

DOCKET NO. _____

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

**DIRECT TESTIMONY
of
WILLIAM A. GRANT**

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: GrantRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
A&G	Administrative & General
APC	Adjusted Production Cost
ATP	Authorization to Plan
ATRR	Annual Transmission Revenue Requirement
B/C	Benefit-to-Cost
Btu	British Thermal Unit
Commission	Public Utility Commission of Texas
CRS	Customer Resources System
DC	Direct Current
DCRF	Distribution Cost Recovery Factor
DTO	Designated Transmission Owner
EEI	Edison Electric Institute
ERCOT	Electric Reliability Council of Texas
ESWG	Economic Studies Working Group
FERC	Federal Energy Regulatory Commission
GSEC	Golden Spread Electric Cooperative, Inc.
ITP	Integrated Transmission Planning
ITP10	ITP 10 – year assessment
ITP20	ITP 20 – year assessment
ITPNT	ITP Near – Term assessment
kV	Kilovolt
kWh	Kilowatt-hour

<u>Acronym/Defined Term</u>	<u>Meaning</u>
LED	Light-Emitting Diode
LGS-T	Large General Service-Transmission
LMP	Locational Marginal Price
MISO	Midcontinent Independent System Operator
MMBtu	Million British Thermal Unit
MOPC	Markets and Operations Policy Committee
Mountain West	Mountain West Transmission Group
MTF	Metrics Task Force
MW	Megawatt
MWG	Market Working Group
MWh	Megawatt hour
NERC	North American Electric Reliability Corporation
NMPRC	New Mexico Public Regulation Commission
NPV	Net Present Value
NSP-M	Northern States Power Company, a Minnesota corporation
NSP-W	Northern States Power Company, a Wisconsin corporation
NTC	Notification to Construct
OATT	Open Access Transmission Tariff
O&M	Operation and Maintenance
OPEB	Other Post-Employment Benefits
Operating Companies	NSP-M, NSP-W, PSCo, and SPS
OPUC	Office of Public Utility Counsel

<u>Acronym/Defined Term</u>	<u>Meaning</u>
PCRf	Purchased Power Cost Recovery Factor
PPA	Purchased Power Agreement
PNM	Public Service Company of New Mexico
PSCo	Public Service Company of Colorado, a Colorado corporation
PURA	Public Utility Regulatory Act
QF	Qualifying Facility
RC	Reliability Coordinator
RCAR	Regional Cost Allocation Review
REC	Renewable Energy Credit
RFP	Rate Filing Package
ROE	Return on Equity
RSC	Regional State Committee
RSH	Residential Space Heating
RTO	Regional Transmission Organization
RTWG	Regional Tariff Working Group
RUC	Reliability Unit Commitment
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SPP	Southwest Power Pool Inc.
SPS	Southwestern Public Service Company, a New Mexico corporation
TAC	Texas Administrative Code
TCRF	Transmission Cost Recovery Factor

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Test Year	April 1, 2018 through March 31, 2019
Tolk	Tolk Generating Station
TOU	Time of Use
TWG	Transmission Working Group
Update Period	April 1, 2019 through June 30, 2019
Updated Test Year	July 1, 2018 through June 30, 2019
WACC	Weighted Average Cost of Capital
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.
Z2 Impacted Entity	Transmission Owner or Transmission Customer Impacted by Attachment Z2

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
WAG-RR-1	Summary of Texas Retail Rate Increase Request (Filename: WAG-RR-1.xlsx)
WAG-RR-2	Map of SPS High-Voltage System (Non-native format)
WAG-RR-3	Native O&M Costs (Filename: WAG-RR-3.xlsx)
WAG-RR-4	Southwest Power Pool Inc. Organizational Chart – 2019 (Non-native format)
WAG-RR-5	Summary of Southwest Power Pool Inc.'s Cost Allocation Methods (Non-native format)
WAG-RR-6	Organizational Chart for Group President (Non-native format)
WAG-RR-7	Summary of Rate Case Expenses (Filename: WAG-RR-7.xlsx)
WAG-RR-A (Updated Test Year)	Summary of XES Expenses to SPS by Affiliate Class and Billing Method (Filename: WAG-RR-ABCD.xlsx)
WAG-RR-B(CD) (Updated Test Year)	XES Expenses by Affiliate Class, Activity, Billing Method and FERC Account (Filename: WAG-RR-ABCD.xlsx)
WAG-RR-C (Updated Test Year)	Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (Filename: WAG-RR-ABCD.xlsx)
WAG-RR-D (Updated Test Year)	Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (Filename: WAG-RR-ABCD.xlsx)

**DIRECT TESTIMONY
OF
WILLIAM A. GRANT**

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

3 A. My name is William A. Grant. My business address is 790 South Buchanan
4 Street, Amarillo, Texas 79101.

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

6 A. I am filing testimony on behalf of Southwestern Public Service Company, a New
7 Mexico corporation (“SPS”) and wholly-owned electric utility subsidiary of Xcel
8 Energy Inc. (“Xcel Energy”). Xcel Energy is a utility holding company that owns
9 several electric and natural gas utility operating companies, a regulated natural
10 gas pipeline, and three electric transmission companies.¹

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

12 A. I am employed by SPS, as Regional Vice President, Regulatory and Strategic
13 Planning.

14 **Q. Please briefly outline your responsibilities as Regional Vice President,
15 Regulatory and Strategic Planning.**

16 A. I am responsible for determining the appropriate planning strategy for SPS. In
17 this role, I work with generation and transmission planning personnel and

¹ Xcel Energy is the parent company of four utility operating companies: Northern States Power Company, a Minnesota corporation (“NSPM”); Northern States Power Company, a Wisconsin corporation (“NSPW”); Public Service Company of Colorado, a Colorado corporation (“PSCo”); and SPS (collectively, “Operating Companies”). Xcel Energy’s natural gas pipeline company is WestGas InterState, Inc. Through a subsidiary, Xcel Energy Transmission Holding Company, LLC, Xcel Energy also owns three transmission-only operating companies: Xcel Energy Southwest Transmission Company, LLC; Xcel Energy Transmission Development Company, LLC; and Xcel Energy West Transmission Company, LLC, all of which are regulated by the Federal Energy Regulatory Commission (“FERC”).

1 coordinate with the Southwest Power Pool (“SPP”) on regional policy and cost
2 allocation issues affecting SPS. I am also responsible for:

- 3 • overseeing the activities of the SPS regulatory department to ensure that
4 SPS meets the regulatory requirements of the Texas Public Utility
5 Commission (“Commission”) and the New Mexico Public Regulation
6 Commission as well as FERC; and
- 7 • overseeing the relationships with the state and federal commissions and
8 managing the relationships and policy decisions with the SPP.

9 **Q. Please describe your professional experience.**

10 A. I have over 30 years of experience in both power plant and system operations at
11 Xcel Energy and its predecessors. I have had responsibility for operating several
12 different types of electric generating units ranging from diesel generators, coal-
13 fired steam electric stations, and gas-fired steam units and combustion turbines. I
14 have five years’ experience as a System Operator for the SPS transmission control
15 center. For seven years, I was Director, Power Operations for Xcel Energy
16 Services Inc. (“XES”), in which I was responsible for the economic dispatch and
17 analytical support for all of the Xcel Energy Operating Companies, including
18 SPS. For seven years, I was Manager, Transmission Control Center and Wind
19 Integration for SPS. In 2012, I was named Director, Strategic Planning for SPS.
20 In 2017, I was named Regional Vice President of Regulatory and Strategic
21 Planning.

22 **Q. Please describe your experience with Regional Transmission Organizations**
23 **(“RTO”).**

24 A. Over my career, I have had extensive experience with RTOs and transmission
25 coordination organizations, including serving on a number of committees in SPP

1 and the Western Electricity Coordinating Council. Currently, I serve on the SPP
2 Markets and Operations Policy Committee (“MOPC”) and the Strategic Planning
3 Committee. I have also served on the Consolidated Balancing Authority Steering
4 Committee and the Operations Reliability Working Group, and I have chaired the
5 wind integration taskforce. Additionally, I am familiar with the Midcontinent
6 Independent System Operator (“MISO”) Day 2 Market development and
7 implementation.

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

9 A. Yes. I have submitted pre-filed testimony to the Commission on behalf of SPS in
10 several recent proceedings, including:

- 11 • Docket Nos. 47527, 45524, 43695, and 42004 (SPS base rate cases);
- 12 • Docket No. 46042 (SPS CCN case);
- 13 • Docket No. 48973 and 46025 (SPS fuel reconciliation cases);
- 14 • Docket No. 46496 (SPS’s request to recover amounts billed by SPP in
15 2016, under Attachment Z2, for transmission projects placed in service
16 between 2008 and 2016);
- 17 • Docket Nos. 46877 and 42042 (transmission cost recovery factor
18 (“TCRF”) cases); and
- 19 • Docket No. 46936 (SPS’s requests regarding two proposed SPS-owned
20 wind energy facilities and a proposed wind energy purchased power
21 agreement (“PPA”).

22 I have also submitted pre-filed testimony to the New Mexico Public
23 Regulation Commission (“NMPRC”), the Colorado Public Utilities Commission,
24 the Kansas Corporation Commission, and FERC. My testimony in those
25 jurisdictions has covered, among other topics:

- 26 • SPP’s operations and planning, and how those activities affect SPS;

- 1 • SPP fees and charges;
- 2 • SPP regional cost allocation for transmission facilities;
- 3 • SPS generation dispatch and outages; and
- 4 • the proposed SPS-owned wind energy facilities and proposed wind energy
- 5 PPA.

1 **II. PURPOSE AND SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

2 **Q. What is the purpose of your testimony in this proceeding?**

3 A. In addition to describing the schedules that I either sponsor or co-sponsor, my
4 testimony supports and provides an overview of SPS's Application, including the
5 request for temporary rates, and the witnesses supporting SPS's requested relief. I
6 also explain that, not later than the 45th day after the application is filed, SPS will
7 update its application in accordance with section 36.112 of the Public Utility
8 Regulatory Act ("PURA")² and 16 Tex. Admin. Code ("TAC") § 25.246 to
9 replace estimates with actual amounts for the "Update Period," which is the three-
10 month period from April 1, 2019 through June 30, 2019. In addition, I provide
11 testimony on the following topics:

- 12 • an overview of SPS and its operations;
- 13 • the new investment that SPS seeks to include in rate base in this
14 proceeding, including the 478 megawatt ("MW") Hale Wind Project
15 ("Hale Project") that was approved for construction by the Commission in
16 Docket No. 46936;³
- 17 • the quality of service provided by SPS;
- 18 • the waivers requested by SPS with respect to the Commission's Rate
19 Filing Package ("RFP");
- 20 • SPS's compliance with obligations from prior dockets;

² PURA is codified in Title II of the Texas Utilities Code. *See* Tex. Util. Code Ann. §§ 11.001-58.303 (West 2016), §§ 59.001-66.017 (West 2007 & Supp. 2016).

³ PUC Docket No. 46936, *Application of Southwestern Public Service Company for Approval of Transaction with ESI Energy, Inc. and Invenergy Wind Development North America LLC, to Amend a Certificate of Convenience and Necessity for Wind Generation Projects and Associated Facilities in Hale County, Texas and Roosevelt County, New Mexico, and for Related Approvals*, Final Order issued May 25, 2018.

- 1 • the reasonableness of SPS’s native operation and maintenance (“O&M”)
2 costs;
- 3 • the reasonableness of SPS’s professional dues, donations, and
4 contributions;
- 5 • the services and related charges SPS receives from SPP;
- 6 • the requested Attachment Z2 regulatory asset;
- 7 • approval of SPS’s Depreciation Study and resulting depreciation rates,
8 including the requested shorter operating lives of the Tolk Generating
9 Station (“Tolk”);
- 10 • explains that the net amount of the expenses and revenues attributable to
11 ancillary services under the SPP Open Access Transmission Tariff
12 (“OATT”) that SPS provides to other load-serving entities are properly
13 recovered or credited through eligible fuel expense and that any decision
14 to the contrary requires recovery through base rates;
- 15 • the reasonableness and necessity of the costs of the Strategic Revenue
16 Initiatives class of affiliate costs;
- 17 • the reasonableness and necessity of the costs of the PSCo President class
18 of affiliate costs;
- 19 • the reasonableness and requested recovery of SPS’s rate case expenses,
20 and the inclusion of those expenses in base rates; and,
- 21 • a summary of the relief that SPS asks the Commission to grant in this
22 docket.
- 23

24 **Q. Please summarize your testimony.**

25 A. The remainder of my testimony is organized into 17 sections, which are
26 summarized as follows:

27 Section III – I describe the RFP schedules that I sponsor or co-sponsor. I
28 also explain that a number of schedules related to fuel reconciliation proceedings
29 are not applicable in this case because SPS’s application does not include a
30 request to reconcile eligible fuel and purchased power expenses;

1 Section IV – I list the waivers from the RFP that SPS is requesting in this
2 case. Most of the waivers relate to schedules that assume SPS will be filing a fuel
3 reconciliation proceeding along with a base rate case. Because fuel
4 reconciliations are no longer paired with base rate cases, certain RFP schedules
5 are inapplicable to this filing. SPS is also requesting waivers with respect to
6 certain schedules that require the provision of Test Year information because rates
7 will be set in this case based on information from the twelve-month period from
8 July 1, 2018 to June, 30, 2019, which I refer to in my testimony as the “Updated
9 Test Year.” Finally, I explain that the parties in SPS’s last rate case, Docket No.
10 47527, agreed not to oppose SPS’s request for a waiver of Schedule S filing
11 requirements in this case;

12 Section V – I provide an overview of the filing and SPS’s request for an
13 overall base rate increase of \$141,284,640 for the Texas retail jurisdiction and
14 introduce the other SPS witnesses supporting SPS’s request. My testimony
15 explains that SPS has elected to provide Test Year information, but it is also
16 providing estimates for the Update Period, as allowed by PURA § 36.112 and 16
17 TAC § 25.246. In addition, my testimony explains that the requested increase is
18 largely driven by the \$1,742,677,903 million (Total Company) in new investment
19 that SPS has placed or expects to place into service between July 1, 2017 and June
20 30, 2019. Other factors driving the requested revenue requirement include a
21 necessary change in depreciation rates as supported by SPS’s depreciation study
22 and the continuing reduction in SPS’s wholesale purchased power sales;

1 Section VI – I provide a high-level overview of SPS, including its history,
2 its customer base, and its generation and long-term purchased power resources;

3 Section VII – I summarize the obligations that have been undertaken
4 voluntarily or imposed on SPS in prior cases and establish SPS’s compliance with
5 those obligations, as well as its consistent treatment of renewable-energy credits
6 as part of eligible fuel expense;

7 Section VIII – I summarize the \$1.74 billion of capital investment that
8 SPS has placed in service or expects to place in service since the test year in its
9 last base rate case, including the 478 MW Hale Project that was approved for
10 construction by the Commission in Docket No. 46936. The SPS witnesses
11 supporting the prudence of this capital investment are identified in Section VIII of
12 my direct testimony;

13 Section IX - I support SPS’s request for a favorable prudence
14 determination regarding a 30-year purchased power agreement (“PPA”) with
15 Bonita Wind Energy, LLC (“Bonita PPA”) for an additional 230 MW of wind
16 generation from an 80 MW wind farm in Crosby County, Texas, and a 150 MW
17 wind farm in Cochran County, Texas;

18 Section X - I describe certain native O&M and Administrative and
19 General (“A&G”) costs in FERC Accounts 912, 921, 923, and 928 that SPS seeks
20 to recover. Those costs relate to demonstration and selling expense (FERC
21 Account 912), office supplies and expenses (FERC Account 921), outside
22 services and consulting attorneys expense (FERC Account 923), and regulatory
23 expense (FERC Accounts 928). I explain that these expenses are reasonable and

1 necessary to SPS's operations. These costs include estimates that will be updated
2 in the 45-day case update filing, which I will explain later in my testimony;

3 Section XI – I describe the reasonable and necessary services provided to
4 SPS by SPP and support the recovery of those costs in SPS's base rates;

5 Section XII – I summarize SPS's request regarding the recovery of and
6 accounting for Attachment Z2 charges imposed by SPP in accordance with the
7 SPP Open Access Transmission Tariff ("OATT") for the period from 2008-2016;

8 Section XIII – I describe SPS's request for approval of new depreciation
9 rates, including the requested shorter operating lives for the Tolk assets;

10 Section XIV – I discuss how SPS procures ancillary services in the SPP
11 IM to demonstrate that such services are energy rather than capacity-related. I
12 also explain that SPS will, consistent with prior Commission precedent,⁴ recover
13 expenses and revenues related to ancillary services under the SPP OATT through
14 eligible fuel expense. However, if the Commission does not provide for this
15 recovery in SPS's pending fuel reconciliation case,⁵ such amounts must be
16 recovered or credited through the base rates established in this case;

17 Section XV – I provide an overview of the affiliate classes that I support;⁶

18 Section XVI – I support the \$223,199 of Updated Test Year costs that SPS
19 seeks to recover for costs recorded in the Strategic Revenue Initiatives affiliate

⁴ *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 46025, Order at 4-5 (Mar. 30, 2017).

⁵ *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 48973.

⁶ As explained in more detail in Section XVI, I sponsor three affiliate classes, but one of those classes—Corporate Giving—has no dollars associated with it. Therefore, my testimony is limited to the two classes that do have dollars associated with them: PSCo President and Strategic Revenue Initiatives.

1 class and demonstrate that these costs are reasonable and necessary and satisfy the
2 affiliate cost recovery standard;

3 Section XVII – I support the \$44,051 of Updated Test Year costs that SPS
4 seeks to recover for costs recorded in the PSCo President affiliate class and
5 demonstrate that these costs are reasonable and necessary and satisfy the affiliate
6 cost recovery standard;

7 Section XIX – I support SPS’s request for rate case expenses associated
8 with this case and well as those associated with prior dockets for which recovery
9 is being sought.

10 Section XX – I summarize the relief that SPS is asking the Commission to
11 grant in the Revenue Requirement and Rate Design phases of this docket.

12 **Q. Were Attachments WAG-RR-1, WAG-RR-3, and WAG-RR-7 prepared by**
13 **you or under your direct supervision or control?**

14 A. Yes.

15 **Q. Are Attachments WAG-RR-2 and Attachments WAG-RR-4 through**
16 **WAG-RR-6 true and correct copies of the documents you represent them to**
17 **be?**

18 A. Yes.

19 **Q. Were Attachments WAG-RR-A through WAG-RR-D prepared by you or**
20 **under your direct supervision and control?**

21 A. Attachments WAG-RR-A through WAG-RR-D were prepared by SPS witness
22 Melissa L. Schmidt and her staff. My staff and I have reviewed those
23 attachments, and I believe them to be accurate. The same information is

1 presented in Ms. Schmidt's Attachments MLS-RR-A through MLS-RR-D. This
2 information is presented in attachments to my testimony for the convenience of
3 those reviewing my testimony.

4 **Q. Were the RFP schedules and portions of the Executive Summary that you**
5 **sponsor or co-sponsor prepared by you or under your direct supervision or**
6 **control?**

7 A. Yes.

8 **Q. Do you incorporate the RFP schedules and portions of the Executive**
9 **Summary that you sponsor or co-sponsor into this testimony?**

10 A. Yes.

1 **III. SCHEDULES SPONSORED**

2 **Q. What topic do you discuss in this section of your testimony?**

3 A. I describe the schedules that I sponsor or co-sponsor. As part of that description, I
4 note that a number of the schedules in the RFP are not applicable, including those
5 schedules applicable to fuel reconciliation proceedings. Because of an
6 amendment to 16 TAC § 25.236, utilities are no longer required to reconcile fuel
7 and purchased power costs in each base rate proceeding.

8 **Q. Please identify the schedules that you sponsor or co-sponsor.**

9 A. Table WAG-RR-1 contains the schedules that I sponsor or co-sponsor. I also
10 sponsor the portions of the Executive Summary to which these schedules
11 correspond.

12 **Table WAG-RR-1**

Schedule B	1.4
Schedule C-6 Series <i>Nuclear Fuel</i>	All
Schedule E <i>Fossil Fuel Supply Disruptions</i>	2.1, 2.2, 2.3, 2.4, 2.5, 3.1, and 3.2
Schedule F <i>Description of Company</i>	F
Schedule G-4 Series <i>Summary of Advertising, Contributions & Dues</i>	All
Schedule G	5.1, 5.1a, 5.1b, 7.11, 8
Schedule G-14 <i>Rate Case Expenses</i>	14.1, 14.2
Schedule H <i>Nuclear-Related Engineering Information</i>	1.1a, 1.1a1, 5.2a, 5.3a, 6.1, 6.1a, 6.1b, 6.1c, 6.3a, 10, 12.4b, 12.4d, 12.4e, 12.4f, 12.4g, 13.1, and 13.1c

Schedule I <i>Fuel and Purchased Power Information</i>	1.1, 1.2, 1.3, 2, 6, 7, 8, 9, 10, 11, 12, 13, 14, 16, 16.1, 16.2, 16.3, 16.4, 21, and 22
Schedule J <i>Financial Statements: Reconciliation – Total Company to Total Electric</i>	1
Schedule L <i>Financial Information (River Authorities)</i>	All
Schedule M <i>Nuclear Plant Decommissioning</i>	All
Schedule N <i>Energy Efficiency Plan</i>	All
Schedule O <i>Variability of Average Fuel Costs with kWh Sales</i>	5
Schedule P <i>Class Cost of Service Analysis</i>	1.5
Schedule Q <i>Rate Design</i>	2 and 8.7
Schedule R <i>Financial Information (G&T Cooperatives)</i>	All
Schedule S <i>Test Year Review</i>	All
Schedule T <i>Notice</i>	All
Schedule U <i>Compliance with PUCT Orders</i>	All
Schedule V <i>Request for Waiver of RFP Requirements</i>	All
Schedule W <i>Confidentiality Disclosure Agreement</i>	All

1 **Q. What does Schedule B-1.4 address?**

2 A. Schedule B-1.4 requires quantification and identification of the attendant impacts
3 of any post-test year adjustments to rate base. This schedule is not applicable in
4 this case because SPS is not proposing any post-test year adjustments to rate base.

5 **Q. What do the C-6 schedules address?**

6 A. The C-6 schedules apply to nuclear fuel. Because SPS has no nuclear plants,
7 none of those schedules apply in this case.

8 **Q. Please summarize what is contained in the E schedules that you sponsor or**
9 **co-sponsor.**

10 A. The E schedules that I sponsor or co-sponsor contain the following information:

- 11 • Schedule E-2.1 presents the SPS fuel inventory policies that were in
12 effect during the Test Year for natural gas, fuel oil, and coal. I
13 co-sponsor this schedule with SPS witnesses Arthur P. Freitas and
14 H. Craig Romer.
- 15 • Schedule E-2.2 contains a discussion of the studies, if any, performed
16 by the utility to optimize the fossil fuel inventory levels. This
17 schedule describes how SPS evaluates its fuel inventories. I
18 co-sponsor this schedule with Mr. Romer.
- 19 • Schedule E-2.3 presents an analysis of fossil fuel inventories on hand
20 at the end of the Test Year by type and location at each generating
21 station. It also contains information regarding the total storage
22 capacity and the unused capacity at each location. I co-sponsor this
23 schedule with Mr. Romer.
- 24 • Schedule E-2.4 presents the monthly fossil fuel inventory for the Test
25 Year in dollars as well as volumes. I co-sponsor this schedule with
26 Mr. Romer.
- 27 • Schedule E-2.5 describes the accounting treatment of the fossil fuel
28 inventory in terms of how SPS determines the cost and British
29 Thermal Unit (“Btu”) content of the fuel burned from inventory. I
30 co-sponsor this schedule with Mr. Romer.
- 31 • Schedule E-3.1 contains the amount of fuel oil burned in barrels,

1 million Btu (“MMBtu”), and dollars by month, by plant, and by
2 reason. The information is presented for the Test Year and by
3 calendar year for the previous five years.

- 4 • Schedule E-3.2 requires information regarding natural gas supply
5 disruptions during the Test Year or the previous five years. SPS
6 experienced no natural gas supply interruptions during those periods.

7 **Q. What does Schedule F contain?**

8 A. Schedule F includes a general description of SPS’s service area and the diversity
9 of its operations. This schedule also identifies all affiliates and briefly describes
10 those affiliates. I co-sponsor this schedule with Ms. Schmidt.

11 **Q. Please describe the information contained in the G-4 schedules that you**
12 **co-sponsor.**

13 A. The G-4 schedules that I co-sponsor with SPS witness Bryan Davis contain the
14 following information:

- 15 • Schedule G-4 presents a summary of advertising, contributions, and
16 dues expense subject to the 0.3% limitation imposed by 16 TAC
17 § 25.231(b)(1)(E).
- 18 • Schedule G-4.1 contains a summary of Test Year advertising expense
19 by FERC account.
- 20 • Schedule G-4.1a contains a summary of Test Year informational or
21 instructional advertising by FERC account.
- 22 • Schedule G-4.1b contains a summary of Test Year advertising expense
23 for promoting or retaining usage by FERC account.
- 24 • Schedule G-4.1c contains a summary of Test Year general advertising
25 expense by FERC account.
- 26 • Schedule G-4.1d reflects the amount of Test Year advertising expense
27 that was capitalized.
- 28 • Schedule G-4.2 contains a summary of Test Year contribution and
29 donation expense by FERC account.

- 1 • Schedule G-4.2a contains a summary of Test Year educational
2 contributions and donations expense by FERC account.
- 3 • Schedule G-4.2b contains a summary of Test Year community service
4 contributions and donations expense by FERC account.
- 5 • Schedule G-4.2c contains a summary of Test Year economic
6 development contributions and donations expense by FERC account.
- 7 • Schedule G-4.3 contains a summary of Test Year membership dues or
8 support expense by FERC account.
- 9 • Schedule G-4.3a contains a summary of Test Year electric industry
10 organization dues expense by FERC account.
- 11 • Schedule G-4.3b contains a summary of Test Year business and
12 economic dues expense by FERC account.
- 13 • Schedule G-4.3c contains a summary of Test Year professional dues
14 expense by FERC account.
- 15 • Schedule G-4.3d contains a summary of Test Year social, recreational,
16 fraternal, or religious expenses by FERC account.
- 17 • Schedule G-4.3e contains a summary of Test Year political
18 organization expense by FERC account.

