

DOCKET NO. ____

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

DIRECT TESTIMONY

of

BRYAN R. DAVIS

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: DavisRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
ASC	Accounting Standards Codification
Commission	Public Utility Commission of Texas
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
Historical Period	Net charges assessed under Attachment Z2 of the SPP OATT for the period from March 1, 2008 through August 31, 2016
July 2016 Waiver Order	Order Granting Waiver Request, 156 FERC ¶ 61,020
MWh	Megawatt-hour
O & M	Operations and Maintenance
OATT	Open Access Transmission Tariff
Operating Companies	Northern States Power Company – Minnesota, a Minnesota corporation; Northern States Power Company – Wisconsin, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
<i>Old Dominion</i>	<i>Old Dominion Electric Cooperative v. FERC</i> , 892 F.3d 1223 (D.C. Cir. 2018)
Remand Order	Order on Remand, 166 FERC ¶ 61,160
SPP	Southwest Power Pool, Inc.
SPS	Southwestern Public Service Company, a New Mexico corporation
TAC	Texas Administrative Code
Test Year	October 1, 2019 through September 30, 2020
total company	Total SPS (before jurisdictional allocations)

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Update Period	October 1, 2020 through December 31, 2020
USoA	FERC Uniform System of Accounts
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
BRD-RR-1	Calculation of Bad Debt Expense Baseline and Deferral

**DIRECT TESTIMONY
OF
BRYAN R. DAVIS**

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

3 A. My name is Bryan R. Davis. My business address is 1800 Larimer Street, 12th
4 Floor, Denver, Colorado 80202.

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”), a 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. My position is Director, Utility Accounting.

12 **Q. Please briefly outline your responsibilities as Director, Utility Accounting.**

13 A. I am responsible for managing the personnel performing accounting and financial
14 services related to SPS and the other Xcel Energy Operating Companies.¹ My
15 teams support the regulatory, commercial, transmission, and market operations
16 accounting functions.

17 **Q. Please describe your educational background, professional experience, and**
18 **previous work experience.**

19 A. I graduated from Brigham Young University with a Bachelor of Science and
20 Master’s in Accountancy in 2006. I began my career as an auditor at

¹ The Operating Companies are: 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 PricewaterhouseCoopers. After that I held a position as Senior Manager,
2 Accounting at The Western Union Company. I began working at Xcel Energy in
3 2012 as a Principal Financial Consultant in the Technical Accounting department,
4 where I was primarily responsible for accounting and reporting of long-term
5 power purchase agreements and other commodities contracts. In 2014, I was
6 promoted to Manager, Transmission Accounting, where I was responsible for
7 accounting and financial forecasting of wholesale transmission revenues and
8 expenses under rates regulated by the Federal Energy Regulatory Commission
9 (“FERC”) for all Xcel Energy Operating Companies, including Xcel Energy’s
10 activities in the Midcontinent Independent System Operator and Southwest Power
11 Pool, Inc. (“SPP”) regional transmission organizations. In 2016, I was promoted
12 to my current position.

13 **Q. Do you hold any professional licenses or certifications?**

14 A. Yes, I am a licensed Certified Public Accountant in Colorado and Arizona.

15 **Q. Have you submitted pre-filed testimony in any previous cases?**

16 A. Yes. I submitted pre-filed testimony in Docket Nos. 47527, 48973, and 49831
17 before the Public Utility Commission of Texas (“Commission”).² I have also
18 submitted pre-filed testimony with the New Mexico Public Regulation

² *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 47527, Order (Dec. 10, 2018); *Application of Southwestern Public Service Company for Authority to Reconcile Fuel and Purchased Power Costs for the Period January 1, 2016 through June 30, 2018*, Docket No. 48973, Order on Rehearing (Feb. 18, 2020); *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 49831, Order (Aug. 27, 2020).

1 Commission in Case Nos. 17-00255-UT,³ 19-00170-UT,⁴ 19-00315-UT,⁵ and
2 20-00238-UT.⁶

³ *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Electric Rates Pursuant to Advice Notice No. 272, Case No. 17-00255-UT, New Final Order on Partial Mandate from the New Mexico Supreme Court (Mar. 6, 2019).*

⁴ *In the Matter of Southwestern Public Service Company's Application for: (1) Revision of its Retail Electric Rate Under Advice Notice No. 282; (2) Authorization and Approval to Shorten the Service Life and Abandon its Tolk Generating Station Units; and (3) Other Related Relief, Case No. 19-00170-UT, Final Order Adopting Certification of Stipulation (May 20, 2020).*

⁵ *In the Matter of Southwestern Public Service Company's Application for: (1) Continued Use of its Purchased Power Cost Adjustment Clause ("FPPCAC") Using a Monthly Adjustment Factor Under NMPRC Rule 550; (2) The Report of Expenses Recognized and Revenues Collected or Refunded Under the FPPCAC for the Period September 2015 Through June 2019; (3) The Reconciliation of Fuel Costs for the Period September 2015 Through June 2019; and (4) SPS's Proposed Annual Deferred Fuel Balance True-Up, Case No. 19-00315-UT (pending).*

