Direct Testimony and Schedules
Benjamin C. Halama

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Northern States Power Company
for Authority to Increase Rates for Gas Service in Minnesota

Docket No. G002/GR-23-413
Exhibit___(BCH-1)

2024 Test Year
Overall Revenue Requirements
Rate Base
Income Statement

Rate Rider Recovery 2024

November 1, 2023

Table of Contents

Schedules

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND TITLE.

A. My name is Benjamin C. Halama. I am Manager of Revenue Analysis for Xcel Energy Services Inc. (XES or the Service Company), the service company for Xcel Energy, Inc. and its operating company subsidiaries.

Q. PLEASE DESCRIBE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have over eight years of experience at XES, supporting Northern States Power Company – Minnesota (NSPM or the Company) in the areas of regulatory accounting, financial operations, and revenue requirements. In my current role, I am responsible for the development of jurisdictional revenue requirements for all NSPM jurisdictions. My resume is attached as Exhibit___(BCH-1), Schedule 1, Resume.

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

A. In my Direct Testimony, I support the Company's Minnesota jurisdiction gas operations cost of service, revenue requirements, and revenue deficiency for the 2024 test year. Overall, the net deficiency and retail revenue requirement for the test year are summarized in Table 1 below.

Table 1
2024 Revenue Requests
Minnesota Jurisdictional ($s in millions)

Test Year	2024
Net Deficiency	$59.03
Average % increase	9.6%

I provide the financial data supporting this overall revenue deficiency for the State of Minnesota retail gas jurisdiction, including a description of cost changes, the data we provide, and our selection of the test year. Further, I present:

- our jurisdictional cost of service study and the revenue requirement effects of our utility and jurisdictional allocations; and
- our revenue requirement, including rate base and income statement components with related adjustments and amortizations.

My testimony also supports the 2024 requested interim rate increases discussed in the Company's Notice and Petition for Interim Rates. The Notice and Petition for Interim Rates and accompanying schedules and tariffs included in Volume 1 of our Application provide additional support.

In addition, I explain our treatment of riders and identify certain compliance requirements addressed in our general rate filing.

I relied on information provided by other witnesses in this proceeding to develop many of the test year revenue requirement adjustments discussed in my Direct Testimony.

Q. HOW IS THE REST OF YOUR DIRECT TESTIMONY ORGANIZED?

A. I present my testimony in the following sections:

- Section II, *Case Overview*, summarizes our jurisdictional revenue requirement for the 2024 test year, and discusses the key drivers of cost increases compared to the 2022 test year established in Docket No. G002/GR-21-678.
- Section III, *Supporting Information*, provides information related to the data provided in our application, the selection of the test year, and the jurisdictional cost of service study.
- Section IV, *Rate Base*, identifies and explains the components of rate base, and supports the reasonableness of the Company's projected 2024 test year.
- Section V, *Income Statement*, identifies and explains the major components of the income statement and supports the reasonableness of the Company's proposed 2024 test year.
- Section VI, *Utility and Jurisdictional Allocations*, explains why it is necessary for the Company to allocate costs among its affiliates and between jurisdictions, and describes the utility and jurisdictional allocators that are used in determining the test year revenue requirement.
- Section VII, *Annual Adjustments to the Test Year*, presents adjustments affecting the 2024 test year revenue requirements, providing both rate base and income statement impacts.
- Section VIII, *Costs Recovered in Riders and Trackers*, presents our proposed treatment of costs recovered in riders during the test year period, and discusses the Company's proposals in this proceeding to continue or implement certain trackers.

- Section IX, *Compliance with Prior Commission Orders*, provides information related to specific requirements from prior Minnesota Public Utilities Commission (Commission) Orders that have not been addressed elsewhere in my testimony.
- Section X, *Conclusion*, summarizes our request.

Q. ARE ALL OF THE DOLLAR VALUES PRESENTED IN YOUR TESTIMONY JURISDICTIONALIZED TO STATE OF MINNESOTA GAS JURISDICTION?

A. While most of the dollar values presented in my testimony are jurisdictionalized to State of Minnesota Gas Jurisdiction, there are some instances where dollars are Total Company. Dollar values that are Total Company are labeled accordingly. Exhibit___(BCH-1), Schedule 5, Labeling of Financial Sources, provides additional information on the labeling of financial information in our rate case Direct Testimony and Schedules.

Q. DO YOU PROVIDE INFORMATION IN COMPLIANCE WITH PAST COMMISSION ORDERS AND COMPANY COMMITMENTS?

A. Yes. Throughout my testimony I note where I am providing information related to prior Commission Orders and Company commitments. In Section IX, I provide additional information related to compliance with prior Commission Orders that have not been addressed elsewhere in my testimony.

II. CASE OVERVIEW

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I will:

- present the jurisdictional revenue requirement and revenue deficiencies for Minnesota for the 2024 test year;
- present a summary comparison of the costs in the test year to the costs approved in our last rate case; and
- provide an explanation of the primary sources of the changes in overall costs, including plant-related costs and operations and maintenance (O&M) costs.

A. Jurisdictional Revenue Requirements and Deficiencies

Q. PLEASE DESCRIBE THE BASIS OF THE COMPANY'S TEST YEAR PROPOSAL.

A. The Company utilizes 2024 as the test year developed using budgeted capital additions and budgeted O&M expenses. Also included in the proposal are impacts to other rate base items, sales adjustments, and other adjustments impacting the revenue requirements for the test year, so that the test year represents a cost of service approach to rate-setting for both capital and O&M.

Q. WHAT IS THE 2024 TEST YEAR JURISDICTIONAL OVERALL REVENUE REQUIREMENT AND REVENUE DEFICIENCY?

A. The overall jurisdictional revenue requirement for the 2024 test year is $676.83 million. The 2024 test year revenue deficiency, excluding rider roll-ins, is $59.03 million. This 2024 test year revenue deficiency amount represents a 9.6 percent overall increase in retail revenues from base rates compared to projected 2024 retail revenues at present rates. A summary of the 2024 revenue deficiency (in dollars and as a percent) is provided in Exhibit___(BCH-1), Schedule 2, Summary of Revenue Requirements. The calculation of these dollar amounts is provided in Exhibit___(BCH-1), Schedule 3, Cost of Service Study Summary.

Q. WHAT IS THE AMOUNT OF THE INTERIM RATE REVENUE DEFICIENCY IN 2024?

A. The Interim Rate Petition (Petition) supports an interim revenue deficiency based on the 2024 test year of $51.2 million, which results in a proposed interim rate increase of 8.5 percent beginning January 1, 2024.

Q. HOW DOES THE COMPANY CALCULATE THE REVENUE REQUIREMENT AND REVENUE DEFICIENCY?

A. The general formula for calculation of the revenue requirement and revenue deficiency is depicted below in Table 2 as follows:

Table 2
Revenue Requirement and Revenue Deficiency

	Item	2024 Test Year Amount ($000s)	Exhibit__ (BCH-1), Sch. 3 Reference
	Average Rate Base	$1,267,863	Page 1, Line 43
multiplied by	Cost of capital	7.48%	Page 1, Line 20
	Operating Income Requirement	**$94,836**	Page 3, Line 145
	Current Retail Revenue	$617,806	Page 1, Line 46 + Line 47
plus	Current Other Revenue	$4,230	Page 1, Line 48
equals	Current Total Revenue	$622,037	Page 1, Line 49
minus	Operating Expenses	$468,744	Page 2, Line 61
minus	Depreciation Expense	$73,521	Page 2, Line 63
minus	Amortization Expense	$926	Page 2, Line 64
minus	Taxes	$28,747	Page 3, Line 122
plus	AFUDC	$2,677	Page 3, Line 127 + Line 128
equals	**Total Available for Return**	**$52,776**	Page 3, Line 130
	Operating Income Requirement	$94,836	Page 3, Line 145
minus	Total Available for Return	$52,776	Page 3, Line 146
equals	**Income Deficiency**	**$42,060**	Page 3, Line 147
multiplied by	Gross Revenue Conversion Factor	1.403351	Page 3, Line 149
equals	**Revenue Deficiency**	**$59,026**	Page 3, Line 150
plus	Current Retail Revenue	$617,806	Page 3, Line 153
equals	**Total Revenue Requirement**	**$676,832**	Page 3, Line 155

Q. HAS THE COMPANY PROVIDED AN EXPLANATION OF THE ASSUMPTIONS AND APPROACHES USED IN DEVELOPING THE TEST YEAR OPERATING INCOME?

A. Yes. An explanation is provided in the Financial Information section of Volume 3 (Required Information) of this Application. In addition, workpapers supporting the 2024 test year cost of service are provided in Volume 4 of this Application.

Q. HOW DOES THE COMPANY TREAT CAPITAL AND O&M COSTS IN THE 2024 TEST YEAR?

A. Our proposal uses the following reasoning to develop costs:

1. Capital, capital-related, and O&M costs follow the Company's budget, except as needed to comply with prior Commission Orders or adjustments the Company is specifically proposing in this proceeding. (Capital-related costs consist of depreciation and allowance for funds used during construction (AFUDC) as well as the cost of capital).
2. Expenses that have jurisdiction-specific regulatory accounting treatment follow that treatment. For example:
   a. Expenses related to the Company's non-qualified pension costs have regulatory adjustments based on the outcome of the Company's recent rate cases.
3. Secondary calculations necessary for a full cost of service study are based on the results of the above items.
   a. Cash Working Capital balance related to the revenues and expenses developed above.
   b. Change in debt interest expense related to the budgeted change in debt costs and the budget of rate base.

B. Case Drivers

Q. HAVE YOU PREPARED A COMPARISON OF THE COSTS IN THE TEST YEAR FORECAST TO CURRENT RATES RESULTING FROM THE 2022 TEST YEAR?

A. Yes. I provide an explanation of the detailed case drivers of the deficiency using a comparison of the 2024 test year (including rider roll-ins) with the base rates in effect in 2022 as a result of Docket No. G002/GR-21-678 (including rider roll-ins). My analysis differs from the Direct Testimony analyses of the Company's business area witnesses, who primarily discuss costs and cost changes in terms of actual costs and budgets (not revenue deficiencies). Therefore, my discussion of key cost drivers reflects dollar values that are, in large part, different from their discussions. In addition, I discuss these drivers at a high level, and defer to the business area witnesses to provide more detail around the activities and changes giving rise to these drivers.

Q. HAVE YOU PREPARED A SCHEDULE IDENTIFYING THE CHANGES IN THE MAJOR COST ELEMENTS SINCE THE LAST RATE CASE?

A. Yes. I provide Exhibit___(BCH-1), Schedule 6, Detailed Case Drivers, which provides a Summary of Major Cost Drivers (identification of case drivers for the test year forecast), including details of the categories identified in Table 3 below.

Table 3
Test Year Net Incremental Deficiency ($ in millions)*

	Increase (Decrease) 2024 TY to 2022 TY
Capital and Capital Related	$54.4
Amortizations	1.2
Taxes	8.2
Operating Expense	8.7
Other Margin Impacts	(13.5)
Total Net Incremental Deficiency	**$59.0**

**Differences between components of deficiency and total due to rounding.*

In addition to the discussion in this section, support for our proposed increase in rates for the 2024 test year is provided in the Direct Testimonies of the Company's business area witnesses.

Q. PLEASE DESCRIBE THE REVENUE REQUIREMENT IMPACT FOR THE PRINCIPAL CHANGES IN CAPITAL AND CAPITAL RELATED COSTS.

A. Table 4 below compares the 2024 test year revenue requirements with the comparable revenue requirements for the 2022 test year, by category, for capital plant related costs as shown on Schedule 6, Detailed Case Drivers.

Table 4
Capital and Capital Related Cost Changes ($ in millions)

	Increase (Decrease) 2024 TY to 2022 TY
Distribution	$25.3
Gas Production and Storage	9.0
Intangible	6.5
General	4.4
Transmission	1.1
Other Rate Base	2.2
Cost of Capital	6.0
TOTAL Capital and Capital Related	$54.4

Q. PLEASE IDENTIFY THE PRINCIPAL CHANGES IN DISTRIBUTION AND GAS PRODUCTION AND STORAGE CAPITAL COSTS.

A. The test year forecast revenue requirements include a $25.3 million increase to Distribution and a $9.0 million increase to Gas Production and Storage as compared to the 2022 test year. A portion of this increase is due to the transfer of capital investments previously recovered through the Gas Utility Infrastructure Cost (GUIC) rider offset by rider revenues, as well as additional investment in new customer connections, meter programs, and the safety and reliability of our distribution and plant infrastructure that is not recoverable through the GUIC. Additional information regarding distribution and gas production and storage projects are provided in the Direct Testimony of Company witness Alicia E. Berger.

Q. WHAT ARE THE PRINCIPAL CHANGES IN GENERAL & INTANGIBLE CAPITAL COSTS?

A. The test year forecast revenue requirements include a $10.9 million increase to General & Intangible as compared to the 2022 test year. This increase is due to capital investments relating to replacing meter communication modules for our gas business, replacing aging information technology (IT), and enhancing the safety and reliability of our transportation fleet and operations centers. Additional information regarding general and intangible projects is discussed in the Direct Testimony of Company witnesses Berger, Christopher R. Haworth, and Michael O. Remington.

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN COST OF CAPITAL.

A. The test year forecast revenue requirements include a $6.0 million increase related to changes in cost of capital, compared to the overall cost of capital approved in the Company's last gas rate case. The change in cost of capital is due to a requested 10.2 percent return on equity (ROE) and an increase in the cost of debt. However, the Company's interim rate request reflects the 9.57 percent ROE. Company witness Paul A. Johnson describes the capital structure and costs of debt in his Direct Testimony. Company witness Joshua C. Nowak of Concentric Energy Advisors discusses the ROE.

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN TAXES.

A. The test year forecast revenue requirements include an increase in current and deferred income tax of $6.9 million, but sets property taxes at $0.7 million, which is the 2022 actual property tax, subject to continuation of the property tax true-up as I discuss later in my Direct Testimony. The Company projects 2024 property taxes to increase $4.7 million as compared to the 2022 test year.

The increases in current and deferred income taxes and test year property taxes are largely due to the increase in rate base and total revenue requirement. Additional information regarding property taxes is discussed in the Direct Testimony of Company witness William T. Kowalowski.

Q. PLEASE DESCRIBE THE PRINCIPAL CHANGES IN O&M COSTS.

A. Table 5 below compares the 2024 test year forecast revenue requirements with the comparable revenue requirements for the 2022 test year, by category, for operating expenses as shown on Schedule 6, Detailed Case Drivers.

Table 5
O&M Cost Changes ($ in millions)

	Increase (Decrease) 2024 TY to 2022 TY
Gas Production and Storage	$2.3
Transmission	(1.8)
Distribution	1.2
A&G	7.0
TOTAL O&M	$8.7

Q. WHAT ARE THE REASONS FOR THE INCREASE IN GAS PRODUCTION AND STORAGE OPERATING EXPENSE?

A. The test year forecast revenue requirements include a $2.3 million increase in expenses related to increases in the cost of labor supporting our gas peaking plants. Additional information regarding gas production and storage operating expenses are discussed in the Direct Testimony of Company witness Berger.

Q. WHAT ARE THE REASONS FOR THE INCREASE IN DISTRIBUTION OPERATING EXPENSE?

A. The test year forecast revenue requirements include a $1.2 million increase in Distribution operating expenses. This increase is due to an increase in the cost of labor, due mainly to bargaining unit contract increases, increases in the number and cost of Damage Prevention (Gopher One Call) locate work, and increases in materials costs, primarily due to inflation. Additional information regarding Distribution O&M is discussed in the Direct Testimony of Company witness Berger.

Q. WHAT ARE THE REASONS FOR THE INCREASE IN ADMINISTRATIVE AND GENERAL (A&G) OPERATING EXPENSE?

A. The test year forecast revenue requirements include a $7.0 million increase in A&G operating expenses. This increase is due to increased investments in Technology Services and Enterprise Security related to the Company's continued investments in the customer experience, and the associated software maintenance and licensing cost increases necessary to support new applications and maintain existing applications to limit cyber security threats. Additional information regarding Technology Services O&M is discussed in the Direct Testimony of Company witness Remington.

Q. PLEASE DESCRIBE HOW CHANGES IN SALES RELATE TO THE RATE INCREASE.

A. As discussed by Company witness John M. Goodenough, sales are forecasted to increase somewhat for the 2024 test year due to expected increases in both the overall number of customers and total natural gas throughput during the 2024 test year. Consequently, the Company's retail revenues have increased by $0.3 million since the 2022 test year, decreasing the 2024 revenue deficiency.

Q. ARE THE FUNCTIONAL CLASS CATEGORIES OF OPERATING EXPENSE COMPARABLE BETWEEN THE 2024 TEST YEAR AND THE 2022 TEST YEAR?

A. Yes. Budget amounts for both periods conform to the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. To better show cost drivers, especially as they relate to operating margins, some reclassifications are made in the cost driver analysis from the jurisdictional cost of service study.

Q. DID YOU INCLUDE COMPARISONS OF THE CHANGE IN PURCHASED GAS EXPENSE AS PART OF THE O&M EXPENSE ANALYSIS?

A. No. Although the cost of fuel is considered an operating expense, recovery occurs through the Company's separate purchased gas adjustment (PGA) mechanism and true-up process.

III. SUPPORTING INFORMATION

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I provide information related to data provided in our application, the selection of the test year, and the jurisdictional cost of service study.

A. Data Provided and Selection of the Test Year

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I will:

- identify the supporting financial information and related fiscal periods that we are providing in connection with the 2024 test year forecast; and

- demonstrate that the supporting financial information and related fiscal periods that we are presenting provide appropriate information and facilitate review of our test year forecast.

1. Overview

Q. PLEASE DEFINE THE FISCAL PERIODS FOR WHICH FINANCIAL DATA IS PROVIDED IN THIS PROCEEDING.

A. Following the Commission's rules, financial data is provided for 2022 (the most recent fiscal year), 2023 (the projected fiscal year), and 2024 (the test year). In addition, we provide financial data to support the test year forecast. The most recent fiscal year (calendar year 2022) reflects the Company's actual financial results. For the projected fiscal year 2023, actual financial results through June 2023 are provided as rate base data, operating expenses, and revenues. Forecast projections are provided for the remainder of 2023. The test year forecast reflects the Company's most recent available budget data.

