

NOTICE OF CONFIDENTIALITY
ATTACHMENTS TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL
BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * * *

RE: IN THE MATTER OF ADVICE NO.)
1797-ELECTRIC OF PUBLIC SERVICE)
COMPANY OF COLORADO TO REVISE)
ITS COLORADO P.U.C. NO. 8-) PROCEEDING NO. 19AL-_____E
ELECTRIC TARIFF TO IMPLEMENT)
RATE CHANGES EFFECTIVE ON)
THIRTY-DAYS' NOTICE.)

DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. SCHMIDT

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
ATTACHMENTS TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL

Confidential: Confidential Attachment MLS-4

May 20, 2019

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LIST OF ATTACHMENTS

Attachment MLS-1	Public Service Company's Cost Assignment and Allocation Manual (CAAM) dated December 2018
Attachment MLS-2	Comparison Document that identifies all modifications to the CAAM since it was last filed in Proceeding No. 14AL-0660E
Attachment MLS-3	Public Service Company's Fully Distributed Cost Study, page 1
CONFIDENTIAL Attachment MLS-4	Public Service Company's Fully Distributed Cost Study, page 2 (CONFIDENTIAL, filed under seal)
PUBLIC Attachment MLS-4	Redacted copy of Public Service Company's Fully Distributed Cost Study, page 2
Attachment MLS-5	XES Allocating Cost Center Allocation Methods and Percentages
Attachment MLS-6	Comparison of XES Allocation Percentages for Public Service
Attachment MLS-7	IT FERC Allocation Methods and Percentages
Attachment MLS-8	Utility Allocation Methods and Percentages
Attachment MLS-9	Non-regulated Activity Allocation Methods and Percentages

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
2018 HTY	The January 1, 2018 through December 31, 2018 Historical Test Year Cost of Service
A&G	Administrative and General
CAAM	Cost Assignment and Allocation Manual
CEO	Chief Executive Officer
Commission	Colorado Public Utilities Commission
CWIP	Construction Work in Progress
FDC Study	Fully Distributed Cost Study
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
IT	Information Technology
JDE	J. D. Edwards
NOPR	Notice of Proposed Rulemaking
NSPM	Northern States Power Company, a Minnesota corporation
NSPW	Northern States Power Company, a Wisconsin corporation
O&M	Operations and Maintenance
Operating Companies	Public Service, NSPM, NSPW, and SPS
Operating Company	One of the Operating Companies

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Proceeding No. 02S-315EG	2002 Electric/Gas Phase I Rate Case
Proceeding No. 06A-555EG	2006 Cost Assignment Allocation Model Proceeding
Proceeding No. 14AL-0660E	2014 Electric Phase I Rate Case
PUHCA 1935	The Public Utility Holding Company Act of 1935
PUHCA 2005	The Public Utility Holding Company Act of 2005, 18 Code of Federal Regulation Parts 365 and 366
Public Service or the Company	Public Service Company of Colorado
RIS	Rate Information System
RWIP	Retirement Work in Progress
SCADA	Supervisory Control and Data Acquisition
SEC	Securities and Exchange Commission
SKF	Statistical Key Figure
SPS	Southwestern Public Service Company
WBS	Work Breakdown Structures
WGI	WestGas InterState, Inc.
Xcel Energy	Xcel Energy Inc.
XES or Service Company	Xcel Energy Services Inc.
XEST	Xcel Energy Southwest Transmission Company, LLC
XETD	Xcel Energy Transmission Development Company, LLC

<u>Acronym/Defined Term</u>	<u>Meaning</u>
XEWT	Xcel Energy West Transmission Company, LLC

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DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. SCHMIDT

1 I. **INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND**
2 **RECOMMENDATIONS**

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Melissa L. Schmidt. My business address is 401 Nicollet Mall,
5 Minneapolis, Minnesota 55401.

6 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

7 A. I am employed by Xcel Energy Services Inc. ("XES") as Director, Corporate
8 Accounting. XES is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel
9 Energy"), and provides an array of support services to Public Service Company
10 of Colorado ("Public Service" or the "Company") and the other utility operating
11 company subsidiaries of Xcel Energy on a coordinated basis.

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

13 A. I am testifying on behalf of Public Service.

1 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.**

2 A. As Director, Corporate Accounting, which includes Corporate Accounting,
3 Service Company Accounting, Cash Processes and Business Area Accounting, I
4 am responsible for the general administration of XES, including accounting,
5 billing, allocations, policies and procedures, service agreements, internal audits,
6 external audits and external reporting to state and federal regulatory agencies.
7 Additionally, I direct Xcel Energy's Corporate Accounting group, which manages
8 the month-end close process, legal consolidation process, maintains the general
9 ledger, and other accounting functions and controls; the Cash Processes group,
10 which is responsible for monitoring and reconciling the cash activity, long term
11 debt and other related items for all Xcel Energy affiliates and subsidiaries; and
12 the Business Area Accounting group, which is responsible for the accounting
13 functions for the business areas of Xcel Energy which includes Energy Supply,
14 Transmission, Distribution, Gas Engineering & Operations and Corporate
15 Services. A description of my qualifications, duties, and responsibilities is set
16 forth after the conclusion of my testimony in my Statement of Qualifications.

17 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

18 A. In my testimony, I provide the following information:

- 19 • In Section II – I provide a list of definitions of specific terms and processes
20 that I use throughout my testimony to support the Company's cost allocations
21 and Fully Distributed Cost Study ("FDC Study").

- 1 • In Section III – I describe the Xcel Energy Holding Company structure and
2 organizational structure to provide the necessary context to understand the
3 flow of transactions within Xcel Energy companies (primarily the Service
4 Company) and Public Service.
- 5 • In Section IV – I describe the use of the new SAP general ledger system,
6 which replaces the Company’s previous J. D. Edwards (“JDE”) general ledger
7 system, and its treatment of cost assignments and allocations within the Xcel
8 Energy system. I also provide explanations and comparisons of the
9 processing of transactions in the Company’s previous JDE general ledger
10 system to the SAP general ledger system. Both systems were designed to
11 ensure that costs are assigned to the appropriate Operating Company or
12 affiliate and utility and that Public Service’s regulated utility operations are not
13 subsidizing its non-regulated activities, among other things.
- 14 • In Section V – I provide an overview of the flow of costs in the general ledger
15 system including how the costs ultimately reside on Public Service’s books
16 and records.
- 17 • In Section VI – I describe the Service Company, its history and operations,
18 and the administration of the Allocation Methods, allocation statistics,
19 Allocation Percentages or Ratios, and allocation pools.
- 20 • In Sections VII and VIII – I explain the cost allocation rules and the history of
21 the cost allocation rules as they apply to Public Service’s Cost Assignment
22 and Allocation Manual (“CAAM”) and it’s FDC Study, which we are filing in

1 compliance with the Colorado Public Utilities Commission (“Commission”)
2 Rule 3500 *et seq.*

- 3 • In Sections IX and X – I sponsor Public Service’s CAAM dated December
4 2018, a copy of which is included as Attachment MLS-1, as well as support
5 the cost assignment and Allocation Methods and the percentages used in
6 preparing the January 1, 2018 through December 31, 2018 Historical Test
7 Year Cost of Service (“2018 HTY”). Additionally, I provide a comparison
8 document that identifies all significant modifications to the CAAM, since it was
9 last filed and approved in the 2014 Electric Phase I Rate Case (“Proceeding
10 No. 14AL-0660E”) as Attachment MLS-2.

- 11 • In Section X – I sponsor the Company’s FDC Study applicable to the 2018
12 HTY, a copy of which is included as Attachment MLS-3 and Confidential
13 Attachment MLS-4.

14 **Q. ARE YOU SPONSORING ANY ATTACHMENTS AS PART OF YOUR DIRECT**
15 **TESTIMONY?**

16 A. Yes, I am sponsoring Attachments No. MLS-1 through MLS-9 and Confidential
17 Attachment MLS-4, which were prepared by me or under my direct supervision.

18 A brief description of each attachment is listed below:

- 19 • Attachment MLS-1 – Public Service’s CAAM dated December 2018: a
20 complete copy of the December 2018 CAAM that has been updated to reflect
21 the SAP general ledger that the Company began using on January 1, 2016.

- 1 • Attachment MLS-2 – Comparison Document that identifies all significant
2 modifications to the CAAM since it was last filed and approved in Proceeding
3 No. 14AL-0660E: a red-lined copy of the December 2018 CAAM when
4 compared to the March 2014 CAAM. The CAAM filed in this proceeding has
5 one key update in that it has been updated to reflect the new SAP general
6 ledger terminology and processes. The remaining modifications do not
7 propose a significant change to the Company’s cost assignment and
8 allocation process.
- 9 • Attachment MLS-3 – Public Service’s FDC Study, page 1: the attachment
10 shows the split of Public Service’s costs between the electric, gas, and steam
11 utility divisions and the non-regulated activities by FERC account.
- 12 • Confidential Attachment MLS-4 – Public Service’s FDC Study, page 2
13 (CONFIDENTIAL, filed under seal): page 2 of the FDC Study lists the non-
14 regulated activities of Public Service and includes the amounts for each
15 category of costs, and is therefore confidential.
- 16 • Public Attachment MLS-4 – Redacted copy of Public Service’s FDC Study,
17 page 2 (Public Version): this version of page 2 is the same as Confidential
18 Attachment MLS-4, but redacts the amounts for each category of costs.
- 19 • Attachment MLS-5 – XES Allocating Cost Center Allocation Methods and
20 Percentages: this attachment includes a list of the XES allocating cost centers
21 used to allocate XES charges to the Operating Companies and affiliates. It

- 1 includes the allocation method, statistics and percentages to charge each
2 Operating Company and affiliate.
- 3 • Attachment MLS-6 – Comparison of XES Allocation Percentages for Public
4 Service: this attachment contains a table showing the trend of the XES
5 percentages used to charge Public Service for each indirect/allocated SAP
6 cost center.
 - 7 • Attachment MLS-7 – IT FERC Allocation Methods and Percentages: this
8 attachment includes the Internal Order used to allocate certain IT costs, the
9 Allocation Method used, an explanation of the reasonableness of the
10 allocation method, and the percentages allocated to the applicable FERC
11 accounts.
 - 12 • Attachment MLS-8 – Utility Allocation Methods and Percentages: this
13 attachment includes a list of the Utility Operation and Maintenance (“O&M”)
14 allocations and the Utility Non-O&M allocations, the Allocation Methods, an
15 explanation of the reasonableness of each allocation method, and the
16 percentages allocated to each utility.
 - 17 • Attachment MLS-9 – Non-regulated Activity Allocation Methods and
18 Percentages: this attachment includes a list of the non-regulated activity
19 allocations, the Allocation Methods, the reasonableness of each allocation
20 method, and the percentages applied to each non-regulated activity.

1 **Q. WHAT RECOMMENDATIONS ARE YOU MAKING IN YOUR DIRECT**
2 **TESTIMONY?**

3 A. I recommend that the Commission: (1) approve the Company's CAAM and FDC
4 Study as presented my Direct Testimony; and (2) find that Public Service's cost
5 assignment, Allocation Methods, and the percentages used in preparing the HTY
6 for this rate review are reasonable.

1 **II. DEFINITIONS**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. In this section, I provide a set of definitions for special terms relevant to the
5 remainder of my testimony, for ease-of-reading and –reference.