⁶ *In the Matter of Southwestern Public Service Company's Application for: (1) Revision of Its Retail Rates Under Advice Notice No. 292; (2) Authorization and Approval to Abandon Its Plant X Unit 3 Generating Station; and (3) Other Associated Relief, Case No. 20-00238-UT, Application (Jan. 4, 2021).*

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

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

4 A. The purpose of my direct testimony is to support SPS’s application for a base rate
5 change filed with the Commission. Specifically, my testimony describes the
6 accounting methods used to record revenues, expenses, assets, and liabilities on
7 SPS’s books for the period from October 1, 2019 through September 30, 2020
8 (“Test Year”) and the period from October 1, 2020 through December 31, 2020
9 (“Update Period”). Additionally, I sponsor or co-sponsor as the accounting
10 witness the following schedules in SPS’s Rate Filing Package (“RFP”):

Schedule E	1.3
Schedule G	4, 4.1, 4.1a, 4.1b, 4.1c, 4.1d, 4.2, 4.2a, 4.2b, 4.2c, 4.3, 4.3a, 4.3b, 4.3c, 4.3d, 4.3e, 5, 5.1, 5.1a, 5.1b, 5.2, 5.3, 8, 10, 11, 12, and 15
Schedule H	12.1, 12.4a, 12.4c, 12.5b, 12.5c, 12.5d, and 12.5e
Schedule I	1.1, 1.2, and 1.3
Schedule J	2

11 I also describe SPS’s proposal to continue to maintain the current
12 Attachment Z2 regulatory asset with a balance of \$4,402,191.55, adjusted for the
13 resolution of the related, currently pending cases before the FERC and the D.C.
14 Circuit Court, as previously approved by the Commission in Docket No. 49831.⁷
15 Finally, I describe SPS’s compliance with the Commission’s order in Project No.

⁷ Docket No. 49831, Order at Ordering Paragraph No. 9.

1 50664⁸ regarding deferral of expenses resulting from the effects of COVID-19
2 and describe SPS's proposal to establish a tracker for bad debt expense.

3 **Q. Was this testimony, the attachment to your direct testimony, and the RFP**
4 **schedules that you sponsor or co-sponsor prepared by you or under your**
5 **direct supervision and control?**

6 A. Yes. In addition, I incorporate those portions of the RFP schedules that I sponsor
7 or co-sponsor as part of my direct testimony.

8 **Q. How does your direct testimony relate to the testimony of other SPS**
9 **witnesses?**

10 A. I support the manner in which SPS maintains its books and records, which, in
11 turn, supports the accounting schedules and workpapers underlying the
12 calculations for SPS's total cost of service. Other witnesses provide additional
13 testimony supporting the reasonableness of various expenses and rate base items
14 in the cost of service schedules.

15 **Q. Will your testimony be updated for actual costs incurred in the Update**
16 **Period, October through December 2020?**

17 A. No, my testimony will not be updated, but some of the RFP schedules I sponsor
18 will be updated. As discussed by SPS witness William A. Grant, SPS will file an
19 update 45 days after filing this application, and that update will include actual
20 amounts for the Update Period. In that update filing, SPS will also provide
21 updates to certain schedules, as required in the RFP instructions. For example,
22 Schedule G-15, which I sponsor in part, will be updated with information

⁸ *Issues Related to the State of Disaster for the Coronavirus Disease in 2019*, Project No. 50664, Order Related to Accrual of Regulatory Assets (Mar. 26, 2020).

1 available after September 30, 2020, the end of the Test Year in this case. The
2 update will provide all information available for the period after the Test Year end
3 but not previously provided in the RFP.

4 **Q. Please summarize your testimony and conclusions.**

5 A. SPS has properly accounted for its revenues and operating expenses using
6 Generally Accepted Accounting Principles (“GAAP”), and it has recorded such
7 revenues and expenses in accounts as prescribed by the FERC Uniform System of
8 Accounts (“USoA”). Regulatory liabilities and assets have been accounted for
9 and amortized in accordance with Financial Accounting Standards Board
10 Accounting Standards Codification (“ASC”) 980, Regulated Operations,
11 (formerly Statement of Financial Accounting Standards No. 71).

12 SPS proposes to continue the treatment authorized by the Commission in
13 Docket No. 49831 to maintain the current regulatory asset associated with historic
14 period charges to SPS under Attachment Z2 of the SPP Open Access
15 Transmission Tariff (“OATT”), given the continued uncertainty created by
16 unresolved litigation at FERC.

17 Lastly, consistent with the Commission’s order in Project No. 50664, SPS
18 established a regulatory asset to capture expenses incurred as a result of
19 COVID-19. SPS proposes to recover incremental direct costs incurred as a result
20 of COVID-19 and to establish a tracker for bad debt expense and to seek recovery
21 of the additional bad debt expense in SPS’s next base rate case.

