

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

Northern States Power Company :  
Electric Rate Increase : Case No. PU-07-776  
Application :

TRANSCRIPT OF

HEARING

(VOLUME III)

Taken At  
State Capitol  
Bismarck, North Dakota  
June 23, 24 & 25, 2008

BEFORE THE HON. AL WAHL  
-- ADMINISTRATIVE LAW JUDGE --

1                   (The following proceedings herein were had  
2 and made of record, commencing at 8:00 a.m.,  
3 Wednesday, June 25, 2008, as follows:)

4                   JUDGE WAHL: The record will show that it  
5 is 8 o'clock a.m., June 25, 2008. This is the third  
6 day of the hearing of the Northern States Power  
7 Company electric rate increase application, North  
8 Dakota Public Service Commission Case No. PU-07-776.

9                   I don't see anyone, but is there anyone  
10 present, other than those who will testify on behalf  
11 of Northern States Power or the Commission's  
12 advocacy staff, who have come to the hearing to  
13 offer any information or comment concerning Northern  
14 States Power's electric rate increase application?

15                   All right. Mr. Bahr, you may proceed when  
16 you're ready.

17                   MR. BAHR: Your Honor, one housekeeping  
18 thing. Yesterday, at the conclusion, we discussed  
19 the diagram written on the board and had copies  
20 printed out. I believe counsel agrees, but we would  
21 like to submit that as an exhibit so that it can be  
22 referenced in the record.

23                   JUDGE WAHL: All right. By my count  
24 that's Exhibit 34. Mr. Bradley?

25                   MR. BRADLEY: No objection.

1 JUDGE WAHL: Exhibit 34 is received.

2 MR. BAHR: I'd like to call Charlie King.

3 JUDGE WAHL: Mr. King, as you have heard  
4 ad nauseam these past days, your testimony is  
5 required to be under oath, and I'm required by law  
6 to advise you regarding perjury before administering  
7 the oath.

8 Perjury is a false statement of material  
9 fact which you do not believe to be true. In other  
10 words, generally speaking, a lie. In North Dakota  
11 perjury is a Class C felony, punishable by a fine up  
12 to \$5,000, imprisonment for a period of up to five  
13 years, or both.

14 Will you raise your right hand, please?

15 Being advised regarding perjury, Mr. King,  
16 do you swear that the testimony which you're about  
17 to give in this matter shall be the truth, the whole  
18 truth and nothing but the truth?

19 THE WITNESS: I do.

20 JUDGE WAHL: Mr. Bahr.

21 **CHARLES W. KING,**  
22 having been first duly sworn, was examined and  
23 testified as follows:  
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**DIRECT EXAMINATION**

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**BY MR. BAHR:**

Q. Mr. King, would you please state your full name for the record?

A. My name is Charles W. King.

Q. And would you explain your place of employment and your role in these proceedings?

A. I'm president of the economic consulting firm of Snavely King Majoros & Bedell. I was retained in this case to address policy matters relating to this case and also to look into a rate design cost allocation.

Q. And have you prepared written testimony?

A. Yes, I have.

Q. And that written testimony identifies and explains your experience, training and qualifications to provide your opinions?

A. That's in two attachments, yes.

Q. Now, you've -- since submitting your written testimony, you've had the opportunity of reviewing rebuttal testimony submitted by NSP?

A. Yes, I have.

Q. And were you present Monday and Tuesday of these hearings and had the opportunity to listen to the testimony presented by NSP?

1           A.     Yes, I did.

2           Q.     Based upon that, will there be any  
3 additions, deletions or changes to your written  
4 testimony?

5           A.     Yes.   One change on page 6 --

6           Q.     Mr. King, let me submit this first and  
7 then we'll have you explain the change.

8           A.     Oh, all right.

9           MR. BAHR:  I would like to introduce  
10 Exhibit 23.

11           JUDGE WAHL:  Mr. Bradley?

12           MR. BRADLEY:  No objections.

13           JUDGE WAHL:  Exhibit 23 is received.

14           Q.     (MR. BAHR CONTINUING)  Okay.  Mr. King,  
15 could you please explain your change?

16           A.     Yes.  The one change is at the bottom of  
17 page 6, line 20.  There's a sentence there that  
18 says, "The exhibit shows that the Minnesota  
19 standards," and then strike the rest of the sentence  
20 and substitute the words -- I'll read the whole  
21 sentence.  "The exhibit shows that the Minnesota  
22 standards apply to the King plant, but not the  
23 federal standards."

24           Q.     And that is the only change or correction  
25 to your written testimony?

1           A.     Right.  That is the case, yes.

2           Q.     Could you please provide a general summary  
3 of your written testimony in this matter?

4           A.     Yes.  This case involves the problem that  
5 the Minnesota dog has been wagging the North Dakota  
6 tail.  There are three wags that my testimony  
7 addresses.  The first is emission standards.  The  
8 second is renewable requirements, and the third is  
9 depreciation.

10                     With respect to emission standards, we  
11 have something called MERP, and that stands -- and  
12 it's important to understand what it stands for --  
13 Minnesota Emissions Reduction Program.  And there  
14 are two aspects to this that I have identified.  The  
15 first is the King plant.  I have -- based on  
16 conversations with the company, I've stated that the  
17 King plant would not have been refurbished as soon  
18 as it did.  Now, I'm very sensitive to Mr. Wahl's  
19 five years in the slammer, so I will tell you  
20 exactly what I remember.  And I took notes that  
21 record this.  Ms. Engelking stated that were it not  
22 for the MERP, we would have rehabilitated the King  
23 plant, maybe not as soon as we did, but we would  
24 have rehabilitated the King plant, anyway.  Those  
25 were her words.

1                   Now, the company now denies that. And I  
2 think the objective test would be to look at the  
3 integrated resource plan that preceded the enactment  
4 of MERP and to see when the King plant was scheduled  
5 for rehabilitation. If it was scheduled for  
6 rehabilitation when it, in fact, was rehabilitated,  
7 I would withdraw my recommendation. On the other  
8 hand, if it turns out that, in fact, it would have  
9 been delayed for several years, then it would not  
10 have happened as soon as it did and we would not be  
11 confronted with a bill for \$470 million for the  
12 rehabilitation.

13                   The other area where the Minnesota  
14 environment or the MERP program impacts is a little  
15 more substantive basis for my adjustment. In 2003  
16 the company submitted two plans for implementing  
17 MERP, and plan A, which was adopted, involved  
18 tearing down the existing coal plant at High Bridge  
19 and replacing it with a combustion turbine, dual-  
20 fired combustion turbine, which is what has been  
21 done.

22                   Plan B, which also met all the  
23 requirements of Minnesota, statutory requirements  
24 for emissions reduction, was to rehabilitate the  
25 High Bridge plant as a coal plant. And the cost of

1 that was about half what it is -- what it has been  
2 to tear the plant down, build a new one as a  
3 gas-fired combustion turbine.

4 Now, the issue is whether that was  
5 required by Minnesota emissions requirements or  
6 whether there was an additional need, which is to  
7 add capacity, which, in fact, this new plant has  
8 done. And the test of that is to examine the load  
9 growth and the load requirements and the capacity  
10 requirements that presumably justify the addition of  
11 this capacity. If those requirements did not oblige  
12 the company to supplement capacity when it did, then  
13 I believe the differential between what the company  
14 spent and what the company would have spent under  
15 the alternative plan should be disallowed. And  
16 that's the first of the three wags of the tail.

17 Second wag is renewables. And here we  
18 have a wind mandate by Minnesota that is now being  
19 passed to -- well, by extension to North Dakota.  
20 And the history of that has developed during this  
21 hearing. What happened is that early in the late  
22 1990's or 2000, I don't know the date, Minnesota  
23 passed a requirement that NSP construct a certain  
24 amount of wind generation in Minnesota. Well, where  
25 to construct wind generation in Minnesota? The only

1 place with decent wind in Minnesota is a ridge in  
2 the far southwest corner of the state. The trouble  
3 was, there was no capacity, no transmission capacity  
4 to connect that area with the rest of the state. So  
5 the company spent \$300 million to build a  
6 transmission line to hook up this Minnesota-mandated  
7 wind facility.

8 Well, once the wind facility was hooked  
9 up, transmission line was built, then Minnesota  
10 decided they should have more wind and they mandated  
11 a very high wind percentage of all generation in  
12 Minnesota. And that will lead to a requirement for  
13 4,000 megawatts of wind by 2020. Where are we going  
14 to put that additional wind capacity? Well, the  
15 only place it feasibly can be put is at the end of  
16 that transmission line. So instead of a small  
17 amount of wind going in at the end of that  
18 transmission line, that's where all of the  
19 additional wind capacity has been. There has been a  
20 small amount purchased in North Dakota, but nothing  
21 built in North Dakota.

22 Now, the adjustment I'm proposing is to  
23 recognize that that may well have been and probably  
24 was a suboptimal solution to the requirement or the  
25 need to get additional wind. A more optimal

1 solution would have been to develop wind resources  
2 in North Dakota, which is a far better resource base  
3 for that kind of power. But the company has not  
4 done that and the reason it hasn't done that is the  
5 Minnesotans required initially that the wind power  
6 be put in Minnesota.

7 Now, the third area in which -- and I've  
8 recommended in recognition that there is probably a  
9 suboptimal solution, that 25 percent of the cost of  
10 hooking that wind power up in Minnesota should be  
11 disallowed for purposes of North Dakota ratepayers.

12 The third area where the Minnesota tail  
13 has wagged the North Dakota dog is in depreciation.  
14 It's been the practice of this Commission to accept  
15 Minnesota PUC rulings on depreciation for Northern  
16 States. And that has led to a failure by this  
17 Commission to look carefully at the depreciation  
18 program of NSP. There are really two broad  
19 problems. One is the treatment of lives of  
20 production plants and the other is the treatment of  
21 net salvage or removal costs.

22 The lives of production plants are based  
23 on an annual review every year of what is supposed  
24 to be the remaining life of the production plants.  
25 Well, currently the company believes that they're

1 going to close the Sherco plant in 2022, I believe  
2 it is. And that's only, what, 14 years from now.  
3 Now, the Sherco plant is one of the company's three  
4 big base load plants. The proposition that they're  
5 going to close that plant in 14 years is patently  
6 ridiculous and failing to recognize that it's  
7 patently ridiculous and that the plant will  
8 unquestionably live longer than 14 more years, leads  
9 to an excessive depreciation rate for that plant and  
10 it's a very expensive plant.

11 The same is true of the Prairie Island  
12 plant, which is due for relicensing and will, I  
13 would say, certainly be relicensed. Maybe some  
14 added costs associated, but it will certainly be  
15 relicensed and that relicensing should be recognized  
16 right now because, otherwise, you're grossly over-  
17 depreciating \$1.2 billion in plant.

18 That also is true of the combustion  
19 turbines, all of which -- not all of which, but the  
20 newest of which are being depreciated at an  
21 accelerating rate and incurring initially extremely  
22 high depreciation charges. Now, if the company used  
23 the remaining-life procedure, there might be some  
24 payback for this initial overdepreciation, but  
25 that's not -- my understanding, that's not what the

1 company does. Under remaining-life procedure, if  
2 you overdepreciate plant, that goes into the reserve  
3 and when you compute a new depreciation rate with a  
4 longer life, you subtract the reserve from the plant  
5 balance and you depreciate only that undepreciated  
6 component; that is, the net plant that is left, and  
7 you depreciate that over the remaining life, which  
8 now would be longer.

9 I don't believe that's what the company  
10 does. It's my understanding that they use the life  
11 span arrangement. Where if -- and let's take the  
12 case of the Prairie Island plant. If they have been  
13 overdepreciating it based on a 40-year life and now  
14 it becomes a 60-year life, there's no recognition of  
15 the fact that they have been overdepreciating, that  
16 they have accrued excessive reserves and,  
17 consequently, the new depreciation rate should be  
18 discounted so as to recognize that passed-over  
19 depreciation.

20 Now, the issue of net salvage plant  
21 removal costs has been discussed at length already.  
22 Briefly, the company is asking you to let them fold  
23 into depreciation costs that will not be expensed  
24 for -- or expended for 20, 30 years. And not at the  
25 current dollar value, but at the future dollar

1 value, an inflated number that reflects distant  
2 future costs. As Mr. Majoros pointed out yesterday,  
3 they have built in future inflation and are charging  
4 that to customers right now. And that system is  
5 patently wrong. The system I recommend, which is  
6 not the one -- the system I recommend ultimately,  
7 not the one we're implementing in this case, is to  
8 develop an estimate of the current cost of removing  
9 these facilities and use that as the basis for  
10 recovering removal costs. Not an inflated future  
11 cost, but the current cost, because as Mr. Majoros  
12 pointed out, you only charge people in the current  
13 year for current costs.

14 My final recommendation is for a North  
15 Dakota-based integrated resource plan. The company  
16 has blown this recommendation all out of context and  
17 totally misinterpreted. I do not recommend a  
18 stand-alone generating system for North Dakota.  
19 What we're proposing is to get to the core of  
20 everything we have been talking about, and that is  
21 to develop an IRP that reflects the statutory  
22 requirements imposed by the State of North Dakota,  
23 not the State of Minnesota and to see what those  
24 costs would be if only the Minnesota laws apply. In  
25 other words, if, because of Minnesota, they had to

1 advance the King plant, because of North Dakota they  
2 wouldn't have had to advance the King plant and we  
3 want to know what the effect of that difference is.  
4 And it applies to all elements in the whole revenue  
5 requirement. To the extent Minnesota has inflated  
6 costs and now the company seeks to pass those costs  
7 to North Dakota, we want those costs disallowed, and  
8 that's really been the intention of my testimony and  
9 the policy that I recommend.

10 I want to say a little something about the  
11 testimony I did not give and that addresses  
12 Commissioner Wefald's issue and that's rate design  
13 cost allocation. We did go through at some length  
14 the rate design cost allocation plan with the  
15 company and Mr. Huso and Mr., I think it is  
16 Grivna -- who was the other --

17 MS. HERTZLER: Zins.

18 THE WITNESS: What's that?

19 MS. HERTZLER: Zins.

20 THE WITNESS: Zins, right. Mr. Zins will  
21 attest that we asked quite a few fairly detailed  
22 data requests and obtained answers and we reviewed  
23 those answers. The reason I didn't testify on rate  
24 design is, surprisingly, I agree with almost  
25 everything the company has recommended. The company

1 is doing a commendable job of trying to reflect cost  
2 incurrence in rates. In other words, to the extent  
3 that costs vary with demand, they are charging those  
4 as demand charges. To the extent that costs vary  
5 with time of day, they're trying to reflect those in  
6 the time of day. Real-time pricing is the wave of  
7 the future for very large industrial loads where  
8 they can control the level of consumption, and the  
9 company has come up with, I think, some very  
10 innovative ideas in that regard.

11 The one area which I have not seen  
12 elsewhere is the idea of a variable by class fuel  
13 adjustment. Again, that reflects cost  
14 differentials. The mix of fuels used by industrial  
15 customers is going to be different than the mix of  
16 fuels used by small commercial and residential  
17 customers. And it's appropriate to make that -- to  
18 reflect that in the fuel-adjustment charge.

19 A couple things -- one thing I might have  
20 commented on has to do with the cost-allocation  
21 procedure. The company uses a marginal cost  
22 principle in allocating costs among classes. In  
23 other words, they only allocate at the margin; that  
24 is, at the dispatch level. The effect of this is  
25 you have no allocation of any of your base load

1 costs, except a very small allocation based on  
2 nighttime consumption when the base load plants are  
3 at the margin. And that's somewhat distorted  
4 because it fails to reflect the very low cost of  
5 base load power they use by -- heavily high-load  
6 factor customers. I didn't want to get into that  
7 because in the '80s, 1980's when I was very deeply  
8 into it, there was a raging debate about the  
9 marginal allocation of costs versus the embedded  
10 allocation of costs and it went on for quite some  
11 years. And there are arguments on both sides. I  
12 can't say that I would want to bore you with the  
13 arguments that otherwise I would have to make.

14 The one recommendation on rate design that  
15 I would like to make and possibly I should have  
16 included this in my testimony, and that has to do  
17 with the customer charges for -- the flat customer  
18 charges for electric service. North Dakota is at  
19 the forefront of states in this country in  
20 recognizing that distribution costs for gas and  
21 electricity are fixed. They are customer costs.  
22 They relate to reaching the customer and they should  
23 be reflected in a customer charge. The predominant  
24 condition throughout the industry is that these  
25 charges are way under their cost, and I think it

1 appropriate to gradually increase that customer  
2 charge until it covers the fixed cost of reaching  
3 the customer and serving the customer.

4 The advantage of that from the customer  
5 standpoint, not just the company, is that it evens  
6 out the bills throughout the year. To charge  
7 everything or charge excessive amounts on a  
8 volumetric basis, means that during the summer when  
9 the air conditioner runs, the customer's bill goes  
10 sky high. It's going sky high anyway because of the  
11 extraordinarily high cost of fuel. To lay on that  
12 the additional cost of allocating fixed distribution  
13 costs to the volumetric rate simply aggravates the  
14 volatility of the month-to-month bills to the  
15 customer.

16 So I recommend that regardless of whatever  
17 the revenue requirement finding of this Commission  
18 might be, that it approve the increase that the  
19 company increases -- that the company is  
20 recommending in its customer charges, and if those  
21 cover the full or more than the full amount of the  
22 revenue requirement increase, then the differential  
23 should be taken out of the volumetric charges.

24 And that completes my summary.

25 Q. (MR. BAHR CONTINUING) Thank you.

1 Mr. King, with regard to the rates and the tariffs,  
2 I believe it was Commissioner Wefald who had asked  
3 some questions of the company regarding whether  
4 certain practices were complied with in North Dakota  
5 and Minnesota code.

6 Would that have been an issue that you had  
7 looked at at all?

8 A. No. I think -- first of all, we didn't  
9 look at it. Even if we did look at it, I would not  
10 feel particularly competent to comment on it because  
11 I'm not a lawyer.

12 Q. I just wanted to make sure that your  
13 recommendations were limited to the general  
14 practice.

15 A. Yes.

16 Q. I'm going to ask you a few questions  
17 regarding your responses to some of the testimony  
18 submitted by NSP. If you feel you've already  
19 covered those, just let me know so you don't have to  
20 repeat yourself.

21 A. All right.

22 Q. Now, Mr. Larson asserts that your  
23 disallowances do not reflect a finding that the  
24 disallowed costs are imprudent. Do you have a  
25 response to that?

1           A.     I never said they weren't prudent.  They  
2     were incurred because Minnesota required them to be  
3     incurred.  It doesn't have anything to do with  
4     prudence or non-prudence.  It has to do with the  
5     fact that Minnesota has decided to pass a whole  
6     bunch of laws or regulations that impose costs on  
7     the company and now the company is seeking to pass  
8     those to North Dakota, and I believe they're  
9     inappropriate as North Dakota allowed costs.

10          Q.     There was an assertion by Mr. Larson that  
11     your disallowances will make NSP unable to invest in  
12     North Dakota.  Any response to that?

13          A.     Well, first of all, I'm not recommending  
14     that any North Dakota costs be disallowed.  I'm  
15     simply saying that some of these costs the company  
16     is passing to North Dakota aren't North Dakota  
17     costs.  The company, of course, can continue  
18     investing in North Dakota and for every dollar it  
19     invests in North Dakota for the benefit of North  
20     Dakota ratepayers based on North Dakota  
21     requirements, they will be fully compensated.

22          Q.     Any response to Mr. Larson's assertion  
23     that your disallowances would impair financial  
24     viability of the company's North Dakota operations?

25          A.     Of course not.  Again, it's the definition

1 of whether the North Dakota operations that we're  
2 arguing about, not whether the costs should be  
3 covered once they are -- once those North Dakota  
4 requirements are identified.

5 Q. I believe it was Mr. Larson and  
6 Ms. Engelking who discussed the benefits of an  
7 integrated system. Do you agree with them or have  
8 any response?

9 A. Absolutely. Everything they have said I  
10 agree with 100 percent.

11 Q. Do you propose -- you kind of addressed  
12 this, but do you propose a planning model that is  
13 based on a stand-alone North Dakota system?

14 A. Absolutely not.

15 Q. What is your response to Mr. Larson's  
16 claims that your disallowances have no factual  
17 support?

18 A. Well, I've identified the facts on which I  
19 base my disallowances. I guess the one that's most  
20 debatable has to do with the King disallowance,  
21 whether or not the King plant's rehabilitation was  
22 advanced owing to the Minnesota Emissions Reduction  
23 Program. And as I said earlier in my summary, the  
24 test of that would be to look at the IRP that  
25 preceded the enactment of MERP and to see when the

1 King plant was due for rehabilitation prior to the  
2 MERP program.

3 Oh, and as regards High Bridge, that's got  
4 a factual basis. It's that plan that was submitted  
5 by the company itself in 2003. And the facts of the  
6 wind generation are laid out fully in this hearing.  
7 We know exactly how come all the wind is in  
8 Minnesota and none is in North Dakota. And with  
9 regard to the depreciation disallowances, I think  
10 they are fully outlined in my testimony. I would be  
11 happy to review them with anyone who would like to  
12 ask about them.

13 Q. Okay. There was an assertion by  
14 Mr. Larson that your disallowances are reactive  
15 rather than proactive?

16 A. Well, they're reactive for the obvious  
17 reason. The company is only just now coming to this  
18 Commission to ask to have all these costs included.  
19 Had the company come to this Commission and said  
20 we're going to do all these things because the  
21 Minnesota people require us to do it, if we do them,  
22 will you be willing to pay for them, I think we  
23 probably would not be having this discussion. It's  
24 quite possible this Commission could have decided,  
25 no, we're not going to pay for those things because

1 the Minnesota Commission requires them or the  
2 Minnesota Legislature requires them.

3 But, in any case, that's why it's  
4 reactive. It's all a done deal and now the bill is  
5 being put to the North Dakota ratepayers.

6 Q. There was an assertion that the company  
7 had no choice to make these investments. Do you  
8 have a response to that?

9 A. Well, there was no choice because the  
10 Minnesota Legislature put the gun to the company's  
11 head. A particular example is the Prairie Island  
12 fuel casks, where the price to pay to keep that  
13 plant open was to install all this wind generation  
14 in Minnesota. Well, it wasn't -- the contingency  
15 was not that it had to be in Minnesota, but by that  
16 time it was going to be in Minnesota because that's  
17 where the transmission hookups were.

18 Q. Do you disagree that your disallowances  
19 are not properly calculated?

20 A. Yes. I accept all of Ms. Heuer's  
21 recalculations.

22 Q. Would your disallowances decrease NSP's  
23 North Dakota earnings to unacceptable levels?

24 A. No. They get full earnings and I believe  
25 the rate of return has already been stipulated.

1 They get full rate of return and full depreciation  
2 on North Dakota allocable costs.

3 Q. If your disallowances are adopted, would  
4 this mean that the investments would be permanently  
5 disallowed in all future North Dakota rate cases?

6 A. Absolutely not. The two big disallowances  
7 are the King plant and the High Bridge plant. As  
8 regards the King plant, if the pre-MERP IRP shows  
9 that that plant would have gone in in 2009 instead  
10 of 2006 when -- I think it's 2006 or 2007 when it  
11 finally did go in, then it should go in for North  
12 Dakota purposes in 2009.

13 And the same is true of the High Bridge  
14 plant. If the High Bridge capacity, the extra 200-  
15 odd megawatts is required in, say, 2009 or 2010,  
16 that's when that renovation should be accepted for  
17 North Dakota purposes.

18 Q. Okay. In the summary of your testimony  
19 and, in fact, in the change in your testimony on  
20 page 6, that relates to the environmental standards  
21 or requirements?

22 A. That's correct.

23 Q. You know, there's been some discussion as  
24 to whether the Minnesota standards or the federal  
25 standards are higher?

1           A.     Well, the federal standards are more  
2 restrictive. The term high or lower is --

3           Q.     Is incorrect?

4           A.     -- what confuses me. I have to admit I  
5 was confused by it, but the important point is  
6 federal standards didn't apply to the King plant and  
7 the Minnesota standards do.

8           Q.     With regard to depreciation, can you kind  
9 of explain the controversy between you and the  
10 company regarding removal costs?

11          A.     Well, the company wants to treat removal  
12 costs, as I said in my summary, based on future  
13 costs. Let me give you a fairly realistic example  
14 of just what the company is asking. Suppose you had  
15 a house in the mountains and the government came  
16 along and said, well, we're going to declare this a  
17 national wildlife reserve and we want your house,  
18 but we're going to give you life tenancy and at the  
19 end of that, when you die, your estate will not own  
20 the house and we're going to tear it down.

21                   And this is not a far-fetched example. I  
22 have a good friend who has a house on Cape Cod with  
23 exactly this deal. But suppose the government then  
24 said, well, we're going to pay you the fair market  
25 price, but we want to deduct from that the cost of

1 tearing the house down. So they get an appraiser  
2 in. The appraiser says the house is worth \$100,000,  
3 but it's going to take \$10,000 to tear it down so  
4 we're going to pay you \$90,000. And that's probably  
5 a reasonable solution and you might take that and  
6 walk away.

7 But if it was NSP, they would come in and  
8 say, well, we'll buy your house for \$100,000, that's  
9 the current fair market value, but you have to pay  
10 us \$2.5 million and the reason you have to pay us  
11 \$2.5 million is the \$10,000 is just current day's  
12 cost, but we're not going to tear it down now, we're  
13 going to tear it down 30 years from now when you're  
14 probably going to die, and we have taken this cost  
15 and we have compounded it three percent a year for  
16 30 years and \$10,000 in 30 years is \$2.5 million and  
17 that is your bill. And that's exactly what NSP is  
18 proposing to collect from North Dakota ratepayers.

19 And that, I think, sums up the  
20 controversy. We're trying to get that \$10,000 as  
21 the current charge for all removal costs, express  
22 and current costs. Now, the surrogate I've used in  
23 this case -- we would have made this calculation,  
24 incidentally, if I hadn't been stonewalled on the  
25 subject of the underlying data for the depreciation

1 case. But that being the case, I had to use the  
2 alternative, which is to take the most recent five  
3 years' average of removal costs and use that as a  
4 basis for my removal cost allowances.

5 Q. Now, Mr. Watson spent a lot of his  
6 testimony denouncing what he perceived as your  
7 method of accruing removal costs. Did he accurately  
8 portray your method?

