

DOCKET NO. _____

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

DIRECT TESTIMONY

of

GARY J. O'HARA

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: O'HaraRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
CAPS	Center for Advanced Purchasing Studies
FERC	Federal Energy Regulatory Commission
O&M	Operation and Maintenance
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
PTT	Productivity Through Technology
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	April 1, 2018 through March 31, 2019
Total Company or total company	Total SPS (before any jurisdictional allocation)
Update Period	April 1, 2019 through June 30, 2019
Updated Test Year	July 1, 2018 through June 30, 2019
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
GJO-RR-1	Supply Chain Organization Chart (<i>Non-native format</i>)
GJO-RR-2	2013 CAPS Research Utilities Industry Benchmarking Report (<i>Non-native format</i>)
GJO-RR-3	2015 CAPS Research Cross-Industry Report of Standard Benchmarks: Utilities Industry (<i>Non-native format</i>)
GJO-RR-4	2017 CAPS Research Cross-Industry Report of Standard Benchmarks: Utilities Industry (<i>Non-native format</i>)
GJO-RR-A (Updated Test Year)	Summary of XES Expenses to SPS by Affiliate Class and Billing Method (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-B(CD) (Updated Test Year)	XES Expenses by Affiliate Class, Activity, Billing Method, and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-C (Updated Test Year)	Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)
GJO-RR-D (Updated Test Year)	Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (<i>Filename: GJO-RR-ABCD.xlsx</i>)

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

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

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

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

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

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

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

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

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

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

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

2 A. I attended the University of Minnesota.

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

4 A. I have worked in the utility industry for over 40 years. All of my experience has
5 been with Xcel Energy or its predecessor companies. I began my career in 1971 at
6 Northern States Power Company in the construction department as a field
7 employee. From 1971 to 1999, I worked in various field, staff, and management
8 roles in Design & Engineering, Field Operations, and Business Development.
9 After the merger that resulted in the creation of Xcel Energy, I became a Director
10 in Field Operations, advancing to General Manager of Distribution Design &
11 Construction across Xcel Energy. In October of 2007, I became the General
12 Manager, Supply Chain. In October of 2011, I became Managing Director, and in
13 January of 2013, I became Vice President, Supply Chain.

14 **Q. Have you attended or taken any special courses or seminars relating to**
15 **public utilities?**

16 A. Yes. As a component of my professional development throughout my career, I
17 have attended numerous technical seminars, including Utility Finance Accounting
18 and Supply Chain Strategy and Management at the Massachusetts Institute of
19 Technology, Sloan School of Management.

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

21 A. Yes. I participate in the Institute of Supply Management as a representative of the
22 Xcel Energy Supply Chain organization.

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

2 A. Yes. I have filed testimony at the Public Utility Commission of Texas in Docket
3 Nos. 38147, 40824, 42004, 43695, 45524 and 47527, SPS's six most recent base
4 rate proceedings, on the Supply Chain class of affiliate services. In addition, I
5 have testified before the Minnesota Public Utilities Commission on behalf of
6 Northern States Power Company—Minnesota.

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 the administrative and general expenses
6 for the Supply Chain class of affiliate services. In regard to the Supply Chain
7 affiliate class, 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 **Q. Please summarize your testimony and recommendations.**

18 A. The estimated Updated Test Year costs that SPS seeks to recover for the services
19 of the Supply Chain affiliate class are \$1,137,608³ (total SPS before jurisdictional
20 allocation, “Total Company” or “total company”). Those costs are reasonable and
21 necessary because they support SPS’s ability to provide electric service to its
22 Texas retail customers.

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. I have reviewed the costs for the first three months of the Test Year for the classes I support and find those costs to be reasonable.

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

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

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

23 A. As explained by SPS witness William A. Grant, SPS will be using an Updated
24 Test Year in this case. SPS's initial filing presents actual affiliate O&M expenses
25 for the Test Year (April 1, 2018 through March 31, 2019) and estimated
26 information for the period of April 1, 2019 through June 30, 2019, which is the
27 Update Period. Accordingly, the first nine months of SPS's Updated Test Year
28 (i.e., July 2018 through March 2019) consist of actual cost information, and the
29 last three months (i.e., April through June 2019) consist of estimated cost

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

3 Regarding the Supply Chain affiliate costs I support, as explained by SPS
4 witness Melissa L. Schmidt, actual figures for April and May 2019 have been
5 provided, and June 2019 figures have been estimated based on the forecasted
6 budget. However, these expenses have not gone through the full pro forma
7 adjustment review process.

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

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

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

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

1 information in my testimony for the convenience of those reviewing my
2 testimony.

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

5 A. Yes.

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

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

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

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

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

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

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

18 **A. Attachment MLS-RR-6 to Mr. 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 Supply Chain**
21 **affiliate class was part of the Operations Services business area during the**
22 **Updated Test Year. Attachment GJO-RR-1 to my testimony is an organization**
23 **chart showing the Supply Chain organization.**

1 **Q. What services are grouped into the Supply Chain affiliate class?**

2 A. The Supply Chain organization is responsible for the sourcing and procurement of
3 goods and services, materials management, fleet management, and accounts
4 payable functions for all of Xcel Energy's Operating Companies. Supply Chain
5 manages spending of approximately \$3.9 billion annually. Among many other
6 things, Supply Chain is involved in negotiating contracts for everything from day-
7 to-day business necessities (e.g., office supplies and furniture) to capital items
8 used to construct, operate, and maintain generation and transmission assets (e.g.,
9 transmission poles and transformers); implementing vendor, supplier, and
10 contractor management strategies and policies; handling accounts payable; and
11 implementing Xcel Energy-wide sourcing and procurement strategies to achieve
12 cost savings.

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

16 A. The following Table GJO-RR-1 summarizes the dollar amount of the estimated
17 Updated Test Year XES charges for the Supply Chain affiliate class. I will update
18 the table below as part of SPS's 45-day case update filing to reflect the actual
19 Updated Test Year costs for the Supply Chain affiliate class.

Table GJO-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
Supply Chain	\$10,187,483	\$1,137,608	73.96%	26.04%

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 GJO-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 GJO-RR-A.

