

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * * *

RE: IN THE MATTER OF ADVICE)
LETTER NO. 1672-ELECTRIC FILED BY)
PUBLIC SERVICE COMPANY OF) PROCEEDING NO. 14AL-0660E
COLORADO TO REVISE ITS COLORADO)
PUC NO. 7-ELECTRIC TARIFF TO)
IMPLEMENT A GENERAL RATE)
SCHEDULE ADJUSTMENT AND OTHER)
OTHER CHANGES EFFECTIVE)
JULY 18, 2014.)

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF) PROCEEDING NO. 14A-0680E
COLORADO FOR APPROVAL OF ITS)
ARAPAHOE DECOMMISSIONING AND)
DISMANTLING PLAN.)

REBUTTAL TESTIMONY AND ATTACHMENTS OF ALICE K. JACKSON

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

December 17, 2014

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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SUMMARY OF THE REBUTTAL TESTIMONY OF Error! Reference source not found.

Ms. Alice K. Jackson is Regional Vice President, Rates and Regulatory Affairs of Xcel Energy Services Inc. In this role, Ms. Jackson's duties include, among other things, the design and implementation of Public Service's regulatory strategy and programs, and directing and supervising Public Service's regulatory activities, including oversight of rate cases. Ms. Jackson is the Company's lead witness in this Phase I rate case proceeding, and has previously submitted direct testimony.

In her rebuttal testimony, Ms. Jackson responds to the witnesses sponsored by Commission Staff and intervenors. Ms. Jackson reiterates the need for this rate case and the three primary drivers that led to its filing – the capital costs that the Company is incurring for its Clean Air-Clean Jobs Act (“CACJA”) projects, property taxes, and depreciation. In its original filing, the Company requested a base revenue increase of approximately \$137.7 million and a new CACJA rider to recover the capital costs associated with the Company’s implementation of its CACJA compliance plan. Ms. Jackson explains that in its rebuttal case, the Company is restructuring its request to respond to the recommendations of Commission Staff and certain intervenors, and making other adjustments. As a consequence, the Company now requests an annual base rate increase for electric service of \$28,467,475 and authorization to initiate rider recovery of incremental costs associated with the CACJA projects of \$98,669,928. The effect of this proposal is to shift CACJA costs out of base rates into the proposed rider, but also to shift costs from the Transmission Cost Adjustment (“TCA”) rider to base rates of \$19,947,918. As the Company now proposed, the net increase in base rates being requested in 2015 is \$8,519,557 for a total net revenue increase of \$107,189,485, including the impact of CACJA rider.

Attachment No. AKJ-4 to Ms. Jackson’s testimony reflects the overall base rate increase and the impact to Public Service’s total annual revenues. Table AKJ-R-8 in her testimony, set out below, provides a short list of all of the adjustments that Ms. Jackson and other Company witnesses are proposing to

make in the Company's rebuttal case. Ms. Jackson addresses each of these adjustments, and notes generally that the adjustments that the Company is making to its rebuttal case can be classified into three buckets: (1) corrections for errors; (2) adjustments in recognition of Filing Parties' positions; and, (3) updates due to more recent information:

Table AKJ-R-8: Adjustment to Company's Direct Case

Line Identifier	Description	Amount
	2015 Test Year as of Oct. 6, 2014 Update	\$155,994,751
A	Correct CACJA Pre-Funded AFUDC	(871,384)
B	Correct CACJA Excess AFUDC	(117,852)
C	Corrected CWIP Balance	(80,477)
D	Remove Arapahoe Coal Inventory	(163,721)
E	Remove Misclassified Below the Line Costs	(380,381)
F	Update ROE from 10.35% to 10.25%	(6,174,410)
G	Update Property Tax Expenses	(5,309,948)
H	Update Base Rate Revenues	(15,189,651)
I	Update Rate Case Expenses	119,676
J	Update Cost of Debt from 4.68% to 4.66%	(689,200)
	Total Adjustments	\$(28,857,348)
	Rebuttal Testimony Revenue Requirement	\$127,137,403

As part of her testimony, Ms. Jackson will introduce and provide a summary of the topics of each of the Company's rebuttal witnesses. Ms. Jackson herself will analyze many topics raised by intervenors, noting areas of agreement and disagreement. Ms. Jackson addresses and presents the Company's recommendations regarding the following specific issues:

- Clean-Air Clean Jobs Act (CACJA) Rider – the Company is accepting parties' positions that the CACJA Rider is more transparent if the costs

associated with the CACJA projects are recovered exclusively through the rider mechanism versus base rates.;

- Metro Ash Facility and Southeast Water Rights – the Company is requesting that the Commission approve its treatment of the Metro Ash Facility to amortize the net book value over a two year period due to the implementation of the CACJA, and its continued treatment of the Southeast Water Rights for inclusion in rate base.
- Rate Case Test Year Selection – the Company continues to advocate for the adoption of its 2015 Test Year which reflects 2015 rate base, but 2013 O&M levels with only limited adjustments;
- Earning Sharing Tests – the Company requests that the Commission reject proposals to require the use of an earning sharing mechanism;
- Rate Base Calculation Methodology – if the Commission sets rates based on the Company’s proposed 2015 Test Year, rate base should be set on a 13-month average, but if the Commission instead opts to set rates based on an historic period, year-end balances should be used;
- Property Tax and Recommended Tracker – the Company is willing to implement a property tax tracker based on the amount of property taxes included in base rates and inclusive of the amortization of the deferred property taxes associated with the 2012 MYP as proposed by Staff;
- Oil & Gas Revenues – the Company requests that the Commission approve the treatment proposed by the Company of the oil and gas

- revenues included in non-utility revenues is appropriate and that the sharing proposed by the Company is reasonable;
- Rate Case Expense – the Company requests that the Company's rate case expenses are reasonable and should be included for recovery over a two year period with a limitation discussed by Ms. Jackson;
 - Generation Performance Benchmarking Plan – the Company recommends that the Commission either accept the Company's proposed Generation Performance Benchmarking Plan as proposed or defer implementation of any Generation Performance Benchmarking Plan to another time after further development of a plan may be performed;
 - WECC Fees – the Company requests that the Commission allow these as an adjustment to the 2013 O&M levels it has included in its Test Year cost of service;
 - Ponnequin Wind Farm – the Company requests that the Commission accept the year-end 2015 retirement of the Ponnequin Wind Farm as proposed by the Company;
 - Arapahoe Decommissioning – the Company requests that its proposal to decommission Arapahoe be approved so that the Company may move forward with the decommissioning of this facility; and
 - Aviation Expenses – the Company requests that the Commission accept the Company's proposed inclusion of aviation expenses at 50% of the actual expense.

As reflected in Attachment No. AKJ-4, the percentage change in 2015 base rate revenues is .52%, excluding the impact of the roll-in of the TCA, however, a typical residential customer utilizing 632 kWh per month will see a base rate increase of \$0.80 per month, or 1.78%. With the inclusion of the CACJA Rider and the TCA reduction for the roll-in of TCA costs to base rates; the total bill impact on a typical residential customer is \$2.75 per month, or 3.66%.

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REBUTTAL TESTIMONY AND ATTACHMENTS OF ALICE K. JACKSON

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LIST OF ATTACHMENTS

Attachment No. AKJ-4	Updated AKJ-1 to reflect the Rebuttal Testimony
Attachment No. AKJ-5	Simple Rate Base Methodology Example
Attachment No. AKJ-6	Proxy Group Rate Base Analysis
Attachment No. AKJ-7	OCC Response to Public Service Discovery Request 3-10
Attachment No. AKJ-8	Public Service's Responses to CPUC Discovery Request 37-1; Actual Rate Case Invoices Incurred
Attachment No. AKJ-9	Updated Outside Legal and Consultants and Outside Witness Estimate Documentation
Attachment No. AKJ-10	Updated Rate Case Expense Estimate included in Rebuttal
Attachment No. AKJ-11	Public Service's Response to OCC Discovery Request 13-24; Contracts for Consultants and Outside Witnesses
Attachment No. AKJ-12	Revised Consultants and Outside Witness Estimates
Attachment No. AKJ-13	Authorization from CPUC Staff to Incur Pension Related Rate Case Expense
Attachment No. AKJ-14	Revised Outside Legal Estimates not Included in Rebuttal

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
2012 MYP	2012 Multi-Year Plan
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
Bennett Property	Metro Ash Disposal Site located near Bennett Colorado
Boulder	The City of Boulder
CACJA	Clean-Air Clean Jobs Act
CEC	Colorado Energy Consumers
CHECC	The Colorado Healthcare Electric Coordinating Council
Climax	Climax Molybdenum Company and CF&I Steel, LP
CSG	Community Solar Garden
CPCN	Certificate of Public Convenience and Necessity
CWIP	Construction Work in Progress
DPU	Department of Public Utilities
DSM	Demand Side Management
DSMCA	Demand Side Management Cost Adjustment
ECA	Electric Commodity Adjustment
ERP	Electric Resource Plan
FEA	Federal Executive Agencies

FTY	Forecasted Test Year
Fuelco	Fuel Resources Development Co.
GRSA	General Rate Schedule Adjustment
HTY	Historic Test Year
Interim Decision	Commission Decision No. C14-0616-I
I&S	Investigation and Suspension
IPP	Independent Power Producers
kW	kilowatt
kWh	kilowatt-hour
NREL	National Renewable Energy Laboratory
OCC	The Office of Consumer Counsel
O&M	Operations and Maintenance
PCCA	Purchased Capacity Cost Adjustment
Public Service or Company	Public Service Company of Colorado
PPA	Purchased Power Agreement
PSIA	Pipeline System Integrity Adjustment
QRU	Qualifying Retail Utility
RES	Renewable Energy Standard
RESA	Renewable Energy Standard Adjustment
REC	Renewable Energy Credits

ROE	Return on Equity
S&F	Service and Facilities
SPS	Southwestern Public Service
Staff	The Staff of the Colorado Public Utilities Commission
SWEEP	The Southwest Energy Efficiency Project
TASC	The Alliance for Solar Choice
TCA	Transmission Cost Adjustment
TW	Towers Watson
WACC	Weighted Average Cost of Capital
Wal-Mart	Wal-Mart Stores, Inc. and Sam's West, Inc.
WECC	Western Electricity Coordinating Council
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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REBUTTAL TESTIMONY AND ATTACHMENTS ALICE K. JACKSON

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Alice K. Jackson. My business address is 1800 Larimer, Suite 1400,
3 Denver, Colorado 80202.

4 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?

5 A. I am filing testimony on behalf of Public Service Company of Colorado ("Public
6 Service" or "Company").

1 **Q. ARE YOU THE SAME ALICE K. JACKSON WHO PREVIOUSLY PROVIDED**
2 **DIRECT TESTIMONY IN THIS PROCEEDING?**

3 A. Yes. I filed Direct Testimony on June 17, 2014 which was updated on October 6,
4 2014 for necessary corrections.

5 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

6 A. In my rebuttal testimony I respond to the various intervenors who filed Answer
7 Testimony, introduce the Company's rebuttal witnesses and summarize the
8 updates to the Company's case pursuant to committed updates and responses to
9 intervenors positions. Finally, I will provide recommendations to the Commission
10 for their decision in this proceeding. Specifically I will address and make
11 recommendations regarding the following topics:

- Clean-Air Clean Jobs Act (CACJA) Rider;
- Metro Ash Facility and Southeast Water Rights;
- Rate Case Test Year Selection;
- Earning Sharing Tests;
- Rate Base Calculation Methodology;
- Property Tax Tracker;
- Oil & Gas Revenues;
- Rate Case Expenses;
- Generation Performance Benchmarking Plan;
- WECC Fees; and
- Ponnequin Wind Farm

23 **Q. BEFORE ADDRESSING THE AREAS IDENTIFIED ABOVE, DO YOU HAVE**
24 **ANY GENERAL POINTS YOU WOULD LIKE TO MAKE?**

25 A. Yes. As outlined in my Direct Testimony, there were three primary drivers that led
26 the Company to file this case. Those primary drivers – our CACJA projects,

1 property taxes, and depreciation – have not changed. The Company through the
2 pendency of the 2012 Multi-Year Plan¹ has managed its costs and experienced
3 greater than expected economic growth on its system. Customers have
4 benefitted from the 2012 Multi-Year Plan (“2012 MYP”) in that the incremental
5 revenues that were collected have been or will be returned under the earnings
6 sharing plan adopted as part of that settlement that led to the 2012 MYP.

7 This case is examining a different period in time, with a different set of
8 expenses, which are largely influenced by the deferral of certain costs during the
9 2012 MYP’s timeframe. Through the Company’s successful management of
10 costs, the implementation of the CACJA projects is having less of an impact on
11 customers that once was expected. The Staff of the Colorado Public Utilities
12 Commission (“Staff”) and other intervenors would have the Commission believe
13 that the Company should have a rate decrease with this filing; this is simply not
14 the case. The divergence between the parties’ positions is largely the result of
15 differences in positions with respect to capital structure and return on equity
16 (“ROE”). The divergence also results from positions taken by the Staff and
17 intervenors that are contrary to recently litigated Commission decisions.
18 Throughout the Company’s Rebuttal Testimony, we will describe the significant
19 areas where our positions differ from Staff and intervenors, and we will support

¹ Proceeding No. 11AL-947E.

1 our case as filed in our Direct Testimony, but with certain adjustments that have
2 been proposed that we believe are appropriate.

3 **Q. CAN YOU PLEASE DESCRIBE HOW YOUR REBUTTAL TESTIMONY AND**
4 **COMPANY WITNESS MS. DEBORAH BLAIR'S REBUTTAL TESTIMONY ARE**
5 **STRUCTURED TO ADDRESS THE TEST YEAR?**

6 A. The Staff and intervenors in this proceeding have chosen a variety of test years to
7 examine in this case, as I will discuss later. In an attempt to provide clarity to the
8 Commission, Ms. Blair and I have attempted to structure our Rebuttal Testimonies
9 when discussing adjustments so that when the Commission deliberates on this
10 proceeding the Commissioners may know the adjustment that would be
11 necessary for each of the topic areas under each of the possible test years.

**II. ANSWER TESTIMONY SUMMARY, REBUTTAL WITNESS IDENTIFICATION
AND PAST COMMISSION DECISIONS**

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

2 A. In this section of my testimony I will provide: (1) a summary of the Answer
3 Testimony received from Commission Staff and intervenors in this proceeding,
4 including key areas of interest; (2) identify the witnesses that the Company is
5 presenting in response to the Answer Testimony; and, (3) discuss Public Service's
6 rate filing history and Commission decisions regarding those filings.

7 ***A. Summary of Answer Testimony***

8 **Q. WHICH PARTIES TO THE RATE CASE FILED ANSWER TESTIMONY?**

9 A. Answer Testimony was filed by the following parties: Staff, the Office of Consumer
10 Counsel ("OCC"), Colorado Energy Consumers ("CEC"), the Colorado Healthcare
11 Electric Coordinating Council ("CHECC"), Climax Molybdenum Company and
12 CF&I Steel, LP ("Climax"), Wal-Mart Stores, Inc. and Sam's West, Inc. ("Wal-
13 Mart"), and the Federal Executive Agencies ("FEA").²

14 **Q. ARE THERE PARTIES TO THE RATE CASE THAT DID NOT FILE ANSWER
15 TESTIMONY?**

16 A. Yes. The Alliance for Solar Choice ("TASC"), the City of Boulder ("Boulder"), and
17 the Southwest Energy Efficiency Project ("SWEEP") are parties to this
18 proceeding, but have not filed Answer Testimony.

² Throughout my testimony I will refer to the parties who filed testimony as the "Filing Parties".

1 **Q. PLEASE PROVIDE A MONETARY COMPARISON OF THE PARTIES'**
2 **POSITIONS IN THEIR ANSWER TESTIMONY.**

3 A. A monetary perspective of each of the parties position as stated in their
4 testimonies is indicated in the table below:

5 **Table AKJ-R-1: Filing Parties Monetary Position**

Filing Party	Base Rates
<i>Company – as filed</i>	\$155,994,751
Staff ³	\$(56,862,317)
OCC ⁴	\$(68,908,000)
CEC ⁵	\$38,214,097
CHECC ⁶	\$(32,460,714)
FEA ⁷	\$(42,800,000)
Climax ⁸	\$(95,375,000)
Wal-Mart	Not Specified

6

7 **Q. DOES THE COMPANY AGREE WITH THE FINANCIAL PRESENTATION OF**
8 **THE PARTIES' POSITIONS IN THEIR ANSWER TESTIMONY?**

9 A. No, not entirely. A number of the Filing Parties had errors in the application of
10 their positions. Some of the errors caused the Filing Parties revenue requirement
11 to increase; others, when corrected, make it decrease. The Company's witnesses

³ Staff witness Mr. Richard Reis, Attachment RTR-2, Schedule 1.

⁴ OCC witness Mr. Ronald Fernandez, Exhibit No. RAF-1, page 4, line 37.

⁵ CEC witness Mr. Kevin C. Higgins, Table KCH-1.

⁶ CHECC witness Ms. Donna M. Ramas, Exhibit DMR-3.

⁷ FEA witness Stephen M. Rackers, Table 1.

⁸ Climax witness Lane Kollen, table presented on page 7.

1 providing Rebuttal Testimony will provide corrections where necessary. As an
2 initial matter, we are aware of one correction that will be made by Staff that is a
3 direct result of a miscalculation by the Company in a Discovery Response that
4 was identified after the Answer Testimony filing deadline.

5 **Q. WHAT IS YOUR INITIAL REACTION TO THE DIVERGENCE BETWEEN THE**
6 **FILING PARTIES' POSITIONS AND THE COMPANY'S DIRECT TESTIMONY?**

7 A. I was initially surprised at the delta between the positions, but after reviewing the
8 Filing Parties' positions understand and am not as surprised. A large portion of
9 the difference between the parties is attributable to the variables associated with
10 calculating the Weighted Average Cost of Capital ("WACC"). The next largest
11 components are the delta between the positions regarding the test year and
12 calculation of rate base (average v. year-end).

13 What did surprise me was Staff's position that we could have filed a
14 CACJA Rider request without a comprehensive base rate proceeding. As Mr.
15 Hernandez puts it the Company would have made a better "play" if we had simply
16 filed the CACJA Rider.⁹ Mr. Reis is more circumspect in his representation of this
17 "play", but uses it to allegedly illustrate that a decrease is warranted. I disagree
18 with Mr. Hernandez's and Mr. Reis' assessment. In reviewing the Commission's
19 decision in the Company's prior request for a CACJA Rider¹⁰, it was clear that we
20 had to establish the fact that the over-earnings that may have been experienced

⁹ Answer Testimony of Mr. Charles Hernandez at page 11.

¹⁰ Decision No. C10-1328 in Proceeding No. 10M-245E.

1 in calendar years 2012 and 2013 were not going to continue into 2015 prior to the
2 Commission granting us recovery of the CACJA costs through a rider. I still
3 believe that the best approach to do so is a comprehensive base rate case
4 proceeding such as this, particularly given that we were coming to the end of our
5 three year MYP meaning that the Commission has not had opportunity to look at
6 our rates for a while. I believe any other approach simply would have led to more
7 debate about whether we had properly supported our proposed rider. Even if the
8 Staff would not have protested the alternative methodology, there is little doubt in
9 my mind that another entity would have and as evidence a number of the Filing
10 Parties are opposing the implementation of the CACJA Rider even when paired
11 with a comprehensive base rate proceeding.

12 **Q. PLEASE PROVIDE A LIST OF THE KEY AREAS THAT WERE FOCUSED ON**
13 **BY THE FILING PARTIES IN THEIR ANSWER TESTIMONY.**

14 A. The Filing Parties focused in their Answer Testimony on what I would categorize
15 as ten key areas:

- 16 • Return on Equity (“ROE”)
- 17 • Capital Structure
- 18 • Cost of Debt
- 19 • Clean Air Clean Jobs Act (“CACJA”) Rider
- 20 • Test Year
- 21 • Rate Base Calculation Methodology
- 22 • Depreciation
- 23 • Pension
- 24 • Property Taxes
- 25 • Generation Performance Benchmarking Plan

1
2
3
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9
10

- Other¹¹

Below I provide a high level overview of the Filing Parties issues in regards to some of the key issues above.

Q. WOULD YOU PLEASE SUMMARIZE THE FILING PARTIES' POSITIONS IN RELATION TO RETURN ON EQUITY, CAPITAL STRUCTURE AND COST OF DEBT?

A. The Filing Parties' positions in relation to ROE, capital structure and cost of debt are reflected in Table AKJ-R-1 below.

Table AKJ-R-2: Filing Parties' Positions Regarding ROE, Capital Structure and Cost of Debt

Filing Party	ROE	Capital Structure	Cost of Debt
<i>Company</i>	10.35%	56% Equity	4.68%
Staff	9.11%	51.24% Equity	4.67%
OCC	9.10%	52.7% Equity	4.65%
CEC	9.30%	53% Equity	4.65%
CHECC	9.25%	52% Equity	4.67%
FEA	9.30%	53% Equity	4.65%
Climax	8.70%	56% Equity	4.68%
Wal-Mart	None	None	None

¹¹ Other items include: Metro Ash, Southeast Water Rights, Rate Case Expenses, and Oil and Gas Revenues.

1 **Q. WOULD YOU PLEASE SUMMARIZE THE FILING PARTIES' POSITIONS IN**
2 **RELATION TO THE CACJA RIDER?**

3 A. The Filing Parties' positions in relation to the CACJA Rider are reflected in the
4 table below.

5 **Table AKJ-R-3: Filing Parties' Positions Regarding the CACJA Rider**

Filing Party	Allowed	All Costs in Rider	With Modification
<i>Company</i>	Yes	<i>No</i>	
Staff	Yes	Yes	Yes
OCC	No Objection	Yes	
CEC	No	No	
CHECC	Yes	No	Yes
FEA	No	No	
Climax	Yes		Yes
Wal-Mart	Yes		Yes

6

7 **Q. WHAT TEST YEAR DID EACH OF THE FILING PARTIES PRESENT IN THEIR**
8 **ANSWER TESTIMONY?**

9 A. The following table reflects the range of test years presented by the Filing Parties
10 in relation to the Company's Direct Testimony.

1

Table AKJ-R-4: Filing Parties’ Positions Regarding Test Year

Filing Party	2013 Historic Test Year (“HTY”)	Modified September 2014	2015 Test Year
<i>Company</i>			X
Staff		X	
OCC	X		
CEC			X
CHECC	X		
FEA			X
Climax	X		
Wal-Mart	None Specified		

2

3 **Q. WHAT METHODOLOGY DID EACH OF THE FILING PARTIES UTILIZE FOR**
 4 **THE CALCULATION OF RATE BASE IN THEIR ANSWER TESTIMONY?**

5 A. The following table indicates the Filing Parties’ positions regarding the calculation
 6 of rate base in their chosen test year.

1
2

**Table AKJ-R-5: Filing Parties' Positions Regarding
the Calculation of Rate Base**

Filing Party	2013 HTY		Modified Sept. 2014		2015 Test Year	
	<i>Average</i>	<i>Year End</i>	<i>Average</i>	<i>Year End</i>	<i>Average</i>	<i>Year End</i>
<i>Company</i>		X			X	
Staff			X			
OCC	X					
CEC					X	
CHECC		X				
FEA					X	
Climax	None Specified					
Wal-Mart	None Specified					

3

4

B. Company Rebuttal Witness Identification

5

**Q. PLEASE PRESENT THE COMPANY'S REBUTTAL WITNESSES IN
RESPONSE TO THE ANSWER TESTIMONY FILED BY THE FILING PARTIES.**

6

7

A. The Company is presenting Rebuttal Testimony from sixteen witnesses including
myself. The other Company witnesses and their areas of concentration for the
key issues are as follows:

8

9

10

Table AKJ-R-6: Company Rebuttal Witnesses

Witness	Area of Testimony
Debbie A. Blair	<ul style="list-style-type: none"> • Presents modifications to the Company's revenue for changes due to acceptance of Filing Party positions or corrections identified since Oct. 6, 2014. • Discusses necessary corrections to the Filing Parties' positions due to errors in the modeling of their positions. • Presents necessary adjustments for the Commission's consideration in the event the test year selected is not the 2015 Test Year as proposed by the Company.
George Tyson, III	<ul style="list-style-type: none"> • Responds to the Filing Parties' positions regarding the capital structure and cost of debt. • Provides a view on how the Company will be impacted if the Filing Parties' positions are adopted regarding capital structure, cost of debt and ROE. • Presents the Company's rebuttal position regarding adjustments to the prepaid pension asset and pension expense as recommended by the Staff witnesses.
Gene Wickes	<ul style="list-style-type: none"> • Provides an actuarial's perspective on the recommendations regarding adjustments to the prepaid pension asset and pension expense as recommended by the Commission Staff witnesses.
Robert B. Hevert	<ul style="list-style-type: none"> • Updates the Company's recommendation and support for the Company's Return on Equity ("ROE"). • Responds to ROE recommendations of the Filing Parties, including corrections to positions taken by other Filing Parties.
Jannell E. Marks	<ul style="list-style-type: none"> • Responds to the Filing Parties' positions regarding retail customer and sales forecasts.

Witness	Area of Testimony
Paul A. Simon	<ul style="list-style-type: none"> • Responds to the Filing Parties' positions regarding property taxes.
Lisa H. Perkett	Responds to arguments directed at the Decommissioning Cost Study, proposed depreciation rates, the recovery of the Retired and Retiring Generating Units, and the comparison of actual plant additions to date to budgeted plant additions for the forecast bridge year.
Dane A. Watson	<ul style="list-style-type: none"> • Responds to the subset of the Filing Parties that presented positions in regards to depreciation asset lives and other depreciation issues.
Jeffrey T. Kopp	<ul style="list-style-type: none"> • Responds to the subset of the Filing Parties that presented positions in regards to the cost of removal included in the depreciation study.
Gregory J. Robinson	<ul style="list-style-type: none"> • Responds to the Filing Parties' positions regarding the Company's budgeting process and accuracy.
Mark R. Fox	<ul style="list-style-type: none"> • Energy Supply budgets
Jon Landrum	<ul style="list-style-type: none"> • Responds to Filing Parties' positions regarding the Generation Benchmarking Performance Plan.
Richard R. Schrubbe	Responds to recommendations regarding the Company's prepaid pension asset and other pension-related issues. He also responds to the idea that the Company be allowed to earn only on a long-term debt rate on all or part of the prepaid pension asset.
Ruth K. Lowenthal	<ul style="list-style-type: none"> • Responds to Filing Parties' positions regarding compensation and benefits.
Scott B. Brockett	<ul style="list-style-type: none"> • Responds to Filing Parties' positions regarding recommended tariff modifications; namely associated with the CACJA Rider.

