

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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IN THE MATTER OF THE APPLICATION OF)	
PUBLIC SERVICE COMPANY OF COLORADO)	DOCKET NO. 11A-869E
FOR APPROVAL OF ITS 2011 ELECTRIC)	
RESOURCE PLAN)	

REBUTTAL TESTIMONY AND EXHIBIT OF KURTIS J. HAEGER

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

July 16, 2012

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1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Kurtis J. Haeger. My business address is 1800 Larimer Street,
4 Denver, Colorado 80202.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

6 A. I am employed by Xcel Energy Services, Inc., a wholly-owned subsidiary of
7 Xcel Energy Inc., the parent company of Public Service Company of
8 Colorado. My job title is Managing Director, Wholesale Planning.

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?**

10 A. I am testifying on behalf of Public Service Company of Colorado ("Public
11 Service" or the "Company").

12 **Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?**

13 A. Yes.

14 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

1 A. The purpose of my rebuttal testimony is to address a number of issues,
2 concerns, and recommendations that were put forth in Answer Testimony by
3 numerous witnesses in this docket. Although I, along with a number of other
4 Company witnesses, will specifically address each of these issues and
5 recommendations, I believe it is beneficial to start by setting the record
6 straight on a number of misconstrued facts and related concerns identified by
7 Staff witness Ms. Fiona Sigalla and Colorado Independent Energy
8 Association, Colorado Energy Consumers and Thermo Power & Electric LLC
9 witness Mr. William Monsen.

10 To begin with I would like to affirm that the 2011 ERP set forth a
11 resource planning process and resource acquisition process that is not only
12 fair and equitable to existing and new independent power producer ("IPP")
13 proposals, but is also transparent with numerous checks and balances
14 throughout the process. Contrary to allegations raised by Mr. Monsen and
15 (through innuendo) by Ms. Sigalla, the 2011 ERP clearly complies with all
16 state legislative requirements and the Commission's Electric Resource
17 Planning Rules.

18 In a number of instances, Mr. Monsen recommends the Commission
19 order or require the Company to take a specific course of action, when the
20 2011 ERP already states the Company has agreed to take that course of
21 action. His testimony leaves the impression that there are problems with our
22 proposed plan, when in fact these issues have already been adequately
23 addressed.

1 **Q. CAN YOU PROVIDE SOME EXAMPLES OF THESE**
2 **RECOMMENDATIONS PUT FORTH BY MR. MONSEN?**

3 A. Yes, beginning on line 7 page 3 of his answer testimony, Mr. Monsen
4 summarizes his ten recommendations to the Commission regarding the RFP
5 evaluation and selection process. The Company had already committed,
6 either in the 2011 ERP or supporting testimony, to take the course of action
7 in five of the ten recommendations he proposes. The following is a list of the
8 five recommendations the Company had already proposed in our 2011 ERP
9 and testimony:

10 1) Monsen Recommendation #1 – Use competitive solicitations to make
11 “opportunistic” resource acquisitions outside of the ERP process.

12 On page 1-49 of volume I, the Company stated, “Specifically, the
13 Company requests Commission approval to issue RFP’s, from time to time,
14 and to evaluate bids for new renewable resources greater than 30 MW as
15 well as consider unsolicited proposals, during the timeframe between this
16 2011 ERP and the 2015 ERP.”

17 2) Monsen Recommendation #6 – Public Service should be required to
18 procure all resources, including contingency alternatives, on a competitive
19 basis.

20 In response, the Company already proposed: 1) an All-Source
21 solicitation for the primary acquisition process for the 2011 ERP; 2) to use a
22 competitive solicitation for the “opportunistic” acquisition of future renewable

1 energy; and 3) to exhaust the use of competitive solicited bids before we
2 consider constructing a utility owned back-up bid or contingency proposal.¹

3 3) Monsen Recommendation # 7 – The Commission should not penalize
4 IPPs for unknown or potential lease accounting standards which may or may
5 not be issued.

6 On page 2-41 of Volume II of the ERP and in the Supplemental Direct
7 Testimony of Mr. Christopher Haworth, beginning on line 1 page 4, the
8 Company states: “Public Service will assess power purchase agreement
9 (“PPA”)s during **negotiations** with the currently applicable standard.” I note
10 that negotiations take place after the Commission approves a portfolio of
11 resources in Phase 2 of the ERP, so quite a while after bids are evaluated.
12 Mr. Haworth also stated that Public Service will only utilize standards that
13 have been adopted, and we will not use “unknown or potential lease
14 accounting standards” in our assessments of PPAs during bid evaluation or
15 negotiations.

16 4) Monsen Recommendation #8 – The Commission should require
17 Public Service to submit an application that specifies in detail how Public
18 Service plans to apply any new lease accounting standards in its evaluation
19 of PPAs.

20 As explained by Mr. Haworth in his supplemental direct testimony, the
21 Company will not take into account any changes in the accounting standards

¹ See the list of “Contingency Plan Options”, options 1 through 5 presented on page 1-60, and on Table 1.8-1, “Hierarchy of Contingency Plan Alternatives” page 1-62 of Volume I of the 2011 ERP.

1 until they are finalized (not expected until sometime in 2013) and only in the
2 negotiations of contracts. As a result, the Company will not modify the IPP
3 bids during the evaluation phase nor will these accounting standards affect
4 the bid evaluation. The Company will take the new accounting standards
5 into account when negotiating the PPAs to structure the contracts to avoid
6 possible capital lease treatment. The likely outcome of the delayed issuance
7 of the new accounting standards is that they will not impact the evaluation
8 and selection process, but they may become a negotiation item where Public
9 Service will work with the winning bidders to minimize the likelihood that their
10 bids will trigger a problematic lease accounting issue.

11 5) Monsen Recommendation # 9 – The Company should fully implement
12 the Legislature’s intent to ensure transparency and accuracy in bid
13 evaluation by providing the bidders with the model inputs and assumptions
14 for the bids.

15 On page 1-52 of Volume I, the Company clearly states that we will
16 provide the bidder the modeling inputs and assumptions as required
17 pursuant to Commission Rules 3613 (a) and (b). In addition, as described by
18 Mr. Hill, the Company has designed the bid forms to essentially provide the
19 bidders a Levelized Energy Cost (LEC) for their bids along with a form of
20 documentation of the assumptions the Company will use in its evaluation.

21 **Q. ARE THERE OTHER MAJOR UNDERLYING THEMES PRESENTED BY**
22 **MR. MONSEN OR MS. SIGALLA THAT APPEAR TO BE MISDIRECTED?**

1 A. Yes, the underlying premise of our 2011 ERP is there is an opportunity for
2 the Company to acquire low cost resources from existing IPP generators
3 whose current contracts with Public Service expire before the Company has
4 additional resource needs in 2017. Mr. Monsen and Ms. Sigalla appear to
5 overlook the Company's efforts to focus our acquisition efforts on these un-
6 contracted IPPs; instead they each insinuate that the Company is attempting
7 to gain an advantage for self-build projects in the 2011 ERP process.
8 Nothing can be further from the truth. The 2011 ERP was drafted specifically
9 to give these existing IPP's generators the best possible chance of obtaining
10 a power purchase agreement with Public Service before new generation is
11 constructed. By stating "**a preference**" for short-term bids, the Company
12 was clearly communicating to the existing IPP generation community that we
13 are looking to these generators to step up and offer attractive proposals to fill
14 the resource needs for 2017 and 2018, out through 2023.

15 **Q. WILL THE COMPANY ACCEPT LONGER TERM BIDS?**

16 A. Yes. Contrary to allegations made by Ms. Sigalla, nowhere did the Company
17 suggest that we would limit new IPP projects or limit the term of IPP bids to
18 only short-term bids. As clearly stated on page 1-46 of Volume I of the 2011
19 ERP, Public Service states that we will accept IPP bids up to a 25 year term.
20 Public Service also stated on page 1-45 that we expected the longer-term
21 IPP bids to discipline the shorter-term IPP bids, clearly anticipating an open
22 and robust All-Source solicitation.

1 **Q. WHY STATE A PREFERENCE FOR SHORT-TERM BIDS IF THAT**
2 **PREFERENCE WILL NOT BE USED TO REJECT LONGER-TERM BIDS?**

3 A. We were trying to tell the existing IPP generation community that we believe
4 that since these generators are on their second round of PPAs, they should
5 be able to bid lower prices than would a new generation project. We share
6 the OCC's concerns, as expressed by Dr. Schechter in his answer testimony,
7 that existing IPPs with greatly reduced debt service payments do not always
8 offer to us a lower price that reflects their current revenue requirements but
9 rather bid to try to capture the economies of new build, which they view to be
10 the marginal bidder and therefore their competition. By stating that we
11 preferred short-term contracts we were stating that we prefer to buy from
12 existing generators and we hope they will "sharpen their pencils" and give us
13 their best price.

14 **Q. WHAT ROLE DOES NEW CONSTRUCTION PLAY IN THE BID**
15 **PROCESS?**

16 A. New construction will discipline the competition and essentially cap the bids
17 for contract renewals. We agree with Mr. Monsen that the *highest* bid we get
18 from existing IPP's bids should be based on the cost of new entrants.
19 However, the Company wanted to place additional pressure on these
20 existing facilities to provide good bids, so Public Service has proposed that
21 we use the cost of new Public Service-owned generation built on existing
22 plant sites where economies can be achieved. The cost of these projects
23 should be below many greenfield construction projects and should therefore

1 provide additional discipline to the market. Mr. Hill shows in his rebuttal
2 testimony that Ms. Sigalla is overestimating the depth of the existing IPP
3 market and the self-build alternatives are very much needed to provide that
4 additional discipline to the market. The fact that we are providing a
5 competitive discipline to lower the bar for the IPP bidders should not be
6 interpreted as a form of self-build preference. Certainly by stating a
7 preference for shorter term PPA proposals, the Company was placing these
8 existing generators at the head of the line, based on the hope that the
9 existing generators could be incorporated back into the Company's portfolio
10 before any additional new generation is constructed.