6 **Q. IN THE REMAINDER OF YOUR DIRECT TESTIMONY, WILL YOU BE USING**
7 **SPECIAL TERMS?**

8 A. Yes. The following capitalized terms used throughout my testimony will have the
9 following definitions:

- 10 • *Allocated Charges*: The terms Allocated Charges and Indirect Charges are
11 interchangeable when used in my Direct Testimony. These charges occur
12 when the costs for services cannot be directly assigned to a specific
13 Operating Company or affiliate and are therefore allocated to the Operating
14 Companies and affiliates that benefit from the services based on the
15 appropriate Allocation Methods by XES.
- 16 • *Allocating Cost Center in SAP*: An Allocating Cost Center is used to collect
17 costs that will be allocated to other cost centers, Internal Orders, or Work
18 Breakdown Structures (“WBS”).
- 19 • *Allocation Methods or Formulas*: Allocation Methods or Formulas are the
20 basis for assigning costs to an affiliate and result from using a single
21 Allocation Ratio or the average of two or more Allocation Ratios. Examples of

1 Allocation Methods or Formulas include: Number of Customers; Number of
2 Employees; Revenues; and Assets.

3 • *Allocation Percentages or Ratios*: Each set of Allocation Statistics is used to
4 calculate an Allocation Percentage or Ratio. For example, the employee ratio
5 uses the number of employees for each affiliate to the total number of
6 employees for all affiliates to determine the percentage of services
7 chargeable to each affiliate.

8 • *Allocation Statistics*: Allocation Statistics are the actual numerical inputs used
9 to derive the Allocation Ratios or Percentages. Examples of statistics are: the
10 dollar amount of assets; the count of employees; the dollar amount of
11 revenues; the number of customers; the number of invoice transactions;
12 megawatt hours of generation; and the number of customer bills.

13 • *Assessment Process in SAP*: The process used by the SAP general ledger
14 system to allocate costs from an Allocating Cost Center to the Receiving Cost
15 Element (e.g., Final Cost Center, Internal Order, WBS element).

16 • *Common Costs*: the term Common Costs in the context of this Direct
17 Testimony means those costs that are applicable to the three utility divisions
18 (e.g., electric, gas, or steam) and the non-regulated activities in Public
19 Service.

20 ○ Public Service Common Costs – For example, an invoice for general
21 mail service charged to FERC account 921 on Public Service benefits
22 all three utility divisions and the non-regulated activities. In order to

1 make sure each utility division gets a share of the cost for rate-making
2 purposes, utility allocations are used to allocate a portion of the cost to
3 each utility using the three-factor allocator defined in Section VII, Utility
4 Allocations of the CAAM (see Attachment MLS-1). Because these
5 costs were charged to FERC account 921 as Common Costs, they are
6 also included in the calculation of the non-regulated activity A&G
7 overhead as defined in Section VIII, Non-regulated Activity Allocations
8 of the CAAM.

- 9 ○ Service Company Common Costs – If similar corporate general mail
10 service charges were allocated from the Service Company to Public
11 Service and charged to FERC account 921, they would be treated as
12 Common Costs benefitting the three utility divisions (e.g., electric, gas,
13 and steam) and the non-regulated activities. These charges would
14 also go through the utility allocations and the non-regulated activity
15 allocations described above.

- 16 ● *Cost Center in SAP*: An organizational unit that represents a defined
17 functional location where costs are incurred.
- 18 ● *Cost Element in SAP*: Term to describe an organizational unit in SAP that is
19 used to track costs in the accounting system as they move through the
20 various processing steps.
- 21 ● *Direct Charges*: Direct Charges occur when an employee of any affiliate
22 including XES can clearly identify that the service being rendered is for the
23 benefit of a specific Operating Company or affiliate.
- 24 ● *Final Cost Center in SAP*: A cost center defined by business area, Operating
25 Company or affiliate, and Profit Center.

- 1 • *Indirect Charges*: The terms Indirect Charges and Allocated Charges are
2 interchangeable when used in this document. These charges occur when the
3 cost for services cannot be directly assigned to a specific Operating Company
4 or affiliate and are therefore allocated to the Operating Companies and
5 affiliates that benefit from the services based on the appropriate Allocation
6 Methods.

- 7 • *Internal Orders in SAP*: Internal Orders are required for all transactions that
8 are booked to an income statement account. All Internal Orders have
9 settlement rules assigned at the time they are created. The settlement rules
10 determine how the costs will be treated during the month-end close process
11 in SAP. For example, if the settlement rule states that the costs in a specific
12 internal order are to settle to an internal order on an Operating Company or
13 affiliate, the costs are direct charged to that Operating Company or affiliate. If
14 the settlement rule states that the costs in a specific internal order are indirect
15 or allocated Service Company charges, the Service Company internal order
16 will settle to an Allocating Cost Center in the Service Company. The
17 Allocating Cost Center will then go through the Assessment Process to
18 charge the costs to the appropriate legal entities. Each internal order is
19 associated with only one Operating Company or affiliate.

- 20 • *Native Costs*: Charges that originate in Public Service, benefit Public Service,
21 and remain on Public Service's books and records.

- 1 • *Profit Center in SAP:* An SAP data element that identifies the state (e.g.,
2 Colorado) and utility (e.g., electric, gas, steam, or common) or Joint Venture
3 Owner (e.g., Hayden Joint Venture).

- 4 • *Receiving Cost Element in SAP:* A generic term for a cost element that
5 receives costs when a settlement or Assessment Process is run.

- 6 • *Service Billing in JDE:* All costs that were billable in JDE required a
7 subledger code to be included in the accounting string. The Allocation
8 Methods, Allocation Statistics, and Allocation Percentages were associated
9 with the indirect or allocated subledger codes and applied to the costs in the
10 Service Billing process. For example, a three-digit subledger code identified
11 the cost as an indirect allocation and as such, the system applied the
12 assigned Allocation Percentages when billing it to the appropriate Operating
13 Companies and affiliates. If a six-digit subledger code was used, the charge
14 was direct billed to a specific Operating Company or affiliate.

- 15 • *Settlement Process in SAP:* All costs recorded in an Internal Order are
16 processed through the Settlement Process to move them from the Internal
17 Order to a cost element (final cost center, allocating cost center, Internal
18 Order, etc.). The Settlement Process will move the costs both within an
19 Operating Company or affiliate and between Operating Companies and
20 affiliates depending on the settlement rule of the Internal Order. This process
21 captures: (1) Native Costs within an Operating Company or affiliate; (2) XES
22 direct and indirect billings to the Operating Companies and affiliates; (3)

1 billings between an Operating Company and an affiliate other than XES
2 (intercompany billings); and (4) billings between departments or business
3 areas within an Operating Company or affiliate.

- 4 • *Statistical Key Figure (“SKF”) in SAP*: The method by which the Allocation
5 Percentages or Ratios are organized in the accounting system and linked to
6 Allocating Cost Centers to facilitate the performance of the Assessment
7 Process to allocate or distribute costs.
- 8 • *Subledgers in JDE*: The subledger identified the type of cost (direct or
9 indirect) and how it should be treated by Service Billing. A three-digit
10 subledger code identified the cost as an indirect allocation and a six-digit
11 subledger code identified the cost as a direct charge. Various subledger
12 codes (*i.e.*, three-digit, five-digit, six-digit, and eight-digit) were used to
13 capture costs in JDE. Based on these values, the JDE system applied the
14 related Allocation Percentages or directly charged the transactions to the
15 Operating Companies and affiliates in the Service Billing process.
- 16 • *Three-digit Allocation in JDE*: Once the system identified the costs as needing
17 to be allocated, it applied the Allocation Percentages to the costs on a
18 monthly basis to bill the appropriate legal entities.
- 19 • *Work Breakdown Structures in SAP*: Hierarchical cost collectors representing
20 work performed that includes various attributes to be used for the reporting of
21 costs.

1 **Q. DOES THE XCEL ENERGY HOLDING COMPANY STRUCTURE INCLUDE A**
2 **CENTRALIZED SERVICE COMPANY?**

3 A. Yes. XES is the centralized service company for Xcel Energy. I explain the role
4 of XES in Section VI of my Direct Testimony.

5 **Q. PLEASE DESCRIBE HOW XCEL ENERGY MANAGES ITS BUSINESS.**

6 A. Xcel Energy takes both the individual company management (e.g., Public
7 Service) and the functional organization management (business area,
8 organization, and department) into consideration when managing its business.
9 Xcel Energy is currently organized into the business areas and cost centers as
10 listed below. A brief description is included with each business area and cost
11 center.

- 12 • *Chief Executive Office (“CEO”)*: the operations of the CEO office;
- 13 • *Energy Supply*: all generation and related operations;
- 14 • *Distribution Operations*: distribution and all related operations;
- 15 • *Gas Systems*: gas operations;
- 16 • *Transmission*: transmission and substation operations;
- 17 • *Operations Services*: fuels, commercial operations, and supply chain;
- 18 • *Utilities and Corporate Services*: business systems or information technology
19 operations, human resources, customer services, marketing and
20 communications, regulatory affairs, Chief Administrative Office, property
21 services, enterprise security, aviation, safety, and group presidents;

- 1 • *Corporate Secretary and Executive Services*: internal and external
2 communications, compliance related activities, Corporate Secretary, public
3 relations and advertising;
- 4 • *Financial Operations*: financial services, such as the controller's organization,
5 treasury, audit services, tax services, risk management, Chief Financial
6 Officer, investor relations, and financial management;
- 7 • *General Counsel*: all legal and claims services, corporate policy, and
8 supporting implementation of corporate strategy;
- 9 • *Nuclear*: all nuclear generation and related operations (not applicable to
10 Public Service);
- 11 • *Benefits Related*: corporate-managed employee benefits; and
- 12 • *Corporate Other*: corporate-managed costs, such as company use credits
13 and first set credits.

14 All of the above are business areas with the exception of Benefits Related and
15 Corporate Other, which are cost centers. Most employees belong to, or are
16 associated with, both an Operating Company or XES and a business area. For
17 example, an electric distribution lineman will be an employee of Public Service
18 and also be associated with the Distribution Operations business area. An
19 accountant will be an employee of XES and also be associated with the Financial
20 Operations business area.

1 **IV. SAP GENERAL LEDGER**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. Since its last Electric Phase I Rate Case, Proceeding No. 14AL-0660E, the
5 Company has made a change to its accounting system. Specifically, in January
6 2016, Xcel Energy, the Service Company, the utility Operating Companies, and
7 their affiliates began using the SAP general ledger system, which replaced the
8 JDE general ledger system, as the system of record for financial transactions. In
9 this section, I will discuss the flow of costs within the holding company system
10 and how that flow affects costs for Public Service. I will also provide a
11 comparison of the JDE terminology and processing with the SAP terminology
12 and processing.

13 **Q. DID THE IMPLEMENTATION OF SAP RESULT IN ANY CHANGES TO THE**
14 **LEGAL ENTITIES OR FUNCTIONAL ORGANIZATIONS AS DESCRIBED IN**
15 **THE PREVIOUS SECTION?**

16 A. No. As part of the implementation of the SAP general ledger, there were no
17 changes in either the legal entities or functional organizations.

