

DOCKET NO. _____

APPLICATION OF SOUTHWESTERN § PUBLIC UTILITY COMMISSION
PUBLIC SERVICE COMPANY FOR §
AUTHORITY TO CHANGE RATES § OF TEXAS

DIRECT TESTIMONY
of
GARY J. O'HARA

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: O'HaraRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
CAPS	Center for Advanced Purchasing Studies
Costs or costs	O&M expenses and the administrative and general expenses collectively
FERC	Federal Energy Regulatory Commission
O&M	Operation and Maintenance
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
PTT	Productivity Through Technology
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	April 1, 2016 through March 31, 2017
Total Company or total company	Total SPS (before any jurisdictional allocation)
Update Period	April 1, 2017 through June 30, 2017
Updated Test Year	July 1, 2016 through June 30, 2017
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
GJO-RR-1	Supply Chain Organization Chart (<i>Non-native format</i>)
GJO-RR-2	2013 CAPS Research Utilities Industry Benchmarking Report (<i>Non-native format</i>)
GJO-RR-3	2015 CAPS Research Cross-Industry Report of Standard Benchmarks: Utilities Industry (<i>Non-native format</i>)
GJO-RR-A (Updated Test Year)	Summary of XES Expenses to SPS by Affiliate Class and Billing Method (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-B(CD) (Updated Test Year)	XES Expenses by Affiliate Class, Activity, Billing Method, and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-C (Updated Test Year)	Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-D (Updated Test Year)	Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)

**DIRECT TESTIMONY
OF
GARY J. O'HARA**

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Gary J. O'Hara. My business address is 414 Nicollet Mall,
4 Minneapolis, Minnesota 55401.

5 **Q. On whose behalf are you testifying in this proceeding?**

6 A. I am filing testimony on behalf of Southwestern Public Service Company, a New
7 Mexico corporation ("SPS") and wholly-owned electric utility subsidiary of Xcel
8 Energy Inc. ("Xcel Energy").

9 **Q. By whom are you employed and in what position?**

10 A. I am employed by Xcel Energy Services Inc. ("XES"), the service company
11 subsidiary of Xcel Energy, as Vice President, Supply Chain.

12 **Q. Please briefly outline your responsibilities as Vice President, Supply Chain.**

13 A. I direct the sourcing and procurement of goods and services for all of the Xcel
14 Energy Operating Companies.¹ I also have responsibility for materials
15 management, supporting Xcel Energy's Transmission, Distribution, Gas, and
16 Energy Supply business areas. Additionally, I am responsible for managing Xcel
17 Energy's Accounts Payable, Investment Recovery, and Fleet Management
18 functions.

¹ Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS.

- 1 **Q. Please describe your educational background.**
- 2 A. I attended the University of Minnesota.
- 3 **Q. Please describe your professional experience.**
- 4 A. I have worked in the utility industry for over 40 years. All of my experience has
- 5 been with Xcel Energy or its predecessor companies. I began my career in 1971 at
- 6 Northern States Power Company in the construction department as a field
- 7 employee. From 1971 to 1999, I worked in various field, staff, and management
- 8 roles in Design & Engineering, Field Operations, and Business Development.
- 9 After the merger that resulted in the creation of Xcel Energy, I became a Director
- 10 in Field Operations, advancing to General Manager of Distribution Design &
- 11 Construction across Xcel Energy. In October of 2007, I became the General
- 12 Manager, Supply Chain. In October 2011, I became Managing Director, and as of
- 13 January 2013, I became Vice President, Supply Chain.
- 14 **Q. Have you attended or taken any special courses or seminars relating to**
- 15 **public utilities?**
- 16 A. Yes. As a component of my professional development throughout my career, I
- 17 have attended numerous technical seminars, including Utility Finance Accounting
- 18 and most recently Supply Chain Strategy and Management at the Massachusetts
- 19 Institute of Technology, Sloan School of Management.
- 20 **Q. Are you a member of any professional organizations?**
- 21 A. Yes. I participate in the Institute of Supply Management as a representative of the
- 22 Xcel Energy Supply Chain organization.

1 **Q. Have you testified before any regulatory authorities?**

2 A. Yes. I have filed testimony at the Public Utility Commission of Texas in Docket
3 Nos. 38147, 40824, 42004, 43695, and 45524, SPS's five most recent base rate
4 proceedings, on the Supply Chain class of affiliate services. In addition, I have
5 testified before the Minnesota Public Utilities Commission on behalf of Northern
6 States Power Company—Minnesota.

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A. I support the Updated Test Year (July 1, 2016 through June 30, 2017) operation and maintenance (“O&M”) expenses and the administrative and general expenses (collectively, “Costs” or “costs”) for the Supply Chain class of affiliate services.²

- describe the services included in the class;
- explain that those services are reasonable and necessary for SPS's operation;
- explain that the costs for those services are reasonable and necessary;
- explain that these services do not duplicate services that SPS provides to itself through its own employees or that are provided from any other source; and
- explain that charges from XES to SPS for those services are no higher than the charges to SPS affiliates for the same or similar services.

A. The estimated Updated Test Year costs that SPS seeks to recover for the services of the Supply Chain affiliate class are \$431,629³ (total SPS before jurisdictional allocation, “Total Company” or “total company”). Those costs are reasonable and necessary because they support SPS’s ability to provide electric service to its Texas retail customers.

³ This dollar amount reflects nine months of actual costs and three months of estimated costs.

- 1 • The costs are for services that are necessary to the sourcing and
2 procurement of all of the goods and services used by SPS in providing
3 electric service to its customers, including:
 - 4 ○ negotiating contracts for everything from day-to-day business
5 necessities (e.g., office supplies and furniture) to capital items
6 used to construct, operate, and maintain generation and
7 transmission assets (e.g., transmission poles and transformers);
 - 8 ○ managing materials including deliveries and storage;
 - 9 ○ implementing vendor, supplier, and contractor management
10 strategies and policies;
 - 11 ○ managing the vehicles fleet; and
 - 12 ○ handling accounts payable.
- 13 • The costs are reasonable because they are shared with other affiliates,
14 include reasonable personnel costs, and are subjected to rigorous
15 budgeting and cost control processes.
- 16 • SPS does not provide these services for itself, and the services do not
17 duplicate services provided by others.
- 18 • Each charge from SPS's affiliates for these services is no higher than
19 the charge by those affiliates to any other entity for the same or similar
20 service, and the costs reasonably approximate the affiliate's cost to
21 provide the service.

22 **Q. You mention that certain costs that you present in your testimony are**
23 **estimates. Please explain why this is the case and what items are estimates.**

24 A. As explained by SPS witness William A. Grant, SPS will be using an Updated
25 Test Year in this case. SPS's initial filing presents actual affiliate O&M expenses
26 for the Test Year (April 1, 2016 through March 31, 2017) and estimated
27 information for the period of April 1, 2017 through June 30, 2017, which is the
28 Update Period. Accordingly, the first nine months of SPS's Updated Test Year
29 (i.e., July 2016 through March 2017) consist of actual cost information, and the
30 last three months (i.e., April through June 2017) consist of estimated cost

1 information. For this reason, certain SPS witnesses refer to the Updated Test
2 Year in direct testimony as the “estimated Updated Test Year.”

3 Regarding the Supply Chain affiliate costs I support, as explained by SPS
4 witness Adam R. Dietenberger, actual figures for April and May 2017 have been
5 provided, and June 2017 figures have been estimated based on the forecasted
6 budget. However, these expenses have not gone through the full pro forma
7 adjustment review process.

8 **Q. Will your testimony be updated to replace the estimated costs that you**
9 **present and support with actual costs?**

10 A. Yes. SPS will file an update 45 days after the application has been filed. The
11 update will provide actual costs to replace the estimates provided in the
12 application for the period of April 1, 2017 through June 30, 2017 (Update Period).
13 As part of that process, my Attachments GJO-RR-A through D will be updated by
14 removing estimates of Supply Chain affiliate costs during the Updated Test Year
15 (July 1, 2016 through June 30, 2017) and then replacing those estimates with
16 actual expenses, which will be used to establish SPS’s base rates in this case.

17 **Q. Were Attachments GJO-RR-1 and GJO-RR-A through GJO-RR-D prepared**
18 **by you or under your direct supervision and control?**

19 A. Yes, as to Attachment GJO-RR-1. Attachments GJO-RR-A through GJO-RR-D
20 were prepared by Mr. Dietenberger and his staff. My staff and I have reviewed
21 these attachments, and I believe them to be accurate. Although the same
22 information provided in Attachments GJO-RR-A through GJO-RR-D is presented
23 in Mr. Dietenberger’s Attachments ARD-RR-A through ARD-RR-D (Updated

1 Test Year), I have presented this information in my testimony for the convenience
2 of those reviewing my testimony.

3 **Q. Are Attachments GJO-RR-2 and GJO-RR-3 true and correct copies of the**
4 **documents referenced in your testimony?**

5 **A. Yes.**

1 **III. AFFILIATE EXPENSES FOR THE SUPPLY CHAIN**
2 **CLASS OF SERVICES**

3 **Q. Earlier in your testimony, you referred to an “affiliate class.” What do you**
4 **mean by the terms “affiliate class” or “affiliate class of services”?**

5 A. A portion of SPS’s costs reflects charges for services provided by a supplying
6 affiliate, specifically XES or one of the Operating Companies. These charges
7 have been grouped into various affiliate classes, or aggregations of charges, based
8 upon the business area, organization, or department that provided the service or,
9 in a few instances, the accounts that captured certain costs. In his direct testimony,
10 Mr. Dietenberger provides a detailed explanation of how the affiliate classes were
11 developed and are organized for this case.