All fiscal periods provided in this testimony are adjusted for traditional regulatory adjustments (e.g., charitable donations, etc.).

I also provide schedules showing: the actual unadjusted average rate base consisting of the same rate base components; unadjusted operating income; overall rate of return; the calculation of required income; and the income deficiency and revenue requirements for the most recent fiscal year (2022), the projected fiscal year (2023), and the test year (2024).

2. *Test Year Forecast*

Q. WHAT WAS THE BASE SOURCE FOR THE PROPOSED TEST YEAR FORECAST COSTS?

A. Calendar year 2024 was selected as the test year for this filing using Xcel Energy's most recent available budget data for the first year of the budget cycle. Use of a fully projected calendar test year (2024) is consistent with longstanding practice and precedent in the Company's rate cases before the Commission.

The 2024 Budget is supported in Direct Testimony by Company witness Haworth, who discusses the budgeting process and provides capital and O&M budget analyses, Company witness Allison M. Johnson, who provides information on capital investments and depreciation, and various other Company witness who support the 2024 test year capital investments and O&M by business area. Additional information supporting the 2024 Budget is provided in Volume 5 (Budget Documentation) of the Application.

Q. DOES THE COMPANY ANTICIPATE UPDATING SOME OF ITS INFORMATION IN REBUTTAL TESTIMONY?

A. Yes. Consistent with prior cases, we will update certain costs to incorporate updated information. More specifically, we will review the following and update in this case as appropriate.

- Cost of capital to reflect the most currently available data;
- Current customer count and sales information and expected trends that might indicate that adjustments to the sales and customer count forecasts are needed;

- Assumptions used for calculating Qualified Pension, FAS 106 retiree medical, FAS 112 post-employment benefits and long-term disability expense based on information as of December 31, 2023;
- The impacts of updating the Base Cost of Gas in Docket No. G002/MR-23-412;
- Anticipated bad debt expense for the 2024 test year; and
- The impacts of the final 2023 property tax true-up.

3. Supporting Information and the 2024 Projected Test Year

Q. WHY DOES THE COMPANY USE 2022 AS ITS MOST RECENT FISCAL YEAR INSTEAD OF 2023?

A. Minn. R. 7825.3100, Subp. 10 provides the following definition:

> Most recent fiscal year" is the *utility's prior fiscal year [here 2022]* <u>*unless*</u> notice of a change in rates is filed with the commission within the last three months of the current fiscal year *and at least nine months of historical data is available for presentation of current fiscal year financial information*, in which case the most recent fiscal year is deemed to be the current fiscal year [here 2023]. (Emphasis added.)

In this proceeding, the Company's most recent fiscal year is 2022, and its current fiscal year is 2023. The Company's "most recent fiscal year" is also 2022, as the two exceptions to the rule that would instead convert 2023 into the most recent fiscal year are not fulfilled here. While the Company is filing this rate case within the last three months of 2023, nine months of actual 2023 data is "not available for presentation." Since that requirement cannot be met, the plain language of the Rule directs the Company to use 2022 as the most recent fiscal year, consistent with the Company's long-standing approach.

The Rule does not require the Company to delay its filing until additional 2023 data becomes available or to accelerate the availability of the actual data to include nine months of actual data with the filing. Rather, Minn. R. 7825.3100, Subp. 10 requires the Company to treat 2022 as the prior fiscal year and Minn. R. 7825.3100, Subp. 12 requires that we treat 2023 as the projected fiscal year.

Q. IS THIS APPROACH ALSO CONSISTENT WITH THE COMPANY'S PAST PRACTICES THAT HAVE BEEN ACCEPTED BY THE COMMISSION?

A. Yes. In our electric rate case in Docket E002/GR-12-961, the Administrative Law Judge (ALJ) found that the Company's practice was consistent with its filings in past rate cases and was in compliance with Commission rules. Therefore, the ALJ supported,[1] and the Commission adopted, the Company's use of a fully projected test year. Most recently, we utilized actual 2020 data as the "most recent fiscal year" data in Docket No. G002/GR-21-678, as 2021 actual data was not available for presentation at the time of that filing. There was no issue with that approach in that case.[2]

[1] ALJ Report Findings 866-873 in Docket No. E002/GR-12-961 (July 3, 2013).

[2] In one prior rate case before the Commission, the Commission issued a rule variance to permit a utility to utilize the last full calendar year as the "most recent fiscal year" for a rate case filed in the last two months of 2017. *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota,* ORDER ACCEPTING FILING, SUSPENDING RATES, EXTENDING TIMELINE, AND VARYING RULE, Docket No. G011/GR-15-736 (Dec. 5, 2017). We do not believe a variance is necessary here, just as it has not been necessary in prior NSPM rate cases, because utilizing 2022 data is consistent with the Minnesota Rule under the circumstances of this filing. But if the Commission determines that a variance is necessary, the Company requests a variance under Minn. R. 7829.3200, because (i) the Company began preparing this rate case filing several months before the requisite data was available for 2023, and it would be an excessive burden on the utility to wait to file the case or refile the case when 2023 data is available (and would not align with a calendar year test year); (ii) granting the variance would not adversely affect the public interest, because NSPM has used this approach in the past with the same extensive data, and it has resulted in just and reasonable rates; and (iii) granting the variance would not conflict with standards imposed by law.

Q. DOES THE COMPANY'S PRACTICE RESULT IN LESS INFORMATION BEING INCLUDED IN THE FILING?

A. No. The Company filed information for 2022 (the most recent fiscal year), 2023 (the projected year), the unadjusted 2024 year, and the adjusted 2024 test year. Definitions and financial schedules related to 2022 actual and 2023 projections are included in the following locations:

- Volume 3, Required Information, Section II, Tabs 2-5.
- Exhibit___(BCH-1), Schedule 7, Comparison of Detailed Rate Base Components.
- Exhibit___(BCH-1), Schedule 8, Comparison of Detailed Income Statement Components.

B. Jurisdictional Cost of Service Study

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I will explain the jurisdictional cost of service studies that we prepared for the test year forecast.

Q. PLEASE DESCRIBE THE COMPONENTS OF THE JURISDICTIONAL COST OF SERVICE STUDY FOR THE TEST YEAR FORECAST.

A. A summary of the jurisdictional cost of service study for the test year forecast is provided in Schedule 2, Summary of Revenue Requirements. The complete jurisdictional cost of service study for the test year forecast is provided in Schedules 3, Cost of Service Study Summary, and in Volume 4 (Test Year Workpapers) of this filing and includes all the adjustments discussed in my Direct Testimony.

The jurisdictional cost of service study includes the following financial data input sections for the Minnesota Jurisdiction: (i) capital structure; (ii) cost of capital; (iii) income tax rates; (iv) rate base; (v) income statement; (vi) income tax calculations; and (vii) cash working capital.

Q. PLEASE DESCRIBE THE JURISDICTIONAL COST OF SERVICE SUMMARY SCHEDULES.

A. The jurisdictional cost of service summary for the test year forecast is included as Schedule 3, Cost of Service Study Summary:

- The Rate Base Summary for the Minnesota jurisdiction gas operations is shown on Page 1. It provides the assumed capital structure, including the overall rate of return on rate base and the ROE. The Rate Base Summary references a calculation of cash working capital, which is detailed in Exhibit ___(BCH-1), Schedule 4 (Cash Working Capital), and Volume 4, Section P10, Cash Working Capital.
- An Income Statement for the Minnesota jurisdiction gas operations is shown on Page 2 and Page 3. The income statement shows the determination of total operating income at present authorized retail rates. The Income Statement references calculations for federal and state income taxes, which are detailed on Page 3.
- The Revenue Requirement and Return Summary for the Minnesota jurisdiction gas operations is shown on Page 3. It shows the revenue deficiency that needs to be recovered to enable the Minnesota jurisdiction gas operations to earn the requested rate of ROE and the total revenue requirements.

Q. ARE THE REVENUE CONVERSION FACTOR CALCULATION AND THE MINNESOTA COMPOSITE INCOME TAX RATES INCLUDED IN THIS FILING?

A. Yes. The gross revenue conversion factor calculation is included in Volume 3, Section II, Tab 7 of the Other Supplemental Information; and the composite income tax rates are included in Volume 3, Section II, Tab 4C, Schedule C-5, of the Operating Income Schedules.

Q. PLEASE EXPLAIN HOW THE INTEREST DEDUCTION FOR DETERMINING TAXABLE INCOME IS CALCULATED.

A. The amount of interest deducted for income tax purposes is the weighted cost of debt capital multiplied by the average rate base. This is sometimes called "interest synchronization." The calculation for the interest synchronization in the test year is provided in Schedule 3, Cost of Service Summary, Line 97.

Q. WHICH SCHEDULES TO YOUR TESTIMONY ARE RELATED TO RATE BASE?

A. I have provided three schedules related to rate base: Schedule 7, Comparison of Detailed Rate Base Components; Exhibit___(BCH-1), Schedule 10, 2024 Test Year Rate Base Adjustment Schedule; and Exhibit___(BCH-1), Schedule 9, Rate Base, CWIP and ADIT Summary. I discuss these schedules in Section IV, Rate Base, and Section VII, Annual Adjustments to the test year. Additional comparative rate base schedules are provided in Volume 3, Required Information.

Q. WHICH SCHEDULES TO YOUR TESTIMONY ARE RELATED TO THE INCOME STATEMENT?

A. I have provided two schedules related to the income statement: Schedule 8, Comparison of Detailed Income Statement Components, and

Exhibit___(BCH-1), Schedule 11, 2024 Income Statement Adjustment Schedule. I discuss these schedules in Section V, Income Statement and Section VII, Annual Adjustments to the Test Year. Additional comparative income statement schedules are provided in Volume 3, Required Information.

IV. RATE BASE

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony, I support the reasonableness of the Company's projected 2024 test year rate base and identify and explain how the components of the rate base were determined. I begin by providing the overall rate base calculation and identify its components, then walk through each of the test year forecast components of rate base in turn.

Q. IS THE COMPANY'S PROJECTED 2024 TEST YEAR RATE BASE REASONABLE FOR PURPOSES OF DETERMINING FINAL RATES IN THIS PROCEEDING?

A. Yes. The projected 2024 test year rate base for the Company's Minnesota jurisdiction gas operations was developed on sound ratemaking principles in a manner similar to prior Company gas rate cases.

Q. PLEASE EXPLAIN WHAT RATE BASE REPRESENTS.

A. Rate base primarily reflects the capital expenditures made by a utility to secure plant, equipment, materials, supplies, working capital, and other assets necessary for the provision of utility service, reduced by amounts recovered from depreciation and non-investor sources of capital.

Q. PLEASE IDENTIFY THE MAJOR COMPONENTS OF THE PROJECTED 2024 TEST YEAR RATE BASE.

A. The test year rate base is generally comprised of the following major items, which I later describe in detail:

- Net Utility Plant;
- Construction Work in Progress;
- Accumulated Deferred Income Taxes; and
- Other Rate Base.

Q. HOW DOES THE COMPANY CALCULATE RATE BASE?

A. The Company's rate base can be expressed as follows:

	Original Average Cost of Plant in Service (Plant)
Less:	Average Accumulated Depreciation Reserve (Reserve)
Less:	Average Accumulated Provision for Deferred Taxes (net of accts 281-283 and 190) (ADIT)
Plus:	Average Construction Work in Progress (CWIP)
Plus:	Average Working Capital (Work Cap)
Equals:	Rate Base

In this case, the calculation is as follows, using the average of the beginning of year (BOY) and end of year (EOY) balances for the test year:

Plant	$2,187,742	(per BCH-1, Schedule 3, Page 1, Line 23)
Reserve	(785,327)	(per BCH-1, Schedule 3, Page 1, Line 24)
ADIT	(214,540)	(per BCH-1, Schedule 3, Page 1, Line 31)
CWIP	34,124	(per BCH-1, Schedule 3, Page 1, Line 26)
Other Rate Base	45,864	(per BCH-1, Schedule 3, Page 1, Line 41)
Rate Base	$1,267,863	(thousands of dollars)

Q. PLEASE DESCRIBE THE SCHEDULES IN YOUR EXHIBIT THAT ARE RELATED TO THE TEST YEAR AVERAGE INVESTMENT IN RATE BASE.

A. Schedule 7, Comparison of Detailed Rate Base Components, provides a detailed statement of the rate base components. Page 1 provides a comparison of the rate base components for the 2024 test year, to the 2022 test year established in Docket No. G002/GR-21-678.

Exhibit___(BCH-1), Schedule 9, Rate Base, CWIP, and ADIT Summary, Page 1, shows a detailed average rate base by component for the 2024 test year for the Minnesota jurisdiction and Total Company, before and after making proposed test period adjustments. Page 2 shows the test year average Construction Work in Progress (CWIP) for the Minnesota jurisdiction and Total Company, before and after making proposed test period adjustments. Page 3 shows the test year accumulated deferred income taxes (ADIT) for the Minnesota jurisdiction and Total Company, before and after making proposed test period adjustments.

Schedule 10, 2024 Test Year Rate Base Adjustment Schedule, is a bridge schedule showing the 2024 unadjusted rate base, each proposed rate base adjustment, and the resulting proposed 2024 test year rate base.

A. Net Utility Plant

Q. WHAT DOES NET UTILITY PLANT REPRESENT?

A. Net utility plant represents the Company's investment in plant and equipment that is used and useful in providing retail gas service to its customers, net of accumulated depreciation and amortization.

Q. PLEASE EXPLAIN THE METHOD USED TO CALCULATE NET UTILITY PLANT INVESTMENT IN THIS CASE.

A. The net utility plant is included in rate base at depreciated original cost reflecting the simple average of projected net plant balances at the beginning and end of the 2024 test year. Such treatment is consistent with the method employed in the most recent Minnesota gas rate case.

Q. WHAT HISTORICAL BASE DID THE COMPANY USE AS A STARTING POINT TO DEVELOP THE PROJECTED NET PLANT BALANCES FOR THE BEGINNING OF THE 2024 TEST YEAR?

A. The historical base used for the beginning of the 2024 test year was the Company's actual net investment (Plant in Service less Accumulated Depreciation) on the Company's books and records as of June 30, 2023 plus the forecast for the remaining months of 2023.

Q. ON WHAT BASIS WERE NET PLANT BALANCES PROJECTED FOR THE END OF THE 2024 TEST YEAR?

A. The 2024 test year ending net plant balances were determined by applying the data contained in the 2024 capital budget to the above-described beginning balances, adjusted for retirements, depreciation, salvage, and removal costs projected to occur during the 2024 test year.

Q. WHAT WAS THE AVERAGE NET UTILITY PLANT INCLUDED IN THE 2024 TEST YEAR RATE BASE?

A. The average net utility plant included in the 2024 test year rate base is $1.4 billion, as shown on Schedule 7, Comparison of Detailed Rate Base Components. This is comprised of an average plant balance of $2.2 billion as detailed on Schedule 7, minus an average depreciation reserve of $0.8 billion, also shown by component on Schedule 7.

B. Construction Work In Progress

Q. WHAT IS CONSTRUCTION WORK IN PROGRESS (CWIP)?

A. In Minnesota, CWIP is included as part of the revenue requirement calculation for base rates. CWIP is the accumulation of construction costs that directly relate to putting a fixed asset into use.

Q. HAS CWIP BEEN INCLUDED IN THE 2024 TEST YEAR RATE BASE?

A. Yes. CWIP is included in rate base with a corresponding offset of AFUDC added to operating income. The rate base amount reflects a simple average of projected CWIP beginning and ending 2024 test year balances. This is consistent with the method employed in Minnesota and approved by the Commission in the Company's last rate case and matches the use of an average rate base. The CWIP and AFUDC determinations for rate base are discussed in the Direct Testimony of Company witness A. Johnson.

Q. HOW WERE THE 2024 TEST YEAR BEGINNING AND ENDING CWIP BALANCES DETERMINED?

A. The beginning balance for CWIP was the June 30, 2023 historical balance. The beginning CWIP balance was adjusted to reflect projected construction expenditures, AFUDC, and transfers to Plant in Service during the remainder of 2023 and in 2024 to obtain the beginning and ending 2024 test year CWIP balance. These projections were developed from the Company's 2024 capital budget.

C. Accumulated Deferred Income Taxes

Q. PLEASE DESCRIBE ACCUMULATED DEFERRED INCOME TAXES (ADIT).

A. Inter-period differences exist between the book and taxable income treatment of certain accounting transactions. These differences typically originate in one period and reverse in one or more subsequent periods. For utilities, the largest such timing difference typically is the extent to which accelerated income tax depreciation generally exceeds book depreciation during the early years of an asset's service life. ADIT represents the cumulative net deferred tax amounts that have been allowed and recovered in rates in previous periods.

Q. WHY IS ADIT DEDUCTED IN ARRIVING AT TOTAL RATE BASE?

A. To the extent income taxes recovered in rates are deferred for later payment, they represent a prepayment by customers, a non-investor source of funds. The average projected ADIT balance is deducted in arriving at total rate base to recognize such funds are available for corporate use between the time they are collected in rates and ultimately remitted to the respective taxing authorities.

Q. WHAT AMOUNT OF ADIT WAS DEDUCTED TO ARRIVE AT THE 2024 TEST YEAR RATE BASE?

A. As shown on Schedule 7, Comparison of Detailed Rate Base Components, $214.5 million was deducted. This amount reflects a simple average of the projected beginning and ending 2024 test year ADIT balances and incorporates Internal Revenue Service (IRS) tax regulations. Specifically, Sec. 1.167(l) of the tax code defines a pro-rated schedule for the extent average accumulated deferred income taxes can be used to reduce rate base to comply with the tax normalization requirements of the Code when forecast information is used to set rates. This is consistent with the method employed in Minnesota and approved by the Commission in the Company's most recent rate cases. Details related to ADIT are provided in Schedule 9, Rate Base, CWIP, and ADIT Summary, on Page 3.