1 **III. SPONSORED OR CO-SPONSORED SCHEDULES**

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

3 A. In this section of my testimony, I describe the RFP schedules that I sponsor or
4 co-sponsor.

5 **Q. Please describe the RFP schedules that you sponsor and co-sponsor in this**
6 **proceeding.**

7 A. The following chart provides the RFP schedules that I sponsor and co-sponsor,
8 along with an explanation of the information contained in the schedules.

Schedule	Content
E-1.3: Short Term Assets Policies	Provides a schedule detailing all changes in policy of accounting for the book balances for all items included in Schedule E-1. I co-sponsor this schedule with SPS witness Stephanie N. Niemi. I sponsor information related to accounting policies.
G-4 Series	The G-4 series of schedules presents advertising, contributions, and dues expenses subject to the 0.3% limitation required by 16 Tex. Admin. Code (“TAC”) § 25.231(b)(1)(E). Detailed information related to Advertising, Contributions & Donations, and Membership Dues Expenses is provided on the G-4 schedules. I co-sponsor these schedules with Mr. Grant. I sponsor the accounting of the expenses reflected on these schedules.
G-5: Summary of Exclusions from Test Year Expense	Provides a summary of all Test Year expenditures in specific categories to be excluded both above and below the line. I co-sponsor this schedule with Ms. Niemi. I sponsor the accounting of the exclusions reflected on the schedule.
G-5.1: Analysis of Legislative Advocacy	Provides a line item detail of advocacy expense. I co-sponsor this schedule with Mr. Grant. I sponsor the accounting of the expenses reflected on this schedule.

Schedule	Content
G-5.1a: Payments to Registered Lobbyists	Provides a summary of payments to individuals registered to lobby for SPS during the Test Year. These costs are not requested in SPS's cost of service. I co-sponsor this schedule with Mr. Grant. I sponsor the accounting of the expenses reflected on this schedule.
G-5.1b: Payments for Monitoring Legislation	Provides a summary of all payments to individuals or firms who monitored legislation for SPS during the Test Year. I co-sponsor this schedule with Mr. Grant. I sponsor the accounting of the expenses reflected on this schedule.
G-5.2: Summary of Penalties and Fines	Provides a summary of all penalties and fines included in Test Year expense. I co-sponsor this schedule with Ms. Niemi. I sponsor the accounting for the penalties and fines.
G-5.3 Other Exclusions	Provides a summary of other exclusions related to political organizations. I co-sponsor this schedule with Ms. Niemi. I sponsor the accounting for the related transactions.
G-8: Outside Services Employed - FERC 900 Series Expenses	Provides information on all outside services SPS used during the Test Year that appear in FERC 900 series accounts. I co-sponsor this schedule with Mr. Grant. I sponsor the accounting of the expenses reflected on this schedule.
G-10: Factoring Expense	Provides information regarding factoring expense. This schedule is not applicable to SPS because SPS does not sell its accounts receivable to a third party.
G-11: Deferred Expense from Prior Dockets	Provides information concerning all amortization expense either included in the Test Year or requested in SPS's application. I co-sponsor this schedule with Ms. Niemi and SPS witness Ruth M. Sakya. I sponsor the accounting of the expenses reflected on this schedule.
G-12: Below the Line Expenses	Provides a complete detailed analysis of all expenses charged below the line during the Test Year. I co-sponsor this schedule with Ms. Niemi. I sponsor the accounting of the expenses reflected on this schedule.

Schedule	Content
G-15: Monthly O&M Expense	Provides SPS's operations and maintenance ("O&M") expense according to each account within the USoA. I co-sponsor this schedule with Ms. Niemi. I sponsor the accounting of the expenses reflected on this schedule.
H-12.1: Supply and Load Data	Provides SPS's supply and load data on the prescribed form. I sponsor the accounting for the supply and system own use on this schedule.
H-12.4a and H-12.4c: Firm and Non-firm Purchased Power and related costs	These schedules provide SPS's information regarding SPS's firm and non-firm purchased power along with energy costs, fixed costs, and costs per megawatt-hour ("MWh"). I co-sponsor these schedules with SPS witness Jeffrey C. Klein. I sponsor the accounting for the expenses reflected on these schedules.
H-12.5b – H-12.5e: Off-System Sales	These schedules provide data related to SPS's off-system sales and revenues, including the energy charge component, fixed charge component, and energy charge per MWh.
I-1.1: Fuel by Account Number	Provides fuel expense by subaccount numbers for each month included in the Test Year. I co-sponsor this schedule with Mr. Grant and SPS witness H. Craig Romer. I sponsor the accounting for the expenses reflected on this schedule.
I-1.2: Fuel Burned	Provides fuel expense by each generating station for each month in the Test Year. I co-sponsor this schedule with Mr. Grant and Mr. Romer. I sponsor the accounting for the expenses reflected on this schedule.
I-1.3: Fossil Fuel Purchased	Provides fossil fuel purchased by each generating station for each month in the Test Year. The information is provided for each fuel type and supplier. I co-sponsor this schedule with Mr. Grant and Mr. Romer. I sponsor the accounting for the expenses reflected on this schedule.
J-2(CD): Consolidated Financial Statements	Provides the consolidated financial statements of Xcel Energy and its subsidiaries, including SPS.

