

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION REQUESTING )  
APPROVAL TO RETIRE AND )  
ABANDON ITS PLANT X )  
GENERATING STATION UNIT 1, )  
PLANT X GENERATING STATION )  
UNIT 2, AND CUNNINGHAM )  
GENERATING STATION UNIT 1, AND )  
DETERMINATION OF RELATED )  
RATEMAKING PRINCIPLES AND )  
TREATMENT. )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
APPLICANT. )  
)**

---

**CASE NO. 18-00329-UT**

**SUPPLEMENTAL DIRECT TESTIMONY**

*of*

**MELISSA L. OSTROM**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

**DECEMBER 10, 2018**

**TABLE OF CONTENTS**

GLOSSARY OF ACRONYMS AND DEFINED TERMS.....	iii
LIST OF ATTACHMENTS .....	iv
I. WITNESS IDENTIFICATION AND PURPOSE OF SUPPLEMENTAL TESTIMONY .....	1
II. ACCOUNTING ORDER.....	3
III. RESPONSES TO OTHER QUESTIONS .....	8
VERIFICATION.....	9

## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
Commission	New Mexico Public Regulation Commission
Cunningham 1	Cunningham Generating Station Unit 1
Plant X 1	Plant X Generating Station Unit 1
Plant X 2	Plant X Generating Station Unit 2
SPS	Southwestern Public Service Company, a New Mexico corporation

## LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
MLO-S1	Capital Additions to Plant X 1, Plant X 2 and Cunningham 1 since Case No. 12-00350-UT

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1                   **I.    WITNESS IDENTIFICATION AND PURPOSE OF**  
2                   **SUPPLEMENTAL TESTIMONY**

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

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

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

7   A.    I am filing testimony on behalf of Southwestern Public Service Company, a New  
8        Mexico corporation (“SPS”).

9   **Q.    Are you the same Melissa L. Ostrom who filed direct testimony on behalf of**  
10       **SPS in this docket?**

11   A.    Yes.

12   **Q.    What is the purpose of your supplemental direct testimony?**

13   A.    The purpose of my supplemental direct testimony is to respond to certain of the  
14        questions posed by the Hearing Examiner during and after the November 20,  
15        2018 Prehearing Conference in this case. In particular, I provide responses to the  
16        questions related to depreciation and dismantling expense. I also describe the  
17        accounting treatment of the amounts that SPS seeks to record in deferred accounts  
18        for later recovery.

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1 **Q. Are any other witnesses filing supplemental direct testimony on behalf of**  
2 **SPS?**

3 A. Yes. SPS witness William A. Grant responds to questions regarding the relief  
4 requested by SPS in this case, and he responds to certain questions about the  
5 operations of Plant X Generating Station Unit 1 (“Plant X 1”), Plant X Generating  
6 Station Unit 2 (“Plant X 2”), and Cunningham Generating Station Unit 1  
7 (“Cunningham 1”). SPS witness Randy J. Larson also responds to questions  
8 regarding the operation and eventual dismantling of the three units.

9 **Q. Was attachment MLO-S1 prepared by you or under your supervision?**

10 A. Yes.

1                                    **II.    ACCOUNTING ORDER**

2    **Q.    What topic do you address in this section of your supplemental direct**  
3    **testimony?**

4    A.    I respond to questions regarding the accounting orders that SPS has requested  
5    approval of with respect to Plant X 1, Plant X 2, and Cunningham 1.

6    **Q.    Please describe briefly the relief that SPS has requested insofar as the**  
7    **accounting orders are concerned.**

8    A.    In connection with its request to retire and abandon Plant X 1, Plant X 2, and  
9    Cunningham 1, SPS has requested that the New Mexico Public Regulation  
10    Commission (“Commission”) issue an order authorizing SPS to:

- 11                    • record in a deferred account the remaining net plant balance of each unit,  
12                    including the remaining unrecovered estimated dismantling costs  
13                    associated with each unit;
- 14                    • recover the remaining net plant balances and remaining estimated  
15                    dismantling costs in a later proceeding;
- 16                    • record in a deferred account the difference between the estimated and  
17                    actual dismantling costs for each of the three units; and
- 18                    • refund or recover the difference between the estimated and actual  
19                    dismantling costs after the units are dismantled and the actual dismantling  
20                    costs are known.

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1 **Q. In the first bullet point of the previous answer, you refer to “the remaining**  
2 **net plant balance of each unit, including the remaining unrecovered**  
3 **estimated dismantling costs.” Are depreciation costs set to recover**  
4 **dismantling costs?**

5 A. Yes. When SPS conducts a depreciation study, it includes dismantling costs in  
6 the requested amount of depreciation expense. Thus, for example, if the total cost  
7 of an asset is \$100 million and the dismantling costs are projected to be \$5  
8 million, depreciation rates are set to recover a total of \$105 million over the life of  
9 the asset.

10 **Q. Will the unrecovered net plant balances of the three units include some**  
11 **amount of unrecovered dismantling costs?**

12 A. Yes. Recovery of the dismantling costs is spread over the service life of an asset,  
13 so SPS has already recovered the vast majority of the estimated dismantling costs  
14 associated with Plant X 1, Plant X 2, and Cunningham 1. But SPS has not  
15 recovered the entire amount of depreciation and dismantling expense, so some  
16 amount of the estimated dismantling costs remains unrecovered.



Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1 **Q. Is it possible that the estimated dismantling costs for the three units will**  
2 **change?**

3 A. Yes. The estimated dismantling costs identified in my direct testimony were  
4 quantified using the depreciation and dismantling study that formed the basis for  
5 the depreciation rates established in Case No. 12-00350-UT<sup>1</sup>. SPS will perform a  
6 new depreciation and dismantling study for its upcoming base rate case, so it is  
7 possible that the estimated dismantling costs will change.

8 **Q. How does SPS propose to track and collect the amounts established pursuant**  
9 **to the accounting order?**

10 A. Upon retirement of each unit, SPS will know, based on its plant accounting  
11 records, the total plant balance as well as the accumulated reserve at the  
12 retirement date. The deferred account established for the unrecovered plant  
13 investment will be equal to the difference between the plant cost and the  
14 accumulated reserve. A separate deferred account will be created for this amount.  
15 In the rate proceeding following the retirement, SPS will request recovery of the  
16 deferred account and establish an appropriate amortization period at that time.

---

<sup>1</sup> *In the Matter of Southwestern Public Service Company's Application for Revision of its Retail Rates Under Advice Notice No. 245*, Case No. 12-00350-UT, Final Order Partially Adopting Recommended Decision (Mar. 26, 2014).

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1           For the dismantling costs, SPS will record in a deferred account the  
2           estimated dismantling cost for each unit at the time of that unit's retirement. At  
3           some later time when the unit is dismantled, SPS will compare the estimated  
4           dismantling costs to the actual dismantling costs and record the difference in the  
5           deferred account. In a subsequent case, SPS will ask the Commission for  
6           permission to refund or recover the difference between those two amounts.

7   **Q.   When would the deferred accounts be created if the Commission were to**  
8   **approve SPS's request?**

9   A.   The deferred account related to the unrecovered net plant and estimated  
10       dismantling accounts would be created upon retirement of the units.

11 **Q.   When would the accounts terminate?**

12 A.   The deferred account related to unrecovered net plant would be terminated when  
13       the account is fully amortized and no longer affects rate base. The deferred  
14       account related to dismantling costs would terminate upon Commission  
15       authorization to either recover or refund the difference between actual and  
16       estimated dismantling costs.

17 **Q.   Does SPS seek to recover carrying costs on the amounts in the accounts?**

18 A.   SPS is seeking permission to include in rate base the deferred balance that reflects  
19       the remaining unrecovered depreciation and estimated dismantling costs, and to

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1           earn a return on that balance at its weighted average cost of capital. After the  
2           units are dismantled, SPS will seek to include in rate base the regulatory asset or  
3           regulatory liability that reflects the difference between estimated and actual  
4           dismantling costs and to earn a return on it.

5   **Q. Do the net plant balances for Plant X 1, Plant X 2, and Cunningham 1**  
6   **currently earn a return to SPS?**

7   A. Yes. The undepreciated plant balances are part of the plant included in rate base,  
8           just like other net plant assets. SPS earns a return on rate base at its weighted  
9           average cost of capital.