9 A. Well, first of all, my method is not the  
10 one I'm recommending in this case. The one I'm  
11 recommending in this case, as I just said, is a  
12 surrogate for the current value of removal costs  
13 that I would have calculated were I to have the  
14 data. Experience in other utilities is that the two  
15 come out about the same. If you discount future  
16 removal costs back to the present, you'll find that  
17 it pretty much equals the present average removal  
18 costs. So the surrogate is not inappropriate.

19 Q. Are you proposing to move away from  
20 accrual accounting for removal costs as asserted by  
21 Mr. Watson?

22 A. Of course not. We're going to accrue  
23 removal costs, but only at their present -- their  
24 current value.

25 Q. There are also claims by Mr. Watson that

1 your approach creates generational inequities?

2 A. That is, frankly, a ludicrous claim. As  
3 my little example showed, under NSP's system they  
4 want to charge present-day ratepayers \$2.5 million  
5 to tear the house down. That is one hellacious  
6 shift of burden forward from 30 years to the present  
7 generation of ratepayers. It's altogether  
8 inequitable because it front-loads, horribly front-  
9 loads the accrual of removal costs.

10 Q. Now, Mr. Robinson testified that the  
11 whole-life method of depreciation is one of two  
12 accepted procedures for calculating depreciation.  
13 Do you agree with that?

14 A. It's an accepted procedure provided there  
15 is an alternative calculation, which is one that  
16 amortizes any disparities or imbalances, as they  
17 call them, in the depreciation reserve. In other  
18 words, if you're going to use whole life, you have  
19 to examine whether the depreciation reserve is  
20 overstated or understated relative to what it should  
21 be if all your life and curve-shape assumptions are  
22 accurate. So his statement is true, but it is  
23 incomplete. A whole life without some sort of  
24 mechanism for adjusting for reserve imbalances is  
25 unacceptable.

1           Q.     What are the advantages of remaining-life  
2 depreciation?

3           A.     Well, the principal advantage is that  
4 automatically it recovers or refunds excesses or  
5 shortfalls in the depreciation reserve and that's  
6 the principal advantage. It's used by the vast  
7 majority of utilities.

8           Q.     Are remaining-life depreciation rates  
9 higher or lower than whole-life depreciation rates?

10          A.     Neither. They could be higher. They  
11 could be lower. In the case of NSP for production  
12 plant, they will be very much lower because they  
13 will reflect the fact that every year, practically,  
14 the company keeps adjusting forward its remaining  
15 lives and what they've been doing in the past is  
16 overdepreciating so the reserve is overstated, and  
17 unless there's some sort of adjustment mechanism for  
18 that, that overstatement will keep building and it  
19 will never be refunded to ratepayers.

20          Q.     Now, Mr. Robinson made a point about you  
21 using the industry average steam plant life instead  
22 of the specifics of the Sherco plant and of the  
23 combustion turbine units. How do you respond to  
24 that?

25          A.     Well, there are no specifics that

1 Mr. Robinson identified that justify the assumption  
2 the Sherco plant is only going to last another  
3 14 years, to use that specific example, and that's  
4 true of the combustion turbines as well. Absent  
5 specifics, you have to use some standard, and the  
6 standard we have used is the industry average. This  
7 is based on a hundred years of experience. It's not  
8 a shallow analysis.

9 Q. I think you addressed this some in your  
10 earlier testimony, but with regard to concerns  
11 expressed that you aren't considering the -- or that  
12 there will need to be substantial upgrades to both  
13 the Sherco plant and the combustion turbines if they  
14 are to survive --

15 A. Well, of course, there will --

16 Q. -- their expected lives?

17 A. Of course there will be and those upgrades  
18 should be reflected in depreciation when they are  
19 made. This is the only company I have ever heard of  
20 that contends that we should now be overdepreciating  
21 the existing plant because in the future we're going  
22 to be having to invest more money in it.

23 The good example is the Prairie Island  
24 plant. The embedded investment in Prairie Island is  
25 \$1.2 billion. The company says, well, we're going

1 to have to spend \$180 million to extend its life for  
2 20 years, and for that reason we're going to over-  
3 depreciate \$1.2 billion right now because of five  
4 years from now we're going to have to spend \$180  
5 million. That's just not a justifiable reason for  
6 overcharging depreciation at the present time,  
7 particularly when there's no mechanism for refunding  
8 those overcharges to ratepayers once you make the  
9 extension in the life.

10 Q. Now, is it premature to extend the life of  
11 the Prairie Island nuclear plant as asserted by  
12 Mr. Robinson?

13 A. Absolutely not. It's virtually known and  
14 certain change. It's going to happen. And to  
15 continue depreciating that plant as though it's  
16 going to be closed at the end of 40 years is flatly  
17 wrong. It should reflect the virtual certainty it's  
18 going to last 60 years instead.

19 Q. And I believe, as you explained, if  
20 there's future upgrades, there would be depreciation  
21 of those and the rates would reflect those costs?

22 A. Absolutely. And they will be recovered  
23 over the remaining life of that plant.

24 Q. How do you respond to Mr. Robinson's  
25 comments concerning your five-year life extension of

1 the overhead conductors account?

2 A. Well, there's two problems there. First,  
3 what initiated it was the fact that the company is  
4 upgrading its vegetation control. If they're  
5 upgrading vegetation control, what is the effect of  
6 that upgrading? Well, the effect of that upgrading  
7 is trees won't fall on the lines so much. And if  
8 that's the case, the lines are going to last longer  
9 and the poles are going to last longer.

10 That's one objection, but the more  
11 fundamental objection is that the depreciation rate  
12 for overhead conductors does not reflect North  
13 Dakota experience. Now, North Dakota is  
14 distinguished from Minnesota in that there are not  
15 as many trees in North Dakota. There also isn't as  
16 much rain and consequently not as many  
17 thunderstorms. There is less precipitation so  
18 there's probably less ice in the wintertime in North  
19 Dakota than in Minnesota. We don't know that, but  
20 it's reasonable to surmise and, therefore, you  
21 should not be using the Minnesota number for North  
22 Dakota. You should be studying the North Dakota  
23 experience for that account at least. Probably  
24 ought to be studying North Dakota experience for all  
25 the distribution accounts.

1           Q.     And I think you did address this some, but  
2     Mr. Robinson objects to the North Dakota specific  
3     depreciation study. How do you respond to that?

4           A.     Well, they object to more than that. They  
5     object to the idea there be North Dakota specific  
6     depreciation rates on the grounds that they don't  
7     want to be charging different rates for different  
8     states. Well, lots of other commissions do that. I  
9     live in the Washington, D.C. area and all of the  
10    utilities in Washington, D.C. that serve Washington,  
11    D.C. serve multiple jurisdictions. The electric  
12    company serves Maryland and the District of  
13    Columbia, has separate depreciation rates for those  
14    two jurisdictions even for common plant that is used  
15    by both.

16           The gas company serves Maryland, Virginia  
17    and the District of Columbia. They have three sets  
18    of depreciation rates for all of their plant for all  
19    three jurisdictions. The same is true of the  
20    Delmarva Power and Light Company which serves  
21    Maryland, Delaware and Virginia, and they have  
22    separate depreciation rates for each of their  
23    jurisdictions.

24           Even more extreme are the phone companies  
25    when they used to have regulated depreciation rates,

1 not only do they have different rates for every  
2 state, they had different rates for the same plant  
3 in the same state that was allocated to interstate  
4 purposes as intrastate purposes. Different  
5 depreciation rates. It's doable. It's not all that  
6 hard, particularly for distribution plant where they  
7 have situs plant and you know exactly what's in  
8 North Dakota and exactly what's in Minnesota.

9 MR. BAHR: I have no additional questions  
10 of Mr. King.

11 JUDGE WAHL: Mr. Bradley.

12 MR. BRADLEY: Thank you, Your Honor.

13 **CROSS-EXAMINATION**

14 **BY MR. BRADLEY:**

15 Q. Mr. King, I want to begin with your  
16 testimony at page 9 of your Exhibit 23 where you  
17 state that you're not opposed to the company  
18 recovering their costs, just recovering them in  
19 North Dakota. And I believe you answered to your  
20 counsel that you're not arguing the company was  
21 imprudent?

22 A. No. It had to incur those costs because  
23 the Minnesota Legislature required them.

24 Q. So you're not saying the company was  
25 imprudent at the time it selected for rehabilitation

1 King, for example?

2 A. Well, it may have been imprudent from the  
3 standpoint of a requirement for rehabilitating  
4 plant, but it wasn't imprudent because it was  
5 required to do so by the MERP program. In other  
6 words, the issue is when the King plant was  
7 rehabilitated and why it was rehabilitated when it  
8 was. If it had to be rehabilitated anyway, as  
9 Ms. Engelking asserts, fine, but let's get proof of  
10 that, and proof, as I indicated, is the old IRP.

11 Q. Did the Minnesota statute authorizing an  
12 emissions reduction program, commonly referred to,  
13 by the way, not as Minnesota Metro, but Metro ERP,  
14 did that statute require the company to undertake  
15 any of the three MERP programs?

16 A. Well, the statute didn't require it, but  
17 the company had to develop a program pursuant to the  
18 statute and submit it to the -- what's the name of  
19 the outfit -- the Minnesota Pollution Abatement  
20 Authority, Pollution Control Authority. But,  
21 anyway, that was the authority that they had to  
22 submit the plan to and the authority then had to  
23 approve the plan and the plan they approved is the  
24 one that has since been implemented.

25 Q. It is your impression that the company was

1 obligated to establish a plan?

2 A. I believe it was, yes.

3 Q. That's your understanding, you've read the  
4 statute?

5 A. Well, let's put it this way: Whether it's  
6 in the statute or not, that's how it worked out.  
7 For all intents and purposes, it may as well have  
8 been in the statute because that's how the company  
9 responded to the program. They wanted to get this  
10 money in a rider. How to get it in the rider, the  
11 way you got it in the rider is to turn up a program  
12 that this pollution control authority will approve.

13 Q. Was there anything in that statute that  
14 established a timeline under which the company had  
15 to apply?

16 A. Oh, I don't know whether it did or not.  
17 The company wanted to get this rider in so it  
18 established a timeline.

19 Q. Is there anything in that statute that  
20 required the company accelerate the rehabilitation  
21 of King in order to qualify under that statute?

22 A. Well, again, in order to get the rider,  
23 the company had to submit the plan. In order to get  
24 the plan approved, the company had to come up with a  
25 timeline that would respond to the Minnesota

1 requirement for emissions limitation.

2 Q. Has the statute been repealed?

3 A. No, not to my knowledge.

4 Q. So if the company thought it was  
5 appropriate to delay rehabilitation of King, it  
6 could have waited until this year to apply for it?

7 A. I don't think so. I don't know that, but  
8 I don't think so.

9 Q. What's your authority for not thinking so?

10 A. Well, the company that got the statute  
11 through -- why would they get the statute through if  
12 they didn't want to implement the thing?

13 Q. Exactly our point. What came first -- the  
14 company's plan or the statute?

15 A. Well, they all came at once. The company  
16 sold the statute and the statute was then passed and  
17 the company quickly responded to it. I mean, this  
18 is all a part of -- you can't separate these things,  
19 say the statute stands alone from the plan and the  
20 plan stands alone from the advancement of King.  
21 These are all a package that happened in Minnesota  
22 for the benefit of Minnesota.

23 Q. For the benefit of the company's  
24 ratepayers?

25 A. Oh, no, for the benefit of the Minnesota

1 environment. That's what motivated this whole  
2 thing. That's what it's called, the pollution  
3 abatement plan.

4 Q. Under the process used for MERP, Metro ERP  
5 projects, was the company required to prove the  
6 reasonableness of its proposal?

7 A. Of course. But the reasonableness  
8 initially related only to the pollution abatement  
9 because the plan wasn't submitted to the --  
10 initially wasn't submitted to the PUC. It was  
11 submitted to the pollution control authority.

12 Q. It's your belief that the company filed  
13 this with the Minnesota Pollution Control Authority  
14 independent of it filing with the Minnesota  
15 Commission?

16 A. No, they had to file it with the Minnesota  
17 PUC, as well, but the Minnesota PUC was not going to  
18 turn down the decision of the Minnesota Pollution  
19 Control Authority.

20 Q. Have you reviewed the record in the MERP  
21 proceedings?

22 A. Not in any detail, no. What I reviewed is  
23 the company's own rendition of how this thing  
24 unfolded.

25 Q. And the company's rendition indicates that

1 it did cost-benefit analysis of all the alternatives  
2 and demonstrated the need for its projects?

3 A. It demonstrated the need pursuant to the  
4 pollution control requirements.

5 Q. With regard to the King plant, is there  
6 any reason, other than your assumption of  
7 acceleration, that you use to justify this  
8 allowance?

9 A. Well, the assumption -- you call it an  
10 assumption. As I say, we can determine whether, in  
11 fact, the MERP program caused the acceleration or  
12 did not cause the acceleration of the King plant by  
13 looking at the pre-MERP integrated resource plan.

14 Q. What year would that be?

15 A. I cannot say. I believe they file these  
16 things periodically.

17 Q. They would have filed them every two  
18 years?

19 A. I don't know. What's the standard in  
20 Minnesota?

21 Q. Every two years.

22 A. All right. Then it was the preceding plan  
23 prior to the enactment of the MERP plan.

24 Q. Wouldn't it be two years before the filing  
25 of the application?

1           A.     The application for what?

2           Q.     The project's approval.

3           A.     No.    No.    It would be two years before the  
4 enactment of the MERP program.

5           Q.     Why would the enactment of the statute be  
6 relevant?

7           A.     Because, as I said, it's all a package.  
8 The statute, the plan and the advancement of the  
9 King plant would be a package.  Now, if that's not  
10 true, we'll know if we look at that pre-MERP IRP.

11          Q.     Do incidents and facts change over time in  
12 terms of a plant's availability, its quality of use?

13          A.     It's possible, but it's hard to believe  
14 that in two years there would be a radical change,  
15 unless there were a radical collapse in the quality  
16 of the plant.  You know, if a boiler blew up, that  
17 would be a different story.

18          Q.     Ms. Engelking testifies the plant would  
19 have been shut down in 2005 if it were not  
20 rehabilitated.  Do you dispute that?

21          A.     Yes.

22          Q.     On what factual basis?

23          A.     Ms. Engelking's own statement in our May 6  
24 conference call.

25          Q.     What year would the plant have been

1 rehabilitated?

2 A. She did not say.

3 Q. What do you say?

4 A. I don't say.

5 Q. You don't know?

6 A. I do know that she asserted that the plant  
7 would have not -- would probably not have been  
8 rehabilitated as soon as it was were it not for the  
9 MERP program.

10 Q. Did you send any interrogatories to the  
11 company asking for evidence and information about  
12 the date on which it would have been rehabilitated  
13 but for MERP?

14 A. No, we didn't, because I was relying on  
15 that statement. Now, if I had known the statement  
16 was going to be retracted, I definitely would have  
17 asked more questions.

18 Q. Did you do any analysis at all in terms of  
19 the operating quality of the King plant?

20 A. I'm not in a position to do that. I take  
21 the company's word for it. Again, the company's  
22 word was what I took. The company now retracts that  
23 word, but there's an objective basis for determining  
24 whether the company is correct or I'm correct.

25 Q. And would that objective basis be the

1 record in the 2003 to 5 MERP proceeding in which the  
2 full factual analysis on the status and condition of  
3 the King plant was placed in the record?

4 A. If that's the case, possibly.

5 Q. Possibly?

6 A. Well, if that's the preceding -- if that's  
7 the plan that preceded the MERP program, it's  
8 probably the one to look at, yes.

9 Q. Did you disallow all of the cost related  
10 to the rehabilitation of the King plant?

11 A. Yes.

12 Q. Now, Ms. Engelking testified that the  
13 refurbishing restored 60 megawatts of capacity at  
14 the King plant. Do you dispute that?

15 A. No.

16 Q. Did you make an adjustment to your  
17 disallowance to reflect the added capacity added  
18 through the rehabilitation?

19 A. No, because the King plant had been a  
20 cycling plant, anyway. Whether it was needed or  
21 not, I have not determined whether the 60 megawatts  
22 were needed. Certainly, it's a benefit, but whether  
23 it is a requirement, I cannot say.

24 Q. Without proving it's not a requirement,  
25 should there be a disallowance?

1           A.     Well, if the earlier IRP indicated that  
2     the King plant would not have been rehabilitated for  
3     another two or three years, one assumes that it took  
4     into account capacity requirements and the need or  
5     not the need of the additional 60 megawatts.

6           Q.     Mr. Larson, in his direct testimony,  
7     states that the capacity factor for the King plant,  
8     which was a base load plant, was down to 74 percent.  
9     What's the normal capacity factor for a base load  
10    plant?

11          A.     Well, it was not my impression that the  
12    King plant was a base load plant, but capacity  
13    factor of 74 percent is not all that bad for what is  
14    probably not the highest plant on the dispatch  
15    order. Ms. Engelking indicated that even Sherco,  
16    which is certainly higher on the dispatch order or  
17    lower in terms of cost, has been used for -- has  
18    been forced to be used for a cycling purpose. If  
19    so, then the King plant, which is sort of next up on  
20    the dispatch, would have been used as a cycling  
21    plant as well.

22          Q.     Did you hear Ms. Engelking testify  
23    specifically that it was a base load plant used all  
24    the time?

25          A.     Well, it hadn't been built for that.

1 Whether it was being used for that is a different  
2 issue.

3 Q. Now, if you take an increase from  
4 74 percent capacity to 82 percent capacity, doesn't  
5 that mean there's a 15 percent increase in  
6 availability?

7 A. Well, first of all, if that's -- there's a  
8 difference between the capacity factor as the plant  
9 was run and the capacity factor of what it could  
10 have run at. And you just switched from what I  
11 understood to be a capacity factor of the plant as  
12 run, not as available. But if you want to change  
13 that definition, what you say is absolutely true.

14 Q. Okay. The King plant is going to be able  
15 to provide 60 more megawatts of capacity and energy  
16 15 percent more of the time. And that extra energy  
17 capacity is going to be provided proportionately to  
18 North Dakota, will it not?

19 A. Well, the capacity is allocated to North  
20 Dakota. The energy is allocated as the plant is  
21 used. Whether the plant, even in its rehabilitated  
22 state, is used 24/7 is not a function of its  
23 availability. It's a function of the load  
24 variation, and whether the load variation requires  
25 the full capacity all the time, I cannot say.

1           Q.     Are North Dakota customers entitled to  
2 free energy and capacity?

3           A.     No.

4           Q.     So if the company has increased the  
5 capacity of a base load coal plant by 60 megawatts  
6 and 15 percent availability, should not those costs  
7 be recovered proportionately from the customers who  
8 use it?

9           A.     Well, as I indicated, if the 60 -- 60  
10 megawatts is required independent of the MERP  
11 program, which would be indicated by the pre-MERP  
12 IRP, then you're right, it should be included. On  
13 the other hand, if the 60 megawatts happens to be a  
14 bonus of advancing the rehabilitation of that plant  
15 in order to reduce the pollution in the metro area  
16 pursuant to a Minnesota program, then I don't think  
17 it should be allocated to North Dakota until it is  
18 required by North Dakota load and along with all the  
19 other states' loads.

20          Q.     How should the cost for the energy  
21 actually used from that plant related to those  
22 additional 60 megawatts and 15 percent availability  
23 be recovered from North Dakota customers who use  
24 that energy and capacity?

25          A.     Well, the energy is going to be recovered

1 in any case, whether the plant is rehabilitated or  
2 not, because even absent rehabilitation the plant  
3 would still have been running, at least that's my --  
4 that is what is in dispute. But, as I said, it  
5 would be determined by looking at the pre-MERP IRP.

6 Q. Mr. King, what about the incremental  
7 capacity and energy from that plant, how would we  
8 recover that cost from the North Dakota customers  
9 who use that energy and capacity?

10 A. Well, first of all, there's no incremental  
11 energy as a result of -- automatically incremental  
12 energy as a result of the additional 60 megawatts.  
13 The energy consumed is what is consumed and its  
14 costs are appropriately allocable to North Dakota.  
15 If the plant weren't rehabilitated, either the plant  
16 would have run, albeit not quite as efficiently and  
17 other plants might have had to pick up that cost,  
18 but all that energy cost would have been and will be  
19 recovered from North Dakota. As for the capacity,  
20 it should be recovered from North Dakota ratepayers  
21 if it is required by the combined loads of all three  
22 states when it is -- when it was made available. On  
23 the other hand, if it's simply incremental capacity  
24 that isn't required, that happens to be a by-product  
25 of rehabilitating that plant, then it should not be

1 allowed.

2 Q. What evidence do you have that Xcel Energy  
3 has added capacity it doesn't need to its system?

4 A. I don't have any evidence at all, but it  
5 could be determined, yes.

6 Q. So if, in fact, Xcel Energy needed the  
7 capacity that has added to its system, it should be  
8 allowed to recover those costs?

9 A. Yes.

10 Q. Are you proposing to disallow for High  
11 Bridge the cost between the alternative of  
12 rehabilitation as a coal plant and the cost of a new  
13 gas-fired facility?

14 A. Yes.

15 Q. And is your disallowance based on the  
16 conclusion that the rehabilitation alternative of  
17 using coal would have been less costly than the  
18 replacement plant using natural gas?

19 A. You know, the big unknown is what it would  
20 have cost to rehabilitate that plant. We know what  
21 the differential in the fuel costs -- I mean in the  
22 pollution emission control costs are, and what the  
23 incremental costs of the High Bridge plant would  
24 have been to further rehabilitate it, I don't know  
25 and we -- that's one we did ask a very specific data

1 request appointed directly to that question and we  
2 got an evasive answer.

3 Q. Is the capacity for the replacement gas  
4 plant at High Bridge 515 megawatts?

5 A. I'll take your word for it, yes.

6 Q. And was the capacity of the old coal plant  
7 at the High Bridge 272 megawatts?

8 A. I'll take your word for it. Sounds about  
9 right.

10 Q. So there was a 243-megawatt increase in  
11 capacity?

12 A. Again, if that capacity was needed  
13 independent of the MERP project, the costs should be  
14 allowed. On the other hand, if the capacity was not  
15 based on load requirements in 2008, but merely a  
16 hedge against future capacity requirements, then I  
17 don't think it should be allowed in 2008 because the  
18 company has temporarily overbuilt its plant.

19 Q. What evidence do you have that the company  
20 has overbuilt its plant?

21 A. Well, the evidence is that the company  
22 submitted in 2003 an alternative plan, which it was  
23 quite willing to implement, and that plan would not  
24 have significantly increased the capacity of the  
25 High Bridge plant because it would have simply

1 rehabilitated it as a coal unit. If the company was  
2 willing to offer that as a viable alternative to the  
3 plan it adopted, it must not have needed the  
4 additional capacity when it did. You can say, oh,  
5 well, it had to build another plant. Possibly, but  
6 at that point they would have had a major change in  
7 their IRP to build another plant if they kept the  
8 High Bridge at its previous capacity.

9 Q. The company's testimony is that it would  
10 have built another plant at a different location.  
11 Do you dispute that testimony?

12 A. If it had to close -- what I heard is if  
13 it had to close the High Bridge plant, it would,  
14 indeed, have had to build another plant. I don't  
15 dispute that. What I dispute is whether --

16 Q. Mr. King --

17 A. I'm sorry. You want to disagree with me?

18 Q. Yes, I do. The company's testimony is  
19 that if it had closed the King plant, it would have  
20 had to build another location. It could have  
21 rehabilitated the High Bridge, but then it would  
22 have needed to build another gas plant someplace  
23 else. Do you recall that testimony?

24 A. No. No, I don't recall that. But if the  
25 company did make that testimony, they did not

1 identify when that second plant would have had to  
2 have been built, and if it had to have built by now,  
3 then, indeed, it should be included. On the other  
4 hand, if it would have had to have built, but not  
5 until, say, 2010, then the capacity should not be  
6 included.

7 Q. Mr. King, at what point should companies  
8 build new capacity? Should they build it two years  
9 in advance of when they need it, two years after  
10 they need it? When should they build it?

11 A. Well, there's a certain lumpiness to  
12 capacity and, normally, the plan is to maintain a  
13 reserve margin of, say, 15 percent at all times. So  
14 you have to build for your expected load, plus  
15 15 percent, and that capacity has to come on-line in  
16 order to maintain that reserve margin. Now, that's  
17 what they should be building for. I have been in  
18 cases where there's been recommendations and,  
19 indeed, adoptions of disallowances for overbuilding,  
20 and it happens.

21 Q. And in any of those cases is it done  
22 without evidence that, in fact, it's been overbuilt?

23 A. Oh, there's evidence that it's overbuilt.

24 Q. And is there evidence in this case it was  
25 overbuilt?

1           A.     I think so, yes.

2           Q.     And that evidence was, again, your  
3           assumption the company would not have built the  
4           extra plant?

5           A.     Well, I don't know the company's  
6           testified -- well, that it would not have built the  
7           extra plant, yes, it would have, but when it would  
8           have built, I don't know. And I think it probably  
9           would not have been built until after the present  
10          time because that appeared to be the proposal under  
11          the alternative submitted in 2003.

12          Q.     And, again, have you reviewed the 2003 IRP  
13          MERP process which discussed the need for and  
14          justified the prudence of that additional plant?

15          A.     Well, you've just made a statement of fact  
16          that I don't know to be true, that the 2002,  
17          whatever it was, 2000 MERP IRP justified the need  
18          for that additional plant. I don't know that that's  
19          the case. I don't have any evidence that it is.

20          Q.     Now, Ms. Engelking testifies that building  
21          existing plant which is located to the load being  
22          served mitigates transmission congestion and that if  
23          we used a different site, that would probably  
24          increase congestion. Does increased transmission  
25          congestion increase cost?

1           A.     First of all, I'm not suggesting anything  
2     be built on a different site. I don't know where  
3     you got that an assumption.

4           Q.     Well, Mr. King, you can't build them both  
5     at that site, can you?

6           A.     What -- the new plant?

7           Q.     And maintain the old plant.

8           A.     Well, first of all, if you had to build  
9     another plant, as I've said repeatedly and I'll say  
10    it again, the issue is not whether you need to build  
11    a new plant, but when. When that new plant is  
12    needed and if that new plant involves additional  
13    transmission, indeed, all those costs should be  
14    allowed.

15          Q.     Ms. Engelking testified that if we had  
16    waited to install a replacement plant, that the cost  
17    would be at least 33 percent higher.

18                   Do you dispute that?

19          A.     Probably true.

20          Q.     Ms. Engelking testifies that --

21          A.     That's no excuse for building unneeded  
22    capacity prematurely.

23          Q.     Depends on how premature, wouldn't it?

24          A.     Oh, yeah, I'll buy that.

25          Q.     Ms. Engelking testifies that the

1 operational flexibility provided by the new gas-  
2 fired units provides improved system reliability,  
3 allowing the system to respond rapidly to hourly  
4 changes and improving its ability to use Sherco.

5 Do you disagree with that?

6 A. I don't know that I do. I can't say one  
7 way or another.

8 Q. Have you done any modeling that disputes  
9 Xcel Energy's conclusion that the characteristics of  
10 a gas plant located at the High Bridge location  
11 better fits its resource needs?

12 A. Repeat that question.

13 Q. Have you done any modeling that disputes  
14 Xcel Energy's conclusion that the characteristics of  
15 a gas plant at the High Bridge location better fits  
16 its resource needs?

17 A. No, I haven't made that. I'm not in a  
18 position to do so, but, again, the issue has to do  
19 with whether the High Bridge plant expansion of  
20 capacity as a gas-fired combined-cycle turbine is  
21 required in 2008 to meet the company's needs.

22 Q. Mr. Rosvold testified that conversion from  
23 a coal-fired plant at High Bridge and Riverside to  
24 natural gas plant saves the company and its  
25 ratepayers between \$52 million and \$96 million a

1 year in avoided NOx purchase allowances.

2 Do you dispute that testimony?

3 A. I don't dispute it, but then there's other  
4 costs that probably swing the other way, such as  
5 fuel. Gas is very expensive. Coal is certainly  
6 cheaper and it is a more stable price because it's  
7 based typically on multiyear contracts.

8 Q. You proposed disallowing 25 percent of the  
9 cost of generation and transmission from the Grand  
10 Meadow wind farm. Are you proposing that  
11 disallowance because the wind farm was required to  
12 be located in Minnesota and because you believe that  
13 wind in North Dakota will support a 25 percent  
14 higher capacity factor than Minnesota?

15 A. That's basically the basis. This is  
16 difficult because we're dealing with a suboptimal  
17 solution, but the company has never modeled whether  
18 it is a suboptimal conclusion or whether North  
19 Dakota would have been cheaper. The evidence is  
20 that capacity factors in North Dakota are higher  
21 than they are in Minnesota and, as a consequence, a  
22 North Dakota location probably would have been  
23 better.

24 Q. What's the --

25 A. All I'm trying to do is get some

1 reflection --

2 MR. BRADLEY: Your Honor --

3 JUDGE WAHL: Let him finish.

4 THE WITNESS: All I'm trying to do is get  
5 some reflection of the fact that a Minnesota wind  
6 farm is now being forced on the company even though  
7 the company has been unable to demonstrate that that  
8 was the -- from the get-go the least-cost solution.  
9 Bear in mind, I'm not --

10 MR. BRADLEY: Your Honor, please.

11 THE WITNESS: Go ahead. All right. I'll  
12 be quiet. Fire away.

13 Q. (MR. BRADLEY CONTINUING) What is the  
14 assumed capacity factor for North Dakota that you're  
15 using? Is it 40 percent?

16 A. Forty to 50 percent. Obviously, there's  
17 no one capacity factor that fits all locations, but  
18 all you have to do is look at the map and see -- the  
19 wind map which Mr. Diller has and see that North  
20 Dakota has much better wind resources than  
21 Minnesota.

22 Q. Buffalo Ridge is equal, is it not, on that  
23 map to the North Dakota resources, smaller, but the  
24 capacity is the same?

25 A. That's true. It's significantly smaller,

1       though, and much more --

2           Q.     And Buffalo Ridge is much closer to the  
3       load for Xcel Energy than the North Dakota locations  
4       are compared to its load?

5           A.     Well, it's not closer to the North Dakota  
6       load center.

7           Q.     Have you done any studies to determine  
8       whether or not you could put 100 megawatts of wind  
9       and use it just for the North Dakota load and what  
10      the consequences would be in the cost of service to  
11      North Dakota if we did that?

12          A.     Well, you wouldn't make it -- nothing is  
13      exclusive to any state's load.  But as you have  
14      stated, the closer you are to the load center,  
15      presumably the better.  Probably the North Dakota  
16      wind would have predominantly served energy needs in  
17      North Dakota.  Simply because that's the nearest  
18      load center.  The Minnesota wind farm may benefit  
19      North Dakota because the power has to flow up to the  
20      Twin Cities and back out to North Dakota.  Whether  
21      that is done routinely, I don't know, but the  
22      practical matter is that all power goes into a  
23      common pool.

24          Q.     And, in fact, the North Dakota customers  
25      are benefited by the Minnesota wind power because

1 it's cheaper than our system average cost of energy?

2 A. That's right. And my suggestion is -- and  
3 we'll never know -- the North Dakota wind power  
4 might have been cheaper yet. You see, I'm not  
5 obliged to prove the company's optimal plan. What I  
6 am obliged to do is point out that the company has  
7 not proved that its plan is optimal, and that's my  
8 contention.

9 Q. Ms. Engelking testifies it will take many  
10 years for MISO to connect all currently proposed  
11 wind projects. Do you dispute that?

12 A. No.

13 Q. Ms. Engelking testifies that the Grand  
14 Meadows project was advanced in that queue and  
15 allowed access to interconnection in a time frame  
16 desired by the company. Do you dispute that?

17 A. You know, I don't dispute it. I don't  
18 know how they managed to pull that off, but I don't  
19 know why it would -- if they could pull it off in  
20 Minnesota, they could have pulled it off in North  
21 Dakota for whatever the reasons are, the same  
22 reasons. Had the whole thing been built in  
23 Minnesota, we don't know whether it would have been  
24 advanced, but it probably would have, if the company  
25 could have swung it one way or another.

1           Q.     Wasn't the Grand Meadow project an  
2 existing project that was already in the queue and,  
3 therefore, they pulled it off because it was there?

4           A.     Well, I don't know that, but what I do  
5 know is, the reason it's in Minnesota is that the  
6 Minnesota Legislature forced the company to build  
7 wind in Minnesota and it had to build it, as a  
8 consequence, at Buffalo Ridge, put in a transmission  
9 plan -- line and, subsequently, the company decided  
10 to construct Grand Meadows. How it got in the  
11 queue, I don't know.

12          Q.     Ms. Engelking testified that the Grand  
13 Meadow project, because it was an advanced project,  
14 was able to qualify for federal tax benefits worth  
15 \$20 per megawatt-hour? Do you dispute that?

16          A.     I don't dispute that. It certainly would  
17 have been true in North Dakota as well.

18          Q.     If the project were far enough along to be  
19 completed in time and connected in time to the  
20 network, interconnection to the transmission  
21 network, to qualify for the federal tax; is that  
22 correct?

23          A.     If from the get-go the company had been  
24 able to test whether North Dakota or Buffalo Ridge  
25 were the better locations for wind and if the

1 company had picked North Dakota, then all of the  
2 advantages that now accrue to the Minnesota  
3 operation would have accrued to North Dakota. There  
4 is no reason why they should not have.

5 Q. So if the Grand Meadow project has the  
6 same capacity factor of 40 percent as North Dakota  
7 and it provides tax benefits which reduce the cost  
8 by 25 percent, you would still support disallowance?

9 A. I support disallowance for the simple  
10 reason that the company has failed to demonstrate  
11 that construction of the Buffalo Ridge wind farms  
12 and the Buffalo Ridge connector to the Twin Cities  
13 was the optimal solution. The company has an  
14 obligation at all times from the North Dakota  
15 standpoint to demonstrate that its plan was the  
16 optimal solution to the company's requirements. We  
17 don't know whether the Buffalo Ridge plan was that  
18 optimal, and the reason we don't know is the company  
19 was forced by Minnesota to build that line to  
20 Minnesota wind farms and, consequently, to the  
21 Buffalo -- to the Grand Meadow wind farm.

22 Q. You've proposed disallowing the costs for  
23 three refuse-derived fuel facilities; Red Wing,  
24 Wilmarth and French Island plants; is that correct?

25 A. Yeah, I've done that. Possibly that's one

1 that I've overdone, because the company says they  
2 built those plants long before the MERP program and  
3 I probably ought to draw back on that disallowance.

4 Q. Is it your recommendation to withdraw that  
5 proposal?

6 A. I think so, yes.

7 Q. Mr. King, am I correct that you have  
8 removed the 2008 test year costs associated with  
9 mercury emissions because of the belief that  
10 Minnesota standards for mercury were more severe  
11 than the EPA standards?

12 A. No, because the mercury program isn't in  
13 place. It's not used and useful for the benefit of  
14 ratepayers anywhere, let alone Minnesota. You don't  
15 get to charge for facilities or programs that are  
16 not implemented.

17 Q. Did you hear Mr. Rosvold's testimony that  
18 none of those future mercury investment costs were  
19 in the 2008 test year?

20 A. Well, that's what he says, but then it  
21 turns out there's money in the 2008 test year for  
22 the mercury program, anyway. That's what your data  
23 response said.

24 Q. The testimony, I believe, Mr. King, if you  
25 agree with me, is that there's a rider in Minnesota

1 that allows emission costs to be recovered and that  
2 the emission costs that are being recovered in 2008  
3 are almost exclusively or 80 percent NOx related?

4 A. Well, if that's true, all right, if they  
5 are for current NOx abatement. One of the things  
6 that disturbs me is I'm not sure the standards for  
7 the emissions rider comport with North Dakota law in  
8 that regard. If -- and I don't know this, but it's  
9 the company's job to demonstrate. If the emissions  
10 rider allows recovery of advanced costs for future  
11 emission control programs, which it might, after all  
12 the thing was written by the NSP, if that's the  
13 case, then they're all quite suitable for recovery  
14 in Minnesota, but against the law for recovery in  
15 North Dakota.

16 Q. In short, you don't know what the company  
17 included in its 2008 test year for cost recovery?

18 A. You know, it isn't my job to do all this  
19 research. It's the company's job to demonstrate  
20 that what I have said is not true. It's the  
21 company's job to demonstrate that there are no  
22 advanced emissions costs incorporated in the North  
23 Dakota revenue requirement, regardless of whether  
24 those emissions costs are recoverable in Minnesota.

25 Q. Mr. Rosvold identified as the only

1 Minnesota-mandated costs included in a 2008 budget  
2 the cost of mercury monitoring, which is the cost of  
3 about \$12,000. Was installing that equipment a  
4 necessary cost of doing business?

5 A. It's necessary, but it's not for a current  
6 program and that's the test. I mean, example, when  
7 you go to build a plant, you can't start charging  
8 for the construction costs of that plant prior to  
9 that plant going in service. Now, no one says that  
10 it's not -- that those construction costs aren't  
11 necessary for the provision of service, just it  
12 isn't necessary now. It's necessary in the future.

13 Q. The company doesn't have a current need to  
14 know how much mercury it's emitting?

15 A. I cannot say.

16 MR. BRADLEY: Your Honor, I'm about to  
17 start a whole new area of depreciation. I don't  
18 know if --

19 JUDGE WAHL: This would be an excellent  
20 time to take a recess. We'll be in recess until  
21 9:30.

22 (Recess was taken.)

23 JUDGE WAHL: Let's proceed. We're on the  
24 record.

25 Mr. Bradley.

1 MR. BRADLEY: Thank you, Your Honor.

2 Q. (MR. BRADLEY CONTINUING) Mr. King, in  
3 your introductory arguments you were explaining why  
4 you thought, particularly for production plants, it  
5 was more reasonable to use a remaining life.

6 Do you recall that?

7 A. Yes.

8 Q. Would you please turn to your Exhibit  
9 CWK-8, page 137?

10 A. (Witness complies.) All right.

11 Q. Isn't that the company's application for  
12 approval of a certificate of its 2008 review of  
13 remaining lives for its production plant?

14 A. Yes.

15 Q. So, in fact, Xcel Energy does use  
16 remaining life for its production plant?

17 A. Well, they use that --

18 Q. I believe that's a yes or no.

19 A. Well, they don't use -- they use remaining  
20 life. They don't use the remaining-life  
21 depreciation calculation. There is a distinction.  
22 They use the remaining life to derive a life span.  
23 Life span then becomes the basis for their  
24 depreciation rate.

25 Q. And it's reviewed annually?

1           A.     The life span is reviewed annually, keeps  
2 changing, and that's really the problem.

3           Q.     The Commission uses straight-line  
4 depreciation for recovering asset investment costs?

5           A.     Yes.

6           Q.     And under straight-line depreciation  
7 ratepayers pay the same depreciation expense in each  
8 year of the asset's life?

9           A.     That's correct.

10          Q.     And currently cost of retirement is  
11 forecasted?

12          A.     Yes.

13          Q.     Is the forecasted cost then recovered  
14 currently using a straight-line cost recovery  
15 mechanism like depreciation?

16          A.     Well, there's a big difference. The basis  
17 for the straight-line depreciation is fixed because  
18 it is money that's already been spent. The basis  
19 for the removal cost is not fixed. It's money that  
20 hasn't been spent. And it's projected out -- it is  
21 projected from the future. As a consequence, it  
22 does not necessarily stay fixed. As a practical  
23 matter, it declines over life because in real terms  
24 it is an ever less burdensome number.

25          Q.     Instead of using the forecasted future

1 cost of removal, do you propose determining the  
2 removal cost including rates the average cost of  
3 removal during the most recent five-year period?

4 A. Only as a temporary substitute. What I'm  
5 proposing, really, is we do future cost of removal,  
6 but express it in current dollars.

7 Q. Hypothetically, if we plan to remove an  
8 asset in the year 2030, under your methodology we  
9 would not include in current rates the future cost  
10 of removing that asset?

11 A. Oh, we would include the future cost of  
12 removing that asset expressed in current dollars.  
13 You only express dollars you're collecting in this  
14 year in dollars valued at this year.

15 Q. Using the five-year average methodology,  
16 we would not be recovering the cost of that future  
17 asset?

18 A. Well, again, let's not focus on that  
19 five-year average.

20 Q. Can you answer my question first and then  
21 explain?

22 A. Well, the answer is we would be recovering  
23 a substitute for my -- for the estimate of the  
24 future cost of removal expressed in current dollars.  
25 As I've indicated, the studies I've made in other

1 utilities, the two come out very similar, and they  
2 should.

3 Q. Instead of using the amount in current  
4 rates based on the cost of that actual future asset,  
5 we would be based on an average cost of removal  
6 during the 2002 to 2006 period?

7 A. Well, that, as I say, is the surrogate  
8 that I'm using for what should be used, which is an  
9 expression of the future cost of removal expressed  
10 in current dollars.

11 Q. So your preferred approach is to use  
12 present value of future retirement costs?

13 A. Exactly.

14 Q. Would the present-value approach take the  
15 projected retirement cost and remove the effective  
16 inflation?

17 A. Exactly.

18 Q. So let's see if we can do a hypothetical  
19 so we get an understanding of this. If we were to  
20 have a forecasted cost of \$100 for retirement and  
21 that retirement is to occur in 10 years, under the  
22 current methodology, that \$100 retirement cost would  
23 be recovered by charging \$10 per year for 10 years;  
24 is that correct?

25 A. That's correct.

1           Q.     Under the present-value method, we would  
2 devalue that \$100 by the inflation rate used, and  
3 for purposes of discussion, let's assume a 5 percent  
4 inflation rate. Is that acceptable to you?

5           A.     That's a bit high, but we'll assume it.

6           Q.     The math is easier. So if we have -- if  
7 we're going to try to devalue that \$100 back using  
8 5 percent inflation rate for 10 years, subject to  
9 check or if you want to take the time to do the  
10 math, would you agree we would end up with a \$64.50  
11 rate?

12          A.     Well, I'll take your word for it. In the  
13 first year. But now that rate increases every year.

14          Q.     We're going to come to that. So instead  
15 of being a \$10 rate, we'd have a \$6.45 rate?

16          A.     Right.

17          Q.     So if we use your graph that we've been  
18 using, point A to B would be \$10?

19          A.     Yeah.

20          Q.     Point C would be \$6.45?

21          A.     Correct.

22          Q.     If we go five years into the future --

23          A.     Yeah.

24          Q.     -- we would still take that \$100 cost and  
25 we would deflate the cost by the 5 percent for five

1 years; is that correct?

2 A. Right. Right.

3 Q. Again, subject to check and I'd be happy  
4 to wait for you to do the math, would the new  
5 cost -- I've got to do the math myself.

6 A. I'll take your word for it, if it's  
7 something less than \$10.

8 Q. I came up with \$15.67.

9 A. I'm sorry. When?

10 Q. Five years. We've got a 10-year period,  
11 so it collapses everything quickly.

12 A. Yeah, but it wouldn't go up to \$15. It  
13 would be something less than \$10.

14 Q. Well, the deflated value of five years  
15 would be \$78.25, rather than the \$67 we had before?

16 A. Yeah, okay. So it would be an annual  
17 charge of \$7 and whatever, 60 cents.

18 Q. And you're right. I did the math wrong.  
19 When I divided by 12, it's \$6.53.

20 A. Right. Divide by 12, right. Or 10,  
21 rather. Whatever.

22 Q. Actually, yeah, we would divide it by 10.  
23 We're doing annually here.

24 A. Right. Right. Right.

25 Q. So it isn't by 12. It actually would be

1 by five years, would it not?

2 A. No. No, it would be by 10.

3 Q. Now, we started out with a 10-year life?

4 A. Yeah.

5 Q. We moved out five years into the future?

6 A. Yeah.

7 Q. We devalued it five years?

8 A. Yeah.

9 Q. Which got us to the -- I've got to do the  
10 math again.

11 A. You get a value -- we'll say 76 bucks for  
12 the final retirement. And you divide that by the  
13 life of the plant.

14 Q. Which is now five years?

15 A. No. The life span is still 10. Remaining  
16 life is 5, but the life span is 10.

17 Q. So you would not -- all right.

18 A. No. No. You don't change the service  
19 life just because some of the life is expired.

20 Q. On a remaining-life method you would?

21 A. No. No. You don't. Remaining life  
22 doesn't work that way, because remaining life  
23 doesn't divide the entire amount by the remaining  
24 life. What it divides by the remaining life is the  
25 unrecovered amount. In other words, you take the --

1 in this case, the 100 bucks and you back out all the  
2 removal cost you've already accrued and then you  
3 divide the remaining present value removal cost.

4 Q. But, Mr. King, the problem with if that  
5 were the correct answer, if I'm in year 10 when I'm  
6 going to depreciate it and remove it --

7 A. Yeah.

8 Q. -- our rate would only have gotten to be  
9 \$10?

10 A. That's right.

11 Q. We would never have gotten above line B?

12 A. What you're saying is, if you accrue  
13 current value year by year, will you have accrued  
14 the full amount of the removal cost by the time you  
15 get there? The answer is not in current dollars,  
16 no, you would not, but then there's two factors.  
17 One is the company has the money and it is getting  
18 the benefit of the use of that money in the  
19 meantime. Part of that benefit is the fact that it  
20 got the money before the end of the 10 years and,  
21 therefore, it can employ that money for -- as an  
22 alternative to expensive debt and equity issues.  
23 That's one consideration.

24 The other and really more important one is  
25 that we never are depreciating single assets. We're

1 never accruing removal costs for single assets.  
2 We're accruing removal costs for multiple assets  
3 that go into a pool of accrued removal costs. And  
4 as a consequence, that pool should not be any larger  
5 than it needs to be. If you continue to accrue, as  
6 the company is presently doing, which is to  
7 anticipate distant future costs and try to recover  
8 those future costs in their full amount, you will  
9 always build that pool higher than it's needed at  
10 the time. It will always, always be not only large,  
11 but it will be growing because the accounts are  
12 growing.

13 Mr. Watson was talking about the actual  
14 plant accounts, said they're all new. Well, there  
15 always will be new. That's a permanent condition of  
16 T&D plants. They're always new. And the reason  
17 they're always new is two things; one is the system  
18 is always growing so you're always adding more plant  
19 than you're retiring, and the other is the dollars  
20 are always growing because of the effect of  
21 inflation, and that's the reason the company has  
22 accrued \$372 million of removal costs that it will  
23 not spend, because forever and ever, as long as it  
24 uses this straight-line accrual process, that \$372  
25 million will grow.

1           Q.     Mr. King, is that an information response  
2 that you provided to the company?

3           A.     (Witness reviews document.) All right.  
4 Let me see if I remember this. Mr. King proposed a  
5 removal tracker where the annual removal is gathered  
6 between rate cases and then amortized to future  
7 customers over five years subsequent to the new rate  
8 structure being put in place. If not, Mr. King  
9 would allow the company recovery costs removal. No,  
10 it is noted on page 32, my preferred recommendation  
11 is that future removal costs be restated at their  
12 present dollar value. Use of the five-year  
13 historical average is admittedly a stop-gap measure  
14 resulting from the absence of vintage plant data.  
15 Preferred approach would set production plant  
16 removal cost allowances in a similar manner as the  
17 tracker suggests in the question. That is because  
18 the re-prescription removal cost allowances would  
19 follow the schedule in the remaining life of the  
20 depreciation re-prescriptions established by the  
21 Minnesota PUC. Production plant remaining lives are  
22 re-prescribed every year, and as part of that  
23 process the removal cost allowances could be reset  
24 to reflect their current remaining accrual periods.  
25 The transmission, distribution and general plant

1 accounts are reconsidered every three years at those  
2 re-prescriptions. Any changes in the present value  
3 of future removal costs could be established  
4 relative to the middle year of the next three-year  
5 cycle. Any problem with that?

6 Q. No, Mr. King. My problem with that is  
7 let's talk about the underrecovery that's occurring  
8 under this process and how do we catch up?

9 A. You don't ever -- first of all, it isn't  
10 an underrecovery and you're not going to have to  
11 worry about catching up, because absent a  
12 restatement of these costs into their present value,  
13 you're going to accrue supplemental and additional  
14 removal cost reserves in growing amounts forever.

15 Q. By your methodology, at least as you've  
16 attempted to describe it today, the line never  
17 crosses line A and B. It eventually reaches it at  
18 the end of 10 years?

19 A. That's true.

20 Q. How do we recover the cost below line A  
21 and B?

22 A. Because you're going to have yet more  
23 plant added, which will begin to accrue costs  
24 against a future removal, and you never wind up  
25 removing all your plant.

1 Q. If I have --

2 A. These are flows of money and we're trying  
3 to match the flow in to the flow out in a realistic  
4 manner that makes sure that you always have enough  
5 in that reserve to cover your removal costs and that  
6 should be the objective. It should not be to soak  
7 present ratepayers to build an accrual against a  
8 future cost expressed in future dollars.

9 Q. If we have a \$50 million retirement cost  
10 for a plant like Sherco --

11 A. Mm-hmm.

12 Q. -- and under your methodology we've  
13 recovered \$25 million, as you've never gotten up  
14 there. You never crossed the A-B line. Now we have  
15 to recover the \$25 million from future customers; is  
16 that correct?

17 A. No, you're not, because you will have at  
18 that point have built another plant to replace  
19 Sherco and that other plant will similarly have a  
20 forecast removal cost and you'll be accruing for  
21 that. You'll have a pot of gold to pay for the  
22 Sherco takedown.

23 Q. So your concept is, we'll just always  
24 underrecover for future plants, as long as the  
25 company never goes out of business, who cares?

1           A.     No, that's not the objective.   The  
2     objective is to match present responsibility to  
3     present costs.   And the responsibility admittedly is  
4     to remove the plant in the future, but it's patently  
5     unfair to express those in dollars that haven't  
6     materialized, and that's what we're trying to do.

7           Q.     I want to call your attention to the  
8     sentence in the response that said, The preferred  
9     approach would set production plant removal cost  
10    allowances in a similar manner as the tracker  
11    suggests in the question, which means that the  
12    amounts that are underrecovered in year one would be  
13    recovered in year two.

14                    What happened to the recognition of that  
15    sentence in your example?

16           A.     Where did you get -- I don't understand  
17    that question.

18           Q.     That's the third sentence in your  
19    response.

20           A.     Well, no, but let's see what the  
21    tracker -- cost of removal tracker where the actual  
22    removal is gathered between rate cases and then  
23    amortized to future customers.   I guess I don't  
24    understand the question.

25           Q.     Do you understand your answer?

1           A.     Well, I understand my answer, what I don't  
2 understand is the assumed nature of the tracker.  
3 Explain that to me.

4           Q.     The assumed nature of the tracker was what  
5 you explained in your diagram to us, is that when we  
6 eventually need to cover up -- recover the amounts  
7 that are underrecovered to actually at the end of  
8 that life recover the same dollars, that you have to  
9 have gone back and recovered those in rates as we go  
10 forward?

11          A.     No. No. You will have built -- you will  
12 have built a reserve. That reserve is based on all  
13 of the units of plant in the account. The reserve  
14 also includes all of your power plants and you're  
15 accruing that reserve against all the collective  
16 future removal costs. That reserve should be  
17 adequate to cover removal costs as they are incurred  
18 and under my system there will always be enough in  
19 that removal cost reserve to cover all removal  
20 costs.

21                   And the reason is, you will always be  
22 capturing future removal cost expressed in current  
23 dollars for the entire panoply of assets, those that  
24 are being retired this year, next year and 10 years,  
25 20 years into the future. As a consequence, the

1 reserve will always be sufficient to recover current  
2 removal cost.

3 Q. Mr. Majoros sat here in that same chair  
4 yesterday and repeatedly, repeatedly, repeatedly  
5 said line A-B dollars and line C-D dollars are the  
6 same. Do you recall that?

7 A. I can't recall that, but that's all right.

8 Q. So he was wrong then?

9 A. Well, in nominal dollars that might appear  
10 to be the case. As a practical matter, your reserve  
11 will always be adequate to cover removal costs  
12 because you're accruing costs for future removal  
13 costs of the entire range of assets.

14 Q. In order to recover the same dollars under  
15 both systems so that we have the same amount of  
16 money to retire the asset debt at the time of  
17 retirement, isn't it true that you have to set rates  
18 higher than \$10 at some point during the life of  
19 that asset?

20 A. If you focus on a single asset that might  
21 be true, but we're not dealing with single assets.  
22 We're dealing with mass -- with -- in the case of  
23 T&D, mass property accounts. In the case of  
24 production plants, we're dealing with multiple  
25 production plants. We're always accruing for a

1 whole range of future removal costs and we're doing  
2 those in current dollars. When any one plant goes,  
3 there will always be enough money to cover the cost  
4 of that plant and that should be the objective of  
5 the removal cost reserve. It should not be the  
6 objective of that removal cost reserve to build an  
7 enormous amount, hundreds of millions of dollars,  
8 that will permanently be there and will, as a  
9 consequence of the system, never be spent. That's  
10 what the present system does.

11 Q. And those dollars are used as an offset to  
12 depreciation expense and offset to rate base?

13 A. They're not an offset to depreciation  
14 expense at all. They are --

15 Q. I misspoke myself. They're an offset to  
16 the asset -- excuse me. They're an offset to rate  
17 base, are they not?

18 A. Well, I've heard this, and this is a  
19 favorite saw of utilities that, well, we don't have  
20 to really worry about overdepreciation, because  
21 ratepayers get it back in the form of reduced rate  
22 base. And that's absolutely phony. And the reason  
23 it's phony is just figure out the math. If you  
24 increase -- if you decide that you're going to over-  
25 depreciate by \$100, you are in the current year

1 charging ratepayers an additional, unnecessary \$100  
2 in expense and \$100 does go in as a rate base  
3 offset, but the return on rate base is only \$10 so  
4 the ratepayers are \$90 behind. And it's not an  
5 offset. It's not an even thing. Ratepayers come  
6 out behind any time you overstate depreciation  
7 unnecessarily.

8 Q. Now, under your hypothetical and your  
9 process as you explained it today, when we recover  
10 half the cost of retiring Sherco and this company  
11 comes back to this Commission and says we want to  
12 recover \$25 million from future ratepayers --

13 A. No.

14 Q. -- won't this Commission approve  
15 authorization of recovering expenses?

16 A. No. No. If the Commission knows what  
17 it's doing, and I think it does, it will say what do  
18 you mean \$25 million from future ratepayers? You've  
19 got \$342 million in your removal cost reserve. You  
20 take it out of there. And you've got plenty of  
21 money to pay for the cost of Sherco, and the reason  
22 you have plenty of money is you're not just accruing  
23 removal costs for Sherco, you're accruing removal  
24 costs for every other plant, including the plant  
25 that replaces Sherco.

1 Q. So your assumption is the balance in that  
2 account should be zero?

3 A. No, it shouldn't be zero, but it should be  
4 one heck of a lot less than it is right now.

5 Q. Do you know how many assets it costs and  
6 billions of dollars of assets this company has  
7 throughout this system?

8 A. It's in many billions, right.

9 Q. Let's talk about life extension of Sherco.

10 A. Yeah.

11 Q. At the time the company filed its  
12 testimony it had originally projected a retirement  
13 date of 2019. It's now, in Mr. Robinson's rebuttal  
14 testimony, increased that to 2022; is that correct?

15 A. Patently absurd date, but that's what  
16 Mr. Robinson says.

17 Q. And under your proposal, the plant would  
18 have a useful life of 59 years?

19 A. Right.

20 Q. And using a 2022 retirement, two of the  
21 units would have a useful life of 47 years and one  
22 of the units would have a useful life of 34 years;  
23 am I correct about that?

24 A. I guess. I think you're right. That's  
25 ridiculous. They're not going to retire those

1 plants -- that plant in 2022.

2 Q. Now, you've proposed 59 years based on a  
3 study you've done that shows that the average age of  
4 steam plants at the time of retirement was 59 years?

5 A. Right.

6 Q. And that was based on, if I may show you,  
7 the following raw data?

8 A. Yes.

9 Q. Okay. Now, this is a document -- and the  
10 reason I'm not distributing it broader is it is  
11 shown to be confidential. Is it, in fact,  
12 confidential?

13 A. Oh, it's not really -- this is public  
14 information. Where does it say -- oh. It's  
15 confidential because our study is a trade product.  
16 It's not a -- it's something we did.

17 Q. Okay. So you don't have --

18 A. This is all data from EIA. So you can get  
19 it any time you want.

20 Q. So you don't have a problem with me  
21 distributing it to the Commissioners?

22 A. I have no problem.

23 Q. Now, this has 86 plants in it, as I can  
24 tell by going to the bottom of page 2 of the  
25 right-hand column --

1 A. Yes.

2 Q. -- and I can see the age of retirement is  
3 the second column to the right?

4 A. Yeah.

5 Q. So out of 86 plants, three made it to 59  
6 or later?

7 A. No, I don't believe this. I've got to  
8 look at the --

9 Q. This is your data, is it not?

10 A. Yeah, but I'm not sure it's the complete  
11 set.

12 Q. It's what you provided us.

13 A. Well, this wouldn't average this 59. I  
14 know our study demonstrated 59. So I don't know  
15 what's wrong with it. This is the first time I've  
16 examined this particular document and it may be we  
17 just didn't give you all the information.

18 Q. Well, my analyst ran your analysis.

19 A. Oh, yeah, I understand, and if you look at  
20 this number, you won't get 69 -- 59.

21 Q. No. They got 56.

22 A. They got 56?

23 Q. When they ran all the information you  
24 provided.

25 A. All right.

1           Q.     But this shows, in fact, that four plants  
2 made it past 59 years; is that correct?

3           A.     Yeah, but I don't think this is right, and  
4 I have to check on why, what the problem is, because  
5 you wouldn't get -- I don't think you would get our  
6 results with just this data. So I'm sorry.

7           Q.     Now, you've testified that in order to get  
8 beyond the current life of Sherco and Prairie  
9 Island, you recognize you would have to do  
10 additional rehabilitation; is that correct?

11          A.     Oh, yeah.

12          Q.     The King plant had to be rehabilitated at  
13 \$241 million, was it, or --

14          A.     Yeah. And that's how all these plants  
15 survive.

16          Q.     So don't we normally match expenses such  
17 that we would match the life to that investment?

18          A.     Well, you do through the remaining-life  
19 procedure if you use the remaining-life procedure.

20          Q.     Which the company does for its production  
21 plant, does it not?

22          A.     Well, yeah, not really. It doesn't do the  
23 proper remaining-life calculation. But what you say  
24 is true, when you add refurbishments, you're going  
25 to depreciate those refurbishments a whole lot

1 faster than you depreciated the initial investment.

2 Q. Do you dispute Mr. Robinson's testimony in  
3 terms of what it would take to refurbish Sherco in  
4 order to get to 59 years?

5 A. Well, you know, I dispute it because I'm  
6 not sure you would keep Sherco as a base load plant  
7 all 59 years. The typical fate of most steam plants  
8 is they start out as base loads and then as  
9 technology improves and these plants age, they  
10 really are not up to or not efficient to provide  
11 base load energy and they become cycling or  
12 intermediate plants. So if Sherco were to evolve  
13 into an intermediate plant, clearly a lot of the  
14 equipment would not need to be replaced nearly as  
15 much -- as soon.

16 Q. Have you done an engineering study to  
17 support that?

18 A. You know, I don't have to do an  
19 engineering study. This is common knowledge  
20 throughout the industry that's what happens to coal  
21 plants.

22 Q. The company's testimony, Mr. Robinson's,  
23 is that in 2022 without those rehabilitations, you  
24 would shut the plant down?

25 A. Well, you probably -- you might, but you

1 have to put the rehabilitations in and when you do,  
2 you'll depreciate them, but the fact that you've got  
3 to spend money in the future is absolutely no excuse  
4 for overdepreciating the present plant. It's no  
5 excuse, flat-out.

6 Q. So you don't intend to match the cost of a  
7 plant --

8 A. Of course, I do. As you put that  
9 additional investment in the plant, it will be  
10 depreciated. Not before, but then it will be  
11 depreciated. But you don't -- simply because you've  
12 got to invest in the future, you don't over-  
13 depreciate the present plant. That's flat-out wrong  
14 from a depreciation theory standpoint.

15 Q. And you did not include any rehabilitation  
16 expense as an offset to your life extension?

17 A. Well, come on, you don't depreciate  
18 investment before it's made. I'm talking about the  
19 investment that now is in those plants and that  
20 investment is not going to retire in 2022, flat-out.

21 Q. I would like to show you another raw data  
22 that you supplied to us in an information response  
23 related to lives of combustion turbines.

24 Now, do the service lives for Xcel  
25 Energy's combustion turbines range right now from 30

1 to 57 years?

2 A. I'll take your word for it. I've got that  
3 chart somewhere.

4 Q. And you're proposing that we increase five  
5 of those combustion turbines up to 45 years?

6 A. Yeah, because that's the average service  
7 life of combustion turbines. Again, it's absurd to  
8 assume these things will be retired prematurely.

9 Q. And you've not proposed reducing those  
10 that have longer than average back down to average?

11 A. No, because they've already survived  
12 beyond that average.

13 Q. And your assumption for going to 45 years  
14 was your national study on combustion turbines?

15 A. Right.

16 Q. And I've presented you with the raw data  
17 on retirement units for combined, which I believe is  
18 everything except for steam turbines; is that  
19 correct?

20 A. Well, I don't think there are any combined  
21 cycle combustion turbines in here because that's a  
22 new technology and there have been no retirements  
23 for that.

24 Q. I'm looking at the top title here, raw  
25 data retired units-combined.

1           A.     I don't know what "combined" means.  It  
2     isn't -- oh, I think it means combined for all types  
3     of combustion turbines.

4           Q.     Right.  And, in fact, you have -- if we  
5     look under the fourth column from the left, we have  
6     prime mover, you have IC, and those are internal  
7     combustion, are they not?

8           A.     Yeah.

9           Q.     And Xcel doesn't have any internal  
10    combustion, does it?

11          A.     No.

12          Q.     And if we go over to page 2, about a third  
13    of the way down, we have our first GT.  What's a GT?

14          A.     Gas turbine.

15          Q.     Gas turbine.  Xcel does have some gas  
16    turbines?

17          A.     Yeah.

18          Q.     And if we run our finger over to the  
19    right, we would find that that was installed in 1948  
20    and it was retired in 1978?

21          A.     Which one?

22          Q.     The first GT that we encounter, gas  
23    turbine.

24          A.     Oh, I'm sorry.  On what page?

25          Q.     It's on page 2.

1           A.     This is a multipage. I don't see -- oh,  
2 the one down here. Yeah, I see what you mean.

3           Q.     Okay. Am I reading this correctly, that  
4 that plant was installed in 1948 and retired in  
5 1978?

6           A.     Yeah.

7           Q.     So that plant made it 30 years?

8           A.     Right. Right.

9           Q.     And if we were to go through this item by  
10 item, we'd be able to determine the life of each --  
11 there are GT's and CT's in here?

12          A.     Yeah.

13          Q.     And we would be able to determine the life  
14 of each of those based on this?

15          A.     Yeah.

16          Q.     Okay. Is it correct that --

17          A.     Unfortunately, not a whole lot of gas  
18 turbines have been retired so you have a pretty thin  
19 sample if you just focus on that.

20          Q.     I believe you have 372 GT's and CT's in  
21 this study?

22          A.     I'll take your word for it. Out of the  
23 total, you'll see that most are IC's.

24          Q.     Yes. Out of the 372 GT's and CT's, am I  
25 correct that one had a life of more than 45 years?

1           A.     I can't say.  You see, the problem is  
2     that's a fairly new technology and so what you're  
3     getting is an observation of the retirements of the  
4     earliest units.  You're not getting what we call a  
5     full-life experience.  In other words, you're not  
6     getting a full cycle of these things.  That's why we  
7     have the IC's in there, because for those we have  
8     the full cycle.  It goes from virtually all plants  
9     that were installed initially, in the initial years,  
10    are now retired so we now know for those plants the  
11    full pattern, but for the GT's, we're simply getting  
12    the front end of the retirement curve and that's why  
13    it turns out they turn out to have less than the  
14    average service life.

15           MR. BRADLEY:  Your Honor, I have decided,  
16    based on his last answer, I would like to make these  
17    exhibits and put them in the record.  I've got extra  
18    copies.

19           JUDGE WAHL:  Well, let's identify them.  
20    My next number is 35, counsel, and I do have the  
21    last handout.

22           MR. BRADLEY:  We'll get you the first one,  
23    Your Honor.

24           JUDGE WAHL:  I'm sorry.  I have the first.  
25    All right.  Now I have them both.

1           So, counsel, referring to the first  
2 handout, that's the two-page handout, how would you  
3 identify it, please?

4           MR. BRADLEY: I would refer to these as  
5 steam plant retirement lives.

6           JUDGE WAHL: So will you mark them as one  
7 exhibit or two?

8           MR. BRADLEY: I would do the two pages as  
9 one exhibit.

10          JUDGE WAHL: No. No. I understand that.  
11 So this one is called steam plant retirement lives?

12          MR. BRADLEY: Correct.

13          JUDGE WAHL: All right. For the record,  
14 that's Exhibit 35.

15          Mr. Bahr?

16          MR. BAHR: Your Honor, we will object to  
17 the admission of both of these, either of these  
18 exhibits, absent all the information provided in  
19 response. Otherwise, the Commission is only getting  
20 partial response and it cannot be fully explained.

21          JUDGE WAHL: Mr. Bradley?

22          MR. BRADLEY: Your Honor, this is the only  
23 information we were provided that gave us the raw  
24 data upon which the studies were conducted. If  
25 there's more information, they failed to provide us,

1 that's one thing.

2 JUDGE WAHL: No, I understood that the  
3 objection was based on the request to provide all of  
4 the response which included this exhibit.

5 Am I correct in that?

6 MR. BAHR: Correct. There would be -- I  
7 don't believe just this was submitted.

8 MR. BRADLEY: That was about four inches  
9 worth of material. This is the only information we  
10 needed.

11 MR. BAHR: That's the point. The four  
12 inches of material explains all this and puts it all  
13 into context.

14 MR. BRADLEY: If advocacy staff would like  
15 to make a late-filed exhibit of all of that  
16 information, we have no objection. I don't have  
17 that full study with me.

18 JUDGE WAHL: Well, but it's available?

19 MR. BRADLEY: It's available. It's about  
20 four inches thick.

21 JUDGE WAHL: Well, I know, but that's the  
22 rule.

23 MR. BRADLEY: And I'm not objecting to the  
24 rule. I'm just trying to figure out a simple way of  
25 getting it solved.

1                   JUDGE WAHL:  There probably isn't,  
2                   Mr. Bradley.  You know, as I understand the rule,  
3                   you can't be selective about information from a  
4                   source upon an objection that it can only be  
5                   understood in the context of the source.

6                   MR. BRADLEY:  Can we make a single exhibit  
7                   then, Your Honor, since there will be no reason to  
8                   make dual exhibits and supply the entire study as a  
9                   late-filed exhibit?

10                  JUDGE WAHL:  So what are we talking about,  
11                  Mr. Bahr, Mr. Bradley?  Was this a request by, what,  
12                  NSP to advocacy staff of what?

13                  MR. BRADLEY:  Mr. King testified that he  
14                  relied on a national study done by Snavely King.  
15                  We've got another problem I'll have to address in a  
16                  second here.  A national study addressed by Snavely  
17                  King that determined that the average life of a  
18                  steam plant was 59 years and based upon which he  
19                  concluded that our combustion plants should be  
20                  45 years.  We asked for a copy of the study.  It was  
21                  provided.  This is the raw data, as it indicates,  
22                  raw data retired units.

23                  JUDGE WAHL:  Which was part of the study  
24                  which you were provided?

25                  MR. BRADLEY:  Which is, by the way, a

1 proprietary study to Snavely and King. Now we have  
2 another problem.

3 JUDGE WAHL: Mr. Bahr?

4 MR. BAHR: I've been informed that they  
5 are willing to make it unproprietary for purposes of  
6 this proceeding.

7 MR. BRADLEY: Then there's not a problem.

8 JUDGE WAHL: I don't think there is,  
9 either. So, Mr. Bahr, what is that -- I'm just  
10 going to make a note on what I have marked here as  
11 Exhibit 35. So what is this? How do we identify  
12 now, Mr. Bahr, the Exhibit 35, which you -- pursuant  
13 to your request?

14 MR. BAHR: National life study.

15 COMMISSIONER WEFALD: So we don't keep  
16 these?

17 JUDGE WAHL: No, Commissioner, you may  
18 keep them. You may keep them, but they won't be  
19 part of the record, except as part of Exhibit 35.

20 COMMISSIONER WEFALD: I understand, but  
21 that's just simple for me to get rid of them.

22 JUDGE WAHL: Oh, sure. Is that all the  
23 identification -- is that identification sufficient,  
24 counsel, Exhibit 35, national life study?

25 MR. BAHR: I believe that would be

1       adequate.

2                   JUDGE WAHL:   And where are we going to get  
3       that from?  Is that going to come from the  
4       Commission?  Has the Commission got that?  Or,  
5       Mr. Bradley, is NSP going to provide the exhibit?

6                   MR. BRADLEY:  We can certainly do that.

7                   JUDGE WAHL:  All right then.  Let's do  
8       that.  Then, in effect, that will be a late-filed  
9       exhibit only in the sense that we don't have it  
10      physically present.

11                  MR. BRADLEY:  May I ask a housekeeping,  
12      Your Honor?  We are going to be filing a number of  
13      late-filed exhibits.  How many copies should we  
14      file?

15                  MS. JEFFCOAT-SACCO:  Same number as  
16      before, 11.

17                  MR. BRADLEY:  Thank you.  Your Honor, I  
18      withdraw my request for Exhibit 35.  Killing a tree  
19      for that isn't worth it.  I've got what I want on  
20      the record.

21                  JUDGE WAHL:  Mr. Bahr, I assume you have  
22      no objection.

23                  MR. BAHR:  No objection.

24                  JUDGE WAHL:  All right.  You may proceed,  
25      Mr. Bradley.

1           Q.     (MR. BRADLEY CONTINUING) With regard to  
2 the combustion turbine proposal to increase the  
3 lives by five years, Mr. Robinson testified  
4 concerning the type of rehabilitation work that it  
5 will take, be required in order for those plants to  
6 make it that long?

7           A.     Yes.

8           Q.     Do you disagree with any of his testimony?

9           A.     No. There's absolutely nothing to do with  
10 the appropriate depreciation life span for the  
11 existing plant. That's future plant.

12          Q.     And you did not include any rehabilitation  
13 expenses as an offset to your life extension?

14          A.     You don't do that. I mean, that's not how  
15 it's done. The life span is what it is. Regardless  
16 of whether you have to rehabilitate to achieve that  
17 life span. We're not depreciating the  
18 rehabilitation costs. We'll depreciate those when  
19 they are expended. But you don't adjust the life  
20 span based on that rehabilitation. That's future  
21 costs that will be recovered.

22          Q.     Mr. King, you testified in your opening  
23 speech that you thought that the environment here in  
24 North Dakota was more benign towards distribution  
25 than Minnesota. Do you recall that?

1           A.     Only for -- in connection with overhead  
2     plant.

3           Q.     Okay.  Have you done a study between the  
4     weather here in North Dakota and the weather in  
5     southern Minnesota where Xcel Energy provides  
6     service?

7           A.     Well, you know, that's a good study to do.  
8     What I've suggested is an even better study would be  
9     the life expectancy of North Dakota plant.  That's  
10    much more to the point.  And that's not been done  
11    and it's not my job to do.  It's your job, but we  
12    asked for the data so that we could do that study,  
13    because we had the capability, and we got  
14    stonewalled on that data.

15          Q.     Several of my clients approached me and  
16    took umbrage with your comment that North Dakota  
17    doesn't have trees.  Have you evaluated whether or  
18    not the trees in this area are fewer or greater than  
19    they are in the service area where North Dakota --  
20    than Minnesota?

21          A.     I'm looking out the window, and I don't  
22    see a big forest out there.  I see a lot of prairie,  
23    and when I landed there in Twin Cities, there are a  
24    lot, a lot of trees.

25          Q.     So that's your assumption?

1           A.     Oh, come on.  Everybody knows that the  
2     annual rainfall -- anybody who has been here knows  
3     that the annual rainfall falls off as you go west  
4     from the Twin Cities.  And so North Dakota will  
5     probably -- well, almost certainly have less trees  
6     because it takes rain to grow trees.

7           Q.     The company testified that its vegetation  
8     control would not extend the life of these  
9     facilities because that isn't what causes the  
10    outages.  Do you dispute that testimony?

11          A.     Well, they said it wasn't the major cause.  
12    It certainly is a cause.  As I said, there's two  
13    reasons for the life extension.  And you said  
14    production plant.  I think you meant overhead  
15    conductor count.  One is the absence of a North  
16    Dakota specific study, and the other is the  
17    differential in the nature of the climate,  
18    principally the amount of rainfall or precipitation.

19          Q.     So your adjustment was based on  
20    assumptions --

21          A.     Well --

22          Q.     -- about how rainfall affect -- let me  
23    finish my question, if I could.  Your adjustment is  
24    based upon an assumption without engineering studies  
25    or other studies, but based upon your review of

1       rainfall?

2           A.     You know, why is it that I'm supposed to  
3       prove the very information that the company is  
4       supposed to prove?  What I have said and what I'll  
5       say again is this company does not have a North  
6       Dakota specific study of any of its distribution  
7       plant, and it's unreasonable to assume that North  
8       Dakota experience is the same as Minnesota  
9       experience with regard to overhead conductors.  It  
10      is reasonable to assume that because of the lower  
11      levels of precipitation in North Dakota, as opposed  
12      to eastern Minnesota, there is somewhat longer life  
13      to overhead conductors.

14           Now, you are telling me that I'm supposed  
15      to do the study that you should have done, but I  
16      would have done that study if I had the data to do  
17      it with.  If I had vintage data for plant in North  
18      Dakota, we would have done the study.  It would be  
19      on the record right now and we would know for sure  
20      what the differences are between North Dakota and  
21      Minnesota, but to simply assume that Minnesota is  
22      appropriate for North Dakota is flat-out wrong.

23           Q.     And without that information, we could  
24      just as well assume that it should be five years  
25      shorter?



1 Early in Mr. King's testimony -- early in Mr. King's  
2 testimony he said -- the attorney had asked him if  
3 he agreed with Betsy Engelking on a specific matter  
4 and I heard him say I agree with everything Betsy  
5 Engelking said.

6 Did you mean that you agreed with all of  
7 her testimony or only on that specific topic?

8 A. Yeah. The question went to the advantages  
9 of a broader system, integrated system, and she  
10 argued at some length at the end of her testimony,  
11 the whole last few pages, about the advantages of an  
12 integrated system. I agree with everything she said  
13 in that section, but I don't agree with everything  
14 else she said, no.

15 Q. Thank you for clarifying that. On the --  
16 on -- give me a moment because I wasn't certain when  
17 counsel would be done with his questioning to review  
18 my notes here.

19 It's always helpful for the Commission to  
20 have a list of the -- a list of the specific items  
21 that your -- that staff is recommending adjustments  
22 to the case and put those in a list.

23 A. Well, actually, the list is at the back of  
24 Mr. Majoros' testimony.

25 Q. Yes, but there were dollar differences

1 then between NSP's one witness came in and said the  
2 dollar differences between and I know that  
3 Mr. Majoros agreed with those and said that now the  
4 cost increases. There's a cost increase of like  
5 \$4.7 instead of a cost --

6 A. In other words, you'd like Mr. Majoros to  
7 itemize the individual adjustments as revised by  
8 Ms. Heuer?

9 Q. That's correct.

10 MR. BAHR: Commissioner Wefald, I would  
11 submit that in our concluding legal documents, our  
12 briefs, we would attach a list with any changes or  
13 modifications based upon what's occurred in this  
14 proceeding.

15 COMMISSIONER WEFALD: Thank you. That  
16 would be very helpful. That would be very helpful.  
17 And at this time, I have no further questions.

18 JUDGE WAHL: Commissioner Clark.

19 COMMISSIONER CLARK: I do have a few.

20 **EXAMINATION**

21 **BY COMMISSIONER CLARK:**

22 Q. Could -- how do you adjust for the fact or  
23 do you adjust for the fact at all that Xcel doesn't  
24 have a North Dakota specific depreciation study,  
25 especially with regard to the North Dakota specific

1 plant, the transmission and distribution facilities?  
2 Do you make any adjustment from a dollar standpoint,  
3 or is it just a matter of recommending that they  
4 file one?

5 A. Well, the only adjustment I've made is the  
6 one we just debated, which is to the overhead  
7 conductors account, and that's only because that is  
8 clearly the one that most likely is different in  
9 North Dakota as opposed to Minnesota. But aside  
10 from that, I don't have a basis for adjusting any of  
11 the other accounts, even though I'm confident that a  
12 North Dakota specific study would obtain different  
13 results. Now, in some cases it may be shorter lives  
14 than the company assumed or in others longer. I  
15 can't say.

16 Q. Did advocacy staff debate at all simply  
17 recommending that the Commission return the rate  
18 case pending an updated depreciation study? I mean,  
19 it is a huge issue.

20 A. Oh, it's a big issue and that certainly is  
21 an option the Commission could adopt. I would put  
22 into that that we should -- it should develop its  
23 production plant depreciation rates based on the  
24 revised rates that I have suggested. We were able  
25 only to make -- as you'll see in my exhibit -- oh,

1 dear. It's Exhibit No. CWK-4, I believe -- anyway,  
2 my adjustments were necessarily very, very rough  
3 because we didn't have any refined data on the test  
4 year plant and the depreciation.

5 Q. Did you have an ability to take a look at  
6 the pre-MERP IRP?

7 A. No, I haven't. And that's an issue  
8 because we should have or would have examined that  
9 pre-IRP MERP and we would have requested it from the  
10 company. I gather that staff has it in any case,  
11 but the -- I didn't know until the rebuttal was  
12 filed a week ago, what, Friday that the company was  
13 going to take issue with what I thought was his own  
14 witness's testimony.

15 COMMISSIONER CLARK: Is there going to be  
16 an ability -- and I can make the request or maybe  
17 perhaps one of the parties can -- to have -- I  
18 assume we just need to take notice of our own filing  
19 because those are all filed in front of our  
20 Commission.

21 MR. BAHR: And it is my understanding that  
22 these documents are filed with the Commission and  
23 I'm assuming, but would like counsel to confirm that  
24 it can be referred to in the record.

25 MS. HERTZLER: We have no objection to

1 taking notice of that and referring to it in the  
2 record.

3 COMMISSIONER CLARK: So I'll ask Judge  
4 Wahl. Do we need to take any -- identify the  
5 particular IRP that we're talking about, or are they  
6 all open for us to look at?

7 JUDGE WAHL: No. They're all available  
8 and the Commission can take official notice of its  
9 filings.

10 COMMISSIONER CLARK: Do we need to do that  
11 now or just --

12 JUDGE WAHL: No. The problem with the  
13 other documents that we have pending is that they  
14 weren't identified.

15 COMMISSIONER CLARK: Okay.

16 Q. (COMMISSIONER CLARK CONTINUING) Mr. King,  
17 did you look at all into the issue that the  
18 Commission explored yesterday or the day before, I  
19 can't remember, with one of the Xcel witnesses  
20 regarding projected growth in North Dakota and what  
21 impact that could have on the rate request?

22 A. You know, we looked at that, but I must  
23 say we didn't give it a very refined analysis. It's  
24 very hard to argue with the company's forecast  
25 studies, and what I think we should have looked at

1 more carefully is the relationship of North Dakota  
2 growth to Minnesota growth.

3 Q. Did you find that finding a little odd --

4 A. Yeah, its counterintuitive because my  
5 impression is that Minnesota, certainly the Twin  
6 Cities area, is growing faster than North Dakota,  
7 although the part of North Dakota that's growing is  
8 the part that's served by this company.

9 Q. Would you talk a little bit -- I think it  
10 was Mr. Watson. I had asked him about the  
11 depreciation study and said, you know, if you've got  
12 an accurate depreciation study, shouldn't the method  
13 that they're using for the net salvage, the cost of  
14 salvage be accurate? In other words, does it really  
15 matter? Could you address that?

16 A. Well, it's always a rough estimate as  
17 companies typically calculate cost of removal and  
18 because it's based on historical relationships  
19 between experienced removal costs and experienced  
20 retirements. This is true of the T&D plant. It's  
21 not -- transmission and distribution plant, not of  
22 the production plant. But that is a very poor basis  
23 for forecasting future removal costs, because it's  
24 comparing dollars that are significantly different  
25 in value. It's a fraction with the denominator

1 being the removal cost -- I'm sorry. The numerator  
2 being the removal cost, the denominator being the  
3 retired plant. Well, the numerator is expressed in  
4 recent dollars because they've only been taking --  
5 it reflects usually the plant taking down the last  
6 five years. The denominator can be plant that was  
7 placed -- it's the original cost of plant that has  
8 been retired and it could be 50, 75 years old. As a  
9 consequence, you're getting old, very valuable  
10 dollars and, therefore, very few dollars in the  
11 denominator, and new not very valuable dollars and,  
12 therefore, many of them in the numerator and you get  
13 an overstated fraction.

14 Q. Okay. So the \$300-some million balance  
15 that you're talking about, is the primary driver  
16 behind that the time value of money as opposed to --

17 A. That's right. It's the differential of  
18 the value of money in that fraction.

19 Q. Okay. There was a statement that  
20 Ms. Engelking made, and I was wondering if you had a  
21 reaction to it or how you interpreted it. And it  
22 was related to, I think the word she used was  
23 "flexibility," that there was a -- through normal  
24 processes of procuring new plants and additions and  
25 things like that, there had been established a

1 fairly rigorous RFP process, procurement process,  
2 but I think it was related to MERP, but because of  
3 MERP there was flexibility that was able to be  
4 gained in, I think, specifically rehabilitating the  
5 High Bridge plant and obtaining some turbines at a  
6 lower cost than they might have otherwise incurred.

7 Could you reflect on that?

8 A. What I heard is that they get the  
9 flexibility in the MERP project to self-build and,  
10 therefore, not have to go out on bids. That's what  
11 I heard. Now, there may be additional flexibility  
12 she was talking about and that is not a very good  
13 flexibility because it permits the company to  
14 capture construction projects and incorporate that  
15 into its rate base. The concept of competitive  
16 bidding is that the company puts in a bid itself for  
17 a self-build option and that's one of the  
18 alternatives that has to be considered in the  
19 competitive bidding process.

20 Q. So some of the competitive bidding was  
21 forfeited in this particular case because they got  
22 automatic recovery through the rider?

23 A. Yeah. My understanding is that they were  
24 able to avoid competitive bidding for both the wind  
25 and the power plants, but, again, this is based on

1 listening to Ms. Engelking and I may have gotten it  
2 wrong.

3 COMMISSIONER CLARK: Okay. That's all  
4 I've got right now. Thanks.

5 JUDGE WAHL: Commissioner Cramer.

6 COMMISSIONER CRAMER: Thanks.

7 **EXAMINATION**

8 **BY COMMISSIONER CRAMER:**

9 Q. Commissioner Clark asked two real specific  
10 questions that I was going to ask and I appreciate,  
11 especially related to this pre-MERP IRP and the  
12 dramatic change to the post-MERP IRP. So I'm going  
13 to try to utilize your expertise and your experience  
14 to ask a couple maybe broader questions.

15 One is in your rate design discussion,  
16 especially you're advocating for ultimately  
17 separating delivery charge from the volume charge,  
18 delivery cost from volume charge, that decoupling --

19 A. Right.

20 Q. -- and the advantage -- one of the  
21 advantages you talked about was the balancing of  
22 monthly bills throughout the seasons or the year.

23 Is there an additional value to how it  
24 would incent the company to implement more  
25 conservation measures? Does it send better price

1 signals?

2 A. Oh, yeah, I think that's always an  
3 advantage of making sure that the charges reflect  
4 the underlying costs and the drivers of those costs,  
5 because you don't want fixed costs covered by  
6 volumetric rates, because then there is every  
7 incentive for the company to maximize volume and  
8 minimize conservation. When its fixed costs are  
9 recovered in fixed rates, then the company is  
10 indifferent to conservation because it doesn't  
11 suffer a penalty if customers cut back.

12 Q. I want to pick your expertise a little bit  
13 with regard to this issue of Minnesota driven costs  
14 in North Dakota -- being expected to be paid for by  
15 North Dakota ratepayers.

16 If Minnesota public officials, whether  
17 they be elected or appointed by elected officials,  
18 represent the will of the people and they impose  
19 these additional costs, I assume willingly, why  
20 wouldn't they also be willing to pay all of them?

21 A. Well, I think they should be. You know,  
22 repeatedly in cross-examination we hear the company  
23 saying, well, if we didn't pay the -- oh, the  
24 contributions to the renewable fund, for example,  
25 why we'd have to close Prairie Island because we

1 wouldn't be meeting our Minnesota requirement.  
2 Well, sure, fine, pay the thing and charge it to  
3 Minnesota because it's a Minnesota cost. I think  
4 that's true of all these disallowances I've  
5 proposed. They're Minnesota costs and I do believe  
6 the Minnesota Commission ought to be absorbing those  
7 costs and charging the Minnesota ratepayers.

8 Q. Well, in your opinion, would Minnesotans  
9 resist that?

10 A. You know, I don't think that if this  
11 company went to the Minnesota PUC and said that the  
12 North Dakota Public Service Commission has found  
13 that these are Minnesota-only costs, that the  
14 Minnesota Public Utility Commission would say, well,  
15 I don't agree with the North Dakota Public Service  
16 Commission and you guys go back to North Dakota and  
17 try and get that money. I just don't see that kind  
18 of relationship between you and the PUC, but then  
19 you guys know better than I how you get along with  
20 those folks.

21 Q. You heard some questioning and answers of  
22 Xcel witnesses regarding not the weather climate,  
23 but the regulatory climate in comparison between the  
24 two states with regard to building transmission and  
25 plant, and my assessment of the answers went from --

1 let me back up.

2 I was trying to get to the point is it  
3 easier, is it faster and consequently less expensive  
4 to build transmission in North Dakota than it is in  
5 Minnesota? That's a paraphrase of my question. The  
6 paraphrase of the answers went from somewhere  
7 between elusive to vague.

8 In your experience in multiple states, do  
9 you think or do you have any experience to support  
10 that it is, in fact, maybe much easier to do  
11 business in North Dakota, to build whether the  
12 regulatory climate and/or costs associated in North  
13 Dakota than in Minnesota?

14 A. Well, my experience is that resistance to  
15 particularly transmission lines, that's the big  
16 tough one --

17 Q. Yes.

18 A. -- is a function of population density.  
19 The more people you have per square mile the more  
20 resistance you're going to get to putting a  
21 transmission line through that square mile. And the  
22 fact is that Minnesota is more population density,  
23 at least southern Minnesota, than North Dakota.  
24 Once you get out of Fargo and, you know, the Red  
25 River Valley.

1 Q. Sure.

2 A. So I would suspect that you get a lot less  
3 resistance to transmission lines in North Dakota  
4 than you do in Minnesota.

5 Q. Are you familiar with any transmission  
6 projects in Minnesota that have been pending before  
7 regulators for one, two, three or more years?

8 A. I'm not familiar, but I wouldn't be  
9 surprised if there are such. I mean, that's typical  
10 in urbanized states.

11 Q. Do you have any concern about the growing  
12 dependence on natural gas for generating electricity  
13 for things other than rarely used peak plants?

14 A. Yeah, because natural gas fluctuates in  
15 both availability and, consequently, price.  
16 Additionally, natural gas is dependent upon  
17 pipelines and the pipelines can be bottlenecks. As  
18 electric utilities use more natural gas, clearly  
19 they put a strain on pipeline capacity and the  
20 practice in most regulatory commissions is to give  
21 first priority to heating gas; in other words,  
22 recognizing that heating gas is a basic necessity of  
23 life. And generating electricity is a basic  
24 necessity of life, but most electric utilities have  
25 enough flexibility that if push comes to shove, they

1 can cut back on natural gas use and bring up  
2 something else, usually coal.

3 Q. Well, do you see the conversion of a  
4 couple of coal plants in the NSP system to natural  
5 gas as a concern in this regard?

6 A. Well, certainly that is -- incrementally  
7 adds to that problem. You know, the flipside, as  
8 the company says is, oh, well, these things are more  
9 flexible because you can start them up and close  
10 them down real quickly. Coal plants, that's more  
11 difficult because you simply can't fire up a coal  
12 plant in the matter of an hour or two.

13 Q. Okay. I just want to pursue one other  
14 line of information. And I asked Mr. Majoros this  
15 question yesterday and he deferred to you and maybe  
16 you can help me a little bit.

17 What are the advantages to a company like  
18 NSP requesting or entering into building a transfer  
19 relationship with large wind developers as opposed  
20 to long-term purchase power agreements and what  
21 might be disadvantages to ratepayers?

22 A. Well, the advantage to NSP of owning as  
23 opposed to buying is that owning they make money on.  
24 It goes into rate base. If they buy, it goes  
25 dollar-for-dollar right through the FCA and they

1 don't make a red cent on it. So right off the bat  
2 there's incentive for the company to own.

3 Now, having said that, there are also some  
4 offsetting benefits in theory to ratepayers. And  
5 that is, that NSP can capture the -- particularly  
6 for wind, the tax credits and flow them through to  
7 ratepayers. They will not get the tax credits from  
8 wind developers, because the wind developer will  
9 keep them and not flow them through in the price of  
10 their -- in reducing the price of their power. That  
11 maybe is one of the biggest advantages of the self-  
12 build option.

13 If the company wants to keep that  
14 self-build or that tax credit, then we've got  
15 another problem. And some companies argue that  
16 they're entitled to absorb the tax credit because it  
17 is, after all, intended to foster the development of  
18 wind. And that would cancel that out, but that's  
19 speculative. I don't know whether the company plans  
20 to flow through the tax benefit of Grand Meadows or  
21 not.

22 Q. In your opinion, is there more risk and is  
23 it worth it, if there is, to ratepayers in the  
24 ownership model versus the PPA model?

25 A. Well, there probably -- arguably more risk

1 in the PPA model because the company doesn't control  
2 the resource and it's possible that the wind  
3 developer could peddle it to somebody else, but it's  
4 unlikely, particularly given that the wind developer  
5 is hooked up to the NSP system and it's rather hard  
6 to bypass that. So I don't think that's a big  
7 difference in -- risk is a big differential.

8 COMMISSIONER CRAMER: I have nothing  
9 further.

10 JUDGE WAHL: Commissioner Clark.

11 **FURTHER EXAMINATION**

12 **BY COMMISSIONER CLARK:**

13 Q. I just have a couple followups after  
14 Commissioner Cramer.

15 With regard to this issue of wind  
16 ownership versus purchasing wind through PPA's,  
17 would it make sense for this Commission to perhaps  
18 have -- present a posture to utility companies in  
19 general and maybe Xcel here, that it would be  
20 appropriate to have a mix of both PPA and ownership,  
21 recognizing that there are costs and benefits to  
22 each side of it?

23 A. Well, I think that's not a bad policy to  
24 adopt. Always you want to diversify, as much as you  
25 can, your resources, and that's a form of resource

1 diversification.

2 Q. And then just so I understand -- so that  
3 I'm following your discussion of wind and the  
4 Buffalo Ridge and the Grand Meadow -- Grand Meadow?

5 A. Yeah.

6 Q. -- project, your argument that you're  
7 forwarding is that Minnesota early on adopted a  
8 mandate for wind and that it be mandated that it go  
9 in Minnesota?

10 A. Right.

11 Q. And because of that mandate, really the  
12 only place that they could turn was Buffalo Ridge  
13 because it's the only --

14 A. Only good resource.

15 Q. Right. Only field of any size that has an  
16 acceptable resource, so that's where the initial  
17 investment went, but that's not really at stake in  
18 this rate case, but what is, is the domino effect  
19 that that early mandate created, which was because  
20 the mandate basically said you're going to go to  
21 Buffalo Ridge, that's where the transmission was  
22 developed and, therefore, that's where all of Xcel's  
23 subsequent development of wind has taken place?

24 A. That's correct.

25 Q. Okay. And the concern that this raises

1 for you is that because of that, it's precluded any  
2 real competitive look at where the best wind  
3 resource would be if you looked at the system as a  
4 whole?

5 A. That's correct.

6 Q. Okay. Given that so many other utility  
7 companies in the region have invested large amounts  
8 into wind power in North Dakota, does that -- does  
9 it seem either odd to you that Xcel hasn't invested  
10 more in North Dakota wind, or does that really  
11 establish a prima facie case that maybe what  
12 happened in Minnesota really did skew things in  
13 favor of them to the exclusion of North Dakota wind?

14 A. Well, it certainly suggests that what  
15 happened in Minnesota skewed toward Minnesota and  
16 away from North Dakota. The big problem is we don't  
17 know, and the reason we don't know is there never  
18 was a competitive comparison of the alternative.  
19 And that being the case, I don't think this  
20 Commission should automatically accept the full cost  
21 of this Grand Meadows operation and the transmission  
22 cost to hook up Minnesota because it hasn't been  
23 proven to be the best cost, least cost opportunity.  
24 And that's a burden the company has to bear and they  
25 have not borne it.

1                   COMMISSIONER CLARK:   Okay.   Thanks.  
2                   That's all I've got.

3                   JUDGE WAHL:   Commissioner Wefald.

4                   COMMISSIONER WEFALD:   Yes.

5   **FURTHER EXAMINATION**

6                   **BY COMMISSIONER WEFALD:**

7                   Q.   Elizabeth Engelking, in her testimony --  
8                   Elizabeth Engelking, in her testimony, said that if  
9                   the Commission disallowed 25 percent of the cost for  
10                  transmission and the Prairie Meadow --

11                  A.   Grand Meadow.

12                  Q.   -- Grand Meadow wind farm, that, then,  
13                  those facilities would need to be replaced at cost  
14                  to North Dakota ratepayers.  Is that your intention?

15                  A.   Yeah, that's ridiculous.  I'm not  
16                  proposing that Grand Meadows not produce its power.  
17                  What I'm saying is that we don't know that Grand  
18                  Meadows is the cheapest wind resource for this  
19                  company.  And, as a consequence, we shouldn't be  
20                  simply rolling over and paying the full price for  
21                  Grand Meadows.  We should be getting some sort of  
22                  discount for the fact that we very well may be and  
23                  probably are paying a suboptimal -- paying for a  
24                  suboptimal facility.

25                  COMMISSIONER WEFALD:   Thank you.

1 JUDGE WAHL: Anything further from the  
2 Commission? Why don't we take a very brief recess,  
3 I think. Boy, can we do five minutes? Let's do  
4 five minutes just to stretch our legs and go right  
5 back to work.

6 (Recess was taken.)

7 JUDGE WAHL: All right. We are back on  
8 the record.

9 Mr. Bahr, followup?

10 MR. BAHR: Yes. Thank you, Your Honor.

11 **REDIRECT EXAMINATION**

12 **BY MR. BAHR:**

13 Q. First of all, Mr. King, during the  
14 questioning about remaining-life depreciation, you  
15 used the word "refund" a couple of times.

16 Do you remember that?

17 A. Yes.

18 Q. Would that word have been an accurate  
19 description of what you're referring to?

20 A. No. No. That's not what happens. If you  
21 overdepreciate in remaining-life depreciation, it  
22 means that your reserve is overstated and in  
23 remaining-life depreciation you compute the  
24 depreciation rate by taking the accrued depreciation  
25 reserve, which now we've determined is overstated,

1 and you reduce the amount to be depreciated by  
2 taking the original cost, subtracting that reserve  
3 and then you get the unrecovered cost. Now, if  
4 you've been overdepreciating, that unrecovered cost  
5 is somewhat smaller. As a consequence, the  
6 depreciation rate is somewhat lower than it would be  
7 under whole-life rates and that is then reflected in  
8 the going-forward depreciation rates which are  
9 adjusted to recognize the fact that you have in the  
10 past overdepreciated. As far as I know, NSP does  
11 not do that and given that they have been over-  
12 depreciating all of their production plants, that is  
13 a flat-out error in their methodology.

14 Q. During the questioning you were also asked  
15 a number of questions about Exhibit 34, Mr. Majoros'  
16 single-asset example?

17 A. Yes.

18 Q. Would you agree that Mr. Majoros would be  
19 the better one to respond to questions?

20 A. I think so. He disagrees with me. He was  
21 shaking his head and if I have misinterpreted it, I  
22 would really like to have him explain why.

23 MR. BAHR: Thank you. No further  
24 questions.

25 JUDGE WAHL: Mr. Bradley.

1 MR. BRADLEY: Thank you, Your Honor.

2

**RECROSS-EXAMINATION**

3

**BY MR. BRADLEY:**

4

Q. You just testified that the company has  
5 overdepreciated its what?

6

A. It's production plants.

7

Q. By how much?

8

A. I don't know. I'd have to calculate that,  
9 and I would have if I had the data, but I didn't get  
10 it.

11

Q. So you don't know if they've over-  
12 depreciated?

13

A. I do, yes, because any time you extend the  
14 life of a production plant, it means that your past  
15 accruals have been overstated because they were  
16 based on a shorter life than the one you're now  
17 using, so you have in the past overdepreciated that  
18 plant.

19

Q. And as we go forward, if you extend the  
20 life, you recover on a remaining-life basis the new  
21 expense to extend that life, divided by whatever  
22 hasn't yet been depreciated, plus whatever hasn't  
23 been depreciated by the number of years left?

24

A. Well, that's how it should be done. I'm  
25 not certain that's how the company does it.

1           Q.     At which point, then, to the extent that  
2     the company has, quote, overrecovered, that would  
3     reflect in a reduction in cost for future repairs?

4           A.     If the company uses the remaining-life  
5     procedure, what you say is accurate.  If the company  
6     does not, what you say is not true.

7           Q.     And if we were to refund the so-called  
8     overcollected amounts, then they would just have to  
9     be collected again in the future?

10          A.     No.  No.  No.  You don't refund them.  
11     What you do is adjust -- that was an unfortunate  
12     word and it was flat-out wrong.  You adjust down the  
13     depreciation rate to reflect the fact that you've  
14     already overrecovered past depreciation accruals.

15          Q.     By the end, though, we would need to  
16     recover the entire asset cost, both original and as  
17     extended?

18          A.     If you do it right, you will, of course,  
19     but with remaining-life depreciation, that's exactly  
20     what happens.

21          Q.     Commissioner Clark asked whether the  
22     advocacy staff had considered returning this case  
23     due to the fact that this company had not filed an  
24     independent North Dakota depreciation study.

25                     Do you recall that question?

1           A.     Yes.

2           Q.     Are you aware that the past Commission  
3 practice has been to accept the filings and results  
4 of the Minnesota processes?

5           A.     Well, that's true, but we now find out  
6 that the Minnesota processes are very, very, very  
7 weak and wrong and, as a consequence, it's a good  
8 point that the company has not proved its case  
9 because it has not developed North Dakota specific  
10 depreciation rates, also hasn't developed a  
11 production plan that reflects the statutory  
12 requirements of Minnesota -- I mean of North Dakota  
13 and not Minnesota.

14          Q.     Is the company entitled to rely on  
15 regulatory practices and principles?

16          A.     Well, that's a legal question that you and  
17 Mr. Bahr can debate.

18          Q.     Has this Commission ever requested a  
19 stand-alone depreciation study for North Dakota?

20          A.     I can't say. It certainly did in this  
21 case and it was turned down.

22          Q.     And if this Commission were to order the  
23 company to do one in a future case, wouldn't you  
24 assume the company would do that?

25          A.     I think it should do it in this case, but,

1 certainly, I would think it appropriate in all  
2 future cases.

3 Q. And you had a question concerning whether  
4 you had reviewed Ms. Marks' forecasting and whether  
5 you could explain Ms. Marks' conclusion that there  
6 was a growth in North Dakota that's greater than the  
7 growth in Minnesota. Do you recall that?

8 A. Yes.

9 Q. To the extent that Ms. Marks over-  
10 forecasted growth, doesn't that result in a  
11 reduction in the revenue requirement?

12 A. I'm sorry. Over-forecasted growth? No,  
13 it results in an increase in the revenue requirement  
14 because it results in increase in allocation of  
15 capacity costs to North Dakota that if it doesn't  
16 happen in 2008 is going to be an over-allocation.

17 Q. Well, there would be a change in the  
18 allocation between the two states to the extent that  
19 we were doing this based on sales, but, in fact,  
20 we'd also have the revenue associated with that  
21 increase in sales as an offset to the revenue  
22 requirement?

23 A. Yeah, and I don't know what the effect of  
24 her over-forecast is. It could be more revenue. It  
25 could be more cost, but we don't know. We don't

1 know what the effect is and if that's an infirmity  
2 in the case, why that is another reason to  
3 reconsider it.

4 Q. If the Minnesota Commission were to accept  
5 your recommendation and agree to pay for the  
6 additional 60 megawatts at King, the additional 247  
7 megawatts at High Bridge and 25 percent of the wind,  
8 don't you think the Minnesota Commission would be  
9 entitled to say we are entitled to the full benefit,  
10 then, of those additional capacities and energy?

11 A. No. No. They'd have to say --  
12 acknowledge that these are a result of Minnesota  
13 legislation and not necessarily the independent  
14 assessment of capacity requirements. Now, I've said  
15 over and over again and I'll say it once more, to  
16 the extent that that capacity is required for the  
17 integrated system, to meet the integrated system  
18 load, it is admissible in North Dakota. To the  
19 extent it is not required, but is instead incurred  
20 simply because the Minnesota statute requires it to  
21 be incurred or the Minnesota plan requires it to be  
22 incurred, then it should be assigned to Minnesota.  
23 That's the test that needs to be made.

24 Q. Now, you had a discussion concerning  
25 owning versus PPA's for wind?

1           A.     Yes.

2           Q.     And one of the advantages of owning a  
3     facility is you get to maintain it and operate it;  
4     is that correct?

5           A.     Well, that's an advantage, but it's not  
6     straight, cut-and-dried, because, obviously, the  
7     owner, whoever he is, is going to have that  
8     responsibility and presumably if he wants to make  
9     any money, he's going to make sure the thing works.

10          Q.     You stated that the facilities would be,  
11     quote, hooked up to the NSP system. Do you recall  
12     that?

13          A.     Right.

14          Q.     It's not going to be hooked up to the NSP  
15     system. It's going to be hooked up to the  
16     transmission network, isn't it?

17          A.     Well, it's transmission that goes to the  
18     Twin Cities. Yes, a customer could buy through and  
19     acquire that wind power anywhere in the MISO area,  
20     but we get into transmission costs and it gets to be  
21     expensive to do so.

22          Q.     Mr. King, are you aware that the financial  
23     institutes that rate the companies for bond-rating  
24     purposes treat PPA's as a portion -- a portion of  
25     PPA's as debt?

1           A.     Well, they do if it's a long-term PPA  
2     commitment, yes.

3           Q.     So to the extent that the Commission buys  
4     20 years, for example, of a wind project, the  
5     financial community will treat that as -- a  
6     percentage of that as debt?

7           A.     I suspect so, yes.

8           Q.     And to the extent that we were to do only  
9     PPA's, we could find ourselves in a situation where  
10    we are carrying too much debt compared to our  
11    equity?

12          A.     That's possible.

13                 MR. BRADLEY:   I have no further questions.

14                 JUDGE WAHL:   Any followup by the  
15    Commission?   Mr. Bahr, any followup?

16                 MR. BAHR:    No, Your Honor.

17                 JUDGE WAHL:   All right.   Very good.   Thank  
18    you very much, Mr. King.

19                 THE WITNESS:   Thank you.   Thank you,  
20    Commissioners.

21                 COMMISSIONER CRAMER:   Thank you.

22                 COMMISSIONER CLARK:   Thank you.

23                 JUDGE WAHL:    Mr. Bahr.

24                 MR. BAHR:    I would like to recall Mike  
25    Majoros.

1 THE WITNESS: Hello again.

2 JUDGE WAHL: Mr. Majoros, you understand,  
3 of course, that your testimony continues under oath  
4 and subject to the penalties of perjury?

5 THE WITNESS: Yes, I do, and I take that  
6 very seriously.

7 JUDGE WAHL: Mr. Bahr.

8 MICHAEL J. MAJOROS, JR.,  
9 having been previously sworn, was examined and  
10 testified as follows:

11 DIRECT EXAMINATION

12 BY MR. BAHR:

13 Q. Mr. Majoros, you were present during  
14 Mr. King's testimony?

15 A. Yes.

16 Q. And you heard the questions and his  
17 responses regarding Exhibit 34?

18 A. Yes.

19 Q. Do you agree with all of his responses?

20 A. I think Mr. King -- no. I know Mr. King  
21 made a few mistakes. I don't know how you're going  
22 to rule, but I want you to rule based on the truth.  
23 So I'm going to explain that. Now, what I need is a  
24 copy of my chart.

25 Q. I will bring you Exhibit 34.

1           A.     No. 1, on this chart line C-D equals line  
2     A-B. They both recover the correct amount. No. 2,  
3     a single-asset example is the best way to  
4     demonstrate and understand the issue we're talking  
5     about. Multi-asset examples merely disguise this  
6     issue that's demonstrated right here. This is the  
7     core issue. That's why -- I've been doing this a  
8     long time and that's -- I used to do multi-asset,  
9     but I could never explain it. And that's why I'm  
10    doing a single-asset example. I think it's very  
11    clear. It's the best way to explain the issue.

12                 Under the use of present value, you do not  
13    underaccrue. That is because we assume matching  
14    and, furthermore, from a factual standpoint, plant  
15    continues to grow so the probability is that you'll  
16    overaccrue, even using the present-value approach.  
17    The proof is that we do it all the time for nuclear  
18    decommissioning costs. What we're talking about  
19    here is no different. That \$342 million is driven  
20    by front-loading line A-B and it is compounded by  
21    plant growth. So, finally, nobody here is proposing  
22    any underaccrual. We're proposing to discontinue  
23    NSP's overaccrual.

24           Q.     Mr. Majoros, Mr. Bradley asked Mr. King  
25    about would line C-D ever reach the level of line

1 A-B. Do you recall that?

2 A. Yes.

3 Q. And in your graph the end of line C-D is  
4 clearly above line A-B; correct?

5 A. Yes.

6 Q. And so is the amount at the end near D  
7 higher than the amount that would be under their  
8 approach under line A-B?

9 A. Yes. And that's why I've said that's an  
10 undercharge to future ratepayers, but an overcharge  
11 to current ratepayers.

12 Q. And as I believe you discussed yesterday,  
13 that in actual dollars throughout C through D is the  
14 same?

15 A. Absolutely. In fact, I have an example  
16 back in the office that proves that, that there's no  
17 question about that. A-B equals C-D.

18 Q. And that example you're referring to, does  
19 that actually use, you know, actual figures to  
20 demonstrate these points?

21 A. Yes, it does.

22 Q. Is that something you believe would be  
23 beneficial for the Commission to see?

24 A. Yes, I think the Commission should see  
25 that.

1 Q. But you don't have that currently?

2 A. No, I don't.

3 Q. Is that something, if requested, you would  
4 be willing to file as a late exhibit?

5 A. Yes, I would.

6 MR. BRADLEY: I would object to it as a  
7 late exhibit. We can try to create one with him on  
8 the stand.

9 MR. BAHR: Okay. No additional questions.

10 JUDGE WAHL: Mr. Bradley.

11 **CROSS-EXAMINATION**

12 **BY MR. BRADLEY:**

13 Q. First of all, Mr. Majoros, I'd like to  
14 indicate that the company does not disagree with you  
15 that A-B equals C-D. We're in absolute agreement.

16 A. I know.

17 Q. And I'm pleased that we at least -- that  
18 we have that. And all I would like to do is see if  
19 we could develop a very simple comparison so the  
20 Commission gets a single-asset concept.

21 A. Okay. That is a single-asset concept.

22 Q. Yes. And I attempted to do that through  
23 Mr. King and I will attempt to do it with you with  
24 your assistance.

25 A. Okay. I might ask, then, if you agree

1 that A-B equals C-D, do you also agree with the  
2 concept demonstrated by this exhibit?

3 Q. Well, I'm not sure what you mean by the  
4 concept. I agree with our concept.

5 A. Well, you understand that A-B is a  
6 straight line because you brought that up yesterday.

7 Q. Yes.

8 A. And that what we're proposing is C-D,  
9 which is matching inflation over the life of the  
10 asset.

11 Q. Well, I agree that it is a deflated cost  
12 that inflates with time.

13 A. Right. And you understand that the  
14 decommissioning studies that you filed and we  
15 discussed yesterday are done in historical dollars  
16 probably before 2008 and then you move them up as  
17 inflation occurs, just as I'm proposing here.

18 Q. I don't know exactly what we do for those.

19 A. Well, take that for granted. Well, you  
20 agreed with me that was something to check.

21 Q. Let's see if we can do a quick example.

22 A. Okay.

23 Q. Let's assume \$100 retirement projected --  
24 future projected \$100 retirement.

25 A. Retirement or cost of removal?

1 Q. Cost of removal.

2 A. Okay. So we're going to take this and we  
3 are going to say this is \$100 out here. Okay.

4 Q. And let's assume a 10-year life. I'm  
5 trying to do all the math as easy as I can.

6 A. All right.

7 Q. So the straight line would be \$10?

8 A. That's correct.

9 Q. If we wanted to determine what that \$100  
10 was in current costs, we would have to deflate that  
11 \$100 to a current cost?

12 A. I used the phrase "discount back to its  
13 present value."

14 Q. I'm not trying to argue the words. We  
15 would discount it?

16 A. Yeah.

17 Q. And we would discount it by whatever rate  
18 we had used to, in fact, future -- develop the  
19 future cost, inflate for the future cost?

20 A. Well, what you're talking about, the way  
21 you're phrasing this example, is what he's assuming  
22 is he started with the present value and then  
23 inflated it to \$100, so whatever inflation rate you  
24 used to get it to the \$100, you don't even have to  
25 discount it because you already know what the

1 present value is. That's the number you're  
2 inflating.

3 Q. But I'm trying to make this a little  
4 broader than just that.

5 A. I like to stick to single-asset examples.  
6 I know you want to make it broader.

7 Q. I'm not trying to make it broader. I want  
8 a single asset.

9 A. Okay.

10 Q. So would you accept it would be reasonable  
11 for purposes of our discussion to use a 5 percent  
12 discount?

13 A. Yes, I have no objection.

14 Q. Okay. And if we were to discount that  
15 \$100 by 5 percent over 10 years, and you can take  
16 the time to check it or whatever you want, I came up  
17 with \$64.50?

18 A. Okay.

19 Q. And that would be line C, point C;  
20 correct?

21 A. That's correct.

22 Q. All right. So we would collect that  
23 over -- we would say, but that's going to be  
24 collected over 10 years so we would collect \$6.45  
25 rather than -- at that point?

1           A.     At that point a depreciation rate would be  
2 set to collect \$6.45 in year one, yes.

3           Q.     Yes. So we compare the \$6.45 to the \$10  
4 under the two methodologies?

5           A.     That's correct.

6           Q.     Now, we want to go five years out in the  
7 future?

8           A.     Mm-hmm.

9           Q.     Would we now take that \$100 and discount  
10 that five years at 5 percent per year?

11          A.     Yes.

12          Q.     And subject to check again, would you  
13 accept that that's \$78.35?

14          A.     78 -- because what you're talking about, I  
15 guess, is right around the intersection of these two  
16 lines?

17          Q.     Probably close. I don't know.

18          A.     So you're saying that point is \$78. I  
19 don't know why it's not half.

20          Q.     You are welcome to --

21          A.     No. No. Man. 78 what?

22          Q.     \$78.35.

23          A.     Okay.

24          Q.     Would we divide that by five years?

25          A.     Yes.

1 Q. So if we divide the 78.35, we would get  
2 \$15.67?

3 A. I'll accept that.

4 Q. Okay. Would we look backwards and try to  
5 determine what we hadn't collected under the delta  
6 between the A-B line and the C-D line, or would we  
7 just stop at the \$15.67?

8 A. In effect what we're really going to do,  
9 should do, is that the difference between the \$64.50  
10 and the next year, let's assume in the next year,  
11 year nine it is 60. Okay?

12 Q. It would be higher than 60.

13 A. All right. Okay. So let's say it's 70.

14 Q. 1.5 percent times 64.

15 A. Whatever. The difference between those  
16 two numbers is that -- is the depreciation expense  
17 for that period. So there's no attempt -- I mean,  
18 you're bringing up a lot of smoke to disguise the  
19 fact that this is the core issue.

20 Q. Subject to check, my \$64.50 became \$67.72?

21 A. Right.

22 Q. Okay. That was the increase in one year?

23 A. Right.

24 Q. If we actually increase rates every year,  
25 we keep up with it, right, if we actually increase

1 rates?

2 A. Depreciation rates?

3 Q. Yeah.

4 A. Yeah.

5 Q. Yeah. Do we have a need for any tracker?

6 A. No.

7 MR. BRADLEY: I have no further questions.

8 JUDGE WAHL: Any questions from the

9 Commissioners?

10 COMMISSIONER WEFALD: Yes.

11 JUDGE WAHL: Commissioner Wefald.

12 **EXAMINATION**

13 **BY COMMISSIONER WEFALD:**

14 Q. So point C starts at \$64.50?

15 A. Yes.

16 Q. And in year one you pay \$6.45?

17 A. Right.

18 Q. But by year six you're paying \$15.75?

19 A. Yes. But -- okay.

20 Q. Okay. And so in the early years you pay

21 less?

22 A. That's right.

23 Q. And as you get closer to the time that the  
24 decommissioning needs to occur --

25 A. Right.

1 Q. -- ratepayers pay a higher -- a higher  
2 decommissioning cost?

3 A. Well, they pay -- yes.

4 Q. Yes. And so that is so that when you get  
5 to that time when the actual decommissioning occurs,  
6 that you have that \$100?

7 A. That's correct.

8 Q. And so what your method does is, is to try  
9 to match that the people who are closest to the time  
10 of decommissioning pay more of the cost?

11 A. That's the effect. But my goal, my goal  
12 is to -- if we all agree that inflation is a period  
13 expense --

14 Q. Yes.

15 A. -- and I think we all do, my goal is to  
16 match that expense to the periods it is incurred.

17 Q. Okay. Thank you.

18 A. Not to front-load future inflation to  
19 today.

20 Q. Yes.

21 A. Which is what the company does.

22 Q. All right. If the -- now I need to go on  
23 to a little broader question. In your mind, then,  
24 would the Commission -- you laid out this method  
25 of -- it's so hard for me to talk about this because

1 I don't talk about it on a daily basis of handling  
2 decommissioning expenses.

3 A. Mm-hmm.

4 Q. And help me now, just because it's been a  
5 long two and a half days. If we were to adopt this  
6 -- do you call it accrual accounting?

7 A. Yes.

8 Q. Accrual accounting for these  
9 decommissioning costs, does it relate again to  
10 specific items in the case or is it a concept that  
11 we would be adopting as a commission to relate to  
12 all --

13 A. It's a concept that you would adopt and it  
14 is built into Mr. King's depreciation rate  
15 recommendations.

16 COMMISSIONER WEFALD: Okay. Thank you.  
17 All right.

18 JUDGE WAHL: Any further questions from  
19 the Commission? Commissioner Clark.

20 COMMISSIONER WEFALD: Jerry has a  
21 question.

22 JUDGE WAHL: Oh, I'm sorry.

23 **EXAMINATION**

24 **BY MR. LEIN:**

25 Q. I'm left with a question on this example

1 that we just developed. When we got to year 5, we  
2 were looking at \$15. Did we forget to subtract off  
3 the accumulated depreciation from years 1 through 5?

4 A. Well, presumably we've collected the  
5 correct amount each year so it's not a remaining-  
6 life calculation. It is how much inflation is going  
7 to occur that year and then the next year it's more  
8 and the next year it's more.

9 Q. It seems as if at year 5 the \$78 number is  
10 too high because we would have had to subtract off  
11 all of the depreciation that we paid through years 1  
12 through 5 and then spread that rest, that difference  
13 over these five years?

14 A. No. What I would ask is -- I can even  
15 have it e-mailed today, is to have that example that  
16 I've done to demonstrate precisely how this works  
17 and that they come out -- the two lines are the  
18 same. That's -- I don't know. I didn't check  
19 Mr. Bradley's \$78 or his \$15. I accepted it. But  
20 as I said, nobody is proposing any mechanism  
21 designed to underaccrue or take any money,  
22 legitimate money away from the company. Nobody.  
23 We're trying to get the correct recognition of  
24 future inflation.

25

**FURTHER EXAMINATION**

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**BY COMMISSIONER WEFALD:**

Q. What Mr. Lein, I think, is wondering about is whether the numbers before year 5 plus the numbers after year 5 equal more than \$100?

A. No, they don't.

Q. They don't. Okay.

A. They add up to exactly \$100.

Q. Okay. And so --

COMMISSIONER WEFALD: Thank you.

COMMISSIONER CRAMER: If I could continue that.

JUDGE WAHL: Commissioner Cramer.

**EXAMINATION**

**BY COMMISSIONER CRAMER:**

Q. I think at some point, though, the intersection would be the same. I mean, it should be at some point \$50 for both lines?

A. It might be. Right there.

Q. I mean, it seems like -- to me it seems like it ought to be?

A. That's what I was thinking. I guess I would assume. I never looked at where that point would be, but I thought it would be at 50 percent through the life, you know, and, yes, at one instant

1 in time the two numbers will be the same.

2 MR. LEIN: And perhaps that's what would  
3 happen if we had subtracted off the depreciation  
4 that we paid. We didn't depreciate our investment  
5 as we looked ahead five years.

6 THE WITNESS: Yes, but remember, remember  
7 this. Remember this. You're thinking in terms of  
8 depreciation and remaining life and all of that  
9 thing. Remember what the goal is. The goal is to  
10 match inflation expense to the period in which it is  
11 occurred -- incurred. So each year the inflation in  
12 Mr. Bradley's example would increase by 5 percent,  
13 starting with \$64.50 and that's the expense that  
14 we're trying to match to those periods. It is the  
15 theoretically conceptually most pure way to do this.  
16 And I think that talking about doing remaining-life  
17 calculations confuses the issue.

18 JUDGE WAHL: Any further --

19 THE WITNESS: And, furthermore, we have  
20 one protection above all. It's this Commission.  
21 Nobody is going to propose to disallow any  
22 legitimate costs.

23 JUDGE WAHL: Any further questions from  
24 the Commission? Followup, Mr. Bahr?

25 MR. BAHR: Yes.

**REDIRECT EXAMINATION**

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**BY MR. BAHR:**

Q. I have two questions. First of all, Commissioner Wefald asked about, you know, the amount at the beginning of C and the end, what it would be near D. And that amount is significantly higher, if we calculated all this out, than the 6.45 at the beginning; correct?

A. Right.

Q. But in actual dollars when you take into inflation, is that amount equal?

A. That's what we discussed yesterday and at 5 percent inflation rate, you're paying the same amount, you know, in the last year as you are in the first year. So this is really a better, more appropriate use of straight line, demonstration of straight line.

MR. BAHR: And, again, I'm suggesting that it may be beneficial to give Mr. Majoros a few minutes to let him run the 10 years under this example so we actually have the figures so we can see where the interconnection is that, I believe, Commissioner Cramer questioned.

MR. BRADLEY: I have no objection to that.

MR. BAHR: If that would be beneficial to

1 the Commission.

2 THE WITNESS: I can't do it in a few  
3 minutes.

4 JUDGE WAHL: How long are we talking  
5 about? Shall we recess for early lunch?

6 THE WITNESS: Let me work on it over  
7 lunch.

8 JUDGE WAHL: Yeah, but you only get an  
9 hour for lunch.

10 THE WITNESS: I might be able to do it  
11 then.

12 JUDGE WAHL: All right. Let's recess to  
13 continue at 12:30.

14 (Lunch recess was taken.)

15 JUDGE WAHL: All right. We're on the  
16 record.

17 Mr. Bahr, when you're ready.

18 Q. (MR. BAHR CONTINUING) Mr. Majoros, prior  
19 to --

20 JUDGE WAHL: Mike on?

21 MR. BAHR: Yes, it is. Should be.

22 JUDGE WAHL: All right. You got it.

23 Q. (MR. BAHR CONTINUING) Prior to the break,  
24 I requested that you do a chart or document to  
25 illustrate your testimony regarding the hypothetical

1 that Mr. Bradley presented. Did you do that over  
2 lunch?

3 A. Yes, I did.

4 MR. BAHR: And I presented a copy of this  
5 to counsel and request that it be marked as an  
6 exhibit and introduced.

7 JUDGE WAHL: I'm sorry. The exhibit is  
8 35. Mr. Bahr.

9 MR. BAHR: I want to make sure there's no  
10 objection from counsel.

11 MR. BRADLEY: There's no objection.

12 JUDGE WAHL: Mr. Bradley?

13 MR. BRADLEY: Your Honor, there's no  
14 objection.

15 JUDGE WAHL: Exhibit 35 is received.

16 Q. (MR. BAHR CONTINUING) Mr. Majoros, would  
17 you please walk us through this exhibit and explain  
18 how it compares the two methods that have been  
19 discussed?

20 A. Yes. The assumption, the basic assumption  
21 was \$100 future value over 10 years. So if you look  
22 in the second to the last column, that's NSP annual  
23 expense, \$10 a year, which is equivalent to line  
24 A-B. And then the accrual basis expense is right  
25 next to that and it's called accrual basis annual

1 expense and that's equivalent to line C-D. So,  
2 first, you'll note that both columns add up to \$100,  
3 which is important.

4 And with that, the change, the difference  
5 between the NSP annual expense and the accrual basis  
6 expense, the way it works is, you take the initial  
7 present value and you divide that by 10 and that is  
8 recovered over a 10-year period and that would be at  
9 \$6.14 a year. That's the initial present value.  
10 Then that increases each year by the inflation  
11 incurred each year at 5 percent. So the total  
12 accrual is the straight-line accrual of the present  
13 value plus the inflation that occurs during the  
14 year. It's matching.

15 Q. And in this case you used a 5 percent that  
16 was assumed by Mr. Bradley?

17 A. Yes.

18 Q. If that was a lower percent, the accrual  
19 basis would come closer to matching the NSP amount?  
20 In other words --

21 A. Well, there will always -- I think there  
22 will always be this pattern. How much closer or far  
23 apart it will be, I don't know.

24 Q. I guess my question, if you assume less of  
25 an inflation, the initial dollar amount that you

1 have on yours is \$9.21 and the end dollar amount of  
2 10.9 would be closer?

3 A. Yes.

4 Q. And if you increase it to 10 percent,  
5 those are going to be farther away, or am I  
6 incorrect?

7 A. I'm not sure. I'm not sure about that.  
8 They may be farther apart, but I don't think that's  
9 relevant.

10 MR. BAHR: Okay. No further questions.

11 JUDGE WAHL: Mr. Bradley?

12 MR. BRADLEY: Just very briefly.

13 **RECROSS-EXAMINATION**

14 **BY MR. BRADLEY:**

15 Q. Mr. Majoros, basically, if we were to make  
16 any adjustment at all to your graph, we might make  
17 your C-D line a little flatter?

18 A. Why would you do that?

19 Q. Because we start with a comparison rate of  
20 \$9.21 compared to the \$10 and we end up with a final  
21 rate of \$10.90 versus \$10. There's a \$.90 --  
22 there's less than 10 percent difference at the front  
23 and the back?

24 A. Yeah, but these are your parameters.  
25 That's irrelevant, too.



1           A.     That's correct.

2           COMMISSIONER WEFALD:   Okay.  Thank you.

3           JUDGE WAHL:   Any further questions from  
4 the Commission?  Mr. Bahr?

5           MR. BAHR:    I have none.

6           JUDGE WAHL:   Mr. Bradley?

7           MR. BRADLEY:  None.

8           JUDGE WAHL:   Okay.  Thank you very much.

9           COMMISSIONER WEFALD:  So we should --  
10 excuse me.  Can I just ask one more question?

11          JUDGE WAHL:   Yes.

12          Q.     (COMMISSIONER WEFALD CONTINUING)  So we  
13 should basically disregard the examples that were  
14 made this morning about 78, 35 divided by five.

15          A.     Yes.  That was misleading to me and I  
16 would prefer -- you know, dealing with this issue,  
17 my chart, plus that table, demonstrates the issue.

18          Q.     And this is at 5 percent?

19          A.     That's at 5 percent.

20          Q.     Okay.  We were trying to pick figures this  
21 morning at 5 percent, but, to your understanding,  
22 these are the correct figures to use with the 5  
23 percent, the \$100 and the 10-year accrual system?

24          A.     Yes.  In fact, I was unable to replicate  
25 the initial present value that Mr. Bradley had.

1 These numbers work out and it's a good demonstration  
2 of what the issue is. You have it before you.

3 COMMISSIONER WEFALD: Thank you. I'll use  
4 this as my final exhibit then.

5 THE WITNESS: Thank you.

6 JUDGE WAHL: Mr. Bahr?

7 MR. BAHR: I'd just like to briefly recall  
8 Mr. King.

9 JUDGE WAHL: All right. Mr. King, you  
10 understand, of course, that your testimony continues  
11 under oath, subject to the penalties of perjury?

12 THE WITNESS: Yes, I do.

13 JUDGE WAHL: Mr. Bahr.

14 **CHARLES W. KING,**  
15 having been previously sworn, was examined and  
16 testified as follows:

17 **DIRECT EXAMINATION**

18 **BY MR. BAHR:**

19 Q. During your testimony today you had  
20 expressed that having reviewed the 2000 IRP would  
21 have been of assistance in determining the plant  
22 life and issues relating to that; correct?

23 A. That's correct.

24 Q. Have you had the chance since then to  
25 review the 2000 IRP?

1 A. Yes, I have.

2 Q. Can you explain what you found?

3 A. What I found is, there was no mention in  
4 the 2000 IRP whatever of the King plant. There was  
5 a discussion of looking into the feasibility of  
6 converting the High Bridge and the Riverside plants  
7 to combined cycle combustion turbines, so it would  
8 appear that they were on the radar screen prior to  
9 MERP, but it does not appear that the King plant  
10 rehabilitation was at all being considered at the  
11 time.

12 MR. BAHR: Thank you. No further  
13 questions.

14 JUDGE WAHL: Mr. Bradley?

15 **CROSS-EXAMINATION**

16 **BY MR. BRADLEY:**

17 Q. Are you familiar enough with Minnesota's  
18 process and IRP process to know whether an existing  
19 plant that is not going to be replaced but merely  
20 refurbished would be in an IRP?

21 A. It would be because there's discussion of  
22 refurbishing a number of other plants. I can  
23 identify them for you, if you would like.

24 MR. BRADLEY: I have no further questions.

25 JUDGE WAHL: Any questions by the

1 Commission? Mr. Bahr?

2 MR. BAHR: Nothing further.

3 JUDGE WAHL: All right. Thank you very  
4 much, Mr. King.

5 Anything further, Mr. Bahr?

6 MR. BAHR: No, Your Honor, advocacy staff  
7 have no further witnesses or evidence.

8 JUDGE WAHL: Rebuttal, Ms. Hertzler?

9 MS. HERTZLER: Your Honor, we have no  
10 rebuttal at this time. There was an open question,  
11 we believe, about whether the Commissioners were  
12 going to require additional testimony of staff. I  
13 don't know if that is still a consideration. As we  
14 expressed before, if that's the case, we would want  
15 the opportunity to be able to reply.

16 COMMISSIONER WEFALD: No, I don't have any  
17 further need for that since there was testimony this  
18 morning in that regard.

19 JUDGE WAHL: All right. Then, counsel,  
20 for the record, I have one more item which I'm going  
21 to handle a little -- subject to your objection and  
22 advice, I'm going to handle a little differently,  
23 and that was the Commission's request to take  
24 official notice of certain of its findings of fact,  
25 conclusions of law and orders and certain of its

1 filings regarding the evidence of estimated costs of  
2 constructing electric transmission line in North  
3 Dakota.

4 That was distributed to counsel yesterday  
5 so that everyone could take a look at them  
6 specifically so that they could be identified as a  
7 specific document and the specific purpose for which  
8 they would be the basis of official notice by the  
9 Commission of the estimated cost of constructing  
10 electric transmission line in North Dakota.

11 I'm going to mark these as an exhibit so  
12 that they are identified as the source of the  
13 official notice that the Commission may take, if it  
14 chooses, of that evidence.

15 Comment, Ms. Hertzler or Mr. Bradley,  
16 whichever?

17 MR. BRADLEY: Your Honor, we are not going  
18 to object to the Commission taking notice of those.  
19 We will in our briefs, as necessary, or discussions  
20 with the Commission, explain why those are not  
21 relevant costs to be used for deciding how you would  
22 get load from North Dakota to where our load is in  
23 the Twin Cities area, but we're not going to oppose  
24 that discussion.

25 JUDGE WAHL: Fair enough. Mr. Bahr, I

1       assume advocacy staff has no objection.

2               MR. BAHR:  No objection.

3               JUDGE WAHL:  So Exhibit -- I'm marking  
4       these documents -- they were given to me.  They're  
5       the same as what was distributed, so I am marking  
6       these documents as exhibit -- for the record as  
7       Exhibit 36, together.

8               All right.  Mr. Bahr, anything further for  
9       the record?

10              MR. BAHR:  We'll discuss the briefing  
11       schedule off the record?

12              JUDGE WAHL:  Yes, off the record.

13              Ms. Hertzler, anything further for the  
14       record?

15              MS. HERTZLER:  Your Honor, the only thing  
16       I have further would be to discuss the briefing  
17       schedule, which counsel and I have agreed to.

18              JUDGE WAHL:  Right.  We'll do that  
19       informally.

20              Closing comments by the Commissioners?  
21       Commissioner Wefald.

22              COMMISSIONER WEFALD:  It's been a very  
23       interesting hearing.  We've gotten a lot of  
24       information on the record, in addition to the fine  
25       record that was established by both parties before

1 the hearing. And it's always a pleasure to see  
2 talented people at work and we certainly had  
3 talented people at work throughout this hearing.  
4 And I appreciate all of the efforts that have gone  
5 into providing a good record for the Commission.  
6 Thank you.

7 JUDGE WAHL: Commissioner Clark.

8 COMMISSIONER CLARK: I would agree with my  
9 colleague's comments. Appreciate the good testimony  
10 and record that was developed. About the only thing  
11 the Commission and regulators can ask for is that  
12 you have a full and complete record and by the end  
13 of the hearing you feel like you have an  
14 understanding of everything that's been put before  
15 you and that's sometimes no small task given the  
16 amount of information that we have to sift through  
17 in a fairly short amount of time. Thanks to  
18 everyone and I look forward to our discussions  
19 following the hearing. Thanks.

20 JUDGE WAHL: Commissioner Cramer.

21 COMMISSIONER CRAMER: Thank you. Let me,  
22 too, say thank you and express how much I appreciate  
23 the good work of people on all sides of this issue.  
24 I also want to say thank you for your patience,  
25 perhaps more with me than others, as I tried to

1 explore issues. I'm on the fringes of this specific  
2 issue. This is my -- as a Commissioner, although  
3 I've before one now for five years nearly -- my  
4 first rate case that has been carried all the way  
5 through. I expect will be carried all the way  
6 through. So I appreciate the opportunity to learn a  
7 little bit and learn from some very smart and  
8 talented people as Commissioner Wefald said.

9 I also appreciate very much the reminder  
10 that Mr. King forwarded several times today, that  
11 the burden is not on the people to prove that the  
12 company is not entitled to this increase, but rather  
13 on the company.

14 And so with that in mind, I look forward  
15 to a complete and thorough continued review of all  
16 of the evidence and testimony and continued reading  
17 of briefs and discussion. Thank you all. Travel  
18 safely the remainder of this week, and a belated  
19 happy birthday.

20 MS. HERTZLER: Thank you, Commissioner.

21 COMMISSIONER CRAMER: I hope you had a  
22 nice time last night.

23 MS. HERTZLER: I did.

24 COMMISSIONER CRAMER: With your friends.

25 MS. HERTZLER: With what has become

1 extended family.

2 JUDGE WAHL: The hearing is closed.

3 (Concluded at 12:46 p.m., June 25, 2008.)

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CERTIFICATE OF COURT REPORTER

I, Denise Andahl, a Registered Professional Reporter,

DO HEREBY CERTIFY that I recorded in shorthand the foregoing proceedings had and made of record at the time and place hereinbefore indicated.

I DO HEREBY FURTHER CERTIFY that the foregoing typewritten pages, 1-332, contain an accurate transcript of my shorthand notes then and there taken.

Dated at Bismarck, North Dakota, this 11th day of July, 2008.

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Denise Andahl  
Registered Professional Reporter

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CERTIFICATE OF COURT REPORTER

I, Linda L. Gingery, a Registered  
Professional Reporter,

DO HEREBY CERTIFY that I recorded in  
shorthand the foregoing proceedings had and made of  
record at the time and place hereinbefore indicated.

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foregoing typewritten pages, 333-762, contain an  
accurate transcript of my shorthand notes then and  
there taken.

Dated at Bismarck, North Dakota, this 11th  
day of July, 2008.

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Linda L. Gingery  
Registered Professional Reporter

<b>\$</b>	741:20, 742:14, 747:13	693:5	659:13, 664:8, 723:9, 730:7, 762:3	686:4, 687:5, 687:13, 687:14, 687:20, 688:2, 689:4, 689:7, 697:18
	<b>\$67</b> [1] - 673:15	<b>1980's</b> [1] - 622:7	<b>272</b> [1] - 653:7	
<b>\$10</b> [13] - 671:23, 672:15, 672:18, 673:7, 673:13, 675:9, 682:18, 684:3, 738:7, 740:3, 750:23, 752:20, 752:21	<b>\$67.72</b> [1] - 741:20	<b>2</b>	<b>3</b>	<b>6</b>
<b>\$10,000</b> [4] - 631:3, 631:11, 631:16, 631:20	<b>\$78</b> [3] - 740:18, 745:9, 745:19	<b>2</b> [4] - 686:24, 692:12, 692:25, 734:2	<b>3</b> [2] - 753:2, 753:7	<b>6</b> [4] - 611:5, 611:17, 629:20, 645:23
<b>\$10.90</b> [1] - 752:21	<b>\$78.25</b> [1] - 673:15	<b>2.5</b> [4] - 631:10, 631:11, 631:16, 633:4	<b>30</b> [7] - 618:24, 631:13, 631:16, 633:6, 690:25, 693:7	<b>6.45</b> [1] - 748:7
<b>\$100</b> [23] - 671:20, 671:22, 672:2, 672:7, 672:24, 683:25, 684:1, 684:2, 737:23, 737:24, 738:3, 738:9, 738:11, 738:23, 738:24, 739:15, 740:9, 743:6, 746:5, 746:8, 750:21, 751:2, 754:23	<b>\$78.35</b> [2] - 740:13, 740:22	<b>20</b> [5] - 611:17, 618:24, 636:2, 681:25, 732:4	<b>300-some</b> [1] - 711:14	<b>60</b> [15] - 636:18, 647:13, 647:21, 648:5, 649:15, 650:5, 650:9, 650:13, 650:22, 651:12, 673:17, 730:6, 741:11, 741:12
<b>\$100,000</b> [2] - 631:2, 631:8	<b>\$9.21</b> [3] - 752:1, 752:20, 753:25	<b>200</b> [1] - 629:14	<b>32</b> [1] - 677:10	<b>60-year</b> [1] - 618:14
<b>\$12,000</b> [1] - 667:3	<b>\$90</b> [1] - 684:4	<b>2000</b> [5] - 614:22, 656:17, 755:20, 755:25, 756:4	<b>33</b> [1] - 657:17	<b>64</b> [1] - 741:14
<b>\$15</b> [3] - 673:12, 745:2, 745:19	<b>\$90,000</b> [1] - 631:4	<b>2002</b> [2] - 656:16, 671:6	<b>333-762</b> [1] - 764:10	<b>69</b> [1] - 687:20
<b>\$15.67</b> [3] - 673:8, 741:2, 741:7	<b>\$96</b> [1] - 658:25	<b>2003</b> [6] - 613:15, 627:5, 647:1, 653:22, 656:11, 656:12	<b>34</b> [6] - 608:24, 609:1, 685:22, 725:15, 733:17, 733:25	<b>7</b>
<b>\$15.75</b> [1] - 742:18	<b>1</b>	<b>2005</b> [1] - 645:19	<b>35</b> [10] - 694:20, 695:14, 698:11, 698:12, 698:19, 698:24, 699:18, 750:8, 750:15, 754:14	<b>7</b> [1] - 673:17
<b>\$180</b> [2] - 636:1, 636:4	<b>1</b> [3] - 734:1, 745:3, 745:11	<b>2006</b> [3] - 629:10, 671:6	<b>36</b> [1] - 759:7	<b>70</b> [1] - 741:13
<b>\$20</b> [1] - 663:15	<b>1-332</b> [1] - 763:10	<b>2007</b> [1] - 629:10	<b>372</b> [2] - 693:20, 693:24	<b>74</b> [3] - 648:8, 648:13, 649:4
<b>\$241</b> [1] - 688:13	<b>1.2</b> [3] - 617:17, 635:25, 636:3	<b>2008</b> [18] - 607:17, 608:3, 608:5, 653:15, 653:17, 658:21, 665:8, 665:19, 665:21, 666:2, 666:17, 667:1, 668:12, 729:16, 737:16, 762:3, 763:14, 764:14	<b>4</b>	<b>75</b> [1] - 711:8
<b>\$25</b> [4] - 679:13, 679:15, 684:12, 684:18	<b>1.5</b> [1] - 741:14	<b>2009</b> [3] - 629:9, 629:12, 629:15	<b>4,000</b> [1] - 615:13	<b>76</b> [1] - 674:11
<b>\$3.07</b> [1] - 753:25	<b>10</b> [19] - 671:21, 671:23, 672:8, 673:20, 673:22, 674:2, 674:15, 674:16, 675:5, 675:20, 678:18, 681:24, 739:15, 739:24, 748:20, 750:21, 751:7, 752:4, 752:22	<b>2010</b> [2] - 629:15, 655:5	<b>4.7</b> [1] - 706:5	<b>78</b> [3] - 740:14, 740:21, 754:14
<b>\$300</b> [1] - 615:5	<b>10-year</b> [5] - 673:10, 674:3, 738:4, 751:8, 754:23	<b>2011</b> [1] - 685:13	<b>40</b> [3] - 636:16, 660:15, 664:6	<b>78.35</b> [1] - 741:1
<b>\$342</b> [2] - 684:19, 734:19	<b>10.9</b> [1] - 752:2	<b>2012</b> [6] - 617:1, 685:14, 685:20, 686:1, 689:23, 690:20	<b>40-year</b> [1] - 618:13	<b>8</b>
<b>\$372</b> [2] - 676:22, 676:24	<b>100</b> [3] - 626:10, 661:8, 675:1	<b>2013</b> [1] - 685:13	<b>45</b> [4] - 691:5, 691:13, 693:25, 697:20	<b>8</b> [1] - 608:5
<b>\$470</b> [1] - 613:11	<b>11</b> [1] - 699:16	<b>2014</b> [1] - 615:13	<b>47</b> [1] - 685:21	<b>80</b> [1] - 666:3
<b>\$5,000</b> [1] - 609:12	<b>11th</b> [2] - 763:13, 764:13	<b>2015</b> [1] - 685:13	<b>5</b>	<b>82</b> [1] - 649:4
<b>\$50</b> [2] - 679:9, 746:18	<b>12</b> [3] - 673:19, 673:20, 673:25	<b>2016</b> [1] - 685:13	<b>4,000</b> [1] - 615:13	<b>86</b> [2] - 686:23, 687:5
<b>\$52</b> [1] - 658:25	<b>12:30</b> [1] - 749:13	<b>2017</b> [1] - 685:13	<b>4.7</b> [1] - 706:5	<b>8:00</b> [1] - 608:2
<b>\$6.14</b> [2] - 751:9, 753:24	<b>12:46</b> [1] - 762:3	<b>2018</b> [6] - 617:1, 685:14, 685:20, 686:1, 689:23, 690:20	<b>40</b> [3] - 636:16, 660:15, 664:6	<b>9</b>
<b>\$6.45</b> [6] - 672:15, 672:20, 739:24, 740:2, 740:3, 742:16	<b>137</b> [1] - 668:9	<b>2019</b> [1] - 685:13	<b>40-year</b> [1] - 618:13	<b>9</b> [1] - 639:16
<b>\$6.53</b> [1] - 673:19	<b>14</b> [4] - 617:2, 617:5, 617:8, 635:3	<b>2020</b> [1] - 615:13	<b>45</b> [4] - 691:5, 691:13, 693:25, 697:20	<b>9:30</b> [1] - 667:21
<b>\$61.39</b> [1] - 753:9	<b>15</b> [6] - 649:5, 649:16, 650:6, 650:22, 655:13, 655:15	<b>2021</b> [6] - 617:1, 685:14, 685:20, 686:1, 689:23, 690:20	<b>47</b> [1] - 685:21	<b>A</b>
<b>\$64.50</b> [6] - 672:10, 739:17, 741:9,	<b>1948</b> [2] - 692:19, 693:4	<b>2022</b> [6] - 617:1, 685:14, 685:20, 686:1, 689:23, 690:20	<b>5</b> [24] - 647:1, 672:3, 672:8, 672:25, 674:16, 739:11, 739:15, 740:10, 745:1, 745:3, 745:9, 745:12, 746:4, 746:5, 747:12, 748:13, 751:11, 751:15, 753:2, 753:7, 754:18, 754:19, 754:21, 754:22	<b>A-B</b> [3] - 734:2, 735:1, 750:24
	<b>1978</b> [2] - 692:20,	<b>2023</b> [4] - 607:17, 611:10, 611:13, 639:16	<b>50</b> [3] - 660:16, 711:8, 746:24	<b>a.m</b> [2] - 608:2, 608:5
		<b>24</b> [1] - 607:17	<b>515</b> [1] - 653:4	<b>AB</b> [10] - 679:14, 682:5, 734:20, 735:4, 735:8, 735:17, 736:15, 737:1, 737:5, 741:6
		<b>24/7</b> [1] - 649:22	<b>56</b> [2] - 687:21, 687:22	
		<b>243-megawatt</b> [1] - 653:10	<b>57</b> [1] - 691:1	
		<b>247</b> [1] - 730:6	<b>59</b> [11] - 685:18, 686:2,	
		<b>25</b> [10] - 607:17, 608:3, 608:5, 616:9, 659:8,		

<p><b>Abatement</b> [1] - 640:19</p> <p><b>abatement</b> [3] - 643:3, 643:8, 666:5</p> <p><b>ability</b> [3] - 658:4,</p> <p>708:5, 708:16</p> <p><b>able</b> [10] - 649:14, 663:14, 663:24, 693:10, 693:13, 707:24, 712:3, 712:24, 749:10, 757:15</p> <p><b>absence</b> [2] - 677:14, 702:15</p> <p><b>absent</b> [3] - 651:2, 678:11, 695:18</p> <p><b>Absent</b> [1] - 635:4</p> <p><b>absolute</b> [1] - 736:15</p> <p><b>Absolutely</b> [6] - 626:9, 626:14, 629:6, 636:13, 636:22, 735:15</p> <p><b>absolutely</b> [4] - 649:13, 683:22, 690:3, 700:9</p> <p><b>absorb</b> [1] - 719:16</p> <p><b>absorbing</b> [1] - 715:6</p> <p><b>absurd</b> [2] - 685:15, 691:7</p> <p><b>accelerate</b> [1] - 641:20</p> <p><b>accelerating</b> [1] - 617:21</p> <p><b>acceleration</b> [3] - 644:7, 644:11, 644:12</p> <p><b>accept</b> [8] - 616:14, 628:20, 722:20, 728:3, 730:4, 739:10, 740:13, 741:3</p> <p><b>acceptable</b> [2] - 672:4, 721:16</p> <p><b>accepted</b> [4] - 629:16, 633:12, 633:14, 745:19</p> <p><b>access</b> [1] - 662:15</p> <p><b>account</b> [6] - 637:1, 637:23, 648:4, 681:13, 685:2, 707:7</p> <p><b>accounting</b> [3] - 632:20, 744:6, 744:8</p> <p><b>accounts</b> [6] - 637:25, 676:11, 676:14, 678:1, 682:23, 707:11</p> <p><b>Accrual</b> [1] - 744:8</p> <p><b>accrual</b> [13] - 632:20, 633:9, 676:24, 677:24, 679:7, 744:6, 750:24,</p>	<p>750:25, 751:5, 751:12, 751:18, 754:23</p> <p><b>accruals</b> [2] - 726:15, 727:14</p> <p><b>accrue</b> [6] - 632:22, 664:2, 675:12, 676:5, 678:13, 678:23</p> <p><b>accrued</b> [7] - 618:16, 664:3, 675:2, 675:13, 676:3, 676:22, 724:24</p> <p><b>accruing</b> [9] - 632:7, 676:1, 676:2, 679:20, 681:15, 682:12, 682:25, 684:22, 684:23</p> <p><b>accumulated</b> [1] - 745:3</p> <p><b>accurate</b> [7] - 633:22, 710:12, 710:14, 724:18, 727:5, 763:11, 764:11</p> <p><b>accurately</b> [1] - 632:7</p> <p><b>achieve</b> [1] - 700:16</p> <p><b>acknowledge</b> [1] - 730:12</p> <p><b>acquire</b> [1] - 731:19</p> <p><b>actual</b> [7] - 671:4, 676:13, 680:21, 735:13, 735:19, 743:5, 748:10</p> <p><b>ad</b> [1] - 609:4</p> <p><b>add</b> [5] - 614:7, 688:24, 746:8, 751:2, 753:24</p> <p><b>added</b> [6] - 617:14, 647:17, 652:3, 652:7, 678:23</p> <p><b>adding</b> [1] - 676:18</p> <p><b>addition</b> [2] - 614:10, 759:24</p> <p><b>additional</b> [25] - 614:6, 615:14, 615:19, 615:25, 623:12, 639:9, 648:5, 650:22, 651:12, 654:4, 656:14, 656:18, 657:12, 678:13, 684:1, 688:10, 690:9, 712:11, 713:23, 714:19, 730:6, 730:10, 736:9, 757:12</p> <p><b>Additionally</b> [1] - 717:16</p> <p><b>additions</b> [2] - 611:3, 711:24</p>	<p><b>address</b> [4] - 610:10, 638:1, 697:15, 710:15</p> <p><b>addressed</b> [3] - 626:11, 635:9, 697:16</p> <p><b>addresses</b> [2] - 612:7, 620:11</p> <p><b>adds</b> [2] - 718:7, 753:25</p> <p><b>adequate</b> [3] - 681:17, 682:11, 699:1</p> <p><b>adjust</b> [5] - 700:19, 706:22, 706:23, 727:11, 727:12</p> <p><b>adjusted</b> [1] - 725:9</p> <p><b>adjusting</b> [3] - 633:24, 634:14, 707:10</p> <p><b>adjustment</b> [11] - 613:15, 615:22, 621:13, 621:18, 634:17, 647:16, 702:19, 702:23, 707:2, 707:5, 752:16</p> <p><b>adjustments</b> [3] - 705:21, 706:7, 708:2</p> <p><b>administering</b> [1] - 609:6</p> <p><b>ADMINISTRATIVE</b> [1] - 607:21</p> <p><b>admissible</b> [1] - 730:18</p> <p><b>admission</b> [1] - 695:17</p> <p><b>admit</b> [1] - 630:4</p> <p><b>admittedly</b> [2] - 677:13, 680:3</p> <p><b>adopt</b> [4] - 707:21, 720:24, 744:5, 744:13</p> <p><b>adopted</b> [4] - 613:17, 629:3, 654:3, 721:7</p> <p><b>adopting</b> [1] - 744:11</p> <p><b>adoptions</b> [1] - 655:19</p> <p><b>advance</b> [3] - 620:1, 620:2, 655:9</p> <p><b>advanced</b> [6] - 626:22, 662:14, 662:24, 663:13, 666:10, 666:22</p> <p><b>advancement</b> [2] - 642:20, 645:8</p> <p><b>advancing</b> [1] - 650:14</p> <p><b>advantage</b> [7] - 623:4, 634:3, 634:6, 713:20, 714:3, 718:22, 731:5</p> <p><b>advantages</b> [8] - 634:1, 664:2, 705:8,</p>	<p>705:11, 713:21, 718:17, 719:11, 731:2</p> <p><b>advice</b> [1] - 757:22</p> <p><b>advise</b> [1] - 609:6</p> <p><b>advised</b> [1] - 609:15</p> <p><b>advocacy</b> [7] - 608:12, 696:14, 697:12, 707:16, 727:22, 757:6, 759:1</p> <p><b>advocating</b> [1] - 713:16</p> <p><b>affect</b> [1] - 702:22</p> <p><b>age</b> [3] - 686:3, 687:2, 689:9</p> <p><b>aggravates</b> [1] - 623:13</p> <p><b>ago</b> [1] - 708:12</p> <p><b>agree</b> [19] - 620:24, 626:7, 626:10, 633:13, 665:25, 672:10, 705:4, 705:12, 705:13, 715:15, 725:18, 730:5, 733:19, 736:25, 737:1, 737:4, 737:11, 743:12, 760:8</p> <p><b>agreed</b> [5] - 705:3, 705:6, 706:3, 737:20, 759:17</p> <p><b>agreement</b> [1] - 736:15</p> <p><b>agreements</b> [1] - 718:20</p> <p><b>agrees</b> [1] - 608:20</p> <p><b>ahead</b> [2] - 660:11, 747:5</p> <p><b>air</b> [1] - 623:9</p> <p><b>AL</b> [1] - 607:21</p> <p><b>albeit</b> [1] - 651:16</p> <p><b>allocable</b> [2] - 629:2, 651:14</p> <p><b>allocate</b> [1] - 621:23</p> <p><b>allocated</b> [4] - 639:3, 649:19, 649:20, 650:17</p> <p><b>allocating</b> [2] - 621:22, 623:12</p> <p><b>allocation</b> [11] - 610:12, 620:13, 620:14, 621:20, 621:25, 622:1, 622:9, 622:10, 729:14, 729:16, 729:18</p> <p><b>allow</b> [1] - 677:9</p> <p><b>allowance</b> [1] - 644:8</p> <p><b>allowances</b> [6] - 632:4, 659:1,</p>	<p>677:16, 677:18, 677:23, 680:10</p> <p><b>allowed</b> [7] - 625:9, 652:1, 652:8, 653:14, 653:17, 657:14, 662:15</p> <p><b>allowing</b> [1] - 658:3</p> <p><b>allows</b> [2] - 666:1, 666:10</p> <p><b>almost</b> [3] - 620:24, 666:3, 702:5</p> <p><b>alone</b> [6] - 619:18, 626:13, 642:19, 642:20, 665:14, 728:19</p> <p><b>alternative</b> [11] - 614:15, 632:2, 633:15, 652:11, 652:16, 653:22, 654:2, 656:11, 675:22, 722:18, 753:12</p> <p><b>alternatives</b> [2] - 644:1, 712:18</p> <p><b>altogether</b> [1] - 633:7</p> <p><b>amortized</b> [2] - 677:6, 680:23</p> <p><b>amortizes</b> [1] - 633:16</p> <p><b>amount</b> [26] - 614:24, 615:17, 615:20, 623:21, 671:3, 674:23, 674:25, 675:14, 676:8, 682:15, 683:7, 702:18, 725:1, 734:2, 735:6, 735:7, 745:5, 748:5, 748:6, 748:11, 748:14, 751:19, 751:25, 752:1, 760:16, 760:17</p> <p><b>amounts</b> [6] - 623:7, 678:14, 680:12, 681:6, 722:7, 727:8</p> <p><b>analysis</b> [6] - 635:8, 644:1, 646:18, 647:2, 687:18, 709:23</p> <p><b>analyst</b> [1] - 687:18</p> <p><b>Andahl</b> [2] - 763:4, 763:17</p> <p><b>annual</b> [8] - 616:23, 673:16, 677:5, 702:2, 702:3, 750:22, 750:25, 751:5</p> <p><b>annually</b> [3] - 668:25, 669:1, 673:23</p> <p><b>answer</b> [8] - 653:2, 670:20, 670:22,</p>
---	---	---	---	--

<p>675:5, 675:15, 680:25, 681:1, 694:16</p> <p><b>answered</b> [1] - 639:19</p> <p><b>answers</b> [5] - 620:22, 620:23, 715:21, 715:25, 716:6</p> <p><b>anticipate</b> [1] - 676:7</p> <p><b>anyway</b> [7] - 612:24, 623:10, 640:8, 640:21, 647:20, 665:22, 708:1</p> <p><b>apart</b> [2] - 751:23, 752:8</p> <p><b>appear</b> [3] - 682:9, 756:8, 756:9</p> <p><b>appeared</b> [1] - 656:10</p> <p><b>Application</b> [1] - 607:6</p> <p><b>application</b> [5] - 608:7, 608:14, 644:25, 645:1, 668:11</p> <p><b>applies</b> [1] - 620:4</p> <p><b>apply</b> [5] - 611:22, 619:24, 630:6, 641:15, 642:6</p> <p><b>appointed</b> [2] - 653:1, 714:17</p> <p><b>appraiser</b> [2] - 631:1, 631:2</p> <p><b>Appreciate</b> [1] - 760:9</p> <p><b>appreciate</b> [5] - 713:10, 760:4, 760:22, 761:6, 761:9</p> <p><b>approach</b> [7] - 633:1, 671:11, 671:14, 677:15, 680:9, 734:16, 735:8</p> <p><b>approached</b> [1] - 701:15</p> <p><b>appropriate</b> [8] - 621:17, 623:1, 642:5, 700:10, 703:22, 720:20, 729:1, 748:16</p> <p><b>appropriately</b> [1] - 651:14</p> <p><b>approval</b> [2] - 645:2, 668:12</p> <p><b>approve</b> [4] - 623:18, 640:23, 641:12, 684:14</p> <p><b>approved</b> [2] - 640:23, 641:24</p> <p><b>area</b> [13] - 613:13, 615:4, 616:7, 616:12, 621:11, 638:9, 650:15, 667:17, 701:18,</p>	<p>701:19, 710:6, 731:19, 758:23</p> <p><b>arguably</b> [1] - 719:25</p> <p><b>argue</b> [3] - 709:24, 719:15, 738:14</p> <p><b>argued</b> [1] - 705:10</p> <p><b>arguing</b> [2] - 626:2, 639:20</p> <p><b>argument</b> [1] - 721:6</p> <p><b>arguments</b> [3] - 622:11, 622:13, 668:3</p> <p><b>arrangement</b> [1] - 618:11</p> <p><b>aside</b> [1] - 707:9</p> <p><b>aspects</b> [1] - 612:14</p> <p><b>asserted</b> [3] - 632:20, 636:11, 646:6</p> <p><b>assertion</b> [4] - 625:10, 625:22, 627:13, 628:6</p> <p><b>asserts</b> [2] - 624:22, 640:9</p> <p><b>assessment</b> [2] - 715:25, 730:14</p> <p><b>asset</b> [21] - 669:4, 670:8, 670:10, 670:12, 670:17, 671:4, 682:16, 682:19, 682:20, 683:16, 725:16, 727:16, 734:3, 734:5, 734:8, 734:10, 736:20, 736:21, 737:10, 739:5, 739:8</p> <p><b>asset's</b> [1] - 669:8</p> <p><b>assets</b> [8] - 675:25, 676:1, 676:2, 681:23, 682:13, 682:21, 685:5, 685:6</p> <p><b>assigned</b> [1] - 730:22</p> <p><b>assistance</b> [2] - 736:24, 755:21</p> <p><b>associated</b> [4] - 617:14, 665:8, 716:12, 729:20</p> <p><b>assume</b> [18] - 672:3, 672:5, 691:8, 699:21, 703:7, 703:10, 703:21, 703:24, 708:18, 714:19, 728:24, 734:13, 737:23, 738:4, 741:10, 746:23, 751:24, 759:1</p> <p><b>assumed</b> [5] - 660:14, 681:2, 681:4, 707:14, 751:16</p>	<p><b>assumes</b> [1] - 648:3</p> <p><b>assuming</b> [2] - 708:23, 738:21</p> <p><b>assumption</b> [12] - 635:1, 644:6, 644:9, 644:10, 656:3, 657:3, 685:1, 691:13, 701:25, 702:24, 750:20</p> <p><b>assumptions</b> [2] - 633:21, 702:20</p> <p><b>attach</b> [1] - 706:12</p> <p><b>attachments</b> [1] - 610:18</p> <p><b>attempt</b> [2] - 736:23, 741:17</p> <p><b>attempted</b> [2] - 678:16, 736:22</p> <p><b>attention</b> [1] - 680:7</p> <p><b>attest</b> [1] - 620:21</p> <p><b>attorney</b> [2] - 705:2, 753:1</p> <p><b>Authority</b> [4] - 640:20, 643:13, 643:19</p> <p><b>authority</b> [5] - 640:21, 640:22, 641:12, 642:9, 643:11</p> <p><b>authorization</b> [1] - 684:15</p> <p><b>authorizing</b> [1] - 640:11</p> <p><b>automatic</b> [1] - 712:22</p> <p><b>automatically</b> [3] - 634:4, 651:11, 722:20</p> <p><b>availability</b> [6] - 645:12, 649:6, 649:23, 650:6, 650:22, 717:15</p> <p><b>available</b> [5] - 649:12, 651:22, 696:18, 696:19, 709:7</p> <p><b>average</b> [18] - 632:3, 632:17, 634:21, 635:6, 662:1, 670:2, 670:15, 670:19, 671:5, 677:13, 686:3, 687:13, 691:6, 691:10, 691:12, 694:14, 697:17</p> <p><b>avoid</b> [1] - 712:24</p> <p><b>avoided</b> [1] - 659:1</p> <p><b>aware</b> [3] - 704:4, 728:2, 731:22</p>	<p><b>bad</b> [2] - 648:13, 720:23</p> <p><b>Bahr</b> [24] - 608:15, 609:20, 695:15, 697:11, 698:3, 698:9, 698:12, 699:21, 724:9, 728:17, 732:15, 732:23, 733:7, 747:24, 749:17, 750:8, 753:17, 754:4, 755:6, 755:13, 757:1, 757:5, 758:25, 759:8</p> <p><b>BAHR</b> [42] - 608:17, 609:2, 610:2, 611:9, 611:14, 623:25, 639:9, 695:16, 696:6, 696:11, 698:4, 698:14, 698:25, 699:23, 706:10, 708:21, 724:10, 724:12, 725:23, 732:16, 732:24, 733:12, 736:9, 747:25, 748:2, 748:18, 748:25, 749:18, 749:21, 749:23, 750:4, 750:9, 750:16, 752:10, 754:5, 755:7, 755:18, 756:12, 757:2, 757:6, 759:2, 759:10</p> <p><b>balance</b> [3] - 618:5, 685:1, 711:14</p> <p><b>balancing</b> [1] - 713:21</p> <p><b>base</b> [21] - 616:2, 617:4, 621:25, 622:2, 622:5, 626:19, 648:8, 648:9, 648:12, 648:23, 650:5, 683:12, 683:17, 683:22, 684:2, 684:3, 689:6, 689:8, 689:11, 712:15, 718:24</p> <p><b>Based</b> [1] - 611:2</p> <p><b>based</b> [32] - 612:15, 616:22, 618:13, 619:15, 622:1, 625:20, 626:13, 630:12, 635:7, 652:15, 653:15, 659:7, 671:4, 671:5, 681:12, 686:2, 686:6, 693:14, 694:16, 696:3,</p>	<p>697:18, 700:20, 702:19, 702:24, 702:25, 706:13, 707:23, 710:18, 712:25, 726:16, 729:19, 733:22</p> <p><b>basic</b> [3] - 717:22, 717:23, 750:20</p> <p><b>basis</b> [21] - 613:15, 619:9, 623:8, 627:4, 632:4, 645:22, 646:23, 646:25, 659:15, 668:23, 669:16, 669:18, 707:10, 710:22, 726:20, 744:1, 750:24, 750:25, 751:5, 751:19, 758:8</p> <p><b>bat</b> [1] - 719:1</p> <p><b>Bear</b> [1] - 660:9</p> <p><b>bear</b> [1] - 722:24</p> <p><b>became</b> [1] - 741:20</p> <p><b>become</b> [2] - 689:11, 761:25</p> <p><b>becomes</b> [2] - 618:14, 668:23</p> <p><b>Bedell</b> [1] - 610:9</p> <p><b>BEFORE</b> [1] - 607:21</p> <p><b>begin</b> [2] - 639:15, 678:23</p> <p><b>beginning</b> [2] - 748:5, 748:8</p> <p><b>behalf</b> [1] - 608:10</p> <p><b>behind</b> [3] - 684:4, 684:6, 711:16</p> <p><b>belated</b> [1] - 761:18</p> <p><b>belief</b> [2] - 643:12, 665:9</p> <p><b>believes</b> [1] - 616:25</p> <p><b>below</b> [1] - 678:20</p> <p><b>beneficial</b> [3] - 735:23, 748:19, 748:25</p> <p><b>benefit</b> [12] - 625:19, 642:22, 642:23, 642:25, 644:1, 647:22, 661:18, 665:13, 675:18, 675:19, 719:20, 730:9</p> <p><b>benefited</b> [1] - 661:25</p> <p><b>benefits</b> [5] - 626:6, 663:14, 664:7, 719:4, 720:21</p> <p><b>benign</b> [1] - 700:24</p> <p><b>best</b> [4] - 722:2, 722:23, 734:3, 734:11</p> <p><b>Betsy</b> [2] - 705:3, 705:4</p>
<b>B</b>				
			<b>backwards</b> [1] - 741:4	

<p><b>better</b> [12] - 616:2, 658:11, 658:15, 659:23, 660:20, 661:15, 663:25, 701:8, 713:25, 715:19, 725:19, 748:15</p> <p><b>between</b> [21] - 614:13, 630:9, 649:8, 652:11, 658:25, 677:6, 680:22, 701:3, 703:20, 704:21, 706:1, 706:2, 710:19, 715:18, 715:23, 716:7, 729:18, 741:6, 741:9, 741:15, 751:5</p> <p><b>beyond</b> [2] - 688:8, 691:12</p> <p><b>bid</b> [1] - 712:16</p> <p><b>bidding</b> [4] - 712:16, 712:19, 712:20, 712:24</p> <p><b>bids</b> [1] - 712:10</p> <p><b>big</b> [10] - 617:4, 629:6, 652:19, 669:16, 701:22, 707:20, 716:15, 720:6, 720:7, 722:16</p> <p><b>biggest</b> [1] - 719:11</p> <p><b>bill</b> [4] - 613:11, 623:9, 628:4, 631:17</p> <p><b>billion</b> [3] - 617:17, 635:25, 636:3</p> <p><b>billions</b> [2] - 685:6, 685:8</p> <p><b>bills</b> [3] - 623:6, 623:14, 713:22</p> <p><b>birthday</b> [1] - 761:19</p> <p><b>Bismarck</b> [3] - 607:17, 763:13, 764:13</p> <p><b>bit</b> [5] - 672:5, 710:9, 714:12, 718:16, 761:7</p> <p><b>blew</b> [1] - 645:16</p> <p><b>blown</b> [1] - 619:16</p> <p><b>board</b> [1] - 608:19</p> <p><b>boiler</b> [1] - 645:16</p> <p><b>bond</b> [1] - 731:23</p> <p><b>bond-rating</b> [1] - 731:23</p> <p><b>bonus</b> [1] - 650:14</p> <p><b>bore</b> [1] - 622:12</p> <p><b>borne</b> [1] - 722:25</p> <p><b>bottlenecks</b> [1] - 717:17</p> <p><b>bottom</b> [2] - 611:16, 686:24</p> <p><b>Boy</b> [1] - 724:3</p>	<p><b>Bradley</b> [20] - 608:24, 611:11, 639:11, 667:25, 695:21, 697:2, 697:11, 699:5, 699:25, 725:25, 734:24, 736:10, 750:1, 750:12, 751:16, 752:11, 754:6, 754:25, 756:14, 758:15</p> <p><b>BRADLEY</b> [45] - 608:25, 611:12, 639:12, 639:14, 660:2, 660:10, 660:13, 667:16, 668:1, 668:2, 694:15, 694:22, 695:4, 695:8, 695:12, 695:22, 696:8, 696:14, 696:19, 696:23, 697:6, 697:13, 697:25, 698:7, 699:6, 699:11, 699:17, 700:1, 704:11, 726:1, 726:3, 732:13, 736:6, 736:12, 742:7, 748:24, 750:11, 750:13, 752:12, 752:14, 753:14, 754:7, 756:16, 756:24, 758:17</p> <p><b>Bradley's</b> [2] - 745:19, 747:12</p> <p><b>break</b> [1] - 749:23</p> <p><b>Bridge</b> [21] - 613:18, 613:25, 627:3, 629:7, 629:13, 629:14, 652:11, 652:23, 653:4, 653:7, 653:25, 654:8, 654:13, 654:21, 658:10, 658:15, 658:19, 658:23, 712:5, 730:7, 756:6</p> <p><b>brief</b> [1] - 724:2</p> <p><b>briefing</b> [2] - 759:10, 759:16</p> <p><b>Briefly</b> [1] - 618:22</p> <p><b>briefly</b> [2] - 752:12, 755:7</p> <p><b>briefs</b> [3] - 706:12, 758:19, 761:17</p> <p><b>bring</b> [2] - 718:1, 733:25</p> <p><b>bringing</b> [1] - 741:18</p>	<p><b>broad</b> [1] - 616:18</p> <p><b>broader</b> [7] - 686:10, 705:9, 713:14, 739:4, 739:6, 739:7, 743:23</p> <p><b>brought</b> [1] - 737:6</p> <p><b>bucks</b> [2] - 674:11, 675:1</p> <p><b>budget</b> [1] - 667:1</p> <p><b>Buffalo</b> [11] - 660:22, 661:2, 663:8, 663:24, 664:11, 664:12, 664:17, 664:21, 721:4, 721:12, 721:21</p> <p><b>build</b> [27] - 614:2, 615:5, 654:5, 654:7, 654:14, 654:20, 654:22, 655:8, 655:10, 655:14, 657:4, 657:8, 657:10, 663:6, 663:7, 664:19, 667:7, 676:9, 679:7, 683:6, 712:9, 712:17, 716:4, 716:11, 719:12, 719:14</p> <p><b>building</b> [6] - 634:18, 655:17, 656:20, 657:21, 715:24, 718:18</p> <p><b>built</b> [19] - 615:9, 615:21, 619:3, 648:25, 654:10, 655:2, 655:4, 656:3, 656:6, 656:8, 656:9, 657:2, 662:22, 665:2, 679:18, 681:11, 681:12, 744:14</p> <p><b>bunch</b> [1] - 625:6</p> <p><b>burden</b> [3] - 633:6, 722:24, 761:11</p> <p><b>burdensome</b> [1] - 669:24</p> <p><b>business</b> [3] - 667:4, 679:25, 716:11</p> <p><b>buy</b> [4] - 631:8, 657:24, 718:24, 731:18</p> <p><b>buying</b> [1] - 718:23</p> <p><b>buys</b> [1] - 732:3</p> <p><b>BY</b> [20] - 610:2, 639:14, 704:24, 706:21, 713:8, 720:12, 723:6, 724:12, 726:3, 733:12, 736:12, 742:13, 744:24,</p>	<p>746:2, 746:15, 748:2, 752:14, 753:22, 755:18, 756:16</p> <p><b>by-product</b> [1] - 651:24</p> <p><b>bypass</b> [1] - 720:6</p>	<p><b>Capitol</b> [1] - 607:16</p> <p><b>capture</b> [2] - 712:14, 719:5</p> <p><b>capturing</b> [1] - 681:22</p> <p><b>carefully</b> [2] - 616:17, 710:1</p> <p><b>cares</b> [1] - 679:25</p> <p><b>carried</b> [2] - 761:4, 761:5</p> <p><b>carrying</b> [1] - 732:10</p> <p><b>case</b> [41] - 610:10, 610:11, 612:1, 612:4, 618:12, 619:7, 628:3, 631:23, 632:1, 632:10, 632:11, 634:11, 637:8, 647:4, 651:1, 655:24, 656:19, 666:13, 675:1, 682:10, 682:22, 682:23, 704:17, 705:22, 707:18, 708:10, 712:21, 721:18, 722:11, 722:19, 727:22, 728:8, 728:21, 728:23, 728:25, 730:2, 744:10, 751:15, 757:14, 761:4</p> <p><b>Case</b> [2] - 607:5, 608:8</p> <p><b>cases</b> [7] - 629:5, 655:18, 655:21, 677:6, 680:22, 707:13, 729:2</p> <p><b>asks</b> [1] - 628:12</p> <p><b>catch</b> [1] - 678:8</p> <p><b>catching</b> [1] - 678:11</p> <p><b>caused</b> [1] - 644:11</p> <p><b>causes</b> [1] - 702:9</p> <p><b>CD</b> [8] - 682:5, 734:1, 734:25, 735:3, 737:1, 737:8, 741:6, 752:17</p> <p><b>cent</b> [1] - 719:1</p> <p><b>center</b> [3] - 661:6, 661:14, 661:18</p> <p><b>cents</b> [1] - 673:17</p> <p><b>certain</b> [8] - 614:23, 624:4, 636:14, 655:11, 705:16, 726:25, 757:24, 757:25</p> <p><b>Certainly</b> [1] - 647:22</p> <p><b>certainly</b> [15] - 617:13, 617:14, 648:16, 659:5, 663:16, 699:6, 702:5, 702:12, 707:20,</p>
<b>C</b>				<p><b>C-D</b> [3] - 735:17, 736:15, 751:1</p> <p><b>calculate</b> [2] - 710:17, 726:8</p> <p><b>calculated</b> [3] - 628:19, 632:13, 748:7</p> <p><b>calculating</b> [1] - 633:12</p> <p><b>calculation</b> [5] - 631:23, 633:15, 668:21, 688:23, 745:6</p> <p><b>calculations</b> [1] - 747:17</p> <p><b>cancel</b> [1] - 719:18</p> <p><b>cannot</b> [5] - 644:15, 647:23, 649:25, 667:15, 695:20</p> <p><b>capability</b> [1] - 701:13</p> <p><b>capacities</b> [1] - 730:10</p> <p><b>capacity</b> [58] - 614:7, 614:9, 614:11, 614:12, 615:3, 615:14, 615:19, 629:14, 647:13, 647:17, 648:4, 648:7, 648:9, 648:12, 649:4, 649:8, 649:9, 649:11, 649:15, 649:17, 649:19, 649:25, 650:2, 650:5, 650:24, 651:7, 651:9, 651:19, 651:23, 652:3, 652:7, 653:3, 653:6, 653:11, 653:12, 653:14, 653:16, 653:24, 654:4, 654:8, 655:5, 655:8, 655:12, 655:15, 657:22, 658:20, 659:14, 659:20, 660:14, 660:17, 660:24, 664:6, 717:19, 729:15, 730:14, 730:16</p> <p><b>Cape</b> [1] - 630:22</p>

<p>710:5, 718:6, 722:14, 728:20, 729:1, 760:2 <b>certainty</b> [1] - 636:17 <b>CERTIFICATE</b> [1] - 668:12 <b>CERTIFICATE</b> [2] - 763:1, 764:1 <b>CERTIFY</b> [4] - 763:6, 763:9, 764:6, 764:9 <b>chair</b> [1] - 682:3 <b>chance</b> [1] - 755:24 <b>change</b> [15] - 611:5, 611:7, 611:15, 611:16, 611:24, 629:19, 636:14, 645:11, 645:14, 649:12, 654:6, 674:18, 713:12, 729:17, 751:4 <b>changes</b> [4] - 611:3, 658:4, 678:2, 706:12 <b>changing</b> [1] - 669:2 <b>characteristics</b> [2] - 658:9, 658:14 <b>charge</b> [14] - 619:12, 621:18, 622:23, 623:2, 623:6, 623:7, 631:21, 633:4, 665:15, 673:17, 713:17, 713:18, 715:2 <b>charges</b> [8] - 617:22, 621:4, 622:17, 622:18, 622:25, 623:20, 623:23, 714:3 <b>charging</b> [7] - 619:3, 621:3, 638:7, 667:7, 671:23, 684:1, 715:7 <b>CHARLES</b> [2] - 609:21, 755:14 <b>Charles</b> [1] - 610:5 <b>Charlie</b> [1] - 609:2 <b>chart</b> [5] - 691:3, 733:24, 734:1, 749:24, 754:17 <b>cheaper</b> [4] - 659:6, 659:19, 662:1, 662:4 <b>cheapest</b> [1] - 723:18 <b>check</b> [8] - 672:9, 673:3, 688:4, 737:20, 739:16, 740:12, 741:20, 745:18 <b>choice</b> [2] - 628:7, 628:9 <b>chooses</b> [1] - 758:14 <b>Cities</b> [7] - 661:20, 664:12, 701:23, 702:4, 710:6,</p>	<p>731:18, 758:23 <b>claim</b> [1] - 633:2 <b>claims</b> [2] - 626:16, 632:25 <b>clarify</b> [1] - 704:25 <b>clarifying</b> [1] - 705:15 <b>Clark</b> [6] - 706:18, 713:9, 720:10, 727:21, 744:19, 760:7 <b>CLARK</b> [12] - 706:19, 706:21, 708:15, 709:3, 709:10, 709:15, 709:16, 713:3, 720:12, 723:1, 732:22, 760:8 <b>class</b> [1] - 621:12 <b>Class</b> [1] - 609:11 <b>classes</b> [1] - 621:22 <b>clear</b> [1] - 734:11 <b>clearly</b> [4] - 689:13, 707:8, 717:18, 735:4 <b>clients</b> [1] - 701:15 <b>climate</b> [4] - 702:17, 715:22, 715:23, 716:12 <b>close</b> [7] - 617:1, 617:5, 654:12, 654:13, 714:25, 718:9, 740:17 <b>closed</b> [3] - 636:16, 654:19, 762:2 <b>closer</b> [7] - 661:2, 661:5, 661:14, 742:23, 751:19, 751:22, 752:2 <b>closest</b> [1] - 743:9 <b>Closing</b> [1] - 759:20 <b>coal</b> [12] - 613:18, 613:25, 650:5, 652:12, 652:17, 653:6, 654:1, 658:23, 689:20, 718:2, 718:4, 718:11 <b>Coal</b> [2] - 659:5, 718:10 <b>coal-fired</b> [1] - 658:23 <b>Cod</b> [1] - 630:22 <b>code</b> [1] - 624:5 <b>collapse</b> [1] - 645:15 <b>collapses</b> [1] - 673:11 <b>colleague's</b> [1] - 760:9 <b>collect</b> [4] - 631:18, 739:22, 739:24, 740:2 <b>collected</b> [4] - 727:9, 739:24, 741:5, 745:4 <b>collecting</b> [1] - 670:13 <b>collective</b> [1] - 681:15 <b>Columbia</b> [2] - 638:13,</p>	<p>638:17 <b>column</b> [4] - 686:25, 687:3, 692:5, 750:22 <b>columns</b> [1] - 751:2 <b>combined</b> [8] - 651:21, 658:20, 691:17, 691:20, 691:25, 692:1, 692:2, 756:7 <b>combined-cycle</b> [1] - 658:20 <b>combustion</b> [19] - 613:19, 613:20, 614:3, 617:18, 634:23, 635:4, 635:13, 690:23, 690:25, 691:5, 691:7, 691:14, 691:21, 692:3, 692:7, 692:10, 697:19, 700:2, 756:7 <b>coming</b> [1] - 627:17 <b>commencing</b> [1] - 608:2 <b>commendable</b> [1] - 621:1 <b>Comment</b> [1] - 758:15 <b>comment</b> [3] - 608:13, 624:10, 701:16 <b>commented</b> [1] - 621:20 <b>comments</b> [3] - 636:25, 759:20, 760:9 <b>commercial</b> [1] - 621:16 <b>commission</b> [1] - 744:11 <b>COMMISSION</b> [1] - 607:2 <b>Commission</b> [55] - 608:8, 616:14, 616:17, 623:17, 627:18, 627:19, 627:24, 628:1, 643:15, 669:3, 684:11, 684:14, 684:16, 695:19, 699:4, 705:19, 707:17, 707:21, 708:20, 708:22, 709:8, 709:18, 715:6, 715:12, 715:14, 715:16, 720:17, 722:20, 723:9, 724:2, 728:2, 728:18, 728:22, 730:4, 730:8, 732:3, 732:15, 735:23, 735:24, 736:20,</p>	<p>743:24, 744:19, 747:20, 747:24, 749:1, 753:16, 754:4, 757:1, 758:9, 758:13, 758:18, 758:20, 760:5, 760:11 <b>Commission's</b> [2] - 608:11, 757:23 <b>COMMISSIONER</b> [44] - 698:15, 698:20, 704:15, 704:19, 704:24, 706:15, 706:19, 706:21, 708:15, 709:3, 709:10, 709:15, 709:16, 713:3, 713:6, 713:8, 720:8, 720:12, 723:1, 723:4, 723:6, 723:25, 732:21, 732:22, 742:10, 742:13, 744:16, 744:20, 746:2, 746:10, 746:11, 746:15, 753:18, 753:22, 754:2, 754:9, 754:12, 755:3, 757:16, 759:22, 760:8, 760:21, 761:21, 761:24 <b>Commissioner</b> [24] - 620:12, 624:2, 698:17, 704:18, 706:10, 706:18, 713:5, 713:9, 720:10, 720:14, 723:3, 727:21, 742:11, 744:19, 746:13, 748:4, 748:23, 753:19, 759:21, 760:7, 760:20, 761:2, 761:8, 761:20 <b>Commissioners</b> [6] - 686:21, 704:14, 732:20, 742:9, 757:11, 759:20 <b>commissions</b> [2] - 638:8, 717:20 <b>commitment</b> [1] - 732:2 <b>common</b> [4] - 638:14, 661:23, 689:19, 704:2 <b>commonly</b> [1] - 640:12 <b>community</b> [1] - 732:5 <b>companies</b> [7] -</p>	<p>638:24, 655:7, 710:17, 719:15, 720:18, 722:7, 731:23 <b>Company</b> [3] - 607:5, 608:7, 638:20 <b>company</b> [133] - 612:16, 613:1, 613:16, 614:12, 614:13, 614:14, 615:5, 616:3, 616:25, 617:22, 618:1, 618:9, 618:22, 619:15, 620:6, 620:15, 620:25, 621:9, 621:21, 623:5, 623:19, 624:3, 625:7, 625:15, 625:17, 627:5, 627:17, 627:19, 628:6, 630:10, 630:11, 630:14, 634:14, 635:19, 635:25, 637:3, 638:12, 638:16, 639:17, 639:20, 639:24, 640:14, 640:17, 640:25, 641:8, 641:14, 641:17, 641:20, 641:23, 641:24, 642:4, 642:10, 642:15, 642:17, 643:5, 643:12, 646:11, 646:22, 646:24, 650:4, 653:18, 653:19, 653:21, 654:1, 654:25, 656:3, 658:24, 659:17, 660:6, 660:7, 662:6, 662:16, 662:24, 663:6, 663:9, 663:23, 664:1, 664:10, 664:13, 664:18, 665:1, 666:16, 667:13, 675:17, 676:6, 676:21, 677:2, 677:9, 679:25, 684:10, 685:6, 685:11, 688:20, 702:7, 703:3, 703:5, 707:14, 708:10, 708:12, 710:8, 712:13, 712:16, 713:24, 714:7, 714:9, 714:22, 715:11, 718:8, 718:17, 719:2,</p>
---	---	---	---	--

<p>719:13, 719:19, 720:1, 722:24, 723:19, 726:4, 726:25, 727:2, 727:4, 727:5, 727:23, 728:8, 728:14, 728:23, 728:24, 736:14, 743:21, 745:22, 761:12, 761:13</p> <p><b>company's</b> [22] - 617:3, 625:24, 628:10, 642:14, 642:23, 643:23, 643:25, 646:21, 654:9, 654:18, 656:5, 658:21, 662:5, 664:16, 666:9, 666:19, 666:21, 668:11, 689:22, 704:5, 709:24</p> <p><b>compare</b> [1] - 740:3</p> <p><b>compared</b> [3] - 661:4, 732:10, 752:20</p> <p><b>compares</b> [1] - 750:18</p> <p><b>comparing</b> [1] - 710:24</p> <p><b>comparison</b> [4] - 715:23, 722:18, 736:19, 752:19</p> <p><b>compensated</b> [1] - 625:21</p> <p><b>competent</b> [1] - 624:10</p> <p><b>competitive</b> [6] - 712:15, 712:19, 712:20, 712:24, 722:2, 722:18</p> <p><b>complete</b> [3] - 687:10, 760:12, 761:15</p> <p><b>completed</b> [1] - 663:19</p> <p><b>completes</b> [1] - 623:24</p> <p><b>complied</b> [1] - 624:4</p> <p><b>complies</b> [1] - 668:10</p> <p><b>component</b> [1] - 618:6</p> <p><b>comport</b> [1] - 666:7</p> <p><b>compounded</b> [2] - 631:15, 734:20</p> <p><b>compute</b> [2] - 618:3, 724:23</p> <p><b>concept</b> [9] - 679:23, 712:15, 736:20, 736:21, 737:2, 737:4, 744:10, 744:13</p> <p><b>conceptually</b> [1] - 747:15</p>	<p><b>concern</b> [3] - 717:11, 718:5, 721:25</p> <p><b>concerning</b> [5] - 608:13, 636:25, 700:4, 729:3, 730:24</p> <p><b>concerns</b> [1] - 635:10</p> <p><b>Concluded</b> [1] - 762:3</p> <p><b>concluded</b> [1] - 697:19</p> <p><b>concluding</b> [1] - 706:11</p> <p><b>conclusion</b> [6] - 608:18, 652:16, 658:9, 658:14, 659:18, 729:5</p> <p><b>conclusions</b> [1] - 757:25</p> <p><b>condition</b> [3] - 622:24, 647:2, 676:15</p> <p><b>conditioner</b> [1] - 623:9</p> <p><b>conducted</b> [1] - 695:24</p> <p><b>conductor</b> [1] - 702:15</p> <p><b>conductors</b> [5] - 637:1, 637:12, 703:9, 703:13, 707:7</p> <p><b>conference</b> [1] - 645:24</p> <p><b>confident</b> [1] - 707:11</p> <p><b>confidential</b> [3] - 686:11, 686:12, