

DOCKET NO. _____

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

**DIRECT TESTIMONY
of
STEPHEN J. BROWN**

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: BrownRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
CSO	Chief Security Officer
EEI	Edison Electric Institute
ISAC	Information Sharing Analysis Center
IT	Information Technology
O&M	operation and maintenance
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
Operating Company	One of the Operating Companies
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	April 1, 2018 through March 31, 2019
Total Company or total company	Total SPS (before jurisdictional allocation)
Update Period	April 1, 2019 through June 30, 2019
Updated Test Year	July 1, 2018 through June 30, 2019
WBS	Work Breakdown Structure
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

SJB-RR-1	Enterprise Security Organization Chart (<i>Non-native format</i>)
SJB-RR-2	Physical Security Capital Additions for July 1, 2017 through March 31, 2019 (<i>Filename: SJB-RR-2.xlsx</i>)
SJB-RR-3	Physical Security Capital Additions for April 1, 2019 through June 30, 2019 (<i>Filename: SJB-RR-3.xlsx</i>)
SJB-RR-A (Updated Test Year)	Summary of XES Expenses to SPS by Affiliate Class and Billing Method (<i>Filename: SJB-RR-ABCD.xlsx</i>)
SJB-RR-B(CD) (Updated Test Year)	XES Expenses by Affiliate Class, Activity, Billing Method, and FERC Account (<i>Filename: SJB-RR-ABCD.xlsx</i>)
SJB-RR-C (Updated Test Year)	Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (<i>Filename: SJB-RR-ABCD.xlsx</i>)
SJB-RR-D (Updated Test Year)	Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (<i>Filename: SJB-RR-ABCD.xlsx</i>)

**DIRECT TESTIMONY
OF
STEPHEN J. BROWN**

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

3 A. My name is Stephen J. Brown. My business address is 414 Nicollet Mall,
4 Minneapolis, Minnesota, 55401.

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

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

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

10 A. I am employed by Xcel Energy Services Inc. (“XES”) as Chief Security Officer
11 (“CSO”) and Vice President.

12 **Q. Please briefly outline your responsibilities as CSO and Vice President.**

13 A. As CSO and Vice President, I am responsible for protecting the Xcel Energy
14 enterprise, including its employees and assets. As part of these duties, I am
15 responsible for physical security, cyber security, enterprise resilience, data
16 protection governance, and risk functions for the Xcel Energy enterprise.

17 **Q. Please describe your educational background.**

18 A. I hold a Bachelor of Science degree from the University of Maryland and an
19 Executive MBA from the University of Michigan.

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

21 A. I have more than 35 years of experience in the Cyber Security and Information
22 Technology (“IT”) fields. I joined Xcel Energy in May 2016 following 3 years at

1 Hewlett-Packard as Vice President of Cyber Operations. Prior to that, I spent 13
2 years at Wells Fargo as Senior Vice President of Security Operations, which
3 included responsibility for Incident Response for the Wells Fargo, Security
4 Engineering, Security Architecture, Security Risk Management, and Cyber
5 Intelligence. I retired from the U.S. Navy in June 2000 after 20 years as a
6 Cryptologic Intelligence Officer specializing in Information Warfare.

7 **Q. Are you a member of any professional organizations?**

8 A. Yes. I currently serve on the Edison Electric Institute (“EEI”) Executive Security
9 Council; Security Advisory Council of the Midwest Reliability Organization;
10 Board of Directors of the Energy Analytic Sharing Exchange; and Global
11 Resilience Federation. Additionally, I serve as the Xcel Energy Coordinator for
12 the EEI Cyber Mutual Aid group. Prior to these positions, I served on the Board
13 of Directors for the Financial Services – Information Sharing Analysis Center
14 (“ISAC”) and the Information Technology – ISAC.

15 **Q. Have you filed testimony or testified before any regulatory authorities?**

16 A. Yes. I filed testimony in SPS’s last Texas rate case, Docket No. 47527¹
17 concerning enterprise security. I also filed testimony before the Public Utility
18 Commission of Colorado, Proceeding No. 16A-0588E, regarding Cyber Security
19 aspects related to the approval of a Certificate of Public Convenience and
20 Necessity for distribution grid enhancements, including Advanced Metering
21 Infrastructure and Integrated Volt-VAr Optimization Infrastructure.

¹ *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 47527 (Dec. 10, 2018).

1 **II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND**
2 **RECOMMENDATIONS**

3 **Q. What is your assignment in this proceeding?**

4 A. I support the Updated Test Year (July 1, 2018 through June 30, 2019)² operation
5 and maintenance (“O&M”) expenses and administrative and general expenses for
6 the Enterprise Security class of affiliate services. In regard to this affiliate class,
7 my testimony will:

- 8 • describe the services included in the class;
- 9 • explain that those services are reasonable and necessary for SPS’s
10 operation;
- 11 • explain that the costs for those services are reasonable and necessary;
- 12 • explain that these services do not duplicate services that SPS provides
13 to itself through its own employees or that are provided from any other
14 source; and
- 15 • explain that charges from XES to SPS for those services are no higher
16 than the charges to SPS affiliates for the same or similar services.

17 I also review and provide cost data for the Physical Security-related
18 capital additions that closed to plant-in-service during the period July 1, 2017
19 which is the first day after the period for which capital additions were approved in
20 Docket No. 47527, through June 30, 2019, which is the end of the Update Period
21 in this case. I first explain the selection and management of Physical Security-
22 related capital additions. I then provide the *actual* dollar amount of the capital
23 additions for this 24-month period in two steps. First, in my direct testimony, I

² The Test Year in this case is April 1, 2018 through March 31, 2019, and the Update Period is April 1, 2019 through June 30, 2019. The Updated Test Year consists of the last nine months of the Test Year and the three months in the Update Period. In addition to supporting the Updated Test Year costs, I have also reviewed the costs for the first three months of the Test Year for the class I support and find those costs to be reasonable.

1 present the *actual* dollar amount of Physical Security-related capital additions that
2 closed to plant-in-service through March 31, 2019, the end of the Test Year in this
3 case, and *estimated* dollar amounts of Physical Security-related capital additions
4 that SPS expects to close to plant-in-service during the Update Period. Second, as
5 part of SPS's 45-day case update filing, I will provide the *actual* dollar amount of
6 Physical Security-related capital additions that closed to plant-in-service during
7 the Update Period. Together, these two pieces of testimony will provide the
8 actual dollar amount of Physical Security-related capital additions closed to
9 plant-in-service during the period July 1, 2017 through June 30, 2019.

10 **Q. Please summarize your testimony and recommendations.**

11 A. The estimated Updated Test Year (July 1, 2018 through June 30, 2019) costs that
12 SPS seeks to recover for the services of the Enterprise Security affiliate class of
13 \$3,491,794 (total SPS before jurisdictional allocations, or "total company") are
14 reasonable and necessary because they support SPS's ability to provide electric
15 service to its Texas retail customers.

- 16 • These costs are for providing enterprise security (i.e., cyber and
17 physical security); protecting assets, corporate and customer data;
18 performing investigations and incident response; and assisting in
19 regulatory compliance. These services allow SPS to operate securely
20 and within regulatory requirements governing the cyber and physical
21 security of electrical facilities.
- 22 • The costs are reasonable because they are shared with other affiliates,
23 include reasonable personnel costs, and are subjected to rigorous
24 budgeting and cost control processes.
- 25 • SPS does not provide these services for itself, and the services do not
26 duplicate services provided by others.
- 27 • Each charge from SPS's affiliates for these services is no higher than
28 the charge by those affiliates to any other entity for the same or similar
29 service.