11 **Q. DID THE COMPANY OFFER OTHER OPPORTUNITIES TO TRY TO FIT**
12 **THE EXISTING IPP PROJECTS INTO THE PORTFOLIO?**

13 A. Yes. The Company went further in our efforts to find a home for these
14 existing IPP generators by proposing to allow these generators to compete
15 against the continued operation of Arapahoe 4 and Cherokee 4 on natural
16 gas. The Company is quite surprised that both CIEA and the Staff have
17 misconstrued these efforts to suggest Public Service is attempting to stack
18 the deck against either the existing IPP generators or potential new IPP
19 projects.

20 Let me state categorically: Public Service is looking for the best deal
21 for our customers. We believe that the best deal, now, is to see if existing
22 generators are willing to provide us with a fair price for short term contracts

1 until the many uncertainties that I addressed in my Direct Testimony are
2 better resolved.

3 **Q. PLEASE SUMMARIZE THE REST OF YOUR TESTIMONY.**

4 A. The remainder of my testimony focuses 1) on a more in depth discussion of
5 the issues and recommendations raised by Mr. Monsen and Ms. Sigalla
6 concerning the Company's resource solicitation and evaluation process, 2)
7 Dr. Schechter's recommendation that the Company be required to complete
8 a study to evaluate the utilization of our remaining coal fleet as more of a
9 capacity resource with less dependence on these resources for energy, 3)
10 Interwest's witness Mr. Cox's suggestion that the Commission must approve
11 a new tariff before the Company can apply the findings of the Coal Cycling
12 Study in the resource evaluation process.

13 **Q. IS THE COMPANY PRESENTING OTHER WITNESSES IN ITS REBUTTAL**
14 **CASE?**

15 A. In addition to my testimony, the following Public Service witnesses will
16 specifically address:

17 Mr. Jim Hill – 1) numerous issues raised regarding key modeling
18 assumptions, 2) the appropriate Resource Acquisition Period, 3)
19 misrepresentations made by Staff regarding the resources acquired as a
20 result of the 2007 ERP, 4) proposed changes to the evaluation process of
21 bids in the Phase 2, and 5) misrepresentations made by Staff regarding the
22 Company's proposed contingency plan.

1 Ms. Deb Sundin – 1) the recommendations of WRA and OCC that the
2 Company should solicit demand-side resources as well as supply-side
3 resources as part in the All-Source solicitation and 2) Staff witness Mr. Hay's
4 recommendation that the Company be required to perform a new or
5 expanded study of demand response potential, and 3) the criticisms raised
6 by Staff witness, Mr. Hay and RUC witness, Ms. Hardin, regarding the
7 energy savings and demand reduction levels assumed for purposes of the
8 ERP relative to the energy savings goals approved by the Commission in
9 Docket No. 10A-554EG.

10 Mr. Jeff Klein – 1) the concerns raised by Mr. Monsen and Mr. Michael A.
11 Hamilton on behalf of Southwest Generation concerning the alleged
12 limitations of the portfolio financing contract language in the model PPAs
13 included in the ERP, 2) the issues raised by Ms. Sigalla regarding the
14 completion of the negotiations from the 2009 All-Source and the benefits that
15 accrue to the customers as a result of the Company's pragmatic approach to
16 this resource solicitation, 3) Ms. Sigalla's recommendations for the
17 Commission to narrowly limit to a few areas the PPA terms and conditions
18 that are negotiable; authorize a limited time window for contract negotiations;
19 and direct Public Service to include the independent evaluator in all contract
20 negotiations.

21 Mr. Chris Haworth – the confusion CEC witness Mr. Monsen has relative to
22 the Company's use of proposed accounting standards in the evaluation of

1 RFP bids. Mr. Haworth also provides an update on the anticipated timing of
2 the issuance of new accounting standards associated with lease accounting
3 and reiterates that this new information will only be used in the negotiations
4 of new PPAs.

5 Ms. Jannell Marks - the Answer Testimonies of PUC Staff witnesses Mr.
6 Harris and Mr. Hay regarding the Company's sales and peak demand
7 forecasts and DSM forecasts, including the timeliness of the assumptions
8 used in the Company's forecasts, the alleged excessive use of binary
9 variables, and how DSM was accounted for in the Company's forecast.

10 Mr. Jack Ihle – the concerns raised by a number of interveners that the risk
11 analysis of carbon policy is not adequate in the 2011 ERP. In doing so Mr.
12 Ihle reiterates the Company's plan to present a full range of carbon policy
13 assumptions and resulting modeling analysis in the bid evaluation.

14 Mr. Mark Roberts – the issues Ms. Glustrom, Mr. Sanzillo and Dr. Selvans
15 raise relative to the Company's projection of coal availability and coal price
16 forecasts.

17 Mr. Curt Dallinger – given the concerns expressed by Staff witness Brown
18 with the Company's Winter Generation Adequacy Study, how the Company
19 will assess transportation costs to the various bids in the RFP evaluation,
20 based on the location and gas pipeline interconnection proposed by the
21 bidder.

1 Mr. John Welch – recommendations made by Staff witness Mr. Stephen
2 Brown regarding the Winter Generation Adequacy Study we filed on
3 February 13, 2012 and Mr. Cox’s contention that the Company has not taken
4 the necessary steps to economically integrate variable energy resources.

5 Mr. Drake Bartlett – the concerns raised by Southwest Generation witness
6 Mr. Norman and other witnesses regarding the availability and the
7 appropriate level of flexible generation resources necessary for the Company
8 to manage wind ramping events on our system.

9 Mr. Sean Connolly – the issues raised by Interwest witnesses Mr.
10 Falkenberg and Mr. Cox regarding the development and the application of
11 the Company’s Coal Cycling Study and the concerns about the Company’s
12 gas price forecasts raised by Colorado Gas Producers witness Mr. Fishman.

13 Mr. Timothy Carter – the concerns raised by Colorado Gas Producers
14 witness Mr. Fishman regarding the Company’s proposed use of the Price
15 Volatility Mitigation Adder.

16 Mr. Timothy Sheesley - the recommendation by Dr. Bardwell on behalf of
17 Ratepayers United and Mr. Cox on behalf of Interwest to use more than a
18 single discount rate in the bid evaluation.

1 **II. RESOURCE ACQUISITION PROCESS**

2 **Q. PLEASE IDENTIFY THE ISSUES PRESENTED IN ANSWER TESTIMONY**
3 **RELATED TO THE COMPANY’S PROPOSED ACQUISITION PROCESS**
4 **THAT YOU ARE ADDRESSING.**

5 A. The following is a list of issues that were presented or commented on by a
6 number of intervenors regarding the Company’s Resource Acquisition
7 Process:

8 A. Transparent, fair and equitable RFP and evaluation process

9 B. Preference for short-term bids

10 C. Evaluation of utility build projects versus PPAs

11 D. Opportunistic renewable acquisition process

12 E. Identification of Section 123 resources

13 F. Set-aside for specified resource types

14 G. Inclusion of DSM and Demand Response opportunities

15 H. Timeliness of the acquisition process

16 I. Contingency hierarchy

17 My testimony will address the policy related issues of items A through G,
18 while Mr. Klein will address item H and Mr. Hill will address item I. In
19 addition, the Company’s subject matter experts will provide supporting
20 specific details in response to all of the items listed above.

1 **II.-A. TRANSPARENT, FAIR AND EQUITABLE RFP EVALUATION PROCESS**

2 **Q. THERE APPEARS TO BE A FAIR AMOUNT OF DISCUSSION AND**
3 **CONJECTURE IN THE ANSWER TESTIMONY PROVIDED BY MR.**
4 **MONSEN AND MS. SIGALLA THAT SUGGESTS THERE IS A NEED FOR**
5 **A MORE FAIR AND EQUITABLE RFP AND EVALUATION PROCESS.**
6 **DID THE COMPANY PROPOSE AN RFP PROCESS THAT COMPLIES**
7 **WITH ALL OF THE COMMISSION’S RESOURCE PLANNING RULES IN A**
8 **FAIR AND EQUITABLE MANNER?**

9 A. Yes, the 2011 ERP defines a planning and acquisition process that is
10 consistent with all of the Commission’s resource planning rules. The
11 proposed RFP process takes advantage of an all-source solicitation
12 methodology for the Company’s primary acquisition efforts to fill the resource
13 needs through 2018, while also providing the opportunity to use more
14 targeted solicitation efforts in situations where the Company can possibly be
15 more “opportunistic” in our acquisition of future renewable resources or
16 Section 123 resources. As stated on page 7 of Volume I of the 2011 ERP,
17 the Company’s overall goal of the 2011 ERP is “a resource plan that is
18 targeting low-cost resources that will fill the resource needs through 2018”
19 and “an opportunistic approach for acquiring additional renewable generation
20 resources – an approach that provides the Company with the needed
21 flexibility to acquire these resources when market conditions are most
22 favorable for customers.”