Q. HOW DID THE FEDERAL TAX CUTS AND JOBS ACT (TCJA) AFFECT THE PROPOSED TEST YEAR ADIT IN RATE BASE?

A. The Commission's Order in Docket No. E,G999/CI-17-895 directed the Company's amortizations of excess ADIT, which are included in the amounts shown on Schedule 7, Comparison of Detailed Rate Base Components. Support for the excess ADIT can be found in Volume 4, Section III Rate Base (Plant), Tab P2-3.

D. Other Rate Base

Q. PLEASE SUMMARIZE THE ITEMS YOU HAVE INCLUDED IN OTHER RATE BASE.

A. Other Rate Base is comprised primarily of Working Capital. It also includes certain unamortized balances that are the result of specific ratemaking amortizations, as discussed below in my testimony.

Q. PLEASE EXPLAIN WHAT WORKING CAPITAL REPRESENTS.

A. Working Capital is the average investment in excess of net utility plant provided by investors that is required to provide day-to-day utility service. It includes items such as materials and supplies, fuel inventory, prepayments, and various non-plant assets and liabilities. The net cash requirement (referred to as Cash Working Capital) is shown separately.

Q. HOW WERE 2024 TEST YEAR MATERIALS AND SUPPLIES REQUIREMENTS CALCULATED?

A. The Materials and Supplies amounts shown on Schedule 3, Cost of Service Study Summary, Page 1, are based on the thirteen-month average balances ending June 30, 2023, the most recent data available. The Materials and Supplies average balance are included on Schedule 3, Cost of Service Study Summary, Page 1, Line 34.

Q. HOW WERE 2024 TEST YEAR GAS-IN-STORAGE REVENUE REQUIREMENTS DETERMINED?

A. The Gas-In-Storage amount shown on Schedule 3, Cost of Service Study Summary, Page 1, is developed based on the thirteen-month average balances ending June 30, 2023, the most recent data available. The 2024 Test Year rate base amount for Gas-In-Storage are included on Schedule 3, Cost of Service Study Summary, Page 1, Line 35.

Q. HOW WERE 2024 TEST YEAR NON-PLANT ASSETS AND LIABILITIES DETERMINED?

A. These balances as shown on Schedule 3, Page 1, Cost of Service Study Summary, represent 2024 test year estimates of these balances. Any book/tax timing differences associated with these items have been reflected in the determination of current and deferred income tax provision and ADIT balances previously discussed. The Non-Plant Assets and Liabilities average balance are included on Schedule 3, Cost of Service Study Summary, Page 1, Line 36.

Q. ARE THERE ANY NON-PLANT ASSETS OR LIABILITIES FOR WHICH THE COMPANY IS NOT REQUESTING RECOVERY IN BASE RATES?

A. Yes. In Docket No. G999/CI-21-135, the Commission approved amortization and recovery of gas costs associated with Winter Storm Uri over 63 months, with no carrying charge. The Company is carrying these costs over this period without seeking to recover a carrying charge, which presents a significant impact to the Company.

Q. HOW WERE 2024 TEST YEAR PREPAYMENTS AND OTHER WORKING CAPITAL ITEMS DETERMINED?

A. Prepayments and Other Working Capital, such as customer advances and deposits, are based on the actual 13-month average balances during the period ended June 30, 2023, as a proxy for the 2024 test year. The Prepayments and Other Working Capital average balances are included on Schedule 3, Cost of Service Study Summary, Page 1, Lines 37-40.

Q. HOW WERE THE TEST YEAR CASH WORKING CAPITAL REQUIREMENTS DETERMINED?

A. Cash Working Capital requirements have been determined by applying the results of a comprehensive lead/lag study to the projected test year revenues and expenses.

Q. WERE THE COMPONENTS OF THE TEST YEAR CASH WORKING CAPITAL CALCULATED CONSISTENT WITH METHODS USED IN THE LAST RATE CASE?

A. Yes. The test year cash working capital has been calculated consistent with methods accepted in our most recent Minnesota gas rate case.

Q. PLEASE BRIEFLY EXPLAIN HOW A LEAD/LAG STUDY MEASURES CASH WORKING CAPITAL.

A. A lead/lag study is a detailed analysis of the time periods involved in the utility's receipt and disbursement of funds. The study measures the difference in days between the date services to a customer are rendered and the revenues for that service are received, and the date the costs of rendering the services are incurred until the related disbursements are actually made.

Q. HAS XCEL ENERGY'S LEAD/LAG STUDY BEEN UPDATED SINCE THE LAST GAS RATE CASE?

A. Yes. The Company has updated the lead/lag study for the calculation of the lead and lag days for all categories through year end 2022, using the methodology for calculating the lead/lag days consistent with the Company's prior electric and gas regulatory filings. The results of the updated lead/lag study for gas operations were incorporated into the Minnesota jurisdiction cash working capital calculations as shown on Schedule 4, Cash Working Capital, Page 1.

Q. WHAT ARE THE TEST YEAR CASH WORKING CAPITAL AMOUNTS?

A. The $10.0 million included as a reduction in average rate base in the test year is based on the results of our lead/lag study prepared consistently with previous rate cases.

Q. HAS THERE BEEN A CHANGE IN THE TEST-YEAR CASH WORKING CAPITAL AMOUNT SINCE THE LAST RATE CASE?

A. Yes. The 2024 test year Cash Working Capital balance of $10.0 million represents a $3.6 million decrease compared to the 2022 test year. This decrease has the effect of a slightly smaller reduction in rate base, as compared to the impact of the Cash Working Capital balance in the 2022 test year.

Q. WHAT IS THE SOURCE OF THE CHANGE IN CASH WORKING CAPITAL?

A. The change in Cash Working Capital from the 2022 level is primarily due to the net changes in the average expense lead and revenue lag days between the two periods. Average revenue lag days increased to 40 in 2024 from 38 in 2022, meaning the Company's revenues are being collected on average two days slower in 2024 than in 2022. The Company's average expense lead days decreased to 47 in 2024 from 48 in 2022, meaning that the Company's cash outlay for paying expenses decreased by an average of one day. Overall, cash inflows from revenue collections exceed the longer time frame for disbursing cash, giving rise to a negative cash working capital balance to be included in rate base.

Q. WHAT IS THE SIGNIFICANCE OF NEGATIVE CASH WORKING CAPITAL?

A. A negative cash working capital indicates that overall revenue collections occur sooner than the date when the associated costs of service are paid. In other words, on average, more cash requirements are being provided by customers and vendors. The negative cash working capital reduces rate base to compensate customers for funds provided to meet cash working capital requirements. It should be noted that changes in the revenues or expenses could cause the cash working capital calculation to be changed. The Company will update the 2024 test year cost of service study accordingly.

V. INCOME STATEMENT

Q. WHAT TOPICS WILL YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I will support the reasonableness of the Company's proposed test year income statement. I begin by providing the overall income statement calculations and identify their components, then walk through each of the test year components of the income statement in turn.

Q. IS THE COMPANY'S PROPOSED TEST YEAR INCOME STATEMENT REASONABLE FOR DETERMINING FINAL RATES IN THIS PROCEEDING?

A. Yes. The proposed test year income statement for the Company's Minnesota jurisdiction gas operations were developed on sound ratemaking principles in a manner similar to prior Company gas rate cases.

Q. PLEASE IDENTIFY THE MAJOR COMPONENTS OF THE PROJECTED INCOME STATEMENTS.

A. The following are the major components of the test year forecast income statements:

- Revenues;
- Operating and Maintenance Expenses;
- Depreciation Expense;
- Taxes; and
- AFUDC.

Q. PLEASE DESCRIBE THE SCHEDULES TO YOUR TESTIMONY THAT ARE RELATED TO THE INCOME STATEMENT.

A. Schedule 11, 2024 Income Statement Adjustment Schedule, is a bridge schedule that shows the unadjusted income statement, each proposed income statement adjustment, and the resulting proposed income statement for the test year. Schedule 11 also includes the revenue deficiency amount for each item included in this schedule.

Schedule 8, Comparison of Detailed Income Statement Components, provides a detailed statement of the income statement components. Page 1 provides a comparison of income statement components for the Company's last rate case filing to the 2024 test year assuming final rates.

A. Revenues

Q. HOW DOES THE COMPANY PRESENT ITS PROJECTED SALES FOR THE TEST YEAR?

A. The test year sales volumes are supported by Company witness Goodenough, who discusses the bases for the Company's sales forecasts, including the use of normal weather to develop the Company's projected test year sales.

Q. DO RETAIL OPERATING REVENUES REFLECT THE PROJECTED LEVEL OF UNBILLED SALES VOLUMES IN THE TEST YEAR?

A. Yes. As Company witness Goodenough explains, the projected level of unbilled sales is incorporated into the retail sales forecast on a calendar-month basis. This eliminates the need to reconcile billing-month sales to calendar-month sales by recording unbilled revenues.

Q. HAVE YOU CONSIDERED OTHER OPERATING REVENUES AS AN OFFSET TO THE RETAIL REVENUE REQUIREMENT?

A. Yes. The test year includes items such as revenues from limited firm standby gas customers, late payment fees, service activation fees, reconnection fees and others.

Q. HAVE REVENUES AND EXPENSES ASSOCIATED WITH NSPM'S NON-REGULATED BUSINESS ACTIVITIES BEEN EXCLUDED FROM THE TEST YEAR COST OF SERVICE?

A. Yes. We have excluded the revenues and expenses associated with Commission-approved non-regulated business activities (i.e. HomeSmart) from the test year cost of service. Because these activities are recorded in below-the-line accounts, they were not included in the test year.

B. Operating and Maintenance Expenses

Q. HOW DOES THE COMPANY CALCULATE OPERATING EXPENSES?

A. The Company's operating expenses can be expressed as follows:

Operation and Maintenance Expense (including fuel) (Operating Exp)
\+ Depreciation Expense (Depreciation)
\+ Miscellaneous Amortization Expense (Amortization)
\+ Taxes other than Income Taxes (Other Taxes)
\+ Income Taxes (Income Tax)
= Total Expenses

In this case, the calculation is provided in Table 6 below:

Table 6
Operating Expenses

	Item	2024 Test Year Amount ($000s)	Exhibit__ (BCH-1), Sch. 3 Reference
	Operating Expense	$468,744	Page 2, Line 61
plus	Depreciation	73,521	Page 2, Line 63
plus	Amortization	926	Page 2, Line 64
plus	Other Taxes	27,741	Page 2, Line 75
plus	Income Tax	1,006	Page 3, Line 121
equals	Total Expense	$571,938	Page 3, Line 125

Q. WHAT ARE THE PRINCIPLE O&M EXPENSE CATEGORIES?

A. The principle expense categories are:

- Purchased Gas;
- Gas Production and Storage;
- Gas Transmission;
- Gas Distribution;
- Customer Accounting;
- Customer Service & Information;
- Sales, Economic Development and Other; and
- Administrative and General.

Q. How are Purchased Gas costs treated?

A. Purchased Gas costs are collected through the Purchased Gas Adjustment Rider (PGA). Those costs are fully offset by revenues from the PGA, and therefore have no impact on the 2024 test year revenue deficiency.

Q. Has this changed since the last rate case?

A. No.

Q. What are Gas Production and Storage costs and how are they determined?

A. Gas Production and Storage costs are primarily the costs needed to operate and maintain the Company's gas production and storage assets, including its gas peaking plants and former manufactured gas plant (MGP) sites. These costs are budgeted through development of a production and storage system budget to serve the Company's natural gas customers in Minnesota and North Dakota. Please see Company witness Berger's testimony for additional details.

Q. How does NSPM develop its test year Gas Transmission and Distribution expenses?

A. Transmission and distribution expenses are the O&M costs associated with operating and maintaining our Minnesota gas transmission and distribution facilities. These costs and their development are detailed in the Direct Testimony of Company witness Berger.

Q. HOW DOES XCEL ENERGY DEVELOP ITS TEST YEAR CUSTOMER ACCOUNTING EXPENSE?

A Customer Accounting O&M cost is associated with providing meter reading, billing, credit and collections, bad debt expense, contact center and operational support services. These costs are developed through the Customer Care budget prepared for both the NSPM electric and gas utilities. These costs and their development are detailed in the Direct Testimony of Company witness Nora C. Lindgren. The allocation of these costs to the gas utility and then to the Minnesota jurisdiction is addressed in Section VI of my Direct Testimony.

Q. WHAT COSTS ARE INCLUDED IN ADMINISTRATIVE AND GENERAL (A&G) EXPENSE?

A. A&G expense includes IT, compensation, office supplies, and expenses and consulting services for officers, executives, and other Company employees properly chargeable to utility operations and not chargeable directly to a particular operating function. Also included in A&G expense are property insurance, and other costs related to injury or damage claims made by employees or others, employee pensions and benefits, regulatory expenses, general advertising expense, utility rental expense not properly chargeable directly to a particular operating function and maintenance costs assignable to the customer accounts, sales, and A&G functions.

Q. ARE ANY COSTS RELATED TO CIVIC OR POLITICAL ACTIVITIES (LOBBYING) IDENTIFIED IN THE COST OF SERVICE OR ADJUSTMENTS?

A. No. The Company records all lobbying costs to below-the-line accounting, FERC account 426.4, Expenditures for Certain Civic, Political and Related

Activities. The Company prepares the unadjusted expenses for the test year using queries that restrict the data to only above-the-line accounts (FERC Accounts 500 through 935). Thus, no adjustment to the cost of service for lobbying costs is required, as these below-the-line amounts are not used in our development of the test year cost of service. We have also excluded the portion of organizational dues associated with lobbying activities. The Direct Testimony of Company witness Sangram S. Bhosale addresses our efforts to identify and remove lobbying.[3]

C. Depreciation Expense

Q. WHAT IS THE BASIS OF THE DEPRECIATION RATES AND EXPENSE USED IN THE 2024 TEST YEAR?

A. Depreciation expense for the 2024 test year base data reflects the Company's depreciation rates proposed in the Company's 2022 Annual Review of Remaining Lives and Transmission, Distribution, and General (TD&G) Assets filings in Docket No. E,G002/D-22-299. At the time this rate case testimony is being prepared for filing, the 2022 depreciation filing is pending before the Commission, with the agenda meeting scheduled for October 26, 2023. Consistent with past practice, the Company would incorporate any necessary changes resulting from a Commission Order in the 2022 depreciation proceeding into the rebuttal revenue requirement in this case. These adjustments are discussed in Section VII (adjustment 3). The Direct Testimony of Company witness A. Johnson discusses the Company's depreciation expense and remaining lives proposals.

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[3] Charitable contributions, economic development contributions, and Chamber of Commerce dues are other below-the-line expenses that are moved above the line, in part, through adjustments described in Section VII.

D. Taxes

Q. WHAT TAX EXPENSES ARE INCLUDED IN THE 2024 TEST YEAR INCOME STATEMENT?

A. We have line items for Property; Income Taxes including Deferred Income Tax, Investment Tax Credits and Federal and State Income Tax; and Payroll. The State and Federal income taxes are calculated in Schedule 3, Cost of Service Study Summary, starting on Page 2 of 3.

Q. HOW ARE PROPERTY TAXES DETERMINED FOR THE JURISDICTION?

A. Property taxes are determined on an NSPM Total Company basis. The functions are then allocated to the Company's regulatory jurisdictions using the demand allocator for electric production and transmission, the gas design day allocator for gas production, gas transmission is direct assigned by state and distribution is direct assigned by state for both electric and gas. Please see Volume 4, Tab P-6, Property Tax for more details.

Q. HOW ARE INCOME TAXES DETERMINED FOR THE JURISDICTION?

A. Income taxes are determined based on total before tax book income, tax additions, and deductions which determine deferred income taxes and the resulting taxable income that is used to calculate federal and state income taxes. The federal income tax rate reflects the 21 percent rate effective January 1, 2018 with the enactment of the TCJA. The utilization or generation of net operating losses or tax credits impact both deferred income taxes and federal and state income taxes, which I will discuss in more detail below.

Q. DOES THE COST OF SERVICE REFLECT ANY POTENTIAL FEDERAL OR STATE CORPORATE TAX RATE CHANGES DURING THE TEST YEAR?

A. Not at this time. While it is possible that there will be state or federal legislation during the course of a rate case to change tax rates, no changes are known at this time.

Q. WHAT IMPACT WOULD A FEDERAL TAX RATE INCREASE HAVE ON THE COST OF SERVICE?

A. The specific impacts to the cost of service would depend on the actual legislation that is enacted, if any. However, at a high level, an increase in the corporate income tax rate is expected to increase current and deferred income tax expense and ADIT leading to a net increase in the cost of service. Similarly, a decrease in the corporate income tax rate is expected to decrease current and deferred income tax expense and ADIT leading to a net decrease in the cost of service, consistent with the TCJA impacts on the cost of service. If or when federal and/or state tax rates may change, the Company would likely need to work with the Commission to seek relief or otherwise address the changes similarly to how the TCJA was addressed in 2018.

Q. PLEASE DISCUSS HOW THE COMPANY PLANS TO CAPTURE AND MAXIMIZE THE BENEFITS OF THE INFLATION REDUCTION ACT OF 2022 (IRA).

A. The Company is working with external advisors, including EEI and AGA, to assess the IRA and maximize the benefits for customers. The primary near-term benefits of the IRA are related to tax credits which primarily impact the electric utility, but there are also potential benefits in future investments the Company is exploring and will address in greater detail in future filings in the

Natural Gas Innovation Act Docket No. G999/CI-21-566 or the Future of Gas Docket No. G999/CI-21-565.

E. AFUDC

Q. WHAT IS AFUDC, AND WHAT IS ITS FUNCTION IN THE INCOME STATEMENT?

A. As previously noted, AFUDC is the cost of financing during the period a capital investment is included in CWIP. Once an asset is placed in service, the total cost to construct including accumulated AFUDC is recovered through depreciation expense. Company witness A. Johnson's Direct Testimony discusses the role AFUDC plays in allowing utilities to recover their cost of financing. In the income statement, AFUDC is used to offset expenses, thus increasing total operating income, and reducing the revenue requirement. This provides a direct offset to the return requirement associated with the inclusion of CWIP in rate base. Please see Section IV, Rate Base, for a detailed discussion of the relationship between CWIP and AFUDC.

VI. UTILITY AND JURISDICTIONAL ALLOCATIONS

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section I will:

- explain, at a high level, why it is necessary for the Company to allocate costs among its affiliates and between the jurisdictions in which it does business; and
- describe the utility and jurisdictional allocations that are used in determining the revenue requirement.

Q. WHY IS IT NECESSARY TO ASSIGN OR ALLOCATE COSTS BETWEEN NSPM AND ITS AFFILIATES?

A. Whenever services or facilities are shared between NSPM and an affiliate, it is necessary that the appropriate costs related to those services or facilities be assigned or allocated to the appropriate entity. In her Direct Testimony, Company witness Nicole L. Doyle explains the allocations for services and facilities shared between NSPM and an affiliate. Additional information regarding this process and the reason for selecting a particular allocator is also included in the Cost Assignment and Allocation Manual (CAAM) submitted with this application as Company witness Doyle's Exhibit___(NLD-1), Schedule 3.

Q. IS IT NECESSARY TO ASSIGN OR ALLOCATE COSTS BETWEEN NSPM'S ELECTRIC AND GAS UTILITIES?

A. Yes. NSPM operates both an electric utility and a gas utility. Therefore, it is necessary that the appropriate costs related to those services or facilities be assigned or allocated to the appropriate utility.

Q. IS IT NECESSARY TO ASSIGN OR ALLOCATE COSTS BETWEEN JURISDICTIONS?

A. Yes. The Company operates in two gas jurisdictions: Minnesota and North Dakota. Thus, it is necessary to allocate or assign costs appropriately between jurisdictions.

Q. HOW ARE COSTS ASSIGNED AND ALLOCATED?

A. The expense budgets relied upon to develop test-year income statement items were generally prepared on a functional basis (*i.e.* Production, Transmission, Distribution, Customer Accounts, Customer Information, Sales, Administrative and General). These functional amounts are directly assigned to the Minnesota jurisdiction gas utility operations where appropriate or allocated based on cost causation.

Detailed records are maintained on a functional basis (*i.e.* Production, Transmission, Distribution, etc.). The capital budgets, from which the projected plant balances in rate base were developed, are also prepared on a functional basis. These functional amounts are assigned to the appropriate jurisdiction directly or allocated based on the use of such assets in providing gas service in a particular jurisdiction and the underlying elements of cost causation.

Generally, all production and storage plant is allocated to jurisdiction using the jurisdictional design day allocator. Production and storage O&M expense also is allocated using the jurisdictional design day allocator.

Company witness Doyle further explains assignment and allocation of costs in her Direct Testimony.

Q. HOW ARE THESE ALLOCATION FACTORS DEVELOPED?

A. A summary and description of the allocation factors used to allocate expenses and capital items to the Minnesota jurisdictional gas operations income statement and rate base is contained in Volume 3, Required Information, II Required Financial Information, 3E Rate Base Jurisdictional Allocation Factors and 4F Operating Income Jurisdictional Allocation Factors. Plant investments are accounted for in the manner prescribed by the FERC Uniform System of Accounts. Company witness Doyle also explains the development of allocation factors in her Direct Testimony.

Q. HOW ARE PURCHASED GAS COSTS ALLOCATED?

A. Purchased gas costs are direct assigned to the Minnesota and North Dakota gas jurisdictions based on estimated revenue collections.

VII. ANNUAL ADJUSTMENTS TO THE TEST YEAR

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony, I explain adjustments that affect our proposed test year revenue requirement. These adjustments were identified during our review of the 2024 budget and preparation for this case. An individual adjustment may be related to a previous Commission Order, reflect Commission policy or traditional ratemaking treatment, or may be proposed to address a situation particular to this rate case. In this section, I provide details related to each adjustment and explain why each is necessary in order to present a representative level of rate base or costs in the test year. I also identify where another Company witness provides information to explain and support the adjustment.

Q. HOW ARE THESE ADJUSTMENTS PRESENTED IN YOUR TESTIMONY?

A. First, I present traditional adjustments consistent with treatment in prior cases and existing Commission Policy Statements (Precedential Adjustments) and rate case adjustments related to this particular case (Rate Case Adjustments). Next, I explain the various amortizations affecting the test year

(Amortizations), the removal of certain costs and revenues being recovered through riders (Rider Removals), and a group of adjustments that are the result of secondary dynamic calculations in the cost of service model (Secondary COS Calculations).

Q. PLEASE LIST THE 2024 TEST YEAR ADJUSTMENTS.

A. The following adjustments were made to rate base and the income statement where applicable. Rate base adjustments are shown on Schedule 10, Rate Base Adjustment Schedule. Income statement (revenue requirement) adjustments are shown on Schedule 11, Income Statement Adjustment Schedule. As a general note, all capital related revenue requirements shown on Schedule 11 are calculated at the last authorized rate of return. Exhibit___(BCH-1), Schedule 12, 2024 Adjustment Summary, provides adjustment amounts for the test year, all capital related revenue requirements shown on Schedule 12 are calculated at the proposed rate of return. Precedential Adjustments are set forth in Table 7 in the following section.

Rate Case Adjustments

1) Bad Debt
2) Black Dog Pipeline
3) Gas Depreciation Study TD&G
4) Participant Compensation
5) Incentive Compensation
6) New Area Surcharge
7) New Business CIAC
8) Property Tax Adjustment

Amortizations

9) Rate Case Expense

Rider Removals

10) GUIC Rider

Secondary Cost of Service Calculations

11) ADIT Pro-Rate – IRS Required
12) Cash Working Capital
13) Change in Cost of Capital
14) Net Operating Loss

A. Precedential Adjustments

Q. PLEASE LIST THE PRECEDENTIAL TEST YEAR ADJUSTMENTS INCLUDED IN THE REVENUE REQUIREMENT CALCULATION.

A. Table 7 below is a list of Precedential Adjustments and their associated revenue requirement impact, based on past rate case precedent and Commission policy:

Table 7
Precedential Adjustments

Record Type	MN Gas 2024 Test Year ($000s)	Workpaper Reference
NSPM-Advertising (Trad)	($253)	WP-A1
NSPM-Assn Dues (Trad)	(31)	WP-A2
NSPM-Aviation	(269)	WP-A3
NSPM-Chamber of Commerce Dues	4	WP-A4
NSPM-Charitable Donations (Trad)	134	WP-A5
NSPM-Econ Dev Donations (Trad)	12	WP-A6
NSPM-Econ Develop (Trad)	(9)	WP-A7
NSPM-Employee Expenses	(248)	WP-A8
NSPM-Foundation Admin	(18)	WP-A9
NSPM-Incentive Pay	(153)	WP-A10
NSPM-Incentive Pay Remove Long Term	(987)	WP-A11
NSPM-Pension Non-Qual Removal	(44)	WP-A12
Sub-Total Precedential	**($1,862)**	

Q. HOW DOES THE COMPANY PROVIDE SUPPORT FOR THESE PRECEDENTIAL ADJUSTMENTS?

A. Treatment of these precedential adjustments has become quite consistent in a number of cases before the Commission over the past several years. As such, the Company has provided the adjustments themselves in Schedules to my Direct Testimony, and support for these adjustments, including a detailed description of each adjustment and supporting materials, in the workpapers identified in Table 7 above. This organization is intended to facilitate the review of and provide full support for each adjustment within the identified workpaper.

Q. WHAT IMPACT DO THESE PRECEDENTIAL ADJUSTMENTS HAVE ON THE DEFICIENCY?

A. Regulatory treatment of these precedential adjustments decreases the Company's requested cost of service by approximately $1.9 million, or approximately three percent of our net revenue deficiency. These adjustments reflect actual costs the Company expects to incur to provide gas service to our customers. But we are removing them from our recovery request due to precedential orders by the Commission. Regardless, they directly affect the Company's opportunity to earn its authorized rate of return.

Q. HOW IS THE COMPANY INCORPORATING THESE ADJUSTMENTS INTO THE TEST YEAR?

A. These precedential adjustments are combined in one column matching the Total row in Table 7 above to Schedule 11, Income Statement Adjustment Schedule. In total, these precedential adjustments represent a decrease in our rate request compared to our budgeted costs. The detail of the precedential adjustments in bridge schedule format can be seen in Exhibit___(BCH-1), Schedule 13, Precedential Adjustment Detail. In addition, as noted above, each respective workpaper referenced above contains a detail description of the adjustment, including the past precedent and related Commission Orders or Policy Statements.

B. Rate Case Adjustments

1. Bad Debt

Q. PLEASE DESCRIBE THE BAD DEBT ADJUSTMENT.

A. The original calculation for 2024 bad debt expense was generated during the budget process and is a function of projected revenues multiplied by the bad debt ratio for NSPM. An analysis was performed to update the bad debt expense based upon the revenue deficiency in the 2024 test year. An adjustment is needed to incorporate into the revenue requirement the updated bad debt amount, which best reflects test year costs.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, column 8,
- Schedule 12, page 1, row 17, column 5,
- Volume 4, Section VIII Adjustments, Tab A13.

2. Black Dog Pipeline

Q. PLEASE DESCRIBE THE BLACK DOG PIPELINE ADJUSTMENT.

A. We have adjusted the 2024 test year to remove costs that exceeded our main and service extension justification.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 46, column 7,
- Schedule 11, page 1, row 41, column 9,
- Schedule 12, page 1, row 18, column 5,
- Volume 4, Section VIII Adjustments, Tab A14.

3. Gas Depreciation Study TD&G

Q. PLEASE DESCRIBE THE GAS DEPRECIATION STUDY TD&G ADJUSTMENT.

A. In September of 2022, the Company filed its Petition for Annual Review of Remaining Lives and Depreciation Rates for Transmission, Distribution, and

General Accounts in Docket No. E,G002/D-22-299. As discussed further by Company witness A. Johnson in her Direct Testimony, at the time this rate case was being prepared Docket No. E,G002/D-22-299 was pending Commission decisions. Our 2024 test year was therefore adjusted to include the impact of the new gas depreciation rates effective as of January 1, 2024, consistent with the Company's proposals in that docket.

On October 26, 2023, the Commission held an agenda meeting addressing Docket No. E,G002/D-22-299 and orally ordered the effective date for the depreciation study to be January 1, 2023. The Commission's written order also remains pending as this case was finalized. Therefore, the Company was unable to reflect the order in the rate case filing and will make an adjustment in Rebuttal Testimony.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 46, column 8,
- Schedule 11, page 1, row 41, column 10,
- Schedule 12, page 1, row 19, column 5,
- Volume 4, Section VIII Adjustments, Tab A15.

This same docket included the Company's proposal to extend the lives of the three gas peaking plants; however, this proposal was also included in the Company's 2022 Gas Rate Case, in which the Company proposed that the change in remaining lives for the peaking plants and the depreciation impact be effective as of January 2022, because this depreciation reduction was reflected beginning with interim rates in the Company's 2022 Gas Rate Case.

The Company continues to implement that outcome in this case, which is also consistent with the Commission's October 26, 2023 oral decision in Docket No. E,G002/D-22-299.

4. Participant Compensation

Q. PLEASE DESCRIBE THE PARTICIPANT COMPENSATION ADJUSTMENT IN THE 2024 TEST YEAR.

A. We have adjusted test year costs to include participant compensation related to Minn. Stat. § 216B.631 (Participant Compensation Statute) effective as of May 24, 2023.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, column 11,
- Schedule 12, page 1, row 20, column 5,
- Volume 4, Section VIII Adjustments, Tab A16.

5. Incentive Compensation

Q. PLEASE DESCRIBE THE INCENTIVE COMPENSATION ADJUSTMENT IN THE 2024 TEST YEAR.

A. We have adjusted test year costs to include the budgeted costs of the long-term incentive compensation related to Company achievement of environmental goals and time-based employee retention incentives. Company witness Michael P. Deselich discusses incentive compensation in his Direct Testimony.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, columns 12-13,
- Schedule 12, page 1, row 21-22, column 5,
- Volume 4, Section VIII Adjustments, Tab A17-A18.

6. New Area Surcharge

Q. PLEASE DESCRIBE THE NEW AREA SURCHARGE (NAS).

A. The NAS projects involve major expansions of service facilities that do not meet the general cost justification criteria in the Company's gas service tariffs. An NAS is a separate charge that is added to customer bills for a specified period to supplement recovery of the cost of the new area expansion.

Q. PLEASE DESCRIBE THE NEW AREA SURCHARGE ADJUSTMENT.

A. The NAS adjustment is a revenue adjustment to account for the capital expenditures and other related expenses that will be collected through the new area surcharge.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, column 14,
- Schedule 12, page 1, row 23, column 5,
- Volume 4, Section VIII Adjustments, Tab A19.

7. New Business Contributions in Aid of Construction (CIAC)

Q. PLEASE DESCRIBE THE NEW BUSINESS CIAC ADJUSTMENT.

A. The Company analyzed its new business development practices in light of the Commission Order in Docket No. G999/CI-90-563, as described in the Direct Testimony of Company witness Scott S. Hults. This analysis identified certain instances where new business CIAC that would have been justified was not collected.

Q. HOW DOES THIS ANALYSIS IMPACT THE 2024 TEST YEAR?

A. Based on the findings of this analysis, an adjustment was made to reflect the reduction in plant in service and other plant related items had the Company collected the CIAC.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 46, column 9,
- Schedule 11, page 1, row 41, column 15,
- Schedule 12, page 1, row 24, column 5,
- Volume 4, Section VIII Adjustments, Tab A20.

8. Property Tax Adjustment

Q. PLEASE DESCRIBE THE PROPERTY TAX ADJUSTMENT IN THE 2024 TEST YEAR.

A. The Company has reduced the test year property taxes to be consistent with the 2022 actual property taxes. In conjunction with this adjustment the Company is also proposing to continue a tracker consistent with the last rate case. Company witness Kowalowski supports the 2024 property tax forecast; however, the Company is voluntarily decreasing its property tax request for the 2024 test year for the Minnesota gas jurisdiction as a method to provide rate mitigation in the near term. The property tax adjustment and tracker is discussed in further detail in Section VIII.

This adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, column 16,
- Schedule 12, page 1, row 25, column 5,
- Volume 4, Section VIII Adjustments, Tab A21.

C. Amortizations

1. Rate Case Expense

Q. PLEASE DESCRIBE HOW RATE CASE EXPENSES WERE ESTIMATED.

A. We built the 2024 rate case budget based upon a combination of our plans for outside experts, expected regulatory and legal fees and estimates for administrative costs such as required notices. The estimated total rate case expense level for this rate case is $3.1 million to be amortized over the three-year period 2024-2026. In preparing the final schedules for the rate case filing the Company noted an omission in the calculation of the rate case expenses allocated to the regulated utility that would decrease the expense in the cost of service. The Company has made an adjustment to the interim rate request and will make the same adjustment in Rebuttal Testimony.

Q. WHAT ELSE IS INCLUDED IN THE REQUESTED RATE CASE EXPENSE AMOUNT IN THE 2024 TEST YEAR?

A. Based on the Settlement Agreement in Docket No. G-002/GR-21-678, the rate case expense was a reduction of $0.9 million and was amortized over a three year period from 2022 to 2024. Since the amortization period will not be completed prior to the 2024 test year, the remaining amortization offsets a portion of the current rate case expenses.

The net amount of current year rate case expenses and deferred levels impacts the test year revenue requirements by the amounts shown on:

- Schedule 11, page 1, row 41, column 17,
- Schedule 12, page 1, row 28, column 5,
- Volume 4, Section VIII Adjustments, Tab A22.

D. Rider Removals

Q. WHAT RIDER MECHANISMS ARE CURRENTLY USED BY THE COMPANY?

A. The Company currently uses three cost recovery riders:

- Gas Utility Infrastructure Cost (GUIC) Rider;
- Conservation Improvement Program (CIP) Rider; and
- Purchased Gas Adjustment (PGA).

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO THE TREATMENT OF COSTS RECOVERED THOUGH RATE RIDERS?

A. We propose to:

- Continue use of the GUIC Rider for recovery of costs; and
- Continue use of the CIP Rider and PGA in their current forms.

Below I discuss adjustments to remove costs related to the GUIC from the revenue requirement to reflect these rider proposals. No adjustments are needed to the 2024 test year for the CIP or PGA as discussed in detail in Section VIII of my Direct Testimony.

1. GUIC Rider

Q. WHAT IS THE GUIC RIDER?

A. Minnesota Statute § 216B.1635 (the GUIC Statute) allows a utility to petition the Commission for the rider recovery of "gas utility infrastructure costs."[4] According to the GUIC statute, GUIC costs that may be recovered through a rider can relate to two different types of "gas utility projects," generally speaking: (1) replacement of natural gas facilities located in the public right-of-way by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota or a political subdivision; or (2) replacement or modification of existing natural gas facilities as required by a federal or state agency. Costs that do not fall into these categories, such as line extensions, expansions, or upgrades, are not subject to rider recover under the GUIC statute.

Q. IS THE COMPANY PROPOSING CONTINUED USE OF THE GUIC RIDER DURING THE TEST YEAR?

A. Yes. We propose continued use of the GUIC Rider during the test year for project expenditures not placed in service as of December 31, 2023. We propose to recover the capital-related revenue requirements and property taxes as well as incremental operating and maintenance expenses. Therefore, we have not included any expenditures for these projects in the 2024 forecast as a part of our 2024 test year.

[4] The Minnesota Legislature amended Minnesota Statutes § 216B.1635 to extend the expiration date to June 30, 2028 (2023 Minn. Laws Ch. 60, art. 12, § 66).

Q. PLEASE DESCRIBE THE GUIC RIDER REMOVAL ADJUSTMENT.

A. The GUIC Rider removal adjustment removes all costs from the test year jurisdictional cost of service for the projects that we propose will stay in the rider after the implementation of final rates in this case. The GUIC Rider test year adjustment ensures no double recovery of these costs.