18 **Q. DID THE IMPLEMENTATION OF SAP RESULT IN ANY CHANGES TO THE**
19 **FLOW OF ACCOUNTING TRANSACTIONS OR THE ALLOCATION**
20 **PROCESS?**

21 A. As part of the implementation of the SAP general ledger, system functionality
22 was designed to be very similar to JDE. However, as with any new system, the

1 terminology and process steps may differ somewhat from one system to another.
2 For example, the three-digit subledger code 110 in JDE was used to capture and
3 allocate executive management costs based on revenues, assets and number of
4 employees. In SAP, there is an equivalent allocating cost center, 200063, that is
5 used to capture and allocate executive management costs and allocate the same
6 costs based on the same allocation method, the same Allocation Statistics, and
7 the same Allocation Percentages or Ratios stored in and associated with each
8 SKF. The implementation of SAP has not changed the methodologies or
9 underlying statistics for these indirect allocations.

10 **Q. PLEASE RECONCILE THE TERMS USED BY JDE AND SAP.**

11 A. Table MLS-D-1 below links the JDE terms and processes with the comparable
12 SAP terms and processes.

1
2

**Table MLS-D-1
 Comparison of JDE and SAP Terms**

Terminology or Process	JDE	SAP
Cost pools for direct non-billable charges	Business Units with blank Subledgers	Internal Orders
Cost Pools for direct billable charges	Six-digit Subledgers	Internal Orders that settle to Internal Orders on other affiliates or to other departments
Cost Pools for indirect billable charges	Three-digit and five-digit Subledgers	Internal Orders that settle to Allocating Cost Centers
Billing Process	Service Billing	Settlement Process
Allocation Process	Service Billing	Assessment Process
Allocation Method	Allocation Methods or Formulas	Allocation Methods or Formulas
Allocation Statistics	Allocation Statistics	Allocation Statistics
Allocation Percentages	Allocation Percentages	SKF's include the Allocation Percentages and are linked to assessment cycles

1 **V. COST FLOW**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. In this section, I provide an overview of the flow of costs in the general ledger
5 system, including how the costs ultimately reside on Public Service's books and
6 records.

7 **Q. PLEASE EXPLAIN HOW XCEL ENERGY'S ORGANIZATIONAL STRUCTURE**
8 **AND NEW GENERAL LEDGER SYSTEM AFFECT THE FLOW OF COSTS**
9 **WITHIN THE HOLDING COMPANY SYSTEM AND, MORE DIRECTLY, HOW IT**
10 **AFFECTS PUBLIC SERVICE.**

11 A. All charges originate in an Operating Company or affiliate within the Xcel Energy
12 holding company system. Most of Xcel Energy's costs originate in the Operating
13 Companies and the Service Company. To describe the flow of costs, this
14 response has been separated into four categories of costs that are described in
15 Parts A, B, C, and D below.

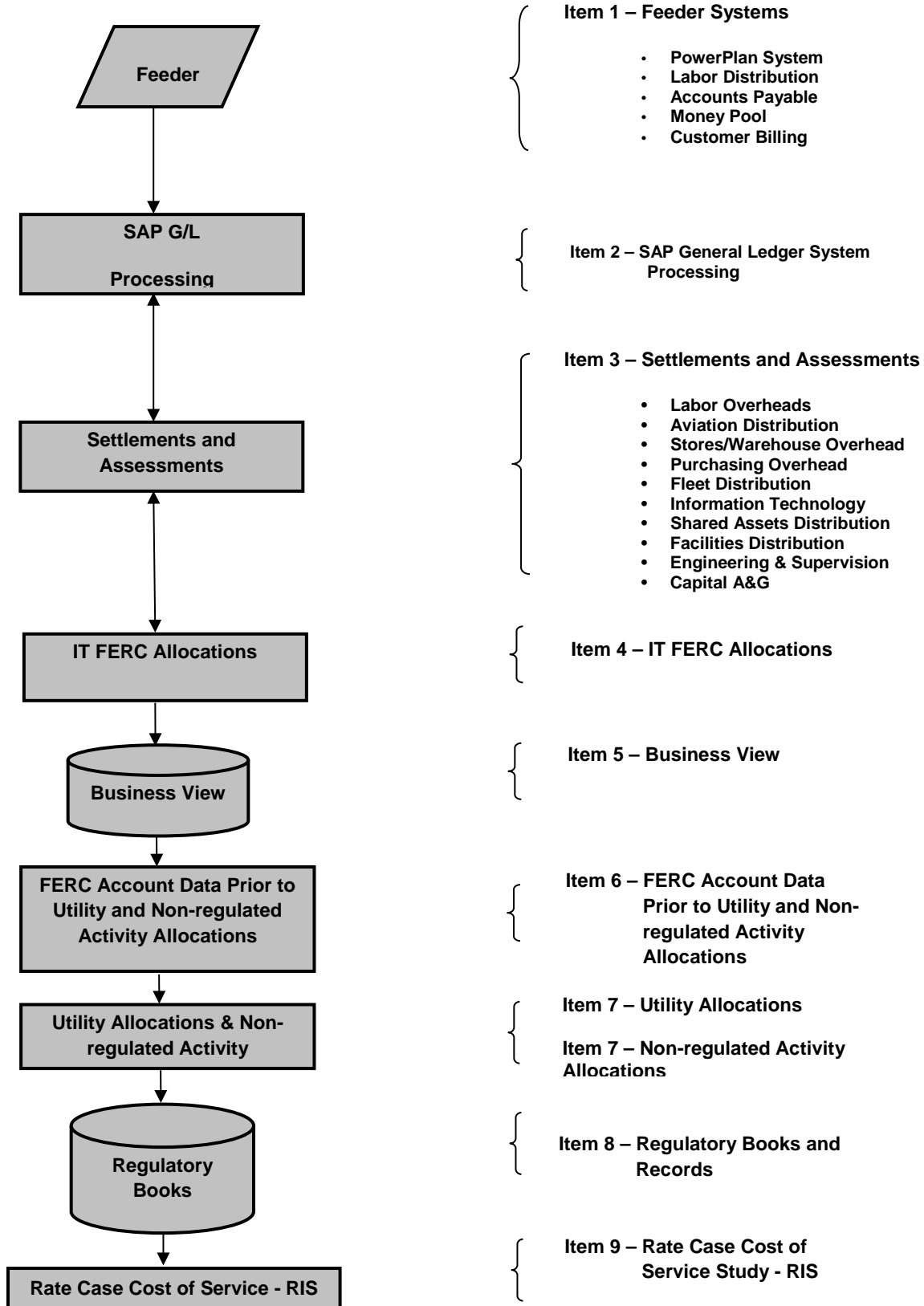
16 Public Service's costs include: (Part A) charges that originate in Public
17 Service and remain on Public Service's books, often referred to as Native Costs;
18 (Part B) charges that originate in the Service Company and are billed to Public
19 Service, as well as the other Operating Companies and affiliates; and (Part C)
20 charges that are the result of billings to and from Public Service and its affiliates.
21 Once all the costs are on Public Service's books, Public Service-specific
22 allocations may be necessary to further allocate the costs among the electric,

1 gas, and steam utilities as well as allocate a portion to Public Service's non-
2 regulated activities. The Public Service specific allocations are explained in
3 Part D.

4 The high-level flowchart that is presented in the CAAM in Addendum A to
5 Section V has been inserted into the testimony below as Figure MLS-D-1 to
6 provide a pictorial view of the overall high-level accounting process. Following
7 the flowchart is the explanation of the four key categories, Parts A, B, C, and D.
8 The explanation of each category references the Item number that it relates to on
9 the flowchart and includes a comparison of the JDE process to the SAP process
10 as well as a diagram of the SAP process.

1

Figure MLS-D-1



1 **Q. BASED ON THE FLOWCHART IN FIGURE MLS-D-1 ABOVE, WHERE DO**
2 **MOST MONTHLY ACCOUNTING TRANSACTIONS START?**

3 A. Most of the monthly accounting transactions start in either the feeder systems
4 (e.g., Labor Distribution) as listed in Item 1 on the flowchart or are entered
5 directly into SAP in Item 2. The feeder systems are explained in detail in Section
6 V of the CAAM (see Attachment MLS-1). Parts A, B, C and D below explain the
7 key processes performed in Items 1-4 and Item 7. The remaining items will be
8 described after these processes have been completed.

9 **A. Part A**

10 **Q. PLEASE DESCRIBE PUBLIC SERVICE'S NATIVE COSTS.**

11 A. Within Items 1 (Feeder Systems) and 2 (SAP General Ledger System), the
12 majority of costs incurred by Public Service are its Native Costs or costs that
13 originate on Public Service's books and are associated with Public Service's
14 provision of electric, gas, and steam service to its customers. These costs are
15 not billed from XES or any other affiliate. These costs consist of the plant
16 investment, labor, fuel, and other costs that Public Service incurs for its electric,
17 gas, and steam utility divisions and its non-regulated activities. Native Costs can
18 be applicable to only one utility or can be common and applicable to all three
19 utilities (e.g., electric, gas, and steam). For example, the salaries of Public
20 Service electric distribution employees that are paid by Public Service are native
21 electric utility costs and the salaries of Public Service gas operations' employees

1 paid by Public Service are native gas utility costs. The general mail services of
2 Public Service are also Native Costs. However, they are Common Costs to all
3 three utilities and the non-regulated activities.

4 In the case of costs that are directly attributable to the electric utility, there
5 are no further allocations required. The electric operations within Public Service
6 operate a physically separate supply and delivery system and have separate
7 equipment and operating personnel. As such, the costs incurred by Public
8 Service to render these services are the direct costs associated with the
9 provision of electric service to its customers, and these transactions are recorded
10 directly on Public Service's books in the electric utility accounts.

11 In JDE, each transaction that belonged on Public Service's books was
12 recorded using a Public Service business unit with a blank subledger field, and
13 the business unit in combination with the balance of the accounting string
14 designated whether this charge was for the electric utility, the gas utility, the
15 steam utility, or the non-regulated activities.

16 In SAP for this same transaction, the costs are recorded in a Public
17 Service internal order. The internal order has a settlement rule tied to it that
18 identifies the costs in this internal order as Public Service costs. Because the
19 SAP settlement rule has the costs settling to a Final Cost Center on Public
20 Service's books and the associated final Profit Center has been defined as
21 belonging to Public Service and only used for transactions related to the electric
22 utility, these are Public Service native electric utility costs. The information on

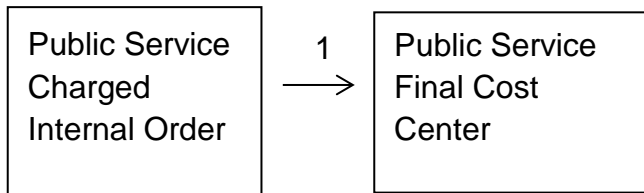
1 the settlement rule with each internal order will also identify the costs as
2 belonging to the electric, gas, steam utility, or the non-regulated activities.

3 **Q. UNDER SAP, CAN YOU EXPLAIN THE COST FLOW OF PUBLIC SERVICE'S**
4 **NATIVE CHARGES?**

5 A. Figure MLS-D-2 below is a flow chart that shows the cost flow of Public Service's
6 Native Charges. Example 1 is for an O&M transaction and Example 2 is for a
7 capital transaction.

