

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 Electric Service in North Dakota

Case No. PU-24-376
OAH File No. 20240494
Exhibit____(ADK-2)

Supplemental Policy Testimony Supporting Settlement

November 20, 2025

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1 **I. INTRODUCTION**

2

3 Q. PLEASE STATE YOUR NAME AND TITLE.

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

7

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

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

10

11 Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?

12 A. The purpose of this testimony is to support the Settlement Agreement that the
13 Company, Advocacy Staff of the North Dakota Public Service Commission
14 (Advocacy Staff), and Walmart Inc. (Walmart) (collectively, the Parties)
15 submitted to the Commission on November 19, 2025.

16

17 Q. ARE ANY OTHER COMPANY WITNESSES PROVIDING SUPPLEMENTAL TESTIMONY
18 IN SUPPORT OF THE SETTLEMENT AGREEMENT?

19 A. Yes. Company witness Benjamin C. Halama is providing Supplemental
20 Testimony discussing the Revenue Requirements aspects of the Settlement
21 Agreement. He also briefly touches upon the agreed-upon rate design.

22

23 Q. DO YOU HAVE ANY INITIAL COMMENTS YOU WOULD LIKE TO MAKE REGARDING
24 THE PARTIES' SETTLEMENT?

25 A. The Company appreciates the other Parties' willingness to engage in good faith
26 negotiations. Obviously, there are some significant areas of disagreement,
27 particularly between Advocacy Staff and the Company regarding resource

1 planning issues and the implications of North Dakota policy preferences on
2 ratemaking with respect to decisions the Company has made for the multi-state
3 NSP System. This Settlement Agreement does not and could not fully resolve
4 those disagreements. However, by focusing on the cost of service for the 2025
5 test year, the key issue to be resolved in this future test year rate case, we were
6 able to arrive at a settlement that includes concessions from all Parties and that
7 will result in just and reasonable rates for North Dakota customers.

8
9 Q. PLEASE PROVIDE A GENERAL SUMMARY OF THE SETTLEMENT AGREEMENT.

10 A. In very broad terms, the Parties agreed to an increase in revenue requirement
11 of approximately \$23.86 million. That is about \$20.70 million lower than what
12 the Company sought in its initial filing and about \$5.73 million lower than what
13 Advocacy Staff witness Dante Mugrace recommended in his Direct Testimony.
14 At first glance, it may seem unusual for the Parties to have arrived at a
15 compromise position lower than the recommendation from Advocacy Staff's
16 witness; however, Advocacy Staff's witness Karl Pavlovic also recommended
17 significant adjustments beyond those presented by Advocacy Staff witness
18 Mugrace that he was not able to quantify. The agreed-upon amount is a
19 compromise that takes account of both Advocacy Staff witness Mugrace and
20 Dr. Pavlovic's positions, as well as those of Company witnesses and Walmart.
21 The Parties also agreed to an earnings sharing mechanism for future years,
22 which is tied to a return on equity (ROE) threshold of 10.1 percent.

23
24 Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.

25 A. I present the remainder of my testimony in the following sections::

- 26 • Summary of the Revenue Requirements Portions of the Settlement
27 Agreement;

- The Company's Coal Fleet and the Disallowed Resources;
- Earnings Sharing Mechanism.
- Conclusion.

II. SUMMARY OF THE REVENUE REQUIREMENT PORTIONS OF THE SETTLEMENT AGREEMENT

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

A. In this section, I provide an overview of the revenue requirement portions of the Settlement Agreement and the adjustments that were made to the revenue requirement presented by the Company in its Direct Testimony to arrive at that agreed-upon revenue requirement. While I do not discuss every revenue requirement provision of the Settlement Agreement, I address the largest (those in excess of a half-million dollars). In his testimony, Company witness Halama will discuss all the adjustments. I also discuss relationship between certain adjustments and notable areas of disagreement between the Parties as reflected in prior testimony.

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

A. The Settlement Agreement provides for an overall 2025 test year revenue requirement of approximately \$254.01 million, representing a net revenue requirement increase of approximately \$23.86 million.

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

A. As reflected in Section I.A of the Settlement Agreement, the Parties began with the increase the Company proposed in Direct Testimony and then deducted

1 various adjustments from that figure to arrive at an agreed-upon overall amount.
2 In some cases, the adjustments represent an acceptance of another party's
3 position with respect to specific items, in others the adjustment is a compromise
4 between the Company's position and that of another party.

5
6 Q. HOW DOES THE AGREED-UPON REVENUE REQUIREMENT COMPARE TO THE
7 REVENUE REQUIREMENT RECOMMENDATIONS THAT THE PARTIES PRESENTED
8 IN OTHER TESTIMONY?

9 A. In Direct Testimony, the Company sought an increase of approximately \$44.56
10 million so the agreed-upon figure represents a decrease of approximately \$20.70
11 million or 46 percent. Advocacy Staff's Consultants Dante Mugrace presented
12 a recommendation for an increase of \$29.59 million; however, Advocacy Staff
13 Consultant Dr. Karl Pavlovic also made additional recommendations for
14 adjustments which he could not quantify. The agreed-upon revenue
15 requirement in the Settlement Agreement is \$5.73 million lower than Advocacy
16 Staff witness Mugrace's recommended amount, and that difference is partially
17 attributable to consideration of issues raised by Dr. Pavlovic.

18
19 Walmart witness Eric S. Austin did not make a specific recommendation
20 regarding the Company's revenue requirement.

21
22 Q. WHAT CAPITAL STRUCTURE, COST OF CAPITAL, AND RETURN ON EQUITY WERE
23 USED TO DETERMINE THE REVENUE REQUIREMENT IN THE SETTLEMENT
24 AGREEMENT?

25 A. The revenue requirement was calculated using a weighted average cost of capital
26 of 7.30 percent, based on a capital structure of 52.50 percent equity and 47.50
27 percent debt (46.71 percent long-term debt and 0.79 percent short-term debt).

1 The ROE is 9.80 percent, the cost of long-term debt is 4.51 percent, and the
2 cost of short-term debt is 5.31 percent. The capital structure is consistent with
3 the Company's actual cost of capital, which has not changed in more than a
4 decade. The cost of debt is the same as the Company proposed in Direct
5 Testimony and was not disputed by the other Parties in testimony.

6
7 Q. WERE THERE OTHER RELEVANT PROVISIONS REGARDING THE COMPANY'S
8 CAPITAL STRUCTURE?

9 A. Yes. The Parties agreed that during the period before its next rate case, the
10 Company will notify the Commission if it changes the target to which it
11 manages its capital structure and will include the reasons for such a change in
12 the notice. Moreover, the Company will bear the burden of proving the
13 reasonability of a change if it seeks a different capital structure for ratemaking
14 purposes.

15
16 Q. HOW DOES THE AGREED-UPON ROE COMPARE TO PARTIES'
17 RECOMMENDATIONS?

18 A. In its direct testimony, the Company recommended a ROE of 10.30 percent.
19 Advocacy Staff consultant Maureen L. Reno recommended a ROE of 9.41
20 percent and Walmart witness Eric S. Austin did not present a specific ROE
21 recommendation. Taken together, the agreed-upon cost of capital is a
22 compromise that is near the midpoint between the ROEs proposed by the
23 Company and Advocacy Staff, albeit somewhat closer to the percentage
24 recommended by Advocacy Staff.

25
26 Q. WHAT IS THE IMPACT OF THE AGREED-UPON ROE?

1 A. The use of a 9.80 percent ROE rather than the 10.30 percent ROE proposed
2 by the Company results in a \$2.73 million reduction to the test year revenue
3 requirement.

4
5 Q. DID THE PARTIES ADDRESS GENERATION RESOURCES IN THE SETTLEMENT
6 AGREEMENT?

7 A. Yes. The Settlement Agreement has specific provisions regarding the Mankato
8 Energy Center II (MEC II) power purchase agreement (PPA); the PPA with
9 Manitoba Hydro; the PPA with Invenergy for the Cannon Falls Energy Center;
10 the Blue Lake reciprocating engines project; the depreciable lives for the
11 Company's nuclear generation fleet; the Sherco Solar Units 1, 2, and 3 projects;
12 the depreciable lives of the Red Wing and Wilmarth refuse derived fuel plants;
13 and the depreciable lives of the Company's coal generation fleet. I discuss key
14 generation resource settlement terms and the overall approach to settlement of
15 certain disagreements regarding generation resources in Section III, but in broad
16 terms the Parties agreed to the additions of the MEC II, Manitoba Hydro, and
17 Cannon Falls PPAs, agreed to the Blue Lake project, and agreed to extensions
18 of the depreciable lives of the Monticello and Prairie Island nuclear facilities
19 (and related adjustments to the nuclear decommissioning trust).

20
21 Q. DID THE AGREEMENTS ON GENERATION RESOURCES RESULT IN MATERIAL
22 ADJUSTMENTS TO THE REVENUE REQUIREMENT?

23 A. Some did. The Parties' agreements with regard to the life extensions of the
24 Company's nuclear fleet resulted in a \$4.02 million reduction in the 2025 test
25 year revenue requirement based on changed depreciation expense and a related
26 \$2.25 million reduction due to an adjusted payment to the Nuclear
27 Decommissioning Trust. In addition, the Parties agreed that Sherco Solar 1, 2,

1 and 3 will be disallowed from recovery for the 2025 test year, which results in a
2 \$3.13 million reduction in the revenue requirement. The Parties also agreed not
3 to adjust the depreciable lives of the Red Wing and Wilmarth refuse derived fuel
4 plants, which increases the revenue requirement by \$641,000.

5
6 Q. WHAT DID THE PARTIES AGREE TO WITH REGARD TO THE COMPANY'S COAL-
7 FUELED GENERATION UNITS?

8 A. I will describe that aspect of the settlement in greater detail in the section below;
9 however, in broad terms, the Parties agreed to an \$8.47 million reduction in
10 revenue requirement based on retaining the current, Commission-approved
11 depreciable lives for Sherburne County Generating Station (Sherco) units 1, 2,
12 and 3, and the Allen S. King Plant (King). In addition, the parties agreed to a
13 \$5.0 million increase in revenue requirement, the "Coal Adder," which is a
14 negotiated amount intended to address incremental costs not reflected in the
15 Company's revenue requirement that it would be incurring in the test year if it
16 were keeping the coal fleet in service to the end of their North Dakota
17 depreciable lives.

18
19 Q. ARE THERE OTHER, SIGNIFICANT ADJUSTMENTS RELATED TO CAPITAL
20 INVESTMENTS?

21 A. Yes. The Parties agreed to a \$1.79 million reduction in the 2025 test year revenue
22 requirement to reflect the fact that two significant capital additions, the Sherco
23 Battery Project and the Larimore Substation Project, will not be placed into
24 service in 2025 as the Company had expected when it filed this rate case.

25
26 Q. WHAT DOES THE SETTLEMENT AGREEMENT PROVIDE WITH REGARD TO
27 OPERATION AND MAINTENANCE (O&M) EXPENSES?

1 A. The Parties agreed to three sets of significant reductions. First, there are \$1.46
2 million in reductions to both the 2025 test year revenue requirement and
3 jurisdictional earnings reporting. These adjustments are based on the
4 recommendations of Advocacy Staff's consultants and include dues, donations,
5 aviation expenses, and incentive compensation. Second, there are an additional
6 \$1.24 million in reductions to the 2025 test year revenue requirement, also based
7 on Advocacy Staff's consultants' recommendations, including O&M
8 normalization and non-labor inflation. Third, the parties recognized the
9 Commission's decision in Case No. PU-24-378 and agree to a downward
10 adjustment of \$517,000 reflecting the elimination of payments to the Prairie
11 Island Indian Community from the 2025 test year, without prejudice to the
12 reasonableness of the payments.

14 **III. THE COMPANY'S COAL FLEET AND THE UNRECOVERED** 15 **RESOURCES** 16

17 Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR TESTIMONY?

18 A. In this section, I provide some additional discussion regarding the adjustments
19 the Parties agreed to with regard to Sherco Units 1, 2, and 3; the King plant;
20 Sherco Solar 1, 2, and 3; and other "Unrecovered Resources." Above, I
21 presented the material adjustments related to those resources, but in this section
22 I provide some context and a discussion of the underlying issues.

24 Q. WHAT IS THE BROADER CONTEXT FOR THE AGREEMENTS MADE REGARDING
25 SHERCO AND KING?

26 A. The Company retired Sherco Unit 2 in 2023, and plans to retire Sherco Unit 1
27 in 2026, Sherco Unit 3 in 2030, and King in 2028. In testimony, Advocacy Staff's
28 consultants disagreed with the prudence of those decisions, and the Company

1 understands that these retirements may be contrary to the Commission's general
2 policy regarding coal fired generation.

3
4 Q. GIVEN THOSE ACTUAL AND PLANNED RETIREMENTS AND THE
5 DISAGREEMENTS REGARDING THEM, WHAT APPROACH DID THE PARTIES TAKE
6 TO SETTLING THIS RATE CASE?

7 A. The key to this Settlement Agreement was a focus on the 2025 test year revenue
8 requirement. While there are myriad broader policy issues that are relevant to
9 every rate case, the ultimate issues are the revenue requirement and how that
10 translates into rates. The Settlement Agreement resolves those issues for the
11 2025 test year.

12
13 Q. PLEASE EXPLAIN FURTHER.

14 A. In the Settlement Agreement, the Parties arrived at a compromise that takes
15 account of North Dakota's policy preferences in setting the 2025 test year
16 revenue requirement. It does this in two ways. First, the Parties agreed not to
17 adjust the depreciation of the Sherco and King units to match the actual and
18 planned retirement dates. Instead, the depreciable lives are kept consistent with
19 later retirement dates previously approved by the Commission, as
20 recommended by Advocacy Staff's consultants. This adjustment significantly
21 reduced the depreciation expense, which lowered the revenue requirement.
22 Second, the Parties agreed that the recommendation from Advocacy Staff's
23 consultants (namely to not shorten the depreciable lives and allow the Company
24 a return of and return on the coal rate base consistent with these established
25 lives) would not actually account for the costs of operating the coal plants
26 through their North Dakota depreciable lives and therefore not result in just
27 and reasonable rates. Therefore, the Parties made an additional adjustment to

1 the test year revenue requirement in recognition of the fact that the Company
2 would have additional Sherco and King-related costs and capital additions if
3 those plants were not being closed. This is the Coal Adder.
4

5 Q. HOW DID THE PARTIES ARRIVE AT THE AMOUNT OF THE COAL ADDER?

6 A. Sherco Unit 2 has already closed and the Company is preparing for the planned
7 closures of King and the other Sherco units. Consistent with those plans, NSPM
8 has been managing the plants differently than it would if they were going to
9 operate longer; we call this “managed decline.” In a period of managed decline,
10 capital improvements that would have been appropriate if the plants were
11 operating well into the 2030s are not made and O&M, while sufficient for near-
12 term operations, is at a lower level than if the plants were to be kept open longer.
13 The Coal Adder was developed to address the fact that the Company is not
14 incurring those and other costs that would be needed to support operation of
15 the units through their North Dakota depreciable lives. In tandem with the
16 decreases, it is meant to allow the Commission to set a 2025 test year revenue
17 that is more consistent with North Dakota’s energy policy preferences while
18 resulting in just and reasonable rates.
19

20 Q. DOES THE COAL ADDER ACCOUNT FOR ALL COSTS TO THE END OF LIFE?

21 A. No. The Coal Adder is intended to address what costs could have been in the
22 2025 test year if the coal generation was intended to run through the North
23 Dakota depreciable lives.
24

25 Q. CAN THE PARTIES OR THE COMMISSION KNOW WITH CERTAINTY WHAT THE
26 REVENUE REQUIREMENTS ASSOCIATED WITH SHERCO AND KING WOULD BE IF
27 THOSE UNITS HAD LATER RETIREMENT DATES?

1 A. No. Any analysis of what the Company's costs would be under such a different
2 scenario is inherently speculative. Consequently, the Coal Adder represents an
3 amount negotiated by the Parties based on certain cost information. However,
4 as the Settlement Agreement makes clear, the figure is only a reasonable and
5 negotiated amount to address those costs, it is neither precise nor
6 comprehensive. In fact, the Company believes that the actual costs could be
7 significantly higher than the amount agreed to for the Coal Adder.

8
9 Q. DOES THE SETTLEMENT AGREEMENT ADDRESS HOW THE COAL FACILITIES
10 WILL BE TREATED IN THE NEXT RATE CASE.

11 A. In this Settlement Agreement, we were able to reach an agreement on the 2025
12 test year revenue requirement based on a negotiated outcome for a scenario in
13 which the plants were kept in service, but the Parties have not made any
14 agreements regarding that or any other approach in future rate case proceedings.

15
16 Q. DOES THIS RESULT IN JUST AND REASONABLE RATES?

17 A. Yes. This rate case is using a 2025 future test year and the revenue requirement
18 agreed to in the Settlement sets rates for that 2025 future test year.
19 Consequently, the Settlement does result in just and reasonable rates. Resource
20 issues beyond the test year are not resolved and can be addressed in future rate
21 cases or other proceedings.

22
23 Q. YOU HAVE MENTIONED UNRECOVERED RESOURCES, WHAT ARE THOSE?

24 A. The "unrecovered resources" are those that the Commission has not approved
25 in this and prior proceedings. Company-owned Unrecovered Resources are not
26 in rate base and the costs and volumes for resources procured under PPAs are
27 zeroed out in the Company's Fuel Cost Recovery (FCR) Rider. A schedule

1 attached to the Settlement Agreement provides a current list. The Settlement
2 Agreement will have the impact of adding Sherco Solar 1, 2, and 3 to that list.
3 Like the compromise reached regarding Sherco and King, the provisions of the
4 Settlement Agreement related to Unrecovered Resources are meant to reflect
5 North Dakota's policy preferences.

6
7 Q. DOES THE COMPANY OBTAIN ANY COST RECOVERY FOR THE UNRECOVERED
8 RESOURCES?

9 A. Not from North Dakota customers. But the Company must still meet its load
10 serving obligations to North Dakota customers even without cost recovery for
11 the resources serving them. Therefore, since no recovery is occurring from
12 North Dakota customers, the Company retains all wholesale revenue and value
13 of environmental attributes, if any, from those resources. The Company,
14 essentially, is taking on the market risk for potential recovery of these resources
15 even as they serve North Dakota customers.

16 17 **IV. EARNINGS SHARING MECHANISM**

18
19 Q. WHAT IS THE PURPOSE OF THIS PORTION OF YOUR TESTIMONY?

20 A. In this section, I introduce the earnings sharing mechanism and highlight a
21 couple key features. Company witness Halama provides a more fulsome
22 explanation in his testimony.

23
24 Q. PLEASE RE-INTRODUCE THE EARNINGS SHARING MECHANISM.

25 A. The Parties recognize that the rates set in this matter are likely to be in effect
26 past the 2025 test year. The earnings sharing mechanism helps to ensure that

1 rates are just and reasonable by requiring the Company to refund to customers
2 a portion of revenues that exceed the earnings sharing threshold.

3
4 Q. HOW DOES THE EARNINGS SHARING MECHANISM WORK?

5 A. Under the Settlement, in the event that the Company earns a return on equity
6 over 10.1 percent in any particular year, then the Company will refund to
7 customers 70 percent of all revenue attributable to the earnings above 10.1
8 percent. The Company understands that this mechanism is consistent with
9 recent mechanisms agreed to by Staff and approved by the Commission.

10
11 Q. ARE THERE ANY OTHER COMPONENTS OF THE EARNINGS SHARING MECHANISM
12 YOU WOULD LIKE TO DISCUSS?

13 A. Yes. The Company submitted supplemental testimony in this proceeding to
14 address several issues, among them, issues related to appropriate calculation of
15 jurisdictional earnings so that the earnings sharing amounts, if any, can be
16 determined. In light of continued disagreement between the Parties relating to
17 the appropriate way to calculate jurisdictional earnings, the Settlement provides
18 several provisions to identify the mechanisms for the calculation of
19 jurisdictional earnings to determine if the sharing mechanism is triggered.

20
21 Q. WHY IS IT NECESSARY FOR THE PARTIES TO REACH AGREEMENT ON THE
22 CALCULATION OF JURISDICTIONAL EARNINGS?

23 A. The calculation of jurisdictional earnings should not be controversial. However,
24 due to many unrecovered resources serving North Dakota customers as well as
25 the fact that North Dakota rates do not reflect the Company's actual cost of
26 service, issues of equity have arisen with respect to how to apply rates for a
27 theoretical cost of service. In this Settlement, this issue is made more prominent

1 due to the disallowance of significant Company owned capacity resources as
2 well as the intent of the Parties for rates to reflect a cost of service that assumes
3 North Dakota customers are being served by the entirety of the Company's coal
4 fleet. Consequently, to avoid disputes in the future and to help ensure that the
5 Parties were aligned about how best to implement the earnings sharing
6 mechanism, this Settlement provides some additional provisions that have not
7 been included in the past. Company witness Halama provides further discussion
8 with respect to these provisions.
9

10 **V. CONCLUSION**

11
12 Q. DOES THE SETTLEMENT RESULT IN JUST AND REASONABLE RATES?

13 A. Yes.
14

15 Q. WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE SETTLEMENT?

16 A. I recommend the Commission approve the Settlement as written.
17

18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19 A. Yes, it does.

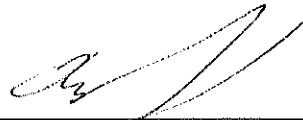
STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
NORTHERN STATES POWER COMPANY)
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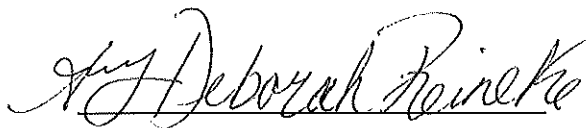
AFFIDAVIT OF
Allen D. Krug

I, the undersigned, being first duly sworn, depose and say that the foregoing is the Supplemental Policy Testimony Supporting Settlement of the undersigned, and that such Supplemental Policy Testimony Supporting Settlement to the best of my knowledge, information and belief is 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 19th day of November, 2025.



Notary Public

My Commission Expires:

