OFFICIAL FILING
BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Northern States Power Company, a Wisconsin Corporation, for Authority to Adjust Electric and Natural Gas Rates
Docket No. 4220-UR-126

INITIAL BRIEF OF NORTHERN STATES POWER COMPANY

INTRODUCTION

In this proceeding, Northern States Power Company, a Wisconsin corporation (NSPW or the Company) initially requested a $40.3 million (4.8 percent) increase in electric rates and a $9.0 million (5.3 percent) increase in natural gas rates based on a 2024 test year.¹ The Public Service Commission of Wisconsin (Commission or PSCW) staff (Staff), as a result of its audit, proposed 13 adjustments (some with multiple sub-adjustments) to NSPW’s requested electric and natural gas increases, and in direct testimony recommended a decrease of $2.8 million (0.34 percent) for electric rates and an increase of $5.3 million (3.14 percent) for natural gas rates.² The Company is not contesting the majority of Staff’s proposed adjustments, including the largest base rate adjustment in the electric case, a $11.3 million downward adjustment which recognizes that some of the NSP Companies’ carbon-free resources will be able to serve the Company’s customers for longer than originally anticipated.³ However, the Company is contesting the following⁴: (i) Staff’s proposed substantial reduction to the Company’s return on equity (ROE); (ii) Staff’s proposal to completely disallow the Company’s Annual Incentive Plan (AIP); and (iii) Staff’s proposed

¹ Direct-NSPW-Ascheman-r-8-9.
² Direct-PSC-Maly-r-2-3.
³ Rebuttal-NSPW-Ascheman-2.
⁴ Though initially contested, NSPW and Staff have reached alignment on three issues, addressed in more detail below. These include the details on which historical average should be used for forecasting MISO charges and credits and wind curtailment costs for the 2024 test year, and the megawatt-hour program cap for the Company’s Competitive Response tariff.
disallowance of costs related to the Company’s proposed Residential Affordability Program (RAP). Each of these three contested issues is of considerable importance to the Company on both economic and policy grounds.

First, it is of paramount importance that the Commission set an ROE and capital structure in this proceeding that will allow NSPW to continue its investment in the transition to carbon free generation sources, and make necessary upgrades to its electric transmission and distribution infrastructure.\(^5\) Balancing the Company’s ROE request in this case is its requested capital structure (which the Company proposes to leave unchanged and is uncontested in this proceeding) and its agreement to accept an Earnings Sharing Mechanism (ESM) as a means to return overearnings to customers.

Second, the Company asks that the Commission take a fresh look in this case at the Company’s request to recover AIP expense. As shown at hearing and explained below, AIP is a discretionary component of some employees’ total compensation package that—when combined with base salary—results in market competitive total cash compensation for AIP-eligible employees. Without the AIP component, total compensation to AIP-eligible employees would be below the market rate. The fact that AIP is a non-guaranteed and discretionary component of total cash compensation is a factor which weighs in favor of NSPW’s customers, not against them, and therefore it is not reasonable to force NSPW’s shareholders to shoulder AIP expense. With respect to the Company’s request to recover costs related to RAP, the Company requests that those costs not be disallowed on grounds that final Commission approval of those programs remains pending. The Company has proposed escrow accounting treatment for the costs related to RAP so that customers only pay for the actual costs of the program.\(^6\)

\(^5\) Direct-NSPW-McRea-r-11-17; Direct-NSPW-Coyne-r-32-36.
\(^6\) Rebuttal-NSPW-Zich-r-4.
In addition to those three contested adjustments, the Company also requests that the
Commission (i) allow the Company to amortize the deferred COVID-19 regulatory asset; (ii)
approve the Company’s annual fuel cost plan; (iii) approve tariff revisions and associated EV
programs; and (iv) adopt the Company’s proposed electric and gas cost allocation methods and
rate designs.

For these reasons, those discussed below, and those contained in the record, NSPW
requests that the Commission approve the rate increases NSPW is seeking in this proceeding and
design rates according to the Company’s recommendations.

I. THE COMMISSION SHOULD ADOPT NSPW’S PROPOSED ROE, CAPITAL
STRUCTURE, AND EARNINGS SHARING MECHANISM.

The Company requests that the Commission set NSPW’s ROE at 10.25 percent, that it
maintain NSPW’s equity ratio at 52.5 percent, and that it adopt the Earnings Sharing Mechanism
agreed to by the Company. As demonstrated below, the record supports the Commission adopting
each of these outcomes.

A. The Commission Should Set the Company’s ROE at 10.25 Percent.

The Company requests that the Commission approve an authorized ROE of 10.25 percent,
which is 25 basis points above the 10.0 percent ROE established through the 2022 rate case
settlement. A 10.25 percent ROE is supported by the analysis of NSPW's expert witness, Mr.
James M. Coyne. Staff witness Mr. Reed Tierney recommends that NSPW’s ROE be set
substantially below NSPW’s requested ROE, at 9.7 percent. Citizens Utility Board (CUB) witness
Dr. Steven Kihm recommends that NSPW’s authorized ROE be set at 9.3 percent, nearly 100 basis

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7 Direct-NSPW-Ascheman-r-10.
8 Direct-NSPW-Coyne, passim.
9 Direct-PSC-Tierney-r-2.
points below NSPW’s request. Walmart’s ROE witness, Mr. Alex Kronauer, did not offer a specific ROE analysis or recommendation, but broadly described recently authorized ROEs across the country for certain electric and gas utilities and explained what he views as relevant industry trends. For the reasons set forth below, the Company requests that Commission critically assess Staff’s proposal to substantially reduce NSPW’s ROE, reject CUB’s and Walmart’s ROE recommendations, and set NSPW’s ROE at the Company’s requested 10.25 percent.

1. **NSPW’s Recommended 10.25 Percent ROE is Supported by the Most Robust Analysis Presented in this Case.**

Of all the ROE recommendations presented in this case, Mr. Coyne's 10.25 percent ROE recommendation is the most quantitatively thorough and qualitatively balanced. His recommendation is based on the range of results derived from several methodologies, including the Discounted Cash Flow (DCF) model, the Risk Premium approach, the Capital Asset Pricing Model (CAPM), and the Expected Earnings approach. Mr. Coyne’s application of each of these approaches is based on sound information, data and projections, and each makes use of a soundly selected group of publicly traded companies that share NSPW’s business and financial risk characteristics. Mr. Coyne’s recommendation of a 10.25 percent ROE comes in below the 10.7 percent average of the results of the four methods he applied.

To achieve the “just and reasonable” return required by law, the Commission should set an ROE in this case that is (i) commensurate with returns on investments in enterprises having comparable risks; (ii) adequate to attract capital on reasonable terms, thereby enabling NSPW to provide safe, reliable service; and (iii) sufficient to ensure the financial soundness of NSPW’s

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11 Direct-Walmart-Kronauer-passim.
12 Direct-NSPW-Coyne-r-6.
13 See Direct-NSPW-Coyne-r-6-7, 18-19.
14 Direct-NSPW-Coyne-r-38; Rebuttal-NSPW-Coyne-16, Figure 2.
operations. A fair return that satisfies all three of these standards will allow NSPW to finance capital expenditures on reasonable terms and provide financial flexibility over the period the rates are in effect. Mr. Coyne emphasizes that a proper ROE satisfying these standards cannot be arrived at solely through quantitative metrics and models, but that the financial, regulatory, and economic contexts within which the quantitative analysis takes place must also be considered.

Mr. Coyne’s analysis takes these contextual factors into account in arriving at his 10.25 percent recommendation for the Company. The primary exogenous factors impacting Mr. Coyne’s recommendation in this proceeding include the unsettled economic conditions since early 2022 due to increasing inflationary pressure and the prospects for recession, the Federal Reserve’s increasingly restrictive monetary policy since March 2022 which portends a higher cost of capital for utilities such as NSPW, and greater utility sector risk in the eyes of investors since 2022.

Steadily increasing interest rates on government bonds indicate that the cost of capital has increased for all companies, a phenomenon that has directly impacted the Company. Adding to the cost of capital is historically high inflation, which at 5 percent in March 2023 remains over twice that of the Federal Reserve’s target of 2 percent.

Critical to setting an appropriate ROE for NSPW is an adequate analysis of the business risks impacting NSPW compared to a soundly selected proxy group of companies. Mr. Coyne identified two substantial elements of risk that set NSPW apart from the proxy group. The first of these is the substantial nature of NSPW’s anticipated capital expenditures, which NSPW estimates

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16 Direct-NSPW-Coyne-r-10.
17 Id.
18 Direct-NSPW-Coyne-r-9.
19 NSPW’s currently authorized ROE was set in late 2021.
20 Direct-NSPW-Coyne-r-13.
21 Direct-NSPW-Coyne-r-14.
22 Direct-NSPW-Coyne-r-16-17.
to be approximately $2.6 billion (or $520 million per year) from 2023 through 2027. These expenditures will be primarily for the clean energy transition, and for needed upgrades to the Company’s transmission and distribution infrastructure. The additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics, and therefore, credit ratings. Consistent with that principle, Standard & Poors (S&P) has commented on the material nature of NSPW’s capital spending program and the resultant need for external funding. Moody’s has similarly noted that NSPW’s capital spending program is significant and represents a “material increase” from earlier periods. In fact, NSPW’s ratio of capital expenditures as a percentage of plant (112 percent) is over twice the median for the proxy group companies. Ultimately, the investment community recognizes the additional risks associated with substantial capital expenditures. The relative size of the Company’s capital expenditure plan means an above average risk profile compared to the proxy group and emphasizes the importance of capital market access on favorable terms for the benefit of both customers and shareholders. The second substantial risk factor affecting the analysis for NSPW is that its market capitalization is by far the smallest among the proxy group. The analytical importance of this distinction is that smaller companies tend to be rewarded with higher total returns than larger companies, even after the illiquidity of smaller company stock is considered. This is because NSPW’s relatively small size subjects it to disproportionate impacts from things like weaker than expected sales and operating challenges. It is noteworthy that despite the presence of these two

23 Direct-NSPW-Coyne-r-32; Ex.-NSPW-Martin-1c, Schedule 9 (p. 3 of 3).
24 Direct-NSPW-Coyne-r-7, 32-35; Ex.-NSPW-Martin-1c, Schedule 9 (p. 3 of 3).
25 Direct-NSPW-Coyne-r-33.
26 Direct-NSPW-Coyne-r-32-33.
27 Direct-NSPW-Coyne-r-34 and Figure 12.
28 Direct-NSPW-Coyne-r-35.
29 Id.
30 Direct-NSPW-Coyne-r-35, Figure 13.
31 Id.
32 Direct-NSPW-Coyne-r-36.
significant risk factors, Mr. Coyne did not use them to justify an increase in his recommendation. Rather, his approach was to caution the Commission to be mindful of these risks when setting the Company’s ROE. Mr. Coyne determined that he could legitimately have—but did not—elevate his 10.25 percent recommendation to account for these risks.33

Another important consideration in setting the Company’s ROE is that by comparison to other Wisconsin investor-owned public utilities, NSPW’s proposed equity ratio is lowest of all Wisconsin integrated utilities, with the others having equity ratios ranging from 53.40 percent to 58.22 percent either as authorized or requested in pending rate proceedings.34 In addition, the Company’s proposed equity ratio is not high compared with the equity ratios authorized by commissions for the other utilities in Mr. Coyne’s proxy group.35 The upshot of this distinction is that NSPW’s lower equity ratio relative to Wisconsin integrated utilities makes it more important that the Commission assign NSPW an ROE which—together with the Company’s equity ratio—supports NSPW’s credit metrics, with the result that the Company has access to the reasonably priced capital it will need for continuing its transition to clean energy and for upgrading NSPW’s transmission and distribution infrastructure.36

Mr. Coyne’s analysis is the most reliable in this proceeding because he has paid much greater attention to the effect of current and expected economic and capital market conditions on the cost of equity and he has assessed the business risks of NSPW relative to the proxy group used to perform the ROE analysis. With respect to business risk, Mr. Coyne has showed how the relatively small size and substantial capital expenditure program of NSPW relative to proxy group members increases the risk profile of the Company, therefore increasing the cost of equity. Based

33 Direct-NSPW-Coyne-r-36-37.
34 Rebuttal-NSPW-Martin-5.
35 Id.
36 See Rebuttal-NSPW-McRea-7 and Table 2.
on the results of Mr. Coyne’s several quantitative analyses, his qualitative considerations with respect to those analyses, in light of the business risks of NSPW compared to the proxy group, and in the context of current economic and capital market conditions, Mr. Coyne's recommendation of 10.25 percent is the most reasonable and reliable ROE recommendation presented in this proceeding.

2. **Staff’s Recommendation that the Commission Adopt an ROE of 9.7 Percent Does not Adequately Consider Prevailing Economic Conditions or NSPW’s Business Risk.**

Based on his review of Staff witness Mr. Reed Tierney’s testimony in support of Staff’s recommendation of a 9.7 percent ROE, Mr. Coyne concluded to a reasonable degree of professional certainty in his field that Staff’s ROE analysis understates the cost of equity, and therefore an appropriate ROE for NSPW.\(^{37}\) Although Mr. Coyne identifies several issues of concern with Mr. Tierney’s analysis, three of the shortcomings in Staff’s analysis are fundamental.

First, Staff’s recommendation does not adequately incorporate the impacts of steadily increasing interest rates, even though Staff acknowledges that interest rates on government and utility bonds have increased since 2021.\(^{38}\) If current capital costs for the government and all companies including utilities are higher than in December 2021 when this Commission authorized the Company a 10.0 percent ROE, then it follows that the authorized ROE for NSPW in this proceeding should be higher than the current 10.0 percent, not lower.\(^{39}\) Second, Mr. Tierney’s DCF analysis substantially understates the cost of equity for NSPW, in substantial part because he relies on dividends per share growth rates rather than the more commonly accepted use of earnings per share growth rates.\(^{40}\) When earnings per share growth rates are properly applied to his DCF

\(^{37}\) Rebuttal-NSPW-Coyne-3-4, 7-8.
\(^{38}\) Rebuttal-NSPW-Coyne-3, 18-20.
\(^{39}\) Id.
\(^{40}\) Rebuttal-NSPW-Coyne-4.
analysis, the resulting range—10.24 to 10.62 percent—is consistent with Mr. Coyne’s results and ultimate ROE recommendation. Third, in showing that returns for integrated electric utilities in 2022/2023 approximate the ROE that Staff recommends the Commission adopt in this proceeding, Staff did not submit any evidence comparing NSPW’s business risk to those utilities.\textsuperscript{41} Without such evidence, Staff’s ROE suffers from a significant omission, because long-standing U.S. Supreme Court decisions mandate that the return for regulated utilities be comparable to those available to investors in other entities with \textit{similar risk}.\textsuperscript{42} Absent a substantiated risk comparison, Mr. Coyne’s conclusion that NSPW has greater than typical risk for purposes of establishing a risk-adjusted return stands unrefuted.\textsuperscript{43}

In fact, as Mr. Coyne has shown—and as discussed \textit{infra.} at pp. 6-7—NSPW’s business risk is demonstrably higher than that of the companies in the proxy group. Mr. Coyne has concluded that his proposed 10.25 percent ROE recommendation—though a higher ROE could be supported—adequately accounts for that risk.\textsuperscript{44} Significantly, and despite these shortcomings, one of Staff’s analyses for ascertaining the appropriate ROE—the Interest Rate Premium analysis—yielded results in the range of 10.23 percent to 11.15 percent, which overlaps and supports Mr. Coyne’s recommended 10.25 percent ROE for NSPW.\textsuperscript{45}

\textit{3. The Commission Should Reject the ROE Recommendations of Dr. Kihm and Mr. Kronauer.}

The Commission should reject the ROE-related recommendations of CUB witness Dr. Kihm and Walmart witness Mr. Kronauer because they are not supported by sufficient analysis or evidence to be worthy of serious consideration. Dr. Kihm recommends that the Commission set

\textsuperscript{41} Rebuttal-NSPW-Coyne-3, 7.
\textsuperscript{43} Rebuttal-NSPW-Coyne-7-8.
\textsuperscript{44} Direct-NSPW-Coyne-r-35-37.
\textsuperscript{45} Rebuttal-NSPW-Coyne-37-38.
NSPW’s ROE at 9.3 percent, although he claims that the true cost of equity for utilities—including NSPW—is 7.5 to 7.6 percent. Dr. Kihm’s proposal suffers from several significant analytical flaws. The more significant among them are these: First, his recommendation of 9.3 percent bears no relationship to his far lower estimate of what he believes to be the proper ROE. Second, his analysis fails to provide justification for reducing NSPW’s ROE from its present level of 10.0 percent when it is undisputed that capital costs for all companies including utilities have increased since December 2021 when NSPW’s ROE was last set. Third, he fails to appreciate that inflation, and resultant higher interest rates, remains a significant concern for both the Federal Reserve and financial markets. Indeed, the utility sector has dramatically underperformed in the financial markets in 2023, because higher interest rates have placed significant pressure on utility companies’ valuations, reflecting investor perceptions of greater risk. Fourth, Dr. Kihm proposes an ROE that is fully 45 basis points below the 2022/2023 average for integrated electric utilities in other jurisdictions, without providing any evidence that NSPW has lower than average business risk, without adequately addressing the higher than average business risk that Mr. Coyne demonstrated in his testimony, and without doing anything else to establish a risk-adjusted return for NSPW. Fifth, Dr. Kihm’s CAPM analysis is distorted by his use of a market risk premium that is significantly, and unjustifiably lower than the historical average. Sixth, Dr. Kihm’s ultimate assertion that the cost of equity, and therefore the proper ROE, for NSPW should be in the range of 7.5 to 7.6 percent is a radical and unjustified departure from nearly half a century of

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46 Direct-CUB-Kihm-r-passim.
47 Rebuttal-NSPW-Coyne-3, 22, 43.
49 Id.
50 Rebuttal-NSPW-Coyne-3, 5-6, 8.
51 Rebuttal-NSPW-Coyne-3-5.
ratemaking in this country.\textsuperscript{52} Finally, Dr. Kihm utilizes a proxy group that bears no relationship to NSPW’s business and financial risk.\textsuperscript{53}

In criticizing NSPW’s proposed ROE, Dr. Kihm amplifies a distinction between the cost of equity and ROE. However, the theoretical differences between those two concepts are semantical and not useful for purposes of ratemaking.\textsuperscript{54} Dr. Kihm’s broadly divergent values for the Company’s cost of equity versus ROE flow not from a meaningful ratemaking distinction between those concepts, but from the fact that he used unreasonable inputs to his models.\textsuperscript{55} Dr. Kihm also does not appreciate that if regulators dramatically reduce ROE from present levels, like he proposes, not only would it be a dramatic departure from the Commission’s long-standing precedent of applying gradualism in ROE determinations, the stock price of the utility will also decline dramatically.\textsuperscript{56} Contrary to Dr. Kihm’s position, capital does not flow freely regardless of ROE. If a company’s stock price declines as a result of an adverse regulatory decision, then the cost of equity capital increases, and the Company will be placed at an unjustified disadvantage if Dr. Kihm’s (or Staff’s) recommendation is adopted.\textsuperscript{57}

The Commission should also reject Walmart witness Mr. Kronauer’s recommendation that NSPW’s ROE should be set below 10 percent. In reaching his recommendation, Mr. Kronauer did not perform any form of commonly accepted ROE analysis.\textsuperscript{58} Rather, the entire basis of Mr. Kronauer’s ROE recommendations was a comparison of returns that have been authorized for other electric utility companies—an analysis that directionally shows authorized ROEs have increased since 2021, when this Commission last considered the appropriate ROE for the

\textsuperscript{52} Rebuttal-NSPW-Coyne-5-7.
\textsuperscript{53} Rebuttal-NSPW-Coyne-23-24.
\textsuperscript{54} Rebuttal-NSPW-Coyne-8-9.
\textsuperscript{55} Rebuttal-NSPW-Coyne-9.
\textsuperscript{56} Rebuttal-NSPW-Coyne-11-14.
\textsuperscript{57} Rebuttal-NSPW-Coyne-12.
\textsuperscript{58} Rebuttal-NSPW-Coyne-7.
Company.\textsuperscript{59} While such comparisons may be one relevant consideration for investors, Mr. Kronauer does not consider whether his proposal would produce returns comparable to companies with a risk profile commensurate with NSPW’s.\textsuperscript{60} Mr. Kronauer dismisses this by arguing that the Company’s ability to use a forecast test year and the ability to earn a return on Construction Work in Progress meaningfully reduces business risk.\textsuperscript{61} Mr. Kronauer does not account, however, for whether these regulatory features are present in the proxy group that Mr. Coyne employed in his analysis. Because these features are present in Mr. Coyne’s proxy group, the analytical impact of those features were accounted for in Mr. Coyne’s analysis and recommendation, and therefore should not be a basis for the Commission to authorize a lower ROE for NSPW.\textsuperscript{62}

**B. The Commission Should Adopt NSPW’s Proposed Capital Structure.**

The Company recommends the Commission maintain NSPW’s regulated capital structure equity ratio at 52.50 percent.\textsuperscript{63} This recommendation is aligned with the last-authorized capital structure accepted by the Commission in its Final Decision in the 2022/2023 Settlement in Docket No. 4220-UR-125.\textsuperscript{64} This recommendation equates to a 51.75 percent equity ratio on a financial basis when including the effects of operating leases and other off-balance sheet liabilities.\textsuperscript{65} The Company also requests that the Commission adopt its recommendation of a 7.61 percent weighted average cost of capital (WACC) and a 7.82 percent adjusted cost of capital applicable to net investment rate base.\textsuperscript{66} The proposed cost of capital incorporates a 10.25 percent Return on Equity (ROE), a long-term debt cost of 4.72 percent and a short-term debt cost of 3.96 percent.\textsuperscript{67} Staff

\textsuperscript{59} Rebuttal-NSPW-Coyne-7-8, 39.
\textsuperscript{60} \textit{Id.}
\textsuperscript{61} Direct-Walmart-Kronauer-r-5.
\textsuperscript{62} Rebuttal-NSPW-Coyne-43.
\textsuperscript{63} Direct-NSPW-Martin-r-3.
\textsuperscript{64} \textit{Id.}, PSC REF#: 427625.
\textsuperscript{65} \textit{Id.}
\textsuperscript{66} \textit{Id.}
\textsuperscript{67} \textit{Id.}
supports the 52.50 percent equity ratio as proposed by the Company.\textsuperscript{68} Staff has not raised concerns with the Company’s proposed WACC or its proposed cost of capital applicable to net investment rate base.

The Company’s capital structure recommendation is supported by the Company’s current credit ratings, bond rating criteria, and the Company’s performance against the Standard and Poor’s (S&P) and Moody’s rating guidelines, when considered in light of NSPW’s 10-year forecast of construction expenditures and financing requirements.\textsuperscript{69} As NSPW is anticipated to invest $1.1 billion through 2024, the Company must raise significant outside capital to finance the investments in customer-benefitting clean-energy initiatives.\textsuperscript{70} Consequently, it is important for the Company’s capital structure and overall financial integrity to illustrate to credit rating agencies and investors that NSPW represents a high-quality investment.\textsuperscript{71} The capital structure recommended in this case will allow NSPW to maintain its current credit ratings and level of financial integrity, which has directly benefitted customers through continued access to capital to fund investment at reasonable rates.\textsuperscript{72}

None of the intervenors have proposed an alternative equity ratio for NSPW in this proceeding, including CUB. However, although CUB witness Dr. Kihm did not propose modifications to NSPW’s proposed capital structure, some of his assertions regarding this issue bear critical examination. Dr. Kihm asserts incorrectly that “high” equity ratios are beneficial to investors but do not help customers.\textsuperscript{73} The fact is that equity ratios impact credit ratings, credit ratings impact investor decisions, and therefore equity ratios affect the Company’s ability to attract

\textsuperscript{68} Direct-PSC-Tierney-r-4.  
\textsuperscript{69} Direct-NSPW-Martin-r-4; Ex.-NSPW-Martin-1.  
\textsuperscript{70} Direct-NSPW-Martin-6.  
\textsuperscript{71} \textit{Id.}  
\textsuperscript{72} Rebuttal-NSPW-Martin-5.  
\textsuperscript{73} Direct-CUB-Kihm-r-57.
capital at a reasonable cost, which directly benefits customers.\textsuperscript{74} Dr. Kihm’s apparent assumption that NSPW’s equity ratio is “high” is simply not true. At 52.50 percent, NSPW has the lowest equity ratio among other investor-owned utilities in Wisconsin, except for Wisconsin Gas, LLC.\textsuperscript{75} Dr. Kihm further asserts that he is concerned that any equity ratio over 50 percent may be too high in terms of the cost to utility customers, and that the issue needs further study.\textsuperscript{76} However, Mr. Kihm has offered no analysis to support that statement.\textsuperscript{77} NSPW also disagrees with Dr. Kihm’s assertion that as a general matter, a utility should minimize its WACC.\textsuperscript{78} In NSPW’s case, a capital structure that leads to the lowest possible WACC would likely leave NSPW with little or no financial flexibility to manage through periods of unexpected economic or market disruptions, which could result in a higher cost of capital over the long term, with a potential for reduced access to capital—a result which would not benefit customers.\textsuperscript{79} Experience shows that at a minimum, rating agencies would view regulatory minimization of WACC as inconsistent with historical regulatory actions and would thereby signal regulatory irregularity.\textsuperscript{80}

C. \textbf{The Commission Should Adopt the Company’s Proposed Earnings Sharing Mechanism (ESM).}

To facilitate the return of overearnings to customers, the Company has agreed to an Earnings Sharing Mechanism (ESM). As agreed to by the Company, the ESM would allow the Company to retain all earnings less than or equal to a 25 basis points above authorized ROE; return to customers an amount equal to 50 percent of earnings between 25 and 75 basis points above

\textsuperscript{74} Rebuttal-NSPW-Martin-3-4.
\textsuperscript{75} Rebuttal-NSPW-Martin-4-5.
\textsuperscript{76} Direct-CUB-Kihm-r-61.
\textsuperscript{77} Rebuttal-NSPW-Martin-9.
\textsuperscript{78} Rebuttal-NSPW-Martin-10.
\textsuperscript{79} Rebuttal-NSPW-Martin-10-11.
\textsuperscript{80} Rebuttal-NSPW-Martin-11.
authorized ROE, and return to customers an amount equal to 100 percent of earnings equal to or in excess of 75 basis points above the authorized ROE.81

In addition to providing a mechanism that returns overearnings to customers as a general matter, the ESM agreed to by NSPW will also serve to modulate overearning that may occur as the result of circumstances that were not known at the time of the Company’s filing in this case, or which were discovered or occur after the Staff audit was completed. For example, during the audit period in this case, the Company discovered an error in the demand allocator for the I/A billings that overstated the Interchange Agreement (I/A) billings flowing from NSPM to NSPW by approximately $5 million. This error to the demand allocator was not clearly apparent when the case was first filed and does not otherwise impact other costs requested in this case. Similarly, since the case was filed, a change in Minnesota law was passed that will result in approximately $1 million in new expenses relating to nuclear cask payments. The Company believes the ESM it has proposed can serve as the mechanism to address these amounts and to ensure the overall rates collected from customers as a result of this case are just and reasonable, regardless of changes following the audit.82

II. THE COMMISSION SHOULD ALLOW NSPW TO RECOVER THE COSTS OF ITS EMPLOYEE ANNUAL INCENTIVE PROGRAM

Staff has recommended the disallowance of the Annual Incentive Program (AIP) from the Company’s requested payroll expense. Commission adoption of the proposed disallowance would result in a decrease in the Company’s requested revenue requirement of $3.5 million to electric operations and $506,000 to natural gas operations.83 Because the record shows there are no evidence-based or public interest reasons for disallowing NSPW’s recovery of AIP, the Company

82 Rebuttal-NSPW-Ascheman-14.
83 Direct-PSC-Maly-r-8.
respectfully requests that the Commission reconsider its historical practice of disallowing NSPW’s AIP expense. Although the Commission’s articulation of the specific reasons for disallowing AIP has varied somewhat over time, the Commission’s most recent disallowance of AIP—echoed by Staff in its testimony in this case—is grounded in the fact that the payout of AIP is dependent upon the Company’s achievement of an affordability threshold and the view that NSPW has not submitted sufficient evidence to show that without AIP, overall compensation would fall below market rates.

The Company has addressed both of these factors on the record in this proceeding. Specifically, and as discussed in detail below, the record shows that AIP is a component of reasonable total cash compensation without which affected employees would be paid materially less than the employment market dictates and that the earnings per share (EPS) affordability trigger for the payment of AIP does not compromise the legitimacy of AIP or the benefits to customers associated with AIP.

A. **NSPW’s Total Cash Compensation, Inclusive of the AIP Component, is Reasonable.**

The Commission has been clear that “[i]n carrying out its regulatory duties, the Commission must make a determination on the reasonableness of the total cash compensation provided by NSPW to its employees.” The Company’s total cash compensation to its exempt—or salaried—employees is made up of the employee’s base salary plus incentive compensation in

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84 In NSPW’s 2006 and 2008 test year rate cases, Docket Nos. 4220-UR-114 and -115, the Commission approved partial recovery of AIP. In the 2010 test year rate case, Docket No. 4220-UR-116, the Commission began its practice of completely disallowing AIP cost recovery, which continued through the Company’s last full rate case for the 2018 test year. See Final Decision, Application of Northern States Power Company-Wisconsin for Authority to Adjust Electric and Natural Gas Rates, at 15-16, Docket No. 4220-UR-123, (PSC REF#: 335158).

85 See, Id. at 16; Surrebuttal-PSC-Maly-passim.

the form of AIP.\textsuperscript{87} AIP is not focused on executives: in fact quite the opposite is true. Ninety-nine percent of AIP eligible employees in the Company are neither executives nor vice presidents.\textsuperscript{88} AIP eligible positions include those such as engineers, analysts, accountants, operations managers—just some examples of hundreds of jobs whose total cash compensation includes AIP.\textsuperscript{89}

The record shows that the Company’s total cash compensation to AIP-eligible employees is reasonable. AIP is not focused on executives, and it is not a bonus program designed to result in above-market compensation. Rather, it is added to base pay to achieve \textit{at-market} compensation if the eligible employee meets goals that are determined in conjunction with their manager and the corporation overall similarly achieves its goals.\textsuperscript{90} Xcel Energy uses the compensation market median to set total cash compensation, an industry best practice.\textsuperscript{91} The Company’s use of AIP as a component of total pay is also considered a best practice and is ubiquitous practice in the utility industry—and one that actually \textit{reduces} the fixed costs of total cash compensation over time.\textsuperscript{92} When compared to U.S. utilities with revenues similar to Xcel Energy, AIP-eligible employees’ earnings would underperform market-competitive compensation by 15.9 percent without the AIP component of their compensation.\textsuperscript{93} This is not a shot-in-the-dark estimate: it is the conclusion of a methodologically robust study performed in 2023 by Willis Towers Watson, a nationally recognized employment consulting leader for the utility employment market.\textsuperscript{94}

Neither Staff nor any party in the proceeding presents any concrete evidence to show that the quantum of NSPW’s total cash compensation—which includes AIP—is excessive. Rather,

\begin{itemize}
\item \textsuperscript{87} Direct-NSPW-Ascheman-r-13.
\item \textsuperscript{88} Direct-NSPW-Deselich-11.
\item \textsuperscript{89} \textit{Id}.
\item \textsuperscript{90} Direct-NSPW-Deselich-18.
\item \textsuperscript{91} Direct-NSPW-Deselich-21.
\item \textsuperscript{92} Direct-NSPW-Deselich-13, 14, 15-18.
\item \textsuperscript{93} Direct-NSPW-Deselich-20.
\item \textsuperscript{94} Direct-NSPW-Deselich-19-21.
\end{itemize}
Staff surmises that the Willis Towers Watson study and other evidence NSPW has presented “may not be sufficient” to prove that “AIP expense is required” or to prove that NSPW has had “unsuccessful recruitments” as a result of NSPW not recovering AIP payments in rates. These amount to uncertain observations, not countervailing evidence on which the Commission can base a sound decision. Further, these observations improperly suggest that the Company is duty-bound to prove that the ability to recruit talented employees would be compromised by the disallowance of AIP expense recovery. Research reveals no authority imposing such a standard. Having undertaken the effort to implement best employment compensation practices in setting total compensation, having confirmed the validity with a market based and methodologically sound study, and considering its obligation to consistently provide safe and reliable service, the Company should not have to negate the AIP portion of total cash compensation simply to prove that doing so would create recruitment—and therefore potential operational—challenges. At bottom, the only substantial, concrete, and credible evidence in the record in this proceeding on the propriety of the Company’s total cash compensation for AIP-eligible employees is that which the Company presented, and that evidence shows it to be reasonable.

**B. The Key Performance Indicators Employees Must Meet to Receive Incentives Under AIP are Designed to Benefit Customers, and the EPS Affordability Trigger for Payment of AIP is Reasonable.**

Having satisfied the Commission’s historical concern with the quantitative reasonableness of AIP expense as part of total compensation as discussed above, it remains for the Company to show that the EPS affordability trigger for the payment of AIP is reasonable. The record shows it is. First, an employee cannot receive the AIP component of compensation unless that employee achieves their specific goals set by them and their manager and the corporation collectively

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95 Surrebuttal-PSC-Maly-4.
satisfies several key performance indicators (KPIs). These corporate KPIs include customer satisfaction, public safety, electric system reliability, employee safety, diversity/equity/inclusion, and wind energy availability.\textsuperscript{96} These KPIs flow directly from the Company’s four priorities: lead the clean energy transition, enhance the customer experience, keep bills low, and promote safety and reliability.\textsuperscript{97} The record in this case shows the KPIs to be customer-centric, not just as presented by NSPW, but as perceived by CUB. CUB agrees that the KPI’s are reasonably aligned with customers’ interests, are operational in nature, and could reasonably be found to benefit customers. Although Staff raised the concern that the KPI’s were qualitative in nature, the Company has demonstrated that every one of them is quantitatively measured.\textsuperscript{98} Staff suggested that to overcome its concerns with the mechanisms underlying API, the Commission should find that the KPIs yield a “direct and substantial” benefit to customers.\textsuperscript{99} The great weight of the evidence is that the KPIs associated with AIP are in fact designed to yield customer benefits, both direct and substantial.

What remains is the question whether the EPS affordability trigger for AIP is reasonable or somehow negates the customer benefits of AIP. The objections of both Staff and CUB are that the payment of AIP is tied to the Company’s financial performance, but they fail to articulate how the EPS affordability trigger does anything to compromise customers’ interests. In fact, the opposite is true. First, it is important to note that the EPS affordability trigger is not one of the KPIs that the employee must first achieve to be eligible to receive the API component of compensation.\textsuperscript{100} Second, the very existence of AIP as an at-risk component of total cash compensation provides greater benefit to customers than if total cash compensation were

\textsuperscript{96} Tr., 64.
\textsuperscript{97} Direct-NSPW-Deselich-10.
\textsuperscript{98} Rebuttal-NSPW-Deselich-3.
\textsuperscript{99} Surrebuttal-PSC-Maly-2.
\textsuperscript{100} Tr., 66.
comprised only of base pay and paid without regard to the employee meeting specific customer-benefitting goals. There are tangible economic benefits to customers flowing from the fact the Company’s fixed labor costs would be substantially higher if total compensation were comprised of base pay only.\textsuperscript{101} Third, the overwhelming majority of employees eligible for AIP do not have roles directly influencing earnings per share;\textsuperscript{102} rather, they are focused on performing their roles and achieving the customer-facing KPIs, and it is not known to those employees whether the EPS trigger is met until the end of the applicable year of employment.\textsuperscript{103} Finally, in this proceeding, the Company has agreed to refund customers any recovered AIP expense that is not actually paid to AIP-eligible employees.\textsuperscript{104} In the context of this evidence, which stands uncontroverted in the record, it cannot be argued that there is any aspect of the EPS affordability trigger which somehow renders the API expense unreasonable or otherwise contrary to customers’ interests. For these reasons and those discussed above, the Commission should allow the Company to recover all or at least a substantial portion of its AIP expense.

\textbf{III. THE COMMISSION SHOULD ALLOW THE COMPANY TO RECOVER ITS RESIDENTIAL AFFORDABILITY PROGRAM AND ADVANCED METERING INFRASTRUCTURE WAIVER COSTS IN 2024-2025 RATES.}

The Company requests that the Commission approve recovery of the Company’s costs for its Residential Affordability Program (RAP) beginning in 2024, subject to escrow accounting treatment, and that it approve the Company’s recovery of costs for Advanced Metering Infrastructure waiver (AMI Waiver) beginning in 2024. The RAP and AMI Waiver are the subject of two pending dockets, Docket No. 4220-TU-100 and Docket No. 4220-TE-114, respectively.\textsuperscript{105} Staff proposed to disallow the RAP costs ($3.9 million for electric, $0.42 million for gas) and AMI

\textsuperscript{101} Direct-NSPW-Deselich-15-18.
\textsuperscript{102} Tr., 66.
\textsuperscript{103} Tr., 64-65.
\textsuperscript{104} Rebuttal-NSPW-Ascheman-8.
\textsuperscript{105} Rebuttal-NSPW-Zich-r-2, 5.
Waiver costs from the Company’s revenue requirement because the Commission had not yet issued orders in either of those dockets.\textsuperscript{106} However, since the close of hearing in this case, the Commission has discussed the record and voted to approve the Company’s request relating to the AMI Waiver in Docket No. 4220-TE-114. Therefore, the underlying basis for Staff’s disallowance of AMI Waiver costs is moot and need not be addressed here.

The Commission should reject Staff’s proposal to disallow RAP costs, because allowing recovery beginning in 2024 will benefit both the Company and its customers. First, allowing cost recovery despite the pendency of the RAP approval dockets would be consistent with the Commission’s practice of allowing cost recovery for projects in rate base with pending permit approvals if the projects are projected to be in service in the test year.\textsuperscript{107} If the costs for RAP are excluded from rates but the Commission approves them in the pending docket, recovery for 2024 and 2025 program costs are not likely to be considered until the Company’s 2026 test year rate case, creating a two-year cost recovery delay, while at the same time creating avoidable adverse customer bill impacts.\textsuperscript{108} The proper solution is not to disallow RAP program costs, but to approve them for recovery beginning in 2024 subject to escrow accounting treatment.\textsuperscript{109} That treatment will ensure that customers pay only for the actual versus forecast costs.\textsuperscript{110}

IV. \textbf{THE COMMISSION SHOULD REJECT CUB’S PROPOSAL TO WRITE OFF THE COMPANY’S COVID-19 DEFERRAL.}

The Company requests Commission approval to amortize the deferred COVID-19 regulatory asset authorized in Docket 5-AF-105\textsuperscript{111} over the period 2024-2025.\textsuperscript{112} Staff takes no

\textsuperscript{106} Direct-PSC-Maly-r-6, 11.
\textsuperscript{107} Rebuttal-NSPW-Zich-r-3.
\textsuperscript{108} Rebuttal-NSPW-Zich-r-3.
\textsuperscript{109} Rebuttal-NSPW-Zich-r-3-4.
\textsuperscript{110} Id.
\textsuperscript{111} Order, (PSC REF#: 386353); Supplemental Order – First, (PSC REF#: 389500); Supplemental Order – Second, (PSC REF#: 396068); Supplemental Order – Third, (PSC REF#: 427781)
\textsuperscript{112} Direct-PSC-Maly-r-14; Rebuttal-NSPW-McRea-3.
position on this issue other than to advise that the Commission has ordered different accounting
treatment on this issue in rate cases for some, but not all, other utilities.\textsuperscript{113} CUB, however, has
proposed that the Commission order the Company to write off 86 percent of the electric deferred
balance ($2.45 million) and 96 percent of the gas deferred balance ($0.85 million).\textsuperscript{114} Mr.
Singletary asserts the write-off would allow the Company and customers to share in the deferral
and suggests it is equitable since the Company’s actual ROE in 2020 was in excess of
authorized.\textsuperscript{115} On the record, NSPW presented evidence that an imposed write-off would be
unreasonable and inequitable because NSPW shared in those costs during the pandemic.\textsuperscript{116}
Uncollectible/bad debt expense (creating administrative and short-term financing costs), waiver
fees/charges, and the Commission’s orders during the pandemic to suspend various significant
charges and disconnections all gave rise to real, reasonable, operational costs which impacted
NSPW’s earnings.\textsuperscript{117} With respect to his highlighting of the Company’s actual ROE in 2020 as
above authorized, Mr. Singletary fails to mention that a significant amount of the COVID-19
related costs were incurred in 2021, and for the two-year period 2020-2021, the Company’s
average actual ROE was below authorized. Finally, NSPW is differently situated than the other
Wisconsin utilities that have written off their COVID-19 deferrals. The contemplated rate increase
for NSPW’s electric and gas utilities are comparatively smaller than the rate increases that the
Commission authorized for other Wisconsin utilities, and those utilities actually proposed writing
off their COVID-19 deferrals.\textsuperscript{118} For these reasons, the Commission should approve the
Company’s proposal to amortize its COVID-19 deferral over 2024-2025, and reject CUB’s

\textsuperscript{113} Direct-PSC-Maly-r-14.
\textsuperscript{114} Direct-CUB-Singletary-r-36-38; Rebuttal-NSPW-McRea-3-4.
\textsuperscript{115} Id.
\textsuperscript{116} Id.
\textsuperscript{117} Id.
\textsuperscript{118} Id.
invitation to write off these amounts. Should the Commission nonetheless disallow recovery for some or all of the COVID-19 deferral, the Company requests that the disallowance be offset against the 2020 earnings sharing mechanism regulatory liability that the Company is proposing in this proceeding to credit to customers.  

V. THE COMMISSION SHOULD APPROVE THE COMPANY'S ANNUAL FUEL COST PLAN.

The Company’s 2024 test year fuel costs are shown in Ex.-NSPW-McRea-1, Schedule 2. All of the fuel costs shown on Schedule 2 are consistent with the definition of “fuel costs” and the “fuel cost plan” meets the requirement of the fuel rules. The only issue of disagreement between the Company’s proposal and Staff’s audit recommendations was Staff’s proposal to use a 12-month historical average for purposes of forecasting 2024 Midcontinent Independent System Operator (MISO) credits, charges, and wind curtailment costs. That issue was subsequently resolved in Staff’s and NSPW’s exchange of testimony, with the result that NSPW and Staff are aligned on the use of a specific 24-month historical average for forecasting 2024 test year costs. The Company therefore requests that the Commission designate the fuel costs approved in this proceeding as the Company’s “fuel cost plan” for the 2024 “plan year” as those terms are defined in the fuel rules (Wis. Admin. Code ch. PSC 116 (Mar. 2021).) The Company also requests the Commission maintain the Company’s current fuel cost tolerance band of plus or minus two percent.  

120  Direct-NSPW-McRea-r-22.  
121  Surrebuttal-PSC-Ritsema-1-2; Tr., 22-23.  
122  Direct-NSPW-McRea-r-22.
VI. THE COMMISSION SHOULD APPROVE THE COMPANY’S PROPOSED TARIFF REVISIONS AND ASSOCIATED EV PROGRAMS.

The Company proposed several tariff revisions in this proceeding. The basis and reasonableness of each was demonstrated in detailed NSPW testimony. Of these proposals, only the Company’s revisions to the Competitive Response Rider and its proposed Electric Vehicle programs and tariffs were the subject of significant discussion in the record or remain to be resolved. For the reasons below, the Company requests that the Commission approve all of the proposed revisions to its tariffs, including the Company’s Competitive Response Rider, EV-related tariffs, and associated EV programs.

A. The Commission Should Approve the Company’s Proposed Changes to the Competitive Response Rider.

The Company initially proposed to revise its Competitive Response Rider to increase the program cap from 50 MW to 200 MW, and to allow the revised 200 MW cap to be exceeded if it results from load growth of a customer already in the program. Although Staff articulated concerns with the proposal to allow exceedances above the 200 MW cap, NSPW and Staff achieved alignment by agreeing that the cap could be revised from 50 MW to 400 MW, without any ability to exceed the 400 MW cap.

An important feature of NSPW’s Competitive Response Rider is that a customer must first demonstrate effective competition, which means they must first demonstrate that the customer would be able to obtain lower rates and bills from a utility that is not rate regulated by the Commission. At hearing, Commissioner Huebner posed questions regarding whether a

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123 See Direct-NSPW-Zich-r-passim; Direct-NSPW-Zich-s-passim; Ex.-NSPW-Zich-1; Ex.-NSPW-Zich-3; Ex.-NSPW-Zich-6; Direct-NSPW-Moldenhauer-r-39-40; Ex.-NSPW-Moldenhauer-4; Direct-NSPW-Dahl-r-19-20; Ex.-NSPW-Dahl-3.
125 Tr., 74-78; Ex.-NSPW-Zich-6.
customer’s subscription to NSPW’s Competitive Response Rider could be indefinite or would at some point sunset.\textsuperscript{127} While the tariff does not provide for a sunset, any concern that might arise from an indefinite subscription is resolved by the fact that service under the Competitive Response Rider is not subsidized by any other class of NSPW’s customers.\textsuperscript{128} In addition, it appears that a sunset is not a feature of other Wisconsin utilities’ analogous economic development tariffs.\textsuperscript{129} For these reasons, the Company requests that the Commission approve the proposed revisions to the Competitive Response Rider as presented in Ex.-NSPW-Zich-6.

**B. The Commission Should Approve the Company’s EV Public Charging Proposal and Changes to its EV-related Tariffs.**

The Company proposes routine updates to its residential and commercial electric vehicle (EV) tariffs (EVR-1, EVR-2, and EVC-1), as well as minor pricing methodology changes consistent with information the Company provided in Docket No. 4220-TE-113.\textsuperscript{130} In addition, the Company proposes to update its Military Distribution Service (DS-1) tariff to clarify that customers taking service under that tariff are eligible to participate in the EVC-1 tariff, and proposes to update the Multi-Family Housing Electric Vehicle Service Pilot Tariff (EVC-2) to simplify site host billing.\textsuperscript{131} The Company also seeks approval of its advisory services budget, its Company Owned Public Electric Vehicle Charging tariff (EVP-1), and to recover costs beginning in 2024 for expected investments in its public EV charging network.\textsuperscript{132}

There have been several public comments filed in this docket supporting the Company’s proposals related to EV charging.\textsuperscript{133} These comments reflect the Company’s effective engagement

\textsuperscript{127} Tr., 78-80.
\textsuperscript{128} Direct-NSPW-Zich-r-23.
\textsuperscript{129} Tr., 118.
\textsuperscript{130} Direct-NSPW-Zich-r-9.
\textsuperscript{131} Direct-NSPW-Zich-r-11; Direct-NSPW-Zich-s-2-5.
\textsuperscript{132} Direct-NSPW-Zich-r-12.
\textsuperscript{133} Direct-NSPW-Zich-r-11; Rebuttal-NSPW-Erwin-r-4.
with communities and stakeholders prior to making its EV-related proposals in this case.\textsuperscript{134} Neither Staff nor any stakeholders have recommended the Commission disallow the Company’s investment in public EV charging or its proposed EVP-1 tariff, but make some suggestions for the Commission to consider. Walmart recommends that the Commission order the creation of a public-facing EV charging tariff but does not provide any details to support its recommendation.\textsuperscript{135} However, the apparent goal underlying Walmart’s recommendation—the reduction of demand charges for public charging—have been addressed in the Company’s pricing methodology, and for that reason the Company does not support Walmart’s proposal.\textsuperscript{136}

CUB and RENEW raise the issue of private market competitiveness in relation to the Company’s public EV charging proposal, but do not recommend disapproval of any of the Company’s proposed EV charging offerings or programs. Their priority is to ensure that the Company’s EV efforts not limit the ability of non-utility entities to provide EV charging. The Company supports non-utility entities being able to provide EV charging, and the Company’s commercial EV program, proposed advisory services program, and proposed public charging program are market enabling. Utility involvement in areas where private charging companies are not operating can support public charging investment in underserved areas such as tourism destinations, rural regions, and tribal nations. The Company sees the opportunity to own and operate EVSE and partner with private companies and others to increase EV adoption in the Company’s large and relatively rural, 20,000 square mile Wisconsin service territory and support public policy objectives of Wisconsin and the Company.\textsuperscript{137} Lastly, an impediment to non-utility entities providing EV charging in Wisconsin and securing National Electric Vehicle Infrastructure

\textsuperscript{134} \textit{Id.}
\textsuperscript{135} Direct-NSPW-Zich-r-13.
\textsuperscript{136} \textit{Id.}
\textsuperscript{137} Rebuttal-NSPW-Erwin-r-8.
(NEVI) program funding is current law which would treat non-utility entities providing EV charging as public utilities. The Company has committed to support legislation that would exempt such entities from public utility designation and the Company’s proposed program provides an alternative pathway for enabling NEVI funding in the event such legislation does not become law.\footnote{Rebuttal-NSPW-Erwin-r-9-10.}

VII. THE COMMISSION SHOULD ADOPT NSPW’S PROPOSED ELECTRIC AND GAS COST ALLOCATION METHODS AND RATE DESIGNS.

A. The Company’s Recommended Electric Cost Allocation Method and Rate Design are Reasonable.

In this proceeding, NSPW prepared and submitted an embedded electric class cost of service study (CCOSS), the purpose of which is to determine how the Company’s requested revenue requirement should be allocated among NSPW retail customer classes.\footnote{Direct-NSPW-Moldenhauer-r-4-21; Ex.-NSPW-Moldenhauer-1, Schedules 1 & 2.} The Company’s CCOSS presents two alternative production capacity allocation methods, identified in the record as Method 1\footnote{Ex.-NSPW-Moldenhauer-1, Schedule 1, pp. 1-3 of 6.} and Method 2.\footnote{Ex.-NSPW-Moldenhauer-1, Schedule 2, pp. 4-6 of 6.}

Both Method 1 and Method 2 allocate fixed production costs using a four (summer) month coincident peak (4CP).\footnote{Direct-NSPW-Moldenhauer-r-8.} The two methods differ only in that Method 1 is based on a 100 percent demand allocator, while Method 2 is based on a weighted demand and energy blend.\footnote{Id.} At Staff’s request, the Company supplemented its two alternative CCOSSs by filing five additional CCOSS allocation methods.\footnote{Rebuttal-NSPW-Moldenhauer-r-2.} The first two of these five runs employed the same allocation methodology of the Company’s initially filed Methods 1 and 2, modified only to utilize Staff’s adjusted revenue

\footnote{Rebuttal-NSPW-Moldenhauer-r-2.}
requirement. The three remaining CCOSS runs requested by Staff (referred to in the record as Methods 3, 4 and 5) utilize specific Staff-requested production and distribution allocation methods and utilize the Staff-adjusted revenue requirement. A comparison of the five CCOSS runs requested by Staff at its proposed revenue requirement shows that the Company’s proposed revenue allocation falls roughly between the positions taken by witnesses for WIEG and CUB and aligns closely with Staff’s proposed revenue allocation.

The Company supports the results yielded by application of Method 1 and 2 using the 4CP allocator because, at this time, they best tie allocation to cost causation. This is because the MISO system, the NSP System, as well as NSPW remain summer peaking systems, and all of the Company’s existing generation was contemplated within MISO’s summer resource adequacy construct. While some changes may be taking place in MISO resource adequacy requirements, consideration of these changes is premature and will require further review and development in future rate cases.

NSPW’s CCOSS also incorporates a minimal system approach that separates distribution plant into customer and demand-related components, which has been adjusted compared to previous rate cases to account for customer density. The effect of incorporating customer density in the analysis results is the movement of $3.2 million (1.1 percent) of customer related costs from residential classes to the Commercial and Industrial classes. CUB has criticized the minimum system approach as flawed. NSPW believes CUB’s criticisms are addressed in large part by NSPW

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145 Although it filed modified Methods 1 and 2, and new Methods 3, 4 and 5 at Staff’s request, NSPW did not do so in agreement with the underlying Staff-adjusted revenue requirement, and the Company continues to support Methods 1 and 2 as originally proposed. Direct-NSPW-Moldenhauer-r-2; Rebuttal-NSPW-Moldenhauer-r-1-2.
146 Id. at 2-3, Table 1.
147 Rebuttal-NSPW-Moldenhauer-r-2-3, and Table 1.
148 See Direct-NSPW-Moldenhauer-r-8-15.
149 Rebuttal-NSPW-Moldenhauer-r-4-6.
150 Id.
151 Direct-NSPW-Moldenhauer-r-14.
152 Direct-Moldenhauer-r-15.
incorporating customer density into its cost-allocation analysis.\textsuperscript{153} These disagreements, however, are essentially academic for purposes of this case, as NSPW agrees that customer charges should not be increased in this case.\textsuperscript{154} With respect to rate design, while the Company is contesting some aspects of the Staff-adjusted revenue requirement, the Company finds Staff’s rate design to be acceptable overall.\textsuperscript{155}

\textbf{B. The Company’s Recommended Gas Cost Allocation Method and Rate Design are Reasonable.}

In its filing, the Company provided the Commission with a natural gas CCOSS and proposed rate design, together with miscellaneous proposed gas tariff changes.\textsuperscript{156} In response, Staff proposed its own recommendations on cost allocations and rate design. While the Company does not agree with all of Staff’s adjustments to the Company’s revenue requirement, the Company finds Staff’s proposed cost allocation to be reasonable and raised only one exception to Staff’s proposed gas rate design relating to Staff’s proposed rate increase for the sole customer participating in the Company’s GT-2 Large Firm Service tariff.\textsuperscript{157} That issue, however, together with what can be termed additional “housekeeping” issues, appears to have been resolved.\textsuperscript{158} For these reasons, the Company requests that the Commission accept the Company’s proposed cost allocation and rate design.

\textsuperscript{153} Rebuttal-NSPW-Moldenhauer-r-9-11.
\textsuperscript{154} Rebuttal-NSPW-Moldenhauer-r-13.
\textsuperscript{155} Id.
\textsuperscript{156} Direct-NSPW-Dahl-r-passim; Ex.-NSPW-Dahl-1-3.
\textsuperscript{157} Rebuttal-NSPW-Dahl-1-2.
\textsuperscript{158} Sur-surrebuttal-NSPW-Dahl-1-3.
CONCLUSION

For all of the reasons set forth above, in NSPW’s evidentiary submissions, and as otherwise indicated in the record of this proceeding, the Company respectfully requests, in addition to the other requests contained in its filing, that the Commission:

1. Authorize a return on equity of 10.25 percent.
2. Approve a capital structure with a 52.50 percent equity ratio on a regulated basis.
3. Adopt NSPW’s proposed Earnings Sharing Mechanism.
4. Authorize NSPW to recover AIP-related expense, RAP costs, AMI Waiver costs, and COVID-19 deferrals beginning in 2024.
5. Approve NSPW’s Annual Fuel Cost Plan.
6. Approve the tariff changes NSPW has proposed in this proceeding.
7. Approve the rate design and supporting range of cost allocation methods proposed by NSPW.

Dated this 3rd day of October, 2023.

NORTHERN STATES POWER COMPANY

By: /s/ Jordan J. Hemaidan

Jordan J. Hemaidan
Michael Best & Friedrich LLP
One South Pinckney Street, Suite 700
P.O. Box 1806
Madison, WI 53701-1806
Phone: 608.257.3501
Email: jjhemaidan@michaelbest.com

Michael W. Kaphing
Principal Attorney
Xcel Energy
401 Nicollet Mall, 8th Floor
Minneapolis, MN 55401
Phone: 612.216.8007
Email: Michael.W.Kaphing@xcelenergy.com