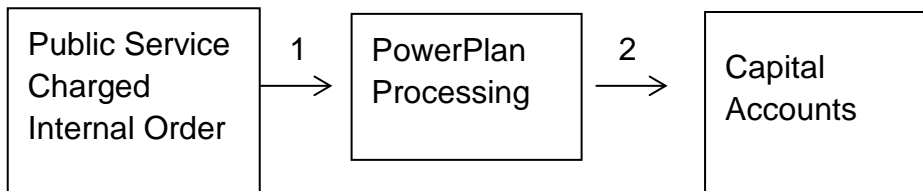
8 **Figure MLS-D-2**
9 **Cost Flow of Native Charges**

10 **Example 1: Processing for Public Service Native O&M Transactions**



12 1. Settlement from the Public Service Internal Order to the Final Cost Center
13 (Note: There may be further settlements from one internal order to another
14 internal order or to an allocating cost center.)

15 **Example 2: Processing for Public Service Native Capital Transactions**



16 1. Charges transferred to PowerPlan for processing
17 2. Charges posted back from PowerPlan to Construction Work in Progress
18 ("CWIP")/Retirement Work in Progress ("RWIP")

1 Where Public Service Native Costs are identified as Common Costs that
2 support multiple utility divisions (e.g., electric, gas, and steam) or support both
3 regulated and non-regulated activities, it is necessary to allocate those costs
4 among the electric, gas, and steam utility divisions and the non-regulated
5 activities in accordance with cost Allocation Methods described in the CAAM (see
6 Attachment MLS-1) and explained in Part D below. Examples of Public Service
7 Native Costs that cannot be directly assigned to a particular utility within Public
8 Service include such expense items as external auditing fees, Administration and
9 General (“A&G”) expenses, and customer service expenses. Examples of costs
10 billed from the Service Company that cannot be directly assigned to a particular
11 utility within Public Service include such expense items as executive
12 management service, corporate secretary services, etc. For a more detailed
13 explanation of Common Costs see the Common Cost definition in Section II of
14 my Direct Testimony.

15 **B. Part B**

16 **Q. PLEASE DESCRIBE BILLINGS FROM XES.**

17 A. In Item 3 (Settlements and Assessments) in Figure MLS-D-1, XES bills the
18 shared or common administrative and management services to Xcel Energy and
19 its Operating Companies and affiliates. The services provided to Public Service
20 by XES include, but are not limited to, executive management, accounting,
21 financial reporting, finance, treasury, corporate communications, property
22 services, human resources, information technology, environmental, legal,

1 regulatory, customer services, engineering, generation resource planning,
2 distribution and transmission management and support, and energy supply
3 management and support. The purpose of the Service Company billings is to
4 both charge the appropriate Operating Company or affiliate and if possible
5 charge a specific utility division (e.g., electric, gas, or steam) or the non-regulated
6 activities. However, both the Direct Charges and the Allocated Charges from the
7 Service Company can be billed as Common Costs benefiting more than one
8 utility within Public Service. When the Service Company Settlement Process is
9 complete as described below, all the charges that were on the XES internal order
10 would be on the internal order of an Operating Company or affiliate's books as
11 defined by the settlement rule. XES Direct Charges and XES Allocated Charges
12 are discussed separately below.

13 Additional information about the Service Company is included in Section
14 VI of my Direct Testimony.

15 **Q. PLEASE EXPLAIN HOW COSTS ARE DIRECTLY ASSIGNED FROM XES TO**
16 **PUBLIC SERVICE.**

17 A. If the charge can be clearly identified as related to a service being rendered for
18 the benefit of only Public Service, the costs from XES can be directly charged to
19 Public Service. The same applies to services benefiting only one of the other
20 Operating Companies or affiliates.

21 In JDE, the Service Company costs that were to be billed directly to an
22 Operating Company or affiliate would have both a business unit and a six-digit

1 subledger code that the Service Billing process would use to create the
2 transactions to bill the costs to the appropriate Operating Company or affiliate for
3 the total costs.

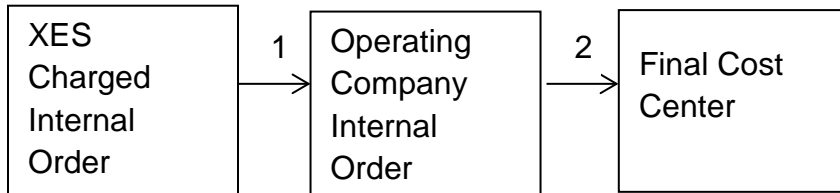
4 In SAP the charges are to an Internal Order. The Internal Order has a
5 settlement rule directing those costs to a related internal order on a specific
6 Operating Company or affiliate.

7 **Q. UNDER SAP, CAN YOU EXPLAIN THE COST FLOW OF XES' DIRECT**
8 **CHARGES?**

9 A. Figure MLS-D-3 below is a flow chart that shows the cost flow of XES Direct
10 Charges. Example 3 is an O&M transaction and Example 4 is a capital
11 transaction.

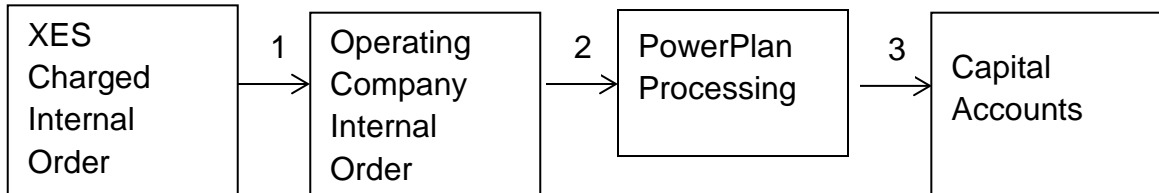
**Figure MLS-D-3
Cost Flow of XES Direct Charges**

Example 3: Processing for XES Direct Charge O&M Transaction



1. Settlement of Direct Charges for a XES Internal Order to an Operating Company Internal Order
2. Settlement from the Operating Company internal order to the Final Cost Center (Note: There could be further settlements from an Internal Order to another Internal Order or to an Allocating Cost Center.)

Example 4: Processing XES Direct Charge Capital Transaction



1. Settlement of Direct Charges for a XES Internal Order to an Operating Company Internal Order
2. Charges transferred to PowerPlan for processing
3. Charges posted back from PowerPlan to Construction Work in Progress ("CWIP")/Retirement Work in Progress ("RWIP")

Q. PLEASE EXPLAIN HOW COSTS ARE ALLOCATED FROM XES TO PUBLIC SERVICE.

A. If the charge is an allocated or indirect charge because it benefits more than one Operating Company or affiliate, including Public Service, a portion of the charge will be allocated to Public Service as defined by the Service Company (see Section VI of my Direct Testimony).

1 In JDE, if the Service Company costs were to be allocated among the
2 Operating Companies or affiliates, the business unit would have a subledger
3 code indicating that the costs need to be allocated. In the month-end close
4 process, Allocation Percentages, following a defined allocation method, and the
5 related statistics, would have been applied to the transactions to perform the
6 allocation of the costs. The Service Billing process would then have created the
7 transactions to bill the costs to the Operating Companies or affiliates for their
8 relative portion of the total costs.

9 In SAP, the indirect or allocated costs are initially captured in a Service
10 Company Internal Order. Each Internal Order with indirect costs would have a
11 settlement rule that would settle the costs to an Allocating Cost Center. An
12 Allocating Cost Center can receive costs from more than one Internal Order.
13 Each Allocating Cost Center has an assigned assessment that ties it to a SKF,
14 which contains the Allocation Percentages or Ratios that were developed
15 following a defined allocation method and the related statistics. The Assessment
16 Process applies the allocation ratio in the SKF to the costs in the Allocating Cost
17 Center to create the transactions on the Operating Companies or affiliates for
18 their relative portion of the total costs.

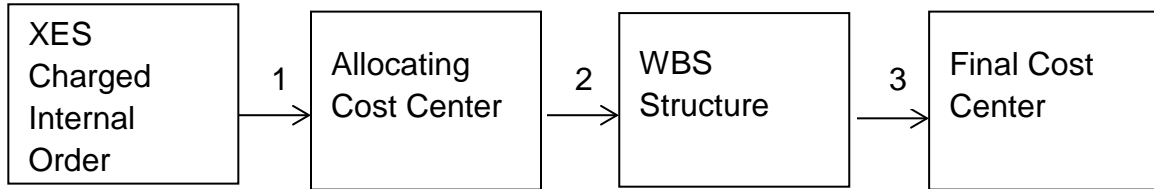
19 **Q. UNDER SAP, CAN YOU EXPLAIN THE COST FLOW OF XES' ALLOCATED**
20 **CHARGES?**

21 **A.** Figure MLS-D-4 below is a flow chart that shows the cost flow of XES Allocated
22 Charges.

1 **Figure MLS-D-4**

2 **Cost Flow of Allocated Charges**

3 **Example 5: Processing for XES Allocated Charge O&M Transactions**



- 4 1. Settlement of Indirect Charges for a XES internal order to the Allocating Cost
5 Center
6 2. Assessment of charges using the SKF percentages to Operating Companies
7 or affiliate specific WBS structures
8 3. Settlement of charges to the Final Cost Center

9 **Q. ARE THERE ANY OTHER PROCESSES THAT ALLOCATE CHARGES FROM**
10 **XES TO THE OPERATING COMPANIES AND AFFILIATES?**

11 A. Yes, consistent with the processing in JDE, the costs for IT software projects are
12 allocated from XES to the Operating Companies and affiliates. This process
13 allocates both the capital and O&M costs for these projects.

14 In JDE, a five-digit work order was used to collect the costs and allocate
15 these costs among the Xcel Energy Operating Companies and affiliates
16 benefitting from the use of the software. The work order collected the capital and
17 O&M costs related to the project. The allocation of the O&M portion of the
18 charges was established based on the most cost causative relationship between
19 the services being provided by the software and the affiliates benefiting from
20 those services. The allocation of the capital charges was based on a
21 determination by the Capital Asset Accounting group and followed the

1 capitalization policies to allocate the capital costs of the software to the
2 appropriate Operating Company.

3 In SAP, an Internal Order is used to collect the costs and allocate these
4 costs among the Xcel Energy Operating Companies and affiliates benefitting
5 from the use of the software. The Internal Order collects all the costs and applies
6 an O&M/Capital split to the charges. The first step in the process is to determine
7 the portion of costs that are O&M versus the portion of costs that are capital.
8 Once this is completed, the allocation of the O&M portion of the charges are
9 allocated based on the most cost causative relationship between the services
10 being provided and the legal entities benefitting from those services. The
11 allocation utilizes the existing allocating cost centers used for all other indirect
12 allocations as shown in Figure MLS-D-4. The allocation of the capital charges is
13 based on a determination by the Capital Asset Accounting group and follows the
14 capitalization policies to allocate the capital costs of the software to the
15 appropriate Operating Company. The resulting capital costs are Direct Charges
16 and follow the cost flow shown in Figure MLS-D-3.

17 Company witness Ms. Laurie J. Wold further addresses the allocation of
18 capital charges for IT software projects in her Direct Testimony.

19 **Q. PLEASE EXPLAIN THE PROCESS THAT OCCURS ONCE CHARGES HAVE**
20 **BEEN DIRECTLY ASSIGNED OR ALLOCATED FROM XES.**

21 A. Once the XES charges have been directly charged or allocated to the Operating
22 Companies or affiliates, all the charges are on the appropriate Operating

1 Company's or affiliate's books as defined by the settlement rule or assessment
2 process. Final settlement(s) are performed to move the costs to a Final Cost
3 Center on that Operating Company or affiliate.