% Direct Billed

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

% Allocated

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

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

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

6 **Attachment GJO-RR-A:** Provides a summary of the affiliate expenses
7 for this class during the Updated Test Year. The portion of the summary specific

1 to billings to SPS starts with the total of the XES expenses to SPS for the services
2 provided by this affiliate class and ends with the requested dollar amount of XES
3 expenses to SPS (total company) for this affiliate class after exclusions and pro
4 forma adjustments. The columns on this attachment provide the following
5 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 GJO-RR-B(CD):** Provides the detail of the XES expenses
5 for the Supply Chain affiliate class that are summarized on Attachment
6 GJO-RR-A. The detail shows the XES expenses billed to SPS for the Supply
7 Chain 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 GJO-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 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 GJO-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 GJO-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 GJO-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 GJO-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 GJO-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 GJO-RR-C: Both Attachments GJO-RR-A and GJO-RR-B(CD) show exclusions to the XES expenses billed to SPS for the Supply Chain affiliate class (Attachment GJO-RR-A, Column H; Attachment GJO-RR-B(CD), Column K). Attachment GJO-RR-C provides detail about those exclusions listed on Attachments GJO-RR-A and GJO-RR-B(CD). The columns on Attachment GJO-RR-C provide the following information.

1

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.

2

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

3

the exclusions.

4

Attachment GJO-RR-D:

Both Attachments GJO-RR-A and

5

GJO-RR-B(CD) show pro forma adjustments to SPS's per book expenses for the

6

Supply Chain affiliate class (Attachment GJO-RR-A, Column J; Attachment

7

GJO-RR-B(CD), Column M). Attachment GJO-RR-D provides information about

8

those pro forma adjustments shown on Attachments GJO-RR-A and

9

GJO-RR-B(CD). The columns on Attachment GJO-RR-D provide the following

10

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 Supply Chain affiliate class to SPS in the**
2 **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 Supply Chain**
7 **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 GJO-RR-A, Column H, and on Attachment GJO-RR-B(CD), Column
11 K. The details for the exclusions are provided in Attachment GJO-RR-C. Ms.
12 Schmidt describes how the exclusions were calculated. In SPS's 45-day case
13 update, I will present an updated Attachment GJO-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 **Supply Chain 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 GJO-RR-A, Column J, and on Attachment
21 GJO-RR-B(CD), Column M. The details for the pro forma adjustments, including

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

7 **Q. Attachment GJO-RR-D shows that you sponsor pro forma adjustments for**
8 **expenses for the Supply Chain affiliate class during the first nine months of**
9 **the Updated Test Year that result in a net decrease for the Supply Chain**
10 **affiliate class of \$57.84. Please explain the adjustments.**

11 A. The adjustments that I sponsor reclassify costs to a new affiliate class (a decrease
12 of \$34.43) and remove an office supply expense (a decrease of 23.41).

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

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

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

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

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

- 5 • **Strategic Planning** – These services are necessary to the development of
6 the overall strategic business plan for Xcel Energy Supply Chain,
7 including development of the strategic sourcing plan for all of Xcel
8 Energy. Services include evaluating the requirements of the Operating
9 Companies, including SPS, and assessing market conditions and supplier
10 capabilities. The sourcing strategies developed in this process are
11 designed to leverage the size and scale of Xcel Energy in the market place
12 in order to benefit SPS and the other Operating Companies.
- 13 • **Strategic Sourcing and Category Management**– These services are
14 related to procuring goods and services needed by SPS. They include
15 selecting and negotiating with suppliers, preparing bid packages,
16 analyzing bids, and managing contracts. Goods and services are procured
17 through a competitive bidding process that includes not only evaluation of
18 price, but many other criteria such as the reliability of the supplier and its
19 ability to meet the bid specifications. The process is applied to every
20 possible goods and services contract.
- 21 • **Major Capital Projects Sourcing** – These services are related to
22 procuring goods and services needed for major capital projects, including,
23 but not limited to, the construction of SPS’s power plants, including wind
24 farms, transmission lines, and substations. The services include selecting
25 and negotiating with suppliers, preparing bid packages, analyzing bids,
26 and managing contracts.
- 27 • **Material Resource Planning and Logistics** – The resource planning
28 services are used for planning and developing strategies for the cost-
29 effective acquisition of materials used in the transmission and distribution
30 functions of SPS and the other Operating Companies including setting
31 inventory target levels and working with the group that sets design and
32 equipment standards. These services increase buying power by
33 consolidating purchases for items needed by all of the Operating
34 Companies. For example, by using standardized designs for transformers,
35 the bid criteria can be established once and used across multiple projects.
36 The logistics services are related to management of the materials and
37 supplies inventory of SPS and the other Operating Companies. This
38 includes responsibility for storeroom operations, which includes receiving
39 and issuing materials, performing inventory cycle counts, providing

1 equipment and material control, and performing accounting functions in
2 coordination with the Finance and Asset Management departments. In
3 addition, these services include establishing policies and procedures to
4 provide appropriate and consistent inventory management practices
5 throughout the business areas. These services also include salvaging and
6 selling materials that are no longer in use. For example, copper wire
7 removed from facilities is recycled and resold.

- 8 • **Business Operations** – These services include accounts payable, process
9 controls, and purchasing. Accounts payable services consist of processing
10 payments to vendors for all of the goods and services, including fuel, that
11 are acquired by SPS and throughout Xcel Energy. The accounts payable
12 function uses sophisticated technology to ensure on-time payment of
13 SPS's bills and to capture rebates and discounts that lower SPS's costs. In
14 addition, the financial health of SPS's suppliers is monitored to ensure
15 they are able to meet their obligations. The process control group is
16 responsible for conducting supply chain analytics and managing various
17 internal controls, which ensure that corporate credit cards are used
18 correctly and that expenses are properly documented, accurately recorded,
19 and within policy and system compliance requirements. Expense reports
20 are reviewed by management, system and process training is readily
21 available to employees and executives, and policy training is required
22 every 2 to 3 years. The purchasing group is responsible for the end-to-end
23 process from business unit need identification to purchase order placement
24 in accordance with sourcing strategy and invoice payment support. This
25 requires work order review and an understanding of near-term supply
26 needs and longer-term outage needs.

- 27 • **Fleet Management** – These services are used for determining the vehicle
28 requirements of SPS and the other Operating Companies, performing life
29 cycle analysis of the fleet, setting maintenance schedules, managing the
30 garage functions, and developing standards for the types of vehicles
31 needed. By analyzing the number and types of vehicles needed, these
32 services ensure that SPS is efficiently using its vehicles. For example,
33 renting rather than purchasing may be recommended for a specialty truck
34 that might be used only twice in a year. By setting appropriate
35 maintenance schedules, and managing garage functions, these services
36 also ensure that the life cycle of SPS's fleet equipment is maximized.

- 37 • **Process Governance and Performance** – These services are related to
38 ongoing governance of processes necessary to ensure realization of SAP
39 implementation benefits by ensuring uniform use of processes, enterprise
40 business unit alignment, and supply chain process adherence. They
41 include supply chain project management of special initiatives, master
42 data governance, continuous improvement efforts, and management of
43 process alignment with business units.