10 **Q. If SPS is able to reuse components from Plant X 1, Plant X 2, and**  
11 **Cunningham 1 upon decommissioning, will SPS seek to make an adjustment**  
12 **to the accounting orders to reflect that added value?**

13 A. No. If SPS identifies any reusable components at decommissioning, the value of  
14           those components will be subtracted from the actual dismantling costs. That, in  
15           turn, will affect the calculation of the difference between the actual and estimated  
16           dismantling costs, but it will not necessitate any adjustments to the accounting  
17           orders requested by SPS in this case.

Case No. 18-00329-UT  
Supplemental Direct Testimony  
of  
Melissa L. Ostrom

1                                   **III.    RESPONSES TO OTHER QUESTIONS**

2   **Q.    Has SPS made capital additions to Plant X 1, Plant X 2, or Cunningham 1**  
3       **since the end of the test year approved by the Commission in Case No.**  
4       **12-00350-UT?**

5    A.    Yes. The test year approved by the Commission in Case No. 12-00350-UT was  
6        calendar year 2014. My Attachment MLO-S1 lists the capital additions to all  
7        three units since January 1, 2015.

8   **Q.    Has SPS made any changes to the service lives of Plant X 1, Plant X 2, or**  
9       **Cunningham 1 since the current depreciation rates were established in Case**  
10       **No. 12-00350-UT?**

11   A.    No. SPS requested that the Commission accelerate depreciation expense for  
12        Cunningham 1 in Case No. 17-00255-UT, SPS's most recent base rate case, but  
13        the Commission denied that request.<sup>2</sup>

14   **Q.    Does this conclude your prefiled supplemental direct testimony?**

15   A.    Yes.

---

<sup>2</sup> *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, Final Order Adopting Recommended Decision with Modifications at 14 (Sept. 5, 2018).*

**VERIFICATION**

STATE OF MINNESOTA )  
 ) ss.  
COUNTY OF HENNEPIN )

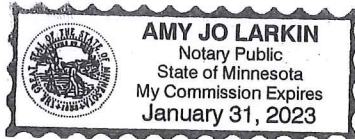
MELISSA L. OSTROM, first being sworn on his oath, states:

I am the witness identified in the preceding supplemental direct testimony. I have read the supplemental direct testimony and the accompanying attachment(s) and am familiar with their contents. Based upon my personal knowledge, the facts stated in the supplemental direct 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.

  
\_\_\_\_\_

MELISSA L. OSTROM

SUBSCRIBED AND SWORN TO before me this 5 day of December, 2018  
by MELISSA L. OSTROM.



  
\_\_\_\_\_  
Notary Public, State of Minnesota  
My Commission Expires: 1/31/2023

**Capital Additions January 2015 - October 2018**

<b>Unit</b>	<b>Plant Description</b>	<b>Amount</b>
Cunningham 1	Analyzer. Boiler Feedwater Chemical Analyzers	\$ 73,859
Cunningham 1	Transformer Auto 600V and Less	55,204
Cunningham 1	Forced Draft Fan System-Motor	43,335
Cunningham 1	Valve	30,465
Cunningham 1	CHC1C-Rpl Lab Analyzers	20,073
Cunningham 1	Valve - DA Level Control Valves	(133)
	<b>Cunningham 1 Total</b>	<b>\$ 222,803</b>
Plant X 1	Generator Emergency Power Supply	\$ 299,528
Plant X 1	Pump	81,063
Plant X 1	Building Other	32,707
Plant X 1	Valve	10,911
Plant X 1	Fuel Transfer System	(6,312)
	<b>Plant X 1 Total</b>	<b>\$ 417,896</b>
Plant X 2	Analyzer. CEMS	\$ 156,837
Plant X 2	Pump	82,456
Plant X 2	Valve	80,046
Plant X 2	Fuel Transfer System Piping & Valves	41,349
Plant X 2	Forced Draft Fan System-Motor	29,689
Plant X 2	Valve - Oil Pump Aux Steam Line	465
	<b>Plant X 2 Total</b>	<b>\$ 390,841</b>