4 The costs are either directly assigned to a Profit Center that has a specific
5 utility designation or to a Profit Center that has a common designation of Public
6 Service. When the XES charges billed to Public Service are identified as
7 Common Costs that may support both the regulated and non-regulated activities
8 within Public Service, they are recorded in a common utility Profit Center and it is
9 necessary to allocate those costs among the utility divisions (electric, gas, and
10 steam) and the non-regulated activities in accordance with cost Allocation
11 Methods described in the CAAM (see Attachment MLS-1) and explained in
12 Part D below.

13 **C. Part C**

14 **Q. PLEASE DESCRIBE BILLINGS FROM AND TO OTHER AFFILIATES AND**
15 **INTERDEPARTMENTAL BILLINGS?**

16 A. In Item 3 (Settlement and Assessments) in Figure MLS-D-1, Public Service may
17 provide services to and bill affiliates other than XES, and affiliates other than
18 XES may provide services to and bill costs to Public Service. These are often
19 referred to as intercompany charges and are always Direct Charges to the
20 receiving affiliate. These costs are first recorded on the books of the Operating
21 Company or affiliate providing the service and are then charged to the Operating
22 Company or affiliate receiving the service. For example, Public Service

1 employees may assist SPS with storm restoration work; SPS employees may
2 help Public Service with storm restoration work; or Public Service may provide
3 gas operations support to WGI, which does not have any employees. In
4 situations where Public Service is the beneficiary of such work, affiliate costs
5 directly billed to Public Service may be billed directly to the electric, gas or steam
6 utility.

7 In JDE this was accomplished by using a subledger code that designated
8 the Operating Company or affiliate to be billed. The Service Billing process
9 would bill the costs to the Operating Company or affiliate receiving the service.

10 In SAP, the use of an Internal Order accomplishes this billing in a very
11 similar manner. The charges are recorded on an Internal Order that will
12 designate the Operating Company or affiliate that should receive the service and
13 through the Settlement Process, the costs will be recorded on the receiving
14 company's books.

15 In addition to intercompany charges, there are sometimes
16 interdepartmental charges within Public Service where one department may
17 provide services to and bill another department within Public Service. These
18 charges are always Direct Charges and therefore follow the same processing as
19 a Public Service intercompany charge. For example, a Transmission department
20 may provide services to an Energy Supply department.

21 Any Common Costs billed to Public Service as an intercompany charge or
22 an interdepartmental charge may be identified as Common Costs that support

1 both the regulated and non-regulated activities within Public Service. These
2 costs are recorded in a Profit Center that has been designated as common and it
3 is necessary to allocate those costs among the utility divisions (electric, gas, and
4 steam) and the non-regulated activities in accordance with cost Allocation
5 Methods described in the CAAM (see Attachment MLS-1) and explained in
6 Part D below.

7 **D. Part D**

8 **Q. PLEASE DESCRIBE THE ALLOCATIONS THAT OCCUR ONCE ALL**
9 **CHARGES ARE RECORDED ON PUBLIC SERVICE'S BOOKS.**

10 A. In Item 7 (Utility Allocations) in Figure MLS-D-1 above, after all Public Service
11 Native Costs have been recorded on its books (see Part A); all appropriate
12 charges from the Service Company have been recorded on Public Service's
13 books (see Part B); and all intercompany and interdepartmental charges have
14 been recorded on Public Service's books (see Part C). Any charges identified as
15 Common Costs that support multiple utility divisions (electric, gas, and steam) or
16 support both regulated and non-regulated activities are allocated. It is necessary
17 to allocate these costs among the utility divisions (electric, gas, and steam) and
18 the non-regulated activities in accordance with the cost Allocation Methods
19 described in Section IX of my Direct Testimony in the subsections titled Utility
20 Allocations and Non-regulated Activity Allocations and in Sections VI, VII, and
21 VIII of the CAAM (see Attachment MLS-1).

1 Examples of Public Service common Native Costs that cannot be directly
2 assigned to an electric, gas, or steam utility division within Public Service include
3 such expense items as external auditing fees, A&G expenses, and customer
4 service expenses. Examples of costs billed from the Service Company that
5 cannot be directly assigned to a particular utility within Public Service include
6 such expense items as executive management services, corporate
7 communication services, and corporate secretary services.

8 In JDE, if the full accounting string charged these costs as a common
9 cost, the costs would be allocated among the electric, gas, and steam utilities,
10 and, if applicable, a portion would be allocated to the non-regulated activities
11 using the methods described in the CAAM.

12 In SAP for this same transaction, the costs are recorded in a Public
13 Service Internal Order. The Internal Order has a settlement rule tied to it that
14 identifies the costs in this Internal Order as Public Service costs. Because the
15 SAP settlement rule has the costs settling to a Final Cost Center on Public
16 Service's books that has a Profit Center that is defined as Public Service and
17 also designated as common, these are Public Service common utility costs. The
18 Common Costs are then allocated to the electric, gas, and utility divisions per the
19 CAAM rules.

20 As described in the CAAM, there are several methods used to allocate
21 Common Costs on Public Service's books. For example, costs incurred by
22 Public Service that are common to the electric, gas and steam utilities are

1 allocated using Utility Allocations. Customer Accounting and A&G costs
2 associated with non-regulated activities are allocated to the non-regulated
3 activities using Non-regulated Activity Allocations. Certain IT costs are allocated
4 using an IT allocation. These types of allocations are explained in the CAAM
5 (see Attachment MLS-1) and addressed in greater detail in Section VII of my
6 Direct Testimony.

7 **Q. ARE THERE OTHER ITEMS ON FIGURE MLS-D-1 THAT YOU HAVE NOT**
8 **EXPLAINED?**

9 A. Yes. These items are described below:

- 10 • *Information Technology ("IT") FERC Allocations (Item 4):* These allocations
11 are currently used to allocate certain IT costs that support multiple utility
12 processes to the appropriate FERC functional accounts related to these
13 processes. Public Service has one system allocated using this process,
14 which is described in Section VI of the CAAM (see Attachment MLS-1).
- 15 • *Business View (Item 5):* The business view of the SAP general ledger
16 provides the Generally Accepted Accounting Principles ("GAAP") view of the
17 accounting transactions necessary to prepare the external financial
18 statements and the information necessary for the business areas to manage
19 the business.
- 20 • *FERC Account Data Prior to Utility and Non-regulated Allocations (Item 6):*
21 The pre-allocated FERC view of the SAP general ledger is available at this
22 stage. The following utility allocations and non-regulated activity allocations

1 are necessary for Common Costs to be allocated to the electric, gas, and
2 steam utilities and if appropriate to be allocated to the non-regulated
3 activities.

4 • *Regulatory Books and Records (Item 8)*: After all the above processes are
5 complete, the result is the FERC books and records of Public Service.

6 • *Rate Case Cost of Service – Regulatory Information Systems (Item 9)*: The
7 FERC books and records are the starting point for the preparation of a cost of
8 service study to be used in an electric, gas, or steam rate case filing.

1 **VI. SERVICE COMPANY OVERVIEW**

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

3 A. In this section, I provide an explanation of the Service Company, its history and
4 operations, and the administration of the Allocation Methods, Allocation
5 Statistics, Allocation Ratios and Percentages, and allocation pools that are
6 specific to the Service Company.

7 **Q. PLEASE DESCRIBE THE SERVICE COMPANY HISTORY.**

8 A. The Public Utility Holding Company Act of 1935 (“PUHCA 1935”), which was
9 administered by the Securities and Exchange Commission (“SEC”), provided for
10 the initial formation of service companies within registered public utility holding
11 company systems where efficiencies could be achieved through the
12 consolidation of common administrative, management, and support services. A
13 key requirement applicable to service companies under PUHCA 1935 and the
14 related SEC regulations was that a service company generally had to charge
15 utility affiliates on an “at cost” basis. The term “at cost” means that XES earns no
16 profit on the service.

17 To accomplish the original objectives of service companies under PUHCA
18 1935, and the current Public Utility Holding Company Act of 2005, 18 Code of
19 Federal Regulation Parts 365 and 366 (“PUHCA 2005”), which is administered by
20 the FERC and supersedes PUHCA 1935, employees who provide services to
21 more than one affiliate within the Xcel Energy holding company system are
22 employed by XES. XES provides the shared or common administrative,

1 management, and support services to Xcel Energy and its Operating Companies
2 and affiliates.

3 **Q. PLEASE DESCRIBE THE OVERALL PHILOSOPHY FOR BILLING COSTS**
4 **FOR XES.**

5 A. XES' goal is to direct charge as much as possible to the Operating Companies
6 and affiliates who use its services. Those costs that cannot be directly charged
7 to a specific affiliate are allocated to the appropriate affiliates in accordance with
8 Allocation Methods reflected in XES' most recently filed FERC Form 60 for the
9 year ended December 31, 2018 and in Public Service's Service Agreement with
10 XES.

11 **Q. PLEASE DESCRIBE THE PROCESS FOR BILLING COSTS WITHIN XES.**

12 A. The costs incurred within XES are either directly charged or allocated to the
13 Operating Companies and affiliates based on the actual services provided or the
14 actual expenses incurred. These services are billed, whether directly or through
15 allocations, in the month the services are provided. Please see the previous
16 section for a description of the Service Company billing process.

17 **Q. CAN DIRECT CHARGES AND ALLOCATED CHARGES BE RECORDED IN**
18 **THE SAME INTERNAL ORDER?**

19 A. No. When an Internal Order is established, the settlement rule is created and all
20 transactions charged to that Internal Order can only be direct charged or
21 allocated to either O&M or capital as determined by the settlement rule.

1 For example, an employee in Financial Operations within XES can charge
2 an Internal Order that settles specifically to an Internal Order on Public Service
3 for work that has been performed, but that same employee must charge a
4 different Internal Order for a charge that is to be allocated. The transaction to be
5 allocated would flow to an Allocating Cost Center and then be allocated in the
6 Assessment Process based on the SKF that contains the Allocation Percentages
7 that tie to that allocating cost center.

8 **Q. HAVE YOU INCLUDED A LIST OF THE XES ALLOCATING COST CENTERS**
9 **THAT ALLOCATE COSTS TO THE OPERATING COMPANIES AND**
10 **AFFILIATES?**

11 A. Yes. Attachment MLS-5 includes the XES Allocating Cost Centers, including the
12 Allocation Methods, Allocation Statistics and the Allocation Percentages for each
13 Allocating Cost Center used in the 2018 HTY.

14 **Q. PLEASE DESCRIBE THE PROCESS XES UNDERTAKES TO UPDATE ITS**
15 **ALLOCATIONS.**

16 A. The components of the allocations are as follows:

17 **Allocation Methods** – XES updates its Allocation Methods as it is
18 necessary to support the operations of the business. There is already an
19 extensive list of Allocation Methods and XES has not had to add very many since
20 the initial list was developed when the SEC still regulated XES under PUHCA
21 1935. The current Allocation Methods have been reported to the FERC under
22 PUHCA 2005 since 2005. As Allocation Methods are added or deleted, the

1 updated list is provided in Table D of the CAAM (see Attachment MLS-1) in each
2 rate case filing.

3 **Allocation Statistics and Allocation Percentages** – XES annually
4 updates all statistics and percentages for use starting with April business.¹
5 These updates are based on the prior calendar year statistics. With this update,
6 new percentages are calculated and loaded into the system in the SKF to be
7 applied to the designated allocating cost centers. For example, the Allocation
8 Statistics and Allocation Percentages used for the first three months of 2018 are
9 based on the 2016 calendar year statistics that were implemented in April of
10 2017, and the Allocation Statistics and Allocation Percentages used for the last
11 nine months of 2018 are based on the 2017 calendar year statistics that were
12 implemented in April of 2018. These Allocation Statistics and Allocation
13 Percentages do not generally change in any significant way year over year.

14 XES may also update the statistics used in the Allocation Percentages to
15 determine new Allocation Percentages throughout the year if there is a significant
16 change in the statistics. These updates are usually driven by the addition or
17 deletion of a company in the Xcel Energy holding company system, and
18 Allocation Percentages would only be impacted if the added or deleted company
19 had statistics that would make them eligible for allocations (employees, assets,
20 revenues, etc.)

¹ XES annually updates four Allocation Statistics and Allocation Percentages related to the Joint Operating Agreement and trading activities starting with January business. The statistics are based off of the prior calendar year.

1 **Allocation Pools** – The Allocating Cost Centers used for actuals are
2 automatically updated each month and are based on the expenses incurred each
3 month.

4 **Q. WHEN AND HOW ARE THE UPDATED ALLOCATION COMPONENTS**
5 **PRESENTED TO THE COMMISSION?**

6 A. As a part of each rate case and as required by Commission rules, XES updates
7 the CAAM to ensure that it is representative of the allocations in use. Section IX
8 of the CAAM includes an overview of the XES allocations and Table D in
9 Section IX of the CAAM (see Attachment MLS-1) lists all XES Allocating Cost
10 Centers and their associated Allocation Methods, as well as a description of the
11 services provided in each Allocating Cost Center.

12 **Q. WHAT DOES XES DO TO ENSURE ITS COSTS ARE RECORDED AND**
13 **BUDGETED CORRECTLY?**

14 A. The following steps are taken to ensure that XES costs are recorded correctly:

- 15 • XES Policies and Procedures have been developed and implemented and
16 are made available on the Xcel Energy internal website for access by all Xcel
17 Energy personnel;
- 18 • Personnel within the Financial Performance and Controls organization and
19 the Service Company Accounting department, regularly review XES actual
20 and budgeted charges and may request adjustments where necessary;
- 21 • Service Company employees are required to complete online training through
22 Xcel Energy's Learning Management System, an online training tool.

1 Training can also be provided either in a classroom setting, online via Xcel
2 Energy's internal website with computer-based training, or on an individual
3 basis;

4 • The FERC reviews XES' FERC Form No. 60 submissions and may review
5 allocations during audits; and

6 • Independent external auditors, Deloitte, annually audit the books and records
7 of Xcel Energy and its affiliates.

1 as necessary, to update information. These modifications are discussed in
2 Section IX of my testimony.

3 **Q. HOW DO THE COST ALLOCATION RULES DEFINE A CAAM?**

4 A. According to Commission Rule 3501(d), the Cost Assignment and Allocation
5 Manual is defined as:

6 [T]he indexed document filed by a utility with the Commission that
7 describes and explains the cost assignment and allocation methods
8 the utility uses to segregate and account for revenues, expenses,
9 assets, liabilities, and rate base cost components assigned or
10 allocated to Colorado jurisdictional activities. It includes the cost
11 assignment and allocation methods to segregate and account for
12 costs between and among jurisdictions, between regulated and
13 non-regulated activities, and between and among utility divisions.

14
15 **Q. WHAT DO THE COMMISSION RULES REQUIRE SPECIFICALLY FOR A
16 CAAM?**

17 A. The Commission requires each utility to maintain on file an approved CAAM that
18 “describes and explains the calculation methods the utility uses to segregate and
19 account for revenues, expenses, assets, liabilities and rate base cost
20 components assigned or allocated to Colorado jurisdictional activities.”
21 Commission Rule 3503(a). The CAAM must include calculation methods for the
22 segregation and accounting for costs between and among jurisdictions; between
23 regulated and non-regulated activities; and between and among utility divisions.
24 I identify more specific requirements included in Commission Rule 3503(b), and
25 each section of the CAAM that addresses those requirements, as follows:

- 1 • Parts (I) and (III) of Rule 3503(b) require a listing of all regulated or non-
2 regulated divisions of Public Service and the regulated or non-regulated
3 activities conducted by each division; and a listing and description in sufficient
4 detail (in accordance with the regulations) of each regulated and non-
5 regulated activity offered by Public Service. See CAAM, Section II, Regulated
6 and Non-regulated Divisions and Activities.
- 7 • Part (II) of Commission Rule 3503(b) requires a listing of all regulated or non-
8 regulated affiliates of Public Service and identification of the affiliates that
9 allocate or assign costs to and from the Company. See CAAM, Section III,
10 Corporate Organization.
- 11 • Parts (IV) and (V) of Commission Rule 3503(b) require: a listing of the
12 revenues, expenses, assets, liabilities, and rate base items by Uniform
13 System of Accounts account number that the Company proposes to include in
14 its revenue requirement for Colorado jurisdictional activities, including those
15 items that are partially or exclusively allocated or assigned to Colorado; and a
16 detailed description showing how the revenues, expenses, assets, liabilities,
17 and rate base items by account and sub-account are assigned and/or
18 allocated to Public Service's non-regulated activities, along with a description
19 of the methods used to perform the assignment and allocations. See CAAM,
20 Section IV, Assignments and Allocations by FERC Account; CAAM, Section
21 V, Cost Assignment and Allocation Process; CAAM, Section VI, IT FERC
22 Allocations; CAAM, Section VII, Utility Allocations; and CAAM, Section VIII,
23 Non-regulated Activity Allocations.
- 24 • Parts (VI) and (VII) of Commission Rule 3503(b) require a description of each
25 transaction between Public Service and a non-regulated activity which
26 occurred since Public Service's prior CAAM was filed and, for each
27 transaction, a statement as to whether, for this Commission's jurisdictional
28 cost assignment and allocation purposes, the value of the transaction is at
29 cost or market as applicable; and a description of the basis for how the

1 assignment or allocation is made. See CAAM, Section IV, Assignments and
2 Allocations by FERC Account; CAAM, Section V, Cost Assignment and
3 Allocation Process; CAAM, Section VI, IT FERC Allocations; CAAM, Section
4 VII, Utility Allocations; CAAM, Section VIII, Non-regulated Activity Allocations;
5 and the FDC Study included as Attachment MLS-3 and Confidential
6 Attachment MLS-4.

- 7 • Part (VIII) of Commission Rule 3503(b) requires specific cost assignments or
8 allocations that are under the jurisdiction of another authority, with a written
9 description of the prescribed methods. See CAAM, Section IX, Service
10 Company Assignments and Allocations.

11 **Q. WHAT IS A FULLY DISTRIBUTED COST STUDY?**

12 A. According to Commission Rule 3501(g), a “Fully-Distributed Cost Study” is
13 defined as:

14 [A] cost study that reflects the result of the fully distributed
15 revenues, expenses, assets, liabilities and rate base amounts for
16 the Colorado utility to and from the different activities, jurisdictions,
17 divisions, and affiliates using cost accounting, engineering, and
18 economic concepts, methods, and standards.

19 **Q. WHAT DO THE COMMISSION RULES REQUIRE FOR A FDC STUDY?**

20 A. Pursuant to Commission Rule 3504(a), Public Service is required to submit its
21 FDC Study when filing its CAAM. When filed with a rate case, the FDC Study
22 shall be based on the same test year used in the utility’s rate case filing under
23 Commission Rule 3504(d). The FDC Study is required to identify all non-
24 regulated activities provided by each division in Colorado, showing the revenues,
25 expenses, assets, liabilities, and rate base items assigned and allocated to each

1 non-regulated activity (Commission Rule 3504(b)). In addition, Commission Rule
2 3504(b) requires that for each division of Public Service (electric, gas, and
3 steam), the FDC Study also must include a summary of the assigned and
4 allocated costs. The FDC Study also identifies non-regulated costs by account
5 number, sub-account number, and account description.

1 **VIII. THE HISTORY OF PUBLIC SERVICE'S COST ASSIGNMENT AND ALLOCATION**
2 **MANUAL AND FDC STUDY**

3 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
4 **TESTIMONY?**

5 A. To provide a brief history of Public Service's CAAM and FDC Study.

6 **Q. CAN YOU EXPLAIN THE GENESIS OF THE CURRENT VERSION OF THE**
7 **CAAM AND FDC STUDY?**

8 A. As a result of Public Service's 2002 Phase I Rate Case ("Proceeding No.
9 02S-315EG"), the Company and interested parties agreed to engage in workshops
10 on cost allocation and assignment. These workshops were intended to educate
11 interested parties on the Company's cost allocation processes in order to
12 demonstrate that all allocations resulted in a fair and reasonable sharing of costs
13 between Xcel Energy Operating Companies and affiliates and between regulated
14 and non-regulated operations within Public Service.

15 Through these collaborative workshops, there were some changes made in
16 the Company's then-current allocation methods. At the conclusion, all parties
17 agreed that the processes outlined in the CAAM resulted in a fair and reasonable
18 allocation and/or assignment of costs to Public Service, each of its utility divisions
19 and to Public Service's non-regulated activities. Parties further agreed that there
20 was no cross-subsidization occurring between regulated and non-regulated
21 operations within Public Service.

1 On April 15, 2005, the Company filed an updated CAAM in Proceeding
2 No. 05I-188E. The April 15, 2005 CAAM update is very similar to the CAAM still in
3 effect today.

4 **Q. WERE THERE ANY FURTHER MEETINGS AROUND COST ALLOCATION**
5 **AFTER THE APRIL 15, 2005 UPDATED CAAM WAS FILED?**

6 A. Yes. Shortly after the workshops concluded, the parties began discussing the new
7 Notice of Proposed Rulemaking (“NOPR”) related to cost allocation in an effort to
8 come to an agreement on the requirements desired in the new electric and gas
9 rules prior to each party drafting comments on the NOPR. As a result of these
10 discussions, each party submitted fairly consistent comments that were eventually
11 considered and incorporated into the 2006 Cost Allocation Rules. After these rules
12 became effective, the first version of the Company’s CAAM and FDC Study was
13 approved on November 21, 2006, in the 2006 Cost Assignment Allocation Model
14 Proceeding (“Proceeding No. 06A-555EG”), Decision No. C06-1358. While the
15 Company has continued to make normal updates to the CAAM, the CAAM filed
16 in this proceeding, as Attachment MLS-1, nonetheless uses generally the same
17 methods of cost assignment and allocation in developing its regulated revenue
18 requirement as utilized in 2006.

1 **Q. HOW ARE THE COMPANY'S NON-REGULATED ACTIVITIES SET UP TO**
2 **ENSURE THEY COMPLY WITH THE COST ALLOCATION RULES?**

3 A. First, through the workshop process noted above, the Company worked with
4 Staff, the Colorado Business Alliance, and the Office of Consumer Counsel to
5 provide them with an understanding of the processes the Company used to
6 separate its non-regulated activities/division from its regulated activities/divisions
7 to ensure no cross subsidization was occurring. Because the workshop process
8 was comprehensive, it provided the foundation used to develop the cost
9 allocation section of the gas and electric rules. The development of the cost
10 allocation rules found in 4 CCR 723-3-3500 included the input of other utilities as
11 well as the parties noted above, and included two key definitions to address how
12 the Company's non-regulated activities operate. The two key definitions are
13 "activity" and "division."