1 **IV. ACCOUNTING METHOD SUPPORTING THE**
2 **COST OF SERVICE**

3 **Q. What method of accounting does SPS use to record revenues and expenses**
4 **associated with activities incurred as a result of business operations?**

5 A. SPS uses the accrual method of accounting as required by GAAP to record
6 revenues and expenses. These revenues and expenses are recorded in accounts
7 prescribed by the FERC USoA and are recorded in accordance with the
8 Commission's rules.

9 **Q. Is the information provided in the Rate Filing Package taken from SPS's**
10 **books and records?**

11 A. Yes. The information submitted in this filing is taken from SPS's books and
12 records that are maintained according to the USoA. The USoA is prescribed by
13 FERC for public utilities and licensees subject to the provisions of the Federal
14 Power Act. FERC prescribes accounting classifications and guidance by which
15 public utilities achieve uniform accounting records for use in financial reporting,
16 ratemaking, and other regulatory filings. These regulations are found and defined
17 in the Code of Federal Regulations 18 – Conservation of Power and Water
18 Resources, Subchapter C – Accounts, Federal Power Act, Part 101 – USoA. The
19 Commission, in 16 TAC § 25.72, explicitly requires that SPS keep its books in
20 accordance with the USoA.

21 **Q. How did SPS determine the expense used in the cost of service and RFP**
22 **schedules?**

23 A. SPS started with the amounts recorded to its General Ledger for the Test Year.
24 As required by GAAP, SPS employs the accrual method of accounting, under
25 which SPS records an estimated amount for expenses incurred during the month.

1 This may include amounts for which an invoice has not yet been received. After
2 SPS receives the invoice or obtains more (or better) information related to an
3 estimate, or there is a change in a regulatory or accounting principle, the expense
4 is trued-up. In the case of an expense related to an invoice, the books are trued-up
5 to the actual invoiced amount. This true-up typically occurs the following month.
6 Thus, in a given month, expenses may include the accrual for the current month,
7 the true-up of the prior month's accrual to actual invoiced amounts, and
8 adjustments as they become known.

9 **Q. Are there any other reasons the expense amounts shown on those schedules**
10 **may be trued-up?**

11 A. Yes. In general, true-up adjustments are also made necessary by such things as
12 resolved billing disputes, corrections of errors, changes in the method used to
13 develop estimates, the acquisition of more or better information about the cost
14 estimate, changes in regulatory principles, and changes in accounting principles.

15 **Q. How does SPS account for regulatory assets and liabilities?**

16 A. SPS accounts for certain income and expense items in accordance with ASC 980,
17 Regulated Operations. Under ASC 980, certain costs that would otherwise be
18 charged to expense are deferred as regulatory assets based upon the ability of the
19 utility to recover those costs in future rates. In addition, certain credits that would
20 otherwise be reflected as income are deferred as regulatory liabilities based upon
21 the expectation that they will be refunded to customers in future rates.
22 Consequently, estimates for recovering deferred costs and refunding deferred
23 credits are based upon specific ratemaking decisions or precedents for each
24 particular item. These regulatory assets and liabilities are amortized consistent
25 with the period approved by the Commission.

1 **V. ACCOUNTING FOR ATTACHMENT Z2 CHARGES**

2 **Q. Please describe SPP’s OATT Attachment Z2.**

3 A. Attachment Z2 of the SPP OATT provides a means for entities that pay for a
4 Creditable Upgrade to receive compensation from transmission customers taking
5 new transmission service that could not have been provided “but for” the
6 Creditable Upgrade, with such charges and credits settled by SPP.

7 **Q. Can you describe the billing issues regarding SPP’s administration of**
8 **Attachment Z2?**

9 A. Yes. Attachment Z2 was originally authorized to become effective March 1,
10 2008. However, SPP’s implementation of Attachment Z2 was delayed until 2016
11 due to a variety of circumstances. To address this issue, SPP filed with FERC a
12 petition requesting a waiver to allow SPP to implement the Attachment Z2
13 revenue crediting process for the period from March 1, 2008 to August 31, 2016
14 (“Historical Period”) and to enable SPP to invoice transmission service customers
15 for related charges outside of the one-year billing adjustment limitation in the SPP
16 OATT.⁹ Despite protests from several parties, including SPS, FERC granted the
17 requested waiver in July 2016.¹⁰ In November 2016, SPP invoiced SPS total net
18 charges of \$12.8 million (total company) for the Historical Period.

19 Several parties, including SPS, filed requests for rehearing of the waiver
20 approval, which were denied by the FERC, and SPS subsequently filed an appeal
21 with the D.C. Circuit. During the pendency of the appeal, the D.C. Circuit issued

⁹ Petition of Southwest Power Pool, Inc. for Tariff Waiver, *Sw. Power Pool, Inc.*, FERC Docket No. ER16-1341 (filed Apr. 1, 2016).

¹⁰ *Sw. Power Pool, Inc.*, 156 FERC ¶ 61,020 (2016).

1 a decision in *Old Dominion* holding that retroactive charges would violate the
2 filed rate doctrine.¹¹ In response, FERC sought voluntary remand of the case and
3 issued a new order reversing its approval of SPP's waiver request and directing
4 SPP to propose a method to provide refunds, with interest, of amounts billed for
5 the Historical Period (except for September 2015 – August 2016, which were
6 permissible without the waiver). On April 1, 2019, SPP and two other parties
7 filed requests for rehearing, which the FERC denied, and SPP appealed the order
8 to the D.C. Circuit, where it is currently pending.

9 In May 2019, various parties that received Historical Period revenue
10 credits filed complaints with the FERC alleging that SPP's delayed
11 implementation of Attachment Z2 violated its tariff and seeking, despite FERC's
12 order invalidating the waiver approval, to retain all credits and interest paid to
13 date and to continue to receive amounts they claim to be owed under the SPP
14 OATT.

15 Finally, in addition to challenging SPP's authority to retroactively assess
16 charges for the Historical Period at all, Kansas Electric Power Cooperative, Inc.
17 and SPS each filed separate complaints with the FERC challenging various
18 components of the methodology utilized by SPP to calculate charges under
19 Attachment Z2.¹²

¹¹ *Old Dominion Electric Cooperative v. FERC*, 892 F.3d 1223 (D.C. Cir. 2018) (“*Old Dominion*”).

¹² Protest of Kansas Electric Power Cooperative, Inc., *Sw. Power Pool, Inc.*, FERC Docket No. ER16-1341 (filed Jul. 19, 2019); Comments of Xcel Energy Services Inc. on Compliance Report of Sw. Power Pool, Inc. Describing Proposed Plan for Implementing Refunds of Historical Amounts Billed Under Attach. Z2, *Sw. Power Pool, Inc.*, FERC Docket No. ER16-1341 (filed Jul. 19, 2019).

1 Thus, despite the \$12.8 million (total company) billed to SPS for
2 Historical Period Attachment Z2 charges, SPS's ultimate obligation remains
3 uncertain.

4 **Q. Has the Commission addressed treatment of Historical Period Attachment**
5 **Z2 charges in previous SPS rate cases?**

6 A. Yes. In Docket No. 47527, which was resolved by an unopposed stipulation
7 approved by the Commission, SPS's cost of service filed as part of SPS's rebuttal
8 testimony assigned \$6,501,016 of the original \$12.8 million (total company)
9 billed to SPS to the Texas retail jurisdiction, to be amortized over five years. In
10 Docket No. 49831, which was also resolved by an unopposed stipulation
11 approved by the Commission, the parties agreed to suspend collection of
12 Historical Period Attachment Z2 expenses, with SPS maintaining the regulatory
13 asset with a balance of \$4,402,191.55, to be adjusted for the resolution of the
14 pending FERC cases and addressed in SPS's next base rate case following
15 resolution of the Attachment Z2 litigation at FERC.¹³ No party in Docket Nos.
16 47527 or 49831 opposed SPS's recovery of Historical Period Attachment Z2
17 charges.

18 **Q. What does SPS propose with regard to Historical Period Attachment Z2**
19 **charges in this case?**

20 A. As I described above, there remain significant uncertainties regarding the ultimate
21 amount SPS will be obligated to pay for Historical Period charges under
22 Attachment Z2. Therefore, SPS proposes to continue the treatment authorized by

¹³ Docket No. 49831, Order at Ordering Paragraph No. 9.

1 the Commission in Docket No. 49831, which is to maintain the current regulatory
2 asset at its balance of \$4,402,191.55, to be adjusted for the resolution of the
3 pending FERC cases and addressed in SPS's next base rate case following
4 resolution of the Attachment Z2 litigation at FERC.

5 **Q. Has SPS included any amount for Historical Period Attachment Z2 expenses**
6 **in the cost of service in this case?**

7 A. No. Consistent with maintaining the related regulatory asset at its current
8 balance, SPS has not included any amounts for Historical Period Attachment Z2
9 charges in the cost of service for this case.¹⁴

¹⁴ SPS continues to incur Attachment Z2 charges going forward, but those amounts are included within the normal wheeling expenses. The amounts I am discussing in this section of my testimony are only the historical Attachment Z2 charges attributable to the Historical Period.

1 **VI. DEFERRED COSTS RESULTING FROM THE**
2 **EFFECTS OF COVID-19**

3 **Q. Please describe the Commission’s accounting order related to accrual of**
4 **regulatory assets for COVID-19.**

5 A. On March 26, 2020, the Commission issued an order in Project No. 50664
6 authorizing each electric, water, and sewer utility to record as a regulatory asset
7 expenses resulting from the effects of COVID-19, including but not limited to
8 non-payment of qualified customer bills. The Commission stated it would
9 consider, on a case-by-case basis in future proceedings, the appropriate
10 adjustment to a utility’s rates to reflect the recovery of the approved amount of
11 regulatory assets recorded in accordance with the order, as well as the appropriate
12 period of recovery, any amount of carrying costs thereon, and other related
13 matters.

14 **Q. What was the purpose of the Commission’s order?**

15 A. The Commission stated its order was to provide regulated utility companies some
16 regulatory certainty by authorizing the use of an accounting mechanism and a
17 subsequent process through which regulated utility companies may seek future
18 recovery of expenses resulting from the effects of COVID-19.¹⁵

19 **Q. Did SPS record expenses resulting from the effects of COVID-19 to a**
20 **regulatory asset as authorized by the Commission’s order?**

21 A. Yes. As of December 31, 2020, SPS had deferred \$1,825,149 of expenses
22 resulting from the effects of COVID-19 for the Texas jurisdiction. This amount

¹⁵ Project No. 50664, Order Related to Accrual of Regulatory Assets (Mar. 26, 2020).

1 includes \$363,268 of incremental costs resulting directly from the pandemic
2 (“COVID incremental direct costs”) and SPS’s response thereto, as well as
3 \$1,461,889 of bad debt expense that I discuss below.

4 **Q. For COVID incremental direct costs, how did SPS determine the amount to**
5 **defer?**

6 A. SPS’s accounting system utilizes “internal orders” to collect and track certain
7 types of costs based on the reason for which the costs were incurred and the
8 FERC account to which they belong. At the start of the pandemic, SPS created
9 internal orders to track COVID incremental direct costs incurred specifically as a
10 result of, and in response to, the pandemic. Separate internal orders were
11 established for each business area, and employees were instructed to charge
12 COVID incremental direct costs to these orders. Allocators from the cost of
13 service in Docket No. 49831 for each impacted FERC account were used to
14 determine the Texas jurisdictional amount for deferral.

15 **Q. What types of costs have been classified as COVID incremental direct costs?**

16 A. Amounts charged to and deferred under these internal orders reflect goods and
17 services procured as part of SPS’s response to the pandemic, including, but not
18 limited to, hand sanitizer and other cleaning products, additional janitorial
19 services, personal protective equipment, and equipment and supplies necessary
20 for potential sequestering of employees.

21 **Q. Should SPS be permitted to recover these COVID incremental direct costs?**

22 A. Yes. As recognized by the Commission in issuing the deferral order, there is no
23 precedent for the extraordinary circumstances resulting from the current pandemic

1 and SPS necessarily incurred these costs to protect customers and employees. It
2 is unknown how long the pandemic may last or the amount of expense that SPS
3 may be required to incur to continue to protect our customers and employees.
4 Thus, SPS should be authorized to recover the COVID incremental direct costs
5 that it incurred as of December 31, 2020, and to continue to defer expenses
6 incurred subsequent to that date.

7 **Q. Over what time period should SPS recover costs deferred as a regulatory**
8 **asset?**

9 A. SPS proposes that the deferred costs of \$363,268 be amortized over a period of
10 one year and that SPS be authorized to continue to defer expenses resulting from
11 the effects of COVID-19 consistent with the Commission's order in Project No.
12 50664. SPS will seek recovery of these additional deferred expenses in a future
13 rate proceeding.

14 **Q. How did SPS determine the amount of bad debt expense to defer?**

15 A. The Commission's directive to defer "expenses resulting from the effects of
16 COVID-19, including but not limited to non-payment of qualified customer bills"
17 is more challenging with respect to bad debt, as there is no way to determine the
18 exact cause of each individual non-payment. However, there is a general
19 understanding and expectation that bad debt expense will increase because of
20 suspending customer disconnections for nonpayment, suspending late fees, and
21 due to the general economic malaise resulting from the pandemic and the various
22 limitations placed on the activities of individuals and businesses.

1 Unlike the COVID incremental direct costs I described earlier,
2 nonpayment of customer accounts is an indirect effect of the COVID-19
3 pandemic, though one that certainly also represents a very real financial cost to
4 SPS. However, that cost is not a wholly new cost, but rather an increase in an
5 expense already represented in SPS's previous rate cases. Thus, the proper
6 approach is to compare actual bad debt expense to the baseline utilized in the cost
7 of service from SPS's last base rate case, and to defer the incremental amount
8 above the baseline.

9 As shown in Attachment BRD-RR-1, the test year in SPS's last base rate
10 case, Docket No. 49831, included commodity bad debt expense of \$4,447,042
11 (total company). Using monthly adjusted total company sales, I apportioned this
12 amount to the various months of the year, creating a monthly baseline, to which I
13 compared actual commodity bad debt expense as recorded in SPS's general
14 ledger, deferring the Texas jurisdictional share of the incremental amount for
15 periods beginning March 2020, resulting in a cumulative deferral as of December
16 31, 2020 of \$1,461,881.