1 In addition, the costs of the Physical Security-related capital additions
2 placed in service between July 1, 2017 and March 31, 2019, of \$630,423 (total
3 company), are reasonable and necessary and were prudently incurred. These
4 costs, which are provided on Attachment SJB-RR-2, are reasonable and necessary
5 capital costs to provide and maintain the security of the properties and facilities
6 that are used in providing service to SPS's customers.

7 Further, SPS incurred Physical Security-related capital costs for projects
8 placed in service between April 1, 2019 through June 30, 2019 as shown on
9 Attachment SJB-RR-3. These costs are also reasonable and necessary to provide
10 and protect the properties and facilities necessary for the provision of electric
11 service by SPS, and were also prudently incurred.

12 The affiliate charges of \$2,834 that are included in the July 1, 2017
13 through March 31, 2019 capital projects, and the estimated affiliate charges
14 shown on Attachment SJB-RR-3 that are included in the April 1, 2019 through
15 June 30, 2019 capital projects, reflect reasonable and necessary costs and
16 services; and the charge from SPS's affiliate for a particular service is no higher
17 than the charge by that affiliate to any other entity for the same or similar service.

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

20 **A.** As explained by SPS witness William A. Grant, SPS will be using an Updated
21 Test Year in this case. SPS's initial filing presents actual expenses for the Test
22 Year (April 1, 2018 through March 31, 2019) and estimated information for the
23 time period of April 1, 2019 through June 30, 2019, which is the Update Period.

1 Accordingly, the first nine months of SPS's Updated Test Year (i.e., July 2018
2 through March 2019) consist of actual cost information and the last three months
3 (i.e., April through June 2019) contain estimated cost information. For this
4 reason, certain SPS witnesses refer to the Updated Test Year in direct testimony
5 as the "estimated Updated Test Year."

6 Regarding the Enterprise Security affiliate costs I support, as explained by
7 SPS witness Melissa L. Schmidt, actual figures for April and May 2019 have been
8 provided and June 2019 figures have been estimated based on the forecasted
9 budget. However, these expenses have not gone through the full pro forma
10 adjustment review process. With respect to the Physical Security-related capital
11 costs (and related affiliate expense) that I support, the costs for projects placed in
12 service between April 1, 2019 and June 30, 2019 have been estimated.

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

15 A. Yes. SPS will file an update 45 days after SPS filed this application. The update
16 will provide actual costs to replace the estimates provided in the application for
17 the Update Period. As part of that process, my Attachments SJB-RR-A through D
18 will be updated to remove estimates of Enterprise Security affiliate costs incurred
19 by SPS during the Updated Test Year and then replace those estimates with actual
20 expenses, which will be used to establish SPS's base rates in this case.

21 Additionally, my Attachment SJB-RR-3 will be updated to remove
22 estimates of Physical Security-related capital additions closed to plant-in-service
23 in the Update Period and then replace those estimates with actual capital additions
24 closed to plant-in-service during that period.

1 **Q. Were Attachments SJB-RR-1 through SJB-RR-D prepared by you or under**
2 **your direct supervision and control?**

3 A. Yes, as to Attachment SJB-RR-1 and the project descriptions on Attachment
4 SJB-RR-3. Attachment SJB-RR-2 and the cost information contained in
5 Attachment SJB-RR-3 were prepared by SPS witness Mark P. Moeller and his
6 staff. My staff and I have reviewed these attachments, and I believe them to be
7 accurate. Attachments SJB-RR-A through SJB-RR-D were prepared by Ms.
8 Schmidt and her staff. My staff and I have reviewed these attachments and I
9 believe them to be accurate. Although the information I have described also is
10 present in these other witnesses' attachments, I have presented this information in
11 the attachments to my testimony for the convenience of those reviewing my
12 testimony.

1 **III. AFFILIATE EXPENSES FOR THE ENTERPRISE SECURITY**
2 **CLASS OF SERVICES**

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

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

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

13 A. I sponsor the Enterprise Security class of affiliate services.

14 **A. Summary of Affiliate Expenses for the Enterprise Security Class**
15 **of Services**

16 **Q. Where does the Enterprise Security affiliate class fit into the overall affiliate**
17 **structure?**

18 A. Attachment MLS-RR-6 to Ms. Schmidt’s direct testimony provides a list and a
19 pictorial display of all affiliate classes, dollar amounts for those classes, and
20 sponsoring witness for each class. As seen on that attachment, the Enterprise
21 Security affiliate class was part of the Customer and Innovation business area
22 during the Updated Test Year. Attachment SJB-RR-1 to my testimony is an
23 organization chart showing the Enterprise Security organization.

1 **Q. What services are grouped into the Enterprise Security affiliate class?**

2 A. The Enterprise Security affiliate class provides enterprise security for Xcel
3 Energy, including SPS. Enterprise Security is responsible for all aspects of Xcel
4 Energy's Cyber Security, Physical Security, Enterprise Resilience, and Security
5 Governance & Risk Programs. These functions ensure that appropriate policies
6 and procedures are in place for protecting high-risk data, preparing for increasing
7 cyber security threats, and satisfying data privacy requirements, including
8 emerging regulations for data privacy of customer energy consumption. The
9 Enterprise Security affiliate class is also responsible for the preparation for
10 responding to major emergencies, pandemics, and disasters in order to ensure
11 continued operations of Xcel Energy and its Operating Companies, including
12 SPS.

13 **Q. What is the dollar amount of the Updated Test Year XES charges that SPS**
14 **requests, on a total company basis, for the Enterprise Security affiliate class?**

15 A. The following table (next page) summarizes the dollar amount of the estimated
16 Updated Test Year XES charges for the Enterprise Security affiliate class. I will
17 update the table below as part of SPS's 45-day case update filing to reflect the
18 actual Updated Test Year costs for the Enterprise Security affiliate class.

Table SJB-RR-1

		Requested Amount of XES Class Expenses Billed to SPS (Total Company)		
Class of Services	Total XES Class Expenses	Requested Amount	% Direct Billed	% Allocated
Enterprise Security	\$25,120,719	\$3,491,794	17.52%	82.48%

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 SJB-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 SJB-RR-A.

% Direct Billed

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

% Allocated

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

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

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

6 **Attachment SJB-RR-A:** Provides a summary of the affiliate expenses
7 for this class during the Updated Test Year. The portion of the summary specific
8 to billings to SPS starts with the total of the XES expenses to SPS for the services

1 provided by this affiliate class and ends with the requested dollar amount of XES
2 expenses to SPS (total company) for this affiliate class after exclusions and pro
3 forma adjustments. The columns on this attachment provide the following
4 information.

Column A —	Line No.	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 her 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 —	Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	Shows XES billings to all legal entities for the affiliate class.
Column F —	XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935)	Shows XES billings to all legal entities except 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 G. Exclusions reflect expenses not requested, such as expenses not allowed or other expenses excluded from the cost of service.

Column I —	Per Book	Shows XES billings to SPS (total company), for the affiliate class, after the exclusions shown in Column H. The dollar amount in Column I is Column G plus Column H.
Column J —	Pro Formas	Shows the total dollar amount of pro forma adjustments to the dollar amount in Column I. 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 K is Column I plus Column J.
Column L —	% 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 Test Year and the
3 Updated Test Year.

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

Column A —	Line No.	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 her 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 for the operating companies.
Column H —	Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to all legal entities for the affiliate class.
Column I —	XES Billings for Class to all Legal Entities Except SPS (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to all legal entities except SPS for the affiliate class.
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 for the affiliate class. Therefore, the sum of this column provides total billings to SPS and ties to the total dollar amount for the affiliate class in Column G of Attachment SJB-RR-A.

Column K —	Exclusions	Shows the total dollars excluded from 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 SJB-RR-A.
Column L —	Per Book	Shows XES billings to SPS (total company) for the affiliate class after the exclusions shown in Column K. 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 SJB-RR-A.
Column M —	Pro Formas	Shows the dollar amount of pro forma adjustments to the dollar amount in Column L. The total dollar amount for the affiliate class in Column M ties to the total dollar amount for the affiliate class in Column J of Attachment SJB-RR-A.
Column N —	Requested Amount (Total Company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column N is Column L plus Column M. The total dollar amount for the affiliate class in Column N ties to the total dollar amount for the affiliate class in Column K of Attachment SJB-RR-A.

Ms. Schmidt also provides a consolidated summary of this information for all affiliate classes during the Test Year and the Updated Test Year.

Attachment SJB-RR-C: Both Attachments SJB-RR-A and SJB-RR-B(CD) show exclusions to the XES expenses billed to SPS for the Enterprise Security affiliate class (Attachment SJB-RR-A, Column H; Attachment SJB-RR-B(CD), Column K). Attachment SJB-RR-C provides detail about those

1 exclusions listed on Attachments SJB-RR-A and SJB-RR-B(CD). The columns
2 on Attachment SJB-RR-C provide the following information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account and FERC Account description 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.

3 In her direct testimony, Ms. Schmidt describes the calculations underlying
4 the exclusions.

5 **Attachment SJB-RR-D:** Both Attachments SJB-RR-A and
6 SJB-RR-B(CD) show pro forma adjustments to SPS's per book expenses for the
7 Enterprise Security affiliate class (Attachment SJB-RR-A, Column J; Attachment
8 SJB-RR-B(CD), Column M). Attachment SJB-RR-D provides information about
9 those pro forma adjustments shown on Attachments SJB-RR-A and
10 SJB-RR-B(CD). The columns on Attachment SJB-RR-D provide the following
11 information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account and FERC Account description 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 Enterprise Security affiliate class to SPS in**
2 **the same manner as it bills other affiliates for those expenses?**

3 A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and
4 allocating cost 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 Enterprise**
7 **Security 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 SJB-RR-A, Column H, and on Attachment SJB-RR-B(CD),
11 Column K. The details for the exclusions are provided in Attachment SJB-RR-C.
12 Ms. Schmidt describes how the exclusions were calculated. In SPS's 45-day case
13 update, I will present an updated Attachment SJB-RR-C that will provide actual
14 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 **Enterprise Security 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 SJB-RR-A, Column J, and on Attachment SJB-RR-B(CD),

1 Column M. The details for the pro forma adjustments, including the witness or
2 witnesses who sponsor each pro forma adjustment, are provided in Attachment
3 SJB-RR-D. Given the time of SPS's initial filing, only the first nine months of
4 the Updated Test Year have completed the full pro forma adjustment review
5 process. In SPS's 45-day case update, I will present an updated Attachment
6 SJB-RR-D that will complete the full pro forma adjustment review process for the
7 last three months of the Updated Test Year.

8 **Q. Attachment SJB-RR-D shows that you are a sponsor for pro forma**
9 **adjustments for expenses for the Enterprise Security affiliate class during the**
10 **first nine months of the Updated Test Year that result in a decrease for the**
11 **Enterprise Security affiliate class of \$6,493. Please explain the adjustments.**

12 A. The adjustments that I sponsor remove charges for life events (a decrease of \$33);
13 remove charges for recognition (a decrease of \$58); remove charges for alcohol (a
14 decrease of \$220); remove foreign travel (a decrease of \$1,818); and remove costs
15 not benefitting SPS (a decrease of \$4,364).

16 **B. The Enterprise Security Class of Services are Necessary Services**

17 **Q. Are the services that are grouped in the Enterprise Security affiliate class**
18 **necessary for SPS's operations?**

19 A. Yes. The Enterprise Security affiliate class provides a vital service that enables
20 SPS and Xcel Energy to safely and securely conduct its business to provide
21 electric service to its customers. They are functions required by all utilities and
22 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 Enterprise**
2 **Security affiliate class?**

3 A. The specific services that are provided to SPS by the Enterprise Security affiliate
4 class include:

- 5 • **Cyber Security** – Providing a robust team of cyber security specialists
6 that enable 24x7 monitoring and incident response capabilities,
7 security engineering services, identity and access management, and
8 threat intelligence monitoring and reporting.
- 9 • **Enterprise Resilience** – Streamlining and strengthening the
10 organization’s ability to respond to major crisis events or disasters,
11 identify business risks and critical operations, develop continuity plans
12 to maintain or restore operations during a crisis, and enhance external
13 emergency management partner engagement.
- 14 • **Physical Security** – Providing a diverse suite of physical security
15 tools, tactics, and procedures for the enterprise to ensure regulated and
16 non-regulated physical security requirements are met based on a
17 strategic (enterprise wide) or business unit need to minimize risk to
18 Xcel Energy personnel, assets, and information.
- 19 • **Security Governance & Risk Services** – overseeing Governance,
20 Risk, and Compliance management, which are the three pillars that
21 ensure that Xcel Energy understands and effectively manages IT risk,
22 which includes governance of the discipline of designing,
23 implementing, and maturing technology risk management practices to
24 protect business processes and IT assets across the enterprise.

25 **Q. Are any of the Enterprise Security class of services that are provided to SPS**
26 **duplicated elsewhere in XES or in any other Xcel Energy subsidiary such as**
27 **SPS itself?**

28 A. No. Within XES, none of the services grouped in the Enterprise Security affiliate
29 class are duplicated elsewhere. No other Xcel Energy subsidiary performs these
30 services for the Operating Companies. In addition, SPS does not perform these
31 services for itself. Although the Business Systems affiliate class, which is
32 supported by SPS witness David C. Harkness, is responsible for the

1 implementation and IT support of cyber security capital projects (e.g., software
2 and hardware), those services are separate and distinct from those provided by the
3 Enterprise Security affiliate class.

4 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
5 **Enterprise Security class of services?**

6 A. Yes. The services of the Enterprise Security class benefit SPS's customers in
7 many ways. The sophisticated security systems, round-the-clock monitoring, and
8 awareness training provided by the Enterprise Security affiliate class protect the
9 assets and personnel of SPS that are necessary to provide electric service to
10 customers.

11 **C. The Enterprise Security Class of Services are Provided at a**
12 **Reasonable Cost**

13 *1. Additional Evidence*

14 **Q. Is there additional support for a portion of the expenses that you present in**
15 **this testimony?**

16 A. Yes. Of the Updated Test Year costs for the Enterprise Security class, over 61%
17 are compensation and benefits costs for XES personnel. SPS witnesses Michael
18 Knoll and Richard Schrubbe establish that the level of Xcel Energy's
19 compensation and benefits is reasonable and necessary. In addition, over 30% of
20 the costs for this class were for goods or services procured by contract. Xcel
21 Energy's Supply Chain organization is responsible for the sourcing and
22 purchasing of goods and services needed by SPS, as well as the review and
23 processing of payments by vendors. SPS witness Gary J. O'Hara provides

1 testimony about these functions and demonstrates that the Supply Chain processes
2 and controls produce reasonable costs supporting SPS's operations.