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

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

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

10 A. Yes. Supply Chain actively manages costs and negotiates better project and unit
11 prices for the goods and services used by SPS in providing electric service to
12 customers. This is accomplished through systematic, long-term category
13 management strategies, designed to control costs for procurement and sourcing. In
14 addition, the size, scale, and long-term purchasing power of the combined Xcel
15 Energy Operating Companies are leveraged to lower costs through volume
16 purchasing, and to enter into strategic alliances with major suppliers, such as
17 vehicle suppliers, transformer and meter suppliers, and pole suppliers, who then
18 operate in alignment with Xcel Energy as preferred vendors. This not only leads
19 to better per unit pricing for the goods needed by SPS, but allows joint
20 development of manufacturing criteria and allows Xcel Energy to reserve blocks
21 of manufacturing space, ensuring that products or equipment will be available
22 when needed without storing inventory, thus reducing overhead costs.

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

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

12 The 2013 CAPS Research Utilities Industry Benchmarking Report, which
13 is provided as Attachment GJO-RR-2 to my testimony, reported that Xcel
14 Energy’s Supply Chain cost reduction savings exceeded and its total cost savings
15 were consistent with the utility industry mean. In the area of cost avoidance, Xcel
16 Energy’s performance appeared to be below the industry mean, but that is because
17 Xcel Energy is more rigorous with what it views to be “cost avoidance” than other
18 participating utilities. For example, Xcel Energy uses the lowest of first-round
19 bids as its baseline for determining whether a cost reduction savings has been
20 achieved in its selection of products or services. Conversely, based on my
21 participation in CAPS Benchmarking definition workshops, it appears that other
22 utilities in the industry use an average of first round bids to serve as a baseline for
23 calculating cost reduction savings. By doing so, these utilities appear to include

elements of cost avoidance in their definitions of cost savings, which I believe over-reports the true measure of cost savings. Table GJO-RR-2 below summarizes these metrics.

Table GJO-RR-2

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

In 2014, CAPS eliminated its “total cost savings as a percent of total spend” metric and modified two related metrics – “cost reduction savings as a percent of managed spend” and “cost avoidance savings as a percent of managed spend.” Nonetheless, Xcel Energy’s performance in the area of cost savings continues to show improvement and remains strong in comparison to the utility industry.

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

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Table GJO-RR-3

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

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

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As Table GJO-RR-4 below shows, Xcel Energy's Supply Chain cost reduction savings exceeded the utility industry mean and median and its cost avoidance savings were consistent with the utility industry median. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean. Again, as explained above, that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

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Table GJO-RR-4

2017 CAPS Metric	Xcel Energy	Mean	Median
Total cost reduction savings as a percent of managed spend	5.7%	2.5%	2.0%
Total cost avoidance savings as a percent of managed spend	1.0%	2.3%	2.5%

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The information in Table GJO-RR-4 comes from the 2017 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, which is provided as Attachment GJO-RR-4 to my testimony. As shown on page 1, line 2 of the report, more than 96.9% of total Xcel Energy spend is managed or controlled by the XES Supply Chain management. This is significantly larger than the industry mean of 87.7%. Actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing, and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services.

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As preliminary data from the forthcoming 2019 CAPS report shows (reproduced in Table GJO-RR-5 below), Xcel Energy's Supply Chain cost reduction savings are expected to exceed the utility industry mean and median. In the area of cost avoidance, Xcel Energy's performance is expected to fall below the industry mean and median, however, as previously explained, Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

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Table GJO-RR-5

Preliminary 2019 CAPS Metric	Xcel Energy	Mean	Median
Total cost reduction savings as a percent of managed spend	6.1%	1.9%	1.4%
Total cost avoidance savings as a percent of managed spend	1.7%	3.9%	2.7%

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I will update my testimony with a copy of the 2019 CAPS Research, Cross-Industry Report of Standard Benchmarks, and Utilities Industry as part of SPS's 45-day update.

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The preliminary data also show that more than 89.7% of total Xcel Energy Normal Goods and Services spend is managed or controlled by the XES Supply Chain management. This is expected to be higher than the industry mean. As previously mentioned, actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services. Building on the foundation of Productivity Through Technology ("PTT") training, One Xcel Energy Way (XE1) and a culture of continuous improvement, along with the generally more strict process requirements of the SAP system, enforcement of compliance to sourcing policy and procedure requiring all purchases of Normal Goods and Services to be executed by Supply Chain is enhanced. The PTT initiative was designed to improve business processes and systems throughout Xcel Energy by addressing needed technological changes, while XE1 and a culture of continuous

improvement focuses on PTT optimization by aligning people, process and technology to improve the procure to pay process and deliver value to SPS and its customers.

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

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

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

1. Additional Evidence

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

A. Yes. Of the estimated Updated Test Year costs for the Supply Chain class, 70.34% are compensation and benefits costs for XES personnel. SPS witnesses Michael T. Knoll and Richard R. Schrubbe establish that the level of Xcel Energy's compensation and benefits is reasonable and necessary. In addition, a variety of cost data will be contained in the 2019 CAPS Report. Preliminary data for the 2019 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, provided in the table below, shows that while Xcel Energy has

historically trended above industry mean for supply management operating expenses per supply management employee, 2019 numbers are expected to fall below the industry mean and are expected to remain relatively consistent at that level. The significant decrease in supply management operating expense per supply management employee as reported in 2019 is attributed to a change in the definition of the supply management group in the CAPS study. Prior to 2017, the definition of supply management included Xcel Energy's Fleet and Material Logistics functions that report to the Xcel Energy Supply Chain organization. In 2017, the definition was updated to exclude these groups in order to allow for a more "apples to apples" comparison of data between study participants. In 2017, Xcel Energy submitted data based on the previous definition; if 2017 Xcel Energy results were updated to the current definition of supply management, Xcel Energy's 2017 supply management operating expenses per supply management employee would be \$117,924 and fall below the industry mean. Due to changing accounting systems, data detail is not available to recreate 2015 results with the current definition. However, Xcel Energy data submitted in 2015 is consistent with the benchmark definition. Improved reporting capabilities with SAP allow for more accurate adherence to study definitions and may also contribute to Xcel Energy's improved results.

Table GJO-RR-6

Supply management operating expenses per supply management employee	2015	2017	2019 (Preliminary)
Xcel Energy	\$135,464	\$178,165	\$88,595
Mean	\$128,104	\$123,457	\$136,721

2. *Budget Planning*

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

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

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

A. Yes. Actual versus budgeted expenditures are monitored on a monthly basis by management in the Supply Chain organization. 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 Supply Chain organization held accountable for deviations from the budget?