17 **Q. Will SPS know the amount of incremental bad debt expense related to**
18 **COVID-19 at any point in the near future?**

19 A. I do not believe so. As described in the testimony of and schedules sponsored by
20 SPS witness Ms. Nora Lindgren, commodity bad debt expense is calculated as the
21 sum of net write-offs and the change in Accounts Receivable reserved. SPS's
22 policy is to write off past-due accounts under \$1,000 one hundred and nineteen
23 working days after the final bill due date and amounts greater than \$1,000

1 approximately thirty days later. Thus, including the time between usage and
2 billing, days allotted for payment before the due date, and up to 150 days
3 thereafter before an account is written off, it takes many months for economic
4 changes to result in increased write-offs.

5 Furthermore, SPS has made extensive efforts to offer customers deferred
6 payment plans, thus delaying the initial date at which many uncollectible accounts
7 become past due, resulting in even more time before their final disposition is
8 known. Finally, there is typically a lag between initial impacts to business
9 activity and the time when businesses either become unable to pay their bills or
10 have to lay off or furlough employees. Especially when combined with the
11 government stimulus attempted in the early days of the pandemic, which would
12 be expected to further delay those impacts, it is unknown over what time the full
13 economic effects of the pandemic will be realized, or over what time period the
14 economy may recover. Therefore, the ultimate amount of bad debt expense SPS
15 will incur as a result of the COVID-19 pandemic is incredibly uncertain.

16 **Q. How does SPS propose to address the uncertainty in the amount of bad debt**
17 **expense resulting from the COVID-19 pandemic?**

18 A. SPS proposes the Commission authorize the creation of a tracker for bad debt
19 expense. Using the same methodology SPS has used to defer bad debt expense
20 since March 2020, SPS would continue to defer the difference between actual bad
21 debt expense and a baseline amount, with the baseline adjusted, as of the effective
22 date of new rates in this case, to reflect the amount of bad debt expense included
23 in the final approved cost of service in this case. Under this methodology, SPS

1 will be permitted to collect actual bad debt expense resulting from the effects of
2 COVID-19. Similarly, customers will be protected should bad debt expense
3 ultimately end up lower than what SPS has already reserved.

4 **Q. How does SPS propose to recover the tracker's balance?**

5 A. In its next base rate case, SPS will propose a time period over which to amortize
6 the bad debt expense tracker's balance.

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

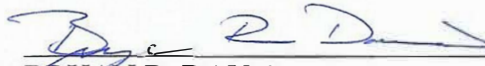
8 A. Yes.

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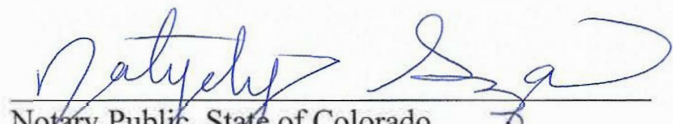
STATE OF COLORADO)
)
COUNTY OF ARAPAHOE)

BRYAN R. DAVIS, 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.


BRYAN R. DAVIS

Subscribed and sworn to before me this 27th day of January, 2021 by BRYAN R. DAVIS.


Notary Public, State of Colorado

My Commission Expires: December 6th, 2023

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NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20194045575
MY COMMISSION EXPIRES DECEMBER 6, 2023

Southwestern Public Service Company

Calculation of TX Bad Debt
Baseline and Deferral

Line #	Description	Total Test Year	Jan	Feb	Mar	Apr
Calculation of baseline (Docket No. 49831)						
1	Total 90400-Cust Acct Uncollect (prior case)	\$ 4,447,042	49831, Attachment APF-RR-R2, TX_100_IS, Line 213			
2	Total SPS Retail Sales, kwh adjusted, at meter (prior case)	20,916,286,918	1,781,502,242	1,580,358,729	1,685,371,732	1,595,099,807
3	Percentage of total test year (ln 2 / total, ln 2)	100.0%	8.5%	7.6%	8.1%	7.6%
4	Baseline - Monthly allocation of test year commodity bad debt expense (Line 1 total x Line 3 percentage)	\$ 4,447,041.66	\$ 378,767.74	\$ 336,002.33	\$ 358,329.29	\$ 339,136.45
Calculation of deferral period bad debt expense¹						
5	Total 90400-Cust Acct Uncollect (per book)		\$ 1,907,352.30	\$ 1,064,544.61		
6	Less: Amounts attributable to wholesale (per book)		\$ -	\$ -		
7	Actual commodity bad debt expense (ln 5 - ln 6)		\$ 1,907,352.30	\$ 1,064,544.61		
8	Incremental commodity bad debt expense (total company) (ln 7 - ln 4)	\$ 2,121,189.13	\$ 1,549,023.01	\$ 725,408.16		
Calculation of Texas deferral						
9	CUST-RET allocator (prior case)	68.92%	49831, Attachment APF-RR-R2, TX_100_IS, Line 213			
10	Amount to defer (Texas retail) (ln 8 x ln 9) ²	\$ 1,461,880.74	\$ 1,067,555.40	\$ 499,936.67		

¹ The Commission's order authorizing deferral, issued March 26, 2020, relates specifically to the COVID-19 pandemic and the Governor's Declaration of State of Disaster, issued March 13, 2020. Therefore, no amounts prior to March 2020 have been deferred. No proration was considered for March 2020 as net write-offs for the month were negative (thus driving no potential deferral), and substantially all changes to the reserve reflect the month-end accounting adjustments specifically to reflect the effects of the COVID-19 pandemic and are thus eligible for deferral.