19 **Q. Is SPS requesting recovery of all costs included in the G-4 series of**
20 **schedules?**

21 A. No. The G-4 series of schedules details the Texas retail amounts requested,
22 which reflects exclusions for below-the-line items such as activities related to
23 political events, charges attributable to other Operating Companies, charges
24 attributable to SPS's New Mexico jurisdiction, and other items that do not benefit
25 Texas retail customers.

1 **Q. What information is addressed in Schedule G-5.1, Schedule G-5.1a, and**
2 **Schedule G-5.1b?**

3 A. Schedule G-5.1 requires a listing of legislative advocacy expenses. Schedule
4 G-5.1a contains a summary of payments to registered lobbyists, and Schedule
5 G-5.1b contains a summary of payments to individuals or firms who monitored
6 legislation for SPS during the Test Year. I co-sponsor these schedules with Mr.
7 Davis.

8 **Q. What information is contained in Schedule G-7.11?**

9 A. Schedule G-7.11 requires the utility to list and explain all effects on federal
10 income tax expense and accumulated deferred federal income tax expense of any
11 post-test year adjustments to plant.

12 **Q. What information is included in Schedule G-8?**

13 A. Schedule G-8 presents information on all outside services expenses that appear in
14 the FERC Account 900 series. I co-sponsor this schedule with Mr. Davis.

15 **Q. What information is included in Schedule G-14.2?**

16 A. Schedule G-14.2 includes information on rate case expenses from prior dockets,
17 or rate case expenses incurred in SPS's last base rate case that were severed and
18 are being considered in another docket. I co-sponsor this schedule with Mr.
19 Freitas.

20 **Q. Please describe the information contained in the H schedules that you**
21 **sponsor.**

22 A. The H schedules that I sponsor are divided into several different types. The first
23 type involves information regarding nuclear generating stations. Because SPS

1 does not own any of those stations, the information requested in the following
2 H schedules has no applicability to SPS: H-1.1, H-1.1a, H-1.1a1, H-5.2a, H-5.3a,
3 H-6.1, H-6.1a, H-6.1b, H-6.1c, H-6.3a, and H-10.

4 The second group of H schedules that I sponsor relates to certain
5 reconcilable fuel costs applicable to fuel reconciliation proceedings. Because fuel
6 and purchased power costs are not being reconciled in this proceeding, SPS is
7 seeking a good-cause waiver of the requirement to provide the information
8 requested in Schedules H-12.4b, H-12.4d, H-12.4e, H-12.4f, and H-12.4g.

9 The third group of H schedules, which I co-sponsor, deals with the quality
10 of service provided by SPS. Schedule H-13.1 requires the utility to provide a
11 narrative description of the utility's efforts to maintain and improve the quality of
12 service. Schedule H-13.1c provides a description of the procedures for dealing
13 with quality of service complaints and a summary of the number of complaints
14 received during the Test Year. I co-sponsor these schedules with SPS witness
15 Casey Meeks.

16 **Q. What information is presented in the I schedules that you sponsor?**

17 A. The I schedules present information regarding fuel and purchased power. A
18 number of them are intended to apply only to fuel reconciliation proceedings, so
19 they are not applicable in this case. Accordingly, SPS is seeking a good-cause
20 waiver of the requirement to provide the information requested in several of the
21 schedules. The specific schedules that I sponsor or co-sponsor are the following:

- 22 • Schedule I-1.1 provides fuel expense by FERC account for each month
23 in the Test Year. The costs are also segregated by types of fuel.

- 1 • Schedule I-1.2 presents fuel expense by generating station for each
2 month in the Test Year. It contains information by dollar amounts and
3 by MMBtu.
- 4 • Schedule I-1.3 presents fossil fuel purchased by each generating
5 station for each month in the Test Year. The information is segregated
6 by fuel type and includes MMBtu purchased, the cost of the fuel
7 purchased, and the cost per MMBtu.
- 8 • Schedule I-2 describes SPS's fuel and purchased power procurement
9 practices, including a separate description for each type of fuel.
- 10 • Schedule I-6 presents information regarding the natural gas delivery
11 system. SPS is not filing a fuel reconciliation proceeding as part of
12 this base rate case, but SPS is including Schedule I-6 in the RFP
13 because it remains applicable to information presented in SPS's base
14 rate case.
- 15 • Schedule I-7 presents information regarding SPS's natural gas storage
16 contracts and facilities. Because SPS is not proposing a fuel factor in
17 this case, rate year information is not applicable.
- 18 • Schedule I-8 requires information regarding fuel properties. SPS does
19 not own any fuel-related properties, although it receives royalty
20 income from production from oil and gas leases on company-owned
21 land. The counties in which those properties are located are identified
22 in Schedule I-8.
- 23 • Schedule I-9 presents employee organizational charts, and Schedule
24 I-10(V) presents employee ethics documents.
- 25 • Schedule I-11 requires a narrative about fuel and purchased power
26 assumptions.
- 27 • Schedule I-12 requires information regarding the utility's fossil fuel
28 mix.
- 29 • Schedule I-13 requires information regarding SPS's relationships with
30 its fuel suppliers. The schedule notes that since the end of SPS's last
31 fuel reconciliation period, no current or former managers, executives,
32 or directors of SPS or any of its affiliates have been involved in any
33 capacity with the management of any provider of fuel or fuel supply
34 service to SPS.
- 35 • Schedule I-14 requires information regarding audit reports for all
36 audits conducted by SPS, or an independent auditor, on SPS's fuel

- 1 suppliers, transporters, or other handlers during the reconciliation
2 period.
- 3 • The I-16 Schedule series addresses reconcilable fuel costs. Because
4 SPS is not filing a fuel reconciliation in this proceeding, the
5 information requested in the I-16 Schedule series is not applicable.
 - 6 ○ Schedule I-16.1 requests the mix of contract and spot fossil fuels
7 burned at each of SPS's generating stations by month.
 - 8 ○ Schedule I-16.2 requests the mix of contract and spot fossil fuels
9 purchased for each of SPS's generating stations by month.
 - 10 ○ Schedule I-16.3 requests information by fuel type for spot fossil
11 fuel purchases during each month in competitive acquisitions.
 - 12 ○ Schedule I-16.4 requests documentation and a description of the
13 process by which SPS acquired spot fossil fuel supplies, if other
14 than by competitive bid.
 - 15 • Schedule I-21 requests a summary of all significant activities, and
16 benefits of such, since the utility's last fuel reconciliation to reduce
17 fuel, fuel-related, or purchased power energy costs, and workpapers to
18 support the information. This schedule is not applicable because SPS
19 is not seeking a fuel reconciliation in this case.
 - 20 • Schedule I-22 is not applicable because SPS is not seeking a fuel
21 reconciliation and is not proposing a new fuel factor in this case.

22 **Q. What information is required to be presented in Schedule J-1?**

23 A. Schedule J-1 presents reconciliations of the balance sheet and the income
24 statement on a total company basis with the same information presented on a
25 "total electric" basis. This schedule is not applicable to SPS because SPS is an
26 electric-only utility.

27 **Q. What information is required to be presented in the L schedules?**

28 A. The L schedules address financial information for river authorities. Because SPS
29 is not a river authority, none of the L schedules apply in this case.

1 **Q. What do the M schedules address?**

2 A. The M schedules address nuclear decommissioning. Because SPS does not have
3 any nuclear generating stations, none of the M schedules apply in this case.

4 **Q. What information is required to be included in the N schedules?**

5 A. The N schedules address energy efficiency expenses. Those schedules are not
6 applicable to SPS because it recovers all of its energy efficiency costs through the
7 Energy Efficiency Cost Recovery Factor.

8 **Q. What information is requested in Schedule O-5?**

9 A. Schedule O-5 requests the average cost per kilowatt hour (“kWh”) for fuel at total
10 system unadjusted and total system adjusted kWh sales. Because SPS is not filing
11 a fuel reconciliation application in this proceeding, the information requested in
12 Schedule O-5 is not applicable.

13 **Q. What information is presented in Schedule O-6.3?**

14 A. Schedule O-6.3 contains the total system line loss calculations from the line loss
15 study supported by SPS witness Richard M. Luth.

16 **Q. What information is required to be addressed for Schedule P-1.5?**

17 A. It requires financial information for non-investor-owned utilities. Because SPS is
18 an investor-owned utility, this schedule does not apply.

19 **Q. Please explain what the Q schedules that you sponsor address.**

20 A. The Q schedules address rate design. Schedule Q-2 requires information
21 regarding the proposed fixed fuel factor. Because SPS is not proposing a new
22 fuel factor in this case, that schedule is not applicable. Similarly, Schedule Q-8.7

1 is not applicable to SPS because it is not a distribution utility and because SPS
2 generates the majority of its own energy.

3 **Q. What information is required to be presented in the R schedules?**

4 A. The R schedules address generation and transmission cooperatives. Because SPS
5 is not a generation and transmission cooperative, these schedules are not
6 applicable.

7 **Q. Is SPS providing information responsive to the S schedules?**

8 A. No. In Docket No. 47527, the signatories to the Unopposed Stipulation agreed
9 not to oppose SPS's request for a waiver of the requirement that SPS comply with
10 Schedule S in this base rate case. SPS's Application contains a request for a
11 waiver of the requirement to comply with Schedule S.

12 **Q. What does the T schedule contain?**

13 A. The T schedule contains the public notice of the filing of SPS's application to
14 change rates. That notice is also attached to the application.

15 **Q. What information is included in the U schedule?**

16 A. The U schedule lists the requirements from prior proceedings that SPS is
17 addressing in this case. That schedule identifies the particular requirements and
18 identifies the dockets from which the obligation arose.

19 **Q. What information is included in the V schedule?**

20 A. The V schedule contains a list of all schedules for which SPS seeks a waiver and
21 the specific waiver that SPS is requesting. I discuss SPS's requests for waivers in
22 more detail in Section VIII of this testimony.

1 **Q. What does the W schedule address?**

2 A. The W schedule addresses the confidentiality disclosure agreement. SPS requests
3 permission in that schedule to use a protective order that is substantially the same
4 as the one approved in Docket No. 47527, rather than the protective order
5 contained in the RFP.

1 **IV. REQUESTED RFP AND COMMISSION RULE WAIVERS**

2 **Q. Is SPS requesting waivers of Commission rules or portions of the RFP?**

3 A. Yes. SPS requests waivers of the portions of the RFP that request information
4 related to fuel reconciliation proceedings. As contemplated by 16 TAC § 25.236,⁷
5 SPS is not filing a fuel reconciliation proceeding in this docket, and therefore the
6 schedules dealing with fuel reconciliation proceedings are not applicable. SPS
7 accordingly seeks a partial waiver of the requirement to file the Schedules I-4 and
8 I-15. SPS seeks a complete waiver of the requirement to file Schedules H-12.4b,
9 H-12.4d, H-12.4e, H-12.4f, H-12.4g, I-16, I-16.1, I-16.2, I-16.3, I-16.4, I-21, I-22,
10 and O-5.

11 Additionally, since SPS is not proposing new fuel factors under 16 TAC §
12 25.237, the fuel information requested in Schedules I-7, I-11, I-12, and Q-2 is not
13 relevant to this proceeding. The information requested in Schedules H-12.1, H-
14 12.2a, H-12.2b, H-12.2c, H-12.3a, H-12.4a, and H-12.4c, and H-12.5a through H-
15 12.5f is also unnecessary. Accordingly, SPS requests a waiver of the requirement
16 to provide projected fuel use data or reconciliation period data as requested in
17 these schedules.⁸

18 In addition, certain of the RFP schedules require information for a “test
19 year” or “adjusted test year.” For most schedules, SPS has provided the
20 information for the 12-month period ending March 31, 2019, but in some

⁷ *Rulemaking Proceeding to Amend P.U.C. Subst. R. 25.236 Relating to Recovery of Fuel Costs*, Project No. 41905, Order Adopting Amendments to §25.236 as Approved at the May 16, 2014 Open Meeting at 23-24 (May 29, 2014).

⁸ If the Commission approves new loss factors in this case, SPS will update its then-current fuel factors using the new approved loss factors as part of its compliance filing in this case.

1 schedules SPS has presented information for the 12-month period ending June 30,
2 2019. In particular, SPS has provided information for the 12-month period ending
3 June 30, 2019, for the following schedules: O-1.1, O-1.2, O-1.4, O-1.7, O-3.3, O-
4 4.1, O-6.1, O-6.2, P-10, P-11, Q-1, and Q7. SPS seeks a waiver of the
5 requirement to provide the test year information for those schedules. Providing
6 the information only for the twelve-month period ending June 30, 2019 in those
7 schedules is reasonable because ultimately the information from that time period
8 will be used to set rates after estimates for the Update Period are replaced with
9 actual amounts.

10 Finally, SPS is requesting a waiver of the requirement to comply with
11 Schedule S, which requires a report by the utility's independent certified public
12 accountant. Approval of the requested waiver of the Schedule S requirement will
13 avoid a substantial amount of rate case expenses. In Docket No. 47527, the
14 parties agreed not to oppose SPS's request for a waiver of the Schedule S
15 requirements for this rate case.⁹

⁹ *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 47527, Unopposed Stipulation, Paragraph No. 7 (filed June 29, 2018).

1 **V. OVERVIEW OF APPLICATION AND WITNESSES**

2 **A. SPS's Requested Relief**

3 **Q. Please summarize SPS's request in this proceeding.**

4 A. SPS's Application requests a total increase of annual base rate revenues¹⁰ in the
5 amount of \$141,284,640 on a Texas retail jurisdictional basis. The requested rate
6 increase is based upon an April 1, 2018 through March 31, 2019 Test Year Period
7 ("Test Year") along with the Updated Period April 1, 2019 through June 30, 2019.

8 The net requested increase in overall base rate revenues for the Texas
9 retail jurisdiction is \$141,284,640 on an annual basis, which amounts to a base
10 rate revenue increase of 25.2% compared to the amounts approved in Docket No.
11 47527.¹¹ Concurrently SPS is requesting approval of a new fuel factor formula in
12 Docket No. 49616. The new fuel factor formula incorporates the savings from the
13 Hale Wind Project as well as the flow back of PTCs to customers and results in
14 approximately \$84.6 million in fuel savings. The fuel savings combined with the
15 base rate increase, results in a Total Texas retail revenue impact of \$56,658,521
16 annually, or 6.5%.

17 **Q. How would the proposed change in base rates affect a typical residential**
18 **customer?**

19 A. Under the rate request proposed in this proceeding, a typical Residential Service
20 customer using 1,000 kWh of energy per month would see a base rate increase of

¹⁰ My reference to "base rate revenues" refers to revenue from both base rate tariffs and miscellaneous services tariffs.

¹¹ See Attachment WAG-RR-1.

1 \$21.22 per month, or 25.4%, compared to the base rates approved in Docket No.
2 47527. After taking into account the reduction in fuel costs, the incremental
3 increase over current rates for a typical Residential Service customer will be
4 \$14.99 per month, or 13.9%.

5 **Q. As part of its Application is SPS also requesting to implement temporary**
6 **rates?**

7 A. Yes. SPS is requesting that its current rates become temporary rates on the 35th
8 day following the filing of its Application (“the Temporary Rate Date”) pursuant
9 to PURA § 36.109(a). Further, SPS requests that the final rates set in this case be
10 applied to usage on and after the Temporary Rate Date until the relate-back date
11 in this case under PURA § 36.211 (“the Temporary Rate Period”). SPS will
12 refund or surcharge customers for usage during the Temporary Rate Period in
13 conjunction with any refund or surcharge associated with the relate-back date
14 under PURA § 36.211.

15 **Q. Does SPS’s request for temporary rates satisfy the requirements of 16 TAC §**
16 **22.125, relating to interim relief?**

17 A. Yes. This case is a docketed proceeding and SPS’s request for temporary rates
18 has been filed more than 30 days before the request is proposed to take effect.
19 Further, good cause exists to grant temporary rates and is consistent with the
20 agreement reached in the Unopposed Stipulation approved by the Commission in
21 Docket No. 46936. In Docket No. 46936, the Signatories to the Unopposed
22 Stipulation agreed to support or not oppose SPS’s request to establish temporary
23 rates as part of the first base rate case filed after the Hale Project was placed into

1 commercial operation. This case is the first base rate case filed by SPS since the
2 Hale Project was placed into commercial operation and SPS's request is
3 consistent with the Unopposed Stipulation approved by the Commission in
4 Docket No. 46936.

5 **Q. What are the primary factors that have caused SPS to seek rate relief?**

6 A. As SPS witness and President David T. Hudson explains in more detail in his
7 direct testimony, there are four main cost drivers: (1) investment and operating
8 costs for the new Hale Project, (2) other investments in infrastructure that were
9 required to support our service area, promote economic development, and to
10 maintain and improve our operations; (3) the further reduction in wholesale power
11 sales; and (4) the new depreciation study SPS is presenting in this case, including
12 the requested shorter operating lives of Tolk assets.

13 **Q. Has SPS included rate case expenses in its requested revenue requirement?**

14 A. Yes. Mr. Freitas included in the cost of service \$4,586,450 of rate case expenses
15 that have been incurred or are expected to be incurred in this case by SPS and the
16 intervening municipalities. Mr. Freitas also included \$2,353,815 in rate case
17 expenses that were or are expected to be incurred to file and prosecute various
18 fuel reconciliation, fuel factor formula, and surcharge proceedings in Texas. An
19 itemization of the SPS's requested rate case expenses for this case, as well as the
20 expenses related to other regulatory dockets is set forth in my Attachment WAG-
21 RR-7. In the event that the Commission severs all or part of the rate case expense
22 issues from this docket, as it has done in recent SPS base rate cases, SPS will
23 remove those rate case expense amounts from the cost of service in this case, and

1 SPS will present detailed information supporting the rate case expenses in the
2 severed docket.

3 **B. Presentation of Rate Case Information**

4 **Q. What is the Test Year in this case?**

5 A. The Test Year for the base rate case is the historical twelve-month period from
6 April 1, 2018 through March 31, 2019. SPS is providing information for that Test
7 Year in its testimony, attachments, and schedules.

8 **Q. Is SPS presenting additional information as part of its application?**

9 A. Yes. SPS is presenting additional information as authorized by PURA § 36.112.
10 PURA § 36.112(b) provides that, in determining the base rate revenue
11 requirement for a utility operating solely outside of Electric Reliability Council of
12 Texas (“ERCOT”), the Commission:

13 shall determine the utility’s revenue requirement based on, at
14 the election of the utility:

- 15 (1) information submitted for a test year; or
16
17 (2) information submitted for a test year, updated to
18 include information that reflects the most current
19 actual or estimated information regarding increases or
20 decreases in the utility’s cost of service, including
21 expenses, capital investment, cost of capital, and sales.

22 SPS is providing information for the Test Year, as well as its most current estimate
23 for the Update Period, which is the three-month period from April 1, 2019 through
24 June 30, 2019. This effectively creates an Updated Test Year consisting of the
25 fifteen-month period from April 1, 2018 through June 30, 2019.

1 **Q. Will the estimates for the Update Period be replaced with actual amounts**
2 **from the Update Period?**

3 A. Yes. PURA § 36.112(d) requires an electric utility that provides estimated
4 information in the initial filing to supplement the filing with actual information
5 not later than the 45th day after the date the initial filing was made. In accordance
6 with that statute and 16 TAC § 25.246, SPS will make an update filing no later
7 than 45 days after the Application in this case is filed.

8 **Q. Has SPS provided estimates for all elements of capital investment?**

9 A. Yes. SPS has provided estimates related to all capital investments, including
10 capitalized affiliate charges, through June 30, 2019. SPS witness Mark P. Moeller
11 summarizes the estimates of capital expenditures through the end of the Update
12 Period.

13 **Q. Has SPS also provided estimates for other types of costs?**

14 A. Yes. Ms. Schmidt describes the process for updating O&M expense estimates.
15 Additionally, the SPS witnesses supporting affiliate class O&M expenses also
16 describe the estimated costs for their respective classes.

17 **Q. Has SPS provided estimates for sales and revenues as of June 30, 2019?**

18 A. Yes. SPS witness Richard M. Luth provides that information.

19 **Q. Is SPS also making any known and measurable adjustments?**

20 A. Yes. Consistent with 16 TAC § 25.231 and 25.246(a)(5),¹²SPS is making several
21 known and measurable adjustments to the information from the Test Year and the

¹² 16 TAC § 25.246(a)(5) (“In establishing the base rates of an electric utility, and electric utility that makes an election under paragraph (2) of this subsection is not precluded from proposing known and

1 Update Period. SPS witness Arthur P. Freitas discusses those known and
2 measurable adjustments in his testimony.

3 **Q. What does SPS consider to be a known and measurable adjustment?**

4 A. Generally speaking, SPS considers a known and measurable adjustment to be an
5 adjustment that relates to events occurring after June 30, 2019, which is the end of
6 the Update Period. For example, SPS has adjusted its test year direct labor
7 expenses to annualize 2018 calendar year-end base pay and to incorporate a base
8 pay increase that will take effect in 2019. SPS has also adjusted its test year
9 pension and benefits expense to reflect the reduction in actuarially determined
10 pension and benefits expense between 2018 and 2019.

11 **C. Introduction of SPS Revenue Requirement Witnesses**

12 **Q. Please explain how SPS has organized its testimony in this case.**

13 A. SPS is presenting its testimony in two phases:

- 14 • Revenue Requirement; and
- 15 • Rate Design.

16 I am the overview witness in the Revenue Requirement phase, and I introduce the
17 other witnesses who support SPS's requests for relief. SPS witness Mr. Evan D.
18 Evans is the overview witness in the Rate Design phase of the case, and he
19 introduces the SPS witnesses who testify in that phase of the case.

20 The Revenue Requirement phase presents and supports SPS's cost of
21 service analysis, capital investments, depreciation expense, capital structure,

measurable adjustments to the utility's historical rate information as permitted by PURA and the
commission's rules.").

1 return on equity (“ROE”), O&M expenses, taxes, and other types of costs that
2 SPS incurs to provide service to customers. The revenue credits that are used to
3 offset costs are also presented in the Revenue Requirement phase.

4 The Rate Design phase addresses how the Texas retail revenue
5 requirement is allocated among SPS’s customer classes and how the rates are
6 designed for those customer classes. The fundamental principles utilized are
7 based on cost causation, and they mirror how SPS has performed these functions
8 in past cases. In this case, as Mr. Evans discusses, SPS is proposing a rate
9 increase distribution that is designed to eliminate inter-class subsidies by moving
10 all classes to the Texas retail jurisdictional average rate of return. In the Rate
11 Design phase, SPS witness Jannell E. Marks also introduces and supports the
12 weather normalization that SPS is utilizing in this case. Mr. Evans and Mr. Luth
13 then provide the class cost allocation, the revenue distribution, and rate design
14 based on this weather normalization. Proposed new tariffs and changes to tariffs
15 are also presented and supported in this phase of the case. Mr. Luth also presents
16 the development of the baseline amounts for use in SPS’s future TCRF,
17 Purchased Power Capacity Cost Recovery Factor (“PCRf”), and Distribution
18 Cost Recovery Factor (“DCRF”) filings.

19 **Q. Please introduce the other SPS direct witnesses in the Revenue Requirement**
20 **phase of this docket and their areas of testimony.**

21 A. In addition to my testimony, the following witnesses provide testimony
22 supporting SPS’s case in the Revenue Requirement phase of this docket:

Table WAG-RR-2

Witness	Area of Testimony
David T. Hudson	<ul style="list-style-type: none"> • Describes the relief SPS is seeking and explains the necessity for the requested base rate increase. • Describes SPS's commitments to provide reliable and affordable electricity, make smart investments for the future, and address environmental concerns. • Describes the challenges that SPS faces, including declining wholesale sales, environmental mandates, and water shortages.
Bryan R. Davis	<ul style="list-style-type: none"> • Explains that SPS maintains its books and records in compliance with Generally Accepted Accounting Principles. • Describes SPS's recovery of and accounting treatment of SPP's Attachment Z2 charges for the period from 2008 to 2016.
Sarah Soong	<ul style="list-style-type: none"> • Discusses the financial issues that have important implications for the overall financial integrity of SPS, including the significance of Commission decisions on return on equity ("ROE"), capital structure for the Test Year, and associated cost of financing for SPS's utility operations that should be used for setting rates in this case for SPS's Texas retail operations. • Presents SPS's capital structure, cost of debt, and overall required rate of return on its investments. • Discusses SPS's continuing need for access to capital on reasonable terms and SPS's capital expenditure plans.
Ann Bulkley	<ul style="list-style-type: none"> • Presents evidence and provides a recommendation regarding the appropriate cost of equity for SPS. • Explains the methodologies used to arrive at her recommendation, which is based on a proxy group of vertically-integrated electric utilities. • Provides an assessment of SPS's recommended capital structure as it relates to the cost of equity.