A. Yes. All directors in the Supply Chain organization have specific budgetary goals that are incorporated into their performance evaluations. Performance is

measured on a monthly basis to ensure adherence to the goals and provide for action plan development to address variances.

3. Cost Trends

Q. Please state the dollar amounts of the actual per book charges from XES to SPS for the Supply Chain class of services for the three fiscal years preceding the end of the Updated Test Year and the estimated per book charges 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 charges and, for the estimated Updated Test Year, the estimated per book affiliate charges (Column I on Attachment GJO-RR-A) from XES to SPS for the services grouped in the Supply Chain affiliate class:

Table GJO-RR-7

	Per Book Charges Over Time			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Supply Chain	\$439,489	\$1,495,778	\$1,863,116	\$1,118,293

Q. What are the reasons for this trend?

A. The increase in costs from 2016 to 2017 was primarily related to the allocation of O&M resources to the capital project associated with the corporate PTT initiative. The cost increase between 2017 and 2018 is due to several of those resources rolling off the PTT capital project and charging back to their normal O&M roles. Additionally, contingent workforce “surge” resources have been deployed in Purchasing and Accounts Payable during the stabilization of SAP processes

following the PTT initiative. The remainder of the increase is due to additional employee expenses related to the training needs required for the new applications being deployed for the PTT initiative. Those additional employee expenses related to training also affect the test year actuals as well. The cost decrease between 2018 and the Updated Test Year estimate is anticipated based on the rolling off of contingent surge resources as efficiency continues to improve.

4. Staffing Trends

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

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

Table GJO-RR-8

	Average End of Month # of Staff			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Supply Chain	181	185	187	186

Q. What are the reasons for this trend?

A. Table GJO-RR-8 includes both Supply Chain employees whose time is charged to balance sheet clearing accounts or capital cost centers and those whose time is charged to O&M. Therefore, the variances in average staffing levels are not directly reflected in the variances in O&M costs over the same periods. The

1 increases in average staffing levels from 2016 through the Updated Test Year are
2 the result of increases in the staffing required to support the PTT initiative and
3 corporate implementation of SAP. PTT positions were funded from existing open
4 headcount. In some cases, the original Supply Chain position was backfilled with
5 a new hire. In other cases, the Supply Chain position remained vacant while the
6 individual was on assignment for PTT.

7 *5. Cost Control and Process Improvement Initiatives*

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

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

13 **D. The Costs for the Supply Chain 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 Supply Chain 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. The XES charges to SPS for any particular service are no higher than the
20 XES charges to any other Xcel Energy affiliate. The costs charged for particular
21 services are the actual costs that XES incurred in providing those services to SPS.
22 A single, specific allocation method, rationally related to the costs drivers
23 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 Supply Chain affiliate class billed to SPS?**

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

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

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

- 21 • Direct Billing – 73.96% of XES charges to SPS – \$841,384.72;
- 22 • Invoice Transactions – 25.86% of XES charges to SPS - \$294,204.08;
- 23 • Assets, Revenue, and Number of Employees – 0.01% of XES charges
24 to SPS – \$150.52; and
- 25 • Number of Employees – 0% of XES charges to SPS.

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 costs related to oversight and training for material coordinators
10 were assigned using the “Direct Billing” method. The cost of these services
11 benefited SPS, the work was performed specifically for SPS alone, and the cost
12 driver is management of SPS employees. 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.

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

21 A. Cost Center 200132, which uses the “Invoice Transactions” method as the
22 allocator, captures the costs of the centralized accounts payable organization,
23 which processes invoices and payments for all of Xcel Energy. For example, the
24 labor costs associated with accounts payable personnel are collected in Cost

Center 200132 and are allocated using this allocation method. These costs are driven by the activities required to process invoices for each legal entity. Thus, the costs in this cost center are allocated among the Xcel Energy legal entities based on each legal entities proportionate share of invoice transactions (i.e., the number of invoices processed for a particular legal entity as a percentage of the total number of invoices processed for all of the legal entities). This allocation reflects cost causation and the distribution of the benefits of the services received. For the cost centers that assign costs based upon this allocation method, the per unit amounts charged by XES to SPS as a result of the application of this allocation method are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

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

A. The three factor allocation method using assets, revenue, and number of employees produces an allocation of costs that recognizes the complexity, risk, and overall business activity levels that drives the costs included in the cost centers and measures the benefits received from those activities. For the cost centers billed using this allocator, there is no one specific cost driver for the support tasks and services provided, and the services benefit multiple Xcel Energy affiliates. For example, the costs associated with a Supply Chain special program associated with diversity program expenses, which are collected in Cost Center 200094 – Supply Chain – Special Program, are allocated using this method.

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

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

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

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

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

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

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

24 A. Yes.

AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF HENNEPIN)

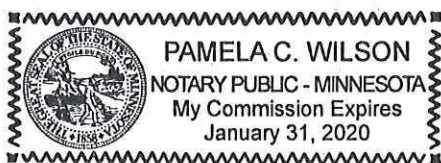
GARY J. O'HARA, first being sworn on his oath, states:

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.



GARY J. O'HARA

Subscribed and sworn to before me this 29th day of July, 2019 by GARY J. O'HARA.