1 ***C. Rate Filing History***

2 **Q. DO PAST RATE CASE AUTHORIZATIONS AND THE PAST TWO YEARS OF**
3 **OVEREARNINGS LEAD TO A CONCLUSION THAT A NET REDUCTION IN**
4 **THE COMPANY'S REVENUE REQUIREMENT IS APPROPRIATE?**

5 A. No. Staff witness Mr. Charles Hernandez attempts to paint the picture in his
6 testimony that because the Company has been authorized increased revenues
7 over the past five years and that under the 2012 MYP earnings sharing test,
8 sharing has occurred, that under a net decrease as proposed by Staff "ratepayers
9 appropriately benefit."¹² Each and every rate case is processed as a stand-alone
10 case. In each case the Commission appropriately considers the attributes of the
11 request as informed by its examination of an appropriate test year, and balances
12 the public interest between the customers and the utility. It appears to me that Mr.
13 Hernandez is intimating that the Commission has reached the incorrect outcome
14 over the past five years and the balance has been in favor of the Company. The
15 cited cases in Table 3 on page 6 of Mr. Hernandez's testimony were all settled
16 cases where the Commission then approved the settlement. Settlements are
17 reached through compromise and negotiation between varied parties and have
18 been encouraged by the Commission.

19

¹² Answer Testimony of Mr. Charles Hernandez at page 10.

1 **Q. IS MR. HERNANDEZ’S PRESENTED PERSPECTIVE ON THE CUMULATIVE**
2 **INCREASES FROM RATE FILINGS APPROPRIATE?**¹³

3 A. The rate increases that Mr. Hernandez presents that occurred and the
4 implementation date of each of those increases is accurate. However, I do not
5 believe his perspective is appropriate. Just because increases have occurred in
6 the past, does not mean that the increase now is not warranted. Yes, we have
7 filed four electric base rate cases since November 15, 2008, but what Mr.
8 Hernandez fails to include in his evaluation is what has driven those rate case
9 filings – primarily significant new capital investments, the traditional reason utilities
10 file rate cases – and the impacts of those rate case outcomes on customers. I
11 also find Mr. Hernandez’s position puzzling given that the 2012 MYP has allowed
12 us to not file an electric rate case since that settlement was approved and
13 maintained customer protections during that time.

14 **Q. WHAT HAS BEEN THE TYPICAL RESIDENTIAL CUSTOMER EXPERIENCE IN**
15 **REGARDS TO THEIR BILL OVER THE TIME HORIZON THAT MR.**
16 **HERNANDEZ IS EXAMINING?**

17 A. A typical residential customer of 632 kWh per month has seen an increase in their
18 total bill¹⁴ of \$10.90 per month between 2008 and 2014 or 16.82%. Table AKJ-R-

¹³ Id. at page 7.

¹⁴ A customer’s total bill includes charges for base rates, fuel, purchased capacity, renewable energy and demand side management.

1 7 below reflects the components of the bill and how those components have
2 contributed to this \$10.90 per month increase.

3 **Table AKJ-R-7: Typical Residential Customer**
4 **Monthly Bill Impact 2008 v. 2014**

Bill Component	2008 Monthly Amount	2014 Monthly Amount	Delta 2008 to 2014	% Change
Base and Other	\$ 30.91	\$ 43.89	\$ 12.98	42.00%
Fuel	23.04	22.37	(0.67)	(2.92)%
Purchased Capacity	9.25	4.03	(5.22)	(56.42)%
Renewable	0.84	1.48	0.64	76.26%
DSM	0.78	3.96	3.17	405.04%
Total Bill	\$ 64.83	\$ 75.73	\$ 10.90	16.82%

5
6 When evaluating the impacts of rate case increases on customers it is important
7 to review the cause of those increases. In base rate Proceeding No. 11AL-
8 0947E, the Calpine Generation Unit transitioned from being a cost collected
9 through the Purchased Capacity bill component to being collected through the
10 Base and Other bill component, due to the purchase of the unit. Additionally, with
11 the completed construction of Comanche 3 the Purchased Capacity component
12 also decreased. Thus when taken in aggregate the impacts of Public Service's
13 base rate cases *over a seven year period* on a typical Residential customer is
14 \$7.76 per month or 11.97% (Base and Other + Purchased Capacity). In my
15 opinion the \$7.76 per month increase for customers is remarkably low considering
16 the investment in the plant that has been placed in service during that time was as
17 follows:

Production	\$2,171.6 million
Transmission	772.5 million
Distribution	927.7 million
A&G	130.8 million
<hr/>	
Total	\$ 4,002.6 million ¹⁵

1 Furthermore, the 11.97% increase over seven years is well within the reasonable
2 range of other consumer prices in the same time frame. Specifically, from 2008
3 through 2014 consumer prices in general increased by 12.93% in the region as
4 measured by increases in the Denver-Boulder-Greeley Consumer Price Index.¹⁶

¹⁵ These values were derived by comparing the 2008 electric rate case 13-month average to the 2014 13-month average calculated based on a Sept. 2014 ending time frame, thus the valuation should be conservative.

¹⁶ Source: Bureau of Labor Statistics Denver-Boulder-Greeley Consumer Price Index, Series CUURA433SA0 index values 208.741 first half of 2008 and 235.736 first half of 2014, $(235.736/208.741)-1=12.93\%$.

III. SUMMARY OF COMPANY REBUTTAL POSITIONS, IMPACTS AND RECOMMENDATIONS

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

2 A. In this section of my Rebuttal Testimony I summarize the rebuttal positions of the
3 Company, their impacts on the revenue requirement, and ultimately the impacts
4 on a typical residential customer.

5 ***A. Rebuttal Positions***

6 **Q. PLEASE SUMMARIZE GENERALLY THE COMPANY'S POSITIONS ON**
7 **REBUTTAL.**

8 A. Largely the Company is continuing to support the revenue requirement and
9 positions provided in its Direct Testimony. In our Direct Testimony we described
10 how we proposed to update the direct case through Rebuttal Testimony on certain
11 items (e.g., forecasted revenues, property taxes and cost of debt). We are not
12 changing the philosophical inclusion of or methodology of the treatment of these
13 variables, just updating the monetary value. In this manner, our intervenors have
14 sufficient ability to dispute and provide Answer Testimony on the area of interest
15 and the applicability of an update, and the Commission has the latest monetary
16 impact of the variable.

17 **Q. PLEASE GIVE ME AN EXAMPLE OF ONE OF THESE UPDATES.**

18 A. A perfect example of one of these updates is the calculation of the 2015 Test Year
19 revenues. Based upon the Company's latest forecast update for customer
20 counts, sales and subsequently revenues, the 2015 Test Year revenue

1 requirement is decreasing by \$15.2 million in our Rebuttal Testimony. If the
2 Company were not allowed to make this update and the Commission approved
3 the use of the 2015 Test Year, then the public interest standard would not have
4 been met.

5 **Q. DOESN'T THIS TYPE OF AN UPDATE SUBSTANTIATE SOME OF THE**
6 **FILING PARTIES' POSITION THAT A TEST YEAR SUCH AS THE 2015 TEST**
7 **YEAR IS SUSPECT?**

8 A. No, I do not believe so. The Company on a regularly scheduled basis updates its
9 forecasts, and incorporation of any updates is appropriate during the pendency of
10 the case, provided no change in philosophy is included. As supported by
11 Company witness Ms. Jannell Marks in her Rebuttal Testimony, in this instance
12 the Company is experiencing an unusual update to its load forecast due to the
13 change in the marijuana industry. It is appropriate to include this type of an
14 update in the proceeding.

15 **Q. PLEASE PROVIDE A COMPREHENSIVE LIST OF THE ADJUSTMENTS THE**
16 **COMPANY IS PROPOSING TO INCLUDE IN ITS REBUTTAL TESTIMONY**
17 **THAT RESULT IN A FINANCIAL IMPACT ON THE 2015 TEST YEAR.**

18 A. The adjustments that the Company is making to its Rebuttal Testimony can be
19 classified into three buckets: (1) corrections for errors; (2) adjustments in
20 recognition of Filing Parties' positions; and, (3) updates due to more recent
21 information. Table AKJ-R-8 provides a short list of all of the adjustments that I will
22 describe below.

1

Table AKJ-R-8: Adjustment to Company's Direct Case

Line Identifier	Description	Amount
	2015 Test Year as of Oct. 6, 2014 Update	\$155,994,751
A	Correct CACJA Pre-Funded AFUDC	(871,384)
B	Correct CACJA Excess AFUDC	(117,852)
C	Corrected CWIP Balance	(80,477)
D	Remove Arapahoe Coal Inventory	(163,721)
E	Remove Misclassified Below the Line Costs	(380,381)
F	Update ROE from 10.35% to 10.25%	(6,174,410)
G	Update Property Tax Expenses	(5,309,948)
H	Update Base Rate Revenues	(15,189,651)
I	Update Rate Case Expenses	119,676
J	Update Cost of Debt from 4.68% to 4.66%	(689,200)
	Total Adjustments	\$(28,857,348)
	Rebuttal Testimony Revenue Requirement	\$127,137,403

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Five adjustments for corrections for errors are being presented in Rebuttal Testimony. These five adjustments are identified above as lines A through E. Rate cases are complicated filings. In the development of the rate case and through the process of discovery and intervenor testimony, it is not uncommon that necessary corrections in the assembly of the rate case are identified. These five adjustments are just that, corrections to the original filing that need to be updated. In this instance they are not substantial and constitute approximately a 1% reduction to the direct case.

11

12

Lines F through J reflect adjustments attributable to updates due to more recent information. These updates are all supported by various Company

1 witnesses in their Rebuttal Testimony and are included by Ms. Deborah Blair in
2 her revenue requirement model. These adjustments constitute approximately a
3 17.5% reduction in the Company's direct case.

4 **Q. ARE THERE NON-MONETARY ADJUSTMENTS THAT THE COMPANY IS**
5 **MAKING IN ITS REBUTTAL TESTIMONY?**

6 A. Yes. In recognition of a number of the Filing Parties' positions, the Company is
7 proposing the following adjustments to its Direct Testimony positions.

- 8 • CACJA Rider – The Company is accepting parties' positions that the
9 CACJA Rider is more transparent if the costs associated with the CACJA
10 projects are recovered exclusively through the rider mechanism versus
11 base rates.
- 12 • Property Taxes – The Company is implementing a property tax tracker
13 based on the amount of property taxes included in base rates and
14 inclusive of the amortization of the deferred property taxes associated
15 with the 2012 MYP as proposed by Staff.
- 16 • Pension Expense Tracker – The Company is proposing to implement a
17 pension expense tracker based on a baseline of the amounts included in
18 base rates in response to Staff's concerns.
- 19 • Pension Expense Reporting – The Company is proposing a reporting
20 process on pension expenses and the prepaid pension asset on an
21 annual basis.

22 **Q. WITH THESE ADJUSTMENTS TO THE COMPANY'S DIRECT TESTIMONY,**
23 **PLEASE SUMMARIZE THE COMPANY'S REQUEST IN THIS PROCEEDING.**

24 A. Public Service is seeking an annual base rate increase for electric service of
25 \$28,467,475 and authorization to initiate rider recovery of incremental costs
26 associated with the CACJA projects of \$98,669,928. This value includes a shift in
27 costs from the Transmission Cost Adjustment ("TCA") rider to base rates of

1 \$19,947,918; thus the net increase in base rates being requested in 2015 is
2 \$8,519,557 for a total net revenue increase of \$107,189,485, including the impact
3 of CACJA rider. Attachment No. AKJ-4 reflects the overall base rate increase and
4 the impact to Public Service's total annual revenues.

5 The requested increase is based on our revenue deficiency for calendar-
6 year 2015, and the methodology for developing this revenue deficiency has not
7 deviated from what I explained in my Direct Testimony.

8 **Q WHAT PERCENTAGE CHANGE IS THE COMPANY REQUESTING WITH**
9 **RESPECT TO BASE RATES?**

10 A. As reflected in Attachment No. AKJ-4, the percentage change in 2015 base rate
11 revenues is .52%, excluding the impact of the roll-in of the TCA, however,
12 inclusive of the CACJA Rider and ,the overall increase in revenues is 3.79%.

13 **Q. WHAT IS THE UPDATED IMPACT ON A TYPICAL RESIDENTIAL CUSTOMER**
14 **OF THE COMPANY'S REBUTTAL TESTIMONY?**

15 A. A typical residential customer utilizing 632 kWh per month will see a base rate
16 increase of \$0.80 per month, or 1.78%. With the inclusion of the CACJA Rider
17 and the TCA reduction for the roll-in of TCA costs to base rates; the total bill
18 impact on a typical residential customer is \$2.75 per month, or 3.66%.

1 ***B. Impacts***

2 **Q. A NUMBER OF PARTIES RECOMMEND REDUCTIONS TO THE COMPANY'S**
3 **ROE FOR CERTAIN CIRCUMSTANCES IN THE RATE REQUEST. PLEASE**
4 **DESCRIBE THESE RECOMMENDATIONS.**

5 A. Some of the filing parties are arguing that if a future test year ("FTY") or the
6 CACJA rider is approved, the risk of the Company has sufficiently decreased to
7 warrant a reduction in the Company's ROE. I address these recommendations
8 associated with the implementation of the CACJA in section IV of my testimony.
9 Regarding the issue of a reduction to ROE due to an FTY implementation, I will
10 address that here.

11 **Q. SO, WHAT IS YOUR RESPONSE TO THOSE FILING PARTIES WHO ARGUE**
12 **FOR AN ROE ADJUSTMENT IN THE EVENT THE COMPANY'S 2015 TEST**
13 **YEAR IS APPROVED?**

14 A. As also addressed by Mr. Hevert, a reduction to the ROE must be evaluated
15 against the proxy group that is being utilized to establish the ROE range of
16 reasonableness. Utilization of the Company's 2015 Test Year does not inherently
17 mean that a reduction in ROE is necessary or reasonable.

18 ***C. Recommendations***

19 **Q. WHAT RECOMMENDATIONS DO YOU MAKE IN YOUR REBUTTAL**
20 **TESTIMONY?**

21 A. I have a list of varied topics but the recommendations that I make to the
22 Commission are summarized as follows:

- 1 • Approve the Company's request for a base rate revenue increase of
2 \$8,519,557 based on a 2015 Test Year premised on 2013 O&M
3 expenses with known and measurable adjustments and a 13-month
4 average of capital additions for the 2015 Test Year.
- 5 • Approve the Company's proposed CACJA Rider to recover
6 \$98,669,928, as modified by this Rebuttal Testimony in reflection of the
7 Filing Parties' positions in Answer Testimony and minor corrections.
- 8 • Approve the Company's treatment of the Metro Ash Facility to amortize
9 the net book value over a two year period due to the implementation of
10 the CACJA.
- 11 • Approve the Company's continued treatment of the Southeast Water
12 Rights for inclusion in rate base.
- 13 • Approve the Company's proposed methodology for calculation of rate
14 base in relation to its 2015 Test Year and for presentation purposes its
15 2013 HTY.
- 16 • Find that the property tax tracker as accepted and modified by the
17 Company is appropriate for deferred accounting treatment for both
18 incremental or decremental amounts associated with the property tax
19 expense and the amortization of the 2012 MYP property taxes.

- 1 • Find that the treatment proposed by the Company of the oil and gas
2 revenues included in non-utility revenues is appropriate and that the
3 sharing proposed by the Company is reasonable.
- 4 • Find that the Company's rate case expenses are reasonable and
5 should be included for recovery over a two year period.
- 6 • Approve the Arapahoe Decommissioning request so that the Company
7 may move forward with the decommissioning of this facility.
- 8 • Accept the Company's proposed inclusion of aviation expenses at 50%
9 of the actual expense.
- 10 • Either accept the Company's proposed Generation Performance
11 Benchmarking Plan or defer the implementation of any Generation
12 Performance Benchmarking Plan to another time after further
13 development of a plan may be performed.
- 14 • Accept the year-end 2015 retirement of the Ponnequin Wind Farm as
15 proposed by the Company.

IV. CLEAN AIR CLEAN JOBS ACT RIDER

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. In this section of my testimony I will address specific positions of the Filing Parties
3 and Staff regarding the Company’s request to initiate its Clean-Air Clean Jobs Act
4 (“CACJA”) rider. Specifically I will address the positions of Staff witnesses Mr.
5 Gene Camp, Mr. Charles Hernandez, Dr. Scott England and Mr. Rich Reis; OCC
6 witness Mr. David Petersen; CEC witness Mr. Kevin Higgins; FEA/CEC witness
7 Mr. Gorman; FEA witness Mr. Larry Blank; CHECC witnesses Mr. Jeffry Pollock
8 and Mr. Ramas; Climax witness Mr. Lane Kollen; and Wal-Mart witness Mr. Steve
9 Chriss.

10 **Q. PLEASE GENERALLY DESCRIBE THE COMPANY’S POSITION WITH**
11 **REGARDS TO THE CACJA RIDER.**

12 A. In my Direct Testimony I outlined the availability of the CACJA Rider pursuant to
13 the Colorado Revised Statutes and then detailed how the Company had met the
14 “triggers” to qualify for the CACJA Rider. In the application of the CACJA Rider, I
15 recommended that the Commission approve the CACJA Rider to track 2015
16 CACJA costs included in base rates subject to true up and then through 2016 and
17 2017 to incrementally calculate the CACJA Rider based on a thirteen-month
18 average of the projected plant in service for the forward years and include a true
19 up for any over or under recoveries for the CACJA costs through the rider in years
20 2015 through 2017. In the alternative, the costs the Company included as part of

1 base rates for calendar year 2015 could be identified and collected through the
2 CACJA Rider mechanism in calendar year 2015.

3 **Q. GENERALLY WHAT WERE THE FILING PARTIES' REACTIONS TO THE**
4 **COMPANY'S PROPOSAL FOR THE CACJA RIDER IN THEIR ANSWER**
5 **TESTIMONY?**

6 A. The Filing Parties' Answer Testimony reflects a mixture of responses to the
7 Company's proposal. The testimony ranged from substantially agreeing with the
8 Company's position and application of the CACJA Rider, or in the case of the
9 OCC not objecting to the implementation of the CACJA Rider provided the
10 Company has met the triggers¹⁷ to stating the Company has not demonstrated
11 that we qualify for the CACJA Rider. I will address each of the Filing Parties'
12 positions in my following testimony.

13 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE CACJA RIDER AS**
14 **PRESENTED IN ITS DIRECT TESTIMONY?**

15 A. Yes. We are accepting the position of Staff, the OCC and others as expressed in
16 Answer Testimony that their preference for the collection and tracking of the
17 CACJA project costs be exclusively through the CACJA Rider. As presented in
18 my Direct Testimony, we are not opposed to this recovery methodology; therefore,
19 in our Rebuttal Testimony we are presenting the CACJA Rider as recovering all
20 CACJA project costs starting in calendar year 2015.

¹⁷ Answer Testimonies of Cindy Schonhaut at page 2 and Mr. David E. Peterson at page 14.

1 **A. Response to Staff's CACJA Position**

2 **Q. WHAT POSITION DID THE STAFF TAKE IN REGARDS TO THE CACJA**
3 **RIDER?**

4 A. Mr. Camp recommends that the Commission should find that (1) the Company
5 has satisfied the statutory triggers for implementation of a CACJA Rider; (2) the
6 implementation of the CACJA Rider should collect those estimated incremental
7 costs; and (3) an adjustment needs to be made to the Company's O&M labor
8 costs in recognition of some of the CACJA plan. The incremental costs Mr. Camp
9 refers to are those above what is included in Staff's cost of service test year,
10 which is a 2013 HTY with plant additions through September 30, 2014. Mr.
11 Richard Reis also discusses the CACJA Rider and states that "Staff believes it is
12 important to singularly identify the investment and keep the recovery of such costs
13 separate from base rates, as it is proposed to be subject to reconciliation per the
14 Company's proposed tariff."¹⁸

15 **Q. HOW DO YOU RESPOND TO STAFF'S POSITIONS?**

16 A. Obviously I agree with Mr. Camp's first recommendation. I also agree with his
17 second recommendation with a slight modification to align with Mr. Reis'
18 statement. In recognition of the complexity of the CACJA Rider, preferences of
19 our intervenors indicated in their Answer Testimony, and as stated above, we
20 have modified our Rebuttal Testimony to reflect the CACJA Rider containing all

¹⁸ Answer Testimony of Mr. Richard Reis page 28.

1 CACJA project related costs beginning with its inception. At page 8 of his Answer
2 Testimony Mr. Camp states “recovery in a 2015 CACJA Rider will provide more
3 transparency for the Commission, interested parties, and ratepayers...” Thus, the
4 Company, while going a step further than Mr. Camp but following the benefits as
5 outlined by both Mr. Camp and Mr. Reis, agrees and has modified our proposal to
6 reflect these positions. Additionally, this methodology allows for the statutory
7 requirement that “[a] utility is entitled to fully recover the costs that it prudently
8 incurs in executing an approved emission plan”¹⁹ to be met.

9 In regards to Mr. Camp’s third recommendation, while this adjustment in
10 his testimony is driven by the CACJA plan’s implementation, it is not an
11 adjustment to the CACJA Rider, but to base rate O&M labor expenses. Company
12 witness Mr. Mark Fox will provide information regarding the Company’s approach
13 to labor reductions associated with the implementation of our CACJA plan, and
14 Ms. Ruth Lowenthal will explain why an adjustment to O&M is not appropriate.

15 ***B. Response to CEC’s Position***

16 **Q. PLEASE DESCRIBE MR. HIGGINS’ POSITION REGARDING THE CACJA**
17 **RIDER AS THE WITNESS FOR CEC.²⁰**

18 **A.** Mr. Higgins proposes rejection of the CACJA Rider because the Company has not
19 demonstrated that the costs of the plan related to the CACJA investment
20 contributes to the utility’s earning less than its authorized return on equity. He

¹⁹ C.R.S. 40-3.2-207(1)(a)

²⁰ Answer Testimony of Mr. Kevin C. Higgins pages 39 through 45.

1 supports this assertion with three examples: (1) the Company “has been” in an
2 over-earnings situation for the past two years; (2) even with rejection of the
3 CACJA Rider the Company will benefit from some of the “enhanced earnings
4 features” of the statute; and, (3) the Company has an opportunity to reduce
5 aspects of its operating costs (primarily labor) going forward that have not been
6 currently realized or taken into account in the 2015 Test Year.

7 **Q. WHAT IS YOUR RESPONSE TO MR. HIGGINS’ RECOMMENDATION?**

8 A. The basis of Mr. Higgins’ position is flawed and the Commission should reject his
9 recommendation. In the instance, while the Company has acknowledged that it
10 experienced an over-earnings situation in calendar year 2012 and 2013 -- and has
11 shared substantial portions of those over-earnings with customers, that does not
12 mean that the over-earnings situation will continue. More importantly, with the
13 filing of this comprehensive base rate case, the over-earnings situation is reset,
14 thus any over-earnings from the past are moot with the re-examination of the
15 Company’s costs and revenues in this proceeding. Further, as exhibited by the
16 Company’s filing, without this rate case there will be substantial under earnings by
17 the Company in calendar year 2015, largely driven by the investments in the
18 CACJA projects.²¹ This under-earnings and the incremental investment in CACJA
19 projects through 2015 and 2016 will continue to contribute to under-earnings
20 without the CACJA Rider.

²¹ See Direct Testimony of Alice K. Jackson Table AKJ-4 at page 41.

1 My response to Mr. Higgins' second argument has three parts: (1) the
2 statute gives us direction to how the so-called "enhanced earnings features"
3 should be applied; (2) the "enhanced earnings features" Mr. Higgins states will
4 continue to benefit the Company expire December 31, 2014 with the 2012 MYP
5 Settlement's²² conclusion; and, (3) the 2012 MYP Settlement treatment of the
6 CACJA costs is irrelevant. To my first rebuttal argument, as outlined in my Direct
7 Testimony,²³ the statute clearly contemplates multiple layers of "enhanced
8 earnings features":

9 [...]the commission **shall** employ rate-making mechanisms, **in**
10 **addition to** allowing a current return on construction work in
11 progress, that permit rate adjustments, no less frequently than once
12 per year, without requiring the utility to file a general rate case to
13 allow recovery of the approved plan's costs. [*emphasis added*]

14 The statutory language clearly does not contemplate that the "enhanced earnings
15 features" as outlined by Mr. Higgins will stand alone, but that they will be coupled
16 with rate-making mechanisms such as the CACJA Rider. Thus, Mr. Higgins
17 argument that the "enhanced earnings features" sufficiently compensate the
18 Company pursuant to statute is flawed.

19 Secondly, Mr. Higgins' assumption that these "enhanced earnings features"
20 continue is inaccurate. Decision No. 10-1328E granted the Company the ability to
21 apply deferred accounting treatment to the CACJA projects. My understanding is
22 that through the 2012 MYP the parties reached an agreement to effectively

²² Proceeding No. 11AL-947E

²³ Direct Testimony of Alice K. Jackson at page 37-38.

1 replace this deferred accounting treatment of the CACJA projects and implement
2 the accrual of the Allowance for Funds Used During Construction (“AFUDC”) at
3 the Company’s weighted average cost of capital (“WACC”). The 2012 MYP only
4 extends until the time that rates are placed in service in our next electric base rate
5 proceeding, i.e., this proceeding. Thus the benefits that Mr. Higgins is assuming
6 continue in fact, do not continue. Furthermore, while the other benefits will remain
7 in the event the CACJA Rider is rejected, they do not solve the issue that the
8 CACJA project investment and a lag in its recovery clearly “contributes to” the
9 Company earning less than our authorized return on equity as our filing
10 demonstrates.

11 Finally, in response to Mr. Higgins’ second argument, the treatment of the
12 CACJA Construction Work in Progress (“CWIP”) during the 2012 MYP is
13 irrelevant to the outcome of this case. The 2012 MYP is non-precedential and
14 was a compromise between the parties which took into account multiple issues.
15 Because the treatment of the CACJA CWIP during the 2012 MYP period
16 (calendar years 2012 through 2014) was different than that contemplated by
17 statute or as is being proposed in the present proceeding has no bearing on the
18 question now whether the CACJA Rider is appropriate or not.

19 To Mr. Higgins’ third argument that the Company has an opportunity to reduce
20 certain aspects of operating costs going forward that have not been currently
21 realized or taken into account in the 2015 Test Year, Company witnesses Mr.
22 Mark Fox and Ms. Ruth Lowenthal address the specific labor cost concern in their

1 Rebuttal Testimonies as I noted above in response to Mr. Camp. What I would
2 state here is that while Mr. Higgins asserts that there is opportunity for the
3 Company to reduce our labor costs due to the closure of Arapahoe, I find it telling
4 that he did not include an adjustment to the Company's O&M labor expenses as
5 part of the CEC adjustments to the Company's filed case; nor does he quantify
6 such an impact. Thus there is little basis for the Company to respond or the
7 Commission to decide whether this concern fully negates the lag in recovery of
8 the CACJA project investment. In contrast, Staff witness Mr. Gene Camp
9 provides an adjustment for this O&M labor expense concern and yet still
10 recommends approval of the CACJA Rider.²⁴ Additionally, while Mr. Higgins
11 emphasizes the headcount differences year over year provided in discovery
12 response OCC 3-1, what he fails to mention is the overall headcount delta
13 between the historic test year ("HTY") and the 2015 Test Year is only a decrease
14 of 7.8 employees for the Energy Supply function, a reduction of less than 1% of
15 the overall headcount. Furthermore, as explained by Company witness Ms. Ruth
16 Lowenthal the Company's 2015 Test Year labor expenses are reasonable when
17 the total headcount is evaluated not just a subset of one area.

18

²⁴ Answer Testimony of Gene L. Camp page 1.