3 *2. Budget Planning*

4 **Q. Is a budget planning process applicable to the Enterprise Security class of**
5 **affiliate costs?**

6 A. Yes. Annual budgets are created which are applicable to the Enterprise Security
7 class of affiliate costs, using guidelines developed at the corporate level. As part
8 of the process, historical spend information for the Enterprise Security class of
9 affiliate costs is reviewed, changes are identified that will be coming in the future,
10 and the costs associated with those changes are analyzed prior to submitting a
11 proposed budget. The budgeting process is discussed in more detail by SPS
12 witness Adam R. Dietenberger.

13 **Q. During the fiscal year, does the Enterprise Security organization monitor its**
14 **actual expenditures versus its budget?**

15 A. Yes. Actual versus expected expenditures are monitored on a monthly basis.
16 Deviations are evaluated each month to ensure that costs are appropriate. In
17 addition, action plans are developed to mitigate variations in actual to budgeted
18 expenditures. These mitigation plans may either reduce or delay other
19 expenditures so that overall spending complies with the authorized budget.

20 **Q. Are employees within the Enterprise Security organization held accountable**
21 **for deviations from the budget?**

22 A. Yes. All management employees in the Customer and Innovation business area,
23 which includes the Enterprise Security class of affiliate costs, have specific

1 budgetary goals that are incorporated into their performance evaluations.
2 Performance is measured on a monthly basis to ensure adherence to the goals and
3 provide for action plan development to address variances. All Enterprise Security
4 managers are required to manage their expenses to support the budgetary goals.
5 Failure to meet these performance targets will affect their performance evaluation
6 and overall compensation.

7 *3. Cost Trends*

8 **Q. Please state the dollar amounts of the actual per book charges from XES to**
9 **SPS for the Enterprise Security class of services for the three fiscal years**
10 **preceding the end of the Updated Test Year and the estimated per book**
11 **charges for the estimated Updated Test Year.**

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

16 **Table SJB-RR-2**

	(Per Book) Charges Over Time			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Enterprise Security	\$2,067,254	\$2,812,621	\$3,297,843	\$3,522,585

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

18 A. The increase in costs from 2016 through the Updated Test Year is due to the
19 increase in staffing needed to support the work and responsibilities of the

organization, including but not limited to ensuring that appropriate policies and procedures are in place for protecting high-risk data, preparing for increasing cyber security threats, and satisfying data privacy requirements, including emerging regulations for data privacy of customer energy consumption. I discuss the increase in staffing in more detail below.

4. Staffing Trends

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

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

Table SJB-RR-3

	Average of End of Month # of Staff			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Enterprise Security	50	87	123	131

Q. What are the reasons for this trend?

A. The increase in average staffing levels between 2016 through the Updated Test Year was due to the need to correct a lack of resources to ensure adequate headcount to provide essential cyber and physical Enterprise Security services for Xcel Energy and its Operating Companies, including SPS. This increase in staffing demonstrates the emerging need that led to a stand-alone organization

(i.e., Enterprise Security) to focus on Cyber Operations, Enterprise Resilience, Physical Security, and Security Governance.

5. *Cost Control and Process Improvement Initiatives*

Q. Separate from the budget planning process, does the Enterprise Security affiliate class take any steps to control its costs or to improve its services?

A. Yes. The Enterprise Security organization continually reviews its plans, initiatives, and staffing to ensure they are appropriate and to identify and implement improvements. For example, non-critical physical security equipment repairs and maintenance activities are grouped by geographical area in order to reduce travel time and expense, and “smart” software has been installed that reduces the number of people required to monitor Xcel Energy facilities and provide improved response times and, thus, have an incentive to keep the price of their services competitive.

D. The Costs for the Enterprise Security Class of Services are Priced in a Fair Manner

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

A. No. The XES charges to SPS for any particular service are no higher than the XES charges to any other Xcel Energy affiliate. The costs charged for particular services are the actual costs that XES incurred in providing those services to SPS. A single, specific allocation method, rationally related to the costs drivers associated with the service being provided, is used with each cost center (billing

1 method). In her direct testimony, Ms. Schmidt discusses the selection of billing
2 methods and XES's method of charging for services in more detail.

3 **Q. How are the costs of the Enterprise Security affiliate class billed to SPS?**

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

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

17 **Q. What are the predominant allocation methods used for billing the costs that**
18 **SPS seeks to recover for the Enterprise Security affiliate class of services?**

19 A. Approximately 100% of the requested XES charges to SPS for this class were
20 charged using one of the following five allocation methods:

- 21 • Assets, Revenues, Number of Employees – 59.67% of XES charges to
22 SPS – \$2,083,466;
- 23 • Number of Employees – 22.85% of XES charges to SPS - \$797,844;
- 24 • Direct Billing – 17.52% of XES charges to SPS - \$611,731; and,
- 25 • Number of Computers – .01% of XES charges to SPS – \$226.

1 **Q. Why is it appropriate to allocate costs based upon the “Assets, Revenues,**
2 **Number of Employees” method for the costs captured in the cost centers that**
3 **use that allocation method?**

4 A. The “Assets, Revenues, Number of Employees” method produces an allocation of
5 costs that recognizes the complexity, risk, and overall business activity levels that
6 drive the costs included in the cost centers and measures the benefits received
7 from those activities. For the cost centers billed using this allocator, there is no
8 one specific cost driver for the support tasks and services provided, and the
9 services benefit multiple Xcel Energy affiliates. For example, the costs associated
10 with labor and non-labor costs of providing support to the Operations
11 organization in the area of cyber security planning and implementation, which are
12 collected in Cost Center 200074, are allocated using this method. Within the Xcel
13 Energy holding company group, those legal entities that have proportionately
14 more assets, revenues, and employees will have more focus placed on their
15 operations due to those subsidiaries’ relative influence on the consolidated
16 business balance sheet, income statement, and statement of cash flow, and the
17 subsidiaries will benefit accordingly from the services provided. Thus, allocating
18 these costs based upon the average of the total asset ratio, revenue ratio, and the
19 employee ratio is appropriate because it allocates costs for the services in
20 accordance with cost causation and the distribution of the benefits of the services
21 received. For the cost centers that assign costs based upon this allocation method,
22 the per unit amounts charged by XES to SPS as a result of the application of this
23 allocation method are no higher than the unit amounts billed by XES to other

1 affiliates for the same or similar services and represent the actual costs of the
2 services.

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

6 A. For the cost centers that use the “Number of Employees” method as the allocator,
7 the costs are driven by the employees. For example, Cost Center 200165 –
8 Employee Communications, which uses the “Number of Employees” method as
9 the allocator, captures costs for the development and enhancement of employee
10 awareness of Xcel Energy’s security efforts through communication vehicles and
11 targeted communications for specific business areas such as Human Resources
12 and employee meetings. Thus, this cost center allocates costs among the Xcel
13 Energy legal entities based upon the proportionate share of employees of each
14 Xcel Energy legal entity (i.e., the number of employees of a particular legal entity
15 as a percentage of the total number of employees of all of the legal entities). This
16 allocation reflects cost causation and the distribution of the benefits of the
17 services received. For the cost centers that assign costs based upon this allocation
18 method, the per unit amounts charged by XES to SPS as a result of the application
19 of this allocation method are no higher than the unit amounts billed by XES to
20 other affiliates for the same or similar services and represent the actual costs of
21 the services.

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 monitoring SPS generation facility
10 security systems were assigned using the “Direct Billing” method. The cost of
11 these services benefited SPS, and the work was performed specifically for SPS
12 alone. Thus, the “Direct Billing” method is appropriate because it assigns costs in
13 accordance with cost causation and benefits received. For the cost centers that
14 assign costs using Direct Billing, the per unit amounts charged by XES to SPS are
15 no higher than the unit amounts billed by XES to other affiliates for the same or
16 similar services and represent the actual costs of the services.

17 **Q. Why is it appropriate to allocate costs based upon the “Number of**
18 **Computers” method for the costs captured in the cost centers that use that**
19 **allocation method?**

20 A. For the cost centers charged using the “Number of Computers” method as the
21 allocator, the costs are driven by the machines in the environment. For example,
22 the costs of defending against persistent actor malware attacks are collected in
23 Cost Center 200148, are assigned using this billing method, and these costs are

1 driven by the number of computers in use. Thus, allocating these costs based on
2 the number of computers is appropriate for the allocation of costs to affiliates
3 because it allocates costs for the services in accordance with cost causation and
4 the distribution of the benefits of the services received. For the cost centers that
5 assign costs based upon this allocation method, the per unit amounts charged by
6 XES to SPS as a result of the application of this allocation method are no higher
7 than the unit amounts billed by XES to other affiliates for the same or similar
8 services and represent the actual costs of the services.

1 **IV. PHYSICAL SECURITY SERVICES CAPITAL ADDITIONS**

2 **A. Selection and Management of Physical Security Services Capital**
3 **Additions**

4 **Q. Please describe the work that Physical Security Services performs to support**
5 **SPS's operations that is directly related to capital projects.**

6 A. SPS's Physical Security Services, a part of the Enterprise Security Services
7 organization, performs work to secure the properties and facilities that are used by
8 SPS to serve its customers, as discussed more specifically above in relation to
9 O&M. The work performed that is directly related to capital projects includes
10 assurance of appropriate physical security equipment to reduce risk to SPS's
11 facilities, employees, and information. Capital project work ensures that timely
12 and accurate investigations and incident response are adhered to and tied directly
13 into the Security Operations Center (SOC), 24 hours a day, 7 days a week, 365
14 days a year for monitoring all SPS facilities to reduce risk to SPS. Capital
15 additions are a necessary part of this work that is necessary for SPS to provide
16 safe and reliable electric utility service for SPS's customers.

17 **Q. Please describe the process for ranking and funding Physical Security**
18 **Services capital projects.**

19 A. Early each year, corporate facilities are evaluated by Physical Security staff to
20 identify projects for inclusion in the capital budget for the following year.
21 Physical Security Services identifies short and long-term Physical Security needs
22 in coordination with facility and project managers. Physical Security Services
23 identifies short-term and long-term facilities needs in coordination with facility

1 and project managers. The needs may be greater than the organization's ability to
2 fund them, so Physical Security Services has implemented a systematic approach
3 for evaluating and prioritizing SPS's needs and any proposed investments. The
4 evaluation considers factors such as facility safety, which is a high priority, SPS's
5 requests, opportunities for increased efficiencies, and urgency of security
6 equipment replacement in relation to potential consequences of the failure of such
7 equipment. Reviews are also conducted on an ongoing basis as new needs arise
8 and priorities change and sometimes result in deferring projects in order to match
9 the available funds. Mr. Dietenberger discusses the capital projects budgeting
10 process in more detail.

11 **Q. Please generally describe how the Physical Security Services business area**
12 **develops cost estimates for proposed capital additions.**

13 A. Physical Security Services develops cost information in different ways depending
14 on the type of project involved. For smaller projects, Physical Security Services
15 collects past project cost information and historical data used to approximate costs
16 for similar work. These costs are weighed against the active year's economic
17 climate and costs are adjusted accordingly – construction industry activity in the
18 area, cost of materials/labor, oil prices, and location of the work/access to labor.
19 For some larger projects, a third party estimator is hired to develop an estimate
20 based on a defined scope of work. For physical security assets that are primarily
21 hardware and software, the company considers a number of environmental factors
22 when pricing this equipment to include the life expectancy of the equipment, any
23 additional operation and maintenance costs beyond the life expectancy, and the

1 location of where the hardware and software is being installed. Utilizing a third
2 party estimator/integrator is also required to develop estimates based on a defined
3 scope of work, and also provides competition in the form of Requests For
4 Proposals.

5 **Q. Please explain how Physical Security Services capital costs are managed.**

6 A. After the estimates are developed, all projects follow a project flow process that
7 requires reviews and approvals at the budget, management, senior management,
8 and executive levels. After this approval, they are reviewed by project managers,
9 area management, and corporate finance on a monthly basis to compare the
10 monthly budget to actual expenditures. Each project's budget is updated monthly
11 with a current forecast for all remaining months, including current year-to-date
12 spend. Further, year-to-date actual expenditures are compared with year-to-date
13 forecasts and year-end forecasts. Deviations are identified and recommendations
14 are reviewed and approved. Changes to budgeted project costs are reported to the
15 finance department on a monthly basis.

16 When a project's actual costs will exceed the original budget or an
17 unbudgeted emergency occurs, all lower priority projects included in that year's
18 budget are reviewed by Physical Security Services management to determine
19 whether they can be delayed or removed to cover the costs of those emergencies.
20 For example, a vehicle access gate that is not operating correctly and is creating a
21 safety issue would be a higher priority than replacing an analog/digital camera
22 that provides adequate security with a more up to date Internet Protocol based
23 camera, which can be delayed to a future year.

1 **B. Physical Security Capital Projects Placed in Service Between July**
2 **1, 2017 and March 31, 2019**

3 **Q. As part of this rate case, is SPS asking to include in its rate base Physical**
4 **Security-related capital additions closed to plant-in-service during the period**
5 **of July 1, 2017 through March 31, 2019?**

6 A. Yes. Attachment SJB-RR-2 sets forth the Physical Security-related capital
7 additions that closed to plant-in-service during the 21-month period starting July
8 1, 2017 and ending on March 31, 2019. The starting date for this period (July 1,
9 2017) is the first day after the end of the period for which capital additions were
10 requested in Docket No. 47527, and the ending date for this period (March 31,
11 2019) is the end of the Test Year in this current case. All of these capital
12 additions were prudently incurred and support SPS's ability to provide electric
13 service to its customers. As I mentioned previously in my testimony, cyber
14 security capital projects are sponsored by Mr. Harkness.

15 **Q. What is the dollar amount of the Physical Security-related capital additions**
16 **placed in service between July 1, 2017 through March 31, 2019 that SPS is**
17 **requesting in this docket?**

18 A. The total requested dollar amount of Physical Security-related capital additions
19 closed to plant-in-service during the period July 1, 2017 through March 31, 2019
20 is \$630,423 (total company). Attachment SJB-RR-2 provides details regarding
21 the costs of the Physical Security-related capital additions closed to plant-in-
22 service during this 21-month period. Mr. Freitas allocates the total company
23 dollar amount among SPS's jurisdictions (Texas retail; New Mexico retail; and
24 wholesale).

1 **Q. Please briefly describe the Physical Security-related capital additions placed**
2 **in service July1, 2017 through March 31, 2019.**

3 A. The Physical Security-related capital additions placed in service July 1, 2017
4 through March 31, 2019 consist of the installation of physical security department
5 hardware and software security system components. This also includes the
6 replacement of security equipment hardware/software that is no longer
7 manufactured, serviced, or has surpassed its manufactured shelf life.