Witness	Area of Testimony
Richard D. Starkweather	<ul style="list-style-type: none"> • Describes SPS's relative performance when compared with other utilities in Texas and across the United States on a variety of efficiency and quality-of-management metrics for different areas of utility operations. • Provides an analysis of commercial airfares that SPS would have incurred during the Test Year had commercial airline services been utilized for business travel rather than the XES corporate aircraft.
Dane A. Watson	<ul style="list-style-type: none"> • Explains the depreciation analysis philosophy. • Discusses the recent SPS-Texas Book Depreciation Accrual Rate Study at December 31, 2018, completed for SPS assets Depreciation Study. • Supports and justifies the recommended depreciation rate changes for SPS assets for the Test Year, based on the results of the Depreciation Study.
Mark P. Moeller	<ul style="list-style-type: none"> • Discusses the Texas-specific balance of SPS's accumulated depreciation. • Discusses SPS's development of the balance of accumulated depreciation for the Texas retail jurisdiction and related balance of accumulated deferred income taxes (the unblending adjustment). • Supports capital additions, including affiliate charges, closed to plant in service for the period from July 1, 2017 through March 31, 2019. • Supports the capital additions, including affiliate charges, for the period from April 1, 2019 through June 30, 2019. • Supports SPS's proposed adjustment to the depreciation reserve to credit customers with salvage proceeds associated with a like-kind exchange program.
Jeffrey T. Kopp	<ul style="list-style-type: none"> • Describes and supports SPS's Dismantling Cost Estimate Study

Witness	Area of Testimony
Melissa L. Schmidt	<ul style="list-style-type: none"> • Provides an overview of the legal structure and the business area or operational and managerial structure of Xcel Energy and explains how that structure affects SPS. • Explains the XES accounting processes and how direct and indirect costs are billed from XES, the other Operating Companies, and other affiliates to and from SPS. • Explains XES's allocation methods, statistics, and factors. • Explains Xcel Energy's compliance with accounting and regulatory requirements regarding affiliate transactions. • Provides the supporting documentation for the expense charges from XES to SPS and a summary list of transactions with affiliates other than XES.
Casey S. Meeks	<ul style="list-style-type: none"> • Supports the costs, reasonableness, and necessity of Distribution capital additions, including affiliate charges. • Discusses the reasonableness and necessity of distribution-related native SPS costs. • Discusses the reasonableness and necessity of affiliate expense charges from the Distribution Business Operations, Distribution Electric Engineering, Distribution Planning & Performance, Vegetation Management & Pole Program, VP Distribution Operations, and Gas Operations affiliate classes during the Updated Test Year. • Discusses certain tariff modifications related to extension of service to customers.
Perry D. Foster	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges from the Transmission & Substations affiliate class during the Updated Test Year. • Discusses the reasonableness and necessity of transmission-related native SPS costs. • Discusses transmission reliability statistics.

Witness	Area of Testimony
Jarred J. Cooley	<ul style="list-style-type: none"> • Supports the costs, reasonableness, and necessity of the Transmission capital additions, including affiliate charges.
David A. Low	<ul style="list-style-type: none"> • Discusses SPS's power plant operations, maintenance, and cost-control operations. • Discusses the reasonableness and necessity of affiliate charges to SPS from the ES Engineering & Construction, ES Environmental, ES Technical Services, ES VP Energy Supply, and ES VP Operations affiliate classes during the Updated Test Year. • Discusses the reasonableness and necessity of SPS's native energy supply O&M costs.
Bennie F. Weeks	<ul style="list-style-type: none"> • Discusses SPS's resource planning process and assessment of capacity needs. • Discusses SPS's resource acquisitions during the Test Year and Update Period. • Discusses the analyses performed by SPS to select the best resources for its customers. • • Presents the economic analysis supporting SPS's decision to move up the retirement date of Tolk to end-of-year 2032. • Discusses the reasonableness and necessity of affiliate expense charges to SPS from the Resource Planning affiliate class during the Updated Test Year.
Mark Lytal	<ul style="list-style-type: none"> • Supports the costs, reasonableness, and necessity of the production plant capital additions, including affiliate charges. • Discusses SPS's proposed changes in the useful lives of Tolk, including considerations underlying why such changes were needed, SPS's water modeling of various operational scenarios, and cost inputs developed by Energy Supply to SPS's economic analysis of the Tolk retirement scenarios.

Witness	Area of Testimony
David C. Harkness	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges to SPS from the Business Systems affiliate class during the Updated Test Year. • Supports the costs, reasonableness, and necessity of the Business Systems capital additions, including affiliate charges.
Lawrence A. Bick	<ul style="list-style-type: none"> • Supports the costs, reasonableness, and necessity of the Property Services capital additions. • Discusses the reasonableness and necessity of affiliate expense charges from XES to SPS for the Safety class of affiliate services. • Discusses the reasonableness and necessity of affiliate expense charges from XES to SPS for six different affiliate classes in the Corporate Services business area during the Updated Test Year. • Supports A&G rent and maintenance of general plant native expenses.
Stephen J. Brown	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges to SPS from the Chief Security Officer affiliate class during the Updated Test Year. • Supports the costs, reasonableness, and necessity of the Physical Security capital additions, including affiliate charges.
Angelene Hennes Ghelf	<ul style="list-style-type: none"> • Discusses reasonableness and necessity of affiliate charges from the Corporate Secretary and Executive affiliate class.
Adam Dietenberger	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges from XES to SPS for ten different affiliate classes in the Financial Operations business area during the Updated Test Year. • Discusses the capital budgeting process. • Supports the property and auto liability native costs.

Witness	Area of Testimony
Gary J. O'Hara	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of the affiliate expense charges from the Supply Chain affiliate class during the Updated Test Year.
S. Michelle Edwards	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges from the Customer Care affiliate class during the Updated Test Year. • Supports the O&M and A&G native costs for meter reading, customer records, and collections. • Supports SPS's request to recover bad debt expense. • Supports, along with Mr. Evans, SPS request to change its Average Monthly Billing Program.
James L. Altman	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges to SPS for the GC Claims, GC Legal Services, and GC VP General Counsel affiliate classes during the Updated Test Year. • Discusses the reasonableness and necessity of SPS's native costs for legal services recorded in FERC Account 923.
Jeff Lyng	Discusses reasonableness and necessity of affiliate charges from the Policy & Regulatory Compliance affiliate class.
Shawn M. White	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges to SPS from the Marketing affiliate class during the Updated Test Year. • Discusses the reasonableness and necessity of SPS's native energy efficiency and load management costs.
Jeffrey A. Butler	<ul style="list-style-type: none"> • Discusses the reasonableness and necessity of affiliate expense charges from the OS SVP Commercial Operations affiliate class during the Updated Test Year. • Addresses SPS's adjustment for fees related to the letter of credit that SPS posts for participation in the SPP's Transmission Congestion Rights auction. • Supports the SPP collateral requirement fees.

Witness	Area of Testimony
Michael T. Knoll	<ul style="list-style-type: none"> • Addresses the reasonableness and necessity of the compensation and benefits provided to the employees of SPS and its affiliate employees. • Discusses the reasonableness and necessity of affiliate expense charges from the Human Resources and SS Company Benefits affiliate classes during the Updated Test Year.
Richard R. Schrubbe	<ul style="list-style-type: none"> • Supports SPS's request for recovery of Updated Test Year qualified pension expense, retiree medical expense, and self-insured long-term disability expense. • Supports SPS's request for recovery of Updated Test Year expenses for active health and welfare, 401(k) match, and workers' compensation expense. • Discusses the calculation of the prepaid pension asset and explains the rationale for including the prepaid pension asset in rate base. • Supports the credit attributable to the pension and other post-employment benefits ("OPEB") cost tracker.
H. Craig Romer	<ul style="list-style-type: none"> • Discusses the reasonableness of coal-related costs included in base rates.
Jeffrey C. Klein	<ul style="list-style-type: none"> • Discusses the administration of SPS's long-term PPAs. • Identifies the capacity-related PPA costs incurred in the Test Year and adjustments to the Test Year costs.
Naomi Koch	<ul style="list-style-type: none"> • Explains the adjustments necessary to avoid normalization violations with respect to the calculation of federal income tax expense and the accumulated deferred federal income tax balance. • Supports the property tax expense included in the cost of service.

Witness	Area of Testimony
Ruth M. Sakya	<ul style="list-style-type: none"> • Presents and supports SPS's proposal to change the imputed price of Texas-generated wind Renewable Energy Credits ("REC") from \$0.39 to \$0.27 per megawatt-hour ("MWh") and share 90/10 in REC sales margins. • Presents SPS's REC Tracker true-up.
Arthur P. Freitas	<ul style="list-style-type: none"> • Addresses the jurisdictional allocation methods used in the cost of service study. • Presents SPS's total company and Texas retail jurisdictional revenue requirement and sponsors various schedules that support those revenue requirements. • Discusses the various components of the cost of service and the adjustments made to those components, including rate base, operating revenues, fuel expense, O&M expense, administrative and general expense, taxes other than income taxes, income tax expense, and capital structure. • Presents the Updated Test Year amounts for regional market and wheeling expenses and revenues.

1 **VI. SPS OVERVIEW**

2 **Q. Please generally describe SPS's high voltage system and interconnections**
3 **with other systems.**

4 A. SPS is uniquely located relative to the electrical grids of North America. It is a
5 member of the SPP RTO and is synchronously connected to the eastern grid
6 through interconnections with Mid-Kansas Electric Company, Public Service
7 Company of Oklahoma, Sunflower Electric Power Corporation, Southwestern
8 Electric Power Company and Oklahoma Gas and Electric. The primary
9 interconnections with the SPP are a 230 kilovolt ("kV") transmission power line
10 to Elk City, Oklahoma; a 345 kV transmission power line to Oklaunion, Texas; a
11 345 kV transmission power line between Amarillo and Holcomb, Kansas; and two
12 345 kV lines to Woodward, Oklahoma (one connected to the north part of the
13 system and the other at TUCO, close to Lubbock). SPS is also connected to the
14 western grid through three high-voltage direct-current ("DC") back-to-back
15 converters, or DC ties: (1) through interconnections with Public Service Company
16 of New Mexico ("PNM") at Clovis, New Mexico; (2) through interconnections
17 with El Paso Electric Company and PNM at Artesia, New Mexico; and (3)
18 through interconnections with PSCo at Lamar, Colorado. Although SPS operates
19 adjacent to the Electric Reliability Council of Texas ("ERCOT") grid, it has no
20 direct interconnections with ERCOT transmission owners. Attachment WAG-4 is
21 a map of SPS's high-voltage transmission system.

1 **Q. Please describe SPS’s load and generating resources.**

2 A. SPS’s generation peak in the Test Year was 4,648 MW as reported in the 2018
3 FERC Form 1. In the Test Year, coal-fired plants produced 39% of the total
4 megawatt-hour (“MWh”) generated and purchased to meet system needs. SPS
5 currently has an installed net generation capacity of 4,472 MW, with
6 approximately 47% of this capacity in coal-fired plants and 53% in natural gas
7 plants. During the Test Year, 26.8% of SPS’s system needs were served by wind
8 and solar generation. SPS also purchases firm power and energy under long-term
9 purchased power contracts.

10 As part of their power purchases, SPS and its Xcel Energy affiliates have
11 been very active in renewable energy development. According to the American
12 Wind Energy Association, Xcel Energy has been the largest purchaser of wind
13 energy in the country between 2005 and 2017. Table WAG-2 lists each
14 intermittent renewable generator with whom SPS has a long-term purchased
15 power agreement (“PPA”), the location of the generating facility, the nameplate
16 capacity of the facility, and the year in which SPS began or will begin purchasing
17 renewable intermittent energy from that facility. As of 2018, SPS is purchasing
18 1,640 MW of energy from wind and solar production facilities.

Table WAG-2

Facility	Location	Nameplate Capacity(MW)	Start Year
Caprock	Quay Co, New Mexico	80	2004
San Juan Mesa	Chaves Co, New Mexico	120	2005
Wildorado	Oldham Co, Texas	161	2007
Sun Edison	Lea/Eddy Co, New Mexico	50	2011
Spinning Spur	Oldham Co, Texas	161	2012
Palo Duro	Hansford Co, Texas	249	2014
Mammoth Plains	Dewey/Blaine Co, Oklahoma	199	2015
Roosevelt	Roosevelt Co, New Mexico	250	2015
Roswell Solar	Chaves Co., New Mexico	70	2016
Chaves County Solar	Chaves Co., New Mexico	70	2016
Bonita (Lorenzo)	Crosby Co., Texas	80	2018
Bonita (WildCat Ranch)	Cochran Co., Texas	150	2018

2 In addition, SPS currently purchases intermittent renewable energy at
3 avoided costs from numerous Qualifying Facility (“QF”) wind generation
4 facilities in the Texas Panhandle. Counting the intermittent renewable energy
5 purchased through long-term PPAs, the intermittent renewable energy received
6 from QFs, the 478 MW from the Hale Wind Project and the 522 MW from the
7 planned Sagamore Wind Project, SPS’s system resources will include over 2,900
8 MW of intermittent renewable energy for its customers.

1 **Q. Does SPS also make wholesale sales?**

2 A. Yes. Historically, wholesale power sales and transmission services have been a

3 significant business segment for SPS and are regulated by FERC pursuant to the

4 Federal Power Act. However, SPS's wholesale sales have steadily declined in

5 recent years as a result of agreements that SPS entered into with its wholesale

6 customers during the period from 2007 through 2010. Golden Spread Electric

7 Cooperative ("GSEC's") purchases of wholesale power from SPS declined from

8 500 MW to 300 MW on June 1, 2015 in accordance with a Replacement Power

9 Sales Agreement between SPS and GSEC. And as I explained earlier, on June 1,

10 2017, GSEC ceased all purchases of wholesale power from SPS. The sales to the

11 four New Mexico electric cooperatives also declined by 80 MW on June 1, 2017.

12 The contract with West Texas Municipal Power Authority ("WTMPA") also

13 expired on May 31, 2019, and the Lubbock Power & Light partial requirements

14 contract of 170 MW started June 1, 2019. This represents a reduction of 349 MW.

15 **Q. Do the reductions in wholesale sales volumes affect SPS's retail customers?**

16 A. Yes. Those reductions affect SPS's retail customers in three ways. First,

17 reducing wholesale sales frees up lower-cost generating resources that can be

18 used to serve retail customers. That has the effect of lowering the system average

19 fuel costs paid by retail customers. In fact, SPS's customers have been benefiting

20 from the lower system-average fuel costs caused by the 580 MW reduction in

21 GSEC's purchases since that reduction took effect on June 1, 2015, and retail

22 customers will benefit even more from the reductions that occurred on June 1,

23 2019, which total 349 MW.

1 Second, the reduction of the wholesale sales also enables SPS to avoid or
2 defer the need to either construct or acquire new generating resources to serve
3 these wholesale loads. This benefits SPS's retail customers because new
4 generation generally has significantly higher investment costs than older,
5 depreciated generation resources.

6 Finally, the reduction in wholesale sales means that more of SPS's costs
7 will be allocated to the Texas and New Mexico retail jurisdictions. In this case,
8 SPS has adjusted the jurisdictional allocators to reflect the departure of 349 MW
9 of WTMPA load in 2019. That change requires the jurisdictional allocators to be
10 adjusted, with the effect that more costs will be shifted to the retail jurisdictions.

1 **VII. OBLIGATIONS AND PRECEDENT FROM PRIOR DOCKETS**

2 **Q. Please describe the regulatory commitments that SPS has made in prior**
3 **dockets.**

4 **A. In Docket No. 47527, SPS made several commitments that are pertinent to this**
5 **rate case application:**

- 6 • SPS agreed to update its economic life analysis for the Tolk generating
7 station and to include this analysis in this rate case;¹³
- 8 • SPS agreed to continue to unwind its excess accumulated deferred income
9 tax (“EDIT”) and net operating loss-related balances resulting from the
10 change in tax rates under the Tax Cuts and Jobs Act (TCJA);¹⁴
- 11 • SPS agreed to continue to unwind the EDIT balances associated with
12 protected plant items based on the average rate assumption method and to
13 continue to unwind EDIT balances associated with non-plant items using a
14 five-year amortization period;¹⁵
- 15 • SPS agreed to address its EDIT balances and the unwinding of those
16 balances, associated with protected and unprotected plant items, non-plant
17 items, and net operating loss-related balances that may have accrued from
18 the end of the updated test year in Docket No. 47527 (June 30, 2017)
19 through December 31, 2017;¹⁶
- 20 • SPS agreed to propose eliminating the residential space-heating rider and
21 to design rates for the residential class in a manner that would moderate
22 the effect of eliminating the rider on residential space-heating customers;¹⁷
- 23 • SPS agreed that it would not propose a cap on the number of customers
24 joining the residential time-of-use plans that includes a limit on residential
25 space-heating customers seeking to participate in time-of-use rate plans;¹⁸
26 and,

¹³ Docket No. 47527, Order at FoF No. 50.

¹⁴ Docket No. 47527, Order at FoF No. 70b and 70g.

¹⁵ Docket No. 47527, Order at FoF No. 70d and 70f.

¹⁶ Docket No. 47527, Order at FoF No. 70h.

¹⁷ Docket No. 47527, Order at FoF No. 92.

¹⁸ Docket No. 47527, Order at FoF No. 94.

- 1 • SPS agreed to file its next base-rate case no later than December 31,
2 2019.¹⁹

3 **Q. Does SPS's rate request satisfy each of these commitments?**

4 A. Yes. SPS witnesses Mr. Watson, Ms. Weeks, and Mr. Lytal explain and support
5 the updated economic life analysis for Tolk. SPS witnesses Mr. Moeller, Ms.
6 Koch, and Mr. Freitas discuss SPS's treatment of EDIT and net operating loss-
7 related balances resulting from the TCJA and demonstrates that this treatment is
8 consistent with the commitments SPS made in Docket No. 47527. SPS witness
9 Mr. Evans discusses the proposed elimination of the residential space-heating
10 rider and the new residential rate design that will moderate the effect of
11 eliminating this rider on current residential space heating customers. Mr. Evan's
12 also addresses SPS's residential time-of-use plan. Finally, SPS has satisfied the
13 base rate filing deadline requirement imposed in Docket No. 47527.

14 **Q. Has SPS included revenues and expenses associated with purchased power**
15 **agreements for renewable generation facilities for which expenses are**
16 **currently recovered only through fuel, particularly solar facilities, as part of**
17 **this rate case?**

18 A. No. Revenues and expenses associated with solar or other renewable PPAs is
19 appropriately credited or charged through eligible fuel expense consistent with the
20 Commission treatment of this issue in Docket No. 47527.

¹⁹ Docket No. 47527, Order at Ordering Paragraph No. 18.

1 **Q. Does SPS request authorization to include revenue and expenses associated**
2 **with such facilities in this rate case to the extent SPS is not permitted to**
3 **recover them in its currently-pending fuel reconciliation case (No. 48973)?**

4 **A.** Yes. In the event that the Commission determines that such amounts should not
5 be recovered through fuel, SPS requests that these amounts be included in the
6 base rates established in this proceeding. In addition SPS request the Commission
7 allow SPS to establish a regulatory asset to account for the amounts unrecovered
8 for the period of January 1, 2016 through June 30,2018. Alternatively, SPS would
9 request that the Commission allow SPS to establish a regulatory asset/liability to
10 account for such amounts until they can be recovered in SPS's next base rate case.
11 Revenues and expenses associated with solar or other renewable PPAs that are
12 incurred during the period January 1, 2016 through June 30, 2019, shall be
13 eligible for this accounting treatment, which reflects SPS's fuel reconciliation
14 period (January 1, 2016 through June 30, 2018) through the Updated Test Year.

1 **VIII. RECOVERY OF CAPITAL INVESTMENT**

2 **Q. What amount of new capital investment does SPS seek to recover in this**
3 **case?**

4 A. SPS seeks to begin recovering approximately \$940 million, on a Texas retail
5 basis, of new capital investment that SPS either placed in service or expects to
6 place in service during the 24-month period from July 1, 2017 through June 30,
7 2019.²⁰ These capital investments were prudently incurred for the benefit of
8 SPS's customers, to support and promote economic development within SPS's
9 service area, and maintain and improve SPS's operations.

10 **Q. Please summarize the capital investment SPS placed into service between**
11 **July 1, 2017 through March 31, 2019 and the SPS witnesses that support the**
12 **reasonableness and necessity of this investment.**

13 A. During the period July 1, 2017 through March 31, 2019, SPS placed in service, on
14 a Texas retail basis:

- 15 • Approximately \$35 million of production plant investment. Mr. Lytal and
16 Mr. Moeller support those capital additions;
- 17 • Approximately \$198 million of transmission investment. Mr. Cooley and
18 Mr. Moeller support those capital additions;
- 19 • Approximately \$101 million of distribution investment. Mr. Meeks and
20 Mr. Moeller support those capital additions; and
- 21 • Approximately \$46 million of general plant investment. Mr. Harkness,
22 Mr. Bick, Mr. Lytal, Mr. Cooley, Mr. Meeks, and Mr. Moeller support
23 those capital additions.

²⁰ As permitted under PURA § 36.112 and 16 TAC § 25.246, SPS has included investments that it will place in service during the three-month period from April 1, 2019 through June 30, 2019.

1 **Q. Is SPS seeking to include in rate base any other investment made between**
2 **July 1, 2017 and March 31, 2019 in this case?**

3 A. Yes. SPS is seeking Commission approval to include \$28 million of intangible
4 plant investment placed in service during this time period. Mr. Harkness, Mr.
5 Cooley, Mr. Meeks, and Mr. Moeller support those capital additions.

6 **Q. Please summarize the capital investment SPS placed into service or expects**
7 **to place into service for the period April 1, 2019 through June 30, 2019 and**
8 **the SPS witnesses supporting the reasonableness and necessity of this**
9 **investment.**

10 A. During the period April 1, 2019 through June 30, 2019, SPS has either placed into
11 service or expects to place into service, on a Texas retail basis, the following
12 investment:

- 13 • Approximately \$420 million in production plant projects. Mr. Lytal
14 and Mr. Moeller support those capital additions;
- 15 • Approximately \$83 million in transmission plant projects. Mr. Cooley
16 and Mr. Moeller support those capital additions;
- 17 • Approximately \$17 million in distribution plant projects. Mr. Meeks
18 and Mr. Moeller support those capital additions; and
- 19 • Approximately \$10 million in general plant projects. Mr. Harkness,
20 Mr. Bick, Mr. Lytal, Mr. Cooley, Mr. Meeks, and Mr. Moeller support
21 those capital additions.

1 **Q. Is SPS seeking to include in rate base any other investment for the period**
2 **April 1, 2019 through June 30, 2019?**

3 A. Yes. Approximately \$2 million is attributable to intangible plant projects that
4 SPS placed in service or expects to place in service from April 1, 2019 through
5 June 30, 2019. Mr. Harkness and Mr. Moeller support those capital additions.

6 **Q. Please summarize the new capital investment by function and by time period.**

7 A. Table WAG-4 (next page) contains a summary of the amount placed in service on
8 a Total Company basis and Table WAG-5 (next page) contains a summary of the
9 amount placed in service on a Texas retail basis.

10 **Table WAG-4**
11 **Total Company Amount Placed in Service**

Function	Additions to Plant in Service July 1, 2017 – March 31, 2019	Expected Additions to Plant in Service April 1, 2019 – June 30, 2019	Total Requested Additions to Plant in Service
Production	\$60,506,139	\$718,130,353	\$778,636,492
Transmission	449,758,949	187,322,933	637,081,882
Distribution	156,766,910	26,229,961	182,996,871
General	77,786,151	16,498,527	94,284,679
Intangible	46,455,311	3,222,669	49,677,980
Total	\$ 791,273,460	\$ 951,404,443	\$1,742,677,904

Table WAG-5
Texas Retail Amount Placed in Service

Function	Additions to Plant in Service July 1, 2017 - March 31, 2019	Expected Additions to Plant in Service April 1, 2019 – June 30, 2019	Total Requested Additions to Plant in Service
Production	\$35,416,784	\$420,351,851	\$455,768,634
Transmission	198,110,921	82,512,464	280,623,385
Distribution	100,976,441	16,895,198	117,871,640
General	46,455,152	9,853,188	56,308,340
Intangible	27,913,073	1,936,368	29,849,440
Total	\$408,872,371	\$531,549,069	\$940,421,439

Q. If plant that is expected to close during the Update Period does not actually close, will the balance attributable to that plant be included in the actual amounts presented as part of the update filing?

A. No. Only the amounts actually closed to plant in service on or before June 30, 2019 will be included in the actual amounts presented as part of the update filing.

Q. If some plant actually did close to plant in service during the Update Period but is not included in the estimated plant, will SPS include that plant balance in the actual amounts presented in the update filing?

A. No. The actual amounts in the update filing will not include any projects that were not included in the estimates for the Update Period. Mr. Moeller discusses this issue in more detail.

Q. Please describe the Hale Project that SPS has recently placed into service.

A. The Hale Project is part of Xcel's Steel for Fuel initiative and is a 478 MW wind generating plant with associated facilities located in Hale County, Texas. The

1 cost of the Hale Project totaled approximately \$712.5 million (total company) and
2 it began commercial operations in June 2019. The construction of the Hale
3 Project was approved by the Commission in Docket No. 46936. Mr. Lytal
4 discusses the Hale Project in more detail as well as the cost controls and processes
5 SPS has in place to ensure that its capital investments are reasonable, necessary,
6 and prudently incurred.

7 **Q. Will Texas customers benefit from the Hale Project?**

8 A. Yes. As of the date of this filing, Texas customers have been receiving the
9 benefit of the Hale Project for over a month because SPS implemented interim
10 fuel factors reflecting the cost savings of the Hale Project on July 1, 2019.
11 Customers will see additional benefits because the Hale Project will enable SPS to
12 take advantage of the federal Production Tax Credits (“PTC”) associated with
13 those facilities for the benefit of SPS’s customers. More specifically, except for
14 the first 60 days of commercial operation, SPS will credit customers, through
15 eligible fuel expense, with the Texas retail portion of the PTCs, including an
16 income tax gross-up, associated with generation from the Hale Project. In
17 addition, as part of the stipulation reached in Docket No. 46936, SPS agreed to
18 provide Texas customers with various cost protection measures, including a
19 capital cost cap. SPS also assured that Texas retail customers will receive a
20 minimum production guarantee up to the level of the 48% net capacity factor
21 (“NCF”), starting for the Hale Project with the first full calendar year after
22 commercial operation. More specifically, SPS agreed that if the level of
23 production is determined to be less than a 48% NCF, SPS would calculate the

1 amount of cost that was not avoided and make the customer whole as if the
2 facility generated 48%. Further, SPS agreed to perform an analysis as specified in
3 the stipulation to ensure that there is no net cost for customers for the first ten
4 years of the operation of the wind facilities. These protections, coupled with the
5 other benefits provided for in the stipulation, demonstrate that Texas customers
6 will benefit from the Hale Project.

7 **Q. Does SPS's inclusion of the Hale Project in this case comply with the capital**
8 **cost cap established in Docket No. 46936?**

9 A. Yes. The cost of the Hale Project is \$712.5 million. The gross plant in service
10 amount included in SPS's rate filing is \$1,491 per kilowatt ("kW") (installed),
11 which does not exceed \$1,675 per kW (installed).

1 **IX. REQUESTED PRUDENCE DETERMINATION FOR BONITA PPA**

2 **Q. Please briefly describe the Bonita PPA.**

3 A. As discussed in Ms. Weeks's and Mr. Klein's direct testimony, the Bonita PPA is
4 a pay-for-performance agreement that has a term of 30 years and is expected to
5 provide SPS with approximately, 1,030,000 megawatt-hours ("MWh") of
6 economically priced energy per year over the term. SPS entered into the Bonita
7 PPA as part of the transaction to acquire the rights for the Hale Wind Project,²¹
8 and the benefits of the PPA were evaluated as part of the overall proposal of the
9 Wind Resources proposed in Docket No. 46936.²²

10 **Q. Why did SPS enter into the Bonita PPA?**

11 A. The opportunity for the Bonita PPA arose in the course of pursuing a low cost
12 wind portfolio for SPS. SPS determined that it had an opportunity to achieve
13 long-term benefits for its customers through the development and ownership of
14 wind generation facilities. The Bonita PPA was executed on March 7, 2017, and
15 was part of a larger transaction between SPS and NextEra for the Hale Wind
16 Project.

17 SPS's early discussions with NextEra involved a request to purchase the
18 entire Hale project site. NextEra, however, was interested in a split development
19 of the Hale site with a portion provided through a PPA and a portion that SPS

²¹ *Application of Southwestern Public Service Company for Approval of Transactions with ESI Energy LLC, and Invenergy Wind Development North America LLC, to Amend a Certificate of Convenience and Necessity for Wind Generation Projects and Associated Facilities in Hale County Texas and Roosevelt County, New Mexico, and for Related Approvals*, Docket No. 46936, Order at Finding of Fact No. 8 (May 25, 2018).

²² The proposed wind resources in Docket No. 46936 were the Hale Wind Project, the Sagamore Wind Project, and the Bonita PPA (collectively, "Wind Resources").

1 would own. SPS had a preference for owning the entire Hale site because it
2 created scale opportunities to reduce the cost of construction and maintenance and
3 the contractual and construction logistics of splitting ownership were challenging.
4 Further, Xcel Energy had obtained power factors for Vestas turbines that would
5 further improve the economics of company-owned projects and, as a result,
6 believed that additional wind would create greater benefits for its customers.
7 Ultimately, NextEra and SPS agreed that SPS could own the entire Hale site if
8 SPS could also enter into what became the Bonita PPA.

9 SPS evaluated the benefits of the Bonita PPA as part of the overall
10 agreement for the Wind Resources. Based on that analysis, SPS determined that
11 the Bonita PPA provided an opportunity to purchase energy at a relatively low
12 price point to add to SPS's portfolio of low-cost energy as part of the overall
13 initiative. Accordingly, SPS entered into the Bonita PPA.

14 **Q. What determination does SPS seek in this case regarding the Bonita PPA?**

15 A. SPS is requesting a favorable prudence determination in this case regarding the
16 Bonita PPA. SPS originally sought a prudence finding on the Bonita PPA as part
17 of Docket No. 46936. In Docket No. 46936, the Signatories to the Unopposed
18 Stipulation agreed that the Commission should find that SPS's decision to enter
19 into the Bonita PPA as part of the Hale Transaction was reasonable and prudent.²³

²³ Docket No. 46936, Unopposed Stipulation at 5, Proposed Finding of Fact No. 69, and Proposed Conclusion of Law No. 9 (Feb. 27, 2018). The Signatories to the Docket No. 46936 Stipulation are: SPS; Commission Staff; Texas Industrial Energy Consumers; Alliance of Xcel Municipalities; Office of Public Utility Counsel; United States Department of Energy; Golden Spread Electric Cooperative, Inc.; Tri-County Electric Cooperative, Inc.; Texas Cotton Ginners' Association; Mary Lutrick; and Larry Lutrick. The International Brotherhood of Electrical Workers Local #602 and Lea County Electric Cooperative, Inc. did not join, but did not oppose the Stipulation.

1 The Commission, however, declined to address prudence findings as part
2 of the Docket No. 46936 CCN proceeding because the “issue of prudence for any
3 acquisitions is more appropriately addressed in a future rate proceeding.”²⁴
4 Because this rate proceeding seeks to address the prudence of the costs associated
5 with the Hale Wind Project, SPS also requests a determination regarding the
6 prudence of the PPA that was entered into as part of that overall transaction.

²⁴ Docket No. 46936, Memorandum from Chairman Walker at 000003 (May 9, 2018).

1 **X. NATIVE O&M AND A&G EXPENSE**

2 **Q. What issues do you address in this section of your testimony?**

3 A. In this section of my testimony, I discuss and support the reasonableness and
4 necessity of the O&M and A&G expenses that are native to SPS. I also discuss
5 and support the O&M expenses associated with specific affiliate classes. In
6 particular, I sponsor services and costs related to the following areas:

- 7 • Demonstration and Selling Expense (FERC Account 912);
- 8 • A&G Expenses:
- 9 ▪ Office Supplies and Expenses (FERC Account 921);
- 10 ▪ Outside Services Employed (FERC Account 923); and
- 11 ▪ Regulatory Commission Expense (FERC Accounts 928 - 928.04).

12 These costs include labor, materials, and other non-fuel O&M costs as reflected
13 on my Attachment WAG-RR-3.

14 **Q. Are there other witnesses that support these O&M and A&G expenses?**

15 A. Yes. Ms. Schmidt, Mr. Knoll, and Mr. Schrubbe provide testimony regarding
16 labor and associated costs (both native and affiliate), and Mr. Altman addresses
17 outside legal services and third-party vendor costs recorded in FERC
18 Account 923.

19 **Q. What types of charges are included in the FERC accounts that you sponsor?**

20 A. These FERC accounts include O&M expenses comprised of both native SPS costs
21 and affiliate charges. Native SPS costs are those costs incurred directly by SPS to
22 provide electric service to its customers. These costs include labor, materials, and
23 other non-fuel O&M costs. For example, the salaries of SPS employees are

1 native costs. In addition, SPS receives services provided by XES, a centralized
2 service company, which are in addition to, and not duplicative of, the services that
3 SPS employees provide. XES provides these services “at cost,” or without profit.
4 Finally, O&M expenses also include charges to SPS from other Operating
5 Companies or affiliated interests. Similar to the charges from XES, these services
6 are charged to SPS “at cost” and generally involve emergency services, such as
7 storm restoration activities. Ms. Schmidt provides additional details regarding the
8 methodology of charging affiliate costs to SPS from XES and other affiliated
9 interests.

10 **Q. How are O&M activities identified and funded?**

11 A. Preliminary budgets are developed at the department level based on current
12 operating conditions, activity levels, and estimates of future business needs.
13 These preliminary budgets are then used to develop an over-all budget for SPS.
14 O&M expenditures are controlled by senior management who monitor and review
15 the O&M trends and operating conditions on a frequent basis to ensure that
16 expenditures are reasonable, necessary, and properly directed.

17 **Q. What efforts do SPS and XES take to control O&M costs on an on-going**
18 **basis?**

19 A. Both SPS and XES strive to control its O&M costs, while maintaining the safety
20 and reliability of its system, as well as providing effective and efficient customer
21 service. The O&M budgeting and monitoring processes ensure that cost controls
22 are in place to operate within reasonable limits. During each fiscal year there is
23 on-going monitoring and management of expenses at each of these levels.

1 Furthermore, management recognizes that O&M cost control is a dynamic
2 process, not an annual or periodic exercise. For that reason, senior management
3 frequently meets to discuss O&M spending levels.

4 **Q. Does the procurement process also control O&M costs?**

5 A. Yes. SPS and XES utilize a procurement process for both its material and
6 supplies as well as for a majority of its service contracts. Depending upon the
7 product to be purchased or the service to be performed, the procurement group,
8 working with the appropriate work group, either utilizes a bid process or a
9 negotiated supplier agreement to obtain the product or service. This procurement
10 process ensures that SPS receives a quality product or service at a reasonable
11 price.

12 **Q. What types of costs are associated with FERC Account 912, Demonstration**
13 **and Selling Expense?**

14 A. The native costs included in FERC Account 912 are those associated with labor
15 and materials for demonstrations and sales. As Mr. Freitas notes in his testimony,
16 image and promotional advertising have been excluded from the cost of service.
17 However, other costs in FERC Account 912 are recoverable, and SPS is seeking
18 to recover allowable costs that are included in this account.

19 **Q. What types of costs are associated with FERC Account 921, Office Supplies**
20 **and Expenses?**

21 A. The native costs included in FERC Account 921 are those associated with office
22 supplies and expenses incurred with the administration of SPS's operations and

1 are not included in other FERC Accounts. The types of items include expenses
2 for office equipment, office supplies, materials, postage, printing, and
3 communications services.

4 **Q. What types of costs are associated with FERC Account 923, Outside Services**
5 **Employed?**

6 A. The native costs included in FERC Account 923 are those associated with the fees
7 and expenses of consultants that are not specific to a particular operating function
8 or other FERC accounts. These expenses include the fees and costs for contract
9 accountants, auditors, appraisers, and engineering consultants. It also includes the
10 supervision fees and expenses paid under contracts for general management
11 services. Mr. Altman sponsors the expenses associated with consulting attorneys,
12 so I do not address those costs in my testimony.

13 **Q. What types of costs are associated with FERC Account 928, Regulatory**
14 **Commission Expense?**

15 A. The native costs included in FERC Accounts 928 are those expenses incurred by
16 SPS related to formal cases before regulatory commissions, including the
17 Commission, the NMPRC and FERC, as well as fees assessed by regulatory
18 bodies, including those for the administration of the Federal Power Act.

19 **Q. Are the services and associated O&M costs you sponsor necessary and**
20 **reasonable for SPS's operations?**

21 A. Yes. The services provided by SPS employees related to the above-described
22 FERC accounts are necessary and reasonable to SPS's operations. These costs
23 are the types of costs all utilities incur, and they are essential to SPS's operations.

1 These costs include labor, materials, and other non-fuel O&M costs. Mr. Knoll
2 and Mr. Schrubbe provide testimony regarding labor costs, Mr. O'Hara provides
3 testimony about sourcing and procurement of goods and services, and Ms.
4 Schmidt provides testimony regarding the methodology of billings for labor and
5 labor overheads.

6 **Q. Do SPS's Texas retail customers benefit from the services associated with the**
7 **specific O&M costs you discuss?**

8 A. Yes. These services allow SPS to provide essential services to its Texas retail
9 customers in an efficient manner. These services are provided through a
10 centralized organizational approach that reduces costs and enables the Operating
11 Companies to benefit from economies of scale, resource sharing during peak
12 workloads, and historical knowledge that enables the employees to respond
13 quickly and with better insights to ensure that the best overall work product is
14 delivered. The centralized organization allows each of the Operating Companies
15 to benefit from the direct experience of the others, leading to improved skills, and
16 improved work practices. Further, the departments within the SPS operating
17 company president organization are focused solely on SPS's operations in Texas
18 and New Mexico, and are attuned to issues, operations, and services directly
19 affecting Texas retail customers. In addition, the expenses are reasonable because
20 the costs of the services are managed, reviewed and minimized.

1 **XI. SOUTHWEST POWER POOL SERVICES**

2 **Q. Please describe SPP and the services it provides to its members.**

3 A. SPP, which is a FERC-approved RTO, is an Arkansas non-profit corporation with
4 its principal place of business in Little Rock, Arkansas. SPP has more than 92
5 members that include electric cooperatives, federal agencies, independent power
6 producers, independent electric transmission companies, investor-owned electric
7 utilities, marketers, municipal utilities, state authorities, and contract participants.

8 As an RTO, SPP provides several services to its members, including:

- 9 • reliability coordination;
10 • tariff administration;
11 • regional scheduling;
12 • transmission expansion planning;
13 • market operation;
14 • contingency reserve sharing;
15 • generation interconnection studies;
16 • scheduling authority function;
17 • compliance;
18 • training; and
19 • outage coordination.

20 **Q. How are SPP's policies, rules, and tariffs developed?**

21 A. SPP is a member-driven organization. As a result, various committees exist
22 within SPP to develop policy, rules, and tariff provisions related to a wide variety
23 of topics. The primary role of SPP stakeholder committees and working groups is
24 to drive major initiatives that improve or enhance SPP operations. The

1 stakeholder process also focuses on planning for the future. The various
2 committees and working groups provide recommendations to the SPP
3 independent Board of Directors on technical issues. The committees are further
4 composed of working groups, steering committees, and task forces. The
5 committees and groups are made up of representatives of SPP members, including
6 SPS. An organizational chart of SPP's committees and working groups is
7 attached to my testimony as Attachment WAG-RR-4.

8 **Q. Do state retail rate regulators have a role in the SPP member-driven**
9 **process?**

10 A. Yes. The Regional State Committee ("RSC") is composed of retail regulators
11 across the SPP footprint and has its own working group, the Cost Allocation
12 Working Group, which is made up of staff members of the retail regulatory
13 authorities. The RSC actively engages in a broad range of issues where SPP has
14 ceded authority, including transmission planning and cost allocation, resource
15 adequacy, allocation of transmission rights, and market evolution issues. For
16 example, the RSC determines: (1) the approach for resource adequacy across the
17 entire region and with respect to transmission planning; (2) whether transmission
18 upgrades for remote resources will be included in the regional transmission
19 planning process; and (3) the role of transmission owners in proposing
20 transmission upgrades in the regional planning process.

1 **Q. Have the services that SPS receives from SPP changed since SPS's last rate**
2 **case, Docket No. 47527?**

3 A. No. As a member of SPP, SPS continues to receive the same services that the
4 Commission reviewed in SPS's last rate case.

5 **Q. How are the costs associated with new transmission infrastructure within**
6 **SPP allocated to SPS?**

7 A. SPP costs have been allocated to SPS based on four different allocation methods:
8 (1) Pre-2005; (2) Original Base Plan Funding; (3) the Balanced Portfolio; and (4)
9 the Highway/Byway (Current Base Plan Funding). A matrix showing the effects
10 of these methods during the Test Year is shown in Attachment WAG-RR-5.

11 **Q. How does SPP administer these cost allocations and collect the revenue for**
12 **the regional transmission funding?**

13 A. SPP administers the process through Attachment J of the SPP OATT and recovers
14 the revenue through the resulting Schedule 11 charges under the SPP OATT. SPP
15 collects both the zonal and any regionally-allocated costs under Schedule 11. SPP
16 then distributes this revenue to the Transmission Owners.

17 **Q. How is SPS charged for the transmission identified and approved by SPP as**
18 **part of integrated planning process?**

19 A. SPS is located in Zone 11. As such, the retail customers of SPS are assessed
20 Schedule 11 charges for their share of regional transmission projects and their
21 share of transmission system projects in Zone 11. Mr. Freitas discusses specific
22 Schedule 11 charges assessed by SPP to SPS in the Test Year.

1 **Q. What is the SPP administrative fee?**

2 A. The SPP applies the administrative fee to all transmission service customers to
3 cover its expenses for several of the services it provides under its OATT, such as
4 reliability coordination, tariff administration, and seams agreements. The fee is
5 set annually by the SPP Board of Directors based on the next year's expected
6 budget, including reconciliation from the previous year's over-or-under-
7 collection. The fee is assessed based upon transmission services purchased or
8 provided pursuant to the SPP Tariff. The SPP administrative fee is recorded in
9 FERC Accounts 561.4, 561.8, and 575.7.

10 **Q. How does SPP collect these administrative fees?**

11 A. SPP collects these fees through Schedule 1-A of its OATT.

12 **Q. What administrative fee is SPS using in its Test Year?**

13 A. In December 2017, the SPP Board of Directors approved the 2018 Administrative
14 Fee of \$0.429 per MWh. In December of 2018, the SPP Board of Directors
15 approved the 2019 Administrative Fee of \$0.394 per MWh. Because the Test
16 Year is April 1, 2018 through March 31, 2019, both the administrative fees for
17 2018 (for April 1, 2018 – December 31, 2018) and 2019 (for January 1, 2019 –
18 March 31, 2019) were used for Test Year purposes.

19 **Q. Are the new transmission investment amounts charged by SPP and the SPP
20 administrative fee a reasonable and necessary cost of providing service?**

21 A. Yes, the transmission investment has allowed SPS to reliably serve its customers
22 while gaining greater access to economic market resources to serve the SPS
23 customers. The administrative fee which covers the transmission planning cost

1 and operating the SPP Integrated Market has been beneficial to the SPS
2 customers.

1 **XII. REQUESTED REGULATORY ASSETS/LIABILITIES**

2 **A. Attachment Z2 Charges**

3 **Q. Please describe SPS’s request with respect to the recovery of amounts paid to**
4 **SPP for Attachment Z2 charges for the 2008 through 2016 time period**
5 **(“Attachment Z2 Historical Period”).**

6 A. As discussed in Mr. Davis’s direct testimony, SPS proposes to continue to recover
7 from customers the amounts billed for the Attachment Z2 Historical Period as
8 reflected in SPS’s filed cost of service in Docket No. 47527 and to defer, as a
9 regulatory asset or liability, any differences between the amount assigned to
10 Texas and the Texas retail share of the final amount billed by SPP, excluding
11 interest.

1 **XIII. DEPRECIATION RATES AND RELATED EXPENSE**

2 **Q. Please summarize SPS's depreciation request in this case?**

3 A. SPS is providing a new depreciation study that covers all of its depreciable assets,
4 including the Hale Project. The depreciation study is sponsored by Mr. Watson
5 and proposed depreciation rates and resulting depreciation expenses are discussed
6 by Mr. Moeller.

7 **Q. Please summarize SPS's request with respect to Tolk.**

8 A. In Docket No. 47527, the depreciation rates for the Tolk Generating Station Units
9 1 and 2 were revised from 2042 and 2045 respectively, to 2037 for both units.²⁵
10 As part of the Stipulation reached in Docket No. 47527, SPS also agreed to update
11 its economic life analysis for the Tolk Generating Station and to include that
12 analysis in its next base rate case.²⁶ Consistent with this commitment, SPS, as
13 part of its rate filing, is providing a new depreciation study that supports its need
14 to increase depreciation expense and shorten the service lives of several of its
15 generating units, including the Tolk Generating Station units that are fueled by
16 coal. With respect to the Tolk Generating Station, SPS is proposing to change the
17 service lives of these assets to have them retire at December 31, 2032. Mr. Lytal
18 and Ms. Meeks present and discuss various retirement scenarios for the Tolk
19 Generating Station.

²⁵ *Application of Southwestern Public Service Company to Change Rates*, Docket No. 47527, Order at FoF No. 51 (Dec. 10, 2018).

²⁶ *Id.* at FoF No. 50.

1 **Q. In SPS’s last base rate case, SPS analyzed an operational scenario where the**
2 **Tolk units could be kept in service until 2042 and 2045, respectively. Why is**
3 **this no longer a viable option?**

4 A. That operational scenario contemplated the installation of a water pipeline and
5 hybrid cooling towers. Collectively, the estimated cost of those projects was
6 approximately \$400 million (total company). SPS has subsequently determined
7 that the water pipeline project is not possible and the hybrid cooling tower project
8 is not feasible.

9 With respect to the water pipeline project, negotiations would need to take
10 place with the City of Lubbock to secure the appropriate amount of water.
11 However, the City of Lubbock has since advised that it will not be able to sell the
12 needed amount of water to SPS for use at Tolk.

13 Regarding the hybrid cooling towers, the application of this technology
14 within the context of power plant operations is untested. The hybrid cooling
15 tower would cost approximately \$118 million per tower (total company), and it is
16 estimated that two towers would be needed to obtain the desired level of water
17 savings. Consequently, SPS has determined that the installation of hybrid cooling
18 towers at Tolk would be economically imprudent given the age of Tolk, the
19 uncertainty and cost of the technology, and the potential for increased
20 environmental costs that may occur at some point in the future. Moreover,
21 continued low natural gas prices make the relative economics of coal-fired
22 generation a challenge. The Energy Information Administration estimates that at
23 least 25 gigawatts of coal-fired capacity will retire within the next three years

1 (2018-2020), according to planned retirements reported to the agency. These
2 retirements are likely based on a myriad of reasons, but nonetheless underscore
3 that SPS is not alone when it comes to assessing the economics of continued
4 investment in its coal-fired units.

5 **Q. What steps has SPS taken to operate Tolk until 2032?**

6 A. SPS added 8 new water wells to Tolk between 2018 and 2019 in order to help
7 offset the predicted production deficits that Mr. Lytal discusses in his testimony.
8 In addition, SPS commissioned a 2018 groundwater study to assist the Company
9 in developing an overall strategy for the operation of the Tolk generating units
10 through 2032. The results of that study led SPS to conclude that the prudent
11 course of action is to reduce operations at Tolk in order to extend Tolk's life and
12 maintain its capacity value on the system, and to install synchronous condensers
13 to stabilize voltage on the transmission system during periods that Tolk is not
14 generating. The 2018 groundwater study results also confirm that, with
15 reasonable mitigation efforts, sufficient water should be able to be produced to
16 support operations through 2032.

17 **Q. Is SPS committed to retiring Tolk in 2032?**

18 A. Yes. SPS is committed to retiring Tolk in 2032 because there will be insufficient
19 water to support operations beyond that date.

1 **XIV. ANCILLARY SERVICES**

2 **Q. What topic do you discuss in this section of your testimony?**

3 A. In this section of my testimony, I discuss how SPS enters into transactions for the
4 sales and purchases of ancillary services in the SPP IM. I further explain that,
5 consistent with prior Commission precedent,²⁷ SPS should be allowed to recover
6 expenses and credit revenues related to ancillary service transactions with other
7 entities through eligible fuel expense. However, if the Commission does not
8 provide for this recovery in SPS's pending fuel reconciliation case,²⁸ the expenses
9 and revenues should be recovered or credited through the base rates established in
10 this case.²⁹ Also, SPS must be allowed the opportunity to recover all such
11 ancillary expenses and credit all such revenues through base rates for the period
12 ending on the first day of the test year for SPS's next base rate case.

13 **A. Description of Ancillary Services**

14 **Q. Please briefly describe ancillary services.**

15 A. Ancillary services were essentially created by FERC Order 888 to ensure
16 transmission providers were compensated for all of the services necessary to
17 provide transmission service to third-parties.³⁰ Ancillary services help balance

²⁷ *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 46025, Order at 4-5 (Mar. 30, 2017).

²⁸ *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 48973.

²⁹ This section applies only to ancillary services provided to or acquired from other entities. The ancillary services that SPS supplies for its own load are not affected.

³⁰ *Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, Order No. 888, FERC Stats. & Regs. ¶ 31,036 (1996), *order on reh'g*, Order No. 888-A, FERC Stats. & Regs. ¶ 31,048 (1997), *order on reh'g*, Order No. 888-B, 81 FERC ¶ 61,248 (1997), *order on reh'g*, Order

1 the transmission system as it moves electricity from generating sources to
2 ultimate consumers. Specifically, at any given point in time, the amount of
3 electricity produced must correspond precisely to the amount of electricity being
4 consumed to ensure secure operation of the electricity grid at a constant
5 frequency. Unforeseen fluctuations between electricity being added to and
6 withdrawn from the electrical grid must be balanced on short notice, which is
7 generally accomplished through directing power plant operators to increase or
8 reduce power plant output. All but one of the ancillary services involves
9 generating units. At a high level, the increasing or reducing of power plant output
10 is ancillary services. The amount of resources needed to meet ancillary services
11 requirements have always been spread over multiple units in the footprint rather
12 than carried on just a few units to ensure adequate response to system imbalances.
13 This dispatch of ancillary service allowed the balancing authority to respond to
14 ancillary service demands and to not depend on a few units to provide the service
15 to meet the reliability standards. This redispatch was optimized to meet the
16 optimal mix of carrying reserves while balancing the cost of the generation
17 output.

18 **Q. Please briefly describe the ancillary services SPS procures under the SPP**
19 **Open Access Transmission Tariff.**

20 A. Under the SPP Open Access Transmission Tariff, SPS procures ancillary services
21 under six ancillary service schedules. These schedules are:

No. 888-C, 82 FERC ¶ 61,046 (1998), *aff'd in part and remanded in part sub nom. Transmission Access Policy Study Grp. v. FERC*, 225 F.3d 667 (D.C. Cir. 2000), *aff'd sub nom. New York v. FERC*, 535 U.S. 1 (2002) ("Order 888").

- 1 • Schedule 1 – Scheduling, System Control and Dispatch Service
- 2 • Schedule 2 – Reactive Supply and Voltage Control from Generation or
- 3 Other Sources Service
- 4 • Schedule 3 – Regulation and Frequency Response Service
- 5 • Schedule 4 – Energy Imbalance Service
- 6 • Schedule 5 – Operating Reserve – Spinning Reserve Service
- 7 • Schedule 6 – Operating Reserve – Supplemental Reserve Service

8 **Q. Please describe Schedule 1 – Scheduling, System Control and Dispatch**
9 **Service.**

10 A. Schedule 1 services include the scheduling of the movement of power through,
11 out of, within, or into the SPP balancing area. SPP transmission customers, which
12 includes SPS, are required to purchase Schedule 1 services regardless of the type
13 of transmission purchased (network or point-to-point). Schedule 1 services are
14 provided by Transmission Operators, not Generation Owners or Operators.
15 Consequently, SPS recovers the costs associated with Schedule 1 ancillary
16 services and credits the revenues received for providing Schedule 1 services in
17 base rates.

18 **Q. Please describe Schedule 2 – Reactive Supply and Voltage Control from**
19 **Generation or Other Sources Services.**

20 A. Schedule 2 services maintain transmission voltages within acceptable limits.
21 Similar to Schedule 1, Schedule 2 services are a required part of transmission
22 service; however, Schedule 2 ancillary services are provided by Generation
23 Owners and Operators. Such services are provided out-of-market and are billed

1 on a demand charge (i.e., capacity) basis. Accordingly, SPS recovers the costs
2 associated with Schedule 2 ancillary services and credits the revenues received for
3 providing Schedule 2 services in base rates.

4 **Q. Please describe Schedule 3 – Regulation and Frequency Response Service.**

5 A. Schedule 3, Regulation and Frequency Response Service, is necessary to provide
6 for the continuous balancing of resources (generation and interchange) with load
7 and for maintaining normal operating frequency (i.e., 60 Hertz). Regulation and
8 Frequency Response Service is accomplished by committing on-line generation
9 whose output is raised or lowered (predominantly through the use of automatic
10 generating control equipment) and by other non-generation resources capable of
11 providing this service as necessary to follow the moment-by-moment changes in
12 load. All load within the SPP balancing area purchases Schedule 3 service
13 through the IM. Schedule 3 ancillary services are billed based on the amount of
14 energy consumed. Accordingly, in Docket No. 46025, which was SPS's most
15 recent fuel reconciliation proceeding and first such proceeding to include time
16 periods in which the SPP IM was operational, SPS sought to recover these
17 expenses and credit the revenues received through fuel.

18 **Q. Please describe Schedule 4 – Energy Imbalance Service.**

19 A. Schedule 4 is designed to cover differences that occur between the scheduled and
20 actual delivery of load within a control area over a given hour. This service is
21 provided as part of the day-ahead and real-time energy markets in the SPP IM.
22 Schedule 4 ancillary services were also provided by the SPP in the real-time EIS
23 Market. Schedule 4 ancillary services are billed based on the amount of energy

1 consumed. Accordingly, in Docket No. 46025, SPS sought to recover these
2 expenses and credit the revenues received through fuel.

3 **Q. Please describe Schedule 5 – Spinning Reserves.**

4 A. Schedule 5, Spinning Reserve Service is dispatched to serve load immediately in
5 the event of a system contingency. Spinning Reserve Service may be provided by
6 generating units that are on-line and loaded at less than maximum output and by
7 non-generation resources capable of providing this service. All load within the
8 SPP balancing area purchases Schedule 5 service through the IM. Schedule 5
9 ancillary services are billed based on the amount of energy consumed.
10 Accordingly, in Docket No. 46025, SPS sought to recover these expenses and
11 credit the revenues received through fuel.

12 **Q. Please describe Schedule 6 – Supplemental Reserves.**

13 A. Supplemental Reserve Service is dispatched to serve load in the event of a system
14 contingency; however, unlike Spinning Reserves, it is not required to be available
15 immediately to serve load, but rather within a short period of time, typically
16 within ten minutes. Supplemental Reserve Service may be provided by
17 generating units that are on-line but unloaded, by quick-start generation, or by
18 interruptible load or other non-generation resources capable of providing this
19 service. All load within the SPP balancing area purchases Schedule 6 service
20 through the IM. Schedule 6 ancillary services are billed based on the amount of
21 energy consumed. Accordingly, in Docket No. 46025, SPS sought to recover
22 these expenses and credit the revenues received through fuel.

1 **Q. Does SPS propose that all of these ancillary services costs and revenues**
2 **should be recovered through SPS’s fuel and purchased power costs, rather**
3 **than through base rates?**

4 A. No. As noted above, SPS currently reflects Schedules 1 and 2 expenses and
5 revenues in base rates. SPS proposes to continue this treatment. Schedule 4
6 expenses and revenues have been in SPS’s fuel and purchased power costs since
7 the creation of the SPP EIS Market, and SPS seeks to continue such treatment in
8 the SPP IM. Beginning with the SPP IM, Schedules 3, 5, and 6 expenses and
9 revenues should be included in fuel, as well, because they are energy-related
10 expenses.

11 **Q. Is there a term other than “ancillary services” that applies to Schedules 3, 5,**
12 **and 6?**

13 A. Yes, the term is “operating reserves.” Operating reserves are a subset of ancillary
14 services and consist of regulation service, spinning reserves service, and
15 supplemental reserves service. As discussed in my testimony, these operating
16 reserves (i.e., Schedules 3, 5, and 6) are energy-related because the SPP IM
17 established markets for these services and, thus, these expenses should be
18 recovered through fuel.

19 **B. Operating Reserves in the SPP IM**

20 **Q. Is the provision of operating reserves in the SPP IM different from how such**
21 **services were provided previously in the SPP EIS?**

22 A. Yes. The provision of operating reserves is different in that the IM has a specific
23 market for operating reserves and the requirement to provide those reserves has

1 been transferred to the SPP balancing authority. Formerly, in the EIS Market,
2 entities that formally performed as individual balancing authorities were required
3 to self-supply operating reserves. Entities that did not perform balancing
4 authority functions would either self-supply or purchase operating reserves from
5 their local balancing authority.

6 The nature of the energy in the EIS Market as compared to the energy in
7 the IM was different, as well. In the EIS Market, each individual balancing
8 authority would be responsible for the amount of reserves and regulation needed
9 in its individual area. The energy flowing due to the EIS Market dispatch was
10 considered non-firm energy and each individual balancing authority would have
11 to maintain the operating reserves necessary to back up non-firm transactions.
12 The energy in the SPP IM is considered firm energy and the SPP balancing
13 authority can provide operating reserves at a much reduced cost to the customer.
14 This is because the SPP, as the single balancing authority, can dispatch operating
15 reserves in a regional manner, which is more efficient.

16 Although SPS did not incur operating reserve costs explicitly as a
17 purchased power cost prior to the establishment of the SPP IM, SPS treated
18 operating reserve costs in essentially the same manner, as part of fuel costs; the
19 IM simply adds a measure of clarity to the costs that did not previously exist. In
20 addition, the SPP IM allows SPS to supply operating reserves to others in a
21 manner comparable to supplying energy. The SPP IM co-optimizes the provision
22 of operating reserves and energy so that overall costs of energy and operating
23 reserves are lower for customers.

1 **Q. Please elaborate on how SPS self-supplied or purchased operating reserves**
2 **prior to the operation of the SPP IM.**

3 A. Before the start of the SPP IM, SPS was the balancing authority for the SPS area.
4 This meant that SPS would have to commit enough resources to balance the load
5 and carry the reserves (ancillary services) in the SPS area. SPS would spread the
6 amount of reserves among several units to provide the adequate amount of
7 spinning reserves and ramping capability to maintain the balance of load to
8 generation. There has always been a cost of carrying these reserves that was
9 reflected in fuel cost. Each of the other 15 balancing authorities within the SPP
10 had the same responsibilities.

11 **Q. Please provide an example of how SPS would have provided operating**
12 **reserves in the SPP EIS.**

13 A. In the EIS, when SPS was approaching its reserve requirement, SPS would
14 commit enough base load units to supply its peak daily load plus reserve
15 requirement or start a peaking unit intraday to re-establish its reserve requirement.
16 If a peaking unit was started intraday, other more efficient units would have to be
17 unloaded to balance the area to absorb the generation of the peaking units'
18 minimum load requirement. This would result in an increase in fuel cost that was
19 recovered as an eligible fuel expense. Today, with the IM, SPS is not required to
20 start the peaking unit unless that unit is the most optimized solution in the
21 footprint.

1 **Q. Aside from the fuel expenses SPS incurred in self-supplying operating**
2 **reserves in the SPP EIS, did SPS incur any other operating reserve expenses**
3 **in the SPP EIS?**

4 A. Yes, to a limited extent. In some instances, SPS incurred Schedules 3, 5, and 6
5 ancillary services expenses when it acquired network transmission service as a
6 transmission agent for certain of its wholesale power customers. Schedules 3, 5,
7 and 6 ancillary services were purchased under transmission tariff demand rates,
8 and SPS received reimbursement from its wholesale power customers for the
9 charges SPS incurred as the agent. No expenses for operating reserves were
10 incurred under the SPP transmission tariff for SPS's retail customers prior to the
11 SPP IM because SPS was self-supplying those reserves as I described earlier.

12 **Q. Please describe how operating reserves are provided in the SPP IM.**

13 A. Under the IM, SPP acts as the balancing authority for the entire SPP. As part of
14 performing those responsibilities, SPP performs a co-optimized unit commit and
15 dispatch that maximizes the energy dispatch with the carrying of the ancillary
16 services to provide the total overall cost benefit to the region. The centralized
17 dispatch of ancillary reserves and the firmness of real time power flows under the
18 IM is more efficient than having each of the localized balancing authorities carry
19 reserves. Because SPP now acts as the centralized balancing authority, SPS
20 purchases operating reserves from the SPP IM and sells operating reserves to the
21 SPP IM.

1 **Q. Is it significant that SPS now purchases and sells operating reserves in the**
2 **SPP IM?**

3 A. Yes. The SPP market for operating reserves is a more efficient way for all entities
4 in the SPP to procure operating reserves. In addition, the SPP IM provides SPS
5 the ability to sell operating reserves above what is needed for its own load. This
6 ability creates additional energy sales margins that benefit SPS's customers.

7 **Q. Please discuss SPS's purchase and sale activities for operating reserves in the**
8 **SPP IM in more detail.**

9 A. Regarding purchases, the SPP IM places value and transparency into the activities
10 that have always taken place. As applied to the peaking unit example I discussed
11 earlier, before the SPP IM, SPS would have recovered the fuel cost associated
12 with operating the peaking unit through its fuel factors without any specific fuel
13 cost being associated with this expense. The hourly expenses SPS now incurs in
14 the SPP IM are not capacity-related simply because they are supplied by many
15 generation owners through the SPP IM instead of by SPS generators only through
16 self-supply.

17 Regarding sales, the operating reserves market in the SPP IM provides
18 SPS the opportunity to maximize the benefit of SPS resources on behalf of its
19 customers. Specifically, by co-optimizing the energy and operating reserve
20 markets, the SPP IM allows SPS to purchase energy from the market when it is
21 cheaper than SPS's resources and, at the same time, supply operating reserves to
22 other entities that could very well be supplying the cheaper energy from their
23 resources. SPS's customers benefit from these significant margins on operating

1 reserve sales into the IM. Thus, the creation of an operating reserves market has
2 been very beneficial to SPS's customers.

3 **C. Operating Reserve Sales are Comparable to Energy Sales**

4 **Q. Previously you described the market for operating reserves. Is this market**
5 **for operating reserves similar to the SPP IM market for energy?**

6 A. Yes. The operating reserves markets are settled in the same manner as the energy
7 markets in the SPP IM. As discussed earlier, SPS has always passed these costs
8 through fuel; the SPP IM simply adds more visibility to these expenses and
9 provides SPS the ability to make operating reserves sales. As such, both the
10 charges and revenues for operating reserves are appropriately charged through
11 fuel.

12 **Q. Should ancillary services be treated the same as energy sales?**

13 A. Yes. As discussed earlier, operating reserve sales are comparable to energy sales.
14 SPS bids in all of its available generation resources into both the energy and
15 operating reserves markets in the SPP IM. If the SPP IM market model
16 determines that SPS resources are needed to meet the reserve requirement above
17 the amount needed for SPS load, this would be because these resources were
18 calculated to be the most fuel-saving option to meet the reserves and is therefore
19 no different than energy-only sales discussed earlier. Accordingly, SPS maintains
20 that the ancillary services expenses, revenues, and margins attributable to
21 transactions with entities other than SPS should be included in fuel, rather than in
22 base rates. However, if the Commission does not provide for this recovery in

1 SPS's pending fuel reconciliation case,³¹ such amounts must be recovered or
2 credited through the base rates established in this case and SPS must be allowed
3 the opportunity to recover all such cost through base rates for the period ending
4 on the first day of the test year for SPS's next base rate case

³¹ *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs*, Docket No. 48973.

1 **XV. AFFILIATE CLASSES SPONSORED**

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

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

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

12 A. I sponsor the following three classes of affiliate services: Strategic Revenue
13 Initiatives; PSCo President; and Corporate Giving. Although the Corporate
14 Giving class appears as an affiliate class on the affiliate cost attachments to my
15 testimony, SPS is not requesting recovery of the costs assigned to Corporate
16 Giving.

1 **XVI. AFFILIATE EXPENSES FOR THE STRATEGIC**
2 **REVENUE INITIATIVES CLASS OF SERVICES**

3 **A. Summary of Affiliate Expenses for the Strategic Revenue**
4 **Initiatives Class of Services**

5 **Q. Is the Strategic Revenue Initiatives affiliate class a new affiliate class?**

6 A. No. I sponsored the costs related to this class in SPS's most recent base rate case,
7 Docket No. 47527. As I discuss further below, the services of this class are
8 necessary to address a variety of emerging customer needs that have arisen from
9 changing demographics and demands.

10 **Q. Where does the Strategic Revenue affiliate class fit into the overall affiliate**
11 **structure?**

12 A. Attachment MLS-RR-6 to Ms. Schmidt's direct testimony provides a list and a
13 pictorial display of all affiliate classes, dollar amounts for those classes, and
14 sponsoring witness for each class. As seen on that attachment, the Strategic
15 Revenue Initiatives affiliate class was part of the Customer and Innovation
16 business area during the Updated Test Year. Attachment WAG-RR-6 to my
17 testimony is an organization chart showing the Group Presidents organization.

18 **Q. What services are grouped into the Strategic Revenue Initiatives affiliate**
19 **class?**

20 A. The services that are grouped into the Strategic Revenue Initiatives affiliate class
21 are those associated with leading, coordinating, collaborating, and engaging in
22 multiple innovative electric service options for the benefit of SPS and its
23 customers. With advancements in technology and increased focus on energy
24 efficiency, the Strategic Revenue Initiatives class works to meet customer desires

1 for non-traditional services. By evaluating emerging technologies that can benefit
 2 customers and the SPS system and developing new technologies to be deployed
 3 when they are cost-effective, the Strategic Revenue Initiatives class supports
 4 SPS's ability to provide safe and reliable electric service to its customers.

5 **Q. What is the dollar amount of the Updated Test Year XES charges that SPS**
 6 **requests, on a total company basis, for the Strategic Revenue Initiatives**
 7 **affiliate class?**

8 A. The following table summarizes the dollar amount of the estimated Updated Test
 9 Year XES charges for the Strategic Revenue Initiatives affiliate class. I will
 10 update the table below as part of SPS's 45-day case update filing to reflect the
 11 actual Updated Test Year costs for the Strategic Revenue Initiatives affiliate class.

12 **Table WAG-RR-8 – Strategic Revenue Initiatives Affiliate Charges**

Class of Services	Requested Amount of XES Class Expenses Billed to SPS (Total Company)			
	Total XES Class Expenses	Requested Amount	% Direct Billed	% Allocated
Strategic Revenue Initiatives	\$1,941,839	\$223,199	0%	100%

Total XES Class Expenses

Dollar amount of total Updated Test Year expenses that XES charged to all Xcel Energy companies for the services provided by this affiliate class. This is the amount from Column E in Attachment WAG-RR-A.

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

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

% Direct Billed

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

% Allocated

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

1 **Q. Please describe the attachments that support the information provided on**
2 **Table WAG-RR-9.**

3 A. There are four attachments to my testimony that present information about the
4 SPS affiliate expenses for the Strategic Revenue Initiatives affiliate class.

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

Column A — Line number Lists the Attachment line numbers.

Column B — Affiliate Class Lists the affiliate class.

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

Column K —	Requested Amount (total company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column I is Column G plus Column H.
Column L —	Percentage of class charges	Shows the percentage of affiliate class charges billed using the cost center.

1 In her direct testimony, Ms. Schmidt provides a consolidated summary of
2 affiliate expenses billed to SPS for all classes during the Updated Test Year, as
3 well as the Test Year (April 1, 2018 through March 31, 2019).

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

Column A —	Line Number	Lists the Attachment line numbers.
Column B —	Legal Entity Receiving XES Expenses	Shows the legal entity (Xcel Energy or one of its subsidiaries) that received the XES expense.
Column C —	Affiliate Class	Lists the affiliate class.
Column D —	Cost Element	Provides the cost element number
Column E —	Activity	Provides a short title for the activity.

Column F —	Billing Method (Cost Center)	Identifies the billing method and short title. In his direct testimony, Ms. Schmidt explains the billing methods and defines the codes.
Column G —	FERC Account	Shows the FERC Account in which the expense was recorded.
Column H —	XES Billings for Class to All Companies (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to all companies.
Column I —	XES Billings for Class to All Companies Except SPS (FERC Acct 400-935)	Shows the itemized amount of the listed XES expense that was billed to all companies other than SPS.
Column J —	XES Billings for Class to SPS (total company) (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to SPS. Therefore, the sum of this column provides total billings to SPS and ties to the total dollar amount for the affiliate class in Column E of Attachment WAG-RR-A.
Column K —	Exclusions	Shows the total dollars excluded from Column H. The total dollar amount for the affiliate class in Column I ties to the total dollar amount for the affiliate class in Column F of Attachment WAG-RR-A.
Column L —	Per Book	Shows XES billings to SPS (total company), for the affiliate class, after the exclusions shown in Column I. The dollar amount in Column J is Column H plus Column I. The total dollar amount for the affiliate class in Column J ties to the total dollar amount for the affiliate class in Column G of Attachment WAG-RR-A.

Column M —	Pro Formas	Shows the dollar amount of pro forma adjustments to the dollar amount in Column J. The total dollar amount for the affiliate class in Column K ties to the total dollar amount for the affiliate class in Column H of Attachment WAG-RR-A.
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Column N —	Requested Amount (total company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column L is Column J plus Column K. The total dollar amount for the affiliate class in Column L ties to the total dollar amount for the affiliate class in Column I of Attachment WAG-RR-A.
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1 Ms. Schmidt also provides a consolidated summary of this information for
2 all affiliate classes during the Updated Test Year, as well as the Test Year (April
3 1, 2018 through March 31, 2019).

4 **Attachment WAG-RR-C:** Both Attachments WAG-RR-A and
5 WAG-RR-B(CD) show exclusions to the XES expenses billed to SPS for the
6 Strategic Revenue Initiatives affiliate class (Attachment WAG-RR-A, Column H;
7 Attachment WAG-RR-B(CD), Column K). Attachment WAG-RR-C provides
8 detail about those exclusions listed on Attachments WAG-RR-A and WAG-RR-
9 B(CD). The columns on this Attachment WAG-RR-C provide the following
10 information.

Column A —	Line Number	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account for the expense that has been excluded.

Column D —	Explanations for Exclusions	Provides a brief rationale for the exclusion.
Column E —	Exclusions (total company)	Shows the dollar amount of the exclusion.

1 In her direct testimony, Ms. Schmidt describes the calculations underlying
2 the exclusions.

3 **Attachment WAG-RR-D:** Both Attachments WAG-RR-A and
4 WAG-RR-B(CD) show pro forma adjustments to SPS's per book expenses for the
5 Strategic Revenue Initiatives (Attachment WAG-RR-A, Column J; Attachment
6 WAG-RR-B(CD), Column M). Attachment WAG-RR-D provides information
7 about those pro forma adjustments shown on Attachments WAG-RR-A and
8 WAG-RR-B(CD). The columns on Attachment WAG-RR-D provide the
9 following information.

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

1 **Q. Does XES bill its expenses for the Strategic Revenue Initiatives class to SPS**
2 **in the same manner as it bills other affiliates?**

3 A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and
4 allocating costs to affiliates other than SPS that it uses to bill and allocate those
5 costs to SPS.

6 **Q. Are there any exclusions to the XES billings to SPS for the Strategic Revenue**
7 **Initiatives affiliate class?**

8 A. Yes. As I mentioned earlier, exclusions reflect expenses not requested, such as
9 expenses not allowed or other below-the-line items. Exclusions are shown on
10 Attachment WAG-RR-A, Column H, and on Attachment WAG-RR-B(CD),
11 Column K. The details for the exclusions are provided in Attachment WAG-RR-
12 C. Ms. Schmidt describes how the exclusions were calculated. In SPS's 45-day
13 case update, I will present an updated Attachment WAG-RR-C that will provide
14 actual exclusions to replace any estimated exclusions included in my original
15 attachment.

16 **Q. Are there any pro forma adjustments to SPS's per book expenses for the**
17 **Strategic Revenue Initiatives affiliate class?**

18 A. Yes. As I mentioned earlier, pro forma adjustments are revisions to Updated Test
19 Year expenses for known and measurable changes. Pro forma adjustments are
20 shown on Attachment WAG-RR-A, Column J, and on Attachment WAG-RR-
21 B(CD), Column M. The details for the pro forma adjustments, including the
22 witness or witnesses who sponsor each pro forma adjustment, are provided in
23 Attachment WAG-RR-D. As shown on that attachment, I am not a sponsor for

1 the pro forma adjustments for the Strategic Revenue Initiatives affiliate class.
2 Given the time of SPS's initial filing, only the first nine months of the Updated
3 Test Year have completed the full pro forma adjustment review process. In SPS's
4 45-day case update, I will present an updated Attachment WAG-RR-D that will
5 complete the full pro forma adjustment review process for the last three months of
6 the Updated Test Year.

7 **B. The Strategic Revenue Initiatives Class of Services are Necessary**
8 **Services**

9 **Q. Are the services that are grouped in the Strategic Revenue Initiatives affiliate**
10 **class necessary for SPS's operations?**

11 A. Yes. The services grouped in the Strategic Revenue Initiatives affiliate class are
12 critical to SPS's economic development and ability to deliver innovative electric
13 service options to customers. The Strategic Revenue Initiatives class is
14 responsible for the Corporate Economic Development Program, which provides
15 customer and Operating Company support for business expansion, retention, and
16 attraction. In addition, the Strategic Revenue Initiatives class is responsible for
17 the development and cost-effective protocol implementation of electric service
18 options and program development. For example, programs under evaluation
19 include storage solutions (i.e., batteries), electric vehicles, microgrid initiatives,
20 and other emerging technological advances that are important to meet long-term
21 customer demands.

1 **Q. What are the specific services that are provided to SPS by the Strategic**
2 **Revenue Initiatives affiliate class?**

3 A. The specific services that are provided to SPS by the Strategic Revenue Initiatives
4 affiliate class are:

- 5 • evaluating emerging technologies that can benefit the system and
6 customers through reduced energy usage, improved grid management,
7 and other measures and developing new technologies to be deployed
8 when they are cost-effective;
- 9 • directly leading and competing for new customers and load growth,
10 including national sales and economic development;
- 11 • working with SPS employees to meet with various communities
12 regarding economic development potential; and
- 13 • processing potential certified sites for prospective customers to build
14 or expand within the SPS service territory.

15 **Q. Are any of the Strategic Revenue Initiatives class of services that are**
16 **provided to SPS duplicated elsewhere in XES or in any other Xcel Energy**
17 **subsidiary such as SPS itself?**

18 A. No. Within XES, none of the services grouped in the Strategic Revenue
19 Initiatives affiliate class are duplicated elsewhere. No other Xcel Energy
20 subsidiary performs these services for the Operating Companies. In addition, SPS
21 does not perform these services for itself.

22 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
23 **Strategic Revenue Initiatives class of services?**

24 A. Yes. The services of the Strategic Revenue Initiatives class benefit SPS's
25 customers in many ways. For example, this class is responsible for the Corporate
26 Economic Development program, which has established key communications

1 with national customers to enable expansion opportunities, renewable energy
2 options, and capital investment in the SPS region. These efforts are focused on
3 not only maintaining jobs but also aiding in the ability to maintain and expand
4 healthy communities and utilization of the electric system. The Corporate
5 Economic Development program also actively markets SPS as a viable location
6 for new future industrial and commercial customers. The potential load growth
7 from these new customers could enable SPS to maintain more steady rates. This
8 benefits SPS's Texas retail customers from multiple perspectives, those that
9 directly impact their utility bill and those that impact their communities and
10 potentially their own livelihood.

11 **C. The Strategic Revenue Initiatives Class of Services are Provided**
12 **at a Reasonable Cost**

13 **Q. Are the costs of the Strategic Revenue Initiatives class of services reasonable?**

14 A. Yes. The costs of the Strategic Revenue Initiatives class of services are
15 reasonable. The services are provided on a consolidated basis for multiple Xcel
16 Energy legal entities. As a result, SPS benefits from sophisticated services, the
17 consolidated costs of which are shared. The economies of scale inherent in this
18 system result in reasonable costs for SPS for these services.

19 *1. Additional Evidence*

20 **Q. Is there additional support for your opinion that the costs of the Strategic**
21 **Revenue Initiatives affiliate class are reasonable?**

22 A. Yes. Approximately 74% of the costs for the Strategic Revenue Initiatives class
23 consists of compensation and benefits costs for XES personnel. Mr. Knoll

1 establishes that the level of Xcel Energy's compensation and benefits is
2 reasonable and necessary.

3 *2. Budget Planning*

4 **Q. Is a budget planning process applicable to the Strategic Revenue Initiatives**
5 **class of affiliate costs?**

6 A. Yes. Annual O&M budgets are created for the Customer and Innovation business
7 area, which includes the Strategic Revenue Initiatives class of affiliate costs,
8 using guidelines developed at the corporate level. Each manager within the
9 Customer and Innovation business area carefully reviews historical spend
10 information, identifies changes that will be coming in the future, and analyzes the
11 costs associated with those changes prior to submitting a proposed budget. The
12 budgeting process is discussed in more detail in the testimony of Mr.
13 Dietenberger.

14 **Q. During the fiscal year, does the Customer and Innovation business area**
15 **monitor its actual expenditures versus its budget?**

16 A. Yes. Actual versus expected expenditures are monitored on a monthly basis.
17 Deviations are evaluated each month to ensure that costs are appropriate. In
18 addition, action plans are developed to mitigate variations in actual to budgeted
19 expenditures. These mitigation plans may either reduce or delay other
20 expenditures so that the revised budget supports the authorized budget. If
21 authorized budget adjustments are required, they are identified and approved at an
22 appropriate level of management.

1 **Q. Are employees within the Customer and Innovation business area held**
2 **accountable for deviations from the budget?**

3 A. Yes. The managers of the Customer and Innovation business area, which includes
4 the Strategic Revenue Initiatives department, are required to manage their
5 expenses to support the financial goals established by the business area. Budgets
6 are reviewed monthly to ensure adherence to the goals and to discuss action
7 necessary to address variances. Failure to meet these performance goals may
8 affect the business area overall results and the managers' performance evaluations
9 and overall compensation.

10 *3. Cost Trends*

11 **Q. Please state the dollar amounts of the actual charges (per book) from XES to**
12 **SPS for the Strategic Revenue Initiatives class of services for the three fiscal**
13 **years preceding the end of the Updated Test Year and the charges (per book)**
14 **for the estimated Updated Test Year.**

15 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
16 years), the actual per book and, for the Updated Test Year, the estimated per book
17 affiliate charges (Column I on Attachment WAG-RR-A) from XES to SPS for the
18 services grouped in the Strategic Revenue Initiatives affiliate class.

19 **Table WAG-RR-9**
20 **Strategic Revenue Initiatives (Per Book) Charges Over Time**

Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Strategic Revenue Initiatives	\$5,059	\$198,008	\$243,276	\$233,005

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

2 A. The Strategic Revenue Initiatives class was created in September 2016. As such,
3 the increase in costs between 2016 and 2018 was due to adding employees to this
4 group in both 2017 and 2018. The costs between calendar year 2018 and the
5 Updated Test Year were relatively stable.

6 *4. Staffing Trends*

7 **Q. Please provide the staffing levels for the Strategic Revenue Initiatives class of**
8 **services for the three fiscal years preceding the end of the Updated Test Year**
9 **and the Updated Test Year.**

10 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
11 years) and for the Updated Test Year, the average of the end of month staffing
12 levels for the Strategic Revenue Initiatives class of services.

13 **Table WAG-RR-10**
14 **Strategic Revenue Initiatives Staffing Trends**

Class of Services	Average End of Month # of Staff			
	2016	2017	2018	Updated Test Year (Estimated)
Strategic Revenue Initiatives	1	6	8	8

15 **Q. What are the reasons for the change in staffing over this time period?**

16 A. As mentioned above, the Strategic Revenue Initiatives affiliate class was created
17 in September 2016 and was not fully staffed at the time it was created. Additional
18 staff was added in 2017 and 2018 to perform the activities required of the
19 Strategic Revenue Initiatives affiliate class.

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1 services are the actual costs that XES incurred in providing those services to SPS.
2 A single, specific allocation method, rationally related to the costs drivers
3 associated with the service being provided, is used with each cost center (billing
4 method). In her direct testimony, Ms. Schmidt discusses the selection of billing
5 methods and XES's method of charging for services in more detail.

6 **Q. How are the costs of the Strategic Revenue Initiatives affiliate class billed to**
7 **SPS?**

8 A. My Attachment WAG-RR-B(CD) shows all of the costs in this class broken out
9 by activity and, in conjunction with Column C in my Attachment WAG-RR-A,
10 shows the billing method associated with each activity. My Attachment
11 WAG-RR-A, shows the allocation method (Column D) associated with each
12 billing method (Column C) used in the affiliate class.

13 In SPS's 45-day case update, I will present updated Attachments
14 WAG-RR-A and WAG-RR-B(CD) so that the entries for the last three months of
15 the Updated Test Year provide actual data and conform to the information
16 provided for the first nine months. In the event the predominant billing methods
17 and associated allocation methods for the Strategic Revenue Initiatives affiliate
18 O&M expenses on my updated Attachments WAG-RR-A and WAG-RR-B(CD)
19 differ from those discussed below, I will explain those differences in
20 supplemental testimony in SPS's 45-day case update filing.

1 **Q. What are the predominant allocation methods used for billing the costs that**
2 **SPS seeks to recover for the Strategic Revenue Initiatives affiliate class of**
3 **services?**

4 A. All of the XES charges to SPS for this class were charged using one allocation
5 method:

- 6 • Assets/Revenue/No. of Employees – 100% of XES charges to SPS –
7 \$223,199.04.

8 **Q. Why is it appropriate to allocate costs based upon the “Assets/Revenue/No. of**
9 **Employees” method for the costs captured in the cost centers that use that**
10 **allocation method?**

11 A. Cost Center 200092, which uses the “Assets/Revenue/No. of Employees” method
12 as the allocator, captures costs associated with studying, developing, and
13 demonstrating new energy technologies for future utility uses, providing
14 Operating Company strategy and planning support, and providing leadership for
15 Xcel Energy’s renewable energy strategy and business development. Because
16 these services are comprised of a broad spectrum of activities, no measurable
17 method of cost causative allocation was found to allocate these costs; therefore,
18 the three-factor formula was used. These services are allocated to a subset of
19 companies based on who benefits from the services. For the cost centers that
20 assign costs based upon this allocation method, the per unit amounts charged by
21 XES to SPS as a result of the application of this allocation method are no higher
22 than the unit amounts billed by XES to other affiliates for the same or similar
23 services and represent the actual costs of the services.

1 **XVII. AFFILIATE EXPENSES FOR PSCO PRESIDENT**

2 **CLASS OF SERVICES**

3 **A. Summary of Affiliate Expenses for the PSCo President Class of**
4 **Services**

5 **Q. Where does the PSCo President affiliate class fit into the overall affiliate**
6 **structure?**

7 A. Attachment MLS-RR-6 to Ms. Schmidt’s direct testimony provides a list and a
8 pictorial display of all affiliate classes, dollar amounts for those classes, and
9 sponsoring witness for each class. As seen on that attachment, the PSCo
10 President affiliate class was part of the Group Presidents business area during the
11 Updated Test Year. Attachment WAG-RR-6 to my testimony is an organization
12 chart showing the Group Presidents organization.

13 **Q. What services are grouped into the PSCo President affiliate class?**

14 A. The services that are grouped into the PSCo President affiliate class are rate
15 analysis, economic analysis, interest rate forecasts, bond due diligence, rate entry,
16 rate structure modification, and billing implementation of new rates in the
17 Customer Resources System (“CRS”), for all four Operating Companies.

18 **Q. What is the dollar amount of the Updated Test Year XES charges that SPS**
19 **requests, on a total company basis, for the PSCo President affiliate class?**

20 A. The following table summarizes the dollar amount of the estimated Updated Test
21 Year XES charges for the PSCo President affiliate class. The table headings are
22 explained following the table. I will update the table below as part of SPS’s

1 45-day case update filing to reflect the actual Updated Test Year costs for the
 2 PSCo President affiliate class.

3 **Table WAG-RR-11 – PSCo President Affiliate Charges**

		Requested Amount of XES Class Expenses Billed to SPS (Total Company)		
Class of Services	Total XES Class Expenses	Requested Amount	% Direct Billed	% Allocated
PSCo President	\$1,664,633	\$44,051	100%	0%

Total XES Class Expenses

Dollar amount of total Updated Test Year expenses that XES charged to all Xcel Energy companies for the services provided by this affiliate class. This is the amount from Column E in Attachment WAG-RR-A.

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

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

% Direct Billed

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

% Allocated

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

1 **Q. Please describe the attachments that support the information provided on**
2 **Table WAG-RR-11.**

3 A. There are four attachments to my testimony that present information about the
4 requested SPS affiliate expenses for the PSCo President affiliate class. I
5 explained these attachments in detail previously in Section XVII of my testimony.

6 **Q. Does XES bill its expenses for the PSCo President affiliate class to SPS in the**
7 **same manner as it bills other affiliates for those expenses?**

8 A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and
9 allocating costs to affiliates other than SPS that it uses to bill and allocate those
10 costs to SPS.

11 **Q. Are there any exclusions to the XES billings to SPS for the PSCo President**
12 **affiliate class?**

13 A. Thus far, no. As I mentioned earlier, exclusions reflect expenses not requested,
14 such as expenses not allowed or other below-the-line items. Exclusions are
15 shown on Attachment WAG-RR-A, Column H, and on Attachment WAG-RR-
16 B(CD), Column K. The details for the exclusions are provided in Attachment
17 WAG-RR-C. As I mentioned earlier, Ms. Schmidt describes how the exclusions
18 were calculated. In SPS's 45-day case update, I will present an updated
19 Attachment WAG-RR-C that will provide actual exclusions to replace any
20 estimated exclusions included in my original attachment.

1 **Q. Are there any pro forma adjustments to SPS's per book expenses for the**
2 **PSCo President affiliate class?**

3 A. Yes. As I mentioned earlier, pro forma adjustments are revisions to Updated Test
4 Year expenses for known and measurable changes. Pro forma adjustments are
5 shown on Attachment WAG-RR-A, Column J, and on Attachment WAG-RR-B,
6 Column M. The details for the pro forma adjustments, including the witness or
7 witnesses who sponsor each pro forma adjustment, are provided in Attachment
8 WAG-RR-D. As shown on Attachment WAG-RR-D, I am not a sponsoring
9 witness for the pro forma adjustments for the PSCo President affiliate class.
10 Given the time of SPS's initial filing, only the first nine months of the Updated
11 Test Year have completed the full pro forma adjustment review process. In SPS's
12 45-day case update, I will present an updated Attachment WAG-RR-D that will
13 complete the full pro forma adjustment review process for the last three months of
14 the Updated Test Year.

15 **B. The PSCo President Class of Services are Necessary Services**

16 **Q. Are the services that are grouped in the PSCo President affiliate class**
17 **necessary for SPS's operations?**

18 A. Yes. The services grouped in the PSCo President affiliate class are necessary to
19 ensure that rate and billing information entered in CRS is in accordance with SPS
20 approved tariffs, customer bills are generated using the correct rates, and that
21 economic data used in regulatory filings before the Commission and elsewhere
22 are accurate and informative. These are functions required by all utilities and
23 without which SPS would not be able to provide electric service to its customers.

- 1 **Q. What are the specific services that are provided to SPS by the PSCo**
2 **President affiliate class?**
- 3 A. The specific services that are provided to SPS by the PSCo President affiliate
4 class are associated with updating the CRS with new or revised SPS tariffs and
5 rates. As mentioned previously, the CRS system is the billing and information
6 system used throughout Xcel Energy, including by SPS, and employees within the
7 PSCo department have the specialized training required to input this information.
8 These employees are responsible for reviewing all changes in SPS tariffs,
9 understanding the design of the tariffs, building a project plan for implementation
10 of each tariff in the CRS system, working with information technology personnel
11 for scheduling and testing, and working with the billing department to ensure that
12 the tariffs have been correctly implemented in the CRS system and that customers
13 will receive accurate bills. In addition, this class provides SPS with economic
14 analysis, interest rate forecasts, bond due diligence, and expert witness testimony
15 on these issues as necessary.
- 16 **Q. Are any of the PSCo President class of services that are provided to SPS**
17 **duplicated elsewhere in XES or in any other Xcel Energy subsidiary such as**
18 **SPS itself?**
- 19 A. No. Within XES, none of the services grouped in the PSCo President affiliate
20 class are duplicated elsewhere. No other Xcel Energy subsidiary performs these
21 services for the Operating Companies. In addition, SPS does not perform these
22 services for itself.

1 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
2 **PSCo President class of services?**

3 A. Yes. The services of the PSCo President class benefit SPS customers by ensuring
4 that the billings to customers are at the approved tariff rates and that information
5 and resources are available for regulatory filings.

6 **C. The PSCo President Class of Services are Provided at a**
7 **Reasonable Cost**

8 **Q. Are the costs of the PSCo President class of services reasonable?**

9 A. Yes. The costs of the PSCo President class of services are reasonable. The
10 services are provided on a consolidated basis for multiple Xcel Energy legal
11 entities. As a result, SPS benefits from sophisticated services, the consolidated
12 costs of which are shared. The economies of scale inherent in this system result
13 in reasonable costs for SPS for these services.

14 *1. Additional Evidence*

15 **Q. Is there additional support for your opinion that the costs of the PSCo**
16 **President affiliate class are reasonable?**

17 A. Yes. Of the estimated Updated Test Year costs for the PSCo President affiliate
18 class, 100% are compensation and benefits costs for XES personnel. Mr. Knoll
19 and Mr. Schrubbe establish that the level of Xcel Energy's compensation and
20 benefits is reasonable and necessary.

2. *Budget Planning*

Q. Is a budget planning process applicable to the PSCo President class of affiliate costs?

A. Yes. Annual O&M budgets are created for the Group Presidents business area, which includes the PSCo President class of affiliate costs, using guidelines developed at the corporate level. Each manager within the Utilities & Corporate Services business area carefully reviews historical spend information, identifies changes that will be coming in the future, and analyzes the costs associated with those changes prior to submitting a proposed budget. The budgeting process is discussed in more detail in the testimony of Mr. Dietenberger.

Q. During the fiscal year, does the Group Presidents business area monitor its actual expenditures versus its budget?

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

Q. Are employees within the Group Presidents business area held accountable for deviations from the budget?

A. Yes. The managers of the Group Presidents business area, which includes the PSCo President department, are required to manage their expenses to support the

financial goals established by the business area. Budgets are reviewed monthly to ensure adherence to the goals and to discuss action necessary to address variances. Failure to meet these performance goals may affect the business area overall results and the managers' performance evaluations and overall compensation.

3. Cost Trends

Q. Please state the dollar amounts of the actual charges (per book) from XES to SPS for the PSCo President class of services for the three fiscal years preceding the end of the Updated Test Year and the charges (per book) for the estimated Updated Test Year.

A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar years), the actual per book and, for the Updated Test Year, the estimated per book affiliate charges (Column I on Attachment WAG-RR-A) from XES to SPS for the services grouped in the PSCo President affiliate class:

Table WAG-RR-12

PSCo President (Per Book) Charges Over Time

Class of Services	2016	2017	2018	Updated Test Year (Estimated)
PSCo President	63,194	13,331	34,365	44,590

Q. What are the reasons for this trend?

A. The reason for the decrease in costs between 2016 and 2017 was due to few activities for the PSCo President class to perform on behalf of SPS. The increase in costs from 2017 to 2018 was a return to business as normal. The costs between

1 2018 and the Updated Test Year were stable and reflect normal business
2 operations.

3 *4. Staffing Trends*

4 **Q. Please provide the staffing levels for the PSCo President class of services for**
5 **the three fiscal years preceding the end of the Updated Test Year and the**
6 **Updated Test Year.**

7 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
8 years) and for the Updated Test Year, the average of the end of month staffing
9 levels for the PSCo President class of services.

10 **Table WAG-RR-13**
11 **PSCo President Staffing Trends**

	Average End of Month # of Staff			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
PSCo President	16	15	11	10

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

13 A. The decrease in average staffing levels between 2016 and the Updated Test Year
14 is due to the movement of headcount to the Strategic Revenue Initiatives affiliate
15 class.

1 5. *Cost Control and Process Improvement Initiatives*

2 **Q. Separate from the budget planning process, does the PSCo President affiliate**
3 **class take any steps to control its costs or to improve its services?**

4 A. Yes. The PSCo President organization continually reviews its plans and
5 initiatives and staffing to ensure they are appropriate and to identify and
6 implement improvements. For example, the department carefully evaluates hiring
7 replacements if employees leave. Positions are often left vacant for several
8 months in order to evaluate if an employee needs to be replaced. Updates in
9 systems or the development and implementation of new systems may also lead to
10 savings in headcount or contractor costs. Use of electronic technology may also
11 lead to small gains in cost reductions by converting the manual dissemination of
12 information into electronic format.

13 **D. The Costs for the PSCo President Class of Services are Priced in a**
14 **Fair Manner**

15 **Q. For those costs that XES charges (either directly or through use of an**
16 **allocation) to SPS for the PSCo President class of services, does SPS pay any**
17 **more for the same or similar service than does any other Xcel Energy**
18 **affiliate?**

19 A. No.

20 **Q. Why do you answer “no”?**

21 A. The XES charges to SPS for any particular service are no higher than the XES
22 charges to any other Xcel Energy affiliate. The costs charged for particular
23 services are the actual costs that XES incurred in providing those services to SPS.

1 A single, specific allocation method, rationally related to the costs drivers
2 associated with the service being provided, is used with each cost center (billing
3 method). In her direct testimony, Ms. Schmidt discusses the selection of billing
4 methods and XES's method of charging for services in more detail.

5 **Q. How are the costs of the PSCo President affiliate class billed to SPS?**

6 A. My Attachment WAG-RR-B shows all of the costs in this class broken out by
7 activity and, in conjunctions with Column C in my Attachment WAG-RR-A,
8 shows the billing method associated with each activity. My Attachment WAG-
9 RR-A, shows the allocation method (Column D) associated with each billing
10 method (Column C) used in the affiliate class.

11 In SPS's 45-day case update, I will present updated Attachments WAG-
12 RR-A and WAG-RR-B so that the entries for the last three months of the Updated
13 Test Year provide actual data and conform to the information provided for the
14 first nine months. In the event the predominant billing methods and associated
15 allocation methods for the PSCo President affiliate O&M expenses on my
16 updated Attachments WAG-RR-A and WAG-RR-B differ from those discussed
17 below, I will explain those differences in supplemental testimony in SPS's 45-day
18 case update filing.

19 **Q. What are the predominant allocation methods used for the PSCo President**
20 **affiliate class of services?**

21 A. 100% of the XES charges to SPS for this class were charged using one allocation
22 method:

- 23 • Direct Billing – 100% of XES charges to SPS – \$44,051.09.

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

3 A. For the cost centers that are assigned using the “Direct Billing” method, the costs
4 normally reflect work that was performed specifically for SPS only. In some
5 cases, however, the direct billing occurred after the application of an off-line
6 allocator that tracks the relevant cost drivers. In either situation, the cost centers
7 charged using the “Direct Billing” method are appropriate because the assignment
8 of costs is in accordance with the distribution of benefits for the services received.
9 For example, the labor costs associated with personnel who enter new SPS tariff
10 billing rates into CRS are assigned using the “Direct Billing” method. The cost of
11 these services benefitted SPS, the work was performed specifically for SPS alone,
12 and the cost driver is an SPS tariff change. Thus, the “Direct Billing” method is
13 appropriate because it assigns costs in accordance with cost causation and benefits
14 received. For the cost centers that assign costs using Direct Billing, the per unit
15 amounts charged by XES to SPS are no higher than the unit amounts billed by
16 XES to other affiliates for the same or similar services and represent the actual
17 costs of the services.

XIX. RATE CASE EXPENSES

Q. What amount of rate case expenses is SPS seeking to recover in this docket?

A. SPS requests rate case expenses totaling \$6,940,265. Of this amount, the total cost for consultants, law firms, municipal reimbursements, and other expenses associated with this rate case is estimated to be \$4,586,450, assuming a fully litigated case with a hearing, post-hearing briefing, exceptions and replies to exceptions, and motions for rehearing and replies. In addition, SPS seeks to recover \$2,353,815 in rate case expenses incurred to file and prosecute various fuel reconciliation, fuel factor formula, and surcharge proceedings in Texas. An itemization of the SPS's requested rate case expenses for this case, as well as the expenses incurred in prior dockets is set forth in my Attachment WAG-RR-7.

Q. Does SPS's requested revenue requirement include the \$6.9 million in rate case expenses?

A. Yes. However, if rate case expenses are severed from this docket, as they were in Docket No. 47527, the overall revenue requirement will decline by approximately \$6.9 million to reflect the removal of the rate case expenses.

Q. What opinion are you providing regarding the reasonableness and necessity of the rate case expenses that SPS is requesting?

A. I discuss and express my opinion regarding the reasonableness, necessity, and recoverability of the rate case expenses that SPS has incurred so far in this rate case and several prior rate proceedings for which recovery of rate case expenses has not yet occurred. I wish to point out, however, that to date SPS has incurred only a small fraction of the total amount of expenses it likely will incur in this

1 case. These expenses include: (1) the fees and expenses of both outside counsel
2 and consultants who performed work on the current rate case and other litigation
3 matters for SPS; and (2) expenses incurred by SPS personnel associated with the
4 current rate case and prior rate-related matters.

5 **Q. Please describe your qualifications to offer rate case expense testimony?**

6 A. I know firsthand the rate case process and what it takes to assemble, file, and
7 process a base rate case, fuel reconciliations, and other regulatory proceedings. I
8 have actively participated in rate case activities, including, coordinating the
9 management of the case; developing and adapting case strategy; selecting both
10 internal and external witnesses and consultants; reviewing and approving
11 schedules and testimony, discovery responses, and other filings; negotiating
12 settlements; and participating in hearing and post-hearing briefing efforts. Based
13 on my extensive experience with regulatory proceedings, I am familiar with the
14 work that consultants and outside counsel perform for SPS in regulatory matters
15 and have developed the expertise needed to determine whether the work
16 performed is reasonable and necessary, as well as the expertise needed to
17 determine whether the expenses charged are reasonable for the scope of work
18 performed.

1 **Q. What factors did you consider in analyzing whether the work to be**
2 **performed by SPS’s consultants and outside counsel is reasonable and**
3 **necessary for purposes of this rate case and whether the budgeted amounts**
4 **through the end of this case are reasonable?**

5 **A. In assessing the reasonableness of the expenses and the budgeted amounts, I**
6 **considered the factors included in 16 TAC § 25.245(b), which are the following:**

- 7 (1) the nature, extent, and difficulty of the work done;
- 8 (2) the time and labor required and expended;
- 9 (3) the fees and other consideration paid for the services rendered;
- 10 (4) the expenses incurred for lodging, meals and beverages, transportation,
- 11 and other services and materials paid; and
- 12 (5) the nature and scope of the rate case, including:
- 13 (A) SPS’s size and the number and type of consumers served;
- 14 (B) the amount of money or value of property or interest at stake;
- 15 (C) the novelty or complexity of the issues addressed;
- 16 (D) the probable amount and complexity of discovery; and
- 17 (E) the likelihood of a hearing and the length of a possible hearing.

18 In addition, I considered other factors, such as the benefit that SPS derived from
19 the consultant’s and outside counsel’s services.

20 **A. Expenses Incurred or Estimated to be Incurred in this Proceeding**

21 **Q. Has SPS incurred rate case expenses to prepare and prosecute this rate case?**

22 **A. Yes. SPS has incurred rate case expenses to prepare the Rate Filing Package and**
23 **to perform the other tasks attendant to filing a base rate case before the**

1 Commission. SPS expects to incur additional rate case expenses to pursue this
2 base rate case before the Commission and, if necessary, on appeal. In addition,
3 SPS expects to receive requests for reimbursement of rate case expenses incurred
4 by municipalities participating in the rate case.

5 **Q. How has SPS managed its current rate case?**

6 A. SPS has reasonably managed its current base rate case by using a mix of internal
7 resources, outside counsel, and external consultants to develop, file, and litigate
8 its requests in this case, with an eye toward keeping expenses at a reasonable
9 level. As to internal resources, SPS's lead for this case, Mr. Will DuBois, is
10 himself an experienced public utility lawyer who understands the details of a rate
11 filing. Additionally, SPS has appropriately relied on its own employees to
12 provide testimony and back office support for the proceedings in their respective
13 areas of subject matter expertise. SPS has engaged Winstead, PC (the "Winstead
14 Firm") and Coffin Renner LLP ("Coffin Renner") as outside legal counsel to
15 assist with this matter. The legal work has been staffed in a reasonable manner
16 with appropriately experienced lawyers that charge reasonable fees for their
17 services. Duplication of work is avoided through the attorney work assignment
18 process. Witnesses are in many cases matched with attorneys that have
19 experience in the subject matter fields of the witness, so that the case preparation
20 process is streamlined as much as reasonably possible. Younger and less
21 experienced lawyers are also used in an appropriate way for legal tasks, including
22 time-intensive discovery and research matters.

1 Similarly, the external witnesses and outside consultants are all necessary,
2 experienced and have been delegated with responsibilities that SPS reasonably
3 believes could not be performed efficiently by internal resources. The use of
4 outside consultants to support certain rate case issues is common and helps defray
5 overall costs when their services are not needed on a day-to-day basis to operate
6 the utility.

7 **Q. Is it reasonable and necessary for SPS to retain outside legal counsel?**

8 A. Yes. All of the investor-owned electric utilities in Texas use outside legal counsel
9 for rate cases because rate case work is highly specialized and requires additional
10 resources. In addition, the utility has the burden of proof. This necessarily
11 requires the utility to prepare direct and rebuttal testimony sufficient to satisfy this
12 burden and demonstrate the reasonableness and need for the rate relief requested.
13 Although the Commission's rate filing package instructions and required
14 schedules provide the utility with a road map for its filing, the possible issues in a
15 rate case are numerous, are sometimes hard to anticipate until well into the
16 litigation, and in many cases are driven by intervening parties. And, the utility
17 must have the resources required to timely respond to discovery, which is often
18 voluminous and complex.

19 Additionally, outside counsel with rate case experience provide both good
20 practice skills and a substantive knowledge of the industry as well as familiarity
21 with accounting, operations, development, and finance issues, among other
22 related issues. Typical issues that must be addressed in rate proceedings include
23 O&M expenses (and adjustments thereto), construction and decisional prudence,

1 ROE, capital structure, cost of debt, employee compensation, pensions,
2 depreciation, federal income taxes, ad valorem taxes, cash working capital, cost
3 allocation, and rate design. These, as well as many other issues and sub-issues,
4 are not always difficult issues, but can be, and are often the subject of
5 controversy.

6 **Q. Was it reasonable for SPS to select the Winstead Firm and Coffin Renner as**
7 **outside counsel?**

8 A. Yes. The lawyers from each of these law firms have extensive experience and the
9 resources necessary to efficiently and professionally handle all the requirements
10 of a rate case. In addition, these law firms often represent other utilities that have
11 rate cases before the Commission, other state regulatory commissions, the FERC,
12 or other state agencies, so the firms understand not only the substantive issues
13 involved, but how to prepare and prosecute a rate case without learning how to
14 litigate these types of cases from scratch. In addition, many of the attorneys
15 associated with these firms have experience representing other large electric
16 utilities. As a result, SPS enjoys access to attorneys that have deep and immediate
17 knowledge of a wide breath of regulatory issues that could affect the utility.
18 SPS's outside counsel can also provide immediate and sound advice to SPS
19 without performing the extensive research that some other firms might have to
20 undertake.

21 **Q. Is it reasonable for SPS to employ outside consultants for this case?**

22 A. Yes. Even though SPS relies heavily on internal resources, which defrays costs
23 for external resources, it is common for electric utilities to employ outside experts

1 and non-testifying consultants to support and prepare portions of rate cases filed
2 at the Commission. There are many subjects germane to the rate case for which
3 expertise is not necessarily found within the utility's employees. This is true of
4 many, if not all, utilities in Texas and across the country. Those subjects for
5 which it was reasonable and necessary for SPS to obtain outside assistance
6 include ROE, depreciation, and the decommissioning cost study as well as other
7 issues.

8 **Q. What consultants has SPS retained for purposes of this rate case?**

9 A. For this rate case, SPS has hired the following consultants to help prepare and
10 present the information required by the Rate Filing Package:

- 11 • Richard D. Starkweather of ScottMadden, who prepared the cost
12 benchmarking study and commercial aviation study presented in SPS's
13 testimony;
- 14 • Ann E. Bulkley of Concentric Energy Advisors, who testifies on ROE
15 and capital structure as it relates to the cost of equity;
- 16 • Dane A. Watson of Alliance Consulting prepared the depreciation
17 study of SPS's assets and supports the resulting depreciation rates;
18 and,
- 19 • Jeffery T. Kopp of Burns & McDonnell Engineering Company, Inc.
20 describes and supports SPS's Dismantling Cost Estimate.

21 The estimated amount of rate case expenses for each of the consultants retained
22 by SPS for this case as shown in Attachment WAG-RR-7.

23 **Q. Has SPS been able to realize certain efficiencies and economies through the**
24 **engagement of these consultants and outside legal counsel?**

25 A. Yes. On July 1, SPS filed a general rate case with respect to its retail operations
26 in New Mexico. With the exception of Mr. Starkweather, all of the outside

1 consultants retained to support SPS in this case are also assisting SPS with the
2 New Mexico case. Although each case involves unique facts and circumstances,
3 the contemporaneous engagements for two cases allow efficiencies that would not
4 be realized were the consultants engaged for this case alone.

5 As for legal counsel, aside from their experience and qualifications, the
6 attorneys at the Winstead Firm and Coffin Renner also represent SPS in its
7 pending New Mexico rate case. Their assignments in this case include working
8 with the same witnesses and the same issues for which they are responsible in
9 New Mexico, thereby enabling SPS to realize efficiencies and economies in both
10 consulting and legal expenses.

11 **Q. Are the billing rates, budget projections, and terms of engagement for the**
12 **consulting services reasonable in your opinion?**

13 A. Yes. SPS (or, in some instances, XES) has professional services agreements with
14 each of the consultants or their firms engaged for this case. These agreements
15 detail the scope of work to be performed by the consultant, the applicable billing
16 rates, and the maximum authorized contract amounts for the scheduled work.
17 Change orders must be submitted and approved before the contract limits can be
18 exceeded. The agreements include rigorous terms and conditions intended to
19 control costs, assure quality, on-time performance, and protect the interests of
20 SPS.

21 Based on my review of the professional services agreements, it is my
22 opinion that SPS has reasonably and prudently engaged each of the consultants

1 and firms to provide services needed for this case, and their rates and charges are
2 reasonable in light of their expertise and experience.

3 **Q. Are the outside counsel billing rates reasonable in your opinion?**

4 A. Yes. Based upon my experience with rate proceedings in both Texas and New
5 Mexico, it is my opinion that the hourly billing rates for the attorneys with the
6 Winstead Firm and Coffin Renner are reasonable in light of the lawyer's
7 experience and expertise.

8 **Q. Are the miscellaneous expenses reasonable in your opinion?**

9 A. Yes. Rate case filings are voluminous, and during the course of the case, SPS will
10 likely be reproducing thousands of copies of discovery materials for distribution
11 to Commission Staff and intervenors. SPS will be publishing and mailing notices
12 to its customers. At key points in the case, temporary employees will be needed
13 to produce and distribute case materials and provide other logistical support.
14 Implementing new rates at the conclusion of the case will involve substantial
15 reprogramming of billing and accounting systems.

16 **Q. Does SPS's request include the expense for services of SPS or XES employees**
17 **who are participating in the case?**

18 A. No. The requested rate case expenses do not include the time (and associated
19 compensation and benefits expenses) for the services provided by SPS or XES
20 employees, except for overtime charges for hourly employees. Overtime pay for
21 hourly employees is necessarily included in the rate case expense amount because
22 SPS is required by law to pay overtime and other expenses incurred by hourly
23 employees working on the rate case.

1 In addition, employees' miscellaneous out-of-pocket expenses directly
2 incurred in connection with the rate case, such as travel expenses, are included
3 within rate case expenses. Travel expenses primarily include trips by SPS and
4 XES employees to Austin for the hearing on the merits, prehearing conferences,
5 technical conferences, settlement meetings, and other reasons. The expenses
6 consist of hotel costs, transportation costs, and meals, all of which are
7 unavoidable if the case goes to hearing. SPS's witnesses are from places other
8 than Austin, and therefore they must travel to Austin and stay in hotels during the
9 hearing. Employee expenses also include travel expenses to Amarillo, Denver,
10 Minneapolis and Austin incurred by SPS and XES employees while preparing this
11 case. For these types of internal expenses, employees are required to submit
12 detailed expense reports, including all receipts. Employee expenses are reviewed
13 and approved by the employee's supervisor. Finally, all rate case expenses are
14 reviewed by accounting and regulatory personnel to ensure that all expenses are
15 rate-case related.

16 **Q. Has SPS undertaken any other steps to control or reduce rate case expenses?**

17 A. Yes. SPS has undertaken a number of steps to control or reduce rate case
18 expenses:

- 19 • SPS performs a detailed review of posted rate case expenses each
20 month on a transaction-by-transaction basis by a regular salaried
21 employee (i.e., no overtime). That activity catches potential errors in
22 billings to the rate case expense work order and ensures no charges for
23 other cases are being charged as rate case expenses.
- 24 • SPS offers technical conferences and teleconferences with parties in an
25 effort to avoid or prevent unneeded follow-up discovery.

- 1 • SPS prohibits travel to meetings and prehearing conferences by
2 employees whose presence is not necessary at those events.
- 3 • Employees must book the lowest fare options for airline flights, and
4 employees must share a rental car if multiple employees are going to
5 be traveling to the same city at the same time.
- 6 • If employees are also traveling for business other than the rate case,
7 they must carefully split the travel costs between the rate case and the
8 other business purpose.

9 **Q. Does SPS monitor consultants' expenses to ensure that they are reasonable**
10 **and properly billable to the rate case?**

11 A. Yes. For the expenses described in this testimony, SPS reviews the invoices to
12 ensure the charges reflect work performed for this case or expenses incurred for
13 this case. If some or all of the time entries or expenses do not pertain to this rate
14 case, SPS will reject the invoice and ask the consultant or law firm to submit a
15 revised invoice or the employee to submit a revised expense report. For
16 consultants' and legal invoices, SPS also reviews whether the time charged for a
17 particular task is reasonable and is at the hourly rate set out in the contract. If the
18 hours for a task are questionable, SPS will ask the consultant or law firm for
19 further explanation and, when applicable, will request a revised invoice with a
20 reduced number of hours. SPS further reviews whether the expenses contain
21 charges for first-class air fare or for entertainment or personal items, none of
22 which should be charged to SPS (and if it is charged, will not be passed on to
23 SPS's customer).

- 1 **Q. Does SPS monitor the work performed by consultants and outside counsel to**
2 **ensure that it is necessary?**
- 3 A. Yes. While the consultants and outside counsel are working on this case, SPS
4 stays in continual contact with them to ensure they are complying with the scope
5 of work set out in the contracts, are making progress to meet preparation
6 deadlines, are providing the quality of work SPS expects to receive, and are
7 staying within budget. SPS takes an active role in monitoring the consultants' and
8 outside legal work, and does not simply hand over portions of the case preparation
9 and prosecution to the consultants and outside law firms.
- 10 **Q. Does SPS take steps to ensure that the rate case expenses are not included in**
11 **other O&M accounts?**
- 12 A. Yes. SPS records rate case expenses in a separate deferred account to ensure that
13 they are tracked separately from other expenses and therefore are not included in
14 other cost of service amounts. SPS also reviews entries to the general ledger to
15 ensure employee expenses from New Mexico or other Operating Company rate
16 cases are not being charged to an SPS work order. If SPS is being incorrectly
17 charged, SPS's Regulatory Department corrects the error by journal entries. SPS
18 Regulatory personnel also ensure that no regular time is charged to the rate case
19 expense work order. Only appropriate employee expenses related to the rate case
20 are recorded.
- 21 **Q. Are any of SPS rate case expenses contingent upon a certain outcome?**
- 22 A. No.

1 **Q. Do you have an overall opinion regarding the reasonableness and necessity of**
2 **consultants' expenses?**

3 A. Yes. I have reviewed the consultant-related expenses estimated to be incurred by
4 SPS for preparing and litigating this case. Based on my training and experience
5 in regulatory matters as well as litigating SPS's last base rate case, I conclude that
6 the estimated consultant-related costs are reasonable and necessary, considering
7 the complexity of the case and the number of issues to be addressed, the amount
8 of money at stake, the extent of each consultant's responsibility, and the benefit
9 that SPS derived from each consultant's services.

10 **Q. Do you have an opinion regarding whether the budgeted rate case legal**
11 **expense amounts are reasonable and necessary?**

12 A. Yes. The services that SPS has asked the law firms to provide are reasonable and
13 necessary, and the hourly rates or fee arrangements are reasonable. SPS's legal
14 department manages the work performed to keep the total level of cost at a
15 reasonable level. Thus, the budgeted amounts are reasonable and necessary.

16 **Q. Is SPS willing to submit its actual rate case expenses as this case progresses**
17 **as a gauge to evaluate the reasonableness of its estimated expenses?**

18 A. Yes. I caution, however, that much of the actual rate case expense is incurred in
19 the later stages of the case, just before, during, and after the public hearing. Thus,
20 a great portion of the actual expenses will not be known at the time this case
21 proceeds to hearing.

1 **B. Expenses Incurred or Expected to be Incurred in Other Texas**
2 **Regulatory Proceedings**

3 **Q. Please summarize the rate case expenses that SPS has incurred in prior**
4 **Texas regulatory proceedings that it seeks to recover in this case.**

5 A. If rate case expenses are not severed into a separate docket, SPS asks the
6 Commission to authorize recovery of \$2,353,815 in rate case expenses that were
7 incurred or are expected to be incurred by SPS and the intervening municipalities
8 in the following dockets:

- 9 • \$1,808,425 – rate case expenses associated with Docket No. 48973, SPS's
10 most recent fuel reconciliation proceeding;
- 11 • \$264,100 – rate case expenses associated with Docket No. 49616, SPS's
12 2019 fuel factor formula revision proceeding;
- 13 • \$231,567 – rate case expenses associated with Docket No. 48847, SPS's
14 2018 fuel factor formula revision proceeding;
- 15 • \$42,646 – rate case expenses associated with Docket Nos. 47857 and
16 48498, SPS's applications to implement a power factor surcharge
17 associated with Docket No. 45524; and
- 18 • \$7,077 – rate case expenses associated with Docket No. 48886, SPS's
19 surcharge proceeding associated with Docket No. 47527.

20 These amounts are included in Schedule G-14.2 and additional support provided
21 by SPS is included in the supporting workpapers.

1 **Q. Please describe your review of SPS’s expenses associated with these dockets.**

2 A. I conducted the same due diligence regarding SPS’s expenses associated with
3 these dockets that I used to support the rate case expenses in the current rate case,
4 as described in Section XIX.A of my testimony. To the extent applicable, SPS is
5 also requesting recovery of those amounts reimbursed to the municipalities for
6 their expenses associated with these dockets.

7 **Q. Please describe SPS’s management or staffing in these dockets.**

8 A. SPS managed these dockets in generally the same manner employed in this rate
9 case, which is described in Section XIX.A of my testimony. The Company
10 staffed these dockets utilizing one outside legal team per docket. SPS worked to
11 control costs in the same manner as described in Section XIX.A of my testimony.

12 **Q. Was it reasonable and necessary for SPS to retain outside legal counsel in**
13 **these dockets?**

14 A. Yes. It is common for investor-owned electric utilities in Texas to utilize outside
15 legal counsel for fuel reconciliation proceedings. As in a base rate proceeding,
16 under 16 TAC § 25.236(d), the utility has the burden of proof in a fuel
17 reconciliation proceeding and must address numerous issues including: eligible
18 fuel expenses, proper accounting for fuel-related revenues, reconciliation of fuel
19 expenses, the prudence of purchased power agreements, and intraclass allocations
20 of refunds and surcharges. The utility also has the burden to prove the
21 reasonableness and necessity of requested rate case expenses.

22 In my experience, outside counsel working on fuel reconciliation and fuel
23 factor proceedings must have good practice skills as well as a highly specialized

1 knowledge of not only Commission procedure, but the substantive components of
2 the proceedings discussed above, to effectively manage the proceedings. Thus, it
3 was reasonable for the Company to employ outside counsel to efficiently and
4 effectively manage its fuel reconciliation and fuel factor proceedings, as well as
5 its rate case expense recovery dockets.

6 **Q. Are the rate case expenses that SPS seeks to recover for these dockets**
7 **reasonable and necessary?**

8 A. Yes. I have applied the same criteria used to evaluate the reasonableness of SPS's
9 requested rate case expenses in connection with this case to the costs that were
10 incurred or are expected to be incurred in connection with the dockets listed
11 above. Based on this criteria, I conclude that SPS's requested recovery of
12 \$2,353,815 in rate case expenses was reasonable, necessary, and should be
13 approved for recovery in this case.

14 **C. Rate Case Expense Recovery Mechanism**

15 **Q. How does SPS propose to recover rate case expenses approved in this case?**

16 A. SPS has included its requested rate case expenses as part of its requested revenue
17 requirement in this case. If approved, SPS will recover its requested rate case
18 expenses as part of its base rates. However, in the event that the Commission
19 severs all or part of the rate case expense issues from this docket, as it has done in
20 recent SPS base rate cases, SPS will remove those rate case expense amounts
21 from the cost of service in this case, and SPS will present detailed information
22 supporting the rate case expenses in the severed docket.

1 **XX. SPS’S REQUESTS OF THE COMMISSION**

2 **Q. What topic do you discuss in this section of your testimony?**

3 A. As the overall overview witness in this case, I will summarize the relief that SPS
4 is requesting from the Commission in this case.

5 **Q. What relief is SPS requesting from the Commission in this docket with**
6 **respect to the Revenue Requirement phase?**

7 A. SPS asks the Commission to grant the following relief regarding the Revenue
8 Requirement phase:

9 1. SPS asks the Commission to approve a total Texas retail base rate revenue
10 requirement (including miscellaneous tariff charges) of \$701,180,196 and
11 a base rate increase of \$141,284,640, which SPS has calculated based on
12 an overall weighted average cost of capital (“WACC”) of 7.62%. That
13 WACC is based on:

- 14 • a proposed equity ratio of 54.65%;
- 15 • a proposed long-term debt ratio of 45.35%;
- 16 • a proposed cost of long-term debt of 4.33%; and
- 17 • a proposed ROE of 10.35%.

18 This request is supported by my testimony and by the testimony of the
19 other SPS witnesses who testify in the Revenue Requirement phase of this
20 docket.

21 2. SPS asks the Commission to find that the capital additions placed into
22 service during the period from July 1, 2017 through June 30, 2019 are
23 reasonable and necessary, and that the costs incurred by SPS for those
24 capital additions are reasonable and prudent. The witnesses supporting
25 this request are Mr. Meeks, Mr. Bick, Mr. Brown, Mr. Lytal, Mr.
26 Harkness, Mr. Cooley, and Mr. Moeller.

27 3. SPS asks the Commission to approve SPS’s proposed depreciation study
28 and resulting depreciation rates, including shorter service lives for the
29 Tolk Generating Station Units 1 and 2 based upon a retirement date of
30 2032.

- 1 4. SPS asks the Commission to establish SPS's baseline levels for the
2 pension and OPEB expenses, which are supported by Mr. Schrubbe.
- 3 5. SPS asks the Commission to approve the waivers to the RFP Schedules
4 described in Section IV of my testimony.
- 5 6. If rate case expenses are not severed into a separate docket, SPS asks the
6 Commission to authorize recovery of \$6,940,265 in rate case expenses that
7 were incurred or are expected to be incurred by SPS and the intervening
8 municipalities in the following dockets:
- 9 ▪ \$4,586,450 – rate case expenses associated with this immediate
10 docket;
 - 11 ▪ \$1,808,425 – rate case expenses associated with Docket No.
12 48973, SPS's most recent fuel reconciliation proceeding;
 - 13 ▪ \$264,100 – rate case expenses associated with Docket No. 49616,
14 SPS's 2019 fuel factor formula revision proceeding;
 - 15 ▪ \$231,567 – rate case expenses associated with Docket No. 48847,
16 SPS's 2018 fuel factor formula revision proceeding;
 - 17 ▪ \$42,646 – rate case expenses associated with Docket Nos. 47857
18 and 48498, SPS's applications to implement a power factor
19 surcharge associated with Docket No. 45524; and
 - 20 ▪ \$7,077 – rate case expenses associated with Docket No. 48886,
21 SPS's surcharge proceeding associated with Docket No. 47527.

22

23 **Q. What relief is SPS requesting from the Commission regarding the issues in**
24 **the Rate Design phase of this case?**

25 A. SPS asks the Commission to grant the following relief regarding the Rate Design
26 phase of this case:

- 27 1. SPS asks the Commission to approve SPS's proposed Texas retail cost
28 allocation, which Mr. Luth discusses, and SPS's proposed revenue distribution
29 and rate design, which Mr. Evans discusses.
- 30 3. SPS asks the Commission approve the complete set of proposed tariff
31 schedules presented in Schedule Q-8.8 of the RFP, including the proposed

1 changes to SPS's rate and rule tariffs.³² Mr. Evans supports this request, and
2 Mr. Meeks also supports changes in a rule tariff.

3 4. SPS asks the Commission to establish SPS's base line revenue requirement
4 components for purposes of setting (i) the TCRF, (ii) the DCRF, (iii) and the
5 PCRF. Mr. Luth supports the baseline revenue requirement components.

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

7 **A. Yes.**

³² If the Commission approves new loss factors, SPS proposes to update its then-current fuel factors by using the newly approved loss factors to recalculate the fuel factors, and to provide those recalculated fuel factors in its tariff compliance filing for this application.

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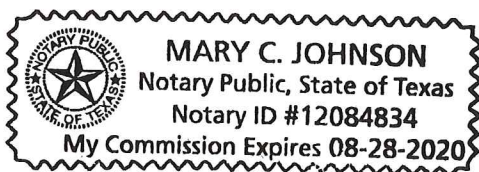
STATE OF TEXAS)
)
COUNTY OF POTTER)

WILLIAM A. GRANT, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachment(s) and am familiar with the contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

William A. Grant
WILLIAM A. GRANT

Subscribed and sworn to before me this 6 day of August, 2019 by
WILLIAM A. GRANT.



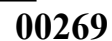
Mary C. Johnson
Notary Public, State of Texas

My Commission Expires: 8.28.2020

Southwestern Public Service Company

Summary of Texas Retail Rate Increase Request

Line No.	Description	(1) Current Revenue	(2) Rate Case Request	(3) Proposed Revenues	(4) Net Revenue Increase	(5) Net Percent Increase
1	Base Rate and TCRF Revenues	\$ 553,798,751	\$ 141,284,640	\$ 695,083,391	\$ 141,284,640	25.5%
2						
3	EECRF Revenue	5,028,342	-	5,028,342	-	
4						
5	Rate Case Expense Rider Revenue	1,068,463	-	1,068,463		
6						
7	Net Non-Fuel Revenue	\$ 559,895,556		\$ 701,180,196	\$ 141,284,640	25.2%
8						
9	Fuel and Purchased Energy Revenue	311,133,201		226,506,812	(84,626,389)	-27.2%
10						
11	Total Texas Retail Revenue	<u>\$ 871,028,757</u>		<u>\$ 927,687,008</u>	<u>\$ 56,658,251</u>	<u>6.5%</u>



Southwestern Public Service Company

SPS Native Operation & Maintenance Expenses

Total Company SPS Operation and Maintenance Expenses

Line No.	FERC Acct	Account Description	Native SPS O&M Expense through the Update Period (Jul '18-Jun '19)	Test Year Affiliate O&M Expense (Jul '18-Jun '19)	Total Company Requested O&M
Production					
1	500	Operation Supervision and Engineering	\$ 1,432,129	\$ 742,754	\$ 2,174,883
2	501.35*	Coal Non-Mine; Non-Freight	34,515,666	-	34,515,666
3	507.70	Coal Ash Sales	(1,970,658)	1,329,592	(641,065)
4	502	Steam Expenses	10,433,079	(16,011)	10,417,068
5	505	Electric Expenses	9,674,863	214	9,675,077
6	506	Miscellaneous Steam Power Expenses	7,064,766	5,374,135	12,438,901
7	507	Rents	1,391,316	4,419,144	5,810,460
8	509	Steam Operation SO2 Allowance Expense	124,830	-	124,830
9	509.02	Allowances - NM Nox Expense Amortz	(2,340)	-	(2,340)
10	510	Maintenance Supervision and Engineering	1,452,197	4,910	1,457,107
11	511	Maintenance of Structures	4,825,180	1,534	4,826,713
12	512	Maintenance of Boiler Plant	16,817,025	1,019,257	17,836,282
13	513	Maintenance of Electric Plant	12,885,934	449,147	13,335,081
14	514	Maintenance of Miscellaneous Steam Plant	9,671,362	1,499,169	11,170,531
15	546	Operation Supervision and Engineering	2,084	36,052	38,136
16	548	Generation Expenses	311,697	-	311,697
17	549	Misc Other Power Generation Expenses	644,946	169,466	814,412
18	549W	Misc Other Power Generation Expenses Wind	5,755,120	-	5,755,120
19	550	Rents	246,516	413,266	659,782
20	551	Maintenance Supervision and Engineering	179,727	301	180,028
21	552	Maintenance of Structures	335,622	481	336,104
22	553	Maintenance of Generating and Electric Equipment	1,572,028	33,713	1,605,740
23	553W	Maintenance of Generating and Electric Equipment Wind	3,843,120	-	3,843,120
24	554	Maintenance of Misc Other Power Generation Plant	143,369	163,309	306,679
25	556	System Control and Load Dispatching	(2,686)	1,061,033	1,058,347
26	557	Purchased Power Other	(381,078)	1,742,113	1,361,034
27	557.9*	REC Costs	2,543,109	-	2,543,109
28	Total Production O&M Expense		\$ 123,508,923	\$ 18,443,580	\$ 141,952,503

Southwestern Public Service Company

SPS Native Operation & Maintenance Expenses

Total Company SPS Operation and Maintenance Expenses

			Native SPS O&M		Test Year	
			Expense through the		Affiliate O&M	Total Company
Line	FERC		Update Period		Expense	Requested O&M
No.	Acct	Account Description	(Jul '18-Jun '19)		(Jul '18-Jun '19)	
Transmission						
29	560	Operation Supervision and Engineering	\$ (545,350)	\$	10,121,801	\$ 9,576,451
30	561.1	Load Dispatch - Reliability	211,475		-	211,475
31	561.2	Load Dispatch - Monitor and Operate Trans. System	1,723,643		1,375,714	3,099,357
32	561.4	Scheduling, System Control and Dispatching Services	3,079,020		-	3,079,020
33	561.4W	Scheduling, System Control and Dispatching Services - Wholesale	964,243		-	964,243
34	561.5	Reliability, Planning and Standards Development	-		3,608	3,608
35	561.6	Transmission Service Studies	64,465		27,835	92,300
36	561.7	Generation Interconnection Studies	(49,954)		-	(49,954)
37	561.8	Reliability Planning and Standards Development Services	2,724,405		-	2,724,405
38	561.8W	Reliability Planning and Standards Development Services - Wholesale	465,778		-	465,778
39	562	Station Expenses	1,618,771		291	1,619,062
40	563	Overhead Line Expenses	969,905		12,027	981,932
41	565	Wheeling Lamar DC Tie	(420)		-	(420)
42	565	Wheeling Meter Charges	910,542		-	910,542
43	565	Wheeling Miscellaneous	(160,568)		-	(160,568)
44	565	Wheeling Schedule 11	97,414,450		-	97,414,450
45	565	Wheeling Schedule 11 - Wholesale	36,648,282		-	36,648,282
46	565	Wheeling Schedule 12	2,027,287		-	2,027,287
47	565	Wheeling Schedule 12 - Wholesale	544,137		-	544,137
48	565	Wheeling Schedule 1 - Wholesale	718,162		-	718,162
49	565	Wheeling Schedule 2	87,728		-	87,728
50	565	W-Wheeling Schedule 2 - Wholesale	(38,596)		-	(38,596)
51	565	Wheeling Schedule 9	6,012,320		-	6,012,320
52	565	Wheeling Schedule 9 - Wholesale	24,630,445		-	24,630,445
53	565	Z2 Direct Assigned Upgrade Charge	81,490		-	81,490
54	565	Z2 Direct Assigned Upgrade Charge - Wholesale	16,962		-	16,962
55	565	Z2 Schedule 11 Charges	(182,512)		-	(182,512)
56	565	Z2 Schedule 11 Charges - Wholesale	(4,093)		-	(4,093)
57	566	Misc Transmission Expenses	2,758,831		771,036	3,529,868
58	567	Rents	248,554		1,443,247	1,691,801
59	568	Maintenance Supervision and Engineering	(4,514)		8,197	3,683
60	570	Maintenance of Station Equipment	1,881,327		3,286	1,884,613
61	571	Maintenance of Overhead Lines	3,279,359		40,513	3,319,872
62	Sub-Total Transmission O&M Expenses		\$ 188,095,571	\$	13,807,556	\$ 201,903,127
Regional Market Expenses						
63	575.1	Operation Supervision	\$ 0	\$	144,493	\$ 144,493
64	575.2	Day-Ahead and Real-Time Market Administration	-		319,247	319,247
65	575.5	Ancillary Services Market Administration	-		45,199	45,199
66	575.6	Market Monitoring and Compliance	-		52,834	52,834
67	575.7	Market Admin, Monitoring, and Compliance Services	5,493,541		-	5,493,541
68	575.7W	Market Admin, Monitoring, and Compliance Services - Wholesale	1,955,333		-	1,955,333
69	575.8	Regional Market Rents	16,697		46,542	63,239
70	Total Regional Market Expenses		\$ 7,465,572	\$	608,316	\$ 8,073,887
71	Total Transmission O&M Expenses		\$ 195,561,142	\$	14,415,872	\$ 209,977,014

Southwestern Public Service Company

SPS Native Operation & Maintenance Expenses

Total Company SPS Operation and Maintenance Expenses

			Native SPS O&M Expense through the Update Period (Jul '18-Jun '19)		Test Year Affiliate O&M Expense (Jul '18-Jun '19)		Total Company Requested O&M	
Line No.	FERC Acct	Account Description						
Distribution								
72	580	Operation Supervision and Engineering	\$	3,405,755	\$	1,112,909	\$	4,518,665
73	581	Load Dispatching		102,311		248,335		350,646
74	582	Station Expenses		1,435,464		(14,170)		1,421,293
75	583	Overhead Line Expenses		3,334,194		105,570		3,439,764
76	584	Underground Line Expenses		156,919		-		156,919
77	585	Street Lighting and Signal Systems Expenses		287,435		415		287,850
78	586	Meter Expenses		2,797,646		179,701		2,977,347
79	587	Customer Installations Expenses		919,216		1,495		920,712
80	588	Misc Distribution Expense		10,390,098		1,143,464		11,533,563
81	589	Rents		989,709		1,543,961		2,533,670
82	590	Maintenance Supervision and Engineering		16,017		28,724		44,741
83	591	Maintenance of Structures		815		-		815
84	592	Maintenance of Station Equipment		912,565		1,149		913,714
85	593	Maintenance of Overhead Lines		9,126,107		191,724		9,317,831
86	594	Maintenance of Underground Lines		180,525		(0)		180,525
87	595	Maintenance of Line Transformers		618		-		618
88	596	Maintenance of Street Lighting and Signal Systems		584,448		2,020		586,468
89	597	Maintenance of Meters		20,218		-		20,218
90	598	Maintenance of Misc Distribution Plant		(390,387)		769		(389,618)
91	Total Distribution O&M Expenses		\$	34,269,676	\$	4,546,065	\$	38,815,741
Customer Accounts								
92	901	Supervision	\$	-	\$	30,503	\$	30,503
93	902	Meter Reading Expenses		4,380,976		460,573		4,841,549
94	903	Customer Records and Collection Expenses		3,232,359		3,722,097		6,954,456
95	904.0*	Uncollectible Expenses		4,736,858		-		4,736,858
96	904.1*	Uncollectible Expenses		762,650		-		762,650
97	DEPINT Customer Deposit Interest Expense			151,110		-		151,110
98	Total Customer Accounts Expense		\$	13,263,953	\$	4,213,172	\$	17,477,125
Customer Service								
99	908.00	Customer Assistance Expense	\$	911,114	\$	130,975	\$	1,042,089
100	908.00	Historical EE Amortization		(30,099)	\$	-	\$	(30,099)
101	908.01	EE Amortization - Texas		-		-		-
102	908.03	EE Amortization - New Mexico		-		-		-
103	908.04	SaversSwitch		775,839		-		775,839
104	909.10	Informational and Instructional Advertising Expense		-		-		-
105	910.00	Miscellaneous Customer Service Expense		44,957		21,107		66,063
106	Total Customer Service Expense		\$	1,701,811	\$	152,081	\$	1,853,892
Sales								
107	912.00	Demonstration and Selling Expense-Economic Development	\$	273,509	\$	105	\$	273,614
108	Total Sales Expense		\$	273,509	\$	105	\$	273,614

Southwestern Public Service Company

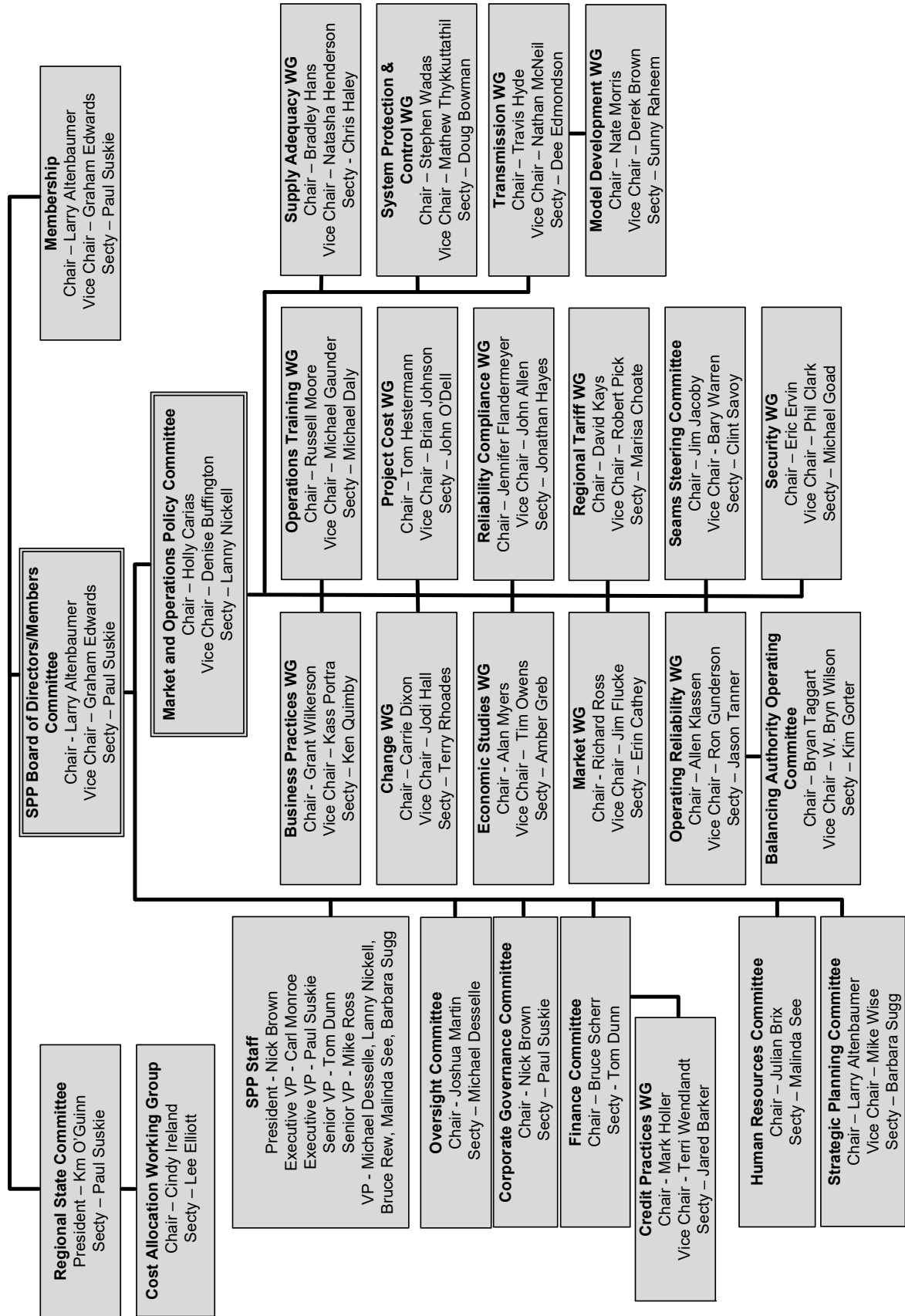
SPS Native Operation & Maintenance Expenses

Total Company SPS Operation and Maintenance Expenses

Line No.	FERC Acct	Account Description	Native SPS O&M Expense through the Update Period (Jul '18-Jun '19)	Test Year Affiliate O&M Expense (Jul '18-Jun '19)	Total Company Requested O&M
Administrative and General Expenses					
109	920*	Administrative and General Salaries	\$ 4,833,384	\$ 24,142,782	\$ 28,976,166
110	921	Office Supplies and Expenses	1,269,421	17,962,307	19,231,728
111	922*	Administrative Expenses Transferred-Credit	(14,611,279)	(228,870)	(14,840,149)
112	923	Outside Services Employed	2,916,830	9,095,481	12,012,311
113	924	Property Insurance	3,180,864	1,633	3,182,497
114	925*	Injuries and Damages	4,475,740	2,106,862	6,582,602
115	926.01*	Employee Pensions and Benefits	20,587,923	13,238,622	33,826,545
116	926.03*	Deferred Pension Expense	1,574,975	-	1,574,975
117	928	Regulatory Commission Expense - TX	8,781,003	-	8,781,003
118	928.01	Regulatory Commission Expense - NM	4,701,597	-	4,701,597
119	928.02	Regulatory Commission Expense - Wholesale	748,078	-	748,078
120	928.04	Regulatory Commission Expense - Misc	93,393	1,040	94,433
121	929	Duplicate Charges-Credit	(1,367,138)	-	(1,367,138)
122	930.11	General Advertising Expenses	-	-	-
123	930.20	Misc General Expenses	16,227	468,159	484,386
124	931	Rents	(959,185)	12,711,133	11,751,948
125	935	Maintenance of General Plant	482	107,643	108,125
126		Recoverable Contributions, Dues, and Donations	2,556,746	-	2,556,746
127		Total Administrative and General Expenses	\$ 38,799,063	\$ 79,606,791	\$ 118,405,854
128		Total Operations and Maintenance Expense	\$ 407,378,077	\$ 121,377,667	\$ 528,755,744

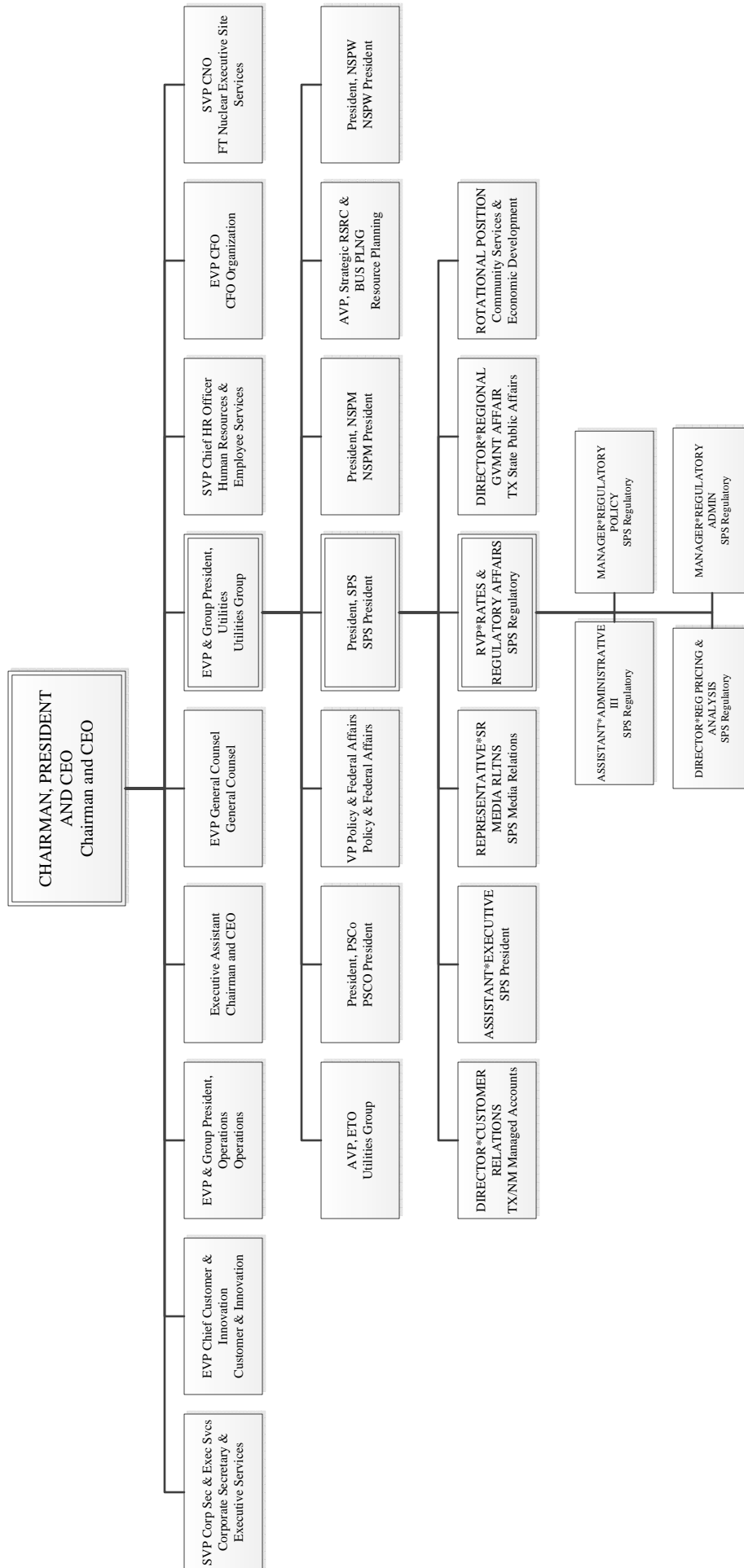
Note: All amounts included in this attachment are included in the cost of service study provided as Attachment APF-RR1

Group Organizational Chart



Summary of SPP Cost Allocation Methods						
Date Range	Upgrade Type	Zonal	Regional	Customer	Sponsor	Comments
Pre-2005	Pre-BPF Needs	100%				Before Regional Cost Sharing
	Other	100%				
	Sponsored				100%	
Traditional Base Plan Funding NTC Issue Date Before June 19, 2010	Reliability	67%	33%			Based on Need-By Date - Zonal on MW-Mi beneficiary %
	Generation Interconnection			100%		
	NITS Service Upgrade costs covered by Safe Harbor limit	67%	33%			Zonal on MW-Mi
	NITS Service Upgrade costs NOT covered by Safe Harbor limit			100%		Safe Harbor Limit: E&C Cost <=\$180,000/MW Requested
	PIP Service Upgrade costs that do not qualify for Base Plan Funding			100%		costs in excess of access charges
Balanced Portfolio	Balanced Portfolio		100%			
	Sponsored				100%	
Base Plan Funding (Highway Byway NTC) Issue Date of June 19, 2010 or later	Reliability/Economic Updgrade Voltage greater than or equal to 300 kV	0%	100%			
	Reliability/Economic Updgrade Voltage greater than or equal to 100 kV and under 300 kV	67%	33%			
	Reliability/Economic Updgrade Voltage under 100 kV	100%	0%			
	Upgrades related to delivery of power from Wind projects outside TSR Customer's Load Zone and less than 300kV		67%	33%		Effective in 2009
	Upgrades related to delivery of power from Wind projects greater than or equal to 300kV		100%			
	NITS Service Upgrade costs covered by Safe Harbor limit	Voltage Dependent: =>300kV=100% Regional, 100kV to 299kV=33% Regional+67% Zonal, <100kV=100% Zonal				"Highway/Byway" method, upgrade =>300kV 100% Regional in all cases
	NITS Service Upgrade costs NOT covered by Safe Harbor limit or do not qualify for Base Plan Funding			100%		
	PIP Service Upgrade costs that do not qualify for Base Plan Funding			100%		
	Generation Interconnection			100%		

Southwestern Public Service Company
 Organization Chart – Group Presidents
 As of March 31, 2019



Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	4,376,516	4,376,516
	Other				
4	Testifying Consultant	-	-	361,450	361,450
5	Non-Testifying Consultant	-	-	350,000	350,000
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$ 5,087,966	\$ 5,087,966
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 438,819	\$ 438,819
8	Other	-	-	175,451	175,451
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 614,270	\$ 614,270
10	Intervenor Expenses	\$ -	\$ -	\$ 1,238,030	\$ 1,238,030
11	Total Request	\$ -	\$ -	\$ 6,940,266	\$ 6,940,266

Note: Amounts included on this schedule reflect estimates for expected expenses as the docket is

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	2,500,000	2,500,000
	Other				
4	Testifying Consultant	-	-	361,450	361,450
5	Non-Testifying Consultant	-	-	350,000	350,000
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$3,211,450	\$ 3,211,450
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 275,000	\$ 275,000
8	Other	-	-	100,000	100,000
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 375,000	\$ 375,000
10	Intervenor Expenses	\$ -	\$ -	\$1,000,000	\$ 1,000,000
11	Total Request	\$ -	\$ -	\$4,586,450	\$ 4,586,450

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Rate Case Expenses Related to Docket No. 48973¹

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	1,500,000	1,500,000
	Other				
4	Testifying Consultant	-	-	-	-
5	Non-Testifying Consultant	-	-	-	-
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$1,500,000	\$1,500,000
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 150,000	\$ 150,000
8	Other	-	-	58,425	58,425
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 208,425	\$ 208,425
10	Intervenor Expenses	\$ -	\$ -	\$ 100,000	\$ 100,000
11	Total Request	\$ -	\$ -	\$1,808,425	\$1,808,425

¹ Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs for the Period January 1, 2016 through June 30, 2018, Docket No. 48973 (Pending).

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Rate Case Expenses Related to Docket No. 48886¹

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	-	-
	Other	-	-	-	-
4	Testifying Consultant	-	-	-	-
5	Non-Testifying Consultant	-	-	-	-
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$ -	\$ -
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 947	\$ 947
8	Other	-	-	5,100	5,100
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 6,047	\$ 6,047
10	Intervenor Expenses	\$ -	\$ -	\$ 1,030	\$ 1,030
11	Total Request	\$ -	\$ -	\$ 7,077	\$ 7,077

¹ Application of Southwestern Public Service Company for Authority to Implement A Surcharge Associated with Docket No. 47527, Docket No. 48886 (June 13, 2019).

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Rate Case Expenses Related to Docket No. 47857¹ and 48498²

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	26,516	26,516
	Other	-	-	-	-
4	Testifying Consultant	-	-	-	-
5	Non-Testifying Consultant	-	-	-	-
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$ 26,516	\$ 26,516
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 372	\$ 372
8	Other	-	-	3,758	3,758
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 4,130	\$ 4,130
10	Intervenor Expenses	\$ -	\$ -	\$ 12,000	\$ 12,000
11	Total Request	\$ -	\$ -	\$ 42,646	\$ 42,646

¹ Application of Southwestern Public Service Company for Authority to Implement An Interim Power Factor Surcharge in Accordance with Docket No. 45524, Docket No. 47857 (Pending).

² Application of Southwestern Public Service Company for Authority to Update Interim Power Factor Surcharge in Accordance with Docket No. 45524 and 47857, Docket No. 48498 (Pending).

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Rate Case Expenses Related to Docket No. 48847¹

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	175,000	175,000
	Other				
4	Testifying Consultant	-	-	-	-
5	Non-Testifying Consultant	-	-	-	-
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$ 175,000	\$ 175,000
	<u>Company Expenses:</u>				
7	Employee	\$ -	\$ -	\$ 2,500	\$ 2,500
8	Other	-	-	4,067	4,067
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 6,567	\$ 6,567
10	Intervenor Expenses	\$ -	\$ -	\$ 50,000	\$ 50,000
11	Total Request	\$ -	\$ -	\$ 231,567	\$ 231,567

¹ Application of Southwestern Public Service Company for Authority to Revise its Fuel Factor Formulas; Change Its Fuel Factors; and For Related Relief, Docket No. 48847 (Pending).

Southwestern Public Service Company

Summary of Requested Rate Case Expenses

Rate Case Expenses Related to Docket No. 49616¹

Line No.	Description	Interim Rate	Prudence Inquiry	General Expenses	Total
	<u>Consultant Expenses:</u>				
1	Accounting	\$ -	\$ -	\$ -	\$ -
2	Engineering	-	-	-	-
3	Legal	-	-	175,000	175,000
	Other				
4	Testifying Consultant	-	-	-	-
5	Non-Testifying Consultant	-	-	-	-
6	Sub-Total Consultant Expenses	\$ -	\$ -	\$ 175,000	\$ 175,000
	<u>Company Expenses:</u>				
7	Employee			\$ 10,000	\$ 10,000
8	Other			4,100	4,100
9	Sub-Total Company Expenses	\$ -	\$ -	\$ 14,100	\$ 14,100
10	Intervenor Expenses			\$ 75,000	\$ 75,000
11	Total Request	\$ -	\$ -	\$ 264,100	\$ 264,100

¹ Application of Southwestern Public Service Company for Authority to Revise its Fuel Factor Formulas; Change Its Fuel Factors; and For Related Relief, Docket No. 49616 (Pending).

**Summary of XES Expenses to SPS by Affiliate Class and Billing Method
For Twelve Months ended June 30, 2019
Grant**

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
Line No.	Affiliate Class	Billing Method (Cost Center)	Allocation Method	Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	XES Billings for Class to SPS (FERC Acct. 400-935)	XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	Exclusions	Per Book	Proformas	Requested Amount (Total Company)	% of Class Charges
1	Corporate Giving	200076 - Xcel Foundation	Assets/Revenue/No. of employees	\$ 7,891,526.48	\$ 6,872,970.83	\$ 1,018,555.65	\$ (985,020.26)	\$ 33,535.39	\$ (33,535.39)	\$ -	0.00%
2	Corporate Giving	Direct	Direct	8,628.52	8,628.52	-	-	-	-	-	0.00%
3	Corporate Giving Total			\$ 7,900,155.00	\$ 6,881,599.35	\$ 1,018,555.65	\$ (985,020.26)	\$ 33,535.39	\$ (33,535.39)	\$ -	0.00%
4	PSCo President	200151 - Customer Billing FERC 903	Number of Customer Bills	\$ 585.94	\$ 536.13	\$ 49.81	\$ -	\$ 49.81	\$ (49.81)	\$ -	0.00%
5	PSCo President	Direct		1,664,046.56	1,619,506.07	44,540.49	-	44,540.49	(489.40)	44,051.09	100.00%
6	PSCo President Total			\$ 1,664,632.50	\$ 1,620,042.20	\$ 44,590.30	\$ -	\$ 44,590.30	\$ (539.21)	\$ 44,051.09	100.00%
7	Strategic Revenue Initiatives	200092 - Corp Strategy & Bus Dev - OpCo	Assets/Revenue/No. of employees	\$ 1,769,866.44	\$ 1,513,355.02	\$ 256,511.42	\$ (23,506.24)	\$ 233,005.18	\$ (9,806.14)	\$ 223,199.04	100.00%
8	Strategic Revenue Initiatives	Direct	Direct	171,972.86	171,972.86	-	-	-	-	-	0.00%
9	Strategic Revenue Initiatives Total			\$ 1,941,839.30	\$ 1,685,327.88	\$ 256,511.42	\$ (23,506.24)	\$ 233,005.18	\$ (9,806.14)	\$ 223,199.04	100.00%
10	Total - Witness William Grant			\$ 11,506,626.80	\$ 10,186,969.43	\$ 1,319,657.37	\$ (1,008,526.50)	\$ 311,130.87	\$ (43,880.74)	\$ 267,250.13	
	Amounts may not add or tie to other schedules due to rounding.										

Southwestern Public Service Company

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

William A. Grant

2019 TX Rate Case

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

WAG-RR-B(CD)

**Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account
For Twelve Months ended June 30, 2019
Grant**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Exclusions	(E) Exclusions (Total Company)
1	Corporate Giving	426.1 - Donations	Below the line	\$ (985,020.26)
2	Corporate Giving Total			\$ (985,020.26)
3	SPS President	426.4 - Life Insurance	Below the line	\$ (55.10)
4	SPS President Total			\$ (55.10)
5	Strategic Revenue Initiatives	426.1 - Donations	Below the line	\$ (22,332.36)
6	Strategic Revenue Initiatives	426.5 - Other Deductions	Below the line	(1,173.88)
7	Strategic Revenue Initiatives Total			\$ (23,506.24)
8	Total - Witness William Grant			\$ (1,008,581.60)
	Amounts may not add or tie to other schedules due to rounding.			

**Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account
For Twelve Months ended June 30, 2019
Grant**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Pro Formas	(E) Sponsor	(F) Pro Formas (Total Company)
1	Corporate Giving	408.1 - Tax Other Than Income Tax - Payroll	Foundation	William Grant	\$ (1,481.74)
2	Corporate Giving	920 - Administrative and general salaries	Foundation	William Grant	(15,052.40)
3	Corporate Giving	921 - Office supplies and expenses	Business Area Adjustment	William Grant	(3.61)
4	Corporate Giving	921 - Office supplies and expenses	Foundation	William Grant	(8,069.79)
5	Corporate Giving	923 - Outside services employed	Foundation	William Grant	(2,828.68)
6	Corporate Giving	925 - Injuries & Damages	Foundation	William Grant	(27.72)
7	Corporate Giving	926 - Employee pensions and benefits	Foundation	William Grant	(6,016.78)
8	Corporate Giving	930.1 - General advertising expenses	Foundation	William Grant	(54.67)
9	Corporate Giving Total				\$ (33,535.39)
10	PSCo President	903 - Customer records and collection expenses	Business Area Adjustment	William Grant	\$ (49.81)
11	PSCo President	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	(567.47)
12	PSCo President	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	826.63
13	PSCo President	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(748.57)
14	PSCo President Total				\$ (539.21)
15	Strategic Revenue Initiatives	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	\$ (2,325.00)
16	Strategic Revenue Initiatives	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	3,097.81
17	Strategic Revenue Initiatives	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(2,682.27)
18	Strategic Revenue Initiatives	930.1 - General advertising expenses	Advertising	Arthur Freitas	(7,896.68)
19	Strategic Revenue Initiatives Total				\$ (9,806.14)
20	Total Witness - William Grant				\$ (43,880.74)
	Amounts may not add or tie to other schedules due to rounding				