14 "Activity" means a business activity, product, or service whether offered by
15 a Colorado utility, a division of a Colorado utility, or an affiliate of a Colorado
16 utility. "Division" means an activity conducted by a Colorado utility but not
17 through a legal entity separate from a Colorado utility. It includes the electric,
18 gas, or steam activities of a Colorado utility and any non-regulated activities
19 provided by the Colorado utility.

20 These are key definitions because the non-regulated activities the
21 Company offers, such as HomeSmart and Chilled Water, are provided as
22 divisions within Public Service. For example, the HomeSmart non-regulated

1 activities of the Company are separated from the regulated operations through
2 the use of cost centers and account numbers that charge the revenues and
3 expenses to FERC accounts 417, Nonutility Revenues and 417.1, Nonutility
4 Expenses. These processes provide the division separation of the non-regulated
5 activities of HomeSmart. The use of divisions allows the activities to be
6 performed within the legal entity of Public Service without requiring the
7 separation into a separate legal entity, but still require the activities to be clearly
8 separated from the electric, gas or steam regulated activities within Public
9 Service.

10 The steps within the cost allocation rules further define the assignment or
11 allocation processes for charges to the non-regulated activities. The Company
12 has implemented the assignment and allocation processes in its day-to-day
13 operations and detailed the assignment and allocation processes it uses in its
14 CAAM. Various departments within the Company work with the personnel who
15 are associated with the non-regulated activities to assist them in setting up their
16 processes to ensure their revenues and expenses are recorded properly and to
17 ensure they are as clearly as possible separated from the regulated operations.
18 As an example, the following bullets explain the processes for three different
19 types of charges for HomeSmart:

- 20 • HomeSmart has a separate building/facility for which the rent is billed directly
21 from the vendor and paid by the HomeSmart division, charged to the
22 HomeSmart cost center and recorded in FERC account 417.1.

- 1 • The employees of Public Service who work for HomeSmart charge their time
2 directly to the HomeSmart cost centers and it gets recorded in FERC account
3 417.1.
- 4 • The accounting and information systems within the Company charge the
5 labor overheads to follow labor, so those costs would also be charged to the
6 HomeSmart cost centers and get recorded in FERC account 417.1.

7 The FDC Study for the 2018 HTY supplied as Confidential Attachment
8 MLS-4 and explained in Section X of my Direct Testimony details the
9 HomeSmart revenues and expenses and the other non-regulated activities of
10 Public Service.

1 **IX. THE COST ASSIGNMENT AND ALLOCATION MANUAL**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. In this section, I sponsor Public Service's CAAM dated December 2018, a copy
5 of which is included as Attachment MLS-1 as well as the cost assignment and
6 Allocation Methods and the percentages used in developing the 2018 HTY.

7 **Q. HOW HAVE YOU ADDRESSED THE COST ALLOCATION METHODS USED**
8 **IN THE 2018 HTY THROUGHOUT YOUR TESTIMONY?**

9 A. As required by Commission Rules 3503(f) and 3504(d), Public Service has
10 prepared its 2018 HTY CAAM and FDC Study based on the cost Allocation
11 Methods used for January 1, 2018 to December 31, 2018 consistent with the
12 data used in the 2018 HTY.

13 This is the same practice the Company uses in preparing its budget and
14 the same practice used in the Company's electric case filed in Proceeding No.
15 14AL-0660E.

16 **Q. HAS THE COMPANY UPDATED ITS CAAM SINCE IT WAS APPROVED IN**
17 **PROCEEDING NO. 14AL-0660E?**

18 A. Yes. The CAAM being filed in this proceeding, dated December 2018, has been
19 updated and is applicable to the 2018 HTY. The CAAM filed in this proceeding
20 has one key update in that it has been updated to reflect the new SAP general
21 ledger terminology and processes. The remaining modifications do not propose
22 a significant change to the Company's cost assignment and allocation process.

1 Attachment MLS-2 to my Direct Testimony is a comparison document that
2 identifies all significant modifications to the CAAM, since it was last filed and
3 approved in Proceeding No. 14AL-0660E.

4 **Q. ARE THERE ANY ALLOCATION METHODS INCLUDED IN THE CAAM WHICH**
5 **HAVE BEEN REVIEWED AND APPROVED FOR USE BY OTHER**
6 **REGULATORY AUTHORITIES?**

7 A. Yes. The Allocation Methods included in the CAAM for XES costs were initially
8 developed and approved by the SEC under PUHCA 1935. We also have reported
9 our Allocation Methods to FERC under PUHCA 2005 through the filing of the
10 annual XES FERC Form No. 60 report. The Allocation Methods in the CAAM are
11 also reviewed by other state regulatory commissions in rate cases filed by other
12 Xcel Energy Operating Companies. For example, the Minnesota Public Utilities
13 Commission reviews the CAAM and the allocation of XES costs to Northern States
14 Power Company (Minnesota) in NSPM retail rate cases. Additionally, the FERC
15 periodically initiates audits in the normal course of business that can include a
16 review of XES cost allocations and intercompany transactions. The FERC Division
17 of Audits announced on February 6, 2017 the initiation of an audit of Xcel Energy
18 Inc. that will include review of XES cost allocations to PSCo and the other Xcel
19 Energy Operating Companies, among other things. See Docket No. FA17-4-000.
20 This audit – which is non-public – remains ongoing and the Company does not
21 have an anticipated date as to when the audit will be complete. To the extent the
22 audit is completed during the course of this proceeding, Public Service will provide

1 an update notifying the Commission of the final audit report findings at the
2 appropriate time.

3 **Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE CONTENTS OF THE**
4 **COMPANY'S DECEMBER 2018 CAAM.**

5 A. The following is a description of the sections included in Public Service's
6 December 2018 CAAM:

- 7 • Section I – Introduction: provides an introduction to the CAAM, as well as
8 definitions for abbreviations, acronyms or terms used in the document.
- 9 • Section II – Regulated and Non-regulated Divisions and Activities: describes
10 Public Service's regulated electric, gas, and steam utility divisions and
11 activities, incidental services, and non-regulated activities.
- 12 • Section III – Corporate Organization: provides an overview of Public Service
13 and lists the regulated and non-regulated affiliates in the Xcel Energy holding
14 company system, including Public Service's subsidiaries, as well as identifies
15 the affiliates with whom Public Service has transactions.
- 16 • Section IV – Assignments and Allocations by FERC Account: lists the
17 accounts Public Service includes in its revenue requirement for Colorado
18 jurisdictional activities and specifies how those FERC accounts and sub-
19 accounts are assigned and/or allocated to Public Service's non-regulated
20 activities, along with a description of the methods used to perform the
21 assignments or allocations.

- 1 • Section V – Cost Assignment and Allocation Process: provides an overview of
2 the cost assignment and allocation principles used by Public Service and the
3 accounting processes within the monthly close and within SAP, including both
4 system generated processes and manual processes, used to assign and
5 allocate costs between the regulated utility divisions and non-regulated
6 activities of Public Service.
- 7 • Section VI – IT FERC Allocations: explains the allocation process and
8 methods used within Public Service to allocate certain information technology
9 costs that support utility processes to the appropriate FERC functional
10 accounts related to those processes.
- 11 • Section VII – Utility Allocations: explains the utility allocations and the
12 Allocation Methods used within Public Service to allocate common or shared
13 costs among electric, gas, and steam utility divisions and non-regulated
14 activities.
- 15 • Section VIII – Non-regulated Activity Allocations: explains the Allocation
16 Methods used to allocate A&G and Customer Accounting costs to the non-
17 regulated activities.
- 18 • Section IX – Service Company Assignments and Allocations: lists the
19 Allocation Methods used by XES to allocate costs among the Xcel Energy
20 holding company system of companies.

21 For each allocation referenced, the CAAM describes the allocation method or the
22 development of internal billing rates, whichever is applicable.

1 **Q. PLEASE EXPLAIN THE REMAINING PUBLIC SERVICE ALLOCATIONS**
2 **DETAILED IN THE CAAM.**

3 A. In addition to the XES allocations described above, the CAAM includes detailed
4 sections on the IT FERC Allocations, the Utility Allocations (O&M and Non-O&M),
5 and the Non-regulated Activity Allocations. The following sections explain each
6 of these types of allocations.

7 **A. IT FERC Allocations**

8 **Q. WHAT IS THE PURPOSE OF THE IT FERC ALLOCATIONS?**

9 A. IT FERC Allocations apply only to certain information technology system costs
10 that are billed from XES to Public Service and benefit more than one functional
11 area within Public Service. These labor and non-labor O&M costs are for
12 systems that process information for activities that should be recorded in several
13 FERC functional accounts, such as the Energy Management System and Data
14 Acquisition (“SCADA”) system, which exercises load dispatching for the
15 distribution and transmission of electricity, resulting in the allocation of costs for
16 the transmission and distribution electric systems. There is one system used in
17 Public Service that falls under the IT allocation process, and it is described in
18 Section VI of the CAAM (see Attachment MLS-1).

19 **Q. WHEN ARE THE COMPANY’S IT FERC ALLOCATIONS UPDATED?**

20 A. Public Service’s IT FERC Allocation Percentages are updated on an annual
21 basis using the prior calendar year actual statistics (these updates become
22 effective for April business forward). As explained below, the process of

1 updating allocations based upon the prior calendar year statistics and changes in
2 processes is carried through to the other types of allocations, including utility
3 allocations and non-regulated activity allocations.

4 **Q. HAVE THE 2018 HTY IT FERC ALLOCATION METHODS AND ALLOCATION**
5 **PERCENTAGES BEEN PROVIDED?**

6 A. Yes. The 2018 HTY IT FERC Allocation Methods are explained in Section VI of
7 the CAAM (see Attachment MLS-1). In addition, the IT FERC allocation Internal
8 Order and the associated allocation method and percentages used for purposes
9 of the 2018 HTY are provided in Attachment MLS-7.

10 **B. Utility Allocations**

11 **Q. WHAT IS THE PURPOSE OF COMMON O&M UTILITY ALLOCATIONS?**

12 A. Common O&M utility allocations within Public Service are developed to allocate
13 common (electric, gas, and steam) costs that are recorded in A&G FERC
14 accounts 920 to 935 to the electric, gas, and steam utility divisions and to
15 allocate common (electric, gas, and steam) costs that are recorded in FERC
16 accounts 901 to 917 for customer accounting, customer information, and sales
17 costs to the electric, gas, and steam utility divisions.

18 **Q. WHEN AND HOW ARE COMMON O&M UTILITY ALLOCATIONS APPLIED?**

19 A. Common O&M utility allocations are performed on a monthly basis after all
20 transactions have been recorded. Any records with a “common” designator for
21 Public Service within SAP are allocated based on the allocation method
22 developed for each specific pool of costs. The common utility cost pools are

1 programmed into the system based on a specific FERC account or a combination
2 of FERC accounts. For example, Common Costs in FERC account 925, Injuries
3 and Damages, and FERC account 926, Pensions and Benefits, are allocated to
4 the electric, gas, and steam utility divisions based on the labor allocation method,
5 because the costs in the pool have a cost causative relationship with labor.
6 Section VII of the CAAM (see Attachment MLS-1) explains the allocation method
7 used for each of the allocation pools for Common Costs recorded in FERC
8 accounts 901 to 935.