Q. WHAT COSTS ARE INCLUDED IN THE GUIC RATE RIDER REMOVAL ADJUSTMENT?

A. This adjustment decreases the test year rate base by $17.4 million in 2024. The adjustment has a net zero impact on the test year revenue requirements, as we expect full recovery. Support for these amounts can be found on:

- Schedule 10, page 1, row 46, column 10,
- Schedule 11, page 1, row 41, column 18,
- Schedule 12, page 1, row 31, column 5,
- Volume 4, Section VIII Adjustments, Tab A23.

Q. ARE THE RIDER REMOVALS BASED ON THE SAME DATA USED IN THE 2024 RIDER FILINGS?

A. Yes. The same vintage of data was used for both the rate case test year and our rider filing. However, we note the two filings calculate revenue requirements using different rate base averaging methodologies, and certain inputs in the rider are required to use historically approved values. Therefore, even though the underlying data is the same, variances exist in the revenue requirement calculations between the two filings.

E. Secondary Cost of Service Calculations

1. ADIT Pro-Rate – IRS Required

Q. PLEASE DESCRIBE THE ADIT PRO-RATE ADJUSTMENT THAT IS REQUIRED BY THE IRS AND INCLUDED IN THESE SECONDARY CALCULATIONS.

A. In general, the IRS tax regulations in Sec. 1.167(l) define a pro-rated schedule for the extent to which average accumulated deferred income taxes can be used to reduce rate base to comply with the tax normalization requirements of the Code when forecast information is used to set rates. Given that the Company's filing utilizes forecast test year data, this condition applies. This has been supported by a number of Private Letter Rulings (PLRs) issued by the IRS. In addition, FERC approved the proration logic included in the Company's Attachment O-NSP transmission formula rate of the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff in Docket No. ER18-2322-000.

This secondary calculation limits the ADIT deduction from rate base by applying the IRS defined pro-rate method to only the forecast entries to this balance. Support for this calculation is included in Volume 4, Section VIII Adjustments, Tab A24.

The adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 46, column 11,
- Schedule 11, page 1, row 41, column 19,
- Schedule 12, page 1, row 34, column 5,
- Volume 4, Section VIII Adjustments, Tab A24.

2. *Cash Working Capital*

Q. PLEASE DESCRIBE THE CASH WORKING CAPITAL ADJUSTMENT BEING MADE AS A SECONDARY CALCULATION.

A. As discussed earlier in Section IV.D, Other Rate Base, the Company has incorporated a secondary calculation to apply the various revenue lead days and expense lag days to the various income statement components to result in the appropriate cash working capital rate base adjustment. The adjustment impacts the test year revenue requirements by the amounts shown on:

- Schedule 10, page 1, row 46, column 12,
- Schedule 11, page 1, row 41, column 20,
- Schedule 12, page 1, row 35, column 5,
- Volume 4, Section VIII Adjustments, Tab A25.

3. *Change in Cost of Capital*

Q. PLEASE DESCRIBE THE IMPACT OF THE CHANGE IN THE COST OF CAPITAL ADJUSTMENT.

A. The cost of capital adjustment is the effect of the changes in the overall cost of capital between the cost of capital (also referred to as the overall rate of return, or ROR) being requested in this case and the effective cost of capital authorized in Docket No. G002/GR-21-678. Table 8 below provides the requested rate of return in this case, and the difference in the rate of return for the test year relative to the effective rate of return of 6.97 percent authorized in Docket No. G002/GR-21-678.

Table 8
Proposed Rate of Return

	2024 Test Year
Proposed Rate of Return	7.48%
Increase relative to 6.97%	0.51%

On Schedule 11, 2024 Income Statement Adjustment Schedule, the revenue deficiencies for the base data and all other adjustments are calculated at the 6.97 percent overall cost of capital. This adjustment calculates the required operating income resulting from the change in the overall cost of capital applied to the requested rate base.

We calculated the revenue deficiencies in this manner so that changes, if any, in the overall cost of capital that occur during the duration of the rate case do not affect the revenue requirements for each adjustment. The adjustment reflects both the change in the stated ROE of 9.57 percent in our last rate case to 10.20 percent (for final rates only) as well as the changes in short-term and long-term debt.

The reduction in our overall rate of return as compared to our 2022 test year equates to an increase of 51 basis points or $8.2 million in revenue requirements. The impact of these adjustments on the test year revenue requirements is shown on:

- Schedule 11, page 1, row 41, column 21,
- Volume 4, Section VIII Adjustments, Tab A26.

4. *Net Operating Loss*

Q. PLEASE DESCRIBE THE COMPANY'S NET OPERATING LOSS POSITION.

A. The Company is not currently in a net operating loss position; therefore no adjustment is necessary. Any changes in the revenues, expenses, or capital structure will cause the income tax calculation to be changed. This could, in turn, affect the timing of the deferred tax assets generated or consumed and added to or removed from rate base. The Company will update the 2024 test year secondary calculation accordingly.

VIII. COSTS RECOVERED IN RIDERS AND TRACKERS

A. Riders

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I present our proposed treatment of costs recovered in riders during the test year, including riders that we propose to continue to use and costs we propose to move to base rates. I provide detailed information supporting the adjustments to the test year that I presented in Section VII of my testimony.

In the following subsections of my testimony, I will address our proposed rate case treatment for each of these riders in detail and discuss how the Company ensures there is no double recovery of these costs.

Q. WHAT IS THE COMPANY'S BASE RATE REVENUE REQUIREMENT EXCLUSIVE OF RIDER ROLL-INS?

A. Our proposed total revenue requirement in 2024, including our proposed increase in base rates, is approximately $284.66 million as reflected in Table 9 below.

Table 9
Total Cost Recovery Including Riders ($000s)

Recovery Method	2024 Test Year
Present Revenues	$617,806
Cumulative Rate Increase	59,026
Proposed Revenues	676,832
Less: Rider Revenue included in present revenue	
GUIC Rider	13,115
CIP Rider	28,618
PGA Rider	350,434
Total Rider Revenue included in present revenue	392,168
Net Base Rate Revenue	**$284,664**

Rate rider recovery estimates are preliminary, are subject to change, and are also subject to the Commission's decision in individual rate rider dockets. We provide this information so that the Commission, parties, and our customers can understand the combined impact of our requests.

1. GUIC Rider

Q. WHAT ADJUSTMENT HAVE YOU MADE TO ENSURE NO DOUBLE RECOVERY OF COSTS RECOVERED IN THE GUIC RIDER AFTER THE IMPLEMENTATION OF FINAL RATES IN THIS CASE?

A. The project costs and revenues associated with the projects remaining in the GUIC Rider have been removed from our 2024 test year. A review is also done for each GUIC filing to ensure that no costs included in base rates are included in the GUIC filing. I provide information related to the 2024 test year adjustment that ensures no double recovery of these costs in Section VII.D, Rider Removals, GUIC Rider (adjustment 10).

Q. PLEASE DESCRIBE HOW YOU ARE PROPOSING TO MOVE PROJECTS TO BASE RATES AT THE CONCLUSION OF THIS RATE CASE.

A. As noted above, we propose to move projects from the GUIC Rider to base rates at the conclusion of this case because it reduces the Interim Rate increase and clarifies that there is no potential for double recovery of costs. Coincident with the implementation of final rates in this rate case, the project costs will be removed from the GUIC Rider for the remaining months of the year and final rates will be designed to recover the costs of these projects. This approach is consistent with how GUIC costs were treated in the settlement of our most recent gas rate case, Docket No. G002/GR-21-678.

More specifically, the GUIC Rider will be updated to exclude costs for these projects for the remaining months of the year following implementation. The GUIC present revenues will be excluded from the 2024 test year and final rates will be designed to recover the final revenue requirement approved by the Commission, including the final revenue requirement for these projects. The interim rate refund will not be affected for these projects, as any over/under recovery during the interim rate period related to these projects will remain in the GUIC Rider.

Q. WHAT DOES THE COMPANY PROPOSE TO INCLUDE IN ITS FINAL RATE COMPLIANCE TO SUPPORT MOVEMENT OF THESE PROJECTS FROM THE GUIC RIDER TO BASE RATES?

A. We propose to submit a GUIC Rider compliance report with Final Rate compliance. This report will clearly identify the revenue requirements removed from the GUIC Rider, the revenue recovered from customers for the projects moving to base rates during the interim rate period, and the development of the revised GUIC Rider adjustment factors.[5] The Company anticipates this process will be similar to the process used to move recovery of CIP costs from the CIP Rider to base rates.

Q. HOW ARE THE PROJECTS THAT WILL MOVE TO BASE RATES TREATED DURING THE INTERIM RATE PERIOD?

A. During the interim rate period, the Company proposes that the identified projects continue recovery through the GUIC Rider, along with the other costs that we are proposing to continue to recover through the GUIC Rider after implementation of final rates.

[5] Due to the current implementation pattern for GUIC Rider adjustment factors, the calculation of this rate will be reflected in the Final Rate compliance filing but will be implemented consistent with the timing of the applicable GUIC adjustment factors.

Q. HOW WILL YOU ENSURE NO DOUBLE RECOVERY OF THESE PROJECT COSTS OCCURS DURING THE INTERIM RATE PERIOD?

A. We are proposing to continue recovery of these projects through the GUIC Rider during the interim period and to move these projects into base rates at the end of this case. The 2024 test year also includes the project costs in the test year cost of service as well as the project revenues in present revenue. Thus, an interim rate adjustment is necessary to ensure no double recovery of these costs during the interim rate period. Accordingly, our 2024 interim rate request includes an adjustment to remove the projects identified to roll into base rates and the present revenue from the development of interim rates.

Q. PLEASE PROVIDE ADDITIONAL DETAIL RELATED TO THE INTERIM RATE ADJUSTMENT FOR THE GUIC RIDER COSTS.

A. The Interim Rate Adjustment removes the project costs and present revenue included in the 2024 test year from the interim cost of service. This adjustment decreases the interim cost of service rate base by $105.9 million and present revenue by $13.1 million. Additional detail on this adjustment can be found in Volume 1, Notice of Change in Rates and Interim Rate Petition, Interim Rate Supporting Schedules and Workpapers.

2. CIP Rider

Q. WHAT COSTS ARE RECOVERED THROUGH THE CIP RIDER?

A. The CIP Rider is designed to recover conservation and demand-side management program costs that are incremental to the level collected in base rates. Gas base rates are designed to include conservation and demand-side management cost at an authorized level approved by the Deputy Commissioner of the Minnesota Department of Commerce, Division of Energy Resources for a given test year. The CIP Rider collects any incremental conservation and demand-side management costs above the authorized level in final base rates.

Q. HOW IS THE CIP RIDER TREATED IN THE TEST YEAR?

A. The CIP Rider amount in the case is at the level needed to assure that the CIP revenue (Base and Rider) is equal to the expense in the test year. With the total amount of CIP expense and CIP revenue equal, the overall CIP program does not contribute to the test year deficiency.

3. Purchased Gas Adjustment (PGA)

Q. HOW IS THE PGA TREATED IN THE TEST YEAR?

A. Purchased gas costs are recovered from customers through the PGA. Both revenue and purchased gas expenses recovered through the PGA are included in the test year, and the total amount of each is equal. Any true-up of the revenues and costs during the test year will occur in the PGA and, therefore, there will be no need to address a change in revenue requirement in the final compliance filing.

B. True-Ups and Trackers

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section, I propose tracker treatment for property taxes, credit card fees, participant compensation, and MGP expenses. I also provide detailed information supporting the adjustments to the test year that I presented in Section VII of my testimony.

In the following subsections of my testimony, I will address our proposed rate case treatment for each of these trackers in detail.

1. *Property Tax True-Up*

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO PROPERTY TAX EXPENSES?

A. Company witness Kowalowski describes property tax expense and supports the 2024 forecast in his Direct Testimony. In the Company's 2022 Gas Rate Case, a property tax true-up mechanism was approved as part of the Settlement Agreement (2022 Gas Settlement Agreement).[6] In this case, the Company proposes the same mechanism with respect to property tax expense, proposing to establish a baseline expense amount in our test year revenue requirement, and to track actual costs above and/or below this baseline annually making a compliance filing each year. This same true-up mechanism has been in place for our electric utility for last several rate cases.[7] In addition, as discussed by Company witness Kowalowski, the Company is voluntarily decreasing its property tax request for the 2024 test year for the Minnesota gas jurisdiction. The Company is making this proposal as a method to provide rate mitigation in the near term. I discuss this adjustment to the 2024 property tax test year amount and the property tax true-up mechanism further below.

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[6] *In the Matter of the Application of Northern States Power Company d/b/a Xcel Energy's Petition for Authority to Increase Natural Gas Rates in Minnesota,* Docket No. G002/GR-21-678, COMPREHENSIVE AND UNANIMOUS SETTLEMENT AGREEMENT (October 4, 2022) at Section III.C.1.

[7] The Company's electric 2016-2019 Multi-Year Rate Plan (MYRP) (Docket No. E002/GR-15-826) was based on a settlement that included true-ups during the MYRP period for property tax expense. This property tax true-up was extended through 2021 as part of the Commission's approval of the Company's 2021 True-Up Mechanisms Petition in Docket No. E002/M-20-743. The Commission also approved an extension of this mechanism for the MYRP period (2022-2024) in the Company's most recent electric rate case (Docket No. E002/GR-21-630).

Q. PLEASE DESCRIBE THE PROPERTY TAX ADJUSTMENT THE COMPANY IS MAKING TO THE 2024 TEST YEAR.

A. The Company is voluntarily reducing the baseline property tax expense amount in the 2024 test year as a way to mitigate rates in the near term. While Company witness Kowalowski supports the property tax forecast methodology, which provides reasonable results, some factors affecting the property tax expense, such as the cap rate determined by the Department of Revenue (DOR), weightings, and local tax rates, are outside of the Company's control and are not fully predictable. As a result, final property taxes in any given year could be higher or lower than our forecasts. As such, due to the significant increase in property taxes forecasted for the 2024 test year, the Company believes it would also be reasonable to set the 2024 baseline property tax expense at the 2022 actual level, given that under the proposed symmetrical true-up mechanism, actual property taxes in 2024 will be addressed. Adjusting the property tax expense to 2022 actuals for the Minnesota gas jurisdiction results in a reduction of 17.8 percent, to $18.6 million for the 2024 test year base rate amount.

Q. WHY WOULD A PROPERTY TAX TRUE-UP MECHANISM BE APPROPRIATE?

A. We believe a symmetrical true-up mechanism reflecting actual property taxes in each year – either higher or lower than the baseline amount included in base rates – allows the Company to recover this cost of providing service and at the same time ensures that customers only pay actual property tax amounts for a given year. Further, the true-up process that has been in place for the electric utility has worked well and was also adopted in the Company's 2022 Gas Rate Case as described above.

Q. PLEASE DESCRIBE THE CONTINUATION OF THE TRUE UP PROCESS IN MORE DETAIL.

A. Consistent with the current electric and gas true-up mechanism, the Company proposes to submit updated property tax information in an annual filing once property taxes for a given year are final. For example, our first update would be filed after we receive 2024 property tax statements in the spring of 2025. That filing would include final property tax amounts for 2024, because we would have the updated actual 2024 DOR valuation inputs and actual effective tax rates at that time. The property tax process and timing is describe in detail in Company witness Kowalowski's Direct Testimony. Our compliance filing will compare actual and test year property tax amounts and will provide a refund plan for any over-recovery or a deferral for any under-recovery. I provide additional details at the end of this section about how deferred refunds or recoveries for the various trackers proposed by the Company will be netted together.

Q. WHY IS THIS TRUE-UP PROPOSAL REASONABLE?

A. First, it is reasonable to adjust the 2024 test year property tax expense amount to the 2022 actual level as a method of rate mitigation in the near term, given that this amount will be trued-up to actual property taxes in each year. A symmetrical true-up mechanism reflecting actual property taxes in each year compared to the baseline amount included in base rates allows the Company to recover this cost of providing service and at the same time ensures that customers only pay actual property tax amounts for a given year.

2. Credit Card Fee Tracker

Q. WHAT IS THE CREDIT CARD FEE TRACKER?

A. As Company witness Lindgren explains, in the Company's 2022 Gas Rate Case, we proposed to waive credit card fees for individual customers, and instead include credit card fees in our base rate structure so that the fees are part of overall O&M rather than passed to customers as individual transaction fees. Because this program would be new for the Company, we proposed to establish a baseline amount of credit card fees in base rates and track actual costs above or below that baseline for recovery or return to customers. As part of the 2022 Gas Settlement Agreement, the parties agreed to the implementation of this credit card fee waiver and tracker mechanism if the credit card fee waiver was approved by the Commission in the Company's electric rate case in Docket No. E002/GR-21-630.[8] The Commission's Reconsideration Order in the electric rate case clarified the Commission's approval of the Company's proposed credit card fee waiver.[9] As a result, the Company will begin implementing this waiver effective January 1, 2024.

Q. PLEASE DESCRIBE IN MORE DETAIL THE TRACKER MECHANISM IN THE APPROVED 2022 GAS SETTLEMENT AGREEMENT.

A. As Company witness Lindgren explains in her Direct Testimony, the Company currently estimates annual total gas credit card fees of approximately $1.7 million once customers are no longer charged individually for each transaction. We propose to establish this amount in our test year revenue requirement and track actual annual fees above and/or below this baseline

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[8] 2022 Gas Settlement Agreement, Section III.C.17.

[9] ORDER DENYING PETITION FOR RECONSIDERATION, DENYING PETITION FOR CLARIFICATION, AND GRANTING CLARIFICATION, Docket No. E002/GR-21-630 (October 6, 2023) at Order Point 4.

annually beginning January 1, 2024. The Company will make a compliance filing beginning in May 2025 and each year until our next Minnesota gas rate case. Our compliance filing will compare actual and test year credit card fee amounts and will provide a refund plan for any over-recovery or a deferral for any under-recovery. I provide additional details at the end of this section about how deferred refunds or recoveries for the various trackers proposed by the Company will be netted together.

Q. WHY IS THIS TRACKER PROPOSAL REASONABLE?

A. This tracker implementation is merely a continuation of the previously approved process for a new NSPM program that will modernize payment options for our customers and enhance our customers' experience with their gas utility service. The tracker will ensure the Company does not over- or under-collect credit card fees in the test year in relation to this program and will also enable reporting in our next rate case on the extent to which customers take advantage of this option.

3. Participant Compensation Tracker

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

A. In this section of my testimony I describe the recently-enacted statute (Minn. Stat. § 216B.631) governing how participants in the Company's regulatory proceedings may recover their participation costs from the Company, and I support the Company's proposal to track the associated costs. Given that the law is newly-established and has not yet been fully tested, a tracker will ensure customers pay no more or less than the Company's actual costs of participant compensation, while also supporting the purpose of the underlying legislation.

Q. PLEASE DESCRIBE RECENT MINNESOTA LAW CHANGES REGARDING COMPENSATING PARTICIPANTS IN THE COMPANY'S REGULATORY PROCEEDINGS.

A. In 2023, the Minnesota Legislature passed legislation enacting a new law governing compensation for participants in regulatory utility proceedings. At a high level, Minn. Stat. § 216B.631 (Participant Compensation Statute) effective as of May 24, 2023 provides that, subject to eligibility requirements, the Commission may order costs incurred by participants in a utility's regulatory proceedings to be paid by the utility. The statute also allows for timely recovery of these costs from customers.

Q. CAN YOU PROVIDE ADDITIONAL DISCUSSION OF THE PARTICIPANT COMPENSATION STATUTE RELATIVE TO THE COMPANY'S REQUEST IN THIS CASE?

A. Yes. Generally, Minn. Stat. § 216B.631 encourages participation in utility regulatory proceedings by parties that may not otherwise have the resources to do so. Eligible participants include non-profit organizations that are tax exempt and incorporated or organized in Minnesota and would suffer financial hardship if not compensated, or Tribal governments located in Minnesota.[10] The statute provides that the Commission may order a public utility to compensate eligible participants for all or a part of the costs incurred to participate in a utility's regulatory proceeding before the Commission, subject to various considerations[11] and limits as to amounts allowed for individual participants per year.[12] The statute also provides the maximum

[10] Minn. Stat. § 216B.631, subd. 2.
[11] Minn. Stat. § 216B.631, subd. 3.
[12] Minn. Stat. § 216B.631, subd. 4(a)-4(c).

aggregate amount a public utility could be required to pay annually based on the utility's annual gross operating revenue in Minnesota.[13] For NSPM as a whole, the total annual cap on aggregate compensation is $1.25 million.

Q. FOR WHICH TYPES OF PROCEEDINGS MAY PARTICIPANTS REQUEST COMPENSATION?

A. Under the statute, the Commission may order a utility to compensate eligible participants in a wide variety of proceedings, including those related to: rate change requests; utility requests for cost recovery through general rates or riders; ratepayer protections, service quality, or customer disconnection policies or procedures; low-income or affordability programs; tariffs and rate design; performance incentive measures; distribution planning and grid modernization; investigations or inquiries initiated by the Commission or the Department of Commerce; and pilot programs with proposed costs of at least $5 million.[14] In short, this encompasses many of the Company's regulatory proceedings before the Commission.

Q. TO WHICH PROCEEDINGS WOULD THE PARTICIPANT COMPENSATION STATUTE INITIALLY APPLY?

A. The statute became effective as of May 24, 2023, and provides that it applies to any proceeding in which the Commission has not yet issued a final order as of that date.[15] Thus we assume participants may submit compensation requests for a variety of current, pending, or future proceedings that fit the statute, including but not limited to this gas rate case proceeding.

[13] Minn. Stat. § 216B.631, subd. 4(a).
[14] Minn. Stat. § 216B.631, subd. 1(d).
[15] *See* Minn. Stat. § 216B.631, EFFECTIVE DATE section.

Q. IN GENERAL, WHAT IS THE COMPENSATION PROCESS?

A. At a high level, participants would submit a compensation request to the Commission, and the Commission would review each request for eligibility and the extent to which conditions in the statute are met. The Commission may then issue an order requiring a utility to pay all or a part of the participant's costs to participate in a proceeding. If the Commission issues an order requiring the utility to pay compensation costs, the utility must file proof of payment with the Commission within 30 days of the latter of expiration of the reconsideration period for compensation order or the date of a Commission order following reconsideration.[16] The statue also provides that the Commission may issue orders necessary to allow a public utility to recover costs of participant compensation on a timely basis.[17]

Q. WHAT IS THE TOTAL AGGREGATE AMOUNT THE COMPANY EXPECTS TO INCUR FOR PARTICIPANT COMPENSATION EACH YEAR?

A. As I noted above, in any calendar year the total aggregate amount for a utility of Xcel Energy's size is $1.25 million on a combined gas and electric basis. Allocating between the gas and electric utility based on the Common Utility Allocator, the Company expects to incur approximately $85,000 for participant compensation costs related to gas regulatory proceedings each year. The Company anticipates incurring the maximum amount allowed under the statute each year given the wide range of regulatory proceedings for which participant compensation is allowed.

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[16] Minn. Stat. § 216B.631, subd. 6.

[17] Minn. Stat. § 216B.631, subd. 6(c).

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO RECOVERING THE COSTS OF COMPENSATING PARTICIPANTS IN THE COMPANY'S REGULATORY PROCEEDINGS?

A. As a result of the Participant Compensation Statute, the Company is proposing to include in base rates a baseline amount for participant compensation costs in the 2024 test year, and requests approval to defer costs above or below the test year amount in a tracker account for recovery or return to customers.

Q. WHY DOES THE COMPANY BELIEVE A TRACKER WOULD BE APPROPRIATE?

A. Given that this is a new expense required under statute that the Company will incur each year on an ongoing basis, we believe establishing a baseline amount in base rates, with a symmetrical true-up mechanism, would be appropriate. While it would be difficult to predict the exact amount of participant compensation that the Company will incur each year, as discussed above, we believe the Company will likely reach the maximum amount each year, and a tracker would mitigate any risk of over- or under-collection so that only actual costs are ultimately recovered through rates.

Q. PLEASE DESCRIBE THE COMPANY'S TRACKER PROPOSAL IN MORE DETAIL.

A. The Company calculated the split between the electric and gas utility to determine the amount related to gas operations the Company anticipates incurring on an annual basis. We propose to establish this amount in our test year revenue requirement in this case and track actual annual costs above and/or below this baseline between January 1, 2024 and our next Minnesota gas rate case, and would submit an annual compliance filing. Our compliance filing will compare actual and test year participant compensation amounts, and will provide a refund plan for any over-recovery or a deferral for any under-recovery. I provide additional details at the end of this section about how deferred refunds or recoveries for the various trackers proposed by the Company will be netted together.

Q. WHY IS THIS TRACKER PROPOSAL REASONABLE?

A. Setting a baseline amount for participation compensation expense in base rates provides for continued support of eligible parties' participation in the Company's regulatory proceedings before the Commission, which ultimately benefits customers as more points of view are represented in those proceedings. The tracker will ensure the Company does not over- or under-collect participant compensation costs in the test year and will also enable reporting in our next rate case on the extent to which intervenors have utilized this new arrangement supporting participation in regulatory proceedings.

4. MGP Expense Tracker

Q. WHAT IS THE COMPANY PROPOSING WITH RESPECT TO MGP EXPENSES?

A. Company witness Berger describes manufactured gas plant (MGP) investigation and clean-up costs historically incurred by the Company and ongoing. In the Company's 2022 Gas Rate Case, the Company requested deferral treatment for these variable and important costs, proposing to establish a baseline expense amount in our test year revenue requirement and track actual costs above and/or below this baseline annually until the Company's next Minnesota gas rate case. For the purposes of settlement in that case, the parties agreed to the Company's proposed annual MGP expense amount in the test year but did not establish a tracker mechanism for these costs.[18] As Company witness Berger explains, in this case we are proposing to include MGP expenses in our base rate structure. Because these costs are variable from year-to-year, but ongoing and important, the Company is proposing to establish a baseline amount of MGP expense in base rates and track actual costs above or below that baseline.

Q. WHY DOES THE COMPANY BELIEVE A TRACKER WOULD BE APPROPRIATE?

A. Given that the MGP expenses incurred are subject to site specific conditions, redevelopment activities by third parties, and changing environmental standards, it is difficult to predict the actual costs that will be incurred in future years at any one particular site. On average, over time, and across multiple projects, however, the Company has incurred, and will continue to incur, MGP investigation and clean-up costs. While Company witness Berger supports the Company's initial estimates, a tracker would mitigate any risk of over- or under-collection so that only actual costs are ultimately recovered through rates.

Q. PLEASE DESCRIBE THE COMPANY'S TRACKER PROPOSAL IN MORE DETAIL.

A. As Company witness Berger explains in her Direct Testimony, the Company established an estimate of $1.0 million of MGP expense in the 2024 test year. The Company anticipates costs will average approximately $1.0 million per year going forward based on historical data, recognizing that emerging science, new facts, potential insurance recoveries, and ongoing work on existing and new sites creates significant uncertainty. We propose to establish this amount in our test year revenue requirement and track actual costs above and/or

[18] 2022 Gas Settlement Agreement, Section III.C.7.

below this baseline annually starting January 1, 2024 until our next Minnesota gas rate case, and would submit an annual compliance filing. If insurance recoveries are obtained, they will be applied to the regulatory asset to offset the costs incurred. Our compliance filing will compare actual and test year MPG expenses and will provide a refund plan for any over-recovery or a deferral for any under-recovery. I provide additional details at the end of this section about how deferred refunds or recoveries for the various trackers proposed by the Company will be netted together.

Q. WHY IS THIS TRACKER PROPOSAL REASONABLE?

A. As stated above, the actual amount of our ongoing MGP expenses incurred are subject to multiple factors that are difficult to predict. However, site clean-up is beneficial to the public interest, and the tracker ensures both actual costs and associated insurance recoveries (to the extent available) are recovered or refunded to customers.

Q. CAN YOU PROVIDE ADDITIONAL DETAILS ABOUT HOW DEFERRED REFUNDS OR RECOVERIES FOR THE VARIOUS TRACKERS PROPOSED BY THE COMPANY WILL BE NETTED TOGETHER?

A. Yes. While the Company proposes a few different trackers, ultimately, we anticipate that any deferred refunds or recoveries for the trackers will be netted together. The Company will combine the refunds or deferrals from any of the annual compliance filings for the tracker mechanisms discussed above and will issue a refund to customers for a net refund – or if a deferral remains, the remaining amount will be deferred and applied to any future year compliance refund until the next rate case. In this way, the reconciliation of actual costs to the baseline amounts in the test year will be straightforward and result in a single net number to be refunded to or collected from customers.

IX. COMPLIANCE WITH PRIOR COMMISSION ORDERS

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. The Completeness Checklist included in the Direct Testimony of Company witness Amy A. Liberkowski as Exhibit___(AAL-1), Schedule 2 documents how our rate case filing includes information required by Rule or prior Commission Orders and provides specific references to the testimony of Company witnesses that addresses each requirement. In this section of my testimony, I identify and provide information related to specific requirements from prior Commission Orders that have not been addressed elsewhere in my testimony.

A. Relief and Recovery Docket Tracking

Q. WHAT IS THE COMPLIANCE REQUIREMENT FROM THE COMPANY'S COVID-19 RELIEF & RECOVERY DOCKET?

A. In response to the Commission's request for projects that could assist with Minnesota's economic recovery from the COVID-19 pandemic,[19] the Company proposed to accelerate certain Distribution, Transmission, and Gas Operations projects and sought a Commission determination that acceleration of these projects was appropriate.[20] The Commission concluded that the

[19] *In the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery form the COVID-19 Pandemic*, REPORT COVID-19 RELIEF & RECOVERY, Docket No. E,G-999/CI-20-492 (June 17, 2020).

[20] *In the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery form the COVID-19 Pandemic*, ORDER DETERMINING THAT PROPOSALS HAVE THE POTENTIAL TO BE

proposed projects had the potential to be consistent with the Commission's request for proposals that could assist with recovery from the COVID-19 pandemic; that the Commission would determine project prudence in future rate cases; and that the acceleration of these projects "would not be the sole basis for any disapproval in the future."[21] Further, the Commission required the Company to "track investment spending for the acceleration of the projects separately from base rates, with clear delineation between portions that are included in base rates and those that are incremental to base rates."[22]

Q. IS THE COMPANY REQUESTING RATE RECOVERY OF ANY ACCELERATED PROJECTS IN THIS GAS RATE CASE?

A. Yes. As discussed by Company witness Berger, the Company is requesting recovery of certain Isolation Valve and Copper Riser Replacement projects. In total, the 2023 capital expenditure forecast includes $0.4 million, and there are no capital expenditures for these projects in the 2024 test year. Additional support for the projects can be found in Company witness Berger's Direct Testimony.

Q. HAS THE COMPANY INCLUDED THESE PROJECTS IN ITS COST RECOVERY REQUESTS IN ANY OTHER DOCKET BEFORE THE COMMISSION?

A. No. These programs were specifically tracked for Relief and Recovery purposes and are included in the cost of service in this rate case on that basis.

CONSISTENT WITH COVID-19 ECONOMIC RECOVERY, Docket No. E,G-999/CI-20-492 (March 12, 2021).

[21] *Id.* at Order Point 1.

[22] *Id.* at Order Point. 2.

Q. HAS THE COMPANY IDENTIFIED SPECIFIC COSTS ASSOCIATED WITH ACCELERATING THESE PROJECTS?

A. Because these are each projects that the Company otherwise intended to complete, and simply have been accelerated as discussed by Company witness Berger, the costs simply show up in the Company's rate request earlier than they otherwise might have. Therefore, while the Company will recover the costs of these projects earlier than it otherwise might have, customers are receiving the benefits earlier, including efforts to make jobs available and advance the work of Minnesota's Energy Utility Diversity Group as described by Company witness Berger.

Q. IS THE COMPANY PROVIDING THE COMMISSION WITH INFORMATION REGARDING THESE PROJECTS IN ANY OTHER DOCKETS?

A. Yes. Consistent with the Commission's March 12 and March 16, 2021 Orders in Docket No. E,G-999/CI-20-492, the Company continues to track its spending related to these COVID-19 Relief & Recovery projects and the Company has been providing this information to the Commission as part of its quarterly compliance filings in that docket.[23]

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[23] *In the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery form the COVID-19 Pandemic*, 2023 SECOND QUARTER REPORT COVID-19 RELIEF & RECOVERY, Docket No. 20-492 (July 31, 2023).

B. Incentive Compensation Refunds

Q. WHAT ARE THE REQUIREMENTS RELATED TO INCENTIVE COMPENSATION REFUNDS?

A. In Docket No. G002/GR-92-1186, the Commission required Xcel Energy to refund all incentive compensation payments included in the test year revenue requirement, but not paid.

Q. HOW IS COMPLIANCE WITH THESE REQUIREMENTS REFLECTED IN THE COMPANY'S RATE CASE REQUEST?

A. The Company's most recent annual report on its incentive compensation plan, filed on May 31, 2022 in Docket No. E,G002/M-22-254, reported that incentive plan payouts for 2021 (paid in March 2022), were above the level in base rates and no refund was required to gas customers. Our 2022 test year included the budgeted incentive compensation costs accrued in 2022 and payable in March 2023, after excluding certain costs (*e.g.*, AIP over base salary cap).

The 2024 test year includes the budgeted incentive compensation costs accrued in 2024 and payable in March 2025, after excluding certain costs (*e.g.*, AIP over base salary cap). On August 14, 2023, the Commission granted the Company's request for an extension to file its annual incentive compensation report for 2022 (paid in 2023) 30 days after the Commission's final Reconsideration Order in the Company's electric rate case in Docket No. E002/GR-21-630. The Commission's final Reconsideration Order in that docket was issued on October 6, 2023, and the annual incentive compensation report for 2022 will be filed by November 6, 2023. The Company will provide any updated information in Rebuttal Testimony relevant to incentive compensation levels in this case.

Q. DOES THE COMPANY PROPOSE ANY CHANGES TO THE AIP INCENTIVE REFUND PROGRAM?

A. Yes. Once rates have been established at the conclusion of this rate proceeding, we propose to eliminate the yearly AIP compliance filing requirement and any associated reports regarding the AIP. The Company is also proposing the elimination of the AIP refund. Company witness Deselich discusses this proposal in his Direct Testimony.

C. Recurring Compliance Reporting Requirements

1. Advantage Service (a/k/a HomeSmart)

Q. PLEASE DESCRIBE THE COMPANY'S COMPLIANCE WITH REQUIREMENTS RELATED TO HOMESMART.

A. In Docket No. E002/GR-91-1, the Company was directed to require NSP Advantage Service (now branded as Xcel Energy HomeSmart) to: 1) pay a return on the use of the Company's billing services asset; 2) compensate the Company for its personnel's referral time; and 3) compensate the Company for use of its mailing lists. The Company has complied with these requirements.

2. Tax Benefit Transfer Leases

Q. PLEASE DESCRIBE THE COMPANY'S COMPLIANCE WITH REQUIREMENTS RELATED TO TAX BENEFIT TRANSFER LEASES.

A. In Docket No. G002/GR-97-1606, the Company was directed to treat Tax Benefit Transfer (TBT) leases consistent with prior Commission approved methodology. There are no TBTs included in the test year. Because this provision has not been triggered in many years, barring any concerns identified by the Commission the Company will discontinue this reporting in future rate cases.

X. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission determine an overall 2024 retail revenue requirement of $676.83 million and 2024 revenue deficiency of $59.03 million for the Company's Minnesota jurisdictional gas operation, determined by the cost of service for the 2024 test year. I recommend a revenue deficiency for the test year in Table 10 as follows:

Table 10
2024 Revenue Request
Minnesota Jurisdictional ($s in millions)

Test Year	2024
Net Deficiency	$59.03
Average % increase, incremental *	9.6%

Lastly, I also recommend the Commission grant a 2024 interim rate increase of $51.2 million for the Company's Minnesota jurisdictional operation.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Resume of Benjamin C. Halama

Manager of Revenue Analysis
Revenue Requirements–North

Xcel Energy Services Inc.
414 Nicollet Mall
Minneapolis, MN 55401

Current Responsibilities

Since September 2018, I have worked as Manager of the Revenue Requirements–North department. In this position, I prepare and present cost of service studies, revenue requirement determinations, and jurisdictional annual reports for the electric and gas operations of Northern States Power Company to the Minnesota Public Utilities Commission, the South Dakota Public Utilities Commission, and the North Dakota Public Service Commission, and the Federal Energy Regulatory Commission.

Employment History

Xcel Energy – Minneapolis, MN

- Manager of Revenue Requirements–North, September 2018 to Present
- Manager Utility Accounting, May 2015 to August 2018

Target Corporation – Minneapolis, MN

- Manager of Inventory Accounting, 2014-2015
- Lead Analyst Financial Reporting, 2013-2014
- Supervisor Sales Accounting and Operations, 2011-2013

Copeland Buhl and Company – Wayzata, MN

- Accounting Supervisor, 2007-2011
- Senior Accountant, 2004-2007
- Staff Accountant, 2002-2004

Education

University of Wisconsin at Eau Claire, May 2002
Bachelor of Science in Accounting

SUMMARY OF REVENUE REQUIREMENTS
($000s)

Line	Description	2024 Test Year
1	Average Rate Base	$1,267,863
2	Operating Income (Before AFUDC)	$50,099
3	Allowance for Funds Used During Construction	$2,677
4	Total Available for Return (Line 2 + Line 3 + Rounding)	$52,776
5	Overall Rate of Return (Line 4 / Line 1)	4.16%
6	Required Rate of Return	7.48%
7	Operating Income Requirement (Line 1 x Line 6)	$94,836
8	Income Deficiency (Line 7 - Line 4)	$42,060
9	Gross Revenue Conversion Factor	1.40335
10	Revenue Deficiency (Line 8 x Line 9)	$59,026
11	Retail Related Revenue Under Present Rates	$617,806
12	Percentage Increase Needed in Overall Revenue (Line 10 / Line 11)	9.55%

COST OF SERVICE SUMMARY for 2024 TEST YEAR ($000s)

Line No.		Minnesota Gas Jurisdiction 2024 Test Year
1	**Composite Income Tax Rate**	
2	State Tax Rate	9.80%
3	Federal Statuatory Tax Rate	21.00%
4	Federal Effective Tax Rate	18.94%
5	**Composite Tax Rate**	**28.74%**
6	Revenue Conversion Factor (1/(1--Composite Tax Rate))	1.403351
7		
8	**Weighted Cost of Capital**	
9	Active Rates and Ratios Version	Proposed
10	Cost of Short Term Debt	5.01%
11	Cost of Long Term Debt	4.46%
12	Cost of Common Equity	10.20%
13	Ratio of Short Term Debt	0.63%
14	Ratio of Long Term Debt	46.87%
15	Ratio of Common Equity	52.50%
16	Weighted Cost of STD	0.03%
17	Weighted Cost of LTD	2.09%
18	Weighted Cost of Debt	2.12%
19	Weighted Cost of Equity	5.36%
20	**Required Rate of Return**	**7.48%**
21		
22	**Rate Base**	
23	Plant Investment	2,187,742
24	Depreciation Reserve	785,328
25	Net Utility Plant	1,402,415
26	CWIP	34,124
27		
28	Accumulated Deferred Taxes	214,540
29	DTA - NOL Average Balance	
30	DTA - Federal Tax Credit Average Balance	-
31	Total Accum Deferred Taxes	214,540
32		
33	Cash Working Capital	(9,998)
34	Materials and Supplies	2,318
35	Fuel Inventory	43,755
36	Non-plant Assets and Liabilities	7,968
37	Customer Advances	(195)
38	Customer Deposits	(153)
39	Prepaids and Other	2,168
40	Regulatory Amortizations	-
41	Total Other Rate Base Items	45,864
42		
43	**Total Rate Base**	**1,267,863**
44		
45	**Operating Revenues**	
46	Retail	610,396
47	Interdepartmental	7,410
48	Other Operating Rev - Non-Retail	4,230
49	**Total Operating Revenues**	**622,037**
50		

51	**Expenses**	
52	Operating Expenses:	
53	Purchased Gas	350,434
54	Gas Production & Storage	7,927
55	Gas Transmission	623
56	Gas Distribution	39,553
57	Customer Accounting	12,887
58	Customer Service & Information	29,720
59	Sales, Econ Dvlp & Other	50
60	Administrative & General	27,550
61	**Total Operating Expenses**	**468,744**
62		
63	Depreciation	73,521
64	Amortization	926
65		
66	**Taxes:**	
67	Property Taxes	18,633
68	ITC Amortization	(106)
69	Deferred Taxes	5,788
70	Deferred Taxes - NOL	
71	Less State Tax Credits deferred	
72	Less Federal Tax Credits deferred	
73	Deferred Income Tax & ITC	5,681
74	Payroll & Other Taxes	3,427
75	**Total Taxes Other Than Income**	**27,741**
76		
77	**Income Before Taxes**	
78	Total Operating Revenues	622,037
79	less: Total Operating Expenses	468,744
80	Book Depreciation	73,521
81	Amortization	926
82	Taxes Other than Income	27,741
83	**Total Before Tax Book Income**	51,105
84		
85	**Tax Additions**	
86	Book Depreciation	73,521
87	Deferred Income Taxes and ITC	5,681
88	Nuclear Fuel Burn (ex. D&D)	
89	Nuclear Outage Accounting	
90	Avoided Tax Interest	1,382
91	Other Book Additions	-
92	**Total Tax Additions**	80,584
93		
94	**Tax Deductions**	
95	Total Rate Base	1,267,863
96	Weighted Cost of Debt	2.12%
97	Debt Interest Expense	26,879
98	Nuclear Outage Accounting	
99	Tax Depreciation and Removals	103,482
100	NOL Utilized / (Generated)	
101	Other Tax / Book Timing Differences	(3,069)
102	**Total Tax Deductions**	**127,292**
103		

104	**State Taxes**	
105	State Taxable Income	4,397
106	State Income Tax Rate	9.80%
107	State Taxes before Credits	431
108	Less State Tax Credits applied	(53)
109	**Total State Income Taxes**	378
110		
111	**Federal Taxes**	
112	Federal Sec 199 Production Deduction	
113	Federal Taxable Income	4,019
114	Federal Income Tax Rate	21.00%
115	Federal Tax before Credits	844
116	Less Federal Tax Credits	(216)
117	**Total Federal Income Taxes**	628
118		
119	**Total Taxes**	
120	Total Taxes Other than Income	27,741
121	Total Federal and State Income Taxes	1,006
122	**Total Taxes**	28,747
123		
124	**Total Operating Revenues**	**622,037**
125	**Total Expenses**	**571,938**
126		
127	AFDC Debt	954
128	AFDC Equity	1,723
129		
130	**Net Income**	**52,776**
131		
132	**Rate of Return (ROR)**	
133	Total Operating Income	52,776
134	Total Rate Base	1,267,863
135	**ROR (Operating Income / Rate Base)**	4.16%
136		
137	**Return on Equity (ROE)**	
138	Net Operating Income	52,776
139	Debt Interest (Rate Base * Weighted Cost of Debt)	(26,879)
140	Earnings Available for Common	25,897
141	Equity Rate Base (Rate Base * Equity Ratio)	665,628
142	**ROE (earnings for Common / Equity)**	**3.89%**
143		
144	**Revenue Deficiency**	
145	Required Operating Income (Rate Base * Required Return)	94,836
146	Net Operating Income	52,776
147	**Operating Income Deficiency**	42,060
148		
149	Revenue Conversion Factor (1/(1--Composite Tax Rate))	1.403351
150	**Revenue Deficiency (Income Deficiency * Conversion Factor)**	**59,026**
151		
152	**Total Revenue Requirements**	
153	Total Retail Revenues	617,806
154	Revenue Deficiency	59,026
155	Total Revenue Requirements	676,832

Cash Working Capital Calculation
($000s)

Line No.	Summary Cash Working Capital		Lead/Lag Days	Minnesota Gas Jurisdiction 2024 Test Year Dollars	Minnesota Gas Jurisdiction 2024 Test Year Dollar x Days
1	**Fuel Expenses**				
2	Coal and Rail Transport		-	-	-
3	Gas for Generation		37.67	350,434	13,200,857
4	Oil		-		
5	Nuclear and EOL		-		
6	**Subtotal Fuel Expenses**			**350,434**	**13,200,857**
7	**Purchased Power**				
8	Purchases		-		
9	Interchange		-		
10	**SubTotal Purchased Power**				
11	**Labor and Related**				
12	Regular Payroll		12.11	39,204	474,763
13	Incentive		251.96	428	107,804
14	Pension and Benefits		37.29	8,817	328,779
15	**SubTotal Labor and Related**			**48,449**	**911,346**
16	All Other Operating Expenses		30.71	71,300	2,189,625
17	Property taxes		354.81	18,637	6,612,489
18	Employer's Payroll Taxes		28.07	3,427	96,196
19	Gross Earnings Tax		59.88	12,571	752,755
20	Federal Income Tax		37.25	269	10,009
21	State Income Tax		28.75	192	5,526
22	State Sales Tax Customer Billings		35.25	16,213	571,523
23	**Total Expenses**	A		**521,492**	**24,350,325**
24	Net Annual Expense			47	66,713
25	**Revenues**				
26	Retail Revenue		40.35	613,782	24,766,094
27	Late Payment		-	2,113	
28	Interdepartmental		-	7,410	
29	Misc Services		40.35	1,499	60,497
30	Rentals		-	618	
31	Interchange		-		
32	Retail Rev Lag Days		40.35	(0)	(11)
33	MISO		-		
34	Wholesale Lag Days		-		
35	**Total Revenues**	B		**625,422**	**24,826,580**
36	Net Annual Amount			40	68,018
37	Expense/Revenue Factor	C = A/B			83.4%
38	Allocated Revenue Amount	D = B * C			56,715
39	**Net Cash Working Capital**	E = D - A			**(9,998)**

LABELING OF FINANCIAL SOURCES

Xcel Energy or XEI
The entire enterprise – XES, NSPM, NSPW, SPS, PSCo, and affiliate companies.

XES: Xcel Energy Services
Xcel Energy's service company that provides services across all Xcel Energy affiliate companies.

NSPM (Total Company)
Northern States Power Company-Minnesota providing service to electric and gas customers in Minnesota, North Dakota, and South Dakota.

NSPW (Total Company)
Northern States Power Company-Wisconsin providing service to electric and gas customers in Wisconsin and Michigan.

NSP System
The combined NSPM and NSPW gas distribution system.

NSPM Gas
Northern States Power Company, including the portion allocated or direct assigned to the gas utility.

State of Minnesota
Items physically located in the State of Minnesota, such as distribution facilities or property taxes assessed by the State.

State of Minnesota Gas Jurisdiction
Amounts direct assigned or allocated to the gas utility and to the State of Minnesota.

In all rate case filing documents, including witness Direct Testimony and Schedules, the Company has made its best efforts to accurately label or otherwise identify all financial information as appropriate for the gas jurisdiction.

DETAILED CASE DRIVERS
Test Year Drivers - Revenue Requirements - Incremental
Amounts in millions

	Increase (Decrease) 2024 TY to 2022 TY
Capital Related	
Distribution	25.3
Gas Production and Storage	9.0
Intangible	6.5
General	4.4
Transmission	1.1
Other Rate Base	2.2
ROE Change	6.0
TOTAL Capital Related	54.4
Amortizations	1.2
Taxes	
Current and Deferred Income Taxes	6.9
Property Tax	0.7
Payroll Tax	0.6
TOTAL Taxes	8.2
Operating Expense	
Gas Production and Storage	2.3
MGP	0.0
Transmission	(1.8)
Distribution	1.2
Customer Accounting / Info / Service	0.0
A&G	7.0
TOTAL O&M	8.7
Other Margin Impacts	
Sales Change	(0.3)
GUIC Rider Revenue	(13.1)
Rider Revenue and Other Revenue	(0.0)
TOTAL Other Margin Impacts	(13.5)
TOTAL Net Incremental Deficiency	**59.0**

COMPARISON OF DETAILED RATE BASE COMPONENTS
($000s)

Line No.	Description	General Rate Case Filing Docket No. E002/GR-21-678 Final Rates (A)	General Rate Case Filing Docket No. E002/GR-23-413 Test Year (B)	Change (C) = (B) - (A)
	Gas Plant as Booked			
1	Gas Manufactured Plant	$9,619	$75,274	$65,654
2	Gas Storage	$66,050	94,123	28,073
3	Gas Transmission	$121,439	134,424	12,985
4	Gas Distribution	$1,363,661	1,611,639	247,977
5	General	$94,564	148,766	54,202
6	Common	$90,273	123,517	33,243
7	TOTAL Utility Plant in Service	$1,745,607	$2,187,742	$442,136
8				
9	Reserve for Depreciation			
10	Gas Manufactured Plant	$889	$19,856	$18,966
11	Gas Storage	$43,072	45,901	2,829
12	Gas Transmission	$28,585	32,868	4,282
13	Gas Distribution	$523,008	565,353	42,344
14	General	$44,102	59,672	15,570
15	Common	$42,523	61,678	19,156
16	TOTAL Reserve for Depreciation	$682,180	$785,328	$103,148
17				
18	Net Utility Plant in Service			
19	Gas Manufactured Plant	$8,730	$55,418	$46,688
20	Gas Storage	22,978	$48,223	$25,244
21	Gas Transmission	92,853	101,556	8,703
22	Gas Distribution	840,653	1,046,286	205,633
23	General	50,462	89,094	38,632
24	Common	47,751	61,838	14,088
25	Net Utility Plant in Service	$1,063,427	$1,402,415	$338,988
26				
27	Utility Plant Held for Future Use	$0	$0	$0
28				
29	Construction Work in Progress	$54,299	$34,124	($20,175)
30				
31	Less: Accumulated Deferred Income Taxes	$201,593	$214,540	$12,947
32				
33	Other Rate Base Items:			
34	Cash Working Capital	($13,607)	($9,998)	$3,609
35	Materials and Supplies	$1,249	$2,318	$1,070
36	Fuel Inventory	$26,079	43,755	17,677
37	Non-Plant Assets & Liabilities	($4,170)	7,968	12,139
38	Customer Advances	($117)	(195)	(78)
39	Interest on Customer Deposits	($289)	(153)	136
40	Prepaids and Other	$2,485	2,168	(317)
41	Regulatory Amortizations	$0	0	0
42	Total Other Rate Base Items	$11,629	$45,864	$34,235
43				
44	Total Average Rate Base	$927,761	$1,267,863	$340,102

Comparison of Detailed Income Statement Components
2022 Final Compliance versus 2024 Test Year
($000s)

Line No.	Description	General Rate Case Filing Docket No. G002/GR-21-678 Final Rates (A)	General Rate Case Filing Docket No. G002/GR-23-413 Test Year (B)	Change (C) = (B) - (A)
	Operating Revenues			
1	Retail	$794,835	$610,396	($184,439)
3	Interdepartmental	6,235	7,410	1,175
4	Other Operating	5,360	4,230	(1,130)
5	Gross Earnings Tax	0	0	0
6	**Total Operating Revenues**	$806,430	$622,037	($184,394)
	Expenses			
	Operating Expenses:			
7	Fuel	$558,249	$350,434	($207,815)
8	Power Production	5,659	7,927	2,268
9	Transmission	2,419	623	(1,797)
10	Distribution	38,359	39,553	1,194
11	Customer Accounting	12,789	12,887	98
12	Customer Service & Information	19,873	29,720	9,847
13	Sales, Econ Dvlp & Other	34	50	16
14	Administrative & General	20,564	27,550	6,986
15	Total Operating Expenses	$657,946	$468,744	($189,203)
16	Depreciation	$51,953	$73,521	$21,568
17	Amortizations	($311)	$926	$1,237
	Taxes:			
18	Property	$17,958	$18,633	$675
19	Gross Earnings	0	0	0
20	Deferred Income Tax & ITC	2,652	5,681	3,029
21	Federal & State Income Tax	12,365	1,006	(11,359)
22	Payroll & Other	2,843	3,427	584
23	Total Taxes	$35,817	$28,747	($7,070)
24	**Total Expenses**	$745,406	$571,938	($173,468)
25	AFUDC	$3,641	$2,677	($964)
26	**Total Operating Income**	$64,665	$52,776	($11,889)

Note: Revenues reflect calendar month sales.

Rate Base, CWIP and ADIT Summary
Detailed Rate Base Components
($000s)

		Proposed Test Year 2024					
		Total Utility			Minnesota Jurisdiction *		
Line No.	Description	Unadjusted (A)	Adjustments (B)	Adjusted (C) (A) + (B)	Unadjusted (D)	Adjustments (E)	Adjusted (F) (D) + (E)
	Gas Plant as Booked						
1	Production	$86,718	$0	$86,718	$75,274	$0	$75,274
2	Storage	108,434	0	108,434	94,123	0	94,123
3	Transmission	144,750	(6,320)	138,430	140,744	(6,320)	134,424
4	Distribution	1,841,105	(15,282)	1,825,823	1,626,921	(15,282)	1,611,639
5	General	168,375	0	168,375	148,766	0	148,766
6	Common	139,797	0	139,797	123,517	0	123,517
7	TOTAL Utility Plant in Service	$2,489,179	($21,602)	$2,467,577	$2,209,344	($21,602)	$2,187,742
	Reserve for Depreciation						
8	Production	$22,875	$0	$22,875	$19,856	$0	$19,856
9	Storage	52,880	0	52,880	45,901	0	45,901
10	Transmission	34,848	(163)	34,686	33,030	(163)	32,868
11	Distribution	630,097	2,037	632,135	563,315	2,037	565,353
12	General	68,965	(1,427)	67,538	60,933	(1,261)	59,672
13	Common	69,808	0	69,808	61,678	0	61,678
14	TOTAL Reserve for Depreciation	$879,473	$447	$879,920	$784,714	$613	$785,328
	Net Utility Plant in Service						
15	Production	$63,844	$0	$63,844	$55,418	$0	$55,418
16	Storage	55,554	0	55,554	48,223	0	48,223
17	Transmission	109,902	(6,157)	103,744	107,713	(6,157)	101,556
18	Distribution	1,211,008	(17,319)	1,193,689	1,063,605	(17,319)	1,046,286
19	General	99,410	1,427	100,837	87,833	1,261	89,094
20	Common	69,989	0	69,989	61,838	0	61,838
21	Net Utility Plant in Service	$1,609,706	($22,049)	$1,587,657	$1,424,630	($22,215)	$1,402,415
22	Utility Plant Held for Future Use	$0	$0	$0	$0	$0	$0
23	Construction Work in Progress	$38,717	$0	$38,717	$34,124	$0	$34,124
24	Less: Accumulated Deferred Income `	$238,680	($882)	$237,797	$215,469	($929)	$214,540
25	Cash Working Capital	($15,137)	$4,193	($10,945)	($14,114)	$4,116	($9,998)
	Other Rate Base Items:						
26	Materials and Supplies	$2,624	$0	$2,624	$2,318	$0	$2,318
27	Gas In Storage	49,763	0	49,763	43,755	0	43,755
28	Non-Plant Assets & Liabilities	9,017	0	9,017	7,968	0	7,968
29	Customer Advances	(1,755)	(0)	(1,755)	(195)	0	(195)
30	Customer Deposits	(173)	0	(173)	(153)	0	(153)
31	Prepayments	2,455	0	2,455	2,168	0	2,168
32	Regulatory Amortizations	0	985	985	0	0	0
33	Total Other Rate Base Items	$61,930	$985	$62,916	$55,862	$0	$55,862
34	Total Average Rate Base	$1,456,537	($15,989)	$1,440,548	$1,285,033	($17,170)	$1,267,863

(*) See Volume 3, Rate Base Section, Schedule E for allocation factors.

Rate Base, CWIP and ADIT Summary
Test Year Ending December 31, 2024
($000s)

		Proposed Test Year 2024					
		Total Utility			Minnesota Jurisdiction *		
Line No.	Description	Unadjusted (A)	Adjustments (B)	Adjusted (C) (A) + (B)	Unadjusted (D)	Adjustments (E)	Adjusted (F) (D) + (E)
	Construction Work in Progress						
1	Production	$6,516	$0	$6,516	$5,656	$0	$5,656
2	Storage	13,477	0	13,477	11,699	0	11,699
3	Transmission	872	0	872	872	0	872
4	Distribution	5,920	0	5,920	5,356	0	5,356
5	General	2,291	0	2,291	2,024	0	2,024
6	Common	9,642	0	9,642	8,519	0	8,519
7	TOTAL Construction Work In Progress	$38,717	$0	$38,717	$34,124	$0	$34,124

(*) See Volume 3, Rate Base Section, Schedule E for allocation factors.

Rate Base, CWIP and ADIT Summary
Test Year Ending December 31, 2024
($000s)

		Proposed Test Year 2024					
		Total Utility			Minnesota Jurisdiction *		
Line No.	Description	Unadjusted (A)	Adjustments (B)	Adjusted (C) (A) + (B)	Unadjusted (D)	Adjustments (E)	Adjusted (F) (D) + (E)
	Accumulated Deferred Income Taxes						
1	Production	($285)	$1	($284)	($248)	$2	($247)
2	Storage	2,007	3	2,010	1,741	4	1,745
3	Transmission	21,479	(582)	20,897	20,858	(581)	20,278
4	Distribution	192,480	(760)	191,720	172,873	(762)	172,111
5	General	12,886	453	13,340	11,381	406	11,786
6	Common	8,847	1	8,848	7,816	2	7,818
7	Non-Plant Related	1,266	0	1,266	1,048	0	1,048
8	TOTAL Accum Deferred Income Taxes	$238,680	($882)	$237,797	$215,469	($929)	$214,540

(*) See Volume 3, Rate Base Section, Schedule E for allocation factors.

2024 Rate Base Adjustments ($000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
		Bridge - Unadjusted				Adjustments			Rider Removals	Secondary Calculations		
Line No.	NSPM - 11 Bridge by Report Label	ADIT Prorate for IRS	Cash Working Capital	Base	Total Unadjusted	Black Dog Pipeline	Depreciation Study	New Business CIAC	GUIC Rider Removal	ADIT Prorate for IRS	Cash Working Capital	Total
1						WP-A14	WP-A15	WP-A20	WP-A23	WP-A24	WP-A25	
2	Plant as booked											
3	Gas Manufactured Plant			75,274	75,274							75,274
4	Gas Storage			94,123	94,123							94,123
5	Gas Transmission			140,744	140,744	(4,632)			(1,688)			134,424
6	Gas Distribution			1,626,921	1,626,921			(29)	(15,253)			1,611,639
7	General			148,766	148,766							148,766
8	Common			123,517	123,517							123,517
9	Total Utility Plant in Service			2,209,344	2,209,344	(4,632)		(29)	(16,942)			2,187,742
10												
11	Reserve for Depreciation											
12	Gas Manufactured Plant			19,856	19,856							19,856
13	Gas Storage			45,901	45,901							45,901
14	Gas Transmission			33,030	33,030	(423)	108		153			32,868
15	Gas Distribution			563,315	563,315		1,231	(1)	807			565,353
16	General			60,933	60,933		(1,261)					59,672
17	Common			61,678	61,678							61,678
18	Total Reserve for Depreciation			784,714	784,714	(423)	78	(1)	960			785,328
19												
20	Net Utility Plant											
21	Gas Manufactured Plant			55,418	55,418							55,418
22	Gas Storage			48,223	48,223							48,223
23	Gas Transmission			107,713	107,713	(4,208)	(108)		(1,841)			101,556
24	Gas Distribution			1,063,605	1,063,605		(1,231)	(27)	(16,061)			1,046,286
25	General			87,833	87,833		1,261					89,094
26	Common			61,838	61,838							61,838
27	Net Utility Plant in Service			1,424,630	1,424,630	(4,208)	(78)	(27)	(17,902)			1,402,415
28												
29	Utility Plant Held for Future Use											
30												
31	Construction Work in Progress			34,124	34,124							34,124
32												
33	Less: Accumulated Deferred Income Taxes	(252)		215,721	215,469	(490)	(9)	(0)	(468)	37		214,540
34												
35	Other Rate Base Items											
36	Cash Working Capital		(14,114)		(14,114)						4,116	(9,998)
37	Materials and Supplies			2,318	2,318							2,318
38	Fuel Inventory			43,755	43,755							43,755
39	Non Plant Assets and Liabilities			7,968	7,968							7,968
40	Customer Advances			(195)	(195)							(195)
41	Customer Deposits			(153)	(153)							(153)
42	Prepayments			2,168	2,168							2,168
43	Regulatory Amortizations											
44	Total Other Rate Base		(14,114)	55,862	41,748						4,116	45,864
45												
46	Total Average Rate Base	252	(14,114)	1,298,895	1,285,033	(3,718)	(69)	(27)	(17,434)	(37)	4,116	1,267,863

2024 Income Statement Adjustments ($000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
		Bridge - Unadjusted				Precedential	Adjustment					
Line No.		ADIT Prorate for IRS	Cash Working Capital	Base	Total Unadjusted	Precedential Adjustments	Bad Debt Expense	Black Dog Pipeline	Depreciation Study	Participant Compensation	LTI-Environmental	LTI-Time Based
1						WP-A1-WP-A12	WP-A13	WP-A14	WP-A15	WP-A16	WP-A17	WP-A18
2	Operating Revenues											
3	Retail Revenue			613,782	613,782							
4	Interdepartmental			7,410	7,410							
5	Other Operating			3,086	3,086							
6	Total Revenue			624,278	624,278							
7												
8	Expenses											
9	Operating Expenses											
10	Fuel & Purchased Energy			350,434	350,434							
11	Gas Production and Storage			7,927	7,927							
12	Gas Transmission			2,169	2,169							
13	Gas Distribution			39,446	39,446							
14	Customer Accounting			12,641	12,641		246					
15	Customer Service and Information			29,720	29,720							
16	Sales, Econ Dev, & Other			38	38	12						
17	Administrative and General			28,741	28,741	(1,871)				85	125	469
18	Total Operating Expenses			471,116	471,116	(1,858)	246			85	125	469
19												
20	Depreciation			73,715	73,715			(78)	156			
21	Amortization											
22												
23	Taxes											
24	Property			22,686	22,686							
25	Deferred Income Tax and ITC			6,666	6,666			(54)	(17)			
26	Federal and State Income Tax	(1)	79	(561)	(484)	535	(71)	99	0	(25)	(36)	(135)
27	Payroll and Other			3,431	3,431	(4)						
28	Total Taxes	(1)	79	32,221	32,299	531	(71)	45	(17)	(25)	(36)	(135)
29												
30	Total Expenses	(1)	79	577,052	577,130	(1,327)	175	(34)	139	61	89	334
31												
32	Allowance for Funds Used During Construction			2,677	2,677							
33												
34	Net Income	1	(79)	49,903	49,825	1,327	(175)	34	(139)	(61)	(89)	(334)
35												
36	Calculation of Revenue Requirements											
37	Rate Base	252	(14,114)	1,298,895	1,285,033			(3,718)	(69)			
38	Required Operating Income	18	(984)	90,533	89,567			(259)	(5)			
39	Operating Income	1	(79)	49,903	49,825	1,327	(175)	34	(139)	(61)	(89)	(334)
40	Income Deficiency	16	(905)	40,630	39,742	(1,327)	175	(293)	134	61	89	334
41	**Revenue Deficiency**	**23**	**(1,270)**	**57,018**	**55,771**	**(1,862)**	**246**	**(411)**	**188**	**85**	**125**	**469**

2024 Income Statement Adjustments ($000s)

(1)	(2)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
					Amortization	Rider Removals	Secondary Calculations			
Line No.		New Area Surcharge	New Business CIAC	Property Tax Adjustment	Rate Case Expenses	GUIC Rider Removal	ADIT Prorate for IRS	Cash Working Capital	Change in Cost of Capital	Total
1		WP-A19	WP-A20	WP-A21	WP-A22	WP-A23	WP-A24	WP-A25	WP-A26	
2	Operating Revenues									
3	Retail Revenue					(3,386)				610,396
4	Interdepartmental									7,410
5	Other Operating	1,144								4,230
6	Total Revenue	1,144				(3,386)				622,037
7										
8	Expenses									
9	Operating Expenses									
10	Fuel & Purchased Energy									350,434
11	Gas Production and Storage									7,927
12	Gas Transmission					(1,546)				623
13	Gas Distribution					107				39,553
14	Customer Accounting									12,887
15	Customer Service and Information									29,720
16	Sales, Econ Dev, & Other									50
17	Administrative and General									27,550
18	Total Operating Expenses					(1,439)				468,744
19										
20	Depreciation		(1)			(270)				73,521
21	Amortization				926					926
22										
23	Taxes									
24	Property			(4,049)		(4)				18,633
25	Deferred Income Tax and ITC		(0)			(913)				5,681
26	Federal and State Income Tax	329	1	1,164	(266)	537	0	(23)	(619)	1,006
27	Payroll and Other									3,427
28	Total Taxes	329	0	(2,885)	(266)	(381)	0	(23)	(619)	28,747
29										
30	Total Expenses	329	(1)	(2,885)	660	(2,090)	0	(23)	(619)	571,938
31										
32	Allowance for Funds Used During Construction									2,677
33										
34	Net Income	815	1	2,885	(660)	(1,296)	(0)	23	619	52,776
35										
36	Calculation of Revenue Requirements									
37	Rate Base		(27)			(17,434)	(37)	4,116		1,267,863
38	Required Operating Income		(2)			(1,215)	(3)	287	6,466	94,836
39	Operating Income	815	1	2,885	(660)	(1,296)	(0)	23	619	52,776
40	Income Deficiency	(815)	(2)	(2,885)	660	80	(2)	264	5,847	42,060
41	**Revenue Deficiency**	**(1,144)**	**(3)**	**(4,049)**	**926**	**113**	**(3)**	**370**	**8,205**	**59,026**

ADJUSTMENT SUMMARY
2024 Test Year
($000)

(1) Line No.	(2) Record Category	(3) Report Label	(4) Record Type	(5) MN Gas 2024 Test Year	(6) Workpaper Reference
1	Unadjusted	Unadjusted	**Total Unadjusted**	**65,424**	
2					
3	Precedential	Precedential Adjustments	NSPM-Advertising (Trad)	(253)	WP-A1
4	Precedential	Precedential Adjustments	NSPM-Assn Dues (Trad)	(31)	WP-A2
5	Precedential	Precedential Adjustments	NSPM-Aviation	(269)	WP-A3
6	Precedential	Precedential Adjustments	NSPM-Chamber of Commerce Dues	4	WP-A4
7	Precedential	Precedential Adjustments	NSPM-Donations (Trad)	134	WP-A5
8	Precedential	Precedential Adjustments	NSPM-Econ Dev Donations (Trad)	12	WP-A6
9	Precedential	Precedential Adjustments	NSPM-Econ Develop (Trad)	(9)	WP-A7
10	Precedential	Precedential Adjustments	NSPM-Employee Expenses	(248)	WP-A8
11	Precedential	Precedential Adjustments	NSPM-Foundation Admin	(18)	WP-A9
12	Precedential	Precedential Adjustments	NSPM-Incentive Pay	(153)	WP-A10
13	Precedential	Precedential Adjustments	NSPM-Incentive Pay_Remove Long Term	(987)	WP-A11
14	Precedential	Precedential Adjustments	NSPM-Pension Non-Qualified Removal	(44)	WP-A12
15	Precedential		**Sub-Total Precedential**	**(1,862)**	
16					
17	Adjustment	Bad Debt	NSPM-Bad Debt	246	WP-A13
18	Adjustment	Black Dog Pipeline	NSPM-Black Dog Pipeline	(435)	WP-A14
19	Adjustment	Depreciation Study	NSPM-MN Gas Depreciation Study TD&G	188	WP-A15
20	Adjustment	Participant Compensation	NSPM-Participant Compensation Legislation	85	WP-A16
21	Adjustment	Incentive Compensation	NSPM-Incentive Pay_Environmental LTI	125	WP-A17
22	Adjustment	Incentive Compensation	NSPM-Incentive Pay_Time Based LTI	469	WP-A18
23	Adjustment	New Area Surcharge	NSPM-NAS and ES Exclusion	(1,144)	WP-A19
24	Adjustment	New Business CIAC	NSPM-New Bus CIAC 2023	(4)	WP-A20
25	Adjustment	Property Tax Adjustment	NSPM-Property Tax Adjustment	(4,049)	WP-A21
26	Adjustment		**Sub-Total Adjustment**	**(4,519)**	
27					
28	Amortization	Rate Case Expenses	NSPM-Amortization Rate Case Expense	926	WP-A22
29	Amortization		**Sub-Total Amortization**	**926**	
30					
31	Rider Removals	Rider: GUIC	NSPM-Gas GUIC Rider RC Removal	(0)	WP-A23
32	Rider Removals		**Sub-Total Rider Removals**	**(0)**	
33					
34	Secondary Calculations	ADIT Prorate for IRS	NSPM-ADIT Prorate for IRS	21	WP-A24
35	Secondary Calculations	Cash Working Capital	NSPM-Cash Working Capital	(964)	WP-A25
36	Secondary Calculations		**Sub-Total Secondary Calculations**	**(943)**	
37					
38			Total Revenue Deficiency	59,026	

Note: Adjustment amounts in Schedule 12 reflect the revenue requirement calculated at the capital structure proposed in this rate case. See Workpaper A50 for the adjustment due to change in COC.

PRECEDENTIAL ADJUSTMENT DETAIL SCHEDULE
2024 Test Year
($000s)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
		Precedential												
Line No.		NSPM-Advertising (Trad)	NSPM-Assn Dues (Trad)	NSPM-Aviation	NSPM-Chamber of Commerce Dues	NSPM-Donations (Trad)	NSPM-Econ Dev Donations (Trad)	NSPM-Econ Develop (Trad)	NSPM-Employee Expenses	NSPM-Foundation Admin	NSPM-Incentive Pay	NSPM-Incentive Pay_Remove Long Term	NSPM-Pension Non-Qualified Removal	Total
1														
2	Operating Revenues													
3	Retail Revenue													
4	Other Operating													
5	Total Revenue													
6														
7	Expenses													
8	Operating Expenses													
9	Fuel & Purchased Energy													
10	Power Production													
11	Transmission													
12	Customer Accounting													
13	Customer Service and Information													
14	Sales, Econ Dev, & Other						12							12
15	Administrative and General	(253)	(31)	(266)	4	134		(9)	(248)	(18)	(153)	(987)	(44)	(1,871)
16	Total Operating Expenses	(253)	(31)	(266)	4	134	12	(9)	(248)	(18)	(153)	(987)	(44)	(1,858)
17														
18	Depreciation													
19	Amortization													
20														
21	Taxes													
22	Property													
23	Deferred Income Tax and ITC													
24	Federal and State Income Tax	73	9	77	(1)	(38)	(4)	3	71	5	44	284	13	535
25	Payroll and Other			(3)						(0)				(4)
26	Total Taxes	73	9	74	(1)	(38)	(4)	3	71	5	44	284	13	531
27														
28	Total Expenses	(180)	(22)	(192)	3	95	9	(6)	(177)	(13)	(109)	(704)	(31)	(1,327)
29														
30	Allowance for Funds Used During Construi													
31														
32	Net Income	180	22	192	(3)	(95)	(9)	6	177	13	109	704	31	1,327
33														
34	Calculation of Revenue Requirements													
35	Rate Base													
36	Required Operating Income													
37	Operating Income	180	22	192	(3)	(95)	(9)	6	177	13	109	704	31	1,327
38	Income Deficiency	(180)	(22)	(192)	3	95	9	(6)	(177)	(13)	(109)	(704)	(31)	(1,327)
39	**Revenue Deficiency**	**(253)**	**(31)**	**(269)**	**4**	**134**	**12**	**(9)**	**(248)**	**(18)**	**(153)**	**(987)**	**(44)**	**(1,862)**