1 **Q. DO THE RECOMMENDATIONS PUT FORTH BY MR. MONSEN TO**
2 **ELIMINATE THE OPPORTUNITY FOR THE COMPANY TO OFFER**
3 **UTILITY-OWNED PROJECTS AND BY MS. SIGALLA TO NOT ALLOW**
4 **THE COMPANY TO OPPORTUNISTICALLY ACQUIRE ADDITIONAL**
5 **RENEWABLE RESOURCES IN THE FUTURE COMPORT WITH THEIR**
6 **STATED GOALS OF PROVIDING A HIGHLY COMPETITIVE**
7 **ACQUISITION PROCESS FOR THE BENEFIT OF THE CUSTOMER?**

8 **A.** No, both of these proposed restrictions appear to put either the financial well-
9 being of the IPPs or Staff's apparent desire for a more regimented process in
10 front of the needs of our customers. Mr. Monsen's proposal to ban the
11 Company from offering utility-owned projects or to artificially disadvantage
12 utility-owned projects clearly eliminates an additional source of competition to
13 the IPPs in the resource selection process. Handicapping the evaluation of
14 Company proposals in the unfair ways suggested by Mr. Monsen is clearly
15 self-serving on behalf of the IPPs and could potentially lead to the situation
16 where an IPP would not have to bid as aggressively in the RFP process. In
17 addition, his suggestion that having utility participation in the solicitation
18 process somehow will chill bidder participation or reduce the desire for IPPs
19 to compete is completely unfounded. In our 2007 ERP the Company clearly
20 communicated that we had a desire to own new generation and that we were
21 planning to participate in the solicitation process with utility-owned options.
22 In the resulting 2009 All-Source solicitation, the Company received 113 bids
23 for a total of 21,150 MW. As opposed to all of the rhetoric that has been

1 provided in answer testimony about the fear of chilling bidder participation,
2 the facts suggest that this “fear” is unfounded in Colorado.

3 Ms. Sigalla’s recommendation to deny the Company’s request to be
4 more opportunistic in our approach for acquiring more renewable energy
5 resources appears to suggest that Staff’s desire for a regimented process is
6 more important than getting the lowest cost energy resources for our
7 customers.

8 **Q. DOES THE 2011 ERP PROPOSE THE PARTICIPATION OF AN**
9 **INDEPENDENT EVALUATOR TO OVERSEE THE RFP PROCESS AND**
10 **ENSURE A FAIR AND EQUITABLE EVALUATION AND SELECTION**
11 **PROCESS?**

12 A. Yes. While Staff and CIEA both suggest the need for a fair and equitable
13 resource evaluation and selection process, they seem to dismiss the fact that
14 the PUC approves the modeling assumptions and methodologies to be used
15 in the evaluation and selection process in Phase I of the resource planning
16 docket, while the Independent Evaluator (“IE”) has the responsibility to
17 oversee the evaluation process in Phase II of the resource planning docket.
18 The sole purpose of the IE is to make sure the RFP evaluation and selection
19 process is fair to all parties including Public Service. The Commission’s
20 resource planning rules have been reviewed and modified numerous times to
21 make sure this process is fair and equitable. It is not clear why Staff or CIEA
22 find the rules and the established process inadequate. Certainly both of
23 these parties (although perhaps not these specific witnesses) have had the

1 opportunity to participate in the development of these rules over the last ten
2 years.

3 **Q. HOW IS THE INDEPENDENT EVALUATOR SELECTED?**

4 A. As identified in section 3612 of the Commission's Resource Planning Rules,
5 the Staff, the Office of Consumer Counsel (OCC) and the Company jointly
6 propose the selection of the IE, and the Commission approves the IE. As a
7 result, Staff, the OCC, and ultimately the Commission have ample
8 opportunity to ensure the IE who is selected will be able to ensure a fair and
9 equitable RFP evaluation and selection process.

10 **Q. DO MR. MONSEN AND MS. SIGALLA APPEAR TO HAVE AN**
11 **EXPECTATION THE COMPANY CANNOT, OR WILL NOT, CONDUCT A**
12 **FAIR AND OPEN BID EVALUATION?**

13 A. Yes, contrary to Commission rules, Mr. Monsen goes as far as to
14 recommend that the Company not even be allowed to submit self-build
15 proposals (recommendation # 3) and that the Commission limit rate recovery
16 *a priori* of Company-built projects in a manner never before used in Colorado
17 and of questionable legality (recommendation #4). Beginning on line 9 of
18 page 36 and again on line 14 of page 37, Ms. Sigalla reveals her bias by
19 suggesting that she believes the Company has a profit motive for not wanting
20 to select an IPP bid and that the Commission should consider removing the
21 Company from the role of evaluating bids altogether. Both of these
22 witnesses have ignored the clear Commission rules that 1) permit the

1 Company to offer self-build projects in the All-Source RFP; and 2) provide for
2 a workable process to ensure that all bids are evaluated fairly.

3 **Q. DID EITHER OF THESE WITNESSES PROVIDE ANY EVIDENCE THAT**
4 **THE COMPANY HAS UNFAIRLY ADVANTAGED SELF-BUILD**
5 **PROPOSALS IN PAST RESOURCE SOLICITATIONS?**

6 A. No, neither Mr. Monsen nor Ms. Sigalla provide any evidence to suggest the
7 Company has inappropriately favored utility owned projects in any RFP
8 solicitation. All past resource plans, resource solicitations and resources
9 acquired by the Company have been thoroughly reviewed by the
10 Commission through open public processes where the Staff and Mr.
11 Monsen's clients have been able to participate. While providing no evidence,
12 whatsoever, of any impropriety, we found it particularly disconcerting that Ms.
13 Sigalla attempts to suggest, by innuendo, that the Company did not comply
14 with the Commission's rules and orders in connection with our 2009 All-
15 Source solicitation.

16 **Q. WHAT PART OF MS. SIGALLA'S TESTIMONY ARE YOU**
17 **REFERENCING?**

18 A. On pages 24-28 of her testimony, including her Graphs 1 and 2 on page 25,
19 Ms. Sigalla tries to leave the impression that Public Service did not comply
20 with the Commission-approved 2007 resource plan in Docket No. 07A-447E.
21 Nowhere does she mention that the Commission specifically approved an
22 amendment to the 2007 resource plan in Consolidated Dockets No. 10A-
23 377E and 10A-905E, amendments that created significant savings for our

1 Company and our customers. Public Service acquired resources in full
2 compliance with the amended 2007 Resource Plan and those resources are
3 reflected in Ms. Sigalla's Graph 2. Mr. Hill provides more explanation of the
4 Company's acquisitions under the amended resource plan.

5 **Q. HAS THE COMPANY SUBMITTED SELF-BUILD BIDS IN PAST**
6 **RESOURCE PLANS?**

7 A. Yes, in the 2009 All-Source, the Company submitted two bids into the RFP
8 process.

9 **Q. WHAT RESULTED FROM THE COMPANY'S BIDS IN THE 2009 ALL-**
10 **SOURCE?**

11 A. Neither of the two utility bids were selected and there were no issues or
12 concerns raised regarding the Company's evaluation of the utility self-build
13 projects relative to the other bids received in the RFP. Moreover the
14 Independent Evaluator certified that the Company had conducted a fair bid
15 evaluation.

16 **Q. ARE THE RECOMMENDATIONS PRESENTED BY MR. MONSEN AND**
17 **MS. SIGALLA CONSISTENT WITH THE COMMISSION'S RULES?**

18 A. No. Mr. Monsen's recommendations, to limit or eliminate utility involvement
19 in future generation planning, directly contradict the Commission's Electric
20 Resource Planning Rules. Mr. Monsen's recommendations #3, #4 and #5
21 appear to be a carry over from his experience in California and completely
22 ignore the Colorado rules. Certainly these restrictions on electric resource
23 planning, energy policy, and market design brought from his California

1 experience have no bearing on the activities in Colorado. Colorado's electric
2 resource planning rules have been developed through a lengthy and well
3 thought-out process in Colorado. To suggest wholesale changes to these
4 rules or to completely ignore them in this proceeding is inappropriate.

5 The Company is also quite surprised by Ms. Sigalla's testimony,
6 where she also appears to make recommendations that are not consistent
7 with the Commission's rules. Certainly Staff has participated in the
8 numerous rule making efforts over the last ten years and should be in a
9 position to support the implementation of these now. To suggest changes to
10 the Commission's rules, in a specific utility resource plan proceeding, based
11 primarily on unsupported conjecture, is very concerning to the Company.

12 **Q. MR. MONSEN AND MS. SIGALLA PROVIDE RECOMMENDATIONS**
13 **REGARDING THE TIMELY ACCESS TO MODELING ASSUMPTIONS**
14 **USED TO EVALUATE IPP BIDS. DOES THE COMPANY'S 2011 ERP**
15 **COMPLY WITH THE COMMISSION'S RULES REGARDING THE DESIRE**
16 **FOR GREATER BID EVALUATION TRANSPARENCY?**

17 A. Yes. The 2011 ERP complies with all of the requirements of section 3613 of
18 the Commission's Resource Planning Rules. On page 1-52 of Volume 1, the
19 Company specifically states that within the 45 days of bid receipt, we will
20 communicate with each bidder why its bid was not forwarded to computer
21 modeling, or alternatively what modeling assumptions will be applied to a
22 specific bid for those bids that are advanced to computer modeling, in
23 compliance with the requirements of Commission Rule 3613. As a result, the

1 2011 ERP already complies with the recommendation put forth by Ms.
2 Sigalla on page 3 of her testimony to provide timely access to IPP's
3 regarding the modeling assumptions used in the evaluation. Mr. Hill provides
4 a more in depth answer to Mr. Monsen's recommendation to modify the
5 Commission's Planning Rules with regard to providing bidders access to
6 modeling assumptions for all bids. Mr. Hill explains that through the bid
7 forms developed for this RFP, the Company makes available to each bidder
8 essentially the full set of assumptions used to evaluate its bid. In addition, as
9 explained by Mr. Hill, to the extent a bid requires the Company to assess any
10 additional costs in a bid evaluation process (such as would be the case in
11 analyzing gas connection costs), the Company will provide that modeling
12 data to the bidder before the Company identifies the bids that have been
13 selected to move forward to modeling in Strategist.