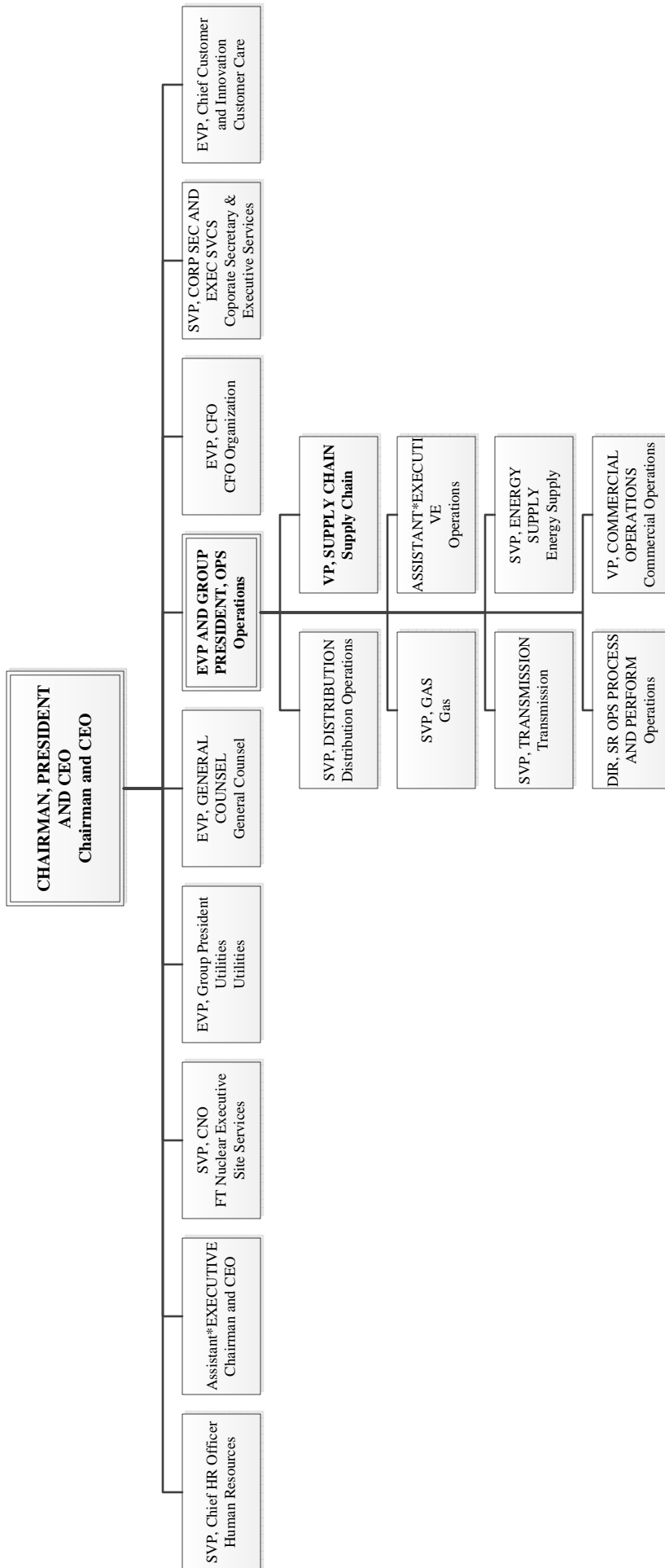




Notary Public, State of Minnesota

My Commission Expires: 1-31-2020

Southwestern Public Service Company
Organization Chart – Supply Chain
As of March 31, 2019



**CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report**

Release Date: September 18, 2013

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Organization/Employee Metrics							
1a	Supply management employees as a percent of total company employees	3.27%	2.57%	0.38%	5.48%	2.79%	2.72%
1b	FTE supply management employees as a percent of total company employees (does not include contract/temporary employees)	2.78%	2.42%	0.38%	3.82%	2.77%	2.60%
2	Percent of organizations that include the following functional areas and activities as part of their supply management organization:						
	Senior Management	X	100.00%				89.47%
	Planning	X	42.86%				52.63%
	Professional Support Staff	X	71.43%				84.21%
	Accounts Payable	X	21.43%				26.32%
	Administrative	X	64.29%				84.21%
	Supplier Diversity	X	71.43%				78.95%
	Category Sourcing/Procurement	X	78.57%				78.95%
	Purchasing	X	92.86%				89.47%
	Major Project Sourcing	X	64.29%				78.95%
	Other Project Sourcing	X	42.86%				26.32%
	Warehouse and Operations Management	X	85.71%				84.21%

CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
3	Percent of planned supply management employees in the following functional areas and activities (includes contract/temporary employees):						
	Senior Management	2.47%	8.88%	1.52%	25.81%	8.04%	
	Planning	1.10%	7.29%	1.10%	23.71%	3.68%	
	Professional Support Staff	6.87%	7.32%	2.15%	14.50%	7.98%	
	Accounts Payable	5.77%	i.d.				
	Administrative	1.37%	2.63%	1.03%	6.45%	1.84%	
	Supplier Diversity	0.82%	1.24%	0.21%	2.27%	1.03%	
	Category Sourcing/Procurement	4.40%	14.05%	4.29%	32.26%	10.20%	
	Purchasing	8.79%	25.34%	7.22%	82.35%	20.01%	
	Major Project Sourcing	5.22%	3.34%	0.61%	6.84%	2.65%	
	Other Project Sourcing	2.75%	4.13%				
4	Percent of planned supply management employees in the following overall functional areas (includes contract/temporary employees):						
	Warehouse and Operations Management	60.44%	50.20%	30.93%	67.74%	50.79%	
	Planning (Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative)	17.58%	20.07%	5.38%	38.06%	17.61%	
	Purchasing (Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing)	21.98%	39.69%	21.98%	82.35%	31.15%	
	Operations (Includes Warehouse and Operations Management)	60.44%	50.20%	30.93%	67.74%	50.79%	

CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
5	Percent of actual supply management employees in the following functional areas and activities (includes contract/temporary employees):						
	Senior Management	2.46%	8.65%	1.49%	25.93%	6.67%	5.54%
	Planning	1.09%	6.34%	1.09%	24.21%	3.35%	1.82%
	Professional Support Staff	7.65%	7.68%	1.67%	14.45%	7.65%	10.80%
	Accounts Payable	5.74%	i.d.				11.49%
	Administrative	1.09%	2.21%	1.05%	3.85%	1.87%	2.88%
	Supplier Diversity	0.82%	1.18%	0.22%	2.28%	1.05%	1.41%
	Category Sourcing/Procurement	4.37%	12.29%	0.00%	33.33%	8.56%	13.23%
	Purchasing	8.74%	27.69%	7.37%	81.25%	22.33%	18.95%
	Major Project Sourcing	5.19%	5.93%	0.62%	26.92%	2.90%	6.38%
	Other Project Sourcing	2.73%	3.40%	0.00%	11.11%	2.58%	3.36%
	Warehouse and Operations Management	60.11%	47.97%	10.68%	67.74%	52.74%	51.36%
6	Percent of actual supply management employees in the following overall functional areas (includes contract/temporary employees):						
	Planning (Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative)	18.03%	19.20%	5.38%	34.74%	18.03%	21.69%
	Purchasing (Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing)	21.86%	41.04%	21.86%	81.62%	31.52%	35.61%
	Operations (Includes Warehouse and Operations Management)	60.11%	47.97%	10.68%	67.74%	52.74%	51.36%
7	Actual contract/temporary employees as a percent of total supply management employees	15.03%	7.63%	2.85%	15.03%	3.03%	8.67%