8 **Q. Please describe the information in Attachment SJB-RR-2, which provides the**
9 **details about the dollar amounts closed to plant-in-service for these Physical**
10 **Security-related capital additions and the associated affiliate component.**

11 A. Attachment SJB-RR-2 provides the following information:

Column A —	WBS Level 4 Number	Provides the Work Breakdown Structure (“WBS”) Level 4 number for the project.
Column B —	WBS Level 4 Description	Provides a short title for the WBS Level 4 number for the project.
Column C —	Asset Class	Identifies the type of asset.
Column D —	Witness	Identifies the witness supporting the project.
Column E —	Project Category	Provides the project category for the project.
Column F —	WBS Level 2 Number	Provides the WBS Level 2 number for the project.
Column G —	WBS Level 2 Description	Provides a short title for the WBS Level 2 number for the project.
Column H —	In-Service Date	Date that the project was completed and added to plant-in-service.

Column I —	Additions to Plant-in-Service (July 1, 2017-Mar. 31, 2019)	The total company dollar amount of the addition to plant-in-service for the project.
Column J —	XES Charges (Included in Column I)	The amount of charges from XES that are included in the total company dollar amount of addition to plant-in-service for the project in Column I.
Column K —	Other Affiliate Charges (Included in Column I)	The amount of charges from affiliates other than XES that are included in the total company dollar amount of addition to plant-in-service for the project in Column I.
Column L —	Total Affiliate Charges (Included in Column I)	Total of Columns J and K associated with new plant-in-service shown in Column I.
Column M —	Total Native Charges (Columns I less L) Within the Total Additions to Plant-in-Service Shown in Column (I)	The dollar amount (total company) of the addition to plant-in-service in Column I that is not an affiliate charge.

- 1 **Q. Attachment SJB-RR-2 includes capitalized affiliate costs. Are those affiliate**
2 **costs necessary to complete the projects listed in Attachment SJB-RR-2?**
- 3 **A.** Yes. Many employees in the Enterprise Security organization, of which Physical
4 Security is a part, perform work that causes their labor and expenses to be
5 capitalized, rather than expensed. For example, developers, analysts, and project
6 managers who work on Physical Security capital projects to benefit SPS charge
7 their time to specific capital projects, and these costs are charged back to SPS as
8 part of the capital project cost. In addition, the capital projects include overhead
9 charges that reflect labor and other costs as discussed by Mr. Moeller. When
10 those projects are complete, the costs, including the labor charges, are recorded as

1 new assets. The affiliate charges included in Attachment SJB-RR-2 are \$2,834,
2 which is approximately .45% of SPS's total physical security capital costs.

3 **Q. Are the costs of these capitalized affiliate charges reasonable?**

4 A. Yes. In Section III of this testimony, I demonstrate that the Updated Test Year
5 charges by XES employees in the Enterprise Security organization are reasonable
6 and necessary and Ms. Schmidt explains that charges for labor and goods from the
7 Operating Companies to SPS are reasonable and necessary. Those discussions
8 also apply to the \$2,834 of capitalized affiliate costs that are reflected in Column
9 L of Attachment SJB-RR-2, and that were incurred during the 21-month period,
10 July 1, 2017 through March 31, 2019. Thus, that discussion supports the
11 reasonableness and necessity of these capitalized Physical Security affiliate costs.

12 **Q. What is the difference between the affiliate charges you discussed in Section**
13 **III of your testimony and the affiliate charges you discuss regarding capital**
14 **additions?**

15 A. The affiliate charges I discussed earlier were those related to only O&M affiliate
16 expense during the Updated Test Year. In contrast, the affiliate charges that I
17 discuss in this section of my testimony refer to the capitalized affiliate charges
18 that were closed to plant-in-service during the period from July 1, 2017 through
19 March 31, 2019.

20 **Q. Please describe the Physical Security-related capital additions closed to**
21 **plant-in-service during the period July 1, 2017 through March 31, 2019, and**
22 **listed on Attachment SJB-RR-2 in more detail.**

23 A. All of the Physical Security-related capital additions listed in Attachment
24 SJB-RR-2 support SPS's ability to provide electric service to its customers.

1 These additions consist of the installation or upgrades of security equipment.
2 These capital additions are reasonable and necessary to provide, maintain, and
3 secure the properties and facilities that are used by SPS to provide safe and
4 reliable electric service to its retail customers.

5 As shown in Table SJB-RR-4, the capital additions for this period all fall
6 within the following single category: Controls & Monitoring.

7 **Table SJB-RR-4**
8 **Physical Security-Related Capital Additions (Total Company)**

Project Category	Capital Additions for the Period July 1, 2017 through March 31, 2019
Controls & Monitoring	\$630,423
TOTAL	\$630,423

9 **Q. Please describe the types of projects included in the “Controls &**
10 **Monitoring” category.**

11 A. This category covers the replacement and installation of security system
12 equipment associated with SPS facilities and infrastructure. The projects included
13 in this category are:

- 14 • **Security Projects – Electric:** \$353,032 (WBS Level 4 Number
15 D.0001781.041.001.001) – Replacement of outdated security equipment at
16 the Austin office.
- 17 • **790 Buchanan Security System:** \$277,391 Total Company (WBS Level
18 4 Number D.0001781.049.001.001) – Materials and labor to install
19 security systems at 790 Buchanan.
20

21 Combined, these projects account for 100% of the total capital additions in
22 this category.

1 **Q. Are the Physical Security capital additions listed on Attachment SJB-RR-2,**
2 **that were closed to plant-in-service during the period July 1, 2017 through**
3 **March 31, 2019, including the capitalized affiliate charges, reasonable and**
4 **necessary?**

5 A. Yes. The Physical Security-related projects listed on Attachment SJB-RR-2 are
6 reasonable and necessary to maintain appropriate security for the service centers,
7 office facilities, and equipment that are required to maintain service to SPS's
8 customers. As discussed further above, oversight for prioritization of capital
9 investments was provided by the Chief Security Officer and ensures that the
10 capital projects are reasonable and necessary and that the costs were prudently
11 incurred.

12 **C. Physical Security-Related Capital Projects Placed in Service**
13 **Between April 1, 2019 and June 30, 2019**
14

15 **Q. Is SPS asking to recover Physical Security-related capital costs for projects**
16 **placed in service between the end of the Test Year and June 30, 2019?**

17 A. Yes. Attachment SJB-RR-3 provides SPS's costs for these projects. As initially
18 filed, the costs reflected in Attachment SJB-RR-3 are estimated amounts. Mr.
19 Moeller explains the basis for the budgeted amounts. As discussed by Mr. Grant,
20 SPS will file actual costs for the Update Period, including an updated version of
21 Attachment SJB-RR-3, no later than the 45th day after the date of the initial filing
22 of this rate case, as required by 16 TAC § 25.246.

1 **Q. What is the cost of Physical Security-related capital projects placed in service**
2 **between April 1, 2019 and June 30, 2019?**

3 A. The total costs are reflected on Attachment SJB-RR-3, including affiliate costs.
4 These amounts reflect total company costs. Mr. Freitas allocates the total
5 company dollar amount among SPS's three rate jurisdictions (Texas retail; New
6 Mexico retail; and wholesale) in the cost of service study he presents.

7 **Q. Are capitalized affiliate costs included in the total costs?**

8 A. Yes. The costs include capitalized affiliate costs similar to those included for
9 projects placed in service during the previous 21 months. As initially filed,
10 Attachment SJB-RR-3 contains only a total estimated amount of affiliate charges,
11 which are based on historical percentages for the different asset classes. This is
12 explained in more detail by Mr. Moeller. The updated version of Attachment
13 SJB-RR-3, will reflect actual affiliate charges for the Update Period.

14 **Q. Are those affiliate costs necessary to complete the Physical Security-related**
15 **capital projects?**

16 A. Yes. Affiliate costs are incurred for the same reasons they were incurred on the
17 projects placed in service between July 1, 2017 and March 31, 2019 as discussed
18 earlier in my testimony.

19 **Q. Are the these capitalized affiliate charges reasonable?**

20 A. Yes. These costs satisfy the standards for inclusion of affiliate costs in rates for
21 the reasons presented in the my testimony above, as well as the testimony of Ms.
22 Schmidt and Mr. Moeller regarding the reasonableness of affiliate charges.

1 **Q. Please describe the information in Attachment SJB-RR-3, which provides the**
2 **dollar amounts for projects placed in service during the Update Period?**

3 A. Attachment SJB-RR-3 provides the following information:

Column A —	Asset Class	Identifies the type of asset.
Column B —	Witness	Identifies the witness supporting the project.
Column C —	Project Category	Identifies the project category.
Column D —	Additions to Plant-in-Service (Apr. 2019 – Jun. 2019)	The total company dollar amount of the addition to plant-in-service.
Column E —	Total Affiliate Charges	Provides the total affiliate charges included in the charges in Column D.
Column F —	Project Description	Provides a description of the project and its major components.

4 **Q. Please describe the projects placed in service during the Update Period.**

5 A. The projects placed in service from April 1, 2019 through June 30, 2019 are
6 similar to the projects that were closed to plant-in-service in the previous
7 21 months and that are discussed in the previous section of my testimony. These
8 projects are necessary to provide appropriate security to the service centers, office
9 facilities, and equipment that are required to maintain service to SPS's customers.
10 Descriptions of the specific projects placed in service between April 1, 2019 and
11 June 30, 2019, and the reasons the specific projects are necessary, are provided on
12 my Attachment SJB-RR-3.

1 **Q.** Has SPS managed its Update Period Physical Security-related capital
2 addition projects to ensure the final, actual costs are reasonable and
3 prudent?

4 **A.** Yes. The same budgeting and project management process that I describe in the
5 previous section of my testimony applies to the projects for the Update Period.

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

7 **A.** Yes.

AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF HENNEPIN)

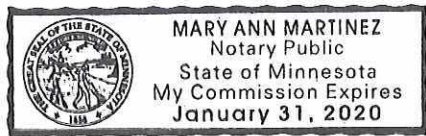
STEPHEN J. BROWN, first being sworn on his oath, states:

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.



STEPHEN J. BROWN

Subscribed and sworn to before me this 30 day of July, 2019 by STEPHEN J. BROWN.

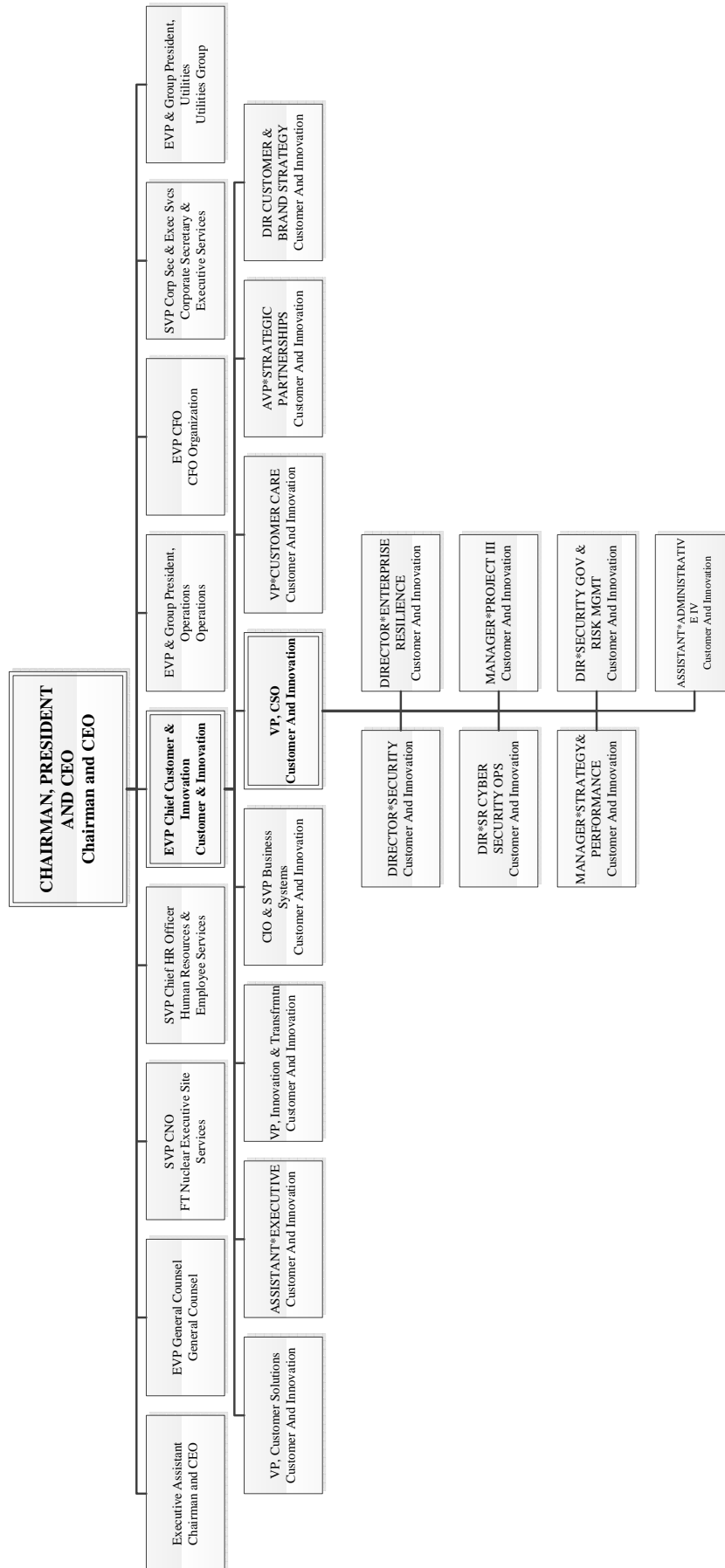




Notary Public, State of Minnesota

My Commission Expires: JANUARY 31, 2020

Southwestern Public Service Company
Organization Chart – Enterprise Security
As of March 31, 2019



Southwestern Public Service Company

Physical Security Capital Additions
July 1, 2017 through March 31, 2019

(A)	(B)	(C)	(D)	(E)
Line No.	WBS Level 4 Number	WBS Level 4 Description	Asset Class	Witness
1	D.0001781.041.001.001	Security Projects - Electric -	Electric General	Brown
2				
3	D.0001781.049.001.001	790 Buchanan Security System	Electric General	Brown
4				
5			Total Electric General	
6			Grand Total	
				Security - Controls & Monitoring
				Security - Controls & Monitoring

Southwestern Public Service Company

Physical Security Capital Additions
July 1, 2017 through March 31, 2019

(F) Line No.	(G) WBS Level 2 Description	(H) In-Service Date	(I) Additions (Jul 2017 - Mar 2019)	(J) XES Charges (Included in Column I)	(K) Other Affiliate Charges (Included in Column I)	(L) Total Affiliate Charges (Included in Column I)	(M) Total Native Charges (Columns I less L) Within the Total Additions to Plant-In-Service Shown in Column (I)
1	D.0001781.041 Security Projects - Electric -	201708	\$ 353,032.00	\$ -	2,834.14	\$ 2,834.14	\$ 350,197.86
2	D.0001781.041 Total		353,032.00	-	2,834.14	2,834.14	350,197.86
3	D.0001781.049 790 Buchanan Security System	201804	277,391.19	-	-	-	277,391.19
4	D.0001781.049 Total		277,391.19	-	-	-	277,391.19
5			630,423.19	-	2,834.14	2,834.14	627,589.05
6			\$ 630,423.19	\$ -	\$ 2,834.14	\$ 2,834.14	\$ 627,589.05

Southwestern Public Service Company

Physical Security Capital Additions
April 1, 2019 through June 30, 2019

(A) Line No.	(B) Asset Class	(C) Witness	(D) Project Category	(E) Additions to Plant-in-Service (Apr. 2019 - Jun. 2019)	(F) Total Affiliate Charges (Included in Column D)	(G) Project Description
April-June 2019 Budget Amounts						
1	Electric General Plant	Brown	Security - Controls & Monitoring	636,102.05		Replacement and installation for security card access readers and security cameras.
2	Total Electric General Plant			\$ 636,102.05	\$ 29,728.48	

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

(A) Line No.	(B) Affiliate Class	(C) Billing Method (Cost Center)	(D) Allocation Method	(E) Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	(F) XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935)	(G) XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	(H) Exclusions	(I) Per Book	(J) Proformas	(K) Requested Amount (Total Company)	(L) % of Class Charges
1	Enterprise Security	200073 - Human Resources (HR) - Corporate Governance	Assets/Revenue/No. of employees	\$ (1,654.60)	\$ (1,445.12)	\$ (209.48)	\$ -	\$ (209.48)	\$ (6.28)	\$ (215.76)	-0.01%
2	Enterprise Security	200074 - Corporate Systems - Corporate Governance	Assets/Revenue/No. of employees	16,366,165.59	14,254,613.31	2,111,552.28	(1,938.46)	2,109,613.82	(25,932.22)	2,083,681.60	59.67%
3	Enterprise Security	200087 - Accounting - Operating Companies	Assets/Revenue/No. of employees	5.19	4.43	0.76	-	0.76	(0.76)	-	0.00%
4	Enterprise Security	200111 - EAI (Entrprs Applic Integrat)	Avg of Select Set Softwr Allctrs	47.62	42.32	5.30	-	5.30	(5.30)	0.00	0.00%
5	Enterprise Security	200112 - Mainframe Charges From IBM	Avg of Select Set Softwr Allctrs	0.39	0.39	-	-	-	-	-	0.00%
6	Enterprise Security	200122 - Transmission Electric FERC 560 (E&S)	Electric Transmission Plant	(4,851.53)	(3,417.59)	(1,433.94)	-	(1,433.94)	(43.02)	(1,476.96)	-0.04%
7	Enterprise Security	200124 - EMS-Transmission (Energy Mgmt System-SCADA)	Electric Transmission Plant	118.28	82.83	35.45	-	35.45	(35.45)	-	0.00%
8	Enterprise Security	200146 - Energy Markets - Regulated Trading (Gen Book)	MWH Hours Sold	19.75	14.55	5.20	-	5.20	(5.20)	-	0.00%
9	Enterprise Security	200147 - Business Objects	Number of Business Objects Users	0.41	0.37	0.04	-	0.04	(0.04)	-	0.00%
10	Enterprise Security	200148 - Business Systems	Number of Computers	1,621.38	1,402.45	218.93	-	218.93	6.57	225.50	0.01%

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

(A) Line No.	(B) Affiliate Class	(C) Billing Method (Cost Center)	(D) Allocation Method	(E) Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	(F) XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935)	(G) XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	(H) Exclusions	(I) Per Book	(J) Proformas	(K) Requested Amount (Total Company)	(L) % of Class Charges
11	Enterprise Security	200154 - Customer Service IT - FERC 903	Number of Customers	20.81	19.36	1.45	-	1.45	(1.45)	-	0.00%
12	Enterprise Security	200165 - Peoplesoft	Number of Employees	5,584,584.28	4,781,949.19	802,635.09	-	802,635.09	(4,791.17)	797,843.92	22.85%
13	Enterprise Security	200171 - CRS (Customer Resource System)	Number of Mtrs Number of Cntrcts	39.47	35.06	4.41	-	4.41	0.13	4.54	0.00%
14	Enterprise Security	200172 - Network	Phones Radios Computers	32.08	27.84	4.24	-	4.24	(4.24)	-	0.00%
15	Enterprise Security	200178 - Rates & Regulation	Revenue	0.14	0.13	0.01	-	0.01	(0.01)	-	0.00%
16	Enterprise Security	200180 - EMS-Shared (Energy Mgmt System-SCADA)	Elec Prod Elec Tms Elec Dst Plnt	(157.68)	(129.28)	(28.40)	-	(28.40)	28.40	(0.00)	0.00%
17	Enterprise Security	Direct	Direct	3,174,727.42	2,562,995.41	611,732.01	-	611,732.01	(1.19)	611,730.82	17.52%
18	Enterprise Security Total			\$ 25,120,719.00	\$ 21,596,195.65	\$ 3,524,523.35	\$ (1,938.46)	\$ 3,522,584.89	\$ (30,791.23)	\$ 3,491,793.66	100.00%
19	Total - Witness Steve Brown			\$ 25,120,719.00	\$ 21,596,195.65	\$ 3,524,523.35	\$ (1,938.46)	\$ 3,522,584.89	\$ (30,791.23)	\$ 3,491,793.66	
	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

Stephen J. Brown

2019 TX Rate Case

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

SJB-RR-B(CD)

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

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Exclusions	(E) Exclusions (Total Company)
1	Enterprise Security	426.1 - Donations	Below the line	\$ (1,364.90)
2	Enterprise Security	426.5 - Other Deductions	Below the line	(573.56)
3	Enterprise Security Total			\$ (1,938.46)
4		Total - Witness Steve Brown		\$ (1,938.46)
	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
Brown**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Pro Formas	(E) Sponsor	(F) Pro Formas (Total Company)
1	Enterprise Security	506 - Miscellaneous steam power expenses	Business Area Adjustment	Steve Brown	\$ (0.74)
2	Enterprise Security	556 - System control and load dispatching	Business Area Adjustment	Steve Brown	0.74
3	Enterprise Security	560 - Operation supervision and engineering	3% Wage Adjustment	Arthur Freitas/Michael Knoll	(43.02)
4	Enterprise Security	561.2 - Load dispatch-Monitor and operate transmiss system	Business Area Adjustment	Steve Brown	(20.73)
5	Enterprise Security	581 - Load dispatching	Business Area Adjustment	Steve Brown	12.67
6	Enterprise Security	588 - Miscellaneous distribution expenses	Business Area Adjustment	Steve Brown	(0.28)
7	Enterprise Security	902 - Meter reading expenses	Business Area Adjustment	Steve Brown	(0.22)
8	Enterprise Security	903 - Customer records and collection expenses	3% Wage Adjustment	Arthur Freitas/Michael Knoll	0.13
9	Enterprise Security	903 - Customer records and collection expenses	Business Area Adjustment	Steve Brown	(2.34)
10	Enterprise Security	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	(30,046.52)
11	Enterprise Security	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	40,007.04
12	Enterprise Security	920 - Administrative and general salaries	Business Area Adjustment	Steve Brown	(13.57)
13	Enterprise Security	921 - Office supplies and expenses	Business Area Adjustment	Steve Brown	(6,469.65)
14	Enterprise Security	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(34,214.75)
15	Enterprise Security Total				\$ (30,791.23)
16					
17	Total Witness - Steve Brown				\$ (30,791.23)
	Amounts may not add or tie to other schedules due to rounding				