14 **II.-B. PREFERENCE FOR SHORT-TERM BIDS**

15 **Q. DO YOU AGREE WITH MS. SIGALLA'S RECOMMENDATION TO HAVE**
16 **THE COMMISSION DIRECT THE COMPANY NOT TO GIVE A**
17 **PREFERENCE TO SHORT-TERM CONTRACTS AND TO EVALUATE THE**
18 **ALTERNATIVES TO THE CONTINUED OPERATION OF ARAPAHOE 4**
19 **AND CHEROKEE IN THE ALL-SOURCE SOLICITATION?**

20 **A.** No. While the 2011 ERP clearly laid out the concerns the Company has
21 regarding the high degree of uncertainty that exists in the near future, which
22 explains why it is beneficial to acquire short-term resources, the Company

1 clearly states that *all* bids, of any length up to 25 years, are welcome and will
2 be evaluated on a level playing field. As stated on pages 1-45 and 1-46 of
3 Volume I of the 2011 ERP, the Company welcomes bids for new IPP projects
4 and longer-term IPP bids. Ms. Sigalla has apparently misconstrued the
5 Company's stated preference for short-term bids to suggest we are
6 proposing to somehow disadvantage newly constructed projects or longer-
7 term PPA bids. On page 1-45 the Company clearly stated: "To help provide
8 pricing discipline to the short-term bids, the All-Source Solicitation will also
9 seek power supply proposals offering PPA terms that extend beyond
10 December 2025. Bidders will be allowed to offer PPAs up to a twenty five
11 year term." As a result, Ms. Sigalla's recommendation that the Commission
12 direct the Company not to give a preference to only short-term bids is not
13 necessary, since the ERP already addresses that all bids will be treated
14 equally.

15 **Q. WHY THEN DID PUBLIC SERVICE STATE A PREFERENCE FOR**
16 **SHORT-TERM BIDS?**

17 A. Public Service, and many other interested parties, would like to see existing
18 generators be used to fill the Company's needs in 2017 and 2018, before
19 any new generation facilities are constructed. By stating a preference for
20 shorter-term PPAs, the Company was hoping to encourage existing
21 generators to bid competitively and focus the attention of the RFP process
22 on utilizing existing generators and not the construction of new facilities.
23 Realizing that both new utility build projects and new IPP projects would

1 likely be considered a longer-term resource, stating a preference for shorter-
2 term resources could result in the situation where no new resources would
3 have to be constructed. The 2011 ERP allows for all lengths of bids to be
4 submitted and evaluated on a level playing field.

5 **Q. WHY IS PUBLIC SERVICE PROPOSING TO EVALUATE POSSIBLE**
6 **ALTERNATIVES TO ARAPAHOE 4 AND CHEROKEE 4 OPERATING ON**
7 **NATURAL GAS OUTSIDE OF STRATEGIST BEFORE THE ALL-SOURCE**
8 **EVALUATION IS COMPLETED?**

9 A. In an effort to create more transparency and to limit the confusion over the
10 use of the Strategist to evaluate all of the bids, the Company proposed a
11 more simplified analysis for the Arapahoe 4 and Cherokee 4 replacement
12 options. As we discussed in our direct case, it is likely that only existing
13 generators will be able to displace these generators because of the relatively
14 low revenue requirements associated with continuing to operate these
15 greatly depreciated generation plants on natural gas. Given that economic
16 reality, it made sense to determine first whether any bidder could displace
17 Arapahoe 4 or Cherokee 4, and if one or more could do so, to use these
18 replacement bids as the starting point for reviewing all other proposals to fill
19 the incremental resource need. By sequencing the evaluation process as
20 identified in the 2011 ERP, the Company has the opportunity to make sure
21 that a replacement option for either plant is truly beneficial to customers on a
22 stand alone basis. Mr. Hill provides a more in depth discussion on the
23 benefits of performing the modeling analysis using the approach laid out in

1 the 2011 ERP, as opposed to lumping the analysis together in one large
2 bucket. The Staff should take some solace that the Company will check all
3 of the recommendations through the use of Strategist.

4 I do note that after the filing of the 2011 ERP last October, Public
5 Service conducted a competitive solicitation among existing Independent
6 Power Producers who were in a position to bid existing generation to
7 displace Arapahoe 4, as we discuss in our Application recently filed in
8 Commission Docket No. 12A-785E. If the Commission grants our
9 Application in Docket No. 12A-785E, then the preliminary evaluation will be
10 used for replacements for Cherokee 4 only.

11 **II.-C. OPPORTUNISTIC APPROACH TO ACQUIRING ADDITIONAL**
12 **RENEWABLE RESOURCES**

13 **Q. WHY IS THE COMPANY PROPOSING AN ALTERNATIVE ACQUISITION**
14 **PROCESS FOR ACQUIRING ADDITIONAL RENEWABLE RESOURCES**
15 **OR SECTION 123 RESOURCES AFTER PHASE 2 OF THE ERP IS**
16 **CONCLUDED?**

17 A. Based on the recent historical swings in the market, including the dramatic
18 shift in the cost of wind and the potential impact of changing federal
19 subsidies for future renewables resources, the Company wants to position
20 itself to be able to react quickly to changing market conditions and updated
21 pricing signals. In an effort to obtain energy for our customers at the lowest

1 expected price, Public Service believes it is critical to have the ability to act
2 quickly, in between ERP filings, to the benefit of our customers.

3 **Q. DO YOU AGREE WITH MR. MONSEN’S RECOMMENDATION THAT THE**
4 **COMMISSION SHOULD ENSURE THAT PUBLIC SERVICE USES A**
5 **COMPETITIVE SOLICITATION PROCESS TO OPPORTUNISTICALLY**
6 **ACQUIRE ADDITIONAL RENEWABLE RESOURCES?**

7 A. My concern is not so much with his recommendation, but that he is confused
8 regarding the process the Company intends to use when opportunistically
9 acquiring future renewable resources. On page 1-49 of Volume I, the
10 Company clearly stated: “Specifically, the Company requests the
11 Commission approval to issues **RFP’s**, from time to time, and to evaluate
12 bids for renewable resources greater than 30 MW ...” Clearly the Company’s
13 intent is to use a competitive solicitation and to bring the results to the
14 Commission for approval.

15 **Q. DO YOU AGREE WITH MS. SIGALLA’S RECOMMENDATION THAT THE**
16 **COMMISSION SHOULD COMPLETELY DENY THE COMPANY’S**
17 **REQUEST TO OPPORTUNISTICALLY ACQUIRE ADDITIONAL**
18 **RENEWABLE RESOURCES?**

19 A. No, Ms. Sigalla’s recommendation amounts to reducing the Company’s
20 flexibility to take advantage of market opportunities that could reduce costs
21 for our customers. It would appear that Ms. Sigalla is more interested in
22 ensuring a rigid process than she is in finding the lowest cost of energy for
23 our customers. As stated above, the Company proposes to use a fair and

1 transparent competitive solicitation process, which will comply with all of the
2 Commission's Resource Planning Rules, if and when the opportunity to
3 acquire additional renewable resources may present itself.

4 **Q. DOES THE FLEXIBILITY THAT YOU REQUEST PROVIDE BENEFITS TO**
5 **OUR CUSTOMERS?**

6 A Absolutely. It has the potential to provide substantial benefits to our
7 customers. As I mentioned, the costs of renewable resources can vary
8 dramatically from time to time, based upon the availability of federal tax
9 incentives and other market forces. The Company's Resource Planning staff
10 conducts solicitations not just for Public Service but also for the other Xcel
11 Energy operating Companies. As a result we have the opportunity to see
12 market trends as they are developing. If for example, the production tax
13 credit is extended for a short time frame, we would seek to capture those
14 economics for are customers through an opportunistic RFP. This has
15 worked out well in the past and I remind the Commission of two examples of
16 implementing this process -- the Limon I and II power purchase agreements,
17 which were recently approved by the Commission in Dockets No. 10A-377E
18 and 11A-689E. Because of the pending expiration of the federal production
19 tax credit at the end of 2012, we were able to negotiate very low prices for
20 400 MW of wind, because we could act quickly to issue RFPs, negotiate
21 contracts, and obtain Commission approvals for these facilities. These low-
22 priced contracts would not have been available to us if we had had to wait
23 until our next quadrennial resource plan to acquire them. These are

1 examples of the “opportunistic” acquisitions that we wish to be allowed to
2 explore between resource plans. In all cases, we will use competitive
3 procurements and we will bring the results to the Commission for review.

4 **II.-D. EVALUATION OF COMPANY BUILD RESOURCES VERSUS PPA’S**

5 **Q. PLEASE SUMMARIZE MR. MONSEN’S RECOMMENDATIONS**
6 **REGARDING UTILITY OWNED GENERATION ALTERNATIVES?**

7 A. Mr. Monsen recommends that the Commission should either: 1) eliminate the
8 utility-owned option in the Company’s power solicitations and only allow a
9 utility-owned option if the IPP RFP process fails; or 2) require the rate
10 recovery of for a utility-owned project be set for a ten year period based on
11 the cost and performance assumptions used in the evaluation; or 3) account
12 for an alleged differential in ratepayer risk between utility-owned projects and
13 IPP projects.

14 **Q. WHAT IS YOUR RESPONSE TO MR. MONSEN’S RECOMMENDATIONS?**

15 A. In general, I note that these issues have been debated in front of the
16 Commission before in the 2007 ERP and the Commission decided it was not
17 appropriate to adopt similar recommendations offered by CIEA. As I stated
18 earlier, there is no evidence to suggest the Company’s actions in the 2009
19 All-Source solicitation, regarding the evaluation of utility-owned alternatives,
20 warrant any change to the Commission’s prior decisions on how utility-owned
21 alternatives should be evaluated.