1 ***C. Response to FEA's Position***

2 **Q. PLEASE DESCRIBE THE POSITION FEA PRESENTED IN THEIR ANSWER**
3 **TESTIMONY REGARDING THE CACJA RIDER.**

4 A. FEA witness Mr. Larry Blank presents Answer Testimony in support of the
5 implementation of the CACJA Rider, with modifications. The modifications that
6 are presented by Mr. Blank are substantially specific to the tariff declarations and
7 methodologies. Thus Company witness Mr. Scott B. Brockett will address Mr.
8 Blank's tariff specific recommendations and concerns and I will address the
9 remainder of his stated concerns.

10 **Q. WHAT NON-TARIFF SPECIFIC CONCERNS DOES MR. BLANK PRESENT?**

11 A. Mr. Blank states the following positions:²⁵

- 12 • a current return on CWIP in a fashion proposed by the Company is not
13 necessary for PSCo financial integrity nor to preserve the PSCo credit rating as
14 explained in the answer testimony of Michael P. Gorman;
- 15 • the Company's WACC from its most recently approved electric base rate case
16 should be utilized; and,
- 17 • all CACJA project costs should be collected through the CACJA Rider and not in
18 base rates.

19 **Q. WHAT IS THE COMPANY'S POSITION REGARDING MR. BLANK'S**
20 **RECOMMENDATION ON CWIP?**

21 A. Mr. Blank is attempting to unwind some of the provisions of the utility's entering
22 into the incremental investment to accomplish the goals of the CACJA. The
23 General Assembly recognized the significant investment necessary to achieve

²⁵ Answer Testimony of Mr. Larry Blank at pages 6 – 9.

1 these goals, required the Commission to go through an expedited but rigorous
2 process to identify the projects, and included in statute recovery mechanisms in
3 light of the incremental investment on a short time frame. The statutory provision
4 permitting current recovery of CWIP at a utility's WACC is not qualified by the
5 degree to which the Company's credit rating is impacted. Mr. Blank is attempting
6 to change the provisions of statute in the midst of the plan's implementation. This
7 requested change is contrary to law. FEA witness Mr. Gorman also addresses
8 this issue in his Answer Testimony.²⁶

9 **Q. DO YOU AGREE THAT THE COMPANY'S WACC SHOULD BE FIXED AT THE**
10 **LEVEL APPROVED IN THE MOST RECENT BASE RATE CASE?**

11 A. It is not required by statute. On this topic the statute reads, "[c]urrent recovery
12 shall be allowed on construction work in progress at the utility's weighed average
13 cost of capital, including its most recently authorized rate of return on equity...".
14 This list does not include capital structure or cost of debt; therefore the
15 Commission is free to decide this issue. Mr. Brockett will address the Company's
16 proposed methodology and how it is similar to other riders currently in place in his
17 Rebuttal Testimony.

²⁶ Answer Testimony of Michael P. Gorman at page 8.

1 **Q. PLEASE ADDRESS MR. BLANK'S FINAL POSITION REGARDING THE**
2 **COLLECTION OF CACJA PROJECT COSTS THROUGH BASE RATES**
3 **VERSUS THE CACJA RIDER.**

4 A. As stated in my response to Staff's position, we agree to include all CACJA
5 project costs in the rider versus in base rates.

6 ***D. Response to CHECC's Position***

7 **Q. PLEASE DESCRIBE THE POSITION CHECC WITNESS MR. POLLOCK**
8 **SUPPORTS IN HIS ANSWER TESTIMONY.**

9 A. Mr. Pollock advocates for the Commission to reject the CACJA Rider. His
10 arguments for rejection of the CACJA Rider are as follows: (1) it would be contrary
11 to sound regulatory principles; (2) the use of projected costs and billing
12 determinants introduces potential inaccuracies and unnecessary controversy;
13 and, (3) a forward-looking tracker is unnecessary to provide timely cost
14 recovery.²⁷

15 **Q. HOW DO YOU RESPOND TO MR. POLLOCK'S TESTIMONY?**

16 A. I believe Mr. Pollock has misunderstood some of the attributes of the proposed
17 rider and that he has overlooked the statutory provisions enabling the cost
18 recovery the Company has requested through the CACJA Rider. Company
19 witness Mr. Scott Brockett will address some of the apparent misunderstanding

²⁷ Answer Testimony of Mr. Jeffrey Pollock page 12.

1 regarding some of the attributes of the CACJA Rider as proposed by the
2 Company and I will address the statutory issues among other items.

3 **Q. DOES THE COMPANY NEED TO MAKE ANY OTHER “ATTENDANT**
4 **ADJUSTMENTS” TO ACCOUNT FOR THE CACJA RIDER’S**
5 **IMPLEMENTATION AS PRESENTED BY MR. POLLOCK²⁸?**

6 A. No. Mr. Pollock’s argument is two-fold. First he states that CHECC is advocating
7 for a HTY to be utilized in this case; thus the CACJA Rider includes “post-test
8 year adjustments”. Then he argues that “post-test year adjustments” are
9 inappropriate without “all attendant impacts” being recognized and ultimately
10 concludes that the CACJA Rider should be rejected because it is “contrary to
11 sound regulatory practices.” In his arguments, however, Mr. Pollock fails to
12 recognize and does not even discuss the statutory language which provides for a
13 recovery mechanism that “permit[s] rate adjustments, no less frequently than once
14 per year, without requiring the utility to file a general rate case to allow recovery of
15 the approved plan’s costs.”²⁹ Mr. Pollock’s argument should be disregarded,
16 because the statute clearly contemplates and authorizes the methodology under
17 which the Company has presented the CACJA Rider.

18 Additionally, Mr. Pollock’s argument regarding all post-test year
19 adjustments is contrary to CHECC’s fundamental position that a future test year is
20 not appropriate. He argues that if post-test year adjustments that are future

²⁸ Answer Testimony of Mr. Jeffry Pollock page 9-12.

²⁹ Sec. 40-3.2-207(4), C.R.S. (emphasis added).

1 adjustments are included, so must the other adjustments be included for that time
2 period. It is unclear to me why it is appropriate in one instance to use future test
3 year variable and in the other it is not. The Company is proposing to match the
4 CACJA project investment with the customer billing determinants and revenues in
5 the 2015 Test Year and in subsequent years to maintain that matching through
6 the true up process as described by Mr. Brockett.

7 **Q. DO YOU AGREE WITH MR. POLLOCK THAT THE “CACJA COSTS ARE NO**
8 **DIFFERENT THAN ANY OF THE OTHER BASE RATE COSTS THAT PSCO IS**
9 **AUTHORIZED TO RECOVER”?**

10 A. No. The CACJA costs that are incurred by the Company pursuant to the
11 approved CACJA plan, as detailed in my Direct Testimony, are not the same as
12 any other base rate costs. This is clear in the recovery language provided in the
13 statute as well as contemplated in the Legislative Declaration regarding House Bill
14 10-1365.

15 **Q. MR. POLLOCK DISCUSSES HOW A TRACKER IS NOT NECESSARY TO**
16 **PROVIDE TIMELY COST RECOVERY. HOW DO YOU RESPOND TO HIS**
17 **PROPOSAL?**

18 A. Mr. Pollock claims his proposal is to reduce regulatory lag and to do so by
19 simplifying the CACJA Rider. His simplification of the rider is to base it on a
20 historical time period and utilization of a General Rate Schedule Adjustment
21 (“GRSA”) type methodology for cost allocation rather than allocation based on a
22 production allocator. While I agree that the CACJA Rider is not the only

1 methodology that could be employed by the Commission to meet the statutory
2 standards, it is a methodology that has been employed by this Commission
3 previously (e.g., the Pipeline System Integrity Adjustment) and is known to our
4 stakeholders. Mr. Brockett addresses some of the more detailed specifics of Mr.
5 Pollock's rider design proposals.

6 ***E. Response to Climax's Position***

7 **Q. WHAT POSITION DID CLIMAX'S WITNESS MR. KOLLEN TAKE IN REGARDS**
8 **TO THE CACJA RIDER?**

9 A. Climax's witness Mr. Kollen recommends approval of a temporary CACJA Rider
10 utilizing a historic test year as the basis for the rider's calculation and additionally
11 modifies the CACJA Rider calculation to include an earnings test. He argues that
12 this methodology provides for a "current return" on the CWIP component of the
13 CACJA project costs and provides for customer protections. Mr. Kollen also
14 proposes that the Commission use the AFUDC rate for the rate of return for the
15 CACJA CWIP component.

16 **Q. DO YOU AGREE WITH MR. KOLLEN'S POSITION?**

17 A. No. On page 17 of Mr. Kollen's testimony he explains the main difference
18 between the Company's position and his position as the difference of test year
19 and that his methodology provides for a "current return on the CACJA CWIP, as
20 required by statute, but does not provide for a forecast return on the CACJA
21 CWIP". Mr. Kollen has misread the statute regarding this issue. Section 40-3.2-
22 207(3) of the CACJA states "[c]urrent **recovery** shall be allowed on construction

1 work in progress **at the utility’s weighted average cost of capital**” [emphasis
2 added]. Furthermore, Section 40-3.2-202 of the statute reads that “[t]he general
3 assembly further finds and declares that Colorado rate-regulated utilities require
4 **timely and forward-looking reviews** of their costs of providing utility service in
5 order to undertake the comprehensive and extensive planning and changes to
6 their business operations contemplated by this part 2.”[emphasis added] And
7 finally, the statute states in Section 40-3.2-207(1)(a) that “[a] utility is entitled to
8 **fully recover** the costs that it prudently incurs in executing an approved emission
9 reduction plan”[emphasis added]. Mr. Kollen’s proposal does not provide for
10 current recovery under a forward-looking review and finally does not allow for full
11 recovery of the costs that are prudently incurred. The Company’s proposed
12 methodology incorporates a 13-month average of the CWIP and plant in service
13 amounts for the current rate year. This notably provides for “current” recovery of
14 the CACJA project costs.

15 **Q. DO YOU BELIEVE THE AFUDC RATE IS THE RATE THAT WAS**
16 **CONTEMPLATED IN STATUE AS PROPOSED BY MR. KOLLEN?**

17 A. No, I believe Mr. Kollen has once again misread the statutory language. As
18 quoted above the statue clearly states “at the utility’s weighted average cost of
19 capital”. A utility’s WACC is determined by the jurisdiction in which the utility
20 operates. The Commission has determined and will determine in this case the
21 Company’s WACC. This is no reasonable justification to establish one WACC for
22 the CACJA rider and another for base rates as contemplated in Mr. Kollen’s

1 proposal. Company witness Ms. Deborah Blair will address the calculation of the
2 AFUDC versus that of the WACC in her rebuttal testimony.

3 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S POSITIONS REGARDING THE**
4 **IMPLEMENTATION OF AN EARNINGS TEST IN CONJUNCTION WITH THE**
5 **CACJA RIDER?**

6 A. I address the earnings test question raised by both Climax and OCC in Section VI
7 of my Rebuttal Testimony.

8 ***F. Response to Wal-Mart***

9 **Q. WHAT POSITION DOES WAL-MART'S WITNESS TAKE REGARDING THE**
10 **CACJA RIDER?**

11 A. Mr. Steve W. Chriss recognizes that the statute provides for the recovery that the
12 Company is seeking and the methodology under which the Company is
13 proposing; however he expresses concern with a current recovery of CWIP and
14 the fact that the rider allows for calendar years 2016 and 2017 to be "open".
15 Additionally, Mr. Chriss encourages the Commission to consider a decrease in the
16 Company's ROE to reflect the risk reducing implications of the CACJA Rider. I
17 address this position generally taken by multiple intervenors below; Mr. Hevert
18 also address this issue in his Rebuttal Testimony.

19 **Q. WHAT IS YOUR RESPONSE TO MR. CHRISS' STATED POSITIONS?**

20 A. Mr. Chriss is correct that the statute provides for the recovery the Company is
21 seeking and the methodology under which we have presented our proposal.

1 Despite this recognition, however, he continues to advocate for not adhering to
2 the statute and I do not agree with this position.

3 In regards to Mr. Chriss' position on calendar years 2016 and 2017 and as
4 stated above in response to other Filing Parties positions, the statute "entitles" the
5 utility to *fully* recover the prudently incurred costs of implementing the approved
6 CACJA projects. Mr. Chriss' methodology of fixing the 2016 and 2017 riders at
7 the amounts included in the Company's testimony does not meet this statutory
8 provision.

9 ***G. General CACJA Items***

10 **Q. WHEN DOES THE COMPANY HAVE TO FILE ITS NEXT RATE CASE IN THE**
11 **EVENT THAT THE COMMISSION GRANTS THE USE OF THE CACJA RIDER?**

12 A. There seems to be some differences of opinion regarding the Company's next
13 filing date. Section 40-3.2-207(5), C.R.S., states "[d]uring the time any special
14 regulatory practice **is in effect**, the utility shall file a new rate case at least every
15 two years or file a base rate recovery plan that spans more than one
16 year."[emphasis added] Thus, the Company calculated that a rate case needs to
17 be filed every two years from when the CACJA Rider is effective. It is anticipated
18 that rates including the CAJCA Rider will go into effect from this case on February
19 12, 2015; therefore the latest the Company is allowed to file its next base rate
20 case would be February 12, 2017. This opinion appears to be shared by CEC

1 witness Mr. Pollock³⁰, but not by Staff witness Mr. Camp who states the Company
2 would have to file again in 2016.³¹

3 **Q. SHOULD THE GRANTING OF A CACJA RIDER RESULT IN A LOWER**
4 **RETURN ON EQUITY (“ROE”) BEING ESTABLISHED FOR PUBLIC**
5 **SERVICE?**

6 A. No. A number of the Filing Parties discuss how the granting of the CACJA Rider
7 should result in a lower ROE being granted for the Company.³² I think it is
8 important to recognize the relative amount of revenues recovered through the
9 CACJA Rider versus base rates. In the case of Public Service, the projected
10 2015 Test Year total non-fuel revenues are \$1,755,598,093 and the projected
11 2015 Test Year CACJA Rider revenues are \$98,669,928; less than 5.62% of
12 Public Service’s non-fuel revenues. Company witness Mr. Robert Hevert also
13 addresses this item in his Rebuttal Testimony and specifically compares the proxy
14 group’s rider opportunities to those that Public Service experiences and finds that
15 an adjustment to Public Service’s ROE is not necessary.

³⁰ Answer Testimony of Mr. Jeffrey Pollock page 11-12.

³¹ Answer Testimony of Mr. Gene Camp page 16.

³² Intervenors that address this position include: Staff (Mr. Hernandez, page 9; Dr. England, page 9), CHECC (Mr. Pollock, page 20), Wal-Mart (Mr. Chriss, page 15)

V. METRO ASH DISPOSAL SITE AND SOUTHEAST WATER RIGHTS

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. In this section of my testimony I will address the concerns raised by OCC witness
3 Mr. David E. Peterson, CEC witness Mr. Kevin C. Higgins, CHECC witness Ms.
4 Donna M. Ramas and Climax witness Mr. Lane Kollen regarding the Company's
5 proposed treatment of the Metro Ash Disposal Site located near Bennett,
6 Colorado ("Bennett Property"). Additionally, I will address the positions of the
7 CEC and CHECC witnesses regarding the Southeast Water Rights treatment.

8 ***A. Bennett Property***

9 **Q. WHAT WAS THE COMPANY'S PROPOSAL REGARDING THE BENNETT**
10 **PROPERTY?**

11 A. In my Direct Testimony I present the Company's proposal to amortize the book
12 value of the Bennett Property over a two year period. While there may have been
13 some question in the past relative to the future use of this site, the matter was
14 decided in Proceeding No. 10M-245E. By the end of 2017, the Company will no
15 longer have metro area coal plants and the Company has adequate ash disposal
16 facilities for remaining operation and therefore there is no longer any need for the
17 Bennett Property.

1 **Q. FOR THE FILING PARTIES LISTED ABOVE WHAT IS THEIR POSITION**
2 **REGARDING THE COMPANY'S PROPOSED TREATMENT OF THE BENNETT**
3 **PROPERTY?**

4 A. The Filing Parties listed above all recommend removing the cost of the Bennett
5 Property from rate base without an amortization of the property's costs.
6 Furthermore, some of the intervenors propose that in the event the Company sells
7 the property any net proceeds should be returned to customers while other
8 interested Filing Parties (for example, CEC) suggest that the Company should be
9 allowed to retain any net proceeds.

10 **Q. HOW DO YOU RESPOND TO THE INTERESTED FILING PARTIES?**

11 A. In regards to their first position that the Bennett Property should be removed from
12 rate base, under the CACJA, the Company has a presumption of prudence for
13 actions taken in furtherance of the approved CACJA plan and is entitled to full
14 cost recovery for costs that are prudently incurred under the approved plan. I
15 believe that presumption of prudence and cost recovery provision attaches to the
16 Bennett Property.

17 CEC witness Mr. Higgins explains on page 15 of his Answer Testimony
18 that the land "has not and will never be used to serve PSCo's customers";
19 however he neglects to evaluate why this is the case. CHECC witness Ms.
20 Ramas and OCC witness Mr. David E. Peterson present largely the same
21 argument. As stated in my Direct Testimony, this land was acquired to be an ash
22 storage site for the continued use of the metro area coal plants. But for the

1 passage and implementation of the CACJA this land would have been utilized for
2 just that. Therefore, the forgone use of the land is in direct correlation to the
3 CACJA and thus the cost of the property should be recoverable. Mr. Higgins goes
4 on to argue that the proposed amortization of the land is not commensurate with
5 the period over which it was intended to be used. Mr. Lane Kollen for Climax also
6 presents an argument that the amortization period is too short and he
7 recommends a five year amortization. While the Company's proposed two-year
8 amortization is definitely not the life over which the property would have been
9 utilized, it is an appropriate time frame given the magnitude of the net book value
10 (around \$5.9 million) and the timeframe until which the CACJA projects are due to
11 be implemented.

12 Mr. Kollen also argues that the amortization of the Bennett property is
13 premature. He suggests that at the time a sale is complete would be a more
14 appropriate time to evaluate the amortization. I believe that the Company's
15 proposal meets the intent of the statute implementing the CACJA and that as
16 stated above the timeframe over which the Company is proposing the
17 amortization is reasonable.

18 **Q. WHAT ARE THE COMPANY'S FUTURE PLANS WITH RESPECT TO THE**
19 **BENNETT PROPERTY?**

20 A. The Company expects to evaluate the property for potential sale. In the event of
21 sale and if the Commission approves the Company's proposed treatment of the
22 property, the Company expects to credit our customers with the proceeds of such

1 sale at our next base rate case. In the meantime, however, this asset has
2 effectively been stranded as a result of an event beyond the Company's control.
3 It would therefore be unfair to deny the Company recovery of its prudently
4 incurred investment in this facility.

5 **Q. DO ALL THE PARTIES AGREE WITH THIS TREATMENT?**

6 A. No. CEC proposes removal of the plant from rate base now and in the event of a
7 sale, the Company retains any net gain or loss on the sale. CHECC and OCC on
8 the other hand argue that the property should be removed from rate base, but
9 than any net gain is held in a regulatory liability to be returned to customers and
10 any net loss may be presented to the Commission for determination of regulatory
11 treatment at the next base rate case. CHECC substantiates its position for this
12 treatment due to the fact that ratepayers have paid a debt return on this property
13 over the past several years.

14 **Q. ARE OCC AND CHECC'S PROPOSED TREATMENT OF ANY NET GAIN ON**
15 **SALE APPROPRIATE?**

16 A. Not in my opinion. The treatment of the net gain on sale proposed by CHECC
17 does not appropriately reflect the benefits following who bears the risk of loss
18 associated with utility investments. Customers do not own the property or the
19 assets that they are provided a service over. Therefore, a share of any net gain
20 or sale should be carefully evaluated, particularly on non-depreciable property
21 such as the Bennett Property. The return provided while the Bennett Property has
22 been included in rate base was found to be prudent through multiple rate cases in

1 anticipation of the Company utilizing the asset for customers at a future date. The
2 trigger that is impacting this property is the implementation of the CACJA, thus if
3 the Commission were to accept the Company's proposal to amortize the Bennett
4 Property through base rates the Company believes customers should
5 appropriately be compensated in the event of a net gain on sale. If the
6 amortization of the property is not approved, the Company retains its right to file
7 for evaluation of the treatment of any net gain on sale at a reasonable time.

8 ***B. Southeast Water Rights***

9 **Q. CEC AND CHECC PROPOSE THAT SOUTHEAST WATER RIGHTS COSTS**
10 **SHOULD BE REMOVED FROM RATE BASE WITH NO RECOVERY FROM**
11 **CUSTOMERS. DO YOU AGREE?**

12 A. No. Mr. Higgins presents the argument for CEC that the treatment of the
13 Southeast Water Rights was set in a non-precedential settlement in 1993 and
14 references rate case Proceeding No. 93S-001EG. What he does not identify, or
15 may not be aware of, is the precedential settlement reached in 2002 which
16 establishes the treatment of Southeast Water Rights, until such time as they are
17 sold. The following is quoted from the settlement in Proceeding No. 02S-315EG
18 which was approved by the Commission in Decision No. C03-0670:

19 Southeast Water Rights

20 Background. In its direct case, Public Service proposed to continue
21 the current rate treatment established in Docket No. 93S-
22 001EG for the amount booked in Plant Held For Future Use
23 associated with the water rights purchased for a prospective
24 power plant in southeast Colorado; *i.e.*, the debt cost portion

1 of the Company's carrying costs of these water rights is
2 included in revenue requirements. Public Service argued
3 that, since there is a potential use for these water rights in the
4 future, including their potential sale, the Company should at a
5 minimum be allowed to continue the current partial recovery
6 rate treatment. OCC and CEC in their Answer Testimony
7 objected to this proposed rate treatment, disputing the
8 customer benefits of these water rights and whether they are
9 used and useful.

10
11 Resolution. In settlement of this issue, the Parties agree that the
12 Company should continue to include in the revenue
13 requirement the debt cost portion of the Company's carrying
14 costs for the Southeast Water Rights as long as and to the
15 extent that the Company continues to own such water rights.
16 To reflect this rate treatment in the cost of service study, the
17 balance associated with the water rights is eliminated from
18 rate base and a negative amount is added to Miscellaneous
19 Other Revenue, as originally proposed by the Company. This
20 rate treatment shall continue through the 2004, 2005 and
21 2006 electric Earnings Tests, unless the water rights are sold
22 during the applicable Earnings Test year, at which time the
23 rate treatment of the Plant Held For Future Use balance and
24 any proceeds resulting from the sale or transfer of the water
25 rights shall be a new item identified in the Company's
26 Earnings Test Report. The Parties also reserve the right to
27 argue the appropriate treatment of any gain or loss related to
28 such a sale. (Emphasis added)

29 This settlement set precedent on the treatment of the Southeast Water Rights for
30 as long as the Company continues to own this property. The parties to that
31 settlement many of whom are also Parties to this case are: Staff, OCC, CEC,
32 FEA, Kroger, and the Land and Water Fund of the Rockies, which is now Western
33 Resource Advocates. The Commission approved the settlement on this matter
34 without modification and therefore approved the precedential treatment.

1 **Q. HOW DO YOU RESPOND TO THE POSITION OF CHECC WITNESS MS.**
2 **RAMAS?**

3 A. CHECC is a new intervenor to the Company's cases and thus is probably not
4 aware of the settlement discussed above. Ms. Ramas however presents an
5 important argument that the Company does not have a current plan to utilize the
6 water rights for customer use, and has not pursued a plan to dispose of the asset.
7 While the discussed settlement provides for the treatment of the Southeast Water
8 Rights while the Company owns the asset, I believe it is reasonable to expect the
9 Company to present a plan at its next general electric base rate case addressing
10 what the Company intends to do with the Southeast Water Rights.

VI. TEST YEAR AND EARNINGS TEST

1 **Q. WHAT DO YOU INTEND TO ADDRESS IN THIS SECTION OF YOUR**
2 **REBUTTAL TESTIMONY?**

3 A. I will address the Filing Parties positions in regards to which test year should be
4 utilized to set rates in the present proceeding. Additionally, I will address certain
5 Filing Parties recommendation to initiate an earnings test for the period that the
6 rates are in effect from this case.

7 ***A. Test Year***

8 **Q. WHICH OF THE FILING PARTIES RECOMMENDED UTILIZATION OF A TEST**
9 **YEAR OTHER THAN THE 2015 TEST YEAR AS PROPOSED BY THE**
10 **COMPANY?**

11 A. Three of the seven Filing Parties, the OCC, Climax and CHECC filed for a
12 calendar year 2013 HTY and the Staff advocates for a modified HTY.

13 **Q. PLEASE DESCRIBE STAFF'S MODIFIED HTY.**

14 A. My understanding is that the Staff's modified HTY filed with their Answer
15 Testimony incorporates post-test year adjustments for any actual plant in service
16 through September 2014. However, in Mr. Reis' testimony he specifies that the
17 Company should be allowed to update this actual plant in service through the date
18 of the hearing but not to include any plant in service beyond December 31, 2014.
19 Mr. Reis additionally adds that "[u]se of an HTY with known and measurable
20 adjustments reflecting current booked costs through the latest date available

1 helps to mitigate any concerns the Company would have that the HTY results in
2 regulatory lag”.³³

3 **Q. WHAT IS YOUR INITIAL RESPONSE TO THE PARTIES SELECTING A TEST**
4 **YEAR OTHER THAN THE COMPANY’S PROPOSED 2015 TEST YEAR?**

5 A. I believe our approach is more consistent with the CACJA statute. According to
6 the Legislative Directive provided with the CACJA found in Section 40-3.2-202(3),
7 “[t]he general assembly further finds and declares that Colorado rate-regulated
8 utilities require timely and *forward-looking* reviews of their costs of providing utility
9 service in order to undertake the comprehensive and extensive planning and
10 changes to their business operation contemplated by this part 2.” [emphasis
11 added] While I am not a lawyer, I interpret this to mean that in concert with the
12 implementation of the CACJA projects, a forward-looking rate review of all costs
13 should be conducted. The CACJA projects are currently going into service, thus it
14 is appropriate as this is the first rate case we are filing with plant in service from
15 the CACJA projects, to additionally take a forward-looking view of Public Service’s
16 costs of providing utility service. Yet, notwithstanding this statutory directive, most
17 parties reject our 2015 Test Year out of hand, contending instead the historic test
18 year – a backwards look – is more reliable.

19

³³ Answer Testimony of Mr. Richard Reis at page 35

1 **Q. WHAT GENERALLY ARE THE PARTIES ARGUMENTS AGAINST USING THE**
2 **COMPANY’S PRESENTED 2015 TEST YEAR?**

3 A. The parties arguments circle around three main issues:

- 4 • Forecast accuracy
- 5 • Presentation of justification for a forecasted test year (“FTY”)
- 6 • Commissions history of HTY utilization

7 **Q. HOW DO YOU RESPOND TO THE PARTIES REGARDING THEIR CONCERNS**
8 **ON FORECAST ACCURACY?**

9 A. We recognize the discomfort parties have with the forecast accuracy as
10 expressed in prior proceedings and the difficulty of processing a forecast in the
11 most recently litigated gas rate case.³⁴ Therefore, we structured this forward
12 looking proceeding to address some of those concerns. Namely, we removed the
13 forecast element of our operations and maintenance (“O&M”) expenses, as
14 acknowledged by Staff witness Mr. Reis. Yet, he still has concerns regarding our
15 forecasted aspect of capital investment.³⁵ Mr. Reis specifically selects a few
16 instances under which the Company’s forecast has been less than stellar from his
17 perspective.³⁶ One of his examples I need to specifically address and the other
18 two I will respond to very briefly.

³⁴ Proceeding No. 12AL-1268G - IN THE MATTER OF ADVICE LETTER NO. 830-GAS OF PUBLIC SERVICE COMPANY OF COLORADO, WITH ACCOMPANYING TARIFF SHEETS CONCERNING IMPLEMENTING A GENERAL RATE SCHEDULE ADJUSTMENT (GRSA), TO BECOME EFFECTIVE JANUARY 12, 2013.

³⁵ Answer Testimony of Mr. Richard Reis at page 9.

³⁶ Answer Testimony of Mr. Richard Reis at page 12 (including footnotes).

1 For the example regarding the Company's Pipeline System Integrity
2 Adjustment ("PSIA"), Mr. Reis states that the Company has over-collected for the
3 past two years of the PSIA Rider's existence. He goes on to state that in the first
4 year of recovery (2012) we over collected by \$2.3 million on estimated revenues
5 of \$32.9 million and in year two (2013) we over collected by \$9.7 million on
6 estimated revenues of \$26.5 million. Mr. Reis' presentation is flawed for lack of
7 information and we are unable to reconcile Mr. Reis' numbers to those included in
8 the PSIA rider. Initially, the PSIA rider was advocated for and granted on the
9 basis of the fact that the costs to be collected under the PSIA were of unknown
10 yet significant size. It is expected that the PSIA forecast may not match what the
11 actual expenditures are depending upon what is found throughout the
12 examination of the assets in that calendar year, which is why the PSIA rider
13 included a true up mechanism. That fundamental item aside, Mr. Reis'
14 comparison of the over-collection as compared to the total anticipated revenues is
15 missing a component. A portion of PSIA costs, which are included in the true up
16 are included in base rates, thus the denominator of the equations for comparison
17 should include this value. For year one of the PSIA rider our PSIA report filed on
18 April 1, 2013 indicates an over-collection of \$2.3 million over an estimated \$45.8
19 million revenue requirement. This constitutes approximately a 5% deviation from
20 actuals which can be driven by differences in consumption or capital or O&M.
21 Additionally, for year two, a portion of the reason that an over-collection occurred
22 was as a result of the extreme floods that occurred. As soon as the floods

1 occurred the gas crews that were previously working on PSIA type projects that
2 could afford to lose the resource were redeployed to address restoration of the
3 system. The revenue requirement for the second year of the PSIA provided in our
4 notice was \$50.5 million. The over recovery experienced as stated by Mr. Reis is
5 \$9.9 million or roughly 19%. Without this information the context of what Mr. Reis
6 presents could be misinterpreted and utilized in a manner that is not appropriate.

7 As to his other two examples, the Smart Grid City was significantly under
8 forecasted; it was also a cutting edge technology pilot. And a similar situation in
9 the Comanche 3 situation; the type of supercritical coal unit had not been built in
10 the United States and experienced some delays. We have neither of these types
11 of instances included in our request for a 2015 Test Year. Capital investments
12 associated with the CACJA projects could be considered new but they are
13 proposed to be included in the CACJA Rider and will be tracked and subject to a
14 true up. Thus, our remaining costs are much more normal course of business
15 type capital investments.

16 The Company has provided extensive testimony in its Direct Testimony (in
17 this proceeding and prior proceedings) regarding our capital budgeting and
18 spending methodologies. In response to the Filing Parties discussed above and
19 others such as Ms. Ramas for the CHECC and Mr. Kollen for Climax, in our
20 Rebuttal Testimony our Business Area witnesses continue to support their capital
21 budgets as reasonable and Ms. Lisa Perkett provides statistics regarding our
22 accuracy on plant in service. Is it perfect, no, however in summary our 2015 Test

1 Year budget has deviated less than .48% on plant in service for our capital
2 additions from our originally filed case in June 2014.

3 **Q. IS THE COMPANY'S 2015 TEST YEAR MORE REPRESENTATIVE OF WHAT**
4 **PUBLIC SERVICE WILL FACE WHEN RATES FROM THIS PROCEEDING GO**
5 **INTO EFFECT?**

6 A. Yes. Mr. Reis accurately quotes Administrative Law Judge ("ALJ") Jennings-
7 Fader in an excerpt of her Recommended Decision No. R13-1307 on page 8 of
8 his testimony. To paraphrase in part,

9 "[t]hrough the test year the Commission determines the
10 interrelationships of revenues, expenses, and rate base that will
11 yield just and reasonable rates and will offer the utility a reasonable
12 chance to earn its authorized rate of return. Using a test year is an
13 attempt to discern the relationship among revenue, expenses and
14 rate base that is representative of what the utility faces when the
15 new rates go into effect."

16 In the 2015 Test Year the Company has presented a fair representation of what
17 we will face when the new rates go into effect. Rates are expected to go into
18 effect on February 12, 2015. In the Company's Direct Testimony and continuing
19 in the Rebuttal Testimony we have matched each of the components enumerated
20 in ALJ Jennings-Fader's Recommended Decision:

- 21 ✓ Revenues: Included forecasted calendar year 2015 revenues.
- 22 ✓ Expenses: Started with the HTY 2013 O&M expenses and
23 adjusted them for known and measurable adjustments to reach
24 anticipated 2015 expenses.
- 25 ✓ Rate Base: (1) Started with the 2013 HTY and adjusted rate base
26 for plant in service based on the Company's well established budget
27 process through calendar year 2015. And (2) included the amounts

1 based on a 13-month average to assure that the Company was not
2 collecting in rates for plant that was not forecasted to be in service.

3 All of the components we based our case on are aligning with when rates are
4 expected to go into effect and the experience that Public Service will face.

5 In the event that the Commission does select a test year other than the
6 Company's proposed 2015 Test Year it will remain key to achieving the balance
7 discussed in ALJ Jennings-Fader's Recommended Decision in concert by
8 matching the selected test year's revenues, expenses and rate base. Many of the
9 Filing Parties also stress this point in their Answer Testimony.

10 **Q. HOW DO YOU RESPOND TO FILING PARTIES REGARDING THE LACK OF**
11 **JUSTIFICATION FOR MOVING TO AN FTY?**

12 A. OCC's witness Mr. David Peterson raises this argument, yet he has overlooked a
13 portion of my Direct Testimony. Namely Section III of my Direct Testimony. In
14 this section I presented the methodology of the 2015 Test Year as well as why the
15 Company moved in this direction. The Company's last comprehensive gas rate
16 case provided significant direction, such as that discussed above. Additionally,
17 the legislative direction provided in the CACJA clearly presents further
18 justification. In conjunction, these two areas clearly indicate the reasons that the
19 Company has presented a 2015 Test Year and the justification for that movement.

20

1 **Q. DOES THE IMPLEMENTATION OF THE CACJA RIDER REDUCE THE NEED**
2 **FOR AN FTY?³⁷**

3 A. No. First, the CACJA clearly contemplates forward looking rate reviews in its
4 legislative declaration as discussed above. Second, the principles above are not
5 negated with the implementation of a CACJA Rider.

6 **Q. IF THE COMMISSION SELECTS A TEST YEAR OTHER THAN THE 2015 TEST**
7 **YEAR PRESENTED BY THE COMPANY, WILL THE COMPANY EXPERIENCE**
8 **A REASONABLE OPPORTUNITY TO EARN ITS AUTHORIZED RATE OF**
9 **RETURN?**

10 A. In my opinion, no. As discussed in my Direct Testimony between January 1, 2014
11 and December 31, 2015 the Company will close to plant in service over \$2 billion
12 worth of capital investment.³⁸ A portion of this will be recoverable through the
13 CACJA Rider, but not all. This significant capital investment warrants a forward-
14 looking review of rates.

15 To further complicate this issue, one must also consider the methodology
16 employed to calculate the contribution to the revenue requirement of rate base. I
17 will discuss this in the next Section of my testimony.

18

³⁷ Answer Testimony of David E. Peterson at pages 14 to 15.

³⁸ Direct Testimony of Alice K. Jackson at page 6.

1 ***B. Earnings Sharing Test/Mechanism***

2 **Q. WHAT PROPOSALS ARE PRESENTED BY THE FILING PARTIES IN**
3 **REGARDS TO IMPLEMENTATION OF AN EARNINGS SHARING**
4 **TEST/MECHANISM?**

5 A. OCC witness Mr. Fernandez and Climax witness Mr. Kollen both recommend the
6 implementation of an earning sharing test, but for different reasons. Mr.
7 Fernandez recommends an earnings sharing mechanism in the event the
8 Commission grants a FTY, while Mr. Kollen sets the trigger for the implementation
9 of an earning sharing test to be the implementation of the CACJA Rider.

10 **Q. PLEASE DESCRIBE AND RESPOND TO THE EARNINGS SHARING TEST**
11 **PROPOSAL PRESENTED BY MR. FERNANDEZ.**

12 A. Mr. Fernandez recommends extension of the existing earnings sharing test in the
13 event the Commission grants an FTY, with minor modifications. He justifies this
14 position due to the deviation of Public Service's actual experience from its
15 forecasted experience. I am assuming Mr. Fernandez is referring to the load
16 forecast when he says forecast. Mr. Fernandez proposes to update the current
17 earnings test to reflect the ROE outcome from this proceeding as well as modify
18 the sharing thresholds for various levels.

19 I disagree with Mr. Fernandez that an earnings sharing test is necessary
20 simply on the basis of the granting of a FTY. The 2015 Test Year is a reflection of
21 a single year's evaluation of base rates and the Company is not proposing further
22 adjustments to base rates in this proceeding. The CACJA Rider and other riders

1 will change over the time that these rates are in effect, but unlike our settlement in
2 the last base rate case, this proceeding is not a multi-year plan. Furthermore,
3 with the timing allowed between rate cases, the Commission will have sufficient
4 oversight of our rates so that the concerns raised by Mr. Fernandez are mitigated.

5 **Q. DO YOU AGREE WITH CLIMAX'S PROPOSAL TO IMPLEMENT AN**
6 **EARNINGS TEST IN THE EVENT THE CACJA RIDER IS APPROVED?**

7 A. No. The addition of an earnings test is unnecessary for a couple of reasons. First,
8 due to the implementation of the CACJA Rider, the Company is obligated to file a
9 rate case at least every two years. This time frame is sufficiently short to provide
10 for significant customer protections. With the initiation of the CACJA Rider being
11 a comprehensive rate case, there is less likelihood of an overearnings situation
12 occurring. Additionally, the earnings test that was in place for calendar year 2012
13 through 2014 as a result of the 2012 MYP was appropriate due to the multi-year
14 nature of the rate case with stepped base rate increases based on forward-
15 looking test years. The present proceeding before the Commission is for a single
16 year base rate increase and an incremental rider for specific CACJA project costs.
17 The Company is still at risk for other incremental costs including capital and O&M
18 expenses.

19 Additionally, Mr. Kollen proposes to utilize the CACJA Rider as the
20 methodology of implementing any approved earnings test, this position is without
21 foundation and impractical. The timing of the implementation of the CACJA Rider
22 and any earnings test would not coincide.

VII. YEAR END RATE BASE VERSUS AVERAGE RATE BASE

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. In this section of my testimony I address the Filing Parties positions on the
3 methodology employed to calculate rate base. Specifically, I address the
4 positions of the parties recommending a test year other than the Company's 2015
5 Test Year and utilize an average rate base to achieve their recommended result.
6 These parties are Staff and the OCC.

7 **Q. PLEASE DESCRIBE THE TWO METHODOLOGIES THAT PARTIES MAY**
8 **EMPLOY WHEN CALCULATING THE RATE BASE CONTRIBUTION TO THE**
9 **REVENUE REQUIREMENT.**

10 A. The two methodologies as presented by the Company and the Filing Parties are
11 either the average rate base methodology or the year end rate base methodology.
12 I describe each of the methodologies below.

- 13 • Average Rate Base or 13-month Average – This methodology utilizes the
14 plant in service for the twelve months of the test year plus one month prior
15 to the test year and employs a weighted average of the plant in service
16 balances over the time horizon. For example, if the test year is calendar
17 year 2017, the 13-month average would encompass December 2016
18 through December 2017. The value of the plant that is placed in service in
19 June of 2017 would be weighted to be included in the rate base for seven
20 of the thirteen months.

- 1 • Year-End Rate Base – This methodology utilizes the plant balances as of
2 the end of the test year to establish the rate base for recovery in rates. For
3 example, if the test year is calendar year 2013, the year-end rate base
4 would be the balance of plant in service as of December 31, 2013.

5 **Q. WHAT METHOD OF CALCULATING RATE BASE WAS PROPOSED BY THE**
6 **COMPANY IN ITS 2015 TEST YEAR COST OF SERVICE PRESENTED IN THIS**
7 **CASE?**

8 A. The Company proposed using an average rate base or 13-month average rate
9 base methodology for calculating rate base in our 2015 Test Year.

10 **Q. WHAT METHOD OF CALCULATING RATE BASE WAS PROPOSED BY THE**
11 **COMPANY IN ITS 2013 HTY COST OF SERVICE PRESENTED IN THIS CASE?**

12 A. The Company proposed using a year-end balance methodology for
13 calculating rate base in its 2013 HTY, for all items, except for the following: 1) fuel
14 inventory was calculated using the average 12 monthly balances; 2) other
15 inventory balances and non-plant rate base items were calculated using a
16 thirteen-month average balance methodology; and 3) Cash Working Capital was
17 calculated using the same lead-lag factors as we used for the 2015 Test Year
18 Cost of Service.

1 **Q. IS THE USE OF A YEAR-END RATE BASE METHODOLOGY FOR AN HTY**
2 **AND USE OF AN AVERAGE RATE BASE METHODOLOGY FOR AN FTY**
3 **INCONSISTENT³⁹?**

4 A. No. Due to the mechanics of the methodology it is entirely consistent. It is
5 important to maintain a frame of reference of what utility costs will be in play at the
6 time that the rates are placed in service. In a HTY evaluation of rates, the test
7 year is a period of time in the past and rates will go into effect after, and often
8 substantially after the test year period in question. Thus, if an average rate base
9 methodology is utilized, the rates being set would not be reflective of the utility's
10 experience because they would be too low. Attachment No. AKJ-5 illustrates a
11 simple example of this phenomenon. In this example, investment is going into
12 service throughout the year at different monthly amounts. At the end of the year
13 total plant in service is \$1.028 billion. The utility experiences at this point in time
14 all regulatory and practical impacts having in service \$1.028 billion of plant. If
15 rates are based off of the Average Rate Base methodology, then rates which are
16 to apply to the future will be set on a fictitious level of \$1.011 billion of plant in
17 service, a difference of \$16.6 million. This difference automatically results in
18 unnecessary lag and reduces the ability of an integrated utility to achieve its
19 authorized return and removes the "reasonable" nature of achieving that return.

³⁹ Answer Testimony of Mr. David E. Peterson at page 17.

1 In the event of a test year based on a future time period, such as the
2 Company's proposed 2015 Test Year, if the Company were to propose to utilize
3 the year-end plant balance when rates are going into effect prior to that year-end,
4 the rates would not match what the utility is reasonably going to experience.
5 Again Attachment No. AKJ-5 illustrates how rates would be too high in the event a
6 year-end rate base was utilized for a test year based on a future time period.
7 When used in conjunction with a future test period, average rate base will produce
8 a better matching of revenues, expenses and investments, although not always
9 an exact match. If the test year used to set rates is the first year in which rates
10 are expected to be in effect, then the use of average rate base will result in the
11 most ideal matching of revenues, expenses and investments.

12 Thus, contrary to Mr. Peterson's position, it is entirely consistent that for the
13 methodology to determine rate base is different between an HTY and an FTY.
14 This is apparently also not inconsistent in the CHECC witness' understanding as
15 Ms. Ramas recommends this very treatment when discussing the different test
16 years.⁴⁰

17 **Q. DO YOU KNOW OF ANY OTHER JURISDICTION THAT UTILIZES AVERAGE**
18 **RATE BASE WHEN EVALUATING AN HTY?**

19 A. From my personal experience no. I requested a member of my team research the
20 proxy group that Company witness Mr. Hevert is utilizing in his ROE calculation to

⁴⁰ Answer Testimony of Ms. Donna M. Ramas as page 11.

1 identify how each of the Company's and their subsidiaries received orders in their
2 rate requests regarding the methodology employed to calculate rate base. What
3 the research indicates is that the vast majority of the proxy group and their
4 jurisdictions employ an average rate base methodology approach when a future
5 test year is granted and a year-end rate base methodology when a historic test
6 year is granted. Attachment No. AKJ-6 is a summary of the research's output.

7 **Q. WHAT ARGUMENTS DID STAFF ADVANCE IN SUPPORT OF AVERAGE**
8 **RATE BASE?**

9 A. Staff witness Dr. England states that the Commission has allowed the use of year-
10 end balances for HTY Cost of Service studies only in "special circumstances" to
11 reduce some potential sources of attrition beyond the control of the Company. He
12 argues (1) the Company has not demonstrated that it is facing extraordinary
13 conditions or earnings attrition; (2) that the overearnings in the recent past
14 establishes that there is no attrition that would justify year-end rate base; and (3)
15 that the low level of inflation from 2011 to 2014 does not justify year-end rate
16 base.

17 **Q. WHAT ARGUMENTS DID THE OCC ADVANCE IN SUPPORT OF AVERAGE**
18 **RATE BASE?**

19 A. OCC witness Mr. Peterson also argues that year-end rate base has been used
20 previously by this Commission to address attrition and the Company has not
21 specifically addressed attrition. In addition, Mr. Peterson argues that average rate
22 base is a better match for the utility's revenue and expenses during the year, and

1 when a year-end rate base is used, the matching principle is distorted. Year-end
2 rate base is inappropriate because it understates the income producing capability
3 of existing rates and overstates the revenue deficiency.

4 **Q. PLEASE COMMENT ON THE MATCHING PRINCIPLE AS IT RELATES TO**
5 **RATE BASE METHODOLOGIES.**

6 A. The purpose of the HTY is not to measure actual financial performance. Rather
7 the purpose of a test period is to serve as a tool to establish rates that will be in
8 effect on a going forward basis, so it is important that the test period reflect costs
9 to the extent possible that will be incurred when rates are actually in effect. That is
10 why we favor forecast test years, but it is also why when historic test years are
11 used, the Commission allows for known and measurable changes. I think the
12 same reasoning dictates the use of end of year balances when historic test years
13 are used because, given the varied service lives of most capital assets, the costs
14 of which are depreciated over years, the plant balances at the end of the year are
15 going to be most representative of the utility's costs when the rates are in effect.

16 **Q. IF THE HTY COST OF SERVICE IS APPROVED IN THIS CASE, WILL THE**
17 **USE OF YEAR-END RATE BASE RESULT IN JUST AND REASONABLE**
18 **RATES?**

19 A. More so than if an average rate base is utilized. Additionally, the same theory
20 applies if the Commission adopts the Staff's modified HTY. It would be
21 appropriate for the Commission to utilize year-end rate base for rates that are put
22 into place after the end of the test year selected. If the HTY cost of service is

1 approved in this case, then the use of year-end rate base is appropriate to set
2 base rates in this case. In establishing new base rates and the proper level of
3 revenues, forward-looking adjustments are appropriate in that they can help
4 reduce the impact of regulatory lag. The test period costs should be
5 representative of the costs that will exist when the rates that are established go
6 into effect. In my view, a better matching of investments, revenues and costs can
7 be achieved by using the investment level at the end of the test period, as this
8 level is much closer to the level that will exist when the rates go in effect. The
9 Company's base rates should be set with a rate base level as close as possible to
10 the rate base that will exist when rates are effective in February 2015. Year-end
11 rate base in the HTY cost of service is closer to the expected rate base at the
12 effective date of rates than the use of average rate base. Mr. Brockett also talks
13 about this issue.

14 **Q. STAFF AND THE OCC HAVE PRESENTED THEIR VIEW OF WHAT THE**
15 **COMMISSION'S POLICY HAS BEEN ON THE METHODOLOGY UTILIZED TO**
16 **CALCULATE RATE BASE, WHAT IS YOUR VIEW?**

17 A. The long-standing policy of this Commission in setting base rates for Public
18 Service is to use year-end rate base, not average rate base. The Commission
19 first adopted the use of year-end rate base in setting rates for Public Service's gas
20 and electric services in 1974, Decision No. 85724, Investigation and Suspension
21 ("I&S") Docket No. 868. In every Public Service rate case for nearly three
22 decades following that decision, the Commission continuously reaffirmed its policy

1 of using year-end rate base for setting base rates for Public Service. It was not
2 until Docket No. 02S-315EG (“2002 Rate Case”) that this changed, when the
3 Commission approved a Settlement Agreement in which the settling parties
4 agreed to use average rate base in developing the settled rates.

5 The 2002 Rate Case was a combination gas, electric and steam case, and
6 was the Company’s first electric rate case for nearly ten years since Docket No.
7 93S-001EG, which included several years of performance-based rate regulation
8 resulting from the Company’s merger with Southwestern Public Service Company.
9 For the Company’s gas business, however, the Commission continued to approve
10 the use of year-end rate base, after a full hearing on the merits, in each of the
11 Company’s three gas-only rate cases in Docket Nos. 96S-290G, 98S-518G and
12 02S-422G.

13 Since the 2002 Rate Case Settlement, all of the seven separate gas and
14 electric rate cases filed by Public Service have settled other than Public Service’s
15 most recent gas rate case, which the Commission ruled on the utilization of year-
16 end rate base. As is typical under most rate case settlement agreements, the
17 provisions resolving issues in the determination of revenue requirements
18 terminate and have no continuing effect in the Company’s next rate case.
19 Moreover, the settling parties expressly agree that the resolutions of issues
20 contained in the settlement agreement did not serve to establish Commission
21 precedent as to any ratemaking principle. Accordingly, based on the last Public
22 Service rate case that was decided on the merits in Proceeding No. 12AL-1268G,

1 current Commission policy on this ratemaking issue is still the use of year-end
2 rate base.

3 **Q. PLEASE ADDRESS THE CONCERN THAT THE COMPANY IS NOT**
4 **EXPERIENCING EARNINGS ATTRITION, EXPRESSED BY BOTH THE STAFF**
5 **AND THE OCC AS THE REASON THE COMMISSION SHOULD NOT**
6 **APPROVE THE USE OF YEAR-END RATE BASE IN THIS CASE?**

7 A. The earnings attrition indicator should not supersede reasonable regulatory
8 practices, such as the matching principle. Additionally, as expressed in my Direct
9 Testimony and mentioned earlier in my Rebuttal Testimony, the Company's
10 capital investment over the 2015 Test Year is substantial, both for CACJA project
11 and normal course of business, thus it is appropriate to utilize year-end rate base
12 in the event the Commission selects an HTY as the basis of the Company's rates
13 in this proceeding.

VIII. PROPERTY TAXES

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. I will address the Company's acceptance of the Staff's recommendation for
3 continued regulatory asset treatment for property taxes with modifications and
4 discuss how the Company proposes to effectuate the tracker. I will also address
5 Climax's proposal to modify the 2012 MYP settlement regarding property tax
6 amortization.

7 **Q. PLEASE DESCRIBE STAFF'S PROPOSAL REGARDING PROPERTY TAXES.**

8 A. Staff witness Ms. Marna K. Steuart presents Staff's recommendations that
9 "property taxes continue to be subject to a regulatory asset treatment for the
10 amount over or under the amounts in rates for 2015 through 2017."⁴¹ She
11 recommends that the amount over or under which to track is \$118.7 million Total
12 Company amount ("property tax baseline"), which is the adjusted amount of
13 property taxes Staff is proposing to use in their modified HTY test year. She also
14 recommends moving the GRSA annually to permit the recovery of the settlement
15 amortization for taxes incurred pursuant to the 2012 MYP and also for the over
16 and under recovery of the ongoing property taxes.⁴²

⁴¹ Answer Testimony of Ms. Marna K. Steuart at page 3.

⁴² Id. at page 9.

1 **Q. YOU MENTIONED ABOVE YOU WERE ACCEPTING THE CONTINUED**
2 **DEFERRED ACCOUNTING TREATMENT, WITH MODIFICATIONS. WHAT IS**
3 **THE COMPANY'S PROPOSAL?**

4 A. Because the Company is utilizing a different test year than that which is proposed
5 by the Staff, I propose that the appropriate property tax baseline around which to
6 be tracked is the amount of property taxes included in the 2015 Test Year of
7 \$146.1 million inclusive of the property tax amortization resulting from the 2012
8 MYP. Beyond this specific recommendation though, I agree with Ms. Steuart the
9 amount should the final property tax baseline should be what is included in base
10 rates. The Company is amenable to including this specific dollar amount for
11 accounting purposes in a compliance filing upon the Commission's decision in this
12 proceeding.

13 Additionally, the Company does not believe it is necessary to notice,
14 update and change the GRSA on an annual basis to reflect the over or under
15 recoveries experienced due to changes in the property tax expense. In the event
16 the CACJA Rider is approved, the Company will be filing another base rate
17 application in early 2017, thus we do not anticipate the property tax regulatory
18 treatment detailed here will result in a substantial over or under amount. In fact,
19 at first blush we believe that the rolling off of the property tax amortization is close
20 to the expected increase in property taxes, thus the two will offset.

21

1 **Q. PLEASE DESCRIBE MR. KOLLEN'S POSITION ON BEHALF OF CLIMAX**
2 **REGARDING PROPERTY TAXES.**

3 A. Mr. Kollen recommends extending the amortization associated with the deferred
4 property taxes to 5 year from the settled position of 3 years. He justifies the basis
5 of his recommendation on how the amortization will roll out of base rate over the
6 next several years.

7 **Q. HOW DO YOU RESPOND TO MR. KOLLEN'S POSITIONS?**

8 A. I cannot incorporate Mr. Kollen's recommendation into the Company's Rebuttal as
9 an adjustment we are willing to make. The 2012 MYP settlement dictates what
10 the Company and the Settlement parties are allowed to do with the amortizations
11 resulting from the 2012 MYP, and we do not believe that should be adjusted now.
12 However, Mr. Kollen's concerns are mitigated by the tracker for property taxes
13 that I discuss above.

IX. OIL & GAS REVENUES

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. I will address the Filing Parties positions expressed in regards to the oil and gas
3 royalty revenues that the Company receives from certain properties that it owns.
4 Specifically, I will address Mr. Cory Skluzak, Mr. Kevin Higgins and Mr. Lane
5 Kollen's positions on this topic.

6 **Q. WHICH PARTIES HAVE CHALLENGED THE COMPANY'S POSITION THAT
7 OIL AND GAS ROYALTY REVENUES NOT BE TREATED AS UTILITY
8 INCOME AND, CONSEQUENTLY, CREDITED TO CUSTOMERS?**

9 A. Four parties have asserted that oil and gas royalty revenues should be included
10 as utility income in determining the revenue deficiency for setting rates:

- 11 • OCC, through the Answer Testimony of Mr. Cory Skluzak;
- 12 • CEC, through the Answer Testimony of Mr. Kevin C. Higgins; and
- 13 • Climax-Evraz, through the Answer Testimony of Mr. Lane Kollen.

14 OCC and Climax -- propose that 100 percent of the oil and gas royalty
15 revenues should be included as utility income, while CEC proposes a sharing of
16 the oil and gas royalty revenues such that 90 percent would be credited to
17 customers and 10 percent would be credited to Public Service.

18 **Q. DO THE WITNESSES FOR OCC, CEC AND CLIMAX-EVRAZ OFFER SIMILAR
19 ARGUMENTS IN SUPPORT OF THEIR POSITIONS?**

20 A. Yes. Each of the witnesses adheres to the presumption that the Company's land
21 and land rights accounts include specific costs related to the mineral rights that

1 are generating the oil and gas revenues. OCC witness Mr. Skluzak take this
2 argument a step further and argues that, because the cost of the mineral rights
3 are reflected in the Company's land and land rights accounts, the property taxes
4 related to these mineral rights were also borne by customers. Lastly, Messrs.
5 Skluzak and Higgins each attempt to analogize the Company's oil and gas royalty
6 revenues with pole attachment revenues received for leasing unused space on its
7 utility poles to cable companies, which is treated for ratemaking purposes as utility
8 income and credited 100 percent to customers.

9 **Q. WHAT EVIDENCE DO THESE WITNESSES PROVIDE IN SUPPORT OF THE**
10 **PROPOSITION THAT THE COSTS OF THESE MINERAL RIGHTS ARE**
11 **REFLECTED ON THE COMPANY'S BOOKS AND THAT CUSTOMERS HAVE**
12 **BORNE THOSE COSTS?**

13 A. None of the witnesses provide any support for this presumption other than the fact
14 that Public Service purchased the land in fee simple and never recorded the
15 mineral rights as separate assets. They rely entirely upon the theory that the
16 mineral rights had to have some value when purchased and, therefore, that cost
17 must be reflected in the original cost of the land in the Company's plant accounts.
18 They simply ignore the reality that the mineral rights are severable from the rest of
19 the land, that the mineral rights had minimal, if any, value at the time Public
20 Service purchased the land, and that Public Service and its former subsidiary,
21 Fuel Resources Development Co. ("Fuelco"), consistently have treated the

1 severed mineral rights as non-utility property and as part of their non-regulated
2 business activities for the last 40 years.

3 **Q. HAS ANY WITNESS EVER QUANTIFIED THE COST OF THE MINERAL**
4 **RIGHTS ON PUBLIC SERVICE'S BOOKS TO SUPPORT THEIR**
5 **PROPOSITION?**

6 A. No. No witness in this case, or in any prior rate case in which the issue of oil and
7 gas royalties has been raised, has ever calculated or estimated what the costs of
8 these mineral rights were when first acquired. Moreover, no witness has ever
9 postulated an accounting principle or offered any method of assigning and
10 recording any cost to these mineral rights. Finally, no party has alleged that the
11 Company's accounting for these mineral rights was inconsistent with the Uniform
12 System of Accounts or generally accepted accounting principles.

13 **Q. WHAT WAS THE VALUE OF THESE MINERAL RIGHTS WHEN THEY WERE**
14 **ACQUIRED?**

15 A. It is my understanding that there were no proven oil and gas reserves and no oil
16 and gas development in the area when Public Service acquired the mineral rights
17 that are now generating royalties.

18 **Q. DID PUBLIC SERVICE RECORD ANY COSTS ON ITS BOOKS FOR THE**
19 **MINERAL RIGHTS ACQUIRED FROM FUELCO IN 1994?**

20 A. We could not find any journal entry recording the cost on Public Service's books
21 for the acquisition of these mineral rights in 1994. This could be because no cost
22 was assigned to those mineral rights, as the mineral deeds from Fuelco recited

1 only nominal value (\$10.00). I would note, however, that this non-recognition is
2 consistent with the Company's accounting for mineral rights before this time, such
3 as for the Fort St. Vrain properties and the earlier lands.

4 **Q. OCC WITNESS MR. SKLUZAK STATES IN HIS ANSWER TESTIMONY THAT**
5 **OUR CUSTOMERS ARE PAYING FOR ALL PROPERTY TAXES PAID ON THE**
6 **LAND THAT IS PRODUCING THE OIL AND GAS ROYALTY REVENUE. DOES**
7 **PUBLIC SERVICE INCUR PROPERTY TAXES RELATED TO THESE MINERAL**
8 **RIGHTS?**

9 A. No. As stated in my Direct Testimony, Public Service did not record any value on
10 the books associated with the mineral rights. In addition, as further explained by
11 Company witness Mr. Paul Simon in his Rebuttal Testimony, because the
12 royalties are recorded as non-utility income, they are not included in the valuation
13 assessment performed by the Colorado Department of Revenue's Property Tax
14 Administrator in calculating the Company's property taxes.

15 **Q. EVEN IF THERE WERE SOME NOMINAL VALUE ATTRIBUTABLE TO**
16 **MINERAL RIGHTS INCLUDED IN THE ORIGINAL COST OF THE SUBJECT**
17 **LANDS, WHAT COSTS HAVE CUSTOMERS BORNE AS A RESULT OF THE**
18 **INCLUSION OF THESE LANDS IN RATE BASE?**

19 A. Even if it could be argued that the original cost of this land included the value of
20 the underlying mineral rights, the total customer contribution over the years would
21 be a small fraction of the millions of dollars in oil and gas exploration and
22 development costs incurred by Fuelco and the other exploration and development

1 companies to locate, develop, produce and market the associated oil and gas.
2 The acquisition cost of mineral rights is a very small part of the business.
3 Because land is not a depreciable asset, customers' contribution in the
4 Company's test year revenue requirements would be limited to a return on rate
5 base and associated income taxes. As a result of the settlements relating to the
6 decommissioning and repowering of the Fort St. Vrain generating station a portion
7 of the cost of the lands surrounding Fort St. Vrain -- from which most of the oil and
8 gas royalty revenues are derived -- were recorded below the line in Non-utility
9 Plant in Service and do not affect the cost of service. Further, some of the oil and
10 gas royalty revenue is attributable to the 770 acres of mineral rights that were
11 deeded at no cost from Fuelco to Public Service in 1994 in connection with
12 Fuelco's dissolution.

13 Because land is not a depreciable asset, any contribution by customers
14 resulting from inclusion of these lands in the Company's test year revenue
15 requirements would be limited to a return on rate base and associated income
16 taxes. From the perspective of customers, the oil and gas royalty revenues would
17 be an unexpected windfall if the Commission required that they be credited to the
18 cost of service as utility income. I will also concede that it was fortuitous that the
19 mineral rights acquired by Public Service suddenly became valuable as the result
20 of the existence of producible oil and gas. However, from the perspective of
21 Public Service and its shareholders, the current stream of oil and gas royalty

1 revenues is more the direct result of Fuelco's unregulated business activities than
2 luck.

3 **Q. HOW IS THE CURRENT STREAM OF OIL AND GAS ROYALTY REVENUES**
4 **ATTRIBUTABLE TO FUELCO'S BUSINESS ACTIVITIES?**

5 A. In the arrangements entered into between Fuelco and Public Service in the 1970s
6 and early 1980s, Public Service assigned the rights to develop the oil and gas
7 related to these properties to Fuelco, retaining for itself a net proceeds and royalty
8 interest. In fact, in exchange for these development rights under its arrangement
9 with Fuelco, Public Service did receive compensation in the form of a share of the
10 net proceeds and royalties. These mineral rights did not have any separate book
11 value in the accounting records of Public Service, nor was there any significant
12 market value of these rights, since they were undeveloped. It was not until
13 Fuelco, and other exploration and production companies through agreements with
14 Fuelco, paid for the exploration, drilling and production costs of the wells that the
15 royalties at issue in this case were first generated. Public Service customers did
16 not pay for any of these costs to develop the mineral rights. This is precisely why
17 Public Service believes that its shareholders are entitled to these oil and gas
18 royalty revenues, and not its customers.

1 **Q. DO YOU BELIEVE A FAIR BALANCING OF THE EQUITIES IN THIS CASE**
2 **SUPPORTS THE RECOMMENDATIONS OF OCC, CEC AND CLIMAX ON THE**
3 **TREATMENT OF OIL AND GAS ROYALTIES IN THIS CASE?**

4 A. No, I do not. These parties essentially reason that, because the original cost of
5 the land has been included in rate base, the Company's customers essentially
6 "own" 100% of the underlying mineral rights and are, therefore, entitled to 100% of
7 the benefits derived from those mineral rights. However, this theory belies the
8 facts. Public Service has consistently, and at all relevant times during the history
9 of these properties, treated these mineral rights as non-utility property with which
10 it is was free to do as it pleased. The 40-year history of the Company's handling
11 of these mineral rights, conclusively supports the fact that Public Service never
12 considered the mineral rights as utility property. In the early 1970's, Public
13 Service gave its new subsidiary, Fuelco, full responsibility over the tracking,
14 leasing, marketing, and overall management of these mineral rights. Public
15 Service's belief that Fuelco's efforts were instrumental in developing the revenue
16 streams attributable to these mineral rights was obvious from the 33 percent
17 share Public Service accorded Fuelco as compensation for these services. After
18 acquiring all of the land rights that it could in the area surrounding the planned
19 Fort St. Vrain nuclear generating facility site, Public Service directed Fuelco to
20 acquire the remaining mineral rights that had not previously been obtained, which
21 Fuelco did in its own name. Later, effective in 1980, Public Service entered into a
22 more complex "net operating income" agreement in which Public Service and

1 Fuelco pooled their mineral interests in the Fort St. Vrain area, and Fuelco was
2 given authority to enter into drilling and farm out agreements on behalf of the
3 pooled interests. Fuelco ultimately became a working interest owner in many of
4 the wells drilled on the Fort St. Vrain property during this time. Public Service
5 retained a net proceeds interest and was thus protected from loss. Lastly, during
6 the winding down of Fuelco's business in 1994, the fact that Public Service
7 allowed Fuelco to deed its remaining mineral interests to Public Service for no
8 value further proves that Public Service never considered mineral rights to be
9 utility property.

10 **Q. BUT WHAT ABOUT THE ARGUMENTS BY MESSRS. SKLUZAK AND**
11 **HIGGINS THAT THE MINERAL RIGHTS WERE INTENTIONALLY ACQUIRED**
12 **BY PUBLIC SERVICE FOR A UTILITY PURPOSE?**

13 A. This argument only holds some relevance with respect to the lands acquired in
14 fee simple surrounding the Fort St. Vrain nuclear plant before the site was
15 repowered as a natural gas-fired generating facility. It is true that the Company,
16 and later Fuelco, acquired the mineral rights to protect the proposed nuclear
17 facility from potential encroachment from oil and gas development. This purpose
18 does not apply to the subsequent natural gas-fired Fort St. Vrain facility. In
19 addition, as I explained in my Direct Testimony, after the nuclear plant was
20 removed from rate base, the Company wrote down approximately \$400 million in
21 nuclear assets, resulting in a \$117 million after-tax loss to shareholders. Lastly,
22 as part of a settlement, a portion of the cost of the land surrounding Fort St. Vrain

1 facility (\$95,122), was transferred to non-utility. Based on these facts, I think it
2 would be fair and equitable for the Commission to consider any and all costs
3 attributable to the mineral rights surrounding Fort St. Vrain either to have been
4 written off with the other nuclear assets or to be part of the land transferred to
5 non-utility plant.

6 **Q. DO YOU AGREE WITH MESSRS. SKLUZAK AND HIGGINS THAT THE**
7 **COMPANY'S OIL AND GAS ROYALTY REVENUES ARE ANALOGOUS TO**
8 **POLE ATTACHMENT REVENUES FOR PURPOSES OF DETERMINING THE**
9 **RATEMAKING TREATMENT IN THIS PROCEEDING?**

10 A. No. The attempts by Messrs. Skluzak and Higgins to analogize the Company's oil
11 and gas royalty revenues to pole attachment revenues is misplaced. There are
12 several material differences between these two unregulated businesses. First
13 and foremost, the business of leasing space on utility poles and the provision of
14 electric utility service are interdependent, because the use of the poles are
15 required for both. This is not true for the development of mineral rights. Oil and
16 gas development activities and the leasing of mineral rights are not dependent
17 upon the provision of utility service.

18 This perhaps can be better seen from the perspective of the relationship of
19 the asset generating the revenues to the utility property. First, the Company's
20 utility poles are undeniably utility property that are used and useful in the provision
21 of electric utility service. Mineral rights, on the other hand, are not utility property
22 and are not used and useful in providing electric utility service. Utility poles are

1 tangible assets and the portion of the utility poles that the Company leases to
2 cable companies is not severable from the rest of the pole. Mineral rights, on the
3 other hand, are intangible assets and are often severed from the rest of the real
4 property in order to develop them. The pole attachment agreements merely take
5 advantage of unused space on the poles that can only be put to an economic use
6 at the same time the poles are being used for utility service. The development of
7 mineral rights, on the other hand, does not require the surface or any other part of
8 the land to remain in utility service. In fact, the leasing of mineral rights essentially
9 conveys to the lessee the right to drill for, extract, produce and sell the oil and gas
10 underlying the property.

11 **Q. ARE THERE OTHER UNREGULATED BUSINESSES OF THE COMPANY**
12 **THAT ARE MORE ANALOGOUS TO OIL AND GAS ROYALTIES THAN POLE**
13 **ATTACHMENTS?**

14 A. Yes. Analogous unregulated businesses would be those that are not dependent
15 upon the provision of utility services, but which otherwise benefit only indirectly
16 from intangibles related to the utility business, such as professional relationships,
17 expertise, franchise rights or goodwill. Two current unregulated businesses that
18 come to mind are HomeSmart (formerly Appliance Repair) and chilled water
19 services. Former unregulated businesses of Public Service would include
20 *e prime, inc.*, a natural gas and energy marketing affiliate, and Fuelco, an oil and
21 gas development company.

1 **Q. HAS THE COMMISSION EVER ADDRESSED THE RATEMAKING**
2 **TREATMENT OF OIL AND GAS ROYALTY REVENUES IN ANY PREVIOUS**
3 **RATE CASE ON THE MERITS?**

4 A. No. The Commission has never addressed the merits of the parties' positions
5 with regard to the ratemaking treatment of oil and gas royalty revenues since the
6 issue was raised for the first time in Docket No. 02S-315EG. However, the
7 ratemaking treatment proposed by OCC, CEC and Climax reflects a significant
8 change in the way oil and gas royalty revenues were treated in all Company rate
9 cases from the time the revenues started to flow in the 1970s until the Company's
10 2002 rate case in Docket No. 02S-315EG, when this treatment was first called
11 into question.

X. RATE CASE EXPENSES

1 **Q. WHAT DO YOU WISH TO ADDRESS IN THIS PORTION OF YOUR**
2 **TESTIMONY?**

3 A. In my Direct Testimony, I presented the Company’s estimate of its rate case
4 expenses, which were reflected in our rate request in this proceeding. Staff
5 witness Kahl and OCC witness Skluzak raised issues related to these expenses.
6 They focused on four areas: (1) our alternative form of notice; (2) our legal
7 expense; (3) our costs for Mr. Hevert, our return on equity witness; and, (4) the
8 fees we paid for the Benchmarking Study prepared by Pacific Economics Group
9 Research, LLC (“Benchmarking Study”). In making his arguments, Mr. Skluzak
10 also alleged in multiple places of his testimony that I had not sufficiently justified
11 my request for rate case expenses in my Direct Testimony. Mr. Skluzak and CEC
12 witness Higgins also made various recommendations regarding how rate case
13 expenses should be limited – namely, by requiring the use of bidding to hire
14 outside consultants and counsel and by splitting costs 50-50.

15 In this portion of my testimony, I will first give a brief overview of why we
16 believe it is appropriate to recover rate case expenses and then respond to Mr.
17 Skluzak’s general allegations about the adequacy of the information that I
18 provided in my Direct Testimony. I will then provide an update to our overall rate
19 case cost estimate and the amount we are requesting in this proceeding. In a
20 separate section I will address the notice issue. I will then address Ms. Kahl’s and
21 Mr. Skluzak’s arguments regarding legal expenses. Next, I will address the

1 recommendations to limit our ability to retain experts and attorneys and to share
2 expenses. Finally, I will discuss Mr. Hevert's fees and the costs for the
3 Benchmarking Study.

4 ***A. Adequacy of Information in Direct Case***

5 **Q. BEFORE ADDRESSING MS. KAHL'S AND MR. SKLUZAK'S SPECIFIC**
6 **CRITICISMS, WOULD YOU PLEASE EXPLAIN THE COMPANY'S VIEW ON**
7 **THE OVERALL RECOVERABILITY OF RATE CASE OUTSIDE LEGAL**
8 **EXPENSES.**

9 A. Most businesses have the flexibility to set their prices based on their assessment
10 of the market and the demand for their products. Utilities that are subject to cost
11 of service regulation do not have this same flexibility, but rather must make rate
12 filings and obtain public utility commission authorization to establish new rates.
13 Accordingly, it is my understanding that it has been the long standing practice of
14 this Commission has been to treat reasonable rate case expense as a necessary
15 cost of doing business and, after review, to allow recovery of rate case expenses
16 through mechanisms established in the same proceeding.

17 **Q. PLEASE RESPOND TO MR. SKLUZAK'S VARIOUS CONTENTIONS THAT**
18 **YOU PROVIDED INSUFFICIENT INFORMATION IN YOUR DIRECT**
19 **TESTIMONY TO JUSTIFY RATE CASE EXPENSE, PARTICULARLY OUTSIDE**
20 **LEGAL FEES.**

21 A. In my Direct Testimony, I presented information regarding our rate case expenses
22 in a form that I understood to be consistent with prior practice and that is

1 consistent with the Settlement Agreement among Public Service, Staff, and OCC
2 in Proceeding No. 14AL-0309G, which was entered into on July 28, 2014. The
3 Commission opened Proceeding No. 14AL-0309G to investigate the rate case
4 expenses the Company incurred in its last gas rate case (Proceeding No. 12AL-
5 1268G), which had exceeded its initial estimates. In this settlement, the parties
6 agreed to the following process for the review of rate case expenses in future rate
7 case filings:

8 The Company agrees to include in its filed direct testimony and exhibits an
9 estimate of rate case expense by major category of expected rate case expenses.
10 When it makes its direct case filing, the Company will provide to the Staff and the
11 OCC work papers, on a confidential basis, including supporting document for the
12 estimate of rate case expenses.⁴³

13 [] This paragraph goes on to discuss procedures for protecting materials based
14 upon the assertion of the attorney-client privilege and work product doctrine. In
15 Proceeding No. 14AL-0309G, the Company, Staff and OCC all agreed on the
16 record to follow the settled process for reporting and review of rate case expenses
17 in this case, even if the ALJ declined to adopt the process. (Proceeding No.
18 14AL-0309G, Tr. 8/25/2014. P. 43, l. 25 – p. 48, l.23.)

⁴³ See Staff Witness Kahl's Attachment SMK-3.

1 **Q. GIVEN THAT THE SETTLEMENT AGREEMENT WAS ENTERED INTO AFTER**
2 **THE FILING OF THIS RATE CASE, WHY IS IT RELEVANT HERE?**

3 A. Even though this settlement was agreed to after the filing of this case, we
4 indicated that we would abide by its terms for this case, as an email Ms. Kahl
5 attaches to her testimony indicates.⁴⁴ More generally, I believe the settlement,
6 which was intended to enhance the transparency of our rate case expenses and
7 provide for a review process by Staff and OCC, is indicative of what we
8 reasonably should have been expected to file in our direct case, and then how we
9 should have supported it later. Obviously we could not have filed this information
10 at the start of the proceeding in accordance with the settlement, but we did
11 provide the information in discovery, as Ms. Kahl's and Mr. Skluzak's attachments
12 show.

13 **Q. IS MR. SKLUZAK CONTENDING THAT THE COMPANY HAS NOT ADHERED**
14 **TO THE SETTLEMENT?**

15 A. No. In fact, in discovery, he clarified that he has made no such contention.⁴⁵
16 However, in contending at various places that our direct case was insufficient, he
17 appears to be trying to support a filing standard that is beyond what OCC agreed
18 to in the settlement and beyond what has ever been required in the past.

⁴⁴ Staff Witness Kahl's Attachment SMK-4

⁴⁵ OCC response to PSCo3-10 (*See* Attachment No. AKJ-7)

1 **Q. PLEASE ELABORATE ON HOW THE INFORMATION THAT THE COMPANY**
2 **HAS PROVIDED IS CONSISTENT WITH THE RATE CASE EXPENSE**
3 **SETTLEMENT AGREEMENT IN THIS CASE?**

4 A. The Company included an estimate of rate case expense by major category of
5 expected rate case expenses in Direct Testimony and attachments as the
6 Company has done in every rate case. When the Company filed its Direct
7 Testimony, it did not provide workpapers or supporting documentation as outlined
8 in the Settlement Agreement because the Company had not received a Decision
9 on the agreed to process until four months into the case. However, as part of
10 Discovery, the Company provided responses to Discovery Requests CPUC4-3,
11 OCC13-50 and CPUC37-1 Attachments SMK-9 and SMK-10 and SMK-11 from
12 Ms. Kahl's Answer Testimony, providing the same information that would have
13 been provided as workpapers or supporting documentation.

14 The Company is filing with its rebuttal testimony an update to the rate case
15 expense amount included in the requested revenue requirement. The update
16 includes the known actual amounts of rate case expenses incurred through the
17 date of filing Rebuttal Testimony, the remaining estimated amounts, and the total
18 of rate case expenses sought to be recovered. The Company is providing all
19 supporting documentation available for the actual amounts of rate case expenses
20 reported in the Company's rebuttal testimony as Confidential Attachment No.
21 AKJ-8. I will discuss the update in the next portion of my testimony.

1 ***B. Updated Rate Case Expense Estimate and Request***

2 **Q. HAS THE COMPANY MADE CORRECTIONS TO THE RATE CASE EXPENSE**
3 **ESTIMATE THAT WAS FILED IN DIRECT?**

4 A. Yes. The Company made corrections to the rate case expense estimate that was
5 filed in Direct Testimony to reflect the Commission's approval, after the original
6 estimate was put together, of an alternative form of notice in this proceeding to
7 notice customers with a bill insert instead of direct mail. The Company reduced
8 Customer Noticing and Postage costs by [REDACTED]. This correction was included
9 in the Company's corrections filing on October 6, 2014 as Revised Attachment
10 No. AKJ-3.

11 **Q. IS THE COMPANY UPDATING THE RATE CASE EXPENSE ESTIMATE IN**
12 **THIS FILING?**

13 A. Yes. The Company is updating the Outside Legal and Consultants and Outside
14 Witnesses estimates to reflect costs that were not anticipated at the time of filing
15 Direct Testimony. The Company did not anticipate the amount of pension-related
16 discovery requests that would be included in this proceeding that needed input
17 from our actuarial consultant Towers Watson ("TW"). There has been [REDACTED]
18 incurred for TW to date for work on audit and discovery for this proceeding. There
19 is an additional [REDACTED] for TW witness [REDACTED] included for rebuttal,
20 hearing prep and hearing to rebut the Staff on pension issues. In total,
21 Consultants and Outside Witnesses has been increased by [REDACTED] to address
22 pension issues. The detailed invoices for these costs have been provided in the

1 Company's responses to Discovery Request CPUC37-1 and provided here as
2 Confidential Attachment No. AKJ-8. Additionally, the Company has retained [REDACTED]
3 [REDACTED] to provide legal counsel on pension issues due to his
4 expertise on the topic and his assistance on this issue in other Xcel Energy
5 jurisdictions. The need to hire [REDACTED] has added [REDACTED] to the Outside Legal
6 estimate. As are all other attorneys that we have retained for this case, [REDACTED]
7 will charge us at the discounted hourly rate that he has charged other Xcel Energy
8 companies, which is within the range of hourly fees charged by other attorneys in
9 this case as shown in Mr. Skluzak's Table CWS-4. Additionally, there were other
10 reasons why outside legal expense was higher than anticipated, which I address
11 separately below.

12 The detailed estimate from TW and retention letter from [REDACTED] are
13 included as Confidential Attachment No. AKJ-9. These updates are reflected in
14 Attachment No. AKJ-10.

15 In addition, there are three corrections the Company is making to the rate
16 case expense estimate since the corrections filing made on October 6, 2014.
17 [REDACTED] of Transcript/Hearing Costs were inadvertently included twice, in Outside
18 Legal and in Transcript/Hearing Costs, and [REDACTED] was included in [REDACTED]
19 [REDACTED] retention letter in Outside Legal because these invoices are
20 generally paid by outside counsel and reimbursed. In addition, in responding to
21 Answer Testimony, we discovered that there was [REDACTED] inadvertently included
22 in the original ROE estimate included in the Consultants and Outside Witnesses

1 category. These corrections totaling [REDACTED] are reflected in Second Revised
2 Attachment No. AKJ-3.

3 **Q. DID THE COMPANY MAKE A FURTHER DECREASE TO RATE CASE**
4 **EXPENSES IN A RESPONSE TO DISCOVERY AS SUGGESTED BY OCC**
5 **WITNESS MR. SKLUZAK?**

6 A. No. Mr. Skluzak references an adjustment for the amount of \$173,302 in
7 response to Discovery Request OCC1-9 as a further decrease to the Company's
8 corrections filing, but this is the same adjustment explained above for [REDACTED]
9 amortized over two years, including an adjustment for cash working capital.

10 **Q. DID STAFF WITNESS MS. KAHL ACCURATELY DESCRIBE THE EXPENSES**
11 **TO BE REMOVED FROM THE COST OF SERVICE?**

12 A. No. Staff identified two charges that will not be removed from the cost of service.
13 Ms. Kahl believed there was a charge for a "TW rate case consult – Nov 13" for
14 [REDACTED] that belonged to the Minnesota rate case that will be removed from rate
15 case expenses, but the [REDACTED] was for the Public Service Electric rate case and
16 charged appropriately to the case. Staff may have misunderstood the invoice
17 because there was also a line item on the invoice that included charges for the
18 Minnesota rate case in the amount of [REDACTED] that was not charged to this case.

19 Staff also indicated that the Company was unable to find invoices in the
20 amount of [REDACTED] that need to be removed if no supporting documentation can
21 be found, but these were provided in a subsequent response to Discovery
22 Request CPUC37-1 served on the Staff and the parties on December 4, 2014.

1 **Q. DID THE COMPANY PROVIDE PARTIES DETAILED ESTIMATES OF THE**
2 **\$695,712 IN CONSULTANTS AND OUTSIDE WITNESSES?**

3 A. Yes, the Company provided detailed contracts for Consultants and Outside
4 Witnesses in response to Discovery Request OCC13-24 on September 17, 2014
5 and provided here as Confidential Attachment No. AKJ-11. The only category
6 that did not have a detailed estimate was for the [REDACTED] for anticipated rebuttal
7 and discovery costs that were anticipated, yet not known at the time of filing.

8 **Q. FOR WHAT DID THE COMPANY USE THE [REDACTED] CONSULTANTS**
9 **REBUTTAL AND DISCOVERY ESTIMATE?**

10 A. The Company increased the estimates for the Benchmarking Study by [REDACTED]
11 and Depreciation Study by [REDACTED] for a total of [REDACTED] due primarily to
12 unanticipated discovery. In addition, the depreciation consultant's costs were
13 increased to account for more time spent on rebuttal, hearing preparation, and
14 hearing from when the case was filed. The detailed breakdown of the invoices
15 incurred are included in Confidential Attachment No. AKJ-8 and updated
16 estimates are included as Confidential Attachment No. AKJ-12.

17 **Q. DID STAFF APPROVE ANY OF THE INCREASES TO CONSULTANTS AND**
18 **OUTSIDE WITNESSES COSTS THAT ARE THE RESULT OF SPECIAL**
19 **STUDIES TO RESPOND TO PENSION-RELATED DISCOVERY?**

20 A. Yes. The Company communicated to Staff that responding to Discovery Request
21 CPUC42-4 and CPUC44-8 would require special studies by TW. The Company
22 sent the authorization from TW for the estimated amount of [REDACTED] to

1 Staff and although expressing concern about the cost nevertheless they approved
 2 the Company to move forward with this study. Please see Confidential
 3 Attachment No. AKJ-13 for Staff's email authorizing the Company to do this work
 4 and to incur this cost.

5 **Q. WHAT ACTUAL RATE CASE EXPENSES HAS THE COMPANY INCURRED AT**
 6 **THE TIME OF FILING REBUTTAL TESTIMONY?**

7 A. The Company has incurred \$1,421,744 of rate case expenses through November
 8 2014 and estimates \$493,495 of rate case expenses for the remainder of the case
 9 for a total of \$1,915,269. The breakdown of actual and estimated expenses by
 10 cost category are in Table AKJ-R-9 below.

11 **TABLE AKJ-R-9**

Description	Actuals through Nov 30, 2014	Estimated through end of case	Total Rate Case Expense
Customer Noticing	██████████	██████████	██████████
Duplicating and Office Supplies	██████████	██████████	██████████
Postage	██████████	██████████	██████████
Consultants & Outside Witnesses	██████████	██████████	██████████
Transcripts / Hearing Costs	██████████	██████████	██████████
Outside Legal	██████████	██████████	██████████
Miscellaneous Employee Expenses	██████████	██████████	██████████
Total Rate Case Expenses	\$1,421,774	\$493,495	\$1,915,269

12

1 Q. YOU INDICATED THAT THE COMPANY IS ANTICIPATING MORE OUTSIDE
2 LEGAL COSTS THAN WERE REFLECTED IN THE PREVIOUSLY UPDATED
3 ESTIMATE. PLEASE EXPLAIN WHY.

4 A. Yes. There are four primary reasons for this. First, [REDACTED] had
5 provided us with a range of estimates and for our rate expense estimate we
6 selected a point in the middle of the range. [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED] Third, there was significantly more

16 discovery in this case than in prior cases. To put that in context, we responded to

17 more discovery (1,530 questions, 2,716 sub-part questions) in Proceeding No.

18 12AL-1268G than in any prior rate case, and in this case, we have already

19 responded to almost as many questions (1,506 questions, 2,581 sub-part

20 questions) in response just to our direct case than we answered related to our

21 direct and rebuttal cases in Proceeding No. 12AL-1268G. Fourth, because

22 pension issues had been extensively examined in Proceeding No. 12AL-1268G,

1 we were not expecting the focus on pension issues that we have had in this
 2 proceeding. The focus on those issues resulted in increased costs in answering
 3 discovery and retention of an expert rebuttal witness from Towers Watson and of
 4 [REDACTED] as I explained above.

5 Please see Table AKJ-R-10 below for the anticipated outside legal costs
 6 compared to what the Company is updating in the proceeding. Please see
 7 Confidential Attachment No. AKJ-14 for the detailed estimates on anticipated
 8 costs for the remainder of this proceeding.

9 **Table AKJ-R-10**

Outside Legal	Original Estimate in Direct	Expected Costs for the Case	Updated for Rebuttal
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Outside Legal	[REDACTED]	[REDACTED]	[REDACTED]

10

11 **Q. WHY ISN'T THE COMPANY REQUESTING RECOVERY OF THE ENTIRE**
 12 **AMOUNT OF ITS RATE CASE EXPENSE?**

13 A. I believe the primary factor that led to the initiation of Proceeding No. 14AL-0309G
 14 was because our actual rate case expense was significantly higher than our
 15 original rate case estimate. While we believe there were valid reasons for that –
 16 particularly more voluminous discovery than we had expected– we ultimately

1 decided in the settlement to that proceeding to limit recovery to our estimated
2 amount.

3 **Q. IS THE COMPANY REQUESTING TO RECOVER THE FULL LEVEL OF THE**
4 **ANTICIPATED OUTSIDE LEGAL ESTIMATE IN THIS CASE?**

5 A. No, it is not. We will only request the amount of our outside legal expense that
6 was included in our originally requested rate case expense estimate with the
7 addition of fees we are expecting to pay [REDACTED] to litigate the pension issue.
8 As I have noted, we did not reasonably anticipate the focus on pension issues in
9 this proceeding, given the extensive focus on that issue in Proceeding No. 12AL-
10 1268G, and there was an express understanding by Staff that its inquiry on these
11 issues would result in increased litigation costs for us in this case.

12 **Q. WHY ISN'T THE COMPANY REQUESTING RECOVERY OF THE ENTIRE**
13 **AMOUNT OF ITS RATE CASE EXPENSE?**

14 A. For two reasons. First, I believe the primary factor that led to the initiation of
15 Proceeding No. 14AL-0309G was because our actual rate case expense was
16 significantly higher than our original rate case estimate. [REDACTED]

17 [REDACTED]

18 [REDACTED] t

19 [REDACTED] In this case,

20 we are likewise in a position where we have underestimated our rate case
21 expenses for Outside Legal costs. We believe that the amounts we have
22 expended for this case have been reasonable notwithstanding that we have

1 exceeded our estimate for the reasons I noted above. Nonetheless, in an effort to
2 eliminate a potential area of dispute, we are only proposing the one adjustment to
3 our original rate case legal expense, and will not request to recover in this
4 proceeding amounts in excess of that adjusted amount. While we do not agree
5 with the bases for the adjustments to rate case legal expense advanced by Ms.
6 Kahl for the reasons explained below, the amount that we will voluntarily not
7 collect exceeds her proposed adjustments.

8 ***C. Alternative Form of Notice Recommendation***

9 **Q. MS. KAHL RECOMMENDS THAT THE COMPANY EMAIL RATE CASE**
10 **NOTICES TO EBILLED CUSTOMERS. DOES THE COMPANY BELIEVE THAT**
11 **WOULD BE APPROPRIATE?**

12 A. The Company has concerns with that approach. In the past, the Company has
13 refrained from sending direct email to customers who have provided us with their
14 email address for several reasons. Based on both market research and peer utility
15 benchmarking, it is an industry best practice to reserve email communications for
16 matters that involve public safety, services and programs, and crisis
17 communications.

18 Additionally, with each email we send, customers always have the option to
19 unsubscribe from our email database. There is a risk that customers who
20 perceive we are over-communicating can “opt out” at any time, which jeopardizes
21 our customer email database and our reputation as an effective email sender.

1 Retaining a strong email database and sender reputation is critical, as email
2 remains an important communication channel in the right situation.

3 **Q. WHAT DOES THE COMPANY PROPOSE AS A SHORT TERM SOLUTION TO**
4 **ALLEVIATE STAFF'S CONCERN THAT EBILL CUSTOMERS WERE NOT**
5 **EFFECTIVELY NOTICED?**

6 A. In the short term, the Company can email rate case notifications to eBill
7 customers with the "unsubscribe" link removed. This is not a preferred long-term
8 option, as it is not typical protocol to exclude an unsubscribe link, and customers
9 could still lodge a complaint and/or request removal from our database. However,
10 it does provide a quick "one-click" solution that would alleviate Staff's concerns
11 and the rates at which customers open the email could be tracked as an
12 effectiveness measure.

13 **Q. WHAT IS THE COMPANY'S PROPOSED LONG TERM SOLUTION?**

14 A. The Company's long-term solution would be to send an eBill notification email out
15 of the MyAccount system, which would include a one-click link to an
16 xcelenergy.com webpage with rate case notification information. When an eBill
17 customer receives a message that their bill is ready for payment, they would also
18 see a link to a page(s) with information about rate case filings and the notification.
19 This solution would leverage an existing communication, which could mitigate
20 concerns regarding over-communication.

21 We would also continue to look for MyAccount communication
22 enhancements following a planned website redesign in 2015.

1 ***D. Staff and OCC Arguments to Disallow Legal Expenses***

2 **Q. PLEASE PROVIDE AN OVERVIEW OF THE ADJUSTMENTS THAT MS. KAHL**
3 **AND MR. SKLUZAK WOULD MAKE TO THE OUTSIDE LEGAL EXPENSE**
4 **PORTION OF THE RATE CASE EXPENSES THAT THE COMPANY HAS**
5 **REQUESTED.**

6 A. Ms. Kahl recommends two adjustments to our originally estimated rate case
7 expenses: [REDACTED] for outside legal expenses billed for services provided more
8 than three months prior to the filing of our case, and another adjustment of
9 [REDACTED] to exclude amounts billed by one of the [REDACTED] attorneys,
10 [REDACTED], in connection with the testimony of Company witness Mr. Fox. Mr.
11 Skluzak proposes to limit our legal expenses to [REDACTED], the average approval
12 from Public Service's most recent three electric rate cases, which would result in a
13 disallowance of [REDACTED]. Mr. Skluzak contends erroneously that the Company is
14 "once again, attempting to maximize its rate case expenses in this rate case" and
15 makes a number of criticisms regarding our outside legal expenditures.

16 **Q. MS. KAHL SETS FORTH A THREE FACTOR TEST THAT SHE BELIEVES THE**
17 **COMMISSION FOLLOWS IN DETERMINING ALLOWABLE LEGAL EXPENSE**
18 **IN A RATE PROCEEDING (KAHL ANSWER TESTIMONY AT PAGE 13, LINES**
19 **6 – 11). DO YOU AGREE THAT IS THE APPLICABLE TEST?**

20 A. No, I do not. While I am not a lawyer, it is my understanding that the three factor
21 test that she cites is what the Commission has applied on an after-the-fact basis
22 in the unusual situation where an intervenor has sought reimbursement for its

1 legal and expert witness expenses. I am not aware that the Commission has ever
2 applied this test in assessing the reasonableness of the utility's own rate case
3 expenses.

4 **Q. MR. SKLUZAK SUGGESTS THAT OUTSIDE LEGAL EXPENSES MUST BE AT**
5 **THE "LOWEST POSSIBLE COST" (SKLUZAK ANSWER TESTIMONY AT**
6 **PAGE 10, LINE 15 THROUGH PAGE 11, LINE 2). DO YOU AGREE?**

7 A. No. While cost is one factor that we consider in hiring outside counsel, there are
8 other important qualitative factors that also need to be considered and which
9 affect the reasonableness of the fees charged by the skilled professionals we hire,
10 such as regulatory attorneys and outside consultants. [REDACTED]

11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 [REDACTED] In this case we selected experienced regulatory
18 counsel who have appeared in many proceedings before the Commission, or who
19 have comparable experience in other Xcel Energy jurisdictions. Inside counsel
20 was also used for this proceeding.

1 Q. HOW DO YOU RESPOND TO MS. KAHL'S RECOMMENDATION THAT THE
2 COMMISSION DETERMINE THAT OUTSIDE LEGAL EXPENSES INCURRED
3 PRIOR TO THREE MONTHS IN ADVANCE OF THE FILING OF THE RATE
4 CASE SHOULD NOT BE INCLUDED IN RATE CASE EXPENSE?

5 A. I believe this recommendation is inappropriate. First, three months is not a
6 realistic amount of time for the preparation of a case such as this from start to
7 filing. The effect of this recommendation would be to limit in an arbitrary manner
8 our ability to use counsel during the entire period we are preparing our case.

9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]

14 Second, Ms. Kahl seems to suggest that the Company's management
15 should make all the strategic decisions relating to the rate case, and that the
16 attorneys' proper role is simply to implement that strategy. I believe that Ms. Kahl
17 has an overly limited view of the proper role of attorneys. Utility management
18 does not decide rate case strategy in a vacuum, but seeks and obtains legal
19 advice in formulating that strategy. I believe that is something that should be
20 encouraged, not discouraged.

21 Further, in response to the concern that some of the work may have been
22 duplicative, which was also suggested by Mr. Skluzak, that is incorrect. [REDACTED]

1 [REDACTED] was assigned many preliminary tasks that reduced the need for later
2 work by other attorneys.

3 **Q. BOTH MS. KAHL AND MR. SKLUZAK TAKE ISSUE WITH THE FACT THAT**
4 **ATTORNEYS PROVIDED SUBSTANTIAL ASSISTANCE TO MR. FOX IN THE**
5 **PREPARATION OF HIS TESTIMONY. IN FACT, THAT IS ONE BASIS FOR**
6 **MS. KAHL'S RECOMMENDED DISALLOWANCE. IS THEIR CONCERN**
7 **VALID?**

8 A. No. Mr. Fox, who is the person responsible for the day-to-day operations of
9 Public Service's generation fleet, is an inexperienced witness. His testimony
10 includes a great deal of information that had to be pulled together from different
11 sources in the Energy Supply business area. It is the information in his testimony
12 – the capital costs associated with our CACJA compliance – that is the primary
13 driver in this rate proceeding. In the context of this case and Mr. Fox's importance
14 to it, I believe their concerns are not valid. It was imperative that we conveyed
15 this information in a way that is clear and understandable which was the
16 responsibility of Mr. Fox and the attorneys that assisted him. It is not reasonable
17 to expect that this task should be delegated to technical writers, as Ms. Kahl
18 suggests.

1 **Q. HOW DO YOU RESPOND TO MR. SKLUZAK'S CONTENTION THAT THE**
2 **COMMISSION IN THE GAS RATE CASE INDICATED THAT IT WAS**
3 **CONCERNED ABOUT THE OVERALL LEVEL OF RATE CASE OUTSIDE**
4 **LEGAL FEES AND WANTED THEM REDUCED?**

5 A. I do not believe that was the conclusion of ALJ Fader's or the Commission's
6 orders; they merely initiated a proceeding where the reasonableness of the
7 amount of actual legal expenses exceeding our initial estimates could be
8 examined. (See Decision No. C14-0443 issued in Proceeding No. 14AL-0309G.)
9 In her Recommended Decision issued in the underlying gas rate case, ALJ Fader
10 had expressly recognized that we were entitled to recover all reasonable
11 attorneys' fees and directed the Company to file tariffs to recover our actual
12 expenses incurred. What caused the Commission to suspend this tariff filing was
13 the fact that, since our actual expense significantly exceeded our initial estimates,
14 no party or the Commission had had an opportunity to review the higher level of
15 actually incurred expenses.

1 Q. I WOULD LIKE TO TURN TO SOME OF MR. SKLUZAK'S CRITICISMS OF THE
2 COMPANY'S LEGAL STAFFING FOR THIS CASE. FIRST, HOW DO YOU
3 RESPOND TO MR. SKLUZAK'S CRITICISM OF THE COMPANY'S LEGAL
4 STAFFING FOR THIS PROCEEDING, AND HIS ARGUMENT THAT IT SHOULD
5 HAVE STAFFED MORE WITH INSIDE ATTORNEYS AND USED FEWER
6 OUTSIDE ATTORNEYS?

7 .A. [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]. Rate cases are very complex proceedings with a
12 large number of witnesses and voluminous testimony. [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 Q. WOULD YOU PLEASE RESPOND TO MR. SKLUZAK'S TESTIMONY WHERE
18 HE "REJECTS" THE RATIONALE THAT OUTSIDE ATTORNEYS WOULD BE
19 NEEDED DUE TO THE EXPECTED WORKLOADS OF INSIDE ATTORNEYS
20 (SKLUZAK ANSWER TESTIMONY AT 36).

21 A. Mr. Skluzak presented no information in his testimony or in discovery where he
22 tried to analyze the workloads of our in-house legal department. In contrast, we

1 did. [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED] ce
16 [REDACTED]

17 **Q. LEAVING ASIDE THE ISSUE OF INSIDE VERSUS OUTSIDE COUNSEL, ISN'T**
18 **IT TRUE THAT THE COMPANY IS USING MORE ATTORNEYS IN THIS RATE**
19 **PROCEEDING THAN IN PAST PROCEEDINGS? IF SO, PLEASE EXPLAIN**
20 **WHY?**

21 **A. It is true.** [REDACTED]
22 [REDACTED]

1 [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED]
6 [REDACTED]

7 I point out that not all of the attorneys we have used have been outside
8 attorneys. [REDACTED] ad

9 [REDACTED]
10 [REDACTED]
11 [REDACTED] [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]

15 **Q. MR. SKLUZAK SUGGESTS THAT IT COULD “PRESUMABLY” SAVE MONEY**
16 **BY HIRING [REDACTED] FULL TIME TO BE AN INSIDE ATTORNEY. IS**
17 **HE CORRECT?**

18 **A.** [REDACTED]
19 [REDACTED]
20 [REDACTED]
21 [REDACTED]

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[REDACTED]

[REDACTED]

Q. DO YOU HAVE ANY RESPONSE REGARDING MR. SKLUZAK’S ATTEMPT TO SHOW THAT THE COMPANY’S OUTSIDE LEGAL EXPENSES ARE UNREASONABLE THROUGH A COMPARISON TO THE OCC’S LEGAL STAFFING IN THIS PROCEEDING?

A. Yes. In comparing the number of counsel engaged by the Company to OCC’s legal staffing, Mr. Skluzak disregards the difference in scope of the work required by the Company and that required by the OCC. The Company has the ultimate burden of showing the reasonableness of its proposed rates in this proceeding. It must support and defend all aspects of the case, which requires that it sponsor a large number of witnesses. The Company must address every issue raised in the proceeding. It also must answer voluminous discovery from multiple parties about all aspects of its case, and its discovery burden has been as substantial in this case as it was in the last rate case. In contrast, the OCC and intervenors can and do pick and choose issues, and they generally focus on a small number of select issues with a small number of witnesses. In comparison to the Company, OCC and intervenors’ discovery burden is negligible. For all of these reasons, Mr. Skluzak’s comparison is not realistic or valid.

1 Q. MR. SKLUZAK CONTENDS THAT THE HOURLY RATES THAT THE
2 COMPANY IS PAYING OUTSIDE ATTORNEYS ARE TOO HIGH. IS HE
3 CORRECT?

4 A. No, Mr. Skluzak has provided no information that supports his conclusion, and we
5 believe his Table CWS-4 actually shows that for this rate case we are paying
6 rates that are below market. Mr. Skluzak's Table CWS-4 shows that the attorneys
7 that we use are paid in a wide range. [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED] [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED] All in all, the

21 Company has opted to use experienced energy regulatory attorneys whose hourly
22 rates are well within market, and Mr. Skluzak has not demonstrated otherwise.

1 Q. HOW DO YOU RESPOND TO MR. SKLUZAK'S ASSERTION THAT THE
2 COMPANY SHOULD BE STAFFING WITH MORE LOWER PRICED
3 ASSOCIATE ATTORNEYS?

4 A. [REDACTED]
5 [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]

12 Q. MR. SKLUZAK SUGGESTS THAT THE ORIGINAL RETENTION DOCUMENTS
13 SUGGEST THE OUTSIDE ATTORNEYS WERE NOT APPROPRIATELY
14 MANAGED BECAUSE THEIR SCOPE OF WORK WAS NOT PROPERLY
15 DEFINED. IS HE CORRECT?

16 A. No. [REDACTED]
17 [REDACTED]
18 [REDACTED]
19 [REDACTED]
20 [REDACTED]

1 Q. MR. SKLUZAK APPEARS TO CRITICIZE THE COMPANY'S INSIDE COUNSEL
2 FOR REQUESTING BUDGET UPDATES. PLEASE ELABORATE ON THE
3 BUDGET UPDATING THAT OCCURRED IN THIS CASE?

4 A. [REDACTED]
5 [REDACTED] [REDACTED]
6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]

13 Q. WILL THE LAW FIRMS AND ATTORNEYS IN THIS PROCEEDING BE PAID
14 BASED ON THEIR BUDGETS OR ESTIMATES?

15 A. They will be paid based on the hours actually worked and the hourly rates that
16 they charge Public Service and other Xcel Energy utilities, [REDACTED]
17 [REDACTED]

1 **Q. WHAT RESPONSE DO YOU HAVE TO MR. SKLUZAK'S RECOMMENDATION**
2 **THAT THE COMPANY'S OUTSIDE LEGAL EXPENSE SHOULD BE LIMITED**
3 **TO THE AVERAGE OF ITS OUTSIDE LEGAL EXPENSES IN THE LAST**
4 **THREE ELECTRIC CASES?**

5 A. Mr. Skluzak's recommendation is not reasonable. First, it ignores our legal
6 expense in our last gas rate case, which provides more relevant and current
7 historical experience and where, as Mr. Skluzak is well aware, we were allowed to
8 recover substantially higher legal expense. Second, the Company was able to
9 reach a settlement with most parties in two of the last three electric rate cases.
10 Third, it ignores OCC's own position in the Black Hills rate case (Proceeding No.
11 14AL-0393E) that was just decided. There Black Hills estimated \$700,000 in legal
12 expenses. OCC's witness Mr. Shafer raised a concern about this level of costs,
13 and recommended that it be examined more carefully, but did not advocate for a
14 disallowance in that case. To put this amount in perspective, Black Hills
15 requested a rate increase of \$7.1 million and supported its case with ten
16 witnesses. There were five intervenors in the proceeding including Staff and
17 OCC. We have requested a rate increase of over \$150 million, supported our
18 case with 19 witnesses, and we have 14 intervenors in the case including Staff and
19 OCC.

20 I also note that while the OCC wishes to cap our outside legal expenses, I
21 saw no offer by the OCC or any other party to cap the amount of discovery that
22 they propound to the Company, the amount of opposing testimony that they file,

1 the number of opposing witnesses that they sponsor, the amount of cross-
2 examination that they conduct, or the number of issues that they contest. All of
3 these actions by the OCC and intervenors drive up the Company's legal
4 expenditures.

5 **Q. WHAT ROLE HAVE YOU HAD IN THE MANAGEMENT OF OUTSIDE**
6 **ATTORNEYS IN THIS CASE?**

7 A. [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]

11 ***E. Intervenor Proposals to Limit Ability to Select Experts and Counsel and***
12 ***to Share Expenses***

13 **Q. DOES MR. SKLUZAK ARGUE THAT THE COMPANY SHOULD BE REQUIRED**
14 **TO BID OUTSIDE LEGAL SERVICES FOR RATE PROCEEDINGS**
15 **COMPETITIVELY IN ORDER TO OBTAIN COST RECOVERY?**

16 A. Mr. Skluzak's testimony certainly suggests that possibility, along with a related
17 argument that a utility should have to cost-justify outside legal costs by comparing
18 costs to staffing the legal work in-house similar to what the Maryland Public
19 Service Commission required. I think both arguments, however, severely impinge
20 on management discretion to obtain necessary legal services for a rate
21 proceeding. Rate cases are perhaps the most significant cases we have before
22 the Commission, and given the broad public interest standard that applies in utility

1 rate cases, there are a number of policy decisions that have to be made in any
2 case. [REDACTED]

3 [REDACTED]
4 [REDACTED]
5 [REDACTED] Regarding the Maryland Public Service Commission policy, the
6 Maryland commission noted as a factor in disallowing outside legal expense as a
7 rate case expense the fact that it had set out its approach in an earlier case. In
8 other words, it had given the utility advance notice of its policy. Here Mr. Skluzak
9 is advocating that the Commission adopt essentially new policies regarding the
10 recoverability of outside counsel costs in an adjudicated rate proceeding while
11 simultaneously disallowing costs. I believe that Mr. Skluzak's argument is
12 improper.

13 **Q. DO YOU AGREE WITH MR. SKLUZAK'S AND MR. HIGGINS'**
14 **RECOMMENDATIONS THAT THE COMMISSION REQUIRE THAT A FILING**
15 **UTILITY BE REQUIRED TO PAY FOR HALF OF ITS OWN RATE CASE**
16 **EXPENSES?**

17 A. The utility is entitled to recover through rates its prudently incurred expenses. As I
18 noted before, it is necessary for a utility to file a rate case in order to modify its
19 prices, a requirement that non-regulated businesses do not have to do. Legal
20 expenses are strongly impacted by the need to respond to intervenor discovery
21 and opposing testimony, which are opportunities afforded to intervenors by statute
22 and Commission regulations. The Commission has recognized that rate cases

1 are a normal activity for utilities and rejected arguments for this kind of sharing in
2 the past, most recently in Proceeding No. 12AL-1286G. (See Decision No. R13-
3 1307, ¶¶440-448, pages 132-34; Decision No. C13-1568, ¶¶67-70, pages 22-23,
4 in Proceeding No. 12AL-1286G. See also Decision No. C09-1446, ¶129.)
5 Neither Mr. Skluzak nor Mr. Higgins provide any valid reasons for the Commission
6 to reverse its policy of allowing utilities to recover rate case expense, which the
7 Commission recently confirmed.

8 ***F. Intervenor Arguments Regarding Mr. Hevert's Fees and Benchmarking***

9 **Q. DOES MR. SKLUZAK QUESTION MR. HEVERT'S FEES FOR PROVIDING**
10 **EXPERT ROE TESTIMONY?**

11 A. Yes. Essentially he argues that it would be cheaper for Xcel Energy to develop in-
12 house the expertise to develop and present ROE testimony. Mr. Hevert provides
13 an extended response to Mr. Skluzak on this point. The only thing I would add
14 here is that in addition to the many factors in Mr. Hevert responds to in his rebuttal
15 testimony, I am concerned that [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

1 **Q. MR. SKLUZAK RECOMMENDS THAT THE COSTS OF THE BENCHMARKING**
2 **STUDY BE DISALLOWED AS RATE CASE EXPENSE ON THE BASIS THAT**
3 **HE VIEWS THE STUDY AS “SELF SERVING”. PLEASE RESPOND.**

4 A. The Benchmarking Study costs were appropriately incurred to support the O&M
5 levels in the Company’s 2015 Test Year. We are expected to provide reasonable
6 support for our case, and for reasons explained in our direct case, we believed
7 that the Commission would find the benchmarking study to provide useful
8 information to support the reasonableness of our O&M costs. Specifically, the
9 study allows interveners and the Commission to assess how the Company’s
10 actual costs compare to the Company’s predicted costs by analyzing a large
11 sample of similar utilities and adjusting for differences in their circumstances. This
12 approach is valuable, because it uses external information from the broader utility
13 sector to assess whether the utility’s test-year expenses are reasonable, which is
14 one of the fundamental goals of economic price regulation by public utility
15 commissions. The Company provided a detailed breakdown of the benchmarking
16 study costs in response to Discovery Request CPUC37-1 and included here as
17 Confidential Attachment No. AKJ-8 and updated in Confidential Attachment No.
18 AKJ-12.

1 **Q. DID THE COMPANY USE A COMPETITIVE BIDDING PROCESS BEFORE**
2 **HIRING PACIFIC ECONOMICS GROUP RESEARCH, LLC?**

3 A. The study was not subjected to a competitive bidding process due to the nature of
4 the study requested, the vendor's experience working with Public Service and the
5 vendor's unique approach to benchmarking.

1 **XI. ARAPAHOE DECOMMISSIONING**

2 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

3 A. In this section of my testimony I will address the decommissioning of Arapahoe as
4 filed by the Company in Proceeding No. 14A-0680E. By Commission Decision
5 No. C14-1043⁴⁶, the Arapahoe Decommission filing was consolidated with the
6 electric rate case. Only two of the Filing Parties address the Arapahoe
7 Decommissioning filing and only one of them specifically. I will address those
8 positions taken by Climax witness Mr. Lane Kollen and OCC witness Mr. Chris
9 Neil in regards to the Company’s Arapahoe decommissioning request.

10 **Q. WHAT ARE THE POSITIONS ADVOCATED BY MR. KOLLEN AND MR. NEIL**
11 **ON THIS TOPIC?**

12 A. Mr. Kollen recommends that the Commission reject the Company’s application to
13 dismantle the Arapahoe Plant and restore the site at this time so that the
14 Commission can consider the decommissioning options for all of the Company’s
15 plants on a generic basis in a separate proceeding.⁴⁷

16 Mr. Neil does not specifically address the Company’s Arapahoe
17 Decommissioning filing, but he makes two statements that I believe are related to
18 the Arapahoe Decommissioning: (1) “[i]f customers had been charged for the
19 Arapahoe decommissioning based on the 2009 study, they would have been
20 significantly overcharged for decommissioning of the Arapahoe plant”; and, (2) “I

⁴⁶ Proceeding No. 14AL-0660E, Decision No. C14-1043, ordering paragraph 4.

⁴⁷ Answer Testimony of Mr. Lane Kollen at pages 7-8, 44 and 49.

1 recommend that actual decommissioning costs be trued up with estimated
2 decommissioning costs.”⁴⁸

3 **Q. DO YOU AGREE WITH MR. KOLLEN’S POSITION?**

4 A. No. The Company filed the Arapahoe Decommissioning in a stand-alone case.
5 Additionally, the Company filed a comprehensive decommissioning study in the
6 electric rate case⁴⁹. Thus, our proposal to consolidate the Arapahoe
7 Decommissioning study with the electric rate case, so that these decisions could
8 be made and the decommissioning initiated. It makes no sense to kick this can
9 down the road again. As described in Ms. Perkett’s Direct Testimony, the last two
10 electric rate cases raised some controversy on the cost of removal and
11 methodologies employed. As a result Staff and Company representatives
12 (including Ms. Perkett) met and agreed to a methodology which is presented in
13 this case.⁵⁰

14 Mr. Kollen’s proposal to include only 50% of the Company’s
15 decommissioning costs in depreciation expense calculations until such time as the
16 stand-alone proceeding is completed is just delaying the discussion. All of the
17 necessary materials were presented with our Direct Testimony. Delaying the
18 implementation brings into question inter-generational inequities and potential

⁴⁸ Answer Testimony of Mr. Chris Neil at page 2 and 6.

⁴⁹ Attachment No. DAW-1 to Mr. Watson’s Direct Testimony.

⁵⁰ Direct Testimony of Ms. Lisa Perkett at page 27-28.

1 cost increases. For these, reasons Mr. Kollen's recommendation should be
2 rejected.

3 **Q. DO YOU AGREE WITH MR. NEIL'S POSITION?**

4 A. I think so. His first statement in regards to Arapahoe, is just that, a statement, he
5 does not make any recommendations as a result of that statement. His second
6 statement regarding the true up of actual decommissioning costs to estimated is
7 one that the Company has also presented in the Direct Testimony of Ms. Lisa
8 Perkett⁵¹ and Ms. Robin Kittel⁵². Therefore, I do not believe Mr. Neil is
9 recommending anything contrary to what we filed originally in the Arapahoe
10 Decommissioning filing.

⁵¹ Direct Testimony of Ms. Lisa Perkett

⁵² Direct Testimony of Ms. Robin Kittel

XII. OTHER

1 **Q. WHAT WILL YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

2 A. In this section of my testimony I will address the smaller remaining items
3 addressed by the intervenors. This issues include: aviation expenses,
4 performance based rates, Western Electricity Coordinating Council (“WECC”)
5 fees, and the Ponnequin Wind Farm.

6 **A. Aviation**

7 **Q. DO ANY OF THE FILING PARTIES ADDRESS THE COMPANY’S INCLUSION**
8 **OF AVIATION EXPENSES FOR THE CORPORATE AIRCRAFT?**

9 A. Yes. CEC witness Mr. Kevin C. Higgins addresses the methodology presented in
10 my Direct Testimony regarding the inclusion of aviation expenses for the
11 corporate aircraft. Mr. Higgins recommends a reduction to the revenue
12 requirement of \$565,353 to reflect the most recent aviation study provided by the
13 Company in the gas rate case (Proceeding No. 12AL-1268G).

14 **Q. DO YOU AGREE WITH MR. HIGGINS’ POSITION?**

15 A. No. Mr. Higgins replies to the Company’s position regarding productivity
16 improvement by stating that “many corporate travelers address this productivity
17 challenge by traveling early in the morning or in the evening outside normal
18 business hours, as well as working while in transit.”⁵³ The expectation that a
19 corporate business traveler not only has to complete their job during normal
20 business hours but also then travel to and from their destination in addition, turns

⁵³ Answer Testimony of Mr. Kevin C. Higgins at pages 31-32.

1 a typical 8-10 hour day into a 12-16 hour day. As a recent corporate traveler, I
2 can state that it is not ideal to travel outside of normal business hours, and
3 repeated travel in this manner reduces productivity and increases turnover.
4 Access to corporate travel alleviates some of the stress of travel, increases the
5 amount of time available to travelers to complete their business, thus lowering the
6 necessity for some overnight expenses, and maintains employee satisfaction
7 which reduces turnover.

8 In my Direct Testimony I recognized that full cost recovery of the corporate
9 aviation expenses were not appropriate, thus the reduction of actual expense by
10 50%. However, Mr. Higgins has not recognized any of the productivity benefits in
11 his adjustment and assumes that the 8.55% resulting from a prior study remains
12 appropriate.

13 ***B. Generation Performance Benchmarking Plan***

14 **Q. WHAT IS THE COMPANY'S RESPONSE TO THE OBJECTION RAISED IN**
15 **ANSWER TESTIMONY THAT THERE IS NO NEED FOR THE PROPOSED**
16 **GENERATION PERFORMANCE BENCHMARKING PLAN?**

17 A. The original impetus for the plan was to allay concerns that by aggressively
18 controlling O&M spending, our plant performance may deteriorate. But as
19 CLIMAX Witness Mr. Lane Kollen notes in his Answer Testimony, there is no
20 evidence of improper operation and maintenance of our generation fleet. For that
21 reason the Company agrees that there is no need for a generation performance
22 plan. Another consideration is that CPUC Witness Ms. Sharon L. Podein and

1 OCC Witness Chris Neil are proposing adjustments to our generation plan that
2 are wholly inconsistent with its objective of incentivizing the Company to improve
3 the availability of its generation fleet to meet the capacity and energy needs of our
4 customers.

5 **Q. PLEASE EXPLAIN.**

6 A. Specifically, Ms. Podein is contending that one of the objectives of our plan should
7 be to hold the Company accountable for differences between the Company's
8 modeled unit availability prior to plant acquisition or construction and the
9 resource's actual availability once constructed. She claims another objective
10 should be to promote independent power producer ("IPP") participation in future
11 competitive bidding processes by establishing comparable measurements of
12 generation unit availability for the Company and IPPs. I believe these objectives
13 are different and raise different concerns than the objective and concern we were
14 trying to address – how to assure that our plants would remain available for
15 normal commitment and dispatch in an environment where we are aggressively
16 trying to control O&M costs.

17 Mr. Neil proposes that instead of the availability of our plants being
18 evaluated based on their historic performance, that they be evaluated based on
19 the historic performance of plants operated under different conditions by utilities
20 operating in different parts of the United States. But how our generation fleet
21 performs versus the generation fleet's of other utilities operating under different
22 conditions is irrelevant to whether our plants are being employed as cost-

1 effectively as they can be given the operating conditions under which they
2 operate.

3 **Q. WHAT IS THE COMPANY'S CURRENT POSITION WITH RESPECT TO ITS**
4 **PROPOSED GENERATION PERFORMANCE BENCHMARKING PLAN?**

5 A. In light of the inappropriate adjustments that CPUC Staff and the OCC are
6 proposing for our plan, and the absence of any evidence that the Company is
7 engaging in O&M practices that adversely affect the availability of our plants, the
8 Company is inclined to withdraw its proposed generation performance plan from
9 further consideration in this proceeding.

10 **C. WECC Fees**

11 **Q. WHAT WAS THE FILING PARTIES RESPONSE TO THE INCLUSION OF AN**
12 **ADJUSTMENT FOR UPCOMING WESTERN ELECTRICITY COORDINATING**
13 **COUNCIL ("WECC") FEES?**

14 A. Only two of the Filing Parties, the OCC and CHECC, provided testimony in
15 regards to the WECC fees proposed by the Company to be included in the
16 revenue requirement for the 2015 Test Year. OCC witness Mr. David E. Peterson
17 and Ms. Donna M. Ramas recommend a reduction of approximately \$832,000 to
18 match their proposed HTY.

19 **Q. DO YOU AGREE WITH MR. PETERSEN'S ADJUSTMENT?**

20 A. In the event the Commission approves an HTY, Mr. Peterson and Ms. Ramas'
21 proposed adjustment is appropriate. However, the Company is continuing to

1 support a 2015 Test Year and thus the adjustment is unnecessary under the
2 Company's proposal.

3 ***D. Ponnequin***

4 **Q. WHAT DID THE COMPANY PROPOSE IN ITS DIRECT TESTIMONY**
5 **REGARDING THE PONNEQUIN WIND FARM?**

6 A. Company witness Mr. Mark Fox presented the Company's intention to retire the
7 Ponnequin Wind Farm at the end of 2015. Furthermore, Ms. Blair discusses the
8 regulatory adjustments necessary to effectuate this retirement and includes them
9 in her revenue requirement model.

10 **Q. DID ANY INTERVENORS OBJECT TO THIS PROPOSAL?**

11 A. Yes. OCC witness Mr. Chris Neil objects on the grounds that the Company may
12 be required to acquire a Certificate of Public Convenience and Necessity pursuant
13 to Rule 3103(a) in order to retire this facility.

14 **Q. DO YOU AGREE WITH MR. NEIL'S POSITION?**

15 A. No. Rule 3103(a) states the following:

16 A utility seeking authority to do the following shall file an application
17 pursuant to this rule: amend a certificate of public convenience and
18 necessity in order to extend, to restrict, to curtail, or to abandon or to
19 discontinue without equivalent replacement any service, service
20 area, or facility. A utility shall not extend, restrict, curtail, or abandon
21 or discontinue without equivalent replacement, any service, service
22 area, or facility not in the ordinary course of business without
23 authority from the Commission. [emphasis added]

24 Given the new resources coming onto our system (both wind and non-wind) –
25 more than an equivalent replacement – and the age and condition of Ponnequin –

1 it is at the end of its useful life for the Company and its customers – we believe
2 the retirement of Ponnequin should be deemed in the ordinary course of business
3 and therefore not require a CPCN. Of course, if the Commission agrees with Mr.
4 Neil, we will file a separate application to seek the Commission's authorization to
5 retire Ponnequin.

XIII. REQUESTS OF THE COMMISSION AND CONCLUSION

1
2 **Q. WHAT IS PUBLIC SERVICE REQUESTING OF THE COMMISSION IN THIS**
3 **PROCEEDING?**

4 A. Based on the corrections and updates to is 2015 Test Year as discussed above
5 and by Public Service's other witnesses in their Rebuttal case, we are proposing
6 to make the following changes to our tariffs:

- 7 • A proposed change to revise the General Rate Schedule Adjustment ("GRSA")
8 rider that is applicable to all electric base rate schedules in the Company's
9 Colorado P.U.C. No. 7 – Electric tariff effective following issuance of the
10 Commission's final order in this proceeding. Specifically, we are proposing to
11 increase the current GRSA of 17.07 percent to 19.11 percent. This proposed
12 increase will allow us to recover the \$28,467,475 revenue deficiency that I
13 have addressed in my testimony. This value includes the shift in costs from
14 riders to base rates associated with the existing TCA rider of \$19,947,918,
15 resulting in a net revenue increase in 2015 of \$8,519,557;
- 16 • The initiation of a new rider effective the same time as new base rates are
17 effective as a result of this proceeding for the purposes of recovering
18 \$98,669,928 incremental capital and O&M costs of certain projects that we
19 have undertaken to comply with the CACJA, specifically the Pawnee SCR and
20 scrubber, the Cherokee Unit 2 Synchronized Condenser, the Cherokee 2x1
21 combined cycle facility, and the Hayden SCR project;

- 1 • Proposed changes to the charges for non-routine street lighting maintenance
2 services and various services provided upon request or as needed;
- 3 • Proposed revisions to our TCA tariff to change the methodology it uses to
4 calculate the plant-in-service component of the rider;
- 5 • Proposed revisions to our ECA tariff to update the allowance for O&M costs in
6 the short-term wholesale sales margin sharing formulae, and to incorporate
7 the Equivalent Availability Factor Mechanism, that I have discussed above;
- 8 • Alternatively, if the Commission determines to set rates based on an HTY,
9 approval of a September 30, 2014 test year as recommended by Staff witness
10 Reis, corrected and modified to reflect plant in service balances as of
11 September 30, 2014. This would result in an increase in the current GRSA of
12 17.07 percent to 17.86 percent which would allow us to recover a \$10,842,620
13 revenue deficiency inclusive of the effect of the TCA roll-in.

14 **Q. PLEASE SUMMARIZE THE COMPANY'S RECOMMENDATIONS IN**
15 **RESPONSE TO THE PROPOSALS MADE BY THE OPPOSING INTERVENORS**
16 **IN THIS PROCEEDING.**

17 A.

- 18 • Approve the Company's request for a base rate revenue increase of
19 \$28,467,475, including the effect of the roll-in of \$19,947,918 from the
20 TCA, based on a 2015 Test Year premised on 2013 O&M expenses

1 with known and measurable adjustments and a 13-month average of
2 capital additions for the 2015 Test Year.

- 3 • Approve the Company's proposed CACJA Rider to recover
4 \$98,669,928, as modified by this Rebuttal Testimony in reflection of the
5 Filing Parties' positions in Answer Testimony and minor corrections.
- 6 • Approve the Company's treatment of the Metro Ash Facility to amortize
7 the net book value over a two year period due to the implementation of
8 the CACJA.
- 9 • Approve the Company's continued treatment of the Southeast Water
10 Rights for inclusion in rate base.
- 11 • Approve the Company's proposed methodology for calculation of rate
12 base in relation to its 2015 Test Year and for presentation purposes its
13 2013 HTY.
- 14 • Find that the property tax tracker as accepted and modified by the
15 Company is appropriate for deferred accounting treatment for both
16 incremental or decremental amounts associated with the property tax
17 expense and the amortization of the 2012 MYP property taxes.
- 18 • Find that the treatment proposed by the Company of the oil and gas
19 revenues included in non-utility revenues is appropriate and that the
20 sharing proposed by the Company is reasonable.

- 1 • Find that the Company's rate case expenses are reasonable and
2 should be included for recovery over a two year period.
- 3 • Approve the Arapahoe Decommissioning request so that the Company
4 may move forward with the decommissioning of this facility.
- 5 • Accept the Company's proposed inclusion of aviation expenses at 50%
6 of the actual expense.
- 7 • Either accept the Company's proposed Generation Performance
8 Benchmarking Plan or defer the implementation of any Generation
9 Performance Benchmarking Plan to another time after further
10 development of a plan may be performed.
- 11 • Accept the year-end 2015 retirement of the Ponnequin Wind Farm as
12 proposed by the Company.
- 13 • Approve removal of the costs of coal inventories associated with the
14 Arapahoe station from the cost of service.
- 15 • Find that the Company's current treatment of bad debt reserves and the
16 associated ADIT is reasonable and should remain unchanged.
- 17 • Find that the Company's current treatment of accrued interest on long-
18 term debt from rate base is consistent with the Commission's long-
19 standing policy holding that it is improper to include such capital-related
20 receipts in the Company's rate base and continues to be just and
21 reasonable.

- 1 • Approve removal of \$1,040,338 expenses associated with the Boulder
2 Municipalization from the Company's cost of service as originally filed.
- 3 • Accept our 2015 Test Year base commodities expense as known and
4 measurable despite the OCC's claim to the contrary.
- 5 • Reject Staff's proposed adjustment to our 2015 Test Year labor costs
6 based on CACJA plant closings.
- 7 • Accept as reasonable the Company's proposal to base the EAFPM
8 metric on the historic performance data of our coal and gas plants
9 included in the plan rather than on the national average historic
10 performance of coal and combined cycle plants operated by other
11 utilities in other areas of the country as proposed by the OCC.
- 12 • Accept the Company's 10.25 percent ROE recommendation as the
13 required return on equity for Public Service given its financial and
14 business risk profile as compared to an appropriate proxy group of
15 utilities consisting of vertically integrated electric utilities and
16 combination utilities with both vertically integrated electric and natural
17 gas businesses.
- 18 • Reject the proposition that either approval of the Company's 2015 Test
19 Year or the CACJA rider have any material effect on the Company's
20 required return on equity.

- 1 • Accept the Company's proposed flotation cost adjustment to its ROE of
2 .14 percent.
- 3 • Approve the Company's actual regulated capital structure for the 2015
4 Test Year consisting of 56 percent equity and 44 percent debt as being
5 reasonable and appropriate in order to offset the imputed debt effects of
6 the Company's operating leases and purchased power agreements as
7 well as the debt effects of capital leases and short-term debt, neither of
8 which are included in the Company's capital structure for purposes of
9 ratemaking.
- 10 • Approve the Company's updated calculation of the embedded cost of
11 debt of 4.66 percent and the Company's use of the Capital Employed
12 method of calculating its regulated capital structure and cost of debt
13 method to corrects the mismatch between the debt cost that customers
14 are assessed and the debt cost the Company actually incurs in any
15 given year and ensure its capital structure accurately reflects the portion
16 of debt and equity being used to finance utility assets.
- 17 • Approve the inclusion of credit facility fees in our cost of debt calculation
18 in recognition that notes under the credit facility consist of long-term
19 obligations.
- 20 • Find that the total cash compensation provided by Xcel Energy to its
21 employees, including the AIP, is: (1) comparable to the market; and (2)

- 1 necessary to provide electric service allow Public Service full recovery
2 of the costs of its annual incentive program at target levels.
- 3 • Approve the Company's adjustments to base period wages and salaries
4 for increases expected in 2014 and 2015 as being both reasonable and
5 sufficiently known and measurable.
 - 6 • Approve our inclusion of Public Service's electric department's share of
7 the costs of equity compensation paid to the Xcel Energy Board of
8 Directors as a reasonable and necessary expense of providing utility
9 service to our customers.
 - 10 • Approve the Company's updated forecasts of sales and customers, as
11 presented by Company witness, Janelle Marks, for the purposes of
12 determining the revenue requirement and final rates for the Company's
13 2015 Test Year in this proceeding.
 - 14 • Find that the Company's 2015 Test Year to be representative of
15 Company's anticipated capital additions in those years and therefore a
16 reasonable basis for setting rates.
 - 17 • Approve the Company's use of actual 2013 O&M costs, with limited
18 adjustments, in those areas for purposes of the 2015 Test Year rather
19 than a four year historic average as proposed by CEC and FEA.
 - 20 • Find that Xcel Energy has managed its contributions to the pension
21 trust funds appropriately, and has fully disclosed the extent of 2008

- 1 market losses in prior cases to the Commission and its Staff and that
2 therefore there is no basis for any disallowance of any portion of the
3 prepaid pension asset that is included Public Service's rate base.
- 4 • Authorize the Company to include its full prepaid pension asset in rate
5 base and to earn a return on that element of rate base at the
6 Company's weighted average cost of capital.
 - 7 • Approve the continued calculation of Public Service's annual pension
8 cost in accordance with the requirements of FAS 87 rather than basing
9 annual pension costs primarily on the service cost component of the
10 FAS 87 calculation as recommended by Staff.
 - 11 • Find that the Company is not required to seek preapproval from the
12 Commission prior to making contributions to the pension trust funds in
13 excess of the minimum contributions required by the Pension Protection
14 Act.
 - 15 • Find that the pension cost tracker as proposed by the Company is
16 appropriate for deferred accounting treatment for both incremental or
17 decremental amounts associated with the Company's annual pension
18 expense.
 - 19 • Approve the additional reporting relating to the Company's pension plan
20 proposed by the Company as a reasonable means of apprising the

1 Commission of the funded status and costs associated with the
2 Company's pension trust.

- 3 • Approve the Company's revised property tax estimate for the 2015 test
4 year of \$118.3 million for inclusion in the Test Year cost of service
- 5 • Find that the depreciation rates reflected in the Depreciation Study
6 presented in Mr. Watson's Direct Testimony, as slightly modified in
7 Rebuttal, are reasonable and appropriate for calculating the
8 depreciation expense accruals for Public Service's electric and common
9 utility plant
- 10 • Find that the results of the Decommissioning Cost Study presented in
11 my Direct Testimony are reasonable and appropriate for use as the
12 basis for the cost of removal estimates in the development of
13 depreciation rates for Public Service's electric generating plants.

14 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

15 A. Yes.

Public Service Company of Colorado
an Xcel Energy Company

Summary of Proposed Rate Increase

Line No.	Description	(1) 2015 Revenue Under Current Rates (\$)	(2) Rate Case Impacts (\$)	(3) 2015 Proposed Revenues (\$)	(4) Net Revenue Increase (\$)	(5) Net Percent Increase (%)	(6) Source
1							
2	Base Rate Revenue Impact						
3	Base Rates	\$ 1,628,460,690	\$ 28,467,475	\$ 1,656,928,165			Deborah A. Blair
4	TCA Shift to Base Rates	\$ 19,947,918	\$ (19,947,918)	\$ -			
5	Total Base Rate Revenue Impact	<u>\$ 1,648,408,608</u>	<u>\$ 8,519,557</u>	<u>\$ 1,656,928,165</u>	<u>\$ 8,519,557</u>	0.52%	
6							
7	2015 CACJA Rider Revenue						
8	CACJA	\$ -	\$ 98,669,928	\$ 98,669,928	\$ 98,669,928		
9							
10	2013 Rider Revenue						
11							
12	ECA ¹	\$ 943,477,811	\$ -	\$ 943,477,811			
13	PCCA	\$ 150,581,674	\$ -	\$ 150,581,674			
14	RESA ¹	\$ 54,790,206	\$ -	\$ 54,790,206			
15	DSMCA ¹	\$ 53,215,105	\$ -	\$ 53,215,105			
16	TCA ₂	\$ 1,400,848	\$ -	\$ 1,400,848			
17	ISOC ¹	\$ (24,818,034)	\$ -	\$ (24,818,034)			
18	Windsorce ¹	\$ 4,238,333	\$ -	\$ 4,238,333			
19							
20	Total Rider Revenue	<u>\$ 1,182,885,943</u>	<u>\$ -</u>	<u>\$ 1,182,885,943</u>	<u>\$ -</u>	0.00%	
21							
22							
23							
24	Total Revenue	<u>\$ 2,831,294,551</u>		<u>\$ 2,938,484,036</u>	<u>\$ 107,189,485</u>	3.79%	

1 No adjustments are being proposed as part of the rate case to this rider. This rider will be updated through its established mechanism.