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8	Percent of participants reporting that the following supply management job functions are all centrally located, co-located with clients, or other:						
		All Centrally Located		Co-Located with Clients		Other	
	Supplier Diversity	All Centrally Located	78.57%	14.29%		0.00%	
	Category Sourcing/Procurement	All Centrally Located	78.57%	14.29%		0.00%	
	Purchasing	All Centrally Located	85.71%	14.29%		0.00%	
	Major Project Sourcing	All Centrally Located	71.43%	7.14%		0.00%	
	Other Project Sourcing	All Centrally Located	71.43%	0.00%		0.00%	
Previous Report Mean							
#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	
Financial Information							
9	Total spend as a percent of sales/revenue	30.62%	36.44%	15.44%	71.33%	32.00%	40.60%
10	Controlled spend as a percent of sales/revenue	28.55%	28.01%	14.85%	45.89%	27.60%	27.90%
11	Percent of total spend that is controlled by supply management	93.23%	75.83%	28.38%	100.00%	80.64%	74.85%
12a	Controlled spend per FTE supply management employee (does not include contract/temp employees)	\$9,296,299	\$13,096,677	\$4,205,828	\$37,721,083	\$9,718,144	\$10,135,373
12b	Controlled spend per procurement-related FTE supply management employee (does not include warehouse and operations management employees)	\$27,020,084	\$21,222,159	\$7,923,837	\$55,130,814	\$18,343,470	\$20,461,781

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
13a	Percent of total controlled spend that is for materials	31.04%	33.87%	12.98%	64.53%	32.03%	35.74%
13b	Percent of total controlled materials spend for:						
	Corporate	0.39%	10.07%	0.39%	24.62%	7.11%	10.22%
	T&D	52.46%	54.37%	19.94%	100.00%	52.48%	40.10%
	Generation	47.18%	37.59%	28.00%	47.18%	38.59%	32.51%
	Water	n/a	i.d.				i.d.
	Other	n/a	i.d.				24.48%
14a	Percent of total controlled spend that is for services	68.95%	66.28%	35.47%	87.01%	67.97%	64.12%
14b	Percent of total controlled services spend for:						
	Corporate	29.67%	17.27%	7.76%	29.67%	15.21%	15.96%
	T&D	28.13%	38.07%	21.00%	100.00%	28.13%	32.68%
	Generation	42.20%	43.74%	32.21%	60.50%	40.81%	33.85%
	Water	n/a	i.d.				i.d.
	Other	n/a	i.d.				26.99%

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
15	Percent of total controlled spend for goods and services that were strategically sourced	63.08%	53.01%	7.47%	77.35%	60.00%	
16	Percent of total controlled spend for goods and services purchased under contracts awarded during the reporting period	107.26%	55.97%	7.44%	107.26%	56.71%	
17a	Supply management operating expense as a percent of total spend	1.93%	1.03%	0.23%	2.53%	0.98%	
17b	Supply management operating expense as a percent of controlled spend	2.07%	1.35%	0.31%	2.53%	1.19%	
18	Supply management operating expense per supply management employee	\$163,127	\$119,513	\$70,019	\$163,127	\$123,317	
19a	Percent of organizations that include the following when determining their organization's total supply management operating expense:						
	Salaries and payroll-related expenses	X	100.00%				
	Non-allocated expenses	X	64.29%				
	IT (infrastructure and desktop support)	X	21.43%				
	Business Systems	X	14.29%				
	Allocated Expenses	X	50.00%				
19b	Average percent that the following allocations contribute to the organization's total supply management operating expense:						
	Salaries and payroll-related expenses	n/a	84.00%	63.75%	100.00%	87.24%	
	Non-allocated expenses	n/a	10.38%	2.75%	25.93%	9.34%	
	IT (infrastructure and desktop support)	n/a	i.d.				
	Business Systems	n/a	i.d.				
	Allocated Expenses	n/a	21.36%				
20	Total supply management salaries (unburdened) as a percent of total controlled spend	n/a	0.80%	0.23%	1.48%	0.85%	1.02%
21	Average salary (unburdened) per FTE supply management employee	n/a	\$78,826	\$67,220	\$116,270	\$75,464	\$77,406

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
22	Salary (unburdened) per FTE supply management employee in the following functional areas and activities:						
	Senior Management	n/a	\$128,058	\$84,810	\$179,800	\$123,092	\$135,928
	Planning	n/a	\$75,568	\$58,961	\$103,324	\$68,282	\$92,304
	Professional Support Staff	n/a	\$85,002	\$61,060	\$114,601	\$82,098	\$78,744
	Accounts Payable	n/a	i.d.				i.d.
	Administrative	n/a	\$51,484	\$37,276	\$88,889	\$45,548	\$51,606
	Supplier Diversity	n/a	\$76,200	\$57,130	\$111,932	\$78,253	\$85,194
	Category Sourcing/Procurement	n/a	\$78,842	\$67,902	\$95,267	\$75,048	\$106,466
	Purchasing	n/a	\$71,081	\$49,600	\$93,750	\$73,038	\$72,040
	Major Project Sourcing	n/a	\$93,493	\$37,953	\$139,683	\$89,503	\$106,372
	Other Project Sourcing	n/a	\$68,207				\$82,238
	Warehouse and Operations Management	n/a	\$71,064	\$63,776	\$76,852	\$70,569	\$75,203
23	Total salaries (burdened) as a percent of total controlled spend	n/a	1.16%	0.31%	2.11%	1.19%	1.40%
24	Average salary (burdened) per FTE supply management employee	n/a	\$105,625	\$68,091	\$126,610	\$108,218	\$112,597

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

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
25a	Burdened rate as a percent of total FTE salaries for the following functional areas and activities:						
	Senior Management	n/a	48.49%				47.57%
	Planning	n/a	53.79%				50.66%
	Professional Support Staff	n/a	50.48%				46.86%
	Accounts Payable	n/a	i.d.				i.d.
	Administrative	n/a	45.71%				47.93%
	Supplier Diversity	n/a	51.37%				43.40%
	Category Sourcing/Procurement	n/a	50.53%				42.88%
	Purchasing	n/a	49.02%				42.46%
	Major Project Sourcing	n/a	46.15%				41.65%
	Other Project Sourcing	n/a	47.24%				29.34%
	Warehouse and Operations Management	n/a	48.17%				42.75%
26b	Overall average burdened rate as a percent of total FTE salaries	n/a	48.47%	34.53%	74.53%	44.46%	42.91%
27a	Percent of organizations that track <u>cost avoidance</u> savings	Yes	Yes:	61.54%	No:	38.46%	76.19%
27b	If yes, average <u>cost avoidance</u> savings as a percent of total controlled spend	0.59%	1.55%				
27c	Percent of organizations that track <u>cost reduction</u> savings	Yes	Yes:	76.92%	No:	23.08%	85.71%
27d	If yes, average <u>cost reduction</u> savings as a percent of total controlled spend	2.77%	2.40%				
27e	Percent of organizations that track <u>total cost savings</u>	Yes	Yes:	64.29%	No:	35.71%	85.71%
27f	If yes, average <u>total cost savings</u> as a percent of total controlled spend	Goal: 2.84% Actual: 3.70%	Goal:	2.81%	Actual:	3.89%	