1 More specifically, the Commission's Resource Planning Rules
2 specifically allow the Company to offer utility-owned proposals into the
3 solicitation process. Mr. Monsen has offered no justification to depart from
4 the Commission rules and therefore the Commission should deny Mr.
5 Monsen's first recommendation. As I indicated the Company's brownfield
6 generation plants are likely to be lower cost than greenfield construction and
7 I can see why Mr. Monsen and his clients would want to keep those
8 alternatives out of the bidding process.

9 Mr. Monsen's second recommendation, proposing to radically change
10 the traditional regulatory compact in Colorado by allowing the Company to
11 recover the estimated cost of a project for the first ten year of the life of the
12 project, as opposed to the actual costs incurred by the Company, should
13 likewise be rejected by the Commission. It is true that IPPs receive the
14 amounts set forth in their power purchase agreements, no more and no less.
15 They receive these amounts because they have contracted to do so and they
16 have factored into their prices a return on their investment that is
17 commensurate with the risks that they are assuming given that contracted
18 price. The IPPs are held to the contract price, *because the Commission has*
19 *no jurisdiction over them and cannot regulate them directly.* Mr. Monsen
20 makes his proposal to remedy a problem of his own invention – his
21 unfounded allegation that the Company has a pattern of bringing low
22 estimates to the Commission so that its project is picked and then puts cost

1 overruns into rates. I will show that customers have benefited significantly by
2 having the Company put only actual costs into ratebase.

3 **Q. HOW DOES MR. MONSEN’S PROPOSAL RADICALLY CHANGE**
4 **REGULATION IN COLORADO?**

5 A. Today, the Commission has direct regulatory jurisdiction over Public Service
6 and can review all costs for which we seek recovery through electric rates to
7 assure that they have been prudently incurred. Today, Public Service is not
8 entitled to retain the full benefit of our bid price if we actually construct a self-
9 build facility for less than the anticipated construction costs assumed in our
10 bid pricing. We can only pass through rates our actual prudently-incurred
11 costs. So there would be no upside to the Company if we brought the plant
12 in for a lower construction cost; by contrast, the IPPs get to retain that upside
13 to counterbalance the risk of cost overruns. If Public Service has cost
14 overruns, we must justify them; if we cannot justify them, they can be
15 disallowed.

16 This regulatory regime and its attendant risks are reflected in the
17 returns on equity that Public Service is entitled to use in setting electric rates.
18 These returns do *not* reflect the one-way assumption of risk that Mr. Monsen
19 seeks to impose on our Company. As Southwest Generation’s witness Mr.
20 Norman testifies on page 33 of his Answer Testimony: “[r]egulated utilities
21 generally have lower return on equity requirements than non-utility capacity
22 owners and are able to obtain lower interest rates as compared to equity

1 investors in independent power producing projects.” These lower costs of
2 capital benefit our customers, obviously.

3 While Mr. Monsen proposes that the Company be entitled to recover
4 its estimate even if its costs are higher or lower than bid, Public Service is
5 concerned about whether that recovery would actually take place. Recently
6 the Commission debated how to allow recovery of a construction bonus
7 allowed to Black Hills as part of a CPCN to build new gas-fired generation.
8 The Commission rejected the idea of including the bonus in rate base. Mr.
9 Monsen’s proposal would be the equivalent of recovering a bonus for ten
10 years if the Company was able to successfully bring a project in under
11 budget.

12 **Q. WHAT IF THE COMMISSION IMPOSED A CAP ON COST RECOVERY**
13 **BUT STILL ALLOWED ONLY ACTUAL COSTS TO BE INCLUDED IN**
14 **RATES?**

15 A. That is essentially what Ms. Sigalla of Staff proposed – a “Heads I win, Tails
16 you lose” proposition. Clearly there either needs to be symmetrical risk and
17 reward treatment of utilities and IPPs or the Commission needs to recognize
18 that the different levels of regulation and allowed returns lead to different cost
19 recovery regimes.

20 While the Company may be able to bid under a regime where it is
21 entitled to recover its estimated costs even if its actual costs are lower, it
22 could not bid under the regime proposed by Staff. The result of adopting this
23 recommendation would be that Public Service’s projects would not be

1 available to discipline the IPP prices, because we could not justify the
2 assumption of risk inherent in that proposal for the low regulated return that
3 we receive thereby allowing IPPs to propose higher bids.

4 **Q. DOES MR. MONSEN PRESENT HIS VIEW OF THE RATEPAYER RISKS**
5 **ASSOCIATED WITH UTILITY-OWNED PROJECTS AND IPP PPAS?**

6 A. Yes, in Table 1 on page 23 of his answer testimony Mr. Monsen presents his
7 opinion of the ratepayer risks associated with existing IPP projects, new IPP
8 projects and utility owned projects. I addressed this topic in my
9 Supplemental Direct Testimony.

10 **Q. DO YOU AGREE WITH MR. MONSEN'S OPINION ON THE**
11 **DIFFERENCES IN RATEPAYER RISK OF THE VARIOUS**
12 **ALTERNATIVES?**

13 A. No, I do not agree with Mr. Monsen's opinion on the ratepayer risks identified
14 in his Table 1. I have included revisions to his summary in Table 1A shown
15 below. My Table 1A more appropriately identifies the differences in ratepayer
16 risks based on the specific regulatory paradigm in Colorado.

17

18

19 Table1A: Public ServiceComparison of Ratepayer Risks from IPP and Utility
20 Projects

	Ratepayer Risk for Existing IPP Project Recontracting?	Ratepayer Risk for New IPP Projects	Ratepayer Risk for UOG Projects
Fuel Prices	Yes	Yes	Yes

Cost of operations	Maybe, but depends on term and structure of the contract: ratepayers may bear recovery of operational costs in future PPA period.	Same as existing IPP.	May be, subject to prudence determination.
Plant performance	IPP is at some risk under the PPA based on heat rate, Capacity Availability Factor adjustment, and long-term replacement energy but amounts are unlikely to fully compensate ratepayers for cost of replacement energy.	Same as existing IPP.	May be, subject to prudence determination.
Potential for non-operations on critical days	IPP is at some risk under the PPA based on the negative ESC Event Adjustment but the amounts of the penalty are unlikely to fully compensate customers for replacement energy. To date, a number of IPPs have rejected this specific model PPA clause.	Same as existing IPP	May be, subject to prudence determination.
	Ratepayer Risk for Existing IPP Project Recontracting?	Ratepayer Risk for New IPP Projects	Ratepayer Risk for UOG Projects
Unanticipated capital additions	Maybe, but possibly on a delayed basis, subject to recontracting.	Maybe, but possibly on a delayed basis, subject to recontracting.	Maybe, subject to prudence determination and regulatory lag.
Risk associated with term of commitment	Yes, risk from uncertainty in the cost of replacement power at the end of the PPA, also risk of technology obsolescence and changes in the value of generation during the term of the PPA.	Yes, similar to the existing IPP, subject to the term of the PPA.	Not under current regulation.
Accounting risk	Maybe, depending on the potential impact of changes to lease accounting and imputed debt related accounting standards.	Similar to existing IPP, depending on the length of term of the PPA and the remaining life of the asset.	No, because the asset is already on the balance sheet.
Cost of initial construction	NA	Yes subject to bid submittal and security provisions in the PPA.	Yes, subject to conditions of CPCN and prudence determination.

Rate of return over time	Maybe, as PPA recontracting bids migrate to new entrants pricing.	Maybe, as PPA recontracting bids migrate to new entrants pricing.	Yes, subject to Commission approval.
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1 In comparing Table 1 in Mr. Monsen's testimony to Table 1A shown above,
2 there are three major differences between the two tables: 1) the recognition
3 that as a regulated utility Public Service is not free to charge its customer
4 whatever it wants; 2) Mr. Monsen tends to ignore the fact that IPPs have the
5 opportunity to make up increased costs or cost overruns in future
6 solicitations; and 3) the fact that many times the IPP will not accept the
7 language in the model agreement and negotiates contract changes that
8 result in additional risk being borne by the Company and our customers. Mr.
9 Monsen assumes that the Commission and parties are powerless in
10 assessing the prudence of investments and operating costs. This is not true.
11 Rate cases in Colorado are based on the premise that the utility is entitled to
12 recover its prudently incurred costs, and that recovery of these costs can be
13 challenged in a regulatory proceeding. Mr. Monsen simply dismisses this
14 fundamental regulatory protection, stating that is highly unlikely the Staff, the
15 OCC or any other party could ever really impose controls on Public Service
16 or influence the cost recovery requested by the Company.

17 **Q. IS HIS FUNDAMENTAL ASSUMPTION, THAT A UTILITY CAN ALWAYS**
18 **COLLECT ITS COSTS, CORRECT?**

19 A. No, Mr. Monsen's fundamental assumption is flawed. First, from my 30
20 years of utility experience, there are many instances where the Commission

1 has not approved the full revenue requirements requested by the Company.
2 Not only has the Commission routinely scaled back rate increase requests
3 and imposed performance standards based on positions raised by other
4 parties, the Commission has occasionally required specific disallowances.
5 When Public Service's Fort St. Vrain nuclear facility did not perform as
6 expected, there were significant cost disallowances ordered by the
7 Commission. I believe the Staff and the OCC have the ability to adequately
8 monitor the Company's performance and bring to the Commission's attention
9 any claims that they may have of utility imprudence.

10 **Q. DO YOU AGREE WITH MR. MONSEN'S SECOND ALLEGATION THAT**
11 **RATEPAYERS ARE ESSENTIALLY INSULATED FROM THE**
12 **PERFORMANCE RISK OF IPPS?**

13 A. No, ratepayers are not insulated from the biggest and most important risk of
14 all when it comes to IPP facilities, namely, the ability of an IPP to walk away
15 from a project if there are unanticipated increases in project costs that make
16 the project uneconomic for the IPPs's investors. By contrast, a regulated
17 utility has the legal obligation to provide reliable service. There have been
18 several occasions over the last few years where IPPs have decided to not to
19 continue with the project they bid. I have included the Company's discovery
20 response to CEC/CIEA/Thermo Power 2-9 as Exhibit No. KJH-2, which
21 details the instances where the IPPs have failed to complete the project they
22 bid.

23 **Q. WHAT ELSE DOES MR. MONSEN IGNORE?**

1 A. In the development of Table 1 in his testimony Mr. Monsen also ignores the
2 fact that at time of contract renewal the IPP has a significant opportunity to
3 recover in the PPA renewal period any cost overruns, or increased cost of
4 operation, that may have been incurred during the original PPA period.
5 Since IPPs generally will compete against the cost of new entrants, and
6 those new entrants will likely have to make similar capital improvements that
7 may be necessary due to environmental or regulatory requirements, or the
8 new entrants' costs will have risen commensurate with a level of inflation, the
9 existing IPPs stand a good chance of recovering these additional costs
10 through a contract renewal. As a result, when viewing an IPP from this
11 perspective, it is clear that ratepayers are not fully insulated from potential
12 cost increases from a PPA.

13 **Q. BUT ISN'T IT TRUE THAT THE IPP CONTRACT RENEWAL IS A**
14 **COMPETITIVE SOLICITATION AND THEREFORE THE IPPS' ABILITY TO**
15 **COLLECT OR RECOVER INCREASED COSTS IN THE FUTURE WILL BE**
16 **LIMITED?**

17 A. I don't think so because the IPP's primary competitors' costs, the costs of
18 new entrants, will have also increased, and there is generally room for the
19 IPP to make an adequate return while also recovering their full current and
20 any delayed costs. So although it sounds good to suggest the IPP contract
21 will protect ratepayers from the risk of increased cost, in reality, IPPs will
22 have the opportunity to collect all of their costs. In fact, Dr. Schechter

1 discusses his concern that IPPs often have the ability to recover their capital
2 costs more than once if they obtain contract renewals.

3 **Q. CAN YOU PLEASE REVIEW SPECIFIC SECTIONS IN TABLE 1 AND**
4 **TABLE 1A THAT YOU DISAGREE WITH MR. MONSEN?**

5 A. Yes, the following are a summary of some of the differences I have identified
6 between Table 1 and Table 1A.

7 **Fuel Prices** – Under tolling arrangements, the fuel price related risk is the
8 same under all three alternatives.

9 **Cost of Operation** – Since a large portion of operation costs, other than the
10 original capital cost of the project, are labor-related or inflation-related, if the
11 actual inflation is less than predicted (modeled in Strategist) the IPP gets to
12 keep these additional profits. For utility-owned projects, the customer sees
13 the benefits of these reduced costs. In the case of increased costs, the
14 Company has the opportunity to request the recovery of these potential costs
15 over time, while the IPP must wait to recover its increased operating costs
16 until the next contract renewal period. In either case, PPA or utility-owned, it
17 is likely that ratepayers will bear some form of the burden of increased labor
18 and costs of operation over the life of these assets.

19 **Plant Performance** – Mr. Monsen suggests that ratepayers are insulated
20 from poor plant performance through provisions in the PPA. It is fair to say
21 that the PPA provides some relief to ratepayers because of incentives and
22 penalties to encourage good performance, these incentives and penalties
23 does not entirely protect the ratepayer. To provide a full insulation for

1 ratepayers of the risk of performance of an IPP, the PPA terms would have
2 to be so onerous that no IPP would be able to finance the PPA. While the
3 Company may not be assessed a direct penalty for non-performance at the
4 time of the incident, Public Service is at risk for prudence review. Moreover
5 the Company has a legal obligation to have sufficient generation available to
6 meet our customers' electric load; the IPP has no obligation to our
7 customers, whatsoever.

8 **Operation on Critical Days** – The Company has just begun to
9 include a penalty and incentive language in the Model PPAs that reflect the
10 increased need for IPPs to be available on Critical Operational Days.
11 Realizing that the CAF incentive is limited in the amount of pressure it can
12 bring to bear on the IPP to have its plant fully operational, the Company has
13 been attempting to bring more risk coverage into the PPA for operation on
14 critical days. So again it is fair to say that IPPs do bear some of the risk of
15 being unavailable at key points of the year, but it is likely that these
16 contractual provisions do not fully compensate ratepayers for the cost of
17 replacement energy. From past experience, a number of IPPs have found
18 this additional operational requirement not to be acceptable in the PPA and
19 have rejected this new clause.

20 **Q. WHAT IS YOUR CONCLUSION REGARDING THE DIFFERENT VIEWS**
21 **ON RATEPAYER RISK UNDER PPAS AND UTILITY OWNED**
22 **PROJECTS?**

1 A. Certainly, the picture presented by Mr. Monsen was heavily biased toward
2 benefiting his clients, the IPPs. He discounted the reality of the situation in a
3 number of instances. As I stated in my supplemental direct testimony, both
4 IPPs and utility-owned projects introduce ratepayer risk. On a utility-owned
5 project, the Commission has the authority to monitor the Company's costs
6 and performance and to disallow the costs of any imprudent action that the
7 Commission finds the Company has taken. Because the Commission has
8 no direct jurisdiction over IPPs, the Commission and the Company must rely
9 on the contractual terms of the PPAs to protect the ratepayers from the cost
10 and performance risk of the IPP. Although neither mechanism shields
11 ratepayers 100 % from these risks, the Company believes that the historical
12 paradigm of reasonable PPAs and reasonable treatment of utility owned
13 projects is an appropriate balance of risk protection for all parties. The
14 Company has developed contract provisions that protect ratepayers and that
15 allow IPPs to make money along the way. While I have criticized Mr.
16 Monsen's analysis, the Company is comfortable that it can both contract with
17 IPPs to reasonably protect ratepayer interests and provide an opportunity for
18 IPP investors to make money.

19 **Q. HAS THE COMPANY PROVIDED LOW ESTIMATES TO THE**
20 **COMMISSION FOR ITS PROJECTS IN THE PAST?**

21 A. No. As Mr. Ford testified in his Supplemental Direct Testimony, Public
22 Service and our affiliated Xcel Energy operating companies have an
23 excellent track record of constructing gas-fired facilities on time and under

1 budget, so it is not necessary for the Commission to even consider changing
2 this well-established regulatory compact. On gas combustion turbine and
3 gas combined cycle projects, Xcel Energy Service's actual performance
4 suggests that projects have come in more than 15% below the forecast, on a
5 MW weighted average basis, or in excess of 20% below the forecast on a
6 simple average basis. Xcel Energy operating companies have had only one
7 gas combustion turbine or gas combined cycle project that ended up having
8 an actual cost in excess of the Company's estimated cost. In the case of the
9 Riverside combined cycle unit, the actual cost of the project was 7.6 % or
10 \$16 million over the estimated cost. Over the last ten years, if all Xcel
11 Energy operating companies had been utilizing the regulatory paradigm
12 suggested by Mr. Monsen, where the utility was capped but allowed to
13 recover its estimated cost in lieu of its actual cost, the utilities would have
14 billed customers an incremental \$187 million over actual cost. In my opinion
15 our customers have been better served by being charged the actual cost of
16 utility construction, rather than a bid price, in conjunction with regulatory
17 oversight in the rare circumstance where the utility is unable to construct the
18 facility within project estimates. So therefore while we think Mr. Monsen's
19 suggestion could be lucrative for the Company, we are not advocating its
20 adoption.

21 **Q. MS. SIGALLA'S SUGGESTED CHANGE RESOLVES THE PROBLEM**
22 **INTRODUCED BY MR. MONSEN. ISN'T THAT TRUE?**

1 A. Yes, but unlike Mr. Monsen, whose recommendation would at least maintain
2 a level of symmetry regarding the treatment of costs above and below the
3 cap or set amount, Ms. Sigalla's proposal has no symmetry. Beginning on
4 line 1 of page 39 of her testimony, Ms. Sigalla states she is not sympathetic
5 to maintaining a symmetrical treatment of risk and reward for the utility and
6 suggests the Company should be at risk for all costs above its estimate, but
7 not be allowed to keep the benefit if the actual cost is less than the estimate.
8 She also states that this type of treatment would provide the Public Service
9 the same incentive that IPPS have to control construction costs.

10 **Q. DO YOU AGREE WITH MS. SIGALLA'S VIEWS AND**
11 **RECOMMENDATION ON THIS ISSUE?**

12 A. No and I do not think any IPP would accept the conditions suggested by Ms.
13 Sigalla. Currently the IPPs have the risk if a project is over budget, and get
14 to keep any benefit if the project comes in under budget. Since they are not
15 rate regulated, they have the opportunity to bid future prices that compensate
16 them for under earning in early years if there are project over-runs. The
17 Company would have no such opportunity, because the Company's cost
18 recovery would be forever capped. What Ms. Sigalla is suggesting is for the
19 Commission to impose the upside risk provisions on the shareholders of the
20 Company but give our customers, not our shareholders, the benefit of any
21 savings. This would amount to telling an IPP that it would have to refund any
22 profit to the customers that exceeded their original estimates and that future

1 bids would be forever constrained by their original estimate of the cost of the
2 project. I am sure no IPP would agree to this structure.

3 **Q. WOULD PUBLIC SERVICE'S CURRENT RETURN ON EQUITY BE**
4 **COMMENSURATE WITH THE EXPECTED RETURN ON SUCH A**
5 **PROJECT?**

6 A. No. When one considers that an IPP's expected return on equity is already
7 greater than the Company's current return and that an IPP would most likely
8 need to raise its expected return to accept a project with the risk profile
9 suggested by Ms. Sigalla, the Company's current return on equity is not
10 adequate to incorporate the risks that she proposes. Ms. Sigalla is
11 suggesting that the utility take a risk that an IPP would not take – earn your
12 regulated ROE on actual investments below a cap and forever forgo
13 recovery of costs above a cap.

14 **Q. WHAT EVIDENCE DOES MS. SIGALLA PROVIDE TO SUPPORT SUCH A**
15 **RADICAL CHANGE IN THE REGULATORY PARADIGM IN COLORADO?**

16 A. Unfortunately the only evidence she provides in support of her
17 recommendation, other than just simply her opinion, is a reference to the
18 joint comments of CIEA, CEC, and Thermo Power Electric LLC that allege,
19 incorrectly, that the Company had a long history of under-estimating projects
20 and then requiring ratepayers to pick up the cost overruns. These three
21 parties did not provide any factual support for this erroneous allegation.
22 What is even more concerning is Staff's outright disregard for the
23 supplemental testimony of Mr. Ford, where he provided the real facts,

1 namely that Xcel Energy Services has an excellent track record in bringing
2 on-line new gas facilities on-time and under-budget. Even our recent coal
3 plant addition Comanche 3 was brought on-line within the cost parameters
4 that the Commission agreed would be prudent. Clearly Staff's proposal is
5 unjustified and unfair to the Company.

6 **Q. IF THE COMPANY IS SO GOOD AT PERFORMING BETTER THAN ITS**
7 **ESTIMATES, WHY DOESN'T THE COMPANY ACCEPT MR. MONSEN'S**
8 **RECOMMENDATION TO RECOVER THE COSTS USED IN THE**
9 **ESTIMATE VERSUS THE ACTUAL COSTS?**

10 A. Although it may look attractive to accept Mr. Monsen's recommendation,
11 Public Service believes changing the regulatory compact is much more
12 complex than what Mr. Monsen suggests. In the end, I think many parties
13 would oppose Mr. Monsen's recommendation and Mr. Monsen's IPP s would
14 not be willing to accept Ms. Sigalla's recommendations for their own projects.
15 The bottom line to this discussion is that when you look at the facts and the
16 Company's history of constructing gas-fired generation, our customers have
17 benefited significantly from the current state of regulation.

18 **II.-E. IDENTIFICATION OF SECTION 123 RESOURCES**

19 **Q. PLEASE SUMMARIZE THE MAIN ISSUES AND CONCERNS RELATED**
20 **TO THE IDENTIFICATION OF SECTION 123 RESOURCES THAT WERE**
21 **RAISED IN ANSWER TESTIMONY.**

1 A. Two parties discuss their opinions that their proposed technologies or
2 projects qualify for Section 123 status. They want this status confirmed and
3 seek a Section 123 set-aside in the Commission's Phase I order, because
4 otherwise they fear they cannot compete on the basis of price alone.

5 **Q. WHICH INTERVENORS PRESENT TECHNOLOGIES THEY BELIEVE**
6 **QUALIFY AS SECTION 123 RESOURCES?**

7 A. C12 witness Mr. Justin Dawe and SolarReserve witness Mr. Tom Georgis.

8 **Q. WHAT HAVE PRIOR COMMISSIONS DETERMINED RELATIVE TO THE**
9 **DEFINITION OF SECTION 123 RESOURCES?**

10 A. In Decision No. C08-0929 of Docket No. 07A-447E, the Commission
11 determined that concentrating solar power with storage, and wind with
12 compressed air storage, qualified as Section 123 Resources. In Decision
13 No. 08-1153 of Docket No. 07A-447E, the Commission adopted the following
14 definition for a Section 123 Resource:

15 "An eligible energy resource will be considered a new clean
16 energy, or energy efficient technology, or a demonstration
17 project if it is clean and incorporates one or more technologies,
18 representing a substantial portion of its overall installed cost,
19 that have not been regularly commercially demonstrated, up to
20 the point in time that the resource is formally bid, or if not bid,
21 acquired."

1 **Q. DOES THE COMPANY BELIEVE THAT A TECHNOLOGY THAT WAS**
2 **FOUND IN PREVIOUS DOCKETS TO BE A SECTION 123 RESOURCE**
3 **SHOULD CONTINUE TO BE A SECTION 123 RESOURCE IN ALL**
4 **FUTURE DOCKETS?**

5 A. This is a difficult question and really should be analyzed on a case by case
6 basis. At some point, sufficient quantities of a “new” technology will be
7 installed and thus should be “commercially demonstrated” and the
8 technology should then no longer be considered “new” and thus no longer
9 considered a Section 123 resource.

10 **Q. IS THE COMPANY SPECIFICALLY ASKING THE COMMISSION TO**
11 **DETERMINE IN ADVANCE OF THE PROPOSED ALL-SOURCE**
12 **SOLICITATION WHETHER OR NOT CONCENTRATING SOLAR POWER**
13 **WITH STORAGE IS A SECTION 123 RESOURCE FOR PURPOSES OF**
14 **EVALUATING ANY BIDS FROM THIS TECHNOLOGY IN THE**
15 **PROPOSED ALL-SOURCE SOLICITATION?**

16 A. Yes. Although more Concentrating Solar Power (CSP) with thermal storage
17 projects are either operating, in the construction phase, or are under
18 consideration in comparison to the last time the Company evaluated this
19 technology, Public Service still believes CSP with thermal storage should
20 qualify as a Section 123 resource in the 2011 ERP docket.

21 **Q. DOES THE COMPANY HAVE AN OPINION AS TO WHETHER THE “C12**
22 **REFERENCE PROJECT” QUALIFIES AS A SECTION 123 RESOURCE?**

1 A. As a straight natural gas-fired power plant, it does not qualify as an eligible
2 energy resource and thus does not meet the Section 123 definition adopted
3 by the Commission in Decision No. 08-1153. By including the proposed
4 carbon capture and sequestration technology into the project, the project
5 would appear to meet the definition of a Section 123 resource for the
6 purpose of the 2011 ERP. Although C12 clearly states that the technology
7 that it is proposing to use is commercially available, the application of this
8 technology in the power sector has “not been regularly commercially
9 demonstrated”. One concern the Company has is specific to the cost-
10 effectiveness of the project at possibly a very high load factor. Based on the
11 testimony of Mr. Dawe, C12 indicates that their Reference Project would be
12 expected to exhibit an annual energy capacity factor on the order of 80%.
13 Although the C12 project would appear to qualify for Section 123 status, the
14 cost-effectiveness of such a resource will be very dependent on the final bids
15 offered into the All-Source RFP and it would be premature to impose a set
16 aside.

17 **Q. ARE THERE ANY OTHER ISSUES OF WHICH THE COMMISSION**
18 **SHOULD BE AWARE REGARDING THE IDENTIFICATION OF SECTION**
19 **123 RESOURCES?**

20 A. To develop alternative portfolios the Company might present in our 120 day
21 report, it is necessary for the Company to know which bids qualify as Section
22 123 resources before Strategist modeling. For the 2009 All-Source
23 solicitation, the Commission directed bidders to explain in their bid packages

1 why they believed that their resource qualified for Section 123 treatment, and
2 directed the Company and the IE to jointly determine which bids should be
3 granted Section 123 status and model them appropriately. In the event the
4 Company and the IE could not agree, they were to bring the issue to the
5 Commission for resolution. That process worked well in our last solicitation
6 and we recommend that the Commission approve a similar process for our
7 Phase 2 All-Source solicitation.

8 **II.-F. SET-ASIDE FOR SPECIFIC RESOURCES**

9 **Q. WHICH INTERVENORS REQUEST THAT THE COMMISSION DIRECT**
10 **THE COMPANY TO INCLUDE A SECTION 123 SET-ASIDE IN THE**
11 **PROPOSED ALL-SOURCE SOLICITATION?**

- 12 • Colorado Energy Office witness Worley advocates for a 120 MW Section 123
13 carve out that is not technology specific and purports to support “any Section
14 123 Resource project” that results from a robust RFP process.
- 15 • Western Resource Advocates witness Farnsworth recommends the
16 Commission require a “soft target” set-aside of at least 100 MW for Section
17 123 resources.
- 18 • City of Boulder witness Koehn advocates that the Commission “renew its
19 approval of 250 MW of PV Solar with storage, originally approved in the 2007
20 ERP.”

- 1 • Although Mr. Dawe and Mr. Redman (C12) discuss the benefits of Section
2 123 resources and how these resources should be evaluated, they do not
3 request a specific set-aside.
- 4 • SolarReserve witnesses Dr. Masiello and Mr. Georgis espouse the benefits
5 of CSP with thermal storage and suggest the Commission support this
6 technology in a way similar to how they evaluated solar thermal in the 2007
7 ERP.

8 **Q. IS THERE A COMMON THEME OR CONCERN AS TO WHY THESE**
9 **PARTIES BELIEVE A SPECIFIC SET-ASIDE FOR SECTION 123**
10 **RESOURCES IS APPROPRIATE?**

11 A. Yes, several of the witnesses advocate a set-aside for Section 123 resources
12 due to their concerns that the Commission will not get the opportunity to
13 review portfolios that include these bids. Their ultimate concern is that the
14 Commission will not be able to fulfill the legislative direction to “give the
15 fullest possible consideration” to Section 123 resources.

16 **Q. IS THE COMPANY INTENDING TO EXCLUDE SECTION 123**
17 **RESOURCES FROM THE PORTFOLIOS MADE AVAILABLE TO THE**
18 **COMMISSION FOR REVIEW?**

19 A. No. As I have indicated earlier in my testimony and in the ERP filing,
20 although the Company has a preference for short-term, low cost resources,
21 Public Service is conducting an All-Source solicitation, inviting all forms of
22 projects to bid. We intend to provide the Commission a complete analysis of
23 Section 123 resources. In addition, if the Commission wants to see

1 additional portfolios of resources other than the Company's preferred plan
2 which could include incremental levels of Section 123 and/or renewable
3 resources, the Commission should explain its desires in its Phase I Order.
4 But as we indicated in our proposed 2011 ERP, we do not recommend a set-
5 aside for either Section 123 Resources or Renewable Resources in this All
6 Source solicitation.

7 **Q. WHAT IS THE COMPANY'S RATIONALE AGAINST A SET-ASIDE FOR**
8 **SECTION 123 RESOURCES?**

9 A. Public Service believes that allowing Section 123 resources to be evaluated
10 in conjunction with the evaluation of all other resource options will provide
11 the Commission necessary information to determine the true cost and benefit
12 of the Section 123 resource. This analysis will also provide the Commission
13 the information to comply with the statute that specifically directs the
14 Commission to give the fullest possible consideration to the "cost-effective"
15 implementation of Section 123 Resources. Ultimately bringing the Section
16 123 resources into the general evaluation will provide more transparency and
17 a more consistent review of the economic viability and potential customer
18 impacts of these resources relative to more traditional resources. For the
19 sake of a more rounded evaluation process, the Company recommends that
20 requests for specific set-asides for given projects or technologies be denied.

1 **II.-G. INCLUSION OF ENERGY EFFICIENCY AND DEMAND RESPONSE IN**
2 **THE ALL-SOURCE SOLICITATION**

3 **Q. PLEASE SUMMARIZE THE ISSUES RAISED RELATED TO THE**
4 **INCLUSION OF ENERGY EFFICIENCY AND DEMAND RESPONSE IN**
5 **THE ALL-SOURCE SOLICITATION?**

6 A. WRA witness Ms. Farnsworth, OCC witness Dr. Schechter and Staff witness
7 Mr. Hay suggest that energy efficiency and/or demand response be included
8 in the Company's All-Source solicitation.

9 **Q. WHAT IS YOUR RESPONSE TO THEIR REQUEST?**

10 A. Although it may seem logical to include both energy efficiency and demand
11 response in the All-Source solicitation, in reality experience has shown that
12 evaluating these resources outside of the general All-Source solicitation, in a
13 separate focused proceeding, is more appropriate. In the case of energy
14 efficiency, the Company has used information obtained from the resource
15 planning process to evaluate these resource options in a specific DSM
16 docket. Likewise the results of the DSM docket have traditionally become
17 the assumptions for future resource plan filings. The last time the Company
18 included energy efficiency options in an All-Source solicitation, contracting
19 with potential DSM projects was very problematic, resulting in no new DSM
20 resources coming to fruition. In a specifically focused DSM proceeding, the
21 parties have the latitude to analyze all of these complex issues, while not
22 rushing the 120 day evaluation period. By having the resource planning
23 process feed the DSM docket and in turn having the DSM docket set the

1 assumptions for the resource plan, the resource planning process gets the
2 benefit of comparing DSM programs to supply side resources. As a result,
3 the Company proposes that the consideration of additional energy efficiency
4 be resolved in the DSM Strategic Issues filing in 2013. Ms. Sundin provides
5 a more in depth discussion on the Company's response to the answer
6 testimony and more thorough explanation on Public Service's proposal for
7 the evaluation of energy efficiency options.

8 **Q. IS THE SAME TRUE FOR THE EVALUATION OF DEMAND RESPONSE**
9 **ALTERNATIVES?**

10 A. Not entirely. Again from past experiences, the concept of requesting
11 demand response bids in 2013 for a program that would fulfill a resource
12 need beginning in 2017 creates a number of logistic issues. The ability for a
13 demand response aggregator to provide a binding offer for a program that
14 will fulfill a resource need that is five years in the future is problematic. In
15 lieu of including the evaluation of demand response in this resource plan
16 docket, the Company has included a 53 MW "place-holder" (the current
17 contract with a demand response aggregator ENERNOC is for 44 MW at the
18 customer's meter, which is equal to 53 MW after being grossed up to the
19 generator level and for reserves) in the Company's loads and resources
20 table (L&R) beginning at the end of 2016 (when the current ENERNOC
21 contract expires). This placeholder leaves a spot for later competitive
22 bidding of demand response proposals, closer to the period of time when this
23 resource will be needed.

1 In addition, the Company would commit to including the evaluation of
2 demand response alternatives in the 2015 resource planning process. Since
3 the resource need that will be evaluated in the 2015 plan is expected to start
4 closer to the evaluation timeframe, Public Service believes the next resource
5 planning cycle may make more sense. Ms Sundin provides a more detailed
6 discussion of the Company's plan for evaluating demand response
7 alternatives.

8 **Q. WHAT IF THE COMMISSION DENIES THE COMPANY'S REQUEST AND**
9 **WANTS TO GO AHEAD AND EVALUATE DEMAND RESPONSE**
10 **ALTERNATIVES IN THIS RESOURCE PLAN?**

11 A. The Company will comply with the Commission order. Mr. Hill provides the
12 specific details on how the Company would plan to evaluate demand
13 response alternatives, which would require a minimum 10 MW bid, in this All-
14 Source solicitation if that is what the Commission orders.

15 **III. OCC RECOMMENDED MODIFIED COAL OPERATIONS STUDY**

16 **Q. PLEASE SUMMARIZE DR. SCHECHTER'S RECOMMENDATION FOR**
17 **PUBLIC SERVICE TO STUDY THE COST EFFECTIVENESS OF**
18 **MODIFYING ITS COAL PLANT OPERATIONS FOR THE PURPOSE OF**
19 **REDUCING EMISSIONS.**

20 A. Dr. Schechter is proposing that Public Service complete a study where we
21 would evaluate the cost and benefits of reducing the future operation of the
22 Company's coal fleet that will remain after the completion of the Clean Air

1 Clean Job Act plan. Dr. Schechter's proposal includes replacing the reduced
2 coal energy production with renewable energy. His recommendation is
3 centered around the concept of keeping certain coal plants for capacity
4 (reduced operation on coal) but less for reliance on the production of coal
5 energy. Dr. Schechter proposes the study be completed in time to inform the
6 2015 resource plan filing.

7 **Q. WHAT IS THE COMPANY'S RESPONSE TO DR. SCHECHTER**
8 **RECOMMENDATION?**

9 A. Although the Company is generally not opposed to exploring new ways of
10 looking at future emission reductions concepts or ideas, Public Service wants
11 to make sure that the proposed study is well thought out, with a full listing of
12 assumptions. Public Service believes it would be more productive to meet
13 with the OCC after Phase II of the resource planning process to explore and
14 discuss the specific assumptions, scope and relative economics of modifying
15 the dispatch of the Company's remaining coal fleet.

16 **IV. INTRAWEST'S RECOMMENDATION FOR PUBLIC SERVICE TO FILE A**
17 **TARIFF TO IMPLEMENT THE USE OF THE COAL CYCLING STUDY**

18 **Q. PLEASE SUMMARIZE MR. COX'S RECOMMENDATION TO REQUIRE**
19 **THE COMPANY TO FILE A TARIFF BEFORE IMPLEMENTING THE COAL**
20 **CYCLING STUDY**

21 A. Beginning on line 11 on page 3 of his testimony, Mr. Cox states: "We believe
22 that Public Servicemust not add these costs to its analysis and modeling of

1 system costs and benefits without commission approval. Under well-
2 established law, commission rules, and long-established practice, if a public
3 utility wants to apply a cost, rate, or conditions of service, it should file a tariff,
4 and must justify why the cost, rate, or tariff is just and reasonable.”

5 **Q. DO YOU AGREE WITH MR. COX’S RECOMMENDATION AND**
6 **INTERPRETATION OF THE COMMISSION’S RULES?**

7 A. No. Although the Company is requesting the Commission approve the use
8 of the Coal Cycling study in this and future resource plan evaluation and
9 selection processes, Mr. Cox is not correct when he suggests that the
10 Company needs to file and have the Commission approve a new tariff.
11 Tariffs set forth retail rates and charges, not resource plan evaluation criteria.
12 A tariff is an open offer to contract with customers who meet the applicability
13 criteria in the tariff. Mr. Cox is simply mistaken when he suggests that a tariff
14 is the appropriate legal vehicle to address this issue.

15 The use of the Coal Cycling study does not result in an additional
16 direct cost to customers. It is used only in the evaluation and selection of
17 resources and/or the allocation of costs between the Electric Commodity
18 Adjustment (“ECA”) and the Renewable Energy Standard Adjustment
19 (RESA). The utilization of the Coal Cycling study in the evaluation and
20 selection of resources in a resource planning process is akin to the Company
21 imputing a carbon cost, a gas price volatility mitigation adder, or an imputed
22 cost of NOx or SOx emissions in those same analyzes. Certainly the
23 Company has not in the past and does not believe it is appropriate or

1 necessary to require the Company to file a tariff to allow it to include these
2 costs and other costs in its resource evaluation and selection analysis. As a
3 result, the Commission should deny Mr. Cox's recommendation on the need
4 to file a tariff to implement the use of the Coal Cycling study.

5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes it does.