2 Annual TCA Revenue in 2015 under Company's proposal.

Public Service Company of Colorado
 Proceeding No. 14AL-0660E
 Simple Rate Base Calculation Example

Historic Test Year Data Set

	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
Plant In Service Balances	1,000,000,000	1,001,000,000	1,001,500,000	1,001,600,000	1,004,100,000	1,004,400,000	1,009,400,000	1,009,600,000	1,009,700,000	1,024,700,000	1,026,700,000	1,027,700,000	1,028,000,000
<u>Average Rate Base Methodology</u>	\$ 1,011,415,385												
<u>Year- End Methodology</u>	\$ 1,028,000,000												
Delta	\$ (16,584,615)												

Future Test Year Data Set

	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Plant In Service Balances	1,000,000,000	1,001,000,000	1,001,500,000	1,001,600,000	1,004,100,000	1,004,400,000	1,009,400,000	1,009,600,000	1,009,700,000	1,024,700,000	1,026,700,000	1,027,700,000	1,028,000,000
<u>Year- End Methodology</u>	\$ 1,028,000,000												
<u>Average Rate Base Methodology</u>	\$ 1,011,415,385												
Delta	\$ 16,584,615												

Public Service Company of Colorado
Proceeding No. 14AL-0660E

SUMMARY OF ROBER HEVERT'S COMPARABLE GROUP

SUMMARY OF ROBER HEVERT'S COMPARABLE GROUP					SUMMARY OF ROBER HEVERT'S COMPARABLE GROUP				
<u>UTILITY & JURISDICTION</u>	<u>LATEST HTY APPROVED DATE</u>	<u>AVERAGE OR DATE CERTAIN</u>	<u>LAST FTY APPROVED DATE</u>	<u>AVERAGE OR DATE CERTAIN</u>	<u>UTILITY & JURISDICTION</u>	<u>LATEST HTY APPROVED DATE</u>	<u>AVERAGE OR DATE CERTAIN</u>	<u>LATEST FTY APPROVED DATE</u>	<u>AVERAGE OR DATE CERTAIN</u>
AEP	Ohio	12/14/11	Date Certain		Otter Tail	Minnesota	4/25/11	Average	
	Arkansas	11/24/09	Year-end			North Dakota	11/25/09	Average	4/19/83
	West Virginia	3/30/11	Average	2/4/83		South Dakota	No Data	No Data	No Data
	Virginia	11/25/13	Average	12/17/13					
	Tennessee	11/3/92	Average		PNM Resources	New Mexico	8/8/11	Year-end	
	Indiana	2/13/13	Year-end			Texas	1/20/11	Year-end	
	Michigan	2/17/82	Date Certain	2/15/12					
	Kentucky	11/22/13	Year-end		Southern Company	Alabama	No Data	No Data	No Data
	Oklahoma	1/5/11	Year-end			Georgia	N/A	N/A	9/30/91
	Louisiana	2/27/13	Average			Mississippi	N/A	N/A	12/3/01
	Texas	10/3/13	Year-end			Florida	N/A	N/A	2/27/12
Duke Energy	Ohio	5/1/13	Date Certain		Cleco (CLECO)		10/14/09	Average	
	Florida	1/25/83	Average	3/5/10					
	Indiana	5/18/04	Year-end		Great Plains Energy -- Missouri		1/9/13	Year-end	
	Kentucky	5/5/92	Year-end						
	North Carolina	9/24/13	Year-end		Hawaiian Electric Industries		5/31/13	Average	4/6/99
	South Carolina	9/11/13	Year-end						Average
Empire District Electric Company	Arkansas	Gas Only	Gas Only	Gas Only	IDACORP -- Idaho		12/30/11	Year-end	6/29/12
	Kansas	Gas Only	Gas Only	Gas Only					NA
	Oklahoma	Gas Only	Gas Only	Gas Only	Pinnacle West Capital Corp. (Arizona)		No Data	No Data	No Data
	Missouri	7/30/08	Year-end		Portland Electric Company (Oregon)		N/A	N/A	12/4/14
									Average
					Westar Energy (Kansas)		12/28/05	Year-end	9/27/85
									Average
					CMS Energy Corporation - Michigan		12/22/05	Average	5/15/13
									Average
					DTE Energy Corporation - Michigan		12/27/88	Average	10/20/11
									Average
					SCANA Corporation				
						South Carolina	9/24/14	Year-end	
						North Carolina	Gas Only	Gas Only	Gas Only
						Georgia	Gas Only	Gas Only	Gas Only
					TECO Energy, Inc. - Tampa Electric		11/4/85	Average	4/30/09
									Average
					Vectren Corporation				
						Indiana	4/27/11	Year-end	
						Ohio	Gas Only	Gas Only	Gas Only
									Gas Only

Last known available information

Confidential Exhibit No. AKJ-7
(OCC Response to Public Service Discovery Request 3-10)

Filed Under Seal

Confidential Exhibit No. AKJ-8
(Public Service's Responses to CPUC Discovery Request 37-1; Actual Rate
Case Invoices Incurred)

Filed Under Seal

Confidential Exhibit No. AKJ-9
(Updated Outside Legal and Consultants and Outside Witness Estimate
Documentation)

Filed Under Seal

Public Service Company of Colorado
Rate Case Expenses
12 Months Ended December 31, 2013

Line No.	Description	Amount
1	Amount Requested	957,635
2		
3	Less: Amount Booked Associated with 2011 Rate Case	672,746
4		
5	Adjustment	284,889
6		
7		
8	Customer Noticing (1)	57,129
9	Duplicating and Office Supplies (2)	15,000
10	Postage	500
11	Consultants and Outside Witnesses (3)	814,537
12	Transcripts / Hearing Costs	20,306
13	Outside Legal (4)	980,000
14	Miscellaneous Employee Expenses (5)	27,797
15	Total Rate Case Expenses	1,915,269
16	Monthly amount (over 24 Months)	79,803
17	Annual amount amortized over 2 years	957,635

	Amount
(1) Phase I Bill Insert Only Newspaper (two consecutive Sundays)	22,129 35,000 <hr/> 57,129
(2) Duplicating & Binding Direct Testimony & Exhibits Rebuttal Testimony & Exhibits Hearing Support (Discovery, Workpapers, Witness Books)	9,000 4,000 2,000 <hr/> 15,000
(3) Dismantling Study ROE Depreciation Study Benchmarking Study Consultants Rebuttal and Discovery Pension Total	261,670 130,000 75,000 115,000 76,192 156,675 <hr/> 814,537
(4) Wilkinson Barker Knauer LLP Briggs & Morgan Winstead PC Ann Hopfenbeck LLC Total	225,000 300,000 155,000 300,000 <hr/> 980,000
(5) Travel & Expenses 9 Witnesses x \$1200 Communications Other Expenses Outside vendor costs for Advertising book	10,800 1,400 12,600 2,997 <hr/> 27,797

Confidential Exhibit No. AKJ-11
(Public Service's Response to OCC Discovery Request 13-24; Contracts for
Consultants and Outside Witnesses)

Filed Under Seal

Confidential Exhibit No. AKJ-12
(Revised Consultants and Outside Witness Estimates)

Filed Under Seal

Confidential Exhibit No. AKJ-13
(Authorization from CPUC Staff to Incur Pension Related Rate Case
Expense)

Filed Under Seal

Confidential Exhibit No. AKJ-14
(Revised Outside Legal Estimates not Included in Rebuttal)

Filed Under Seal

The following is only an excerpt of Cory Skluzak's testimony. The excerpt contains pages 79-89 of the 105 page testimony.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 14AL-0300G

**IN THE MATTER OF ADVICE LETTER NO. 511 FILED BY ATMOS ENERGY
CORPORATION TO PLACE INTO EFFECT TARIFF SHEET CHANGES TO BE
EFFECTIVE ON MAY 5, 2014**

**HEARING EXHIBIT NO. 300
ANSWER TESTIMONY AND ATTACHMENTS OF CORY SKLUZAK ON BEHALF OF
THE COLORADO OFFICE OF CONSUMER COUNSEL**

Colorado PUC E-Filings System

July 8, 2014

1 from the previous proceeding. Further, I believe that the time spent surrounding the
2 Settlement Agreements for the 2013 rate case is more than what would be spent
3 should this Proceeding proceed to a contested hearing.

4 Additionally, the intensity of discovery in this Proceeding is nothing compared
5 to the 2013 rate case; it is significantly less. One example is that for the 2013 Rate
6 Proceeding with its multitude of issues, the OCC propounded 26 sets of discovery, and
7 the Commission's Staff propounded 13 sets. In this Proceeding, the OCC has
8 propounded 7 sets and the Staff has propounded 9 sets with many of Staff's sets
9 consisting of less than 3 questions. Further, the number of questions asked by the
10 OCC in this proceeding is much less in comparison to the number asked in the 2013
11 rate case. Clearly, the amount of discovery in the instant Proceeding is much less
12 intense than in the 2013 rate case. Thus, using Atmos' own metric, it is then illogical
13 why Atmos has requested an additional \$203,466 in rate case expenses above what
14 was subject to recovery in the 2013 rate case.

15 Finally, for Atmos to state that rate case costs are not driven by the number of
16 issues is illogical. I believe the reason why Atmos stated this was because it is
17 undisputed that there were many more issues in the 2013 rate case, as Atmos admits,
18 and Atmos' strategy is to simply and illogically deny that the numbers of issues are a
19 factor in rate case expenses.

20 **Q. ARE THE COSTS FOR ATMOS' RATE OF RETURN EXPERT JUST AND**
21 **REASONABLE?**

Hearing Exhibit 300
Answer Testimony of Cory Skluzak
Proceeding No. 14AL-0300G
Page 80 of 105

1 **A.** No. The requested amount for Atmos' Return on Rate Base expert witness
2 (Concentric Energy Advisors – Ann Bulkley) is \$93,033.¹⁸² This amount is exorbitant
3 and unjust and unreasonable.

4 By way of comparison, Ms. Bulkley's estimate *for preparation of just her*
5 *Direct Testimony* (not including discovery, rebuttal, or the hearing)¹⁸³ *exceeds by over*
6 *100%* what the OCC most recently paid for its Rate of Return expert for an *entire*
7 proceeding. Further, and as I note below, Ms. Bulkley's Direct Testimony is
8 *substantially the same testimony* that she filed less than one year ago for the 2013 rate
9 case.

10 Additionally, Ms. Bulkley's engagement letter did not specify what her hourly
11 rate would be, which Concentric personnel would we working on this proceeding and
12 their charge rates, and estimated hours for each phase of the case. Ms. Bulkley
13 identified herself "as a Vice President" of Concentric,¹⁸⁴ but the confidential
14 engagement letter lists three different hourly rates for Vice Presidents depending on
15 whether a "Senior Vice President," a "Vice President, Executive Advisor," and an
16 "Assistant Vice President" which is the lowest billing rate. The Commission should
17 view this lack of detail as insufficient basis for Ms. Bulkley's unjust and unreasonable
18 \$93,000 estimate.

¹⁸² Attachment CWS-51, Atmos' Response to OCC Discovery Request 3-49, subpart (a), and OCC 3-49.Att. 1, lines 6 and 7. This attachment is an updated version of Atmos' Workpapers 4-8 and 4-8-1 for its rate case expense adjustment.

¹⁸³ Attachment CWS-56, Atmos' Response to OCC Discovery Request 3-41, subpart (a), but not including the confidential attachment. This comparison is based on my viewing of a copy of Ms. Bulkley's Engagement Letter to Atmos dated January 29, 2014 for a rate case likely to be filed in early April 2014. Although Atmos has labeled this letter as a Confidential Attachment, to the extent that Atmos requests that its ratepayers pay for the costs indicated in this letter the OCC's attorney may argue that this is not a confidential attachment.

¹⁸⁴ Hearing Exhibit No. 9, Bulkley Direct Testimony, p. 3, lines 3 – 4.

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1 Another comparison of Ms. Bulkley's estimate is to what Atmos has requested
2 in its two most recent Kansas rate cases for its return on rate base expert. In its 2012
3 Kansas rate case, Atmos estimated \$50,000 and the actual cost was \$34,623; and in its
4 still pending 2014 Kansas rate case, Atmos again estimated \$50,000 and the actual
5 cost is unknown given the pendency of the case.¹⁸⁵ Thus, Atmos' request of \$93,033
6 in this proceeding is \$43,000 more, 86% more, than what it is requesting in its current
7 2014 Kansas rate case. As measured by the return on rate base expert used in Kansas,
8 Ms. Bulkley's estimated amount for this case is clearly unjust and unreasonable. Also,
9 Atmos could have saved ratepayers money by using the same rate of return testimony
10 in Colorado and Kansas because, pursuant to Mr. Ron Fernandez's Answer Testimony
11 (Hearing Exhibit No. 301), both cases were filed about the same time, follow the same
12 methodologies and have substantially the same conclusions, and both states are part of
13 the same division for Atmos.

14 Further, the inflation in Concentric's billings is significant. The requested
15 amounts for Concentric (Ms. Bulkley) for the 2013 rate case was \$75,000, and for
16 Concentric (Mr. Robert Hevert) for the 2009 rate case was \$57,000.¹⁸⁶ And, as
17 referenced above, Ms. Bulkley's Testimony for this case is substantially the same as
18 for the recently concluded 2013 rate case but for some updated numbers; i.e., she used
19 the same methodologies, same arguments, same boilerplate testimony, and almost the
20 same conclusions. Just for these three proceedings, and just for one area of testimony,
21 Atmos has requested ratepayers to pay over \$225,000 in the space of 5 years for

¹⁸⁵ Attachment CWS-57, Atmos' Response to OCC Discovery Request 3-40, subpart (b).

¹⁸⁶ Attachment CWS-57, Atmos' Response to OCC Discovery Request 3-40, subpart (a).

1 essentially the same testimony. Also, Atmos' request for its rate of return expert has
2 increased 63% in just five years ($(\$93,033 - \$57,000)/\$57,000$).

3 Finally, given that Atmos requested (or, more accurately, requested ratepayers
4 pay for) about \$243,000 ($\$93,000 + \$50,000$) in 2014 just for its Colorado/Kansas
5 Division and another \$125,000 ($\$75,000 + \$50,000$) in 2013 just for its
6 Colorado/Kansas Division, it is unjust and unreasonable to request that
7 Colorado/Kansas ratepayers pay \$368,000 just for one expert for rate cases.
8 Additionally, Atmos uses one in-house witness for its Cost of Service Studies in these
9 Colorado/Kansas rate cases as well as Atmos' other jurisdictions (Mr. Joe Christian).
10 Arguably, it should also use an in-house witness for its rate of return testimony that
11 could be utilized for Atmos' many other jurisdictions rather than soaking ratepayers
12 with exorbitant outside expert costs.¹⁸⁷ However, Atmos dismisses this suggestion on
13 the basis that it "would not be beneficial from a cost standpoint."¹⁸⁸ I disagree and I
14 believe that Atmos' use of such outside experts requesting exorbitant fees, such as
15 \$93,033 for Ms. Bulkley, runs up the costs of back-to-back-to-back rate cases,¹⁸⁹ and
16 runs counter to Ms. Wilkes' assertion that Atmos "makes every effort to control
17 expenses."¹⁹⁰

18 **Q. WHAT IS YOUR RECOMMENDATION REGARDING CONCENTRIC'S (MS.**
19 **BULKLEY'S) EXPENSES IN RATE CASE EXPENSES?**

¹⁸⁷ Both the OCC and Commission Staff have used inside rate of return witnesses, and, from the OCC's view, consulting dollars have been saved.

¹⁸⁸ Attachment CWS-57, Atmos' Response to OCC Discovery Request 3-40, subpart (d).

¹⁸⁹ Upon information and belief, Atmos will return to the Commission in 2015 for yet another rate case proceeding.

¹⁹⁰ Hearing Exhibit No. 4, Wilkes Direct Testimony, p. 7, lines 1 – 2.

1 **A.** For the reasons discussed above, I recommend subtracting the estimated amount of
2 \$63,033 from Ms. Bulkley’s estimate. The remaining amount of \$30,000 is still *more*
3 *than* the OCC spent on its Rate of Return consultants for the last *two rate cases* in
4 which it did not use an in-house witness. To the extent that Atmos desires to pay
5 Concentric its exorbitant rates, Atmos’ shareholders should fund the difference.

6 **Q.** **ARE THE COSTS FOR ATMOS’ CLASS COST OF SERVICE AND RATE**
7 **DESIGN CONSULTANT – PAUL RAAB - JUST AND REASONABLE?**

8 **A.** No. Mr. Raab has estimated costs of \$25,050 for his outside expert testimony and
9 involvement.¹⁹¹ The purpose of his testimony is limited; it is “to describe the class
10 cost of service study ... and to describe the resulting rate design.”¹⁹² Thus, from a
11 literal reading of his testimony, it appears that Mr. Raab’s purpose was to simply
12 provide a description of the underlying class cost of service (“CCOS”) study
13 performed by Atmos internally. Regardless of who performed the CCOS in this case,
14 Atmos could and should have used in-house witnesses to “describe the class cost of
15 service study and the resulting rate design.”

16 **Q.** **WHO COULD ATMOS HAVE USED FOR AN IN-HOUSE/COMPANY**
17 **WITNESS FOR ITS CLASS COST OF SERVICE STUDY AND RATE DESIGN**
18 **TESTIMONY RATHER THAN AN OUTSIDE CONSULTANT?**

19 **A.** Atmos’ in-house witness, Tom Petersen, has experience in CCOS and related
20 testimony and, in fact, prepared such a CCOS and provided such testimony in Atmos’
21 2009 and 2013 rate cases.¹⁹³ Atmos’ in-house witness, Joe Christian, has experience

¹⁹¹ Attachment CWS-51, Atmos’ Response to OCC Discovery Request 3-49, subpart (a), and OCC 3-49.Att. 1, lines 6 and 7. This attachment is an updated version of Atmos’ Workpapers 4-8 and 4-8-1 for its rate case expense adjustment.

¹⁹² Hearing Exhibit No. 7, Raab Direct Testimony, p. 4, lines 9 – 14.

¹⁹³ Attachment CWS-58, Atmos’ Response to OCC Discovery Request 3-43, subpart (a). Also, see generally, Petersen’s Direct Testimony in Proceeding No. 13AL-0496G.

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1 in rate design and, in fact, provided such testimony in Atmos' 2009 rate case.¹⁹⁴

2 Further, Atmos has used Company witnesses for both CCOS and rate design in the
3 Kansas jurisdiction of its combined Colorado/Kansas Division as recently as 2012.¹⁹⁵

4 I believe that Messrs. Petersen and Christian could and should have presented
5 what was included in Mr. Raab's Direct Testimony rather than proposing that
6 ratepayers pick up the \$25,050 tab for an unnecessary outside witness. Thus, I am in
7 agreement with Commission Staff's recommendation from the 2013 rate case to
8 disallow the rate case expenses associated with Atmos' outside consultant for this
9 subject matter.¹⁹⁶

10 **Q. DO YOU HAVE ANY OTHER POINTS REGARDING WHY THE \$25,050**
11 **FOR MR. RAAB IS NOT JUST AND REASONABLE?**

12 **A.** Yes. Atmos did not present robust Direct Testimony to support this amount. Indeed,
13 the amount, let alone a description of it, is not found in either Atmos' Direct
14 Testimony or in Attachment JTC-2.

15 Also, Mr. Raab's hourly rate is \$295.¹⁹⁷ Given the subject matter and that he
16 used discredited methodology (discussed below under my Phase II discussion), this
17 strikes me as exorbitant, unjust and unreasonable, and especially as compared to using
18 a Company witness.

19 Further, Mr. Raab's contract with Atmos does not provide any detail regarding
20 the number of estimated hours, the areas of work by estimated hours, and out-of-

¹⁹⁴ *Id.* at subpart (a).

¹⁹⁵ Attachment CWS 58, Atmos' Response to OCC Discovery Request 3-43, subpart (b).

¹⁹⁶ See. Answer Testimony of Richard Reis (Hearing Exhibit No. 501) in Proceeding No. 13AL-0496, at p. 36.

¹⁹⁷ Attachment CWS-59, Atmos' Response to Staff Data Request 2-2, and Staff 2-02_Att. 1. This attachment is a copy of Mr. Raab's contract with Atmos and was not marked as confidential.

1 pocket costs.¹⁹⁸ Atmos has provided no basis for the \$25,050 for Mr. Raab's
2 involvement.

3 **Q. WHAT IS YOUR RECOMMENDATION REGARDING MR. RAAB'S**
4 **EXPENSES IN RATE CASE EXPENSES?**

5 **A.** For the reasons discussed above, I recommend subtracting the entire estimated amount
6 of \$25,050 from Atmos' rate case estimate. To the extent that Atmos desires to pay
7 Mr. Raab his unnecessary and exorbitant fee, Atmos' shareholders should fund the
8 expenses.

9 **Q. ARE THE EXPENSES FOR ATMOS' ATTORNEYS JUST AND**
10 **REASONABLE?**

11 **A.** No, they are not, and neither are they supported. Atmos requested that base rates
12 include a staggering \$372,214 for attorney services.¹⁹⁹ When asked to "explain in
13 detail how the amount of \$372,214 was arrived at and provide all supporting
14 documentation," Atmos referenced its response to OCC DR No. 3-39(b).²⁰⁰ Atmos'
15 response to 3-39(b) contains its explanation that the 2013 rate case was extended and
16 thus, "resulting in *more expenses being incurred than should be incurred in this*
17 *proceeding.*"²⁰¹ Thus, Atmos' "detailed explanation" on how the exorbitant amount
18 of \$372,214 in attorneys' fees was arrived at consisted of its admission that expenses
19 in the 2013 rate case will be more than in this 2014 Proceeding because of an extended

¹⁹⁸ Attachment CWS-59, Atmos' Response to Staff Data Request 2-2, and Staff 2-02_Att. 1. This attachment is a copy of Mr. Raab's contract with Atmos and was not marked as confidential.

¹⁹⁹ Attachment CWS-51, Atmos' Response to OCC Discovery Request 3-49, subpart (a), and OCC 3-49.Att. 1, lines 6 and 7. This attachment is an updated version of Atmos' Workpapers 4-8 and 4-8-1 for its rate case expense adjustment. In particular, see Updated WP 4-8, line 3 entitled "Thorvald Nelson – Holland & Hart."

²⁰⁰ Attachment CWS-60, Atmos' Response to OCC Data Request 3-45, subpart (a).

²⁰¹ Attachment CWS-55, Atmos' Response to OCC Discovery Request 3-39, subpart (b). [Emphasis Added]

1 proceeding in 2013. This is illogical and does not provide a basis for this requested
2 amount in this Proceeding.

3 When asked to provide the attorney contract and engagement letter between
4 Atmos and Mr. Nelson, and with Holland & Hart, so the OCC could attempt to
5 determine the basis for the \$372,214, Atmos provided a blanket engagement letter and
6 stamped it “Confidential.”²⁰² Notably, this engagement letter was from *16 years*
7 *ago*; June 15, 1998, and consists of boilerplate language. This letter does not provide
8 justification for the \$372,214; there are no billing rates, no estimated hours, no
9 information on which personnel would be working on this 2014 rate case and in what
10 areas.

11 Further, when asked to include a detailed bill (including what work was
12 performed) and not a summary copy of all invoices to date, Atmos provided summary
13 copies with the “Description of Work” either blocked out or simply not included.²⁰³
14 However, upon my viewing of these invoices I can attest that the billing rates for Mr.
15 Nelson as a partner are significantly higher than the fees charged by the law partner in
16 the recently concluded Public Service Company of Colorado gas case (Proceeding No.
17 12AL-1268G), and such fees and hourly billing amounts are currently under scrutiny

²⁰² Attachment CWS-60, Atmos’ Response to OCC Discovery Request 3-45, subpart (b), but not including the confidential attachment. This testimony is based on my viewing of a copy of the Engagement letter. Although Atmos has labeled this letter as a Confidential Attachment, to the extent that Atmos requests that its ratepayers pay for the requested attorneys’ costs of \$372,214, the OCC’s attorney may argue that this is not a confidential attachment.

²⁰³ Attachment CWS-60, Atmos’ Response to OCC Discovery Request 3-45, subpart (d), but not including the confidential attachment. This comparison is based on my viewing copies provided in this confidential attachment 2. Although Atmos has labeled this group of invoices as a Confidential Attachment, to the extent that Atmos requests that its ratepayers pay for the costs indicated in these invoices the OCC’s attorney may argue that this is not a confidential attachment.

1 by the Commission.²⁰⁴ Also, from viewing these invoices it appears that the hourly
2 billing rates for the many other Holland & Hart attorneys working this case are unjust
3 and unreasonable and I would urge the Administrative Law Judge to inquire further
4 into these seemingly exorbitant billing rates and the resulting reasonableness of
5 attorneys' fees included in rate case expenses in this Proceeding.²⁰⁵

6 **Q. WHAT IS YOUR RECOMMENDATION REGARDING ATMOS' PROPOSED**
7 **ATTORNEY SERVICES IN RATE CASE EXPENSES?**

8 **A.** For the reasons discussed in this second concerning my second rate case expense
9 adjustment, from the estimated amount of \$372,214 for attorney services, I
10 recommend subtracting \$120,000 leaving \$252,214. This amount is approximately the
11 pro-rata amount of attorney fees from Atmos' 2013 rate case Settlement
12 Agreement.²⁰⁶ Even this remaining amount of \$252,214 for Attorney Services for this
13 Proceeding may be too high, unjust and unreasonable, and imprudent if the
14 Commission determines, after a rigorous review, that factors would justify a further
15 subtraction (such as that Holland & Hart's billing rates are unjust and unreasonable, or
16 there is a lack of basis for the estimate.)

17 To the extent that Atmos desires to pay Holland & Hart its unjust and
18 unreasonable and exorbitant fees, Atmos' shareholders should fund the difference.

²⁰⁴ Proceeding No. 14AL-0309G, In the Matter of Compliance Advice Letter No. 861. In its Protest, the OCC noted the utility's refusal to produce detailed legal bills (only general summaries) and expressed its concerns regarding whether the additional rate case expenses consisting primarily of attorneys' fees were prudently incurred. See, OCC's Protest, dated April 15, 2014.

²⁰⁵ Colorado attorneys are required to adhere to the Colorado Rules of Professional Conduct, Rule 1.5 regarding fees and certain factors are to be considered in determining the reasonableness of a fee. These factors and other criteria will be developed by the OCC's attorney at the evidentiary Hearing or in the OCC's SOP, or both.

²⁰⁶ In the 2013 Rate Case, Atmos agreed to \$350,000 in total Rate Case Expenses. Atmos had initially requested \$450,000 with \$332,000 for Attorney Services in that case. The ratio of Attorney Services in the initial request is 73% (\$332,000/\$450,000) and the pro-rata portion for such services from the Settlement Agreement amount of \$350,000 was \$255,500 (\$332,000 X 73%).

1 **Q. ARE THE COSTS FOR ATMOS' NOTICE AND VARIOUS ITEMS**
2 **INCLUDED IN RATE CASE EXPENSES REASONABLE?**

3 **A.** No. Initially I note that, like every other item in Atmos' requested \$553,466 in rate
4 case expenses; no detail, no explanation and no amounts were presented by Atmos for
5 noticing this rate case. The amount for such noticing was included in a workpaper and
6 is \$50,644.²⁰⁷

7 **Q. WHAT WAS THE \$50,644 BASED ON?**

8 **A.** Atmos simply used putative actual expenditures from its 2013 rate case as its estimate
9 for this Proceeding.

10 **Q. WHAT WAS INCLUDED IN THE \$50,644 IN THE 2013 RATE CASE?**

11 **A.** About \$9,000 was paid to Towers Watson for unexplained consulting work; almost
12 \$32,000 for legal notices to numerous newspapers and including \$21,000 just to *The*
13 *Denver Post* for legal notice; and about \$7,500 paid to RAD Graphx, Inc., assumedly
14 for individual mailed notices.²⁰⁸

15 **Q. WHAT WAS THE AMOUNT FOR NOTICE, PRINTING AND OTHER ITEMS**
16 **IN THE 2009 RATE CASE?**

17 **A.** Atmos spent \$21,696 for its 2009 rate case consisting of about \$7,000 paid to RAD
18 Graphx, Inc., assumedly for individual mailed notices and the majority of the

²⁰⁷ Attachment CWS-51, Atmos' Response to OCC Discovery Request 3-49, subpart (a), and OCC 3-49.Att. 1, lines 6 and 7. This attachment is an updated version of Atmos' Workpapers 4-8 and 4-8-1 for its rate case expense adjustment. In particular, see Updated WP 4-8, line 3 entitled "Various – Postage, Printing, Notice and Other Company Expenses."

²⁰⁸ Attachment CWS-61, Atmos' Amended Response to OCC Discovery Request 3-46, subparts (a) and (b), and OCC 3-46_ Att. 1. This attachment consists of detailed "Various" rate case expenses for both the 2009 and 2013 Rate Cases. In particular see the sheet entitled "2013 Colorado Rate Case."

1 remaining \$17,696 for legal notices in newspapers.²⁰⁹ Both in this response and in
2 the previous response, I made an assumption regarding RAD Graphx, Inc. My
3 assumption is that this company is responsible for the printing and direct mailing of
4 111,595 notices to each Atmos customer.²¹⁰

5 **Q. WHAT MAKES UP THE MAJORITY OF THE DIFFERENCE BETWEEN**
6 **2009 AND 2013 RATE CASE EXPENSES FOR NOTICE AND OTHER**
7 **EXPENSES?**

8 **A.** The Towers Watson amount of \$9,000 was not included in the 2009 rate case, was
9 included in 2013 but is unexplained as to why \$9,000 was included, and Atmos has
10 provided no basis for why the \$9,000 is included again in this 2014 rate case.

11 The amount for legal notices has increased from \$17,696 to \$32,000, or even
12 \$39,207 per Atmos,²¹¹ to publish notices in newspapers. The biggest difference is that
13 Atmos placed a notice in *The Denver Post* for 2013 in the amount of \$21,000, but
14 there was no such placement and no such expense for 2009. Atmos places notices in
15 many newspapers including *The Greeley Tribune* and *North Weld Herald* in its largest
16 service area. Accordingly, the estimated expenditure to place a legal notice in *The*
17 *Denver Post* is unnecessary and imprudent, given the coverage in Greeley-area papers
18 and considering that Atmos' service territory only covers the Greeley portion of
19 metropolitan Denver. Further, I could find no evidence from Atmos that a legal notice
20 was actually placed in *The Denver Post* for the instant 2014 rate case.

²⁰⁹ Attachment CWS-61, Atmos' Amended Response to OCC Discovery Request 3-46, subparts (a) and (b), and OCC 3-46_ Att. 1. This attachment consists of detailed "Various" rate case expenses for both the 2009 and 2013 Rate Cases. In particular see the sheet entitled "2009 Colorado Rate Case."

²¹⁰ Attachment CWS-62, Atmos' Response to OCC Discovery Request 5-02, subpart (a).

²¹¹ Attachment CWS-61, Atmos' Amended Response to OCC Discovery Request 3-46, subpart (d)(ii), and OCC 3-46_ Att. 1.