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Supplier Information							
28a	Percent of active suppliers that account for 80% of total spend	4.13%	5.26%	2.42%	8.60%	4.98%	
28b	Percent of active suppliers that account for the top 20% of total spend	0.10%	0.19%	0.08%	0.67%	0.14%	
29	Percent of organizations that have suppliers working onsite	Yes	50.00%				
30a	Percent of organizations that track on-time delivery from suppliers	Yes	35.71%				
30b	Of those organizations that track on-time delivery, average on-time delivery performance to contractual due date	89.20%	71.77%	54.00%	89.20%	67.40%	
31	Percent of organizations that have a supplier relationship management program	Yes	28.57%				

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

Release Date: September 18, 2013

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#	Benchmarks	Xcel Energy	Mean	Minimum	Maximum	Median	Previous Report Mean
Miscellaneous							
33a	Average value per procurement transaction that was:						
	Manually prepared/released documents (not automated)	\$29,565	\$22,687	\$5,484	\$37,598	\$21,841	\$92,019
	Stand-alone	\$11,819	\$12,391	\$10,019	\$17,081	\$11,819	\$76,350
	Contract/Master Service Agreement Release	\$44,515	\$145,274	\$2,453	\$636,667	\$44,553	\$152,538
	Automated (auto-sourced) or 'touchless' transactions	\$5,840	\$17,835	\$1,388	\$74,093	\$5,840	\$5,540
	Procurement card (pCard or similar) transactions	\$190	\$260	\$92	\$526	\$241	\$254
33b	Average number of total procurement transactions that were:						
	Manually prepared/released documents (not automated)	76,239	43,939	9,512	76,239	31,240	46,087
	Stand-alone	34,860	23,588	7,483	37,986	25,166	23,753
	Contract/Master Service Agreement Release	41,379	45,211	240	245,873	9,914	18,758
	Automated (auto-sourced) or 'touchless' transactions	55,822	25,037	3,160	79,879	11,800	52,625
	Procurement card (pCard or similar) transactions	378,279	212,643	13,602	1,126,214	68,376	202,339
33c	Average number of line items per procurement transaction that was:						
	Manually prepared/released documents (not automated)	2.20	2.68	1.33	5.04	2.49	2.38
	Stand-alone	2.58	2.47	1.89	2.95	2.51	2.38
	Contract/Master Service Agreement Release	1.88	9.09	1.88	36.25	3.92	2.19
	Automated (auto-sourced) or 'touchless' transactions	3.87	4.14	1.08	15.45	3.06	3.01
34	See Appendix A for a list of the top three initiatives for participating organization's supply chains during the reporting period						
35	Percent of organizations that participate in benchmarking activities with organizations other than CAPS Research	Yes	85.71%				76.19%
	If yes, list of other organizations:	1st Quartile Consulting; Dow Jones Sustainability Index; Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA); Hackett, PA Consulting; Utilities Procurement Management Group (UPMG) (10)					

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

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

Release Date: October 2, 2015

CAPS Research
Cross-Industry Report of Standard Benchmarks
Utilities Industry

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

2017 Supply Management Metrics (Cross-Industry) Report

August 2017

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		Utilities Industry Profile				Process Sector Profile				Population
		Minimum	Median	Mean	Maximum	Minimum	Median	Mean	Maximum	Population Average
Breakdown of Spend Categories										
1	Sourceable spend as a percent of sales/revenue dollars	20.1%	31.6%	34.4%	70.7%	3.2%	36.1%	38.2%	77.4%	39.5%
2	Percent of sourceable spend managed/controlled by supply management	63.6%	92.7%	87.7%	98.7%	30.0%	95.1%	85.7%	100.0%	86.3%
3	Percent of sourceable spend that is direct	0.0%	65.3%	57.4%	90.6%	0.0%	32.5%	41.5%	100.0%	52.9%
4	Percent of sourceable spend that is indirect	9.4%	34.7%	42.6%	100.0%	0.0%	67.5%	58.5%	100.0%	47.1%
5	Percent of managed spend that is direct	0.0%	68.5%	54.2%	100.0%	0.0%	31.9%	38.2%	100.0%	50.8%
6	Percent of managed spend that is indirect	0.0%	30.5%	45.8%	100.0%	0.0%	68.1%	61.8%	100.0%	49.2%
7	Diversity spend with suppliers that are formally certified as diverse, as a percent of all spend with diverse suppliers	i.d.	i.d.	i.d.	i.d.	i.d.	i.d.	90.7%	i.d.	77.7%
8	Diversity spend with small businesses as a percent of all spend with diverse suppliers	i.d.	i.d.	i.d.	i.d.	i.d.	i.d.	i.d.	i.d.	71.8%
The Supply Management Group										
9	Percent of supply management groups with a functional alignment that is centralized, decentralized, or center-led									
a	Centralized	n/a	n/a	60%	n/a	n/a	n/a	50%	n/a	43%
b	Decentralized	n/a	n/a	10%	n/a	n/a	n/a	0%	n/a	9%
c	Center-led	n/a	n/a	30%	n/a	n/a	n/a	50%	n/a	48%
10	Supply management operating expense as a percent of sourceable spend	0.3%	1.0%	1.1%	3.1%	0.0%	0.7%	1.0%	5.6%	1.5%
11	Supply management operating expense as a percent of managed spend	0.2%	0.5%	0.7%	1.5%	0.0%	0.6%	1.0%	6.3%	1.4%
12	Supply management employees as a percent of company employees	0.5%	1.0%	1.4%	3.5%	0.3%	1.6%	2.1%	10.0%	2.0%
13	Percent of supply management employees that are strategic	17.1%	25.1%	31.7%	68.4%	13.8%	31.0%	35.7%	100.0%	37.7%
14	Percent of supply management employees that are operational	31.5%	73.9%	68.3%	82.9%	0.0%	68.0%	64.3%	86.2%	62.3%

Cross-Industry Comparison of Metrics

Data Year: 2016
Release Date: August 2017

2017 Supply Management Metrics (Cross-Industry) Report

August 2017

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Utilities Industry Profile

Process Sector Profile

Population

Population
Average

Maximum

Mean

Median

Minimum

Maximum

Mean

Median

Minimum

Maximum

Mean

Median

Minimum

Maximum

Mean

Median

Minimum

Maximum

Efficiency Metrics		Utilities Industry Profile				Process Sector Profile				Population
			Minimum	Median	Maximum		Minimum	Median	Maximum	Average
15	Supply management return on investment (cost reduction and cost avoidance)	934.5%	78.2%	654.1%	1101.6%	6817.6%	78.2%	526.3%	891.5%	723.5%
16	Supply management return on investment (cost reduction only)	791.3%	13.2%	298.4%	642.9%	3976.2%	13.2%	314.4%	548.8%	509.9%
17	Cost reduction savings as a percent of managed spend	5.7%	0.2%	2.0%	2.5%	6.2%	0.2%	2.4%	3.5%	4.0%
18	Cost avoidance savings as a percent of managed spend	1.0%	0.1%	2.5%	2.3%	5.2%	0.1%	1.2%	2.1%	2.5%
19	Percent of active suppliers that account for 80% of sourceable spend	4.6%	1.2%	5.6%	5.6%	10.0%	1.2%	5.1%	5.6%	6.0%

Per Employee Ratios

			Minimum	Median	Maximum		Minimum	Median	Maximum	
20	Supply management operating expense per supply management employee	\$178,165	\$42,841	\$114,303	\$123,457	\$236,985	\$36,800	\$129,237	\$132,336	\$129,577
21	Sourceable spend per supply management employee (millions)	\$25.7	\$4.4	\$18.6	\$20.7	\$44.3	\$3.6	\$19.4	\$28.4	\$19.0
22	Managed spend per supply management employee (millions)	\$24.9	\$7.5	\$24.9	\$25.0	\$49.5	\$3.0	\$22.0	\$25.8	\$17.0
23	Total savings per strategic supply management employee (millions)	\$5.2	\$0.7	\$2.8	\$3.2	\$6.8	\$0.5	\$1.8	\$2.8	\$2.9
24	Cost reduction savings per strategic supply management employee (millions)	\$4.4	\$0.1	\$1.3	\$1.7	\$4.4	\$0.1	\$1.3	\$1.8	\$1.7
25	Managed spend per transactional purchasing employee (millions)	\$64.5	\$33.0	\$61.1	\$59.3	\$88.4	\$3.3	\$51.0	\$65.7	\$67.5
26	Managed spend per category management employee (millions)	\$4.7	\$44.7	\$171.3	\$164.0	\$265.4	\$17.3	\$90.4	\$112.7	\$115.1
27	Purchase order lines per transactional purchasing employee	7,497	4,786	8,256	9,819	22,110	493	7,497	8,209	12,427

Percent of Supply Management Employees Assigned to Selected Areas

			Minimum	Median	Maximum		Minimum	Median	Maximum	
28	Category Management	55.7%	0.0%	11.0%	15.1%	55.7%	0.0%	11.0%	22.7%	23.4%
29	Transactional Purchasing	38.6%	4.3%	28.1%	30.2%	55.0%	4.3%	36.9%	38.8%	39.4%
30	Supplier Programs	12.6%	0.2%	9.9%	16.0%	62.7%	0.0%	1.0%	7.9%	6.6%
31	Supplier Diversity	2.1%	0.0%	2.5%	2.9%	7.9%	0.0%	1.3%	2.2%	1.5%
32	Supplier Risk Management	72.6%	0.0%	1.3%	14.6%	72.9%	0.0%	0.9%	7.5%	5.7%
33	Center of Excellence	0.0%	0.0%	3.4%	6.8%	38.2%	0.0%	2.8%	5.3%	6.9%
34	Data Analytics	14.3%	0.6%	3.9%	5.5%	14.3%	0.0%	3.5%	4.3%	4.6%

NA indicates insufficient data; ** income data removed from report

Data Year: 2016

Release Date: August 2017

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

(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) Pro Formas	(K) Requested Amount (Total Company)	(L) % of Class Charges
1	Supply Chain	200090 - Risk Mgmt - OpCos	Assets/Revenue/No. of employees	\$ 1,011.87	\$ 865.73	\$ 146.14	\$ -	\$ 146.14	\$ 4.38	\$ 150.52	0.01%
2	Supply Chain	200094 - Supply Chain	Assets/Revenue/No. of employees	12,912.64	11,042.00	1,870.64	-	1,870.64	(1.68)	1,868.96	0.16%
3	Supply Chain	200132 - Payment and Reporting	Invoice Transactions	3,001,938.30	2,705,740.58	296,197.72	(4.32)	296,193.40	(1,989.32)	294,204.08	25.86%
4	Supply Chain	200165 - PeopleSoft	Number of Employees	240.14	205.71	34.43	-	34.43	(34.43)	-	0.00%
5	Supply Chain	Direct	Direct	7,171,379.92	6,345,296.52	826,083.40	(6,035.00)	820,048.40	21,336.32	841,384.72	73.96%
6	Supply Chain Total			\$ 10,187,482.87	\$ 9,063,150.54	\$ 1,124,332.33	\$ (6,039.32)	\$ 1,118,293.01	\$ 19,315.28	\$ 1,137,608.29	100.00%
7	Total Witness - Gary O'Hara			\$ 10,187,482.87	\$ 9,063,150.54	\$ 1,124,332.33	\$ (6,039.32)	\$ 1,118,293.01	\$ 19,315.28	\$ 1,137,608.29	
	Amounts may not add or tie to other schedules due to rounding.										

Southwestern Public Service Company

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

Gary J. O'Hara

2019 TX Rate Case

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

GJO-RR-B(CD)

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

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Exclusions	(E) Exclusions (Total Company)
1	Supply Chain	426.4 - Life Insurance	Below the line	\$ (6,035.00)
2	Supply Chain	426.5 - Other Deductions	Below the line	(4.32)
3	Supply Chain Total			\$ (6,039.32)
4		Total Witness - Gary O'Hare		\$ (6,039.32)
	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
O'Hara**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Pro Formas	(E) Sponsor	(F) Pro Formas (Total Company)
1	Supply Chain	566 - Miscellaneous transmission expenses	116.5% Incentive	Arthur Freitas/Michael Knoll	\$ (245.45)
2	Supply Chain	580 - Operation supervision and engineering	3% Wage Adjustment	Arthur Freitas/Michael Knoll	9.50
3	Supply Chain	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	(2,398.93)
4	Supply Chain	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	27,399.69
5	Supply Chain	920 - Administrative and general salaries	Business Area Adjustment	Gary O'Hara	(34.43)
6	Supply Chain	920 - Administrative and general salaries	Foundation	William Grant	(2,338.25)
7	Supply Chain	921 - Office supplies and expenses	Business Area Adjustment	Gary O'Hara	(23.41)
8	Supply Chain	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(3,033.56)
9	Supply Chain	930.1 - General advertising expenses	Advertising	Arthur Freitas	(73.27)
10	Supply Chain	931 - Rents	3% Wage Adjustment	Arthur Freitas/Michael Knoll	53.38
11	Supply Chain Total				\$ 19,315.28
12	Total Witness - Gary O'Hara				\$ 19,315.28
		Amounts may not add or tie to other schedules due to rounding			