² If cumulative amount is less than zero, no deferral is necessary

Southwestern Public Service Company

Calculation of TX Bad Debt
Baseline and Deferral

Line #	Description	May	Jun	Jul	Aug
Calculation of baseline (Docket No. 49831)					
1	Total 90400-Cust Acct Uncollect (prior case)				
2	Total SPS Retail Sales, kwh adjusted, at meter (prior case) <i>49831, Schedule O-U.1.4, pg. 16 of 17, Line 43</i>	1,701,084,346	1,835,489,051	1,961,859,818	1,918,156,693
3	Percentage of total test year (ln 2 / total, ln 2)	8.1%	8.8%	9.4%	9.2%
4	Baseline - Monthly allocation of test year commodity bad debt expense (Line 1 total x Line 3 percentage)	\$ 361,669.97	\$ 390,245.95	\$ 417,113.82	\$ 407,822.04
Calculation of deferral period bad debt expense¹					
5	Total 90400-Cust Acct Uncollect (per book)	\$ 628,679.83	\$ 556,316.93	\$ 803,201.46	\$ (1,037,255.48)
6	Less: Amounts attributable to wholesale (per book)	\$ -	\$ -	\$ -	\$ -
7	Actual commodity bad debt expense (ln 5 - ln 6)	\$ 628,679.83	\$ 556,316.93	\$ 803,201.46	\$ (1,037,255.48)
8	Incremental commodity bad debt expense (total company) (ln 7 - ln 4)	\$ 267,009.86	\$ 166,070.98	\$ 386,087.64	\$ (1,445,077.52)
Calculation of Texas deferral					
9	CUST-RET allocator (prior case)				
10	Amount to defer (Texas retail) (ln 8 x ln 9) ²	\$ 184,017.80	\$ 114,452.77	\$ 266,083.81	\$ (995,918.26)

¹ The Commission's order authorizing deferral, issued March 26, 2020, relates specifically to the COVID-19 pandemic and the Governor's Declaration of State of Disaster, issued March 13, 2020. Therefore, no amounts prior to March 2020 have been deferred. No proration was considered for March 2020 as net write-offs for the month were negative (thus driving no potential deferral), and substantially all changes to the reserve reflect the month-end accounting adjustments specifically to reflect the effects of the COVID-19 pandemic and are thus eligible for deferral.

² If cumulative amount is less than zero, no deferral is necessary

Southwestern Public Service Company

Calculation of TX Bad Debt
Baseline and Deferral

Line #	Description	Sep	Oct	Nov	Dec
Calculation of baseline (Docket No. 49831)					
1	Total 90400-Cust Acct Uncollect (prior case)				
2	Total SPS Retail Sales, kwh adjusted, at meter (prior case) 49831, Schedule O-U1.4, pg. 16 of 17, Line 43	1,727,224,980	1,685,321,104	1,657,678,035	1,787,140,382
3	Percentage of total test year (ln 2 / total, ln 2)	8.3%	8.1%	7.9%	8.5%
4	Baseline - Monthly allocation of test year commodity bad debt expense (Line 1 total x Line 3 percentage)	\$ 367,227.77	\$ 358,318.53	\$ 352,441.30	\$ 379,966.47
Calculation of deferral period bad debt expense¹					
5	Total 90400-Cust Acct Uncollect (per book)	\$ 234,207.94	\$ 255,041.77	\$ 713,990.69	\$ 727,380.67
6	Less: Amounts attributable to wholesale (per book)	\$ -	\$ -	\$ -	\$ -
7	Actual commodity bad debt expense (ln 5 - ln 6)	\$ 234,207.94	\$ 255,041.77	\$ 713,990.69	\$ 727,380.67
8	Incremental commodity bad debt expense (total company) (ln 7 - ln 4)	\$ (133,019.83)	\$ (103,276.76)	\$ 361,549.39	\$ 347,414.20
Calculation of Texas deferral					
9	CUST-RET allocator (prior case)				
10	Amount to defer (Texas retail) (ln 8 x ln 9) ²	\$ (91,674.58)	\$ (71,176.26)	\$ 249,172.55	\$ 239,430.86

¹ The Commission's order authorizing deferral, issued March 26, 2020, relates specifically to the COVID-19 pandemic and the Governor's Declaration of State of Disaster, issued March 13, 2020. Therefore, no amounts prior to March 2020 have been deferred. No proration was considered for March 2020 as net write-offs for the month were negative (thus driving no potential deferral), and substantially all changes to the reserve reflect the month-end accounting adjustments specifically to reflect the effects of the COVID-19 pandemic and are thus eligible for deferral.

² If cumulative amount is less than zero, no deferral is necessary