
20 TREATMENT FOR MEC II?

21 A. No. As I noted in the section above, the 2021 Settlement Agreement specifically
22 provided that the Company is not able to recover the demand costs from the
23 MEC II PPA. However, demand costs are the amounts paid in a PPA for
24 capacity. Simply put, North Dakota customers may be considered to be paying
25 for energy from MEC II but they are not paying for the capacity from the
26 resource. Accordingly, it is appropriate, and consistent with the 2021 Settlement
27 Agreement, to calculate the amounts due to North Dakota customers in a

1 manner that treats MEC II's capacity as if it did not exist. I note that the
2 Company is not recovering \$1.425 million in demand charges for MEC II each
3 and every year that the PPA has been serving the system; for the last 4 years,
4 that amounts to \$5.7 million.² It is fundamentally unfair to disallow these costs
5 and then also disallow the Company from obtaining the PRA revenue of \$2.2
6 million associated with the disallowed resources.

7
8 Ultimately, North Dakota customers are not paying for MEC II capacity, or the
9 capacity of any of the other disputed resources, and so the refund due to them
10 should be based on a scenario in which that capacity was not available to offer
11 into the MISO auction.

12
13 Q. CAN YOU PROVIDE AN EXAMPLE TO HELP UNDERSTAND THE DIFFERENCE
14 BETWEEN THE COMPANY'S PROPOSED APPROACH AND YOUR UNDERSTANDING
15 OF STAFF'S PROPOSED APPROACH?

16 A. Yes. My example involves a hypothetical situation in which there is an additional
17 PPA for a generation resource that has 100 MW of accredited capacity. At the
18 daily rate set at the MISO auction of \$237 per MW per day, such a resource
19 would have generated \$8,638,090 in additional revenue for Xcel Energy (100
20 MW x \$237 per day x 365 days). On a North Dakota jurisdictional basis net of
21 interchange, that would work out to \$430,170. Looking at how that \$430,170
22 would relate to the impacts to jurisdictional earnings under the Company's
23 proposed approach and my understanding of Staff's proposed approach will
24 help show the difference between the two.

² MEC II was placed in service in 2019, but since the Company's last rate case was a 2021 test year, the recovery noted here is only for the years 2021-2024.

1 Q. HOW WOULD PRA REVENUE FROM THAT 100 MW RESOURCE BE TREATED
2 UNDER THE COMPANY'S PROPOSED APPROACH?

3 A. That depends, of course, on whether or not the resource would be a "disputed
4 resource" excluded from the Fuel Cost Rider calculation. Under the Company's
5 proposed approach, all of the \$430,170 would be included in the revenues
6 considered when implementing the earnings share mechanism if the PPA were
7 fully recovered in North Dakota rates. However, if the resource were
8 "disputed" and excluded from that calculation, then none of the revenue would
9 be included.

10
11 Q. AND HOW DOES THAT COMPARE TO THE TREATMENT THAT WOULD RESULT
12 FROM STAFF'S PROPOSED APPROACH, AS YOU UNDERSTAND IT?

13 A. As I noted above, my understanding is that Staff's proposal is based on disputed
14 resources as a percentage of the overall MWs of accredited capacity offered into
15 the MISO resource planning process. This makes the calculation of the
16 hypothetical impact of the additional 100 MW of capacity somewhat more
17 complicated and the results counterintuitive. If 100 MW is not a disputed
18 resource, the percentage of disputed resources would be reduced, and the result
19 would be to increase the revenues considered in the North Dakota earnings
20 share mechanism by \$428,146.

21
22 Q. HOW DO YOU ARRIVE AT THAT AMOUNT?

23 A. Xcel Energy had 11,043 MWs of accredited capacity for the MISO resource
24 planning process. Of those, 521 MWs are from MEC II and other disputed
25 resources and 10,522 (or 95.279%) are not disputed. If the total amount of
26 accredited capacity increased by 100 MWs and the amount of disputed
27 resources did not change, that percentage would increase to 95.321 percent. At

1 that same time, the overall PRA revenue would increase by \$8,638,090.
2 Comparing the North Dakota jurisdiction net of interchange PRA revenue prior
3 to and after the new 100 MW resource results in a total PRA revenue that is
4 \$428,146 higher than if the 100 MW resource were not added.

5
6 Q. AND HOW WOULD STAFF'S METHODOLOGY WORK IF THE HYPOTHETICAL 100
7 MW RESOURCE WERE DISPUTED?

8 A. Under that scenario, the North Dakota jurisdiction net of interchange PRA
9 revenue would increase by \$364,383.

10
11 Q. WHY WOULD THAT BE THE RESULT OF DISALLOWING A RESOURCE UNDER THAT
12 METHODOLOGY?

13 A. Under this scenario, the MWs of accredited capacity of allowed resources would
14 remain approximately 10,522, but the total number of MWs Xcel Energy would
15 use in the MISO resource planning process would increase by 100 MW to
16 approximately 11,143. The result would be that 94.424 percent of the capacity
17 used in the resource planning process would be from non-disputed resources.
18 Were that percentage applied to the increase in PRA revenues, the result would
19 be an increase of \$364,383 in the North Dakota jurisdiction net of interchange
20 PRA revenues, even though North Dakota customers would not have paid for
21 that capacity.

22
23 Q. WHAT DO THESE EXAMPLES ILLUSTRATE?

24 A. The difference in the results between applying the Company's methodology and
25 our understanding of Staff's methodology help demonstrate both the different
26 theoretical bases for the two approaches and their practical impact. The
27 Company's proposed approach is based on the concept that it is marginal

1 capacity above that required to meet MISO requirements that impacts PRA
2 revenue. North Dakota customers benefit to the extent that additional approved
3 resources which they fully pay for increase PRA revenue, but do not benefit if
4 additional disputed resources increase the wholesale revenue. In contrast, Staff's
5 apparent approach allows North Dakota customers to obtain much of the
6 benefit of the capacity from additional disputed resources even though they
7 have not paid for that capacity.

8
9 Q. DO YOU HAVE ANY CONCLUDING THOUGHTS ON THIS ISSUE?

10 A. Yes. This is a fundamental issue of fairness. The agreed upon method for these
11 resources is based on a dispute as to whether they should have been added to
12 the NSP System. Because the relevant portion of the 2021 Settlement
13 Agreement is based on a concession to Staff's position that the resources (and
14 the capacity they provide) should not be on the system and treats them as if that
15 were the case, the refund amount should be calculated using that same
16 assumption. North Dakota customers should not receive the benefit of capacity
17 for which this Commission has disallowed recovery.

18
19 **IV. ADJUSTMENT TO WEATHER NORMALIZATION**

20
21 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

22 A. In this section I explain the topside adjustment the Company made to weather
23 normalize the Company's revenue for the effects of COVID-19, which I refer
24 to as the COVID Topside Adjustment.

1 Q. WHAT IS THE PURPOSE OF WEATHER NORMALIZATION?

2 A. The Company weather normalizes earnings to account for customer response
3 to unusual weather patterns, including excessive heat in summer, extreme cold
4 in winter, and the like. Through the weather normalization process, the
5 Company removes the impacts of atypical usage patterns resulting from unusual
6 weather to allow it to make reasonable comparisons year-over-year. The process
7 helps mitigate pricing risk and is consistent with how the Company reports its
8 financial data. But the typical weather normalization process does not capture
9 all events that can lead to anomalous data. Therefore, from time to time, the
10 Company has had to adjust for additional unusual issues in a given year.

11
12 Q. PLEASE DESCRIBE THE CIRCUMSTANCES THAT LED THE COMPANY TO MAKE THE
13 COVID TOPSIDE ADJUSTMENT.

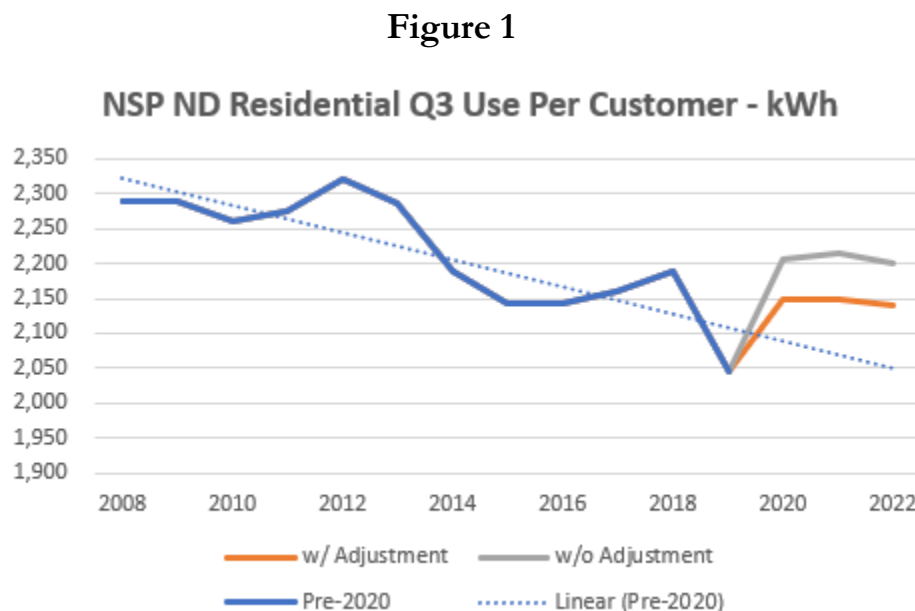
14 A. As I explained in Section II, the parties agreed to establish an earnings sharing
15 mechanism in the 2021 Settlement Agreement. The Company agreed to issue a
16 refund to customers for weather-normalized earnings over 9.75 percent return
17 on equity (ROE).

18
19 In the summers of 2021 and 2022, residential customers' electricity use
20 increased significantly as compared to prior years in part in response to record
21 high temperatures. This unusual increase in demand was compounded by the
22 fact that more residential customers were working from home as a result of the
23 COVID-19 pandemic and remote work policies. To adjust for that unusual use
24 pattern, the Company applied a second, topside adjustment.

Using the COVID Topside Adjustment, the Company reduced residential sales by approximately \$376,000 in 2021 and \$405,000 in 2022 before calculating its ROE for purposes of jurisdictional reporting.

Q. PLEASE DESCRIBE THE EXTENT OF THIS ISSUE.

A. Figure 1 depicts the increase in weather-normalized residential use per customer (UPC) for which the Company was seeking to account through the COVID Topside Adjustment.



The gray line in Figure 1 illustrates what weather-normalized UPC would have been without the COVID Topside Adjustment, entailing an increase to and stabilization at levels not observed since 2013. Even after accounting for these adjustments, UPC rose sharply above the pre-pandemic trend and has declined at a slower pace.

1 Q. WHY DOES THE COMPANY BELIEVE THE COVID TOPSIDE ADJUSTMENT WAS
2 APPROPRIATE?

3 A. The COVID Topside Adjustment was appropriate because it helped ensure the
4 customer response to high heat during the summers of 2021 and 2022 were
5 appropriately addressed in the calculation of Company and jurisdictional
6 earnings.

7
8 The 2021 Settlement Agreement does not prescribe the methodology for
9 weather normalizing, and, given the unique circumstances resulting from the
10 increased use of air conditioning by residential customers during the COVID-
11 19 pandemic, the Company exercised its judgment to account for the impact of
12 weather by applying the COVID Topside Adjustment. The earnings sharing
13 mechanism's purpose is to ensure that the rates are just and reasonable and to
14 avoid the Company obtaining a windfall due to improperly set rates. Although
15 risks cannot be avoided, rates are weather normalized to shift the risks of
16 weather to the Company.

17
18 Q. DID THE COMPANY MAKE THIS ADJUSTMENT IN ANY OTHER CONTEXT?

19 A. Yes. The Company applied the COVID Topside Adjustment to its weather
20 normalization analysis used in its Securities and Exchange Commission (SEC)
21 reporting. Particularly, the COVID Topside Adjustment was used to help
22 identify what portion of earnings was due to weather. The data used to develop
23 the jurisdictional report already included the topside adjustment since it was
24 used for our earnings and financial reporting.

1 Q. IS THIS USE OF THE COVID TOPSIDE ADJUSTMENT THE SAME HERE?

2 A. Yes. The Topside Adjustment is a statistically valid method of identifying and
3 normalizing the impact of weather in light of unusual system usage.

4
5 Q. DO YOU BELIEVE STAFF'S POSITION IS FUNDAMENTALLY FAIR?

6 A. No. Staff's position would require the Company to weather normalize in a rigid
7 way and would deprive the Company of an important tool for accounting for
8 certain types of weather-related risks, like increased use by a single class of
9 customers as occurred during COVID-19. Using Staff's approach would not
10 achieve the purpose of the earnings sharing mechanism, which is to help ensure
11 that rates are set appropriately, independent of weather, and do not result in
12 overearnings to the Company.

13
14 **V. CONCLUSION**

15
16 Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL DIRECT TESTIMONY?

17 A. Yes, it does.

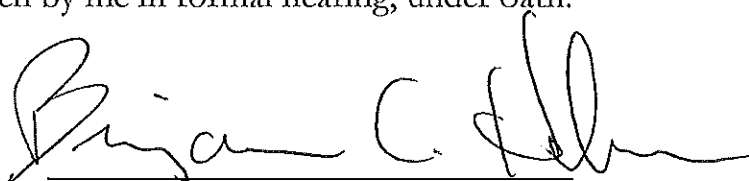
STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

NORTHERN STATES POWER COMPANY)
2025 ELECTRIC RATE INCREASE)
APPLICATION)

Case No. PU-24-376

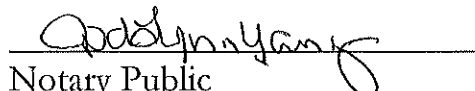
AFFIDAVIT OF
Benjamin C. Halama

I, the undersigned, being first 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.



Benjamin C. Halama

Subscribed and sworn to before me, this 8 day of May, 2025.


Notary Public
My Commission Expires: 1/31/2027