12 **Q. Which affiliate class do you sponsor?**

13 A. I sponsor the Supply Chain class of affiliate services.

14 **A. Summary of Affiliate Expenses for the Supply Chain Class of**
15 **Services**

16 **Q. Where does the Supply Chain affiliate class fit into the overall affiliate**
17 **structure?**

18 A. Attachment ARD-RR-6 to Mr. Dietenberger’s direct testimony provides a list and
19 a pictorial display of all affiliate classes, dollar amounts for those classes, and
20 sponsoring witness for each class. As seen on that attachment, the Supply Chain
21 affiliate class was part of the Operations Services business area during the
22 Updated Test Year. Attachment GJO-RR-1 to my testimony is an organization
23 chart showing the Supply Chain organization.

- 1 **Q. What services are grouped into the Supply Chain affiliate class?**
- 2 A. The Supply Chain organization is responsible for the sourcing and procurement of
- 3 goods and services, materials management, fleet management, and accounts
- 4 payable functions for all of Xcel Energy’s Operating Companies. Supply Chain
- 5 manages spending of approximately \$3.9 billion annually. Among many other
- 6 things, Supply Chain is involved in negotiating contracts for everything from day-
- 7 to-day business necessities (e.g., office supplies and furniture) to capital items
- 8 used to construct, operate, and maintain generation and transmission assets (e.g.,
- 9 transmission poles and transformers); implementing vendor, supplier, and
- 10 contractor management strategies and policies; handling accounts payable; and
- 11 implementing Xcel Energy-wide sourcing and procurement strategies to achieve
- 12 cost savings.
- 13 **Q. What is the dollar amount of the estimated Updated Test Year XES charges**
- 14 **that SPS requests, on a total company basis, for the Supply Chain affiliate**
- 15 **class?**
- 16 A. The following Table GJO-RR-1 summarizes the dollar amount of the estimated
- 17 Updated Test Year XES charges for the Supply Chain affiliate class. I will update
- 18 the table below as part of SPS’s 45-day case update filing to reflect the actual
- 19 Updated Test Year costs for the Supply Chain affiliate class.

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Table GJO-RR-1

Class of Services	Requested Amount of XES Class Expenses Billed to SPS (Total Company)		
	Requested Amount	% Direct Billed	% Allocated
Supply Chain	\$431,629	55.34%	44.66%

Requested Amount of XES Class Expenses Billed to SPS (Total Company)

Requested dollar amount of XES expenses to SPS (total company) for this affiliate class after exclusions and pro forma adjustments. This is the amount from Column I in Attachment GJO-RR-A.

% Direct Billed

The percentage of SPS's requested XES expenses (total company) for this class that were billed 100% to SPS.

% Allocated

The percentage of SPS's requested XES expenses (total company) for this class that were allocated to SPS.

2 **Q. Please describe the attachments that support the information provided on**
3 **Table GJO-RR-1.**

4 **A.** There are four attachments to my testimony that present information about the
5 requested SPS affiliate expenses for the Supply Chain affiliate class.

6 **Attachment GJO-RR-A:** Provides a summary of the affiliate expenses
7 for this class during the Updated Test Year. The summary starts with the total of
8 the XES expenses to SPS for the services provided by this affiliate class and ends
9 with the requested dollar amount of XES expenses to SPS (total company) for this
10 affiliate class after exclusions and pro forma adjustments. The columns on this
11 attachment provide the following information.

Column A —	Line number	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	Billing Method (Cost Center)	Shows the billing method that XES uses to charge the expenses to the affiliates, and the billing method short title. In his direct testimony, Mr. Dietenberger explains the billing methods and defines the codes.
Column D —	Allocation Method	Shows the allocation method applicable to the billing method (cost center).
Column E —	XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	Shows XES billings to SPS (total company) for the affiliate class.
Column F —	Exclusions	Shows the total dollars to be excluded from Column E. Exclusions reflect expenses not requested, such as expenses not allowed or other below-the-line items.
Column G —	Per Book	Shows XES billings to SPS (total company), for the affiliate class, after the exclusions shown in Column F. The dollar amount in Column G is Column E plus Column F.
Column H —	Pro Formas	Shows the total dollar amount of pro forma adjustments to the dollar amount in Column G. Pro forma adjustments reflect revisions for known and measurable changes to the Updated Test Year expenses.

Column I —	Requested Amount (Total Company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column I is Column G plus Column H.
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Column J —	Percentage of class charges	Shows the percentage of affiliate class charges billed using the cost center.
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1 In his direct testimony, Mr. Dietenberger provides a consolidated
2 summary of affiliate expenses billed to SPS for all classes during the Updated
3 Test Year, as well as the Test Year (April 1, 2016 through March 31, 2017).

4 **Attachment GJO-RR-B:** Provides the detail of the XES expenses for the
5 Supply Chain affiliate class that are summarized on Attachment GJO-RR-A. The
6 detail shows the XES expenses billed to SPS for the Supply Chain affiliate class,
7 itemized by the amount, with each expense listed by individual activity and
8 billing method (cost center). When summed, these amounts tie to the amounts
9 shown on Attachment GJO-RR-A and the detail regarding the expenses is
10 organized to support that attachment. Specifically, the columns on this attachment
11 provide the following information.

Column A —	Line Number	Lists the Attachment line numbers.
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Column B —	Legal Entity Receiving XES Expenses	Shows the legal entity (Xcel Energy or one of its subsidiaries) that received the XES expense.
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Column C —	Affiliate Class	Lists the affiliate class.
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Column D —	Cost Element	Provides the cost element number.
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Column E —	Activity	Provides a short title for the activity.
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Column F —	Billing Method (Cost Center)	Identifies the billing method and short title. In his direct testimony, Mr. Dietenberger explains the billing methods and defines the codes.
Column G —	FERC Account	Shows the FERC Account in which the expense was recorded.
Column H —	XES Billings for Class to SPS (total company) (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to SPS. Therefore, the sum of this column provides total billings to SPS and ties to the total dollar amount for the affiliate class in Column E of Attachment GJO-RR-A.
Column I —	Exclusions	Shows the total dollars excluded from Column H. The total dollar amount for the affiliate class in Column I ties to the total dollar amount for the affiliate class in Column F of Attachment GJO-RR-A.
Column J —	Per Book	Shows XES billings to SPS (total company) for the affiliate class after the exclusions shown in Column I. The dollar amount in Column J is Column H plus Column I. The total dollar amount for the affiliate class in Column J ties to the total dollar amount for the affiliate class in Column G of Attachment GJO-RR-A.
Column K —	Pro Formas	Shows the dollar amount of pro forma adjustments to the dollar amount in Column J. The total dollar amount for the affiliate class in Column K ties to the total dollar amount for the affiliate class in Column H of Attachment GJO-RR-A.

Column L —	Requested Amount (Total Company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column L is Column J plus Column K. The total dollar amount for the affiliate class in Column L ties to the total dollar amount for the affiliate class in Column I of Attachment GJO-RR-A.
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1 Mr. Dietenberger also provides a consolidated summary of this
2 information for all affiliate classes during the Updated Test Year, as well as the
3 Test Year (April 1, 2016 through March 31, 2017).

4 **Attachment GJO-RR-C:** Both Attachments GJO-RR-A and GJO-RR-B
5 show exclusions to the XES expenses billed to SPS for the Supply Chain affiliate
6 class (Attachment GJO-RR-A, Column F; Attachment GJO-RR-B, Column I).
7 Attachment GJO-RR-C provides detail about those exclusions listed on
8 Attachments GJO-RR-A and GJO-RR-B. The columns on Attachment GJO-RR-C
9 provide the following information:

Column A —	Line Number	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account for the expense that has been excluded.
Column D —	Explanations for Exclusions	Provides a brief rationale for the exclusion.
Column E —	Exclusions (total company)	Shows the dollar amount of the exclusion.

1 In his direct testimony, Mr. Dietenberger describes the calculations
2 underlying the exclusions.

3 **Attachment GJO-RR-D:** Both Attachments GJO-RR-A and GJO-RR-B
4 show pro forma adjustments to SPS's per book expenses for the Supply Chain
5 affiliate class (Attachment GJO-RR-A, Column H; Attachment GJO-RR-B,
6 Column K). Attachment GJO-RR-D provides information about those pro forma
7 adjustments shown on Attachments GJO-RR-A and GJO-RR-B. The columns on
8 Attachment GJO-RR-D provide the following information.

Column A —	Line Number	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account affected by the pro forma adjustment.
Column D —	Explanations for Pro Formas	Provides a brief rationale for the pro forma adjustment.
Column E —	Sponsor	Identifies the witness or witnesses who sponsor the pro forma adjustment.
Column F —	Pro Formas (total company)	Shows the dollar amount of the pro forma adjustment.

9 **Q. Does XES bill its expenses for the Supply Chain affiliate class to SPS in the**
10 **same manner as it bills other affiliates for those expenses?**

11 **A.** Yes. As discussed by Mr. Dietenberger, XES uses the same method for billing
12 and allocating cost to affiliates other than SPS that it uses to bill and allocate
13 those costs to SPS.