9 **Q. HAVE THE 2018 HTY O&M UTILITY ALLOCATION METHODS AND**
10 **ALLOCATION PERCENTAGES BEEN PROVIDED?**

11 A. Yes. The 2018 HTY O&M utility Allocation Methods are explained in Section VII
12 of the CAAM. In addition, the 2018 HTY O&M utility Allocation Methods and
13 percentages are provided in the schedule included as Attachment MLS-8.

14 **Q. HAVE THE 2018 HTY UTILITY RATE BASE AND NON-O&M ALLOCATION**
15 **METHODS AND ALLOCATION PERCENTAGES BEEN PROVIDED?**

16 A. The utility rate base and non-O&M Allocation Methods used for the 2018 HTY
17 are explained in Section VII of the CAAM (see Attachment MLS-1). However,
18 Company witness Ms. Deborah A. Blair discusses the common plant Allocation
19 Percentages used to develop the 2018 HTY.

1 **C. Non-regulated Activity Allocations**

2 **Q. WHAT IS THE PURPOSE OF NON-REGULATED ACTIVITY ALLOCATIONS?**

3 A. Non-regulated activity allocations ensure that the billed costs for services
4 provided to non-regulated activities represent a fully distributed cost and that
5 electric, gas, and steam utility divisions are not subsidizing the non-regulated
6 activities.

7 **Q. PLEASE DESCRIBE PUBLIC SERVICE'S NON-REGULATED ACTIVITIES.**

8 A. A complete list of Public Service's non-regulated activities is included in
9 Section II of the CAAM (see Attachment MLS-1).

10 **Q. HOW ARE PUBLIC SERVICE'S NON-REGULATED ACTIVITIES SEPARATED**
11 **FROM ITS REGULATED UTILITY ACTIVITIES TO ENSURE THEIR COSTS**
12 **ARE NOT INCLUDED IN THE UTILITY REVENUE REQUIREMENTS**
13 **CALCULATION?**

14 A. The costs of Public Service's non-regulated activities are separated through the
15 use of specific SAP Cost Centers. The specific SAP Cost Centers are identified
16 as non-regulated and have a non-utility FERC account assignment that ensures
17 costs are recorded appropriately. As a result, these costs are excluded from
18 utility revenue requirements calculations.

19 **Q. WHAT TYPES OF COSTS ARE BILLED TO THE NON-REGULATED**
20 **ACTIVITIES?**

21 A. Non-regulated activities are directly charged to FERC accounts 417, Revenues
22 from Nonutility Operations, and 417.1, Nonutility Expenses, whenever possible,

1 for services performed for their benefit by Public Service and XES. Non-
2 regulated activities incur a majority of their costs through direct assignment. For
3 example, XES employees working on Public Service's non-regulated activities
4 will charge their labor costs through labor distribution each month directly to each
5 non-regulated activity. In addition, a portion of their non-labor expenses will
6 follow their labor. All expenses recorded in each non-regulated activity account
7 are linked to FERC account 417.1, Nonutility Expenses. These costs are not
8 recorded in Public Service's utility O&M accounts and are, therefore, not included
9 in the cost of service.

10 Public Service employees working on Public Service's non-regulated
11 activities also charge their labor costs through labor distribution to the non-
12 regulated activity account. These expenses are also linked to FERC
13 account 417.1, Nonutility Expenses, and are not recorded in Public Service's
14 utility O&M accounts.

15 Labor-related overheads (e.g., pensions, benefits, non-productive time,
16 and workers' compensation) and facilities costs are programmed to follow labor
17 costs and also will be recorded in the non-regulated activity accounts that are
18 linked to FERC account 417.1, Nonutility Expenses. The labor-related
19 overheads are described in more detail in Section V of the CAAM along with
20 other overheads.

1 **Q. WHAT METHOD HAS BEEN APPROVED BY THIS COMMISSION FOR**
2 **ALLOCATING A&G COSTS TO THE NON-REGULATED ACTIVITIES?**

3 A. The Commission approved the use of an A&G allocator based on the ratio of
4 Common Costs (*i.e.*, costs not directly assigned to electric, gas, or steam utility
5 divisions) in FERC accounts 920 to 935 to total Public Service labor in
6 Proceeding No. 06A-555EG, Decision No. C06-1358. The allocation percentage
7 is then applied to labor charged to each non-regulated activity to determine the
8 A&G overhead to be allocated to that activity.

9 **Q. IS THE COMPANY PROPOSING ANY REVISIONS TO ITS A&G OVERHEAD**
10 **CALCULATION?**

11 A. No.

12 **Q. WHAT METHOD HAS THIS COMMISSION APPROVED FOR ALLOCATING**
13 **CUSTOMER ACCOUNTING COSTS TO THE NON-REGULATED ACTIVITIES?**

14 A. In Proceeding No. 06A-555EG, Decision No. C06-1358, the Commission
15 approved the use of a customer accounting allocator based on the ratio of
16 Common Costs in FERC accounts 901 to 917, excluding the amounts recorded
17 in FERC accounts: 902, Meter Reading Expenses; 904, Uncollectible Accounts;
18 and Demand-Side Management costs included in account 908, to total revenues,
19 excluding trading revenues. The specific exclusions include accounts that are
20 unrelated to the Company's non-regulated activities.

1 **Q. IS THE COMPANY PROPOSING ANY REVISIONS TO ITS CUSTOMER**
2 **ACCOUNTING OVERHEAD CALCULATION?**

3 A. No.

4 **Q. HAVE THE 2018 HTY NON-REGULATED ACTIVITY ALLOCATION METHODS**
5 **AND ALLOCATION PERCENTAGES BEEN SUPPLIED?**

6 A. Yes. The 2018 HTY non-regulated Allocation Methods are explained in Section
7 VII of the CAAM (see Attachment MLS-1). In addition, the Allocation
8 Percentages used for purposes of the 2018 HTY are provided in the schedule
9 included as Attachment MLS-9.

10 **Q. DOES THE CAAM DEMONSTRATE THAT PUBLIC SERVICE HAS NOT USED**
11 **RATEPAYER FUNDS TO SUBSIDIZE NON-REGULATED ACTIVITIES?**

12 A. Yes. The CAAM demonstrates that the Company has not used customer funds
13 to subsidize non-regulated activities.

1 **X. THE FULLY DISTRIBUTED COST STUDY IN THIS PROCEEDING**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. In this section, I sponsor the Company's FDC Study applicable to the 2018 HTY,
5 a copy of which is included as Attachment MLS-3 and the Confidential and Public
6 versions of Attachment MLS-4.

7 **Q. HAS THE COMPANY PERFORMED A FDC STUDY FOR PURPOSES OF THIS**
8 **CASE?**

9 A. Yes.

10 **Q. PLEASE DESCRIBE THE COMPANY'S FDC STUDY.**

11 A. The FDC Study performed for purposes of this proceeding is attached to my
12 testimony as Attachment MLS-3 and Confidential Attachment MLS-4. The FDC
13 Study summarizes the results of applying the methods set forth in the CAAM in
14 order to segregate all revenues, expenses, and investments associated with the
15 Company's non-regulated activities from the Company's regulated cost of
16 service. This is the same format for the FDC Study that was agreed to as part of
17 the 2002 Phase I Rate Case Settlement in Proceeding No. 02S-315EG,
18 referenced earlier. This format was reviewed by the parties who participated in
19 the workshop process, and it was agreed in that context that the format should
20 remain the same.

21 Attachment MLS-3 is in the form of an income statement and balance
22 sheet and shows the results of the Company's assignment and allocation of the

1 major categories of revenues, expenses, and investment among the electric, gas,
2 and steam utility divisions, and the nonutility divisions for the 2018 HTY.
3 Confidential Attachment MLS-4 shows the detailed breakdown of revenues,
4 expenses, and investment assigned and allocated to the Company's non-
5 regulated activities. The non-regulated products and services are identified
6 across the top of the report, starting in the second column. Each product or
7 service has one or more SAP cost centers that identify where costs are recorded
8 for that non-regulated product or service. The first column on the page provides
9 the line item information by SAP account and description of the type of cost
10 incurred. The A&G and Customer Accounting overhead loadings are shown near
11 the bottom of the report.

12 **Q. DOES THE FDC STUDY DEMONSTRATE THAT PUBLIC SERVICE HAS**
13 **COMPLIED WITH COMMISSION RULE 3502?**

14 A. Yes. The FDC Study demonstrates that all appropriate revenues, expenses,
15 assets, liabilities and rate base items for the 2018 HTY have been appropriately
16 assigned and allocated and that the Company has complied with the cost
17 allocation principles established in Commission Rule 3502.

- 1 **XI. CONCLUSION**
- 2 **Q. IN CONCLUSION, PLEASE RESTATE YOUR RECOMMENDATIONS TO THE**
- 3 **COMMISSION.**
- 4 A. I recommend that the Commission: (1) approve the Company's CAAM and FDC
- 5 Study as presented my Direct Testimony; and (2) find that Public Service's cost
- 6 assignment, Allocation Methods, and the percentages used in preparing the HTY
- 7 for this rate review are reasonable.
- 8 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**
- 9 A. Yes.

Statement of Qualifications

Melissa L. Schmidt

I received a Bachelor of Arts in Business Administration, with a major in accounting, from University of St. Thomas in 2000.

My current position with XES is Director, Corporate Accounting which includes Corporate Accounting, Service Company Accounting, Cash Processes and Business Area Accounting. I am responsible for the general administration of XES, including accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits and external reporting to state and federal regulatory agencies. Additionally, I direct Xcel Energy's Corporate Accounting group, which manages the month-end close process, legal consolidation process, maintain the general ledger, and other accounting functions and controls. Cash Processes group, which is responsible for monitoring and reconciling the cash activity, long term debt and other related items for all Xcel Energy affiliates and subsidiaries. Business Area Accounting group, which is responsible for the accounting functions for the business areas of Xcel Energy which includes Energy Supply, Transmission, Distribution, Gas Engineering & Operations and Corporate Services.

I have been employed by XES since April 2005, holding positions in Corporate Accounting, Internal Reporting, Benefits Accounting, SOX management office and External Reporting.

Prior to joining XES, I was employed by Temple Inland as a senior financial and operational auditor. Prior to Temple Inland, I was employed by Andersen LLP and

Deloitte LLP where I performed financial statement audits for companies in various industries including energy and utilities, manufacturing, retail and travel services.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

RE: IN THE MATTER OF ADVICE)
NO. 1797-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF)
COLORADO TO REVISE ITS) PROCEEDING NO. 19AL-____E
COLORADO P.U.C. NO. 8-)
ELECTRIC TARIFF TO IMPLEMENT)
RATE CHANGES EFFECTIVE ON)
THIRTY-DAYS' NOTICE.)

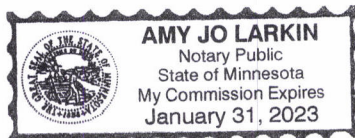
AFFIDAVIT OF MELISSA L. SCHMIDT
ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO

I, Melissa L. Schmidt, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony orally and would present the same attachments if asked under oath.

Dated at Minneapolis, Minnesota, this 3rd day of May, 2019.

Melissa L. Schmidt
Melissa L. Schmidt
Director, Corporate Accounting

Subscribed and sworn to before me this 3 day of May, 2019.



Amy Jo Larkin
Notary Public
My Commission expires 1/31/2023