1 **Q. Are there any exclusions to the XES billings to SPS for the Supply Chain**
2 **affiliate class?**

3 A. Yes. As I mentioned earlier, exclusions reflect expenses not requested, such as
4 expenses not allowed or other below-the-line items. Exclusions are shown on
5 Attachment GJO-RR-A, Column F, and on Attachment GJO-RR-B, Column I.
6 The details for the exclusions are provided in Attachment GJO-RR-C. Mr.
7 Dietenberger describes how the exclusions were calculated. In SPS's 45-day case
8 update, I will present an updated Attachment GJO-RR-C that will provide actual
9 exclusions to replace any estimated exclusions included in my original
10 attachment.

11 **Q. Are there any pro forma adjustments to SPS's per book expenses for the**
12 **Supply Chain affiliate class?**

13 A. Yes. As I mentioned earlier, pro forma adjustments are revisions to Updated Test
14 Year expenses for known and measurable changes. Pro forma adjustments are
15 shown on Attachment GJO-RR-A, Column H, and on Attachment GJO-RR-B,
16 Column K. The details for the pro forma adjustments, including the witness or
17 witnesses who sponsor each pro forma adjustment, are provided in Attachment
18 GJO-RR-D. Given the time of SPS's initial filing, only the first nine months of
19 the Updated Test Year have completed the full pro forma adjustment review
20 process. In SPS's 45-day case update, I will present an updated Attachment
21 GJO-RR-D that will complete the full pro forma adjustment review process for
22 the last three months of the Updated Test Year.

1 As shown on those Attachments, I do not sponsor any of those pro forma
2 adjustments.

3 **B. The Supply Chain Class of Services are Necessary Services**

4 **Q. Are the services that are grouped in the Supply Chain affiliate class**
5 **necessary for SPS's operations?**

6 A. Yes. The services grouped in the Supply Chain affiliate class are necessary to
7 ensure that the goods and services needed for SPS's operations are procured in the
8 most cost-effective manner, that fleet and warehouse services are managed cost
9 effectively, and that invoices are paid. They are functions required by all utilities
10 and without which SPS would not be able to provide electric service to its
11 customers.

12 **Q. What are the specific services that are provided to SPS by the Supply Chain**
13 **affiliate class?**

14 A. The specific services that are provided to SPS by the Supply Chain affiliate class
15 are:

- 16 • **Strategic Planning** – These services are necessary to the development of
17 the overall strategic business plan for Xcel Energy Supply Chain,
18 including development of the strategic sourcing plan for all of Xcel
19 Energy. Services include evaluating the requirements of the Operating
20 Companies, including SPS, and assessing market conditions and supplier
21 capabilities. The sourcing strategies developed in this process are
22 designed to leverage the size and scale of Xcel Energy in the market place
23 in order to benefit SPS and the other Operating Companies.
- 24 • **Strategic Sourcing and Category Management**– These services are
25 related to procuring goods and services needed by SPS. They include
26 selecting and negotiating with suppliers, preparing bid packages,
27 analyzing bids, and managing contracts. Goods and services are procured
28 through a competitive bidding process that includes not only evaluation of
29 price, but many other criteria such as the reliability of the supplier and its

ability to meet the bid specifications. The process is applied to every possible goods and services contract.

- **Major Capital Projects Sourcing** – These services are related to procuring goods and services needed for major capital projects, including, but not limited to, the construction of SPS’s power plants, transmission lines, and substations. The services include selecting and negotiating with suppliers, preparing bid packages, analyzing bids, and managing contracts.
- **Material Resource Planning and Logistics** – The resource planning services are used for planning and developing strategies for the cost-effective acquisition of materials used in the transmission and distribution functions of SPS and the other Operating Companies including setting inventory target levels and working with the group that sets design and equipment standards. These services increase buying power by consolidating purchases for items needed by all of the Operating Companies. For example, by using standardized designs for transformers, the bid criteria can be established once and used across multiple projects. The logistics services are related to management of the materials and supplies inventory of SPS and the other Operating Companies. This includes responsibility for storeroom operations, which includes receiving and issuing materials, performing inventory cycle counts, providing equipment and material control, and performing accounting functions in coordination with the Finance and Asset Management departments. In addition, these services include establishing policies and procedures to provide appropriate and consistent inventory management practices throughout the business areas. These services also include salvaging and selling materials that are no longer in use. For example, copper wire removed from facilities is recycled and resold.
- **Business Operations** – These services include accounts payable, process controls, and purchasing. Accounts payable services consist of processing payments to vendors for all of the goods and services, including fuel, that are acquired by SPS and throughout Xcel Energy. The accounts payable function uses sophisticated technology to ensure on-time payment of SPS’s bills and to capture rebates and discounts that lower SPS’s costs. In addition, the financial health of SPS’s suppliers is monitored to ensure they are able to meet their obligations. The process control group is responsible for conducting supply chain analytics and managing various internal controls, which ensure that corporate credit cards are used correctly and that expenses are properly documented, accurately recorded, and within policy and system compliance requirements. Expense reports are reviewed by management, system and process training is readily available to employees and executives, and policy training is required every 2 to 3 years. The purchasing group is responsible for the end-to-end process from business unit need identification to purchase order placement in accordance with sourcing strategy and invoice payment support. This

1 requires work order review and an understanding of near-term supply
2 needs and longer-term outage needs.

3 • **Fleet Management** – These services are used for determining the vehicle
4 requirements of SPS and the other Operating Companies, performing life
5 cycle analysis of the fleet, setting maintenance schedules, managing the
6 garage functions, and developing standards for the types of vehicles
7 needed. By analyzing the number and types of vehicles needed, these
8 services ensure that SPS is efficiently using its vehicles. For example,
9 renting rather than purchasing may be recommended for a specialty truck
10 that might be used only twice in a year. By setting appropriate
11 maintenance schedules, and managing garage functions, these services
12 also ensure that the life cycle of SPS's fleet equipment is maximized.

13 • **Process Governance and Performance** – These services are related to
14 ongoing governance of processes necessary to ensure realization of SAP
15 implementation benefits by ensuring uniform use of processes, enterprise
16 business unit alignment, and supply chain process adherence. They
17 include supply chain project management of special initiatives, master
18 data governance, continuous improvement efforts, and management of
19 process alignment with business units.

20 **Q. Are any of the Supply Chain class of services that are provided to SPS**
21 **duplicated elsewhere in XES or in any other Xcel Energy subsidiary such as**
22 **SPS itself?**

23 A. No. Within XES, none of the services grouped in the Supply Chain affiliate class
24 are duplicated elsewhere. No other Xcel Energy subsidiary performs these
25 services for the Operating Companies. In addition, SPS does not perform these
26 services for itself.

27 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
28 **Supply Chain class of services?**

29 A. Yes. Supply Chain actively manages costs and negotiates better project and unit
30 prices for the goods and services used by SPS in providing electric service to
31 customers. This is accomplished through systematic, long-term category
32 management strategies, designed to control costs for procurement and sourcing. In

1 addition, the size, scale, and long-term purchasing power of the combined Xcel
2 Energy Operating Companies are leveraged to lower costs through volume
3 purchasing, and to enter into strategic alliances with major suppliers, such as
4 vehicle suppliers, transformer and meter suppliers, and pole suppliers, who then
5 operate in alignment with Xcel Energy as preferred vendors. This not only leads
6 to better per unit pricing for the goods needed by SPS, but allows joint
7 development of manufacturing criteria and allows Xcel Energy to reserve blocks
8 of manufacturing space, ensuring that products or equipment will be available
9 when needed without storing inventory, thus reducing overhead costs.

10 **Q. Is there objective evidence of the benefits achieved by the Supply Chain class**
11 **of affiliate services?**

12 A. Yes. Xcel Energy participates in a benchmarking study performed by the Center
13 for Advanced Purchasing Studies (“CAPS”), which is a research arm for the
14 Institute of Supply Management. The study compares the services, costs, and cost
15 savings achieved by the supply chain and sourcing functions of participating
16 utilities. Notable among the data reported by CAPS are the statistics on cost
17 savings achieved by the supply chain function as a percentage of total company
18 spend. As shown in the tables below, the cost savings achieved by the XES
19 Supply Chain function not only exceed the mean and median on key metrics but
20 have also increased significantly over the past few years.

21 The 2013 CAPS Research Utilities Industry Benchmarking Report, which
22 is provided as Attachment GJO-RR-2 to my testimony, reported that Xcel
23 Energy’s Supply Chain cost reduction savings exceeded and its total cost savings

were consistent with the utility industry mean. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean, but that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities. For example, Xcel Energy uses the lowest of first-round bids as its baseline for determining whether a cost reduction savings has been achieved in its selection of products or services. Conversely, based on my participation in CAPS Benchmarking definition workshops, it appears that other utilities in the industry use an average of first round bids to serve as a baseline for calculating cost reduction savings. By doing so, these utilities appear to include elements of cost avoidance in their definitions of cost savings, which I believes over-reports the true measure of cost savings. Table GJO-RR-2 below summarizes these metrics.

Table GJO-RR-2

2013 CAPS Metric	Xcel Energy	Industry Mean
Cost reduction savings as a percent of total controlled spend	2.77%	2.40%
Cost avoidance savings as a percent of total controlled spend	0.59%	1.55%
Total cost savings as a percent of total spend	3.70%	3.89%

In 2014, CAPS eliminated its "total cost savings as a percent of total spend" metric and modified two related metrics – "cost reduction savings as a percent of managed spend" and "cost avoidance savings as a percent of managed spend." Nonetheless, Xcel Energy's performance in the area of cost savings

continues to show improvement and remains strong in comparison to the utility industry.

As Table GJO-RR-3 below shows, Xcel Energy's Supply Chain cost reduction savings exceeded the utility industry mean and median and its cost avoidance savings were consistent with the utility industry median. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean, but as explained above, that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

Table GJO-RR-3

2015 CAPS Metric	Xcel Energy	Mean	Median
Total cost reduction savings as a percent of managed spend	3.9%	2.4%	1.9%
Total cost avoidance savings as a percent of managed spend	0.7%	1.4%	0.7%

The information in Table GJO-RR-3 comes from the 2015 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, which is provided as Attachment GJO-RR-3 to my testimony. As shown on page 1, line 2 of the report, more than 98.4% of total Xcel Energy spent is managed or controlled by the XES Supply Chain management. This is significantly larger than the industry mean of 82.9%. Actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services.

1 As preliminary data from the forthcoming 2017 CAPS report shows
2 (reproduced in Table GJO-RR-4 below), Xcel Energy's Supply Chain cost
3 reduction savings exceeded the utility industry mean and median. In the area of
4 cost avoidance, Xcel Energy's performance appeared to be below the industry
5 mean and median, but that is because Xcel Energy is more rigorous with what it
6 views to be "cost avoidance" than other participating utilities.

7 **Table GJO-RR-4**

Preliminary 2017 CAPS Metric	Xcel Energy	Mean	Median
Total cost reduction savings as a percent of managed spend	5.67%	3.00%	2.1%
Total cost avoidance savings as a percent of managed spend	1.03%	2.20%	1.2%

8 I will update my testimony with a copy of the 2017 CAPS Research,
9 Cross-Industry Report of Standard Benchmarks, and Utilities Industry as part of
10 SPS's 45-day update.

11 The preliminary data show that more than 96.9% of total Xcel Energy
12 Normal Goods and Services spend is managed or controlled by the XES Supply
13 Chain management. This is significantly higher than the industry mean of 88.1%.
14 Actively managing spend in a structured program is key to achieving sourcing
15 savings through volume purchasing and leveraged sourcing and increasing the
16 benefit provided to SPS and its customers by the Supply Chain class of affiliate
17 services. Productivity Through Technology ("PTT") Early Process Release
18 training along with the requirements of the SAP system enforce compliance to

sourcing policy and procedure requiring all purchases of Normal Goods and Services to be executed by Supply Chain. As explained in more detail by SPS witness David C. Harkness, the PTT initiative was designed to improve business processes and systems throughout Xcel Energy by addressing needed technological changes.

C. The Supply Chain Class of Services are Provided at a Reasonable Cost

Q. Are the costs of the Supply Chain class of services reasonable?

A. Yes. The costs of the Supply Chain class of services are reasonable. XES provides the Supply Chain class of functions and services on a consolidated basis for multiple Xcel Energy legal entities. This reduces overhead, eliminates duplication of personnel, and allows the costs of necessary computer and software systems to be shared among the Operating Companies. As a result, SPS benefits from sophisticated services provided by a pool of talented professionals, the consolidated costs of which are shared. The economies of scale inherent in this system result in reasonable costs for SPS for these services.

1. Objective Evidence (Benchmarking)

Q. Is there any objective evidence that supports your opinion that the costs of the Supply Chain affiliate class are reasonable?

A. Yes. Of the estimated Updated Test Year costs for the Supply Chain class, 70.34% are compensation and benefits costs for XES personnel. Witnesses Jill H. Reed and Richard R. Schrubbe establish that the level of Xcel Energy's compensation and benefits is reasonable and necessary. In addition, a variety of cost data will be contained in the 2017 CAPS Report. Preliminary data for the

2017 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, provided in the table below, shows that while Xcel Energy has historically trended above industry mean for supply management operating expenses per supply management employee, 2017 numbers have normalized to near 2013 values and are expected to remain relatively consistent at that level. The decrease in supply management operating expense per supply management employee as reported in 2015 is due to several resources charging the PTT capital project while on temporary assignment and then returning to charge back to their normal O&M roles in 2016.

Table GJO-RR-5

Supply management operating expenses per supply management employee	2013	2015	2017 (Preliminary)
Xcel Energy	\$163,127	\$135,464	\$167,403
Mean	\$119,513	\$128,104	\$119,908

2. Budget Planning

Q. Is the Supply Chain class of affiliate costs subject to a budget planning process?

A. Yes. Annual O&M budgets are created for the Supply Chain class of affiliate costs, using guidelines developed at the corporate level. Each manager within the Supply Chain organization carefully reviews historical spend information, identifies changes that will be coming in the future, and analyzes the costs associated with those changes prior to submitting a proposed budget. The budgeting process is discussed in more detail by SPS witness Raynard A. Gray.

1 **Q. During the fiscal year, does the Supply Chain organization monitor its actual**
2 **expenditures versus its budget?**

3 A. Yes. Actual versus budgeted expenditures are monitored on a monthly basis by
4 management in the Supply Chain organization. Deviations are evaluated each
5 month to ensure that costs are appropriate. In addition, action plans are developed
6 to mitigate variations in actual to budgeted expenditures. These mitigation plans
7 may either reduce or delay other expenditures so that the revised budget supports
8 the authorized budget. If authorized budget adjustments are required, they are
9 identified and approved at an appropriate level of management.

10 **Q. Are employees within the Supply Chain organization held accountable for**
11 **deviations from the budget?**

12 A. Yes. All directors in the Supply Chain organization have specific budgetary goals
13 that are incorporated into their performance evaluations. Performance is
14 measured on a monthly basis to ensure adherence to the goals and provide for
15 action plan development to address variances.

16 3. *Cost Trends*

17 **Q. Please state the dollar amounts of the actual charges (per book) from XES to**
18 **SPS for the Supply Chain class of services for the three fiscal years preceding**
19 **the end of the Updated Test Year and the charges (per book) for the**
20 **estimated Updated Test Year.**

21 A. The following table shows, for the fiscal years 2014, 2015, and 2016 (calendar
22 years) the actual per book charges and, for the estimated Updated Test Year, the

estimated per book affiliate charges (Column G on Attachment GJO-RR-A) from XES to SPS for the services grouped in the Supply Chain affiliate class:

Table GJO-RR-6

	Per Book Charges Over Time			
Class of Services	2014	2015	2016	Updated Test Year (Estimated)
Supply Chain	\$320,428	\$279,211	\$439,489	\$466,660

Q. What are the reasons for this trend?

A. The decrease in costs from 2014 to 2015 was primarily related to the allocation of O&M resources to the capital project associated with the corporate PTT initiative. The cost increase between 2015 and the Updated Test Year estimate is due to several of those resources rolling off the PTT capital project and charging back to their normal O&M roles. The remainder of the increase is due to additional employee expenses related to the training needs required for the new applications being deployed for the PTT initiative. Those additional employee expenses related to training also affect the test year actuals as well.

4. Staffing Trends

Q. Please provide the staffing levels for the Supply Chain class of services for the three fiscal years preceding the end of the Updated Test Year and the Updated Test Year.

A. The following table shows, for the fiscal years 2014, 2015, and 2016 (calendar years) and for the Updated Test Year, the average of the end-of-month staffing levels for the Supply Chain class of services.

1

Table GJO-RR-7

	Average End of Month # of Staff			
Class of Services	2014	2015	2016	Updated Test Year (Estimated)
Supply Chain	167	176	181	183

2 **Q. What are the reasons for this trend?**

3 A. Table GJO-RR-7 includes both Supply Chain employees whose time is charged to
 4 balance sheet clearing accounts or capital cost centers and those whose time is
 5 charged to O&M. Therefore, the variances in average staffing levels are not
 6 directly reflected in the variances in O&M costs over the same periods. The
 7 increases in average staffing levels from 2014 through the Updated Test Year are
 8 the result of increases in the staffing required to support the PTT initiative and
 9 corporate implementation of SAP. PTT positions were funded from existing open
 10 headcount. In some cases, the original Supply Chain position was backfilled with
 11 a new hire. In other cases, the Supply Chain position remained vacant while the
 12 individual was on assignment for PTT.

13 5. *Cost Control and Process Improvement Initiatives*

14 **Q. Separate from the budget planning process, does the Supply Chain
 15 organization take any steps to control its costs or to improve its services?**

16 A. Yes. The Supply Chain organization continually evaluates current practices to
 17 identify areas for improvement, including ways to maximize resources and make
 18 Supply Chain operations more efficient.

1 **D. The Costs for the Supply Chain Class of Services are Priced in a**
2 **Fair Manner**

3 **Q. For those costs that XES charges (either directly or through use of an**
4 **allocation) to SPS for the Supply Chain class of services, does SPS pay any**
5 **more for the same or similar service than does any other Xcel Energy**
6 **affiliate?**

7 A. No.

8 **Q. Why do you answer “no”?**

9 A. The XES charges to SPS for any particular service are no higher than the XES
10 charges to any other Xcel Energy affiliate. The costs charged for particular
11 services are the actual costs that XES incurred in providing those services to SPS.
12 A single, specific allocation method, rationally related to the costs drivers
13 associated with the service being provided, is used with each cost center (billing
14 method). In his direct testimony, Mr. Dietenberger discusses the selection of
15 billing methods and XES’s method of charging for services in more detail.

16 **Q. How are the costs of the Supply Chain affiliate class billed to SPS?**

17 A. My Attachment GJO-RR-B shows all of the costs in this class broken out by
18 activity and, in conjunction with Column C in my Attachment GJO-RR-A, shows
19 the billing method associated with each activity. My Attachment GJO-RR-A
20 shows the allocation method (Column D) associated with each billing method
21 (Column C) used in the affiliate class. In this initial filing, only the first 11
22 months of the Updated Test Year have a cost center (billing method) and
23 allocation method associated with each activity. The entries for the remaining
24 month (June 2017) have a notation of “TBD” for these items because the

1 estimated amounts are based on a forecasted budget and specific cost centers
2 (billing methods) are not yet available.

3 In SPS's 45-day case update, I will present updated Attachments
4 GJO-RR-A and GJO-RR-B so that the entries for the last three months of the
5 Updated Test Year provide actual data and conform to the information provided
6 for the first nine months. In the event the predominant billing methods and
7 associated allocation methods for the Supply Chain affiliate O&M expenses on
8 my updated Attachments GJO-RR-A and GJO-RR-B differ from those discussed
9 below, I will explain those differences in supplemental testimony in SPS's 45-day
10 case update filing.

11 **Q. What are the predominant allocation methods used for billing the costs that**
12 **SPS seeks to recover for the Supply Chain affiliate class of services?**

13 A. All of the requested XES charges to SPS for this class were charged using one of
14 the following five billing allocation methods:

- 15 • Direct Billing – 55.34% of XES charges to SPS – \$238,854.27;
- 16 • Invoice Transactions – 39.49% of XES charges to SPS - \$170,454.09;
- 17 • Assets, Revenue, and Number of Employees – 3.97% of XES charges
18 to SPS – \$17,149.33;
- 19 • Number of Employees – 0.61% of XES charges to SPS – \$2,630.80;
20 and
- 21 • Purchasing – 0.59% of XES charges to SPS – \$2,540.01.

22 **Q. Why is the “Direct Billing” method appropriate for assigning the costs**
23 **captured in the cost centers that use that allocation method?**

24 A. For the cost centers that are assigned using the “Direct Billing” method, the costs
25 normally reflect work that was performed specifically for SPS only. In some

1 cases, however, the direct billing occurred after the application of an off-line
2 allocator that tracks the relevant cost drivers. In either situation, the cost centers
3 charged using the “Direct Billing” method are appropriate because the assignment
4 of costs is in accordance with the distribution of benefits for the services received.
5 For example, the costs related to oversight and training for material coordinators
6 were assigned using the “Direct Billing” method. The cost of these services
7 benefited SPS, the work was performed specifically for SPS alone, and the cost
8 driver is management of SPS employees. Thus, the “Direct Billing” method is
9 appropriate because it assigns costs in accordance with cost causation and benefits
10 received. For the cost centers that assign costs using Direct Billing, the per unit
11 amounts charged by XES to SPS are no higher than the unit amounts billed by
12 XES to other affiliates for the same or similar services and represent the actual
13 costs of the services.

14 **Q. Why is it appropriate to allocate costs based upon the “Invoice Transactions”**
15 **method for the costs captured in the cost centers that use that allocation**
16 **method?**

17 A. Cost Center 200132, which uses the “Invoice Transactions” method as the
18 allocator, captures the costs of the centralized accounts payable organization,
19 which processes invoices and payments for all of Xcel Energy. For example, the
20 labor costs associated with accounts payable personnel are collected in Cost
21 Center 200132 and are allocated using this allocation method. These costs are
22 driven by the activities required to process invoices for each legal entity. Thus,
23 the costs in this cost center are allocated among the Xcel Energy legal entities

1 based on each legal entities proportionate share of invoice transactions (i.e., the
2 number of invoices processed for a particular legal entity as a percentage of the
3 total number of invoices processed for all of the legal entities). This allocation
4 reflects cost causation and the distribution of the benefits of the services received.
5 For the cost centers that assign costs based upon this allocation method, the per
6 unit amounts charged by XES to SPS as a result of the application of this
7 allocation method are no higher than the unit amounts billed by XES to other
8 affiliates for the same or similar services and represent the actual costs of the
9 services.

10 **Q. Why is it appropriate to allocate costs based upon the “Assets, Revenue, and**
11 **Number of Employees” method for the costs captured in the cost centers that**
12 **use that allocation method?**

13 A. The three factor allocation method using assets, revenue, and number of
14 employees produces an allocation of costs that recognizes the complexity, risk,
15 and overall business activity levels that drives the costs included in the cost
16 centers and measures the benefits received from those activities. For the cost
17 centers billed using this allocator, there is no one specific cost driver for the
18 support tasks and services provided, and the services benefit multiple Xcel Energy
19 affiliates. For example, the costs associated with a Supply Chain special program
20 associated with diversity program expenses, which are collected in Cost Center
21 200094 – Supply Chain – Special Program, are allocated using this method.
22 Within the Xcel Energy holding company group, those legal entities that have
23 proportionately more assets, revenues, and employees will have more focus

1 placed on their operations due to those subsidiaries' relative influence on the
2 consolidated business balance sheet, income statement, and statement of cash
3 flow, and the subsidiaries will benefit accordingly from the services provided.
4 Thus, allocating these costs based upon the average of the total asset ratio,
5 revenue ratio, and the employee ratio is appropriate because it allocates costs in
6 accordance with cost causation and benefits received. Mr. Dietenberger discusses
7 this billing method in more detail in his testimony. For the cost centers that
8 assign costs based upon this allocation method, the per unit amounts charged by
9 XES to SPS as a result of the application of this allocation method are no higher
10 than the unit amounts billed by XES to other affiliates for the same or similar
11 services and represent the actual costs of the services.

12 **Q. Why is it appropriate to allocate costs based upon the “Number of**
13 **Employees” method for the costs captured in the cost centers that use that**
14 **allocation method?**

15 A. Cost Center 200166 – Diversity, Safety, Employee Relations - which uses the
16 “Number of Employees” method as the allocator, captures costs associated with
17 employees and their regulatory safety requirements. For example the costs
18 associated with employees' safety-related drug and alcohol testing are captured in
19 this cost center and allocated using the “Number of Employees” method. The
20 cost driver for these activities is regulatory-related testing provided to employees.
21 Thus, this cost center allocates costs among the Xcel Energy legal entities based
22 upon the proportionate share of employees of each Xcel Energy legal entity (i.e.,
23 the number of employees of a particular legal entity as a percentage of the total
24 number of employees of all of the legal entities). This allocation reflects cost

1 causation and the distribution of the benefits of the services received. For the cost
2 centers that assign costs based upon this allocation method, the per unit amounts
3 charged by XES to SPS as a result of the application of this allocation method are
4 no higher than the unit amounts billed by XES to other affiliates for the same or
5 similar services and represent the actual costs of the services.

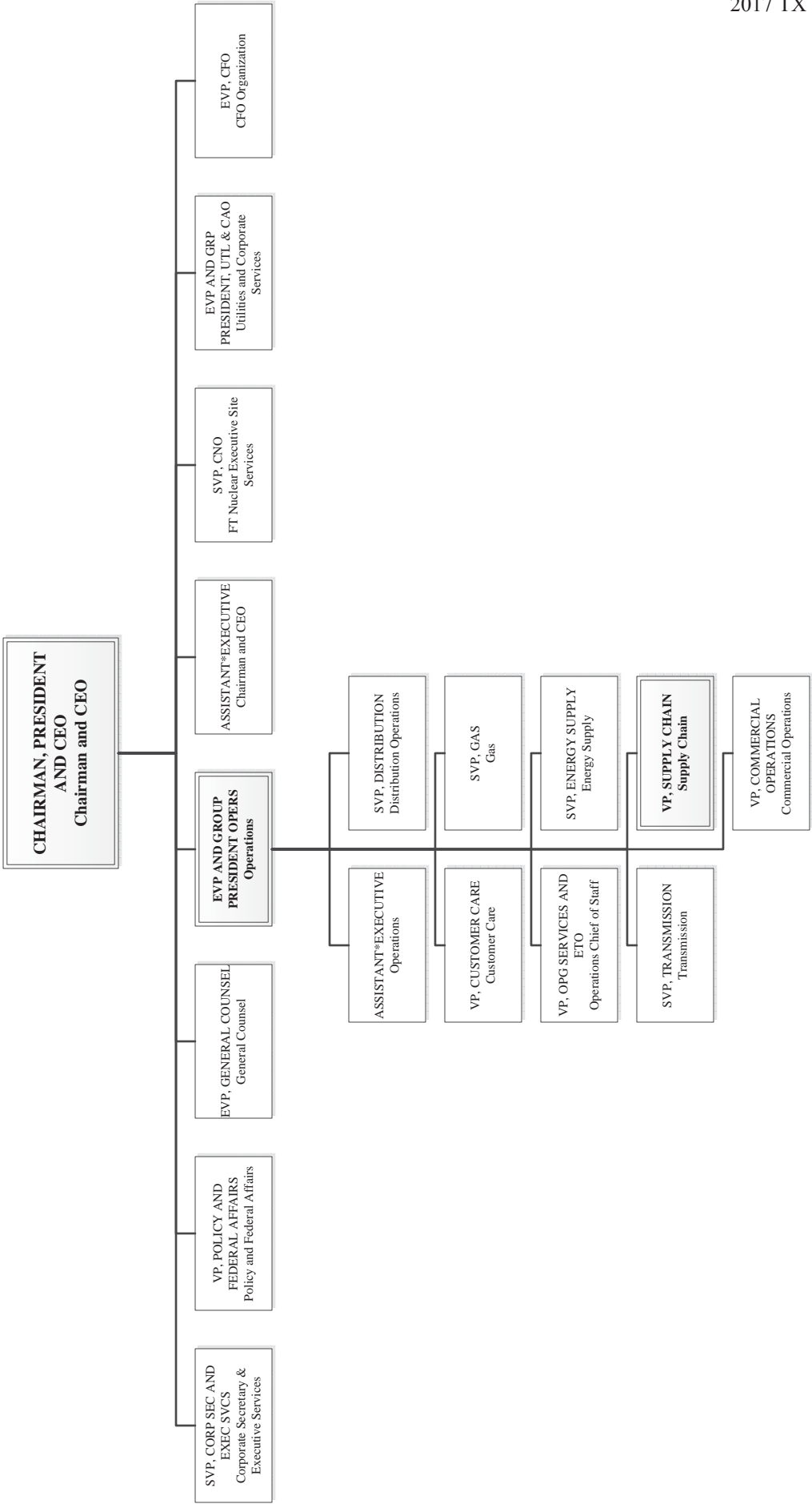
6 **Q. Why is it appropriate to allocate costs based upon the “Purchasing**
7 **Transactions” method for the costs captured in the cost centers that use that**
8 **allocation method?**

9 A. Cost Center 200175 – Passport Purchasing – which uses “Purchasing
10 Transactions” method as the allocator, captures the labor and non-labor costs
11 associated with the Purchasing module within Passport. This includes application
12 development and maintenance costs, licensing fees, server system costs, and
13 technology risk costs specific to disaster recovery of this application. This
14 method of allocation is reasonable for these costs because there is a direct causal
15 relationship with the companies using the purchasing functions from Passport.
16 This allocation reflects cost causation and the distribution of the benefits of the
17 services received. For the cost centers that assign costs based upon this allocation
18 method, the per unit amounts charged by XES to SPS as a result of the application
19 of this allocation method are no higher than the unit amounts billed by XES to
20 other affiliates for the same or similar services and represent the actual costs of
21 the services.

22 **Q. Does this conclude your pre-filed direct testimony?**

23 A. Yes.

Southwestern Public Service Company
Organization Chart – Supply Chain
As of March 31, 2017





CAPS Research
Utilities Industry

Release Date: September 18, 2013

2013 Supply Management Performance Benchmarking Report

Jointly Sponsored by the Institute for Supply Management and
W. P. Carey School of Business at Arizona State University

#	Benchmark	Xcel/Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Organization/Employee Metrics							
13	Supply management employees as a percent of total company employees	3.27%	2.57%	0.38%	5.48%	2.79%	2.72%
15	FTE supply management employees as a percent of total company employees (does not include contract/temporary employees)	2.78%	2.42%	0.38%	3.82%	2.77%	2.60%
2	Percent of organizations that include the following functional areas and activities as part of their supply management organization:						
	Senior Management	X	100.00%				89.47%
	Planning	X	42.86%				52.63%
	Professional Support Staff	X	71.43%				84.21%
	Accounts Payable	X	21.43%				26.32%
	Administrative	X	64.29%				84.21%
	Supplier Diversity	X	71.43%				78.95%
	Category Sourcing/Procurement	X	78.57%				78.95%
	Purchasing	X	92.86%				89.47%
	Major Project Sourcing	X	64.29%				78.95%
	Other Project Sourcing	X	42.86%				26.32%
	Warehouse and Operations Management	X	85.71%				84.21%

Release Date: September 18, 2013

CAPS Research
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2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
3	Percent of planned supply management employees in the following functional areas and activities (includes contract/temporary employees):						
	Senior Management	2.47%	8.88%	1.52%	25.81%	8.04%	
	Planning	1.10%	7.29%	1.10%	23.71%	3.68%	
	Professional Support Staff	6.87%	7.32%	2.15%	14.50%	7.98%	
	Accounts Payable	5.77%	i.d.				
	Administrative	1.37%	2.63%	1.03%	6.45%	1.84%	
	Supplier Diversity	0.82%	1.24%	0.21%	2.27%	1.03%	
	Category Sourcing/Procurement	4.40%	14.05%	4.29%	32.26%	10.20%	
	Purchasing	8.79%	25.34%	7.22%	82.35%	20.01%	
	Major Project Sourcing	5.22%	3.34%	0.61%	6.84%	2.65%	
	Other Project Sourcing	2.75%	4.13%				
	Warehouse and Operations Management	60.44%	50.20%	30.93%	67.74%	50.79%	
4	Percent of planned supply management employees in the following overall functional areas (includes contract/temporary employees):						
	Planning (Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative)	17.55%	20.07%	5.38%	38.06%	17.61%	
	Purchasing (Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing)	21.98%	39.69%	21.98%	82.35%	31.15%	
	Operations (Includes Warehouse and Operations Management)	60.44%	50.20%	30.93%	67.74%	50.79%	

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Percent of actual supply management employees in the following functional areas and activities (includes contract/temporary employees):							
	Senior Management	2.46%	8.65%	1.45%	25.93%	8.67%	5.54%
	Planning	1.09%	6.34%	1.09%	24.21%	3.35%	1.82%
	Professional Support Staff	7.65%	7.68%	1.87%	14.45%	7.65%	10.80%
	Accounts Payable	5.74%	Ld.				11.49%
	Administrative	1.09%	2.21%	1.05%	3.85%	1.87%	2.88%
	Supplier Diversity	0.82%	1.18%	0.22%	2.28%	1.05%	1.41%
	Category Sourcing/Procurement	4.37%	12.29%	0.00%	33.33%	8.56%	13.23%
	Purchasing	8.74%	27.69%	7.37%	81.25%	22.33%	18.95%
	Major Project Sourcing	5.19%	5.93%	0.62%	26.92%	2.90%	6.38%
	Other Project Sourcing	2.73%	3.40%	0.00%	11.11%	2.58%	3.36%
	Warehouse and Operations Management	60.11%	47.97%	10.68%	67.74%	52.74%	51.36%
Percent of actual supply management employees in the following overall functional areas (includes contract/temporary employees):							
	Planning (Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative)	18.03%	19.20%	5.38%	34.74%	18.03%	21.69%
	Purchasing (Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing)	21.86%	41.04%	21.86%	81.62%	31.52%	35.61%
	Operations (Includes Warehouse and Operations Management)	60.11%	47.97%	10.68%	67.74%	52.74%	51.36%
	Actual contract/temporary employees as a percent of total supply management employees	15.03%	7.63%	2.85%	15.03%	3.03%	8.67%

Release Date: September 18, 2013

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Percent of participants reporting that the following supply management job functions are all centrally located, co-located with clients, or other:							
	All Centrally Located	Co-located with Clients	Other				
Supplier Diversity	78.57%	14.29%	0.00%				
Category Sourcing/Procurement	78.57%	14.29%	0.00%				
Purchasing	85.71%	14.29%	0.00%				
Major Project Sourcing	71.43%	7.14%	0.00%				
Other Project Sourcing	71.43%	0.00%	0.00%				
#	Benchmarks	Mean	Minimum	Maximum	Median	Previous Report	Mean
Financial Information							
9	Total spend as a percent of sales/revenue	30.62%	15.44%	71.33%	32.00%	40.60%	
10	Controlled spend as a percent of sales/revenue	28.55%	14.85%	45.89%	27.60%	27.90%	
	Percent of total spend that is controlled by supply management	93.23%	28.38%	100.00%	80.64%	74.85%	
125	Controlled spend per FTE supply management employee (does not include contract/temp employees)	\$9,296,299	\$13,096,677	\$37,721,083	\$9,718,144	\$10,135,373	
126	Controlled spend per procurement-related FTE supply management employee (does not include warehouse and operations management employees)	\$27,020,084	\$21,222,159	\$55,130,814	\$18,343,470	\$20,461,781	

Release Date: September 18, 2013

CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
131	Percent of total controlled spend that is for materials	31.04%	33.87%	12.98%	64.53%	32.03%	35.74%
132	Percent of total controlled materials spend for:						
	Corporate	0.39%	10.07%	0.39%	24.62%	7.11%	10.22%
	T&D	52.46%	54.37%	19.94%	100.00%	52.46%	40.10%
	Generation	47.18%	37.59%	28.00%	47.18%	38.59%	32.51%
	Water	n/a	i.d.				i.d.
	Other	n/a	i.d.				24.48%
133	Percent of total controlled spend that is for services	68.95%	66.28%	35.47%	87.01%	67.97%	64.12%
134	Percent of total controlled services spend for:						
	Corporate	29.67%	17.27%	7.76%	29.67%	15.21%	15.96%
	T&D	28.13%	38.07%	21.00%	100.00%	28.13%	32.68%
	Generation	42.20%	43.74%	32.21%	60.50%	40.81%	33.85%
	Water	n/a	i.d.				i.d.
	Other	n/a	i.d.				26.99%

Release Date: September 18, 2013

CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

Benchmark	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Percent of total controlled spend for goods and services that were strategically sourced	63.08%	53.01%	7.47%	77.35%	60.00%	
Percent of total controlled spend for goods and services purchased under contracts awarded during the reporting period	107.26%	55.97%	7.44%	107.25%	56.71%	
Supply management operating expense as a percent of total spend	1.93%	1.03%	0.23%	2.53%	0.98%	
Supply management operating expense as a percent of controlled spend	2.07%	1.35%	0.31%	2.53%	1.19%	
Supply management operating expense per supply management employee	\$163,127	\$119,513	\$70,019	\$163,127	\$123,317	
Percent of organizations that include the following when determining their organization's total supply management operating expense:						
Salaries and payroll-related expenses	X	100.00%				
Non-allocated expenses	X	64.29%				
IT (infrastructure and desktop support)	X	21.43%				
Business Systems	X	14.29%				
Allocated Expenses	X	50.00%				
Average percent that the following allocations contribute to the organization's total supply management operating expense:						
Salaries and payroll-related expenses	n/a	84.00%	63.75%	100.00%	87.24%	
Non-allocated expenses	n/a	10.38%	2.75%	25.93%	9.34%	
IT (infrastructure and desktop support)	n/a	i.d.				
Business Systems	n/a	i.d.				
Allocated Expenses	n/a	21.36%				
Total supply management salaries (unburdened) as a percent of total controlled spend	n/a	0.80%	0.23%	1.48%	0.85%	1.02%
Average salary (unburdened) per FTE supply management employee	n/a	\$78,826	\$67,220	\$116,270	\$75,464	\$77,406

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CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
22	Salary (unburdened) per FTE supply management employee in the following functional areas and activities:						
	Senior Management	n/a	\$128,058	\$84,810	\$179,800	\$123,092	\$135,928
	Planning	n/a	\$75,568	\$58,961	\$103,324	\$66,282	\$92,304
	Professional Support Staff	n/a	\$85,002	\$61,060	\$114,601	\$82,098	\$78,744
	Accounts Payable	n/a	i.d.				i.d.
	Administrative	n/a	\$51,484	\$37,276	\$88,889	\$45,548	\$51,606
	Supplier Diversity	n/a	\$76,200	\$57,130	\$111,932	\$78,253	\$85,194
	Category Sourcing/Procurement	n/a	\$78,842	\$67,902	\$95,267	\$75,048	\$106,466
	Purchasing	n/a	\$71,081	\$49,600	\$93,750	\$73,038	\$72,040
	Major Project Sourcing	n/a	\$93,493	\$37,953	\$139,663	\$89,503	\$106,372
	Other Project Sourcing	n/a	\$68,207				\$82,238
	Warehouse and Operations Management	n/a	\$71,064	\$63,776	\$76,852	\$70,569	\$75,203
	Total salaries (burdened) as a percent of total controlled spend	n/a	1.16%	0.31%	2.11%	1.19%	1.40%
23	Average salary (burdened) per FTE supply management employee	n/a	\$105,625	\$68,091	\$126,610	\$108,218	\$112,597

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Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Salary (burdened) per FTE supply management employee in the following functional areas and activities:							
	Senior Management	n/a	\$178,869	\$126,353	\$260,600	\$176,261	
	Planning	n/a	\$115,395	\$88,889	\$158,801	\$111,816	
	Professional Support Staff	n/a	\$128,616	\$82,145	\$192,267	\$129,333	
	Accounts Payable	n/a	Id.				
	Administrative	n/a	\$63,712	\$54,871	\$74,000	\$64,632	
	Supplier Diversity	n/a	\$114,534	\$76,850	\$151,108	\$118,667	
	Category Sourcing/Procurement	n/a	\$118,810	\$91,348	\$159,836	\$119,641	
	Purchasing	n/a	\$99,123	\$69,800	\$120,210	\$103,060	
	Major Project Sourcing	n/a	\$123,789	\$58,429	\$169,000	\$123,485	
	Other Project Sourcing	n/a	\$100,561				
	Warehouse and Operations Management	n/a	\$104,812	\$91,341	\$111,976	\$105,410	

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CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmark	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
269	Burdened rate as a percent of total FTE salaries for the following functional areas and activities:						
	Senior Management	n/a	48.49%				47.57%
	Planning	n/a	53.79%				50.66%
	Professional Support Staff	n/a	50.48%				46.88%
	Accounts Payable	n/a	i.d.				i.d.
	Administrative	n/a	45.71%				47.93%
	Supplier Diversity	n/a	51.37%				43.40%
	Category Sourcing/Procurement	n/a	50.53%				42.88%
	Purchasing	n/a	49.02%				42.46%
	Major Project Sourcing	n/a	46.15%				41.65%
	Other Project Sourcing	n/a	47.24%				29.34%
	Warehouse and Operations Management	n/a	48.17%				42.75%
270	Overall average burdened rate as a percent of total FTE salaries	n/a	48.47%	34.53%	74.53%	44.46%	42.91%
271	Percent of organizations that track cost avoidance savings	Yes	Yes:	61.54%	No:	38.46%	76.19%
272	If yes, average cost avoidance savings as a percent of total controlled spend	0.59%	1.55%				
273	Percent of organizations that track cost reduction savings	Yes	Yes:	76.92%	No:	23.08%	85.71%
274	If yes, average cost reduction savings as a percent of total controlled spend	2.77%	2.40%				
275	Percent of organizations that track total cost savings	Yes	Yes:	64.29%	No:	35.71%	85.71%
276	If yes, average total cost savings as a percent of total controlled spend	Goal: 2.84% Actual: 3.70%	Goal:	2.81%	Actual:	3.89%	

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2013 Supply Management Performance Benchmarking Report

Benchmarks		Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Supplier Information							
28.3	Percent of active suppliers that account for 80% of total spend	4.13%	5.26%	2.42%	8.60%	4.98%	
23.5	Percent of active suppliers that account for the top 20% of total spend	0.10%	0.19%	0.08%	0.67%	0.14%	
29	Percent of organizations that have suppliers working onsite	Yes	50.00%				
30	Percent of organizations that track on-time delivery from suppliers	Yes	35.71%				
30.5	Of those organizations that track on-time delivery, average on-time delivery performance to contractual due date	89.20%	71.77%	54.00%	89.20%	67.40%	
31	Percent of organizations that have a supplier relationship management program	Yes	28.57%				

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Percent of organizations that regularly include the following supplier performance measures in their supplier performance rating process or system for strategic suppliers:		
Cost reduction	X	33.33%
Emergency response readiness		25.00%
Environment	X	16.67%
Health		8.33%
Innovation expertise		16.67%
Management expertise		16.67%
On-time delivery	X	66.67%
Operational performance	X	50.00%
Performance to expectations for sub-tier management		0.00%
Quality	X	66.67%
Responsiveness/flexibility	X	33.33%
Risk mitigation		16.67%
Safety	X	75.00%
Security of supply chain		8.33%
Social responsibility		8.33%
Supplier viability		8.33%
Supply reliability		41.67%
Sustainability		8.33%
Total cost of ownership	X	16.67%
Other		8.33%
Other List:	Customer Service; Financial Management	

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CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Miscellaneous							
Average value per procurement transaction that was:							
333	Manually prepared/released documents (not automated)	\$29,565	\$22,687	\$5,484	\$37,598	\$21,841	\$92,019
	Stand-alone	\$11,819	\$12,391	\$10,019	\$17,081	\$11,819	\$76,350
	Contract/Master Service Agreement Release	\$44,515	\$145,274	\$2,453	\$636,667	\$44,553	\$152,538
	Automated (auto-sourced) or 'touchless' transactions	\$5,840	\$17,835	\$1,388	\$74,093	\$5,840	\$5,540
	Procurement card (pCard or similar) transactions	\$190	\$260	\$92	\$526	\$241	\$254
Average number of total procurement transactions that were:							
335	Manually prepared/released documents (not automated)	76,239	43,939	9,512	76,239	31,240	46,087
	Stand-alone	34,860	23,588	7,483	37,986	25,166	23,753
	Contract/Master Service Agreement Release	41,379	45,211	240	245,873	9,914	18,758
	Automated (auto-sourced) or 'touchless' transactions	55,822	25,037	3,160	79,879	11,800	52,625
	Procurement card (pCard or similar) transactions	378,279	212,643	13,602	1,126,214	68,376	202,339
Average number of line items per procurement transaction that was:							
336	Manually prepared/released documents (not automated)	2.20	2.68	1.33	5.04	2.49	2.38
	Stand-alone	2.58	2.47	1.89	2.95	2.51	2.38
	Contract/Master Service Agreement Release	1.88	9.09	1.88	36.25	3.92	2.19
	Automated (auto-sourced) or 'touchless' transactions	3.87	4.14	1.08	15.45	3.06	3.01
337	See Appendix A for a list of the top three initiatives for participating organization's supply chains during the reporting period						
338	Percent of organizations that participate in benchmarking activities with organizations other than CAPS Research:	Yes	85.71%				
339	If yes, list of other organizations:	1st Quartile Consulting; Dow Jones Sustainability Index; Electric Utility Industry Sustainable Supply Chain Alliance (EUSSCA); Hackett; PA Consulting; Utilities Procurement Management Group (UPMG) (10)					

i.d. indicates insufficient data
n/a indicates not applicable

Release Date: October 2, 2015

CAPS Research
Cross-Industry Report of Standard Benchmarks
Utilities Industry



#	Benchmarks	Xcel Energy Inc.	Mean	Minimum	First Quartile	Median	Third Quartile	Maximum
1	Total spend as a percent of sales/revenue dollars	33.2%	36.5%	16.2%	25.4%	30.0%	33.7%	86.5%
2	Percent of total spend managed and/or controlled by supply management	98.4%	82.9%	27.5%	78.3%	96.3%	98.8%	100.0%
3	Supply management employees as a percent of company employees	3.0%	2.0%	0.6%	0.8%	1.8%	3.0%	3.7%
4	Percent of supply management employees that are strategic	15.9%	23.0%	5.2%	14.9%	19.3%	30.6%	46.5%
5	Percent of companies that reported an increase in supply management strategic employees	Increase	46.2%					
	Percent of companies that reported a decrease in supply management strategic employees	Increase	15.4%					
6	Percent of supply management employees that are operational	84.1%	77.0%	53.5%	69.4%	80.7%	85.1%	94.8%
7	Percent of companies that reported an increase in supply management operational employees	Increase	15.4%					
	Percent of companies that reported a decrease in supply management operational employees	Increase	46.2%					
8	Average supply management return on investment (ROI)	381.3%	524.7%	20.4%	122.9%	244.5%	831.0%	1500.0%
9	Supply management operating expense as a percent of total spend	1.2%	0.9%	0.1%	0.3%	0.8%	1.2%	2.3%
10	Supply management operating expense per supply management employee	\$135,464	\$128,104	\$74,074	\$105,027	\$128,087	\$145,707	\$207,184
11	Total spend per supply management employee	\$11,412,173	\$29,189,693	\$7,024,463	\$8,877,591	\$18,880,318	\$30,171,671	\$134,921,875
12	Managed spend per supply management employee	\$11,231,312	\$18,737,211	\$6,272,821	\$8,066,566	\$13,086,777	\$26,973,252	\$42,558,140

Release Date: October 2, 2015

CAPS Research
Cross-Industry Report of Standard Benchmarks
Utilities Industry

#	Benchmarks	Xcel Energy Inc.	Mean	Minimum	First Quartile	Median	Third Quartile	Maximum
13	Percent of total spend processed through pCards	2.3%	1.3%	0.2%	0.5%	1.2%	1.7%	3.4%
	Percent of managed spend processed through pCards	2.4%	1.6%	0.2%	0.9%	1.2%	2.3%	3.6%
14	Annual spend on training per supply management employee	\$441	\$1,030	\$79	\$339	\$465	\$947	\$6,019
15	Cost reduction savings as a percent of managed spend	3.9%	2.4%	0.4%	0.8%	1.9%	3.6%	5.9%
16	Cost avoidance savings as a percent of managed spend	0.7%	1.4%	0.1%	0.5%	0.7%	2.2%	4.2%
17	Average purchase order processing cost	\$435	\$481	\$52	\$102	\$175	\$473	\$2,909
18	Average cycle time (in days) from requisition approval to PO placement for direct goods	i.d.	9.1	2.0	2.4	5.0	7.0	31.4
19	Average cycle time (in days) from requisition approval to PO placement for indirect goods and services	1.0	9.4	1.0	2.1	5.1	11.0	39.6
20	Percent of active suppliers that account for 80% of total spend	3.6%	4.9%	1.0%	3.3%	4.2%	6.6%	9.6%
21	Percent of spend with qualified socioeconomic program suppliers	10.1%	14.5%	2.9%	7.7%	11.7%	17.6%	42.3%
Bonus 1	Of those companies reporting an increase in strategic employees, percent of increase	1.9%	20.3%	1.1%	1.9%	9.1%	31.8%	57.7%
Bonus 2	Of those companies reporting a decrease in strategic employees, percent of decrease	n/a	i.d.					
Bonus 3	Of those companies reporting an increase in operational employees, percent of increase	0.7%	i.d.					
Bonus 4	Of those companies reporting a decrease in operational employees, percent of decrease	n/a	15.8%	6.5%	8.2%	8.9%	9.5%	45.8%
	i.d. indicates insufficient data							
	n/a indicates not applicable							

**Summary of XES Expenses to SPS by Affiliate Class and Billing Method
For Twelve Months ended June 30, 2017
Gary O'Hara**

(A) Line No.	(B) Affiliate Class	(C) Billing Method (Cost Center)	(D) Allocation Method	(E) XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	(F) Exclusions	(G) Per Book	(H) Pro Formas	(I) Requested Amount (Total Company)	(J) % of Class Charges
1	OS Supply Chain	200074 - Corporate Systems	Assets/Revenue/No. of Employees	\$ 13,872.96	\$ -	\$ 13,872.96	\$ (2,034.95)	\$ 11,838.00	2.74%
2		200094 - Supply Chain	Assets/Revenue/No. of Employees	5,826.09	(419.86)	5,406.23	(94.90)	5,311.33	1.23%
3		200132 - Payment and Reporting	Invoice Transactions	181,608.29	(56.35)	181,551.94	(11,097.85)	170,454.09	39.49%
4		200166 - Human Resources (Diversity/Safety/Emp Relations)	Number of Employees	2,630.80	-	2,630.80	-	2,630.80	0.61%
5		200175 - Passport - Purchasing	Purchasing Transactions Direct	2,976.63	-	2,976.63	(436.63)	2,540.01	0.59%
6				261,309.09	(1,087.68)	260,221.41	(21,367.14)	238,854.27	55.34%
7	OS Supply Chain Total			\$ 468,223.86	\$ (1,563.89)	\$ 466,659.97	\$ (35,031.47)	\$ 431,628.50	100.00%
8	Total - Witness Gary O'Hara			\$ 468,223.86	\$ (1,563.89)	\$ 466,659.97	\$ (35,031.47)	\$ 431,628.50	
			Amounts may not add or tie to other schedules due to rounding.						

Southwestern Public Service Company

XES Expenses by Affiliate Class, Activity, Billing Method and FERC Account

Gary J. O'Hara

2017 TX Rate Case

**APPLICATION OF
SOUTHWESTERN PUBLIC SERVICE COMPANY
FOR AUTHORITY TO CHANGE RATES**

GJO-RR-B(CD)

**Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account
For Twelve Months ended June 30, 2017
Gary O'Hara**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Exclusions	14 Exclusions (Total Company)
1	OS Supply Chain	426.1 - Donations	Below the Line	\$ (400.00)
2	OS Supply Chain	426.4 - Expendit for cert civic, politic and related activ	Below the Line	(500.00)
3	OS Supply Chain	426.5 - Other deductions	Below the Line	(663.89)
4	OS Supply Chain Total			\$ (1,563.89)
5		Total - Witness Gary O'Hara		\$ (1,563.89)
	Amounts may not add or tie to other schedules due to rounding.			

**Pro Forma Adjustments for XES Expenses by Affiliate Class and FERC Account
For Twelve Months ended June 30, 2017
Gary O'Hara**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Pro Formas	(E) Sponsor	(F) Pro Formas (Total Company)
1	OS Supply Chain	560 - Operation supervision and engineering	Incentive	Arthur Freitas/Jill Reed	\$ (5,131.00)
2	OS Supply Chain	566 - Miscellaneous transmission expenses	Financial Goals Incentive	Jill Reed	(478.11)
3	OS Supply Chain	566 - Miscellaneous transmission expenses	Incentive	Arthur Freitas/Jill Reed	(2,616.08)
4	OS Supply Chain	580 - Operation supervision and engineering	Financial Goals Incentive	Jill Reed	(1,839.10)
5	OS Supply Chain	580 - Operation supervision and engineering	Incentive	Arthur Freitas/Jill Reed	(10,584.88)
6	OS Supply Chain	588 - Miscellaneous distribution expenses	Financial Goals Incentive	Jill Reed	(29.37)
7	OS Supply Chain	588 - Miscellaneous distribution expenses	Incentive	Arthur Freitas/Jill Reed	(162.35)
8	OS Supply Chain	920 - Administrative and general salaries	Financial Goals Incentive	Jill Reed	(1,857.51)
9	OS Supply Chain	920 - Administrative and general salaries	Incentive	Arthur Freitas/Jill Reed	(14,139.53)
10	OS Supply Chain	921 - Office supplies and expenses	Incentive	Arthur Freitas/Jill Reed	1.06
11	OS Supply Chain	926 - Employee pensions and benefits	3% Wage Adjustment	Arthur Freitas/Jill Reed	1,348.31
12	OS Supply Chain	926 - Employee pensions and benefits	Pension & Benefits Adjustment	Arthur Freitas/Richard Schrubbe	457.09
13				OS Supply Chain Total	\$ (35,031.47)
14				Total - Witness Gary O'Hara	\$ (35,031.47)
	Amounts may not add or tie to other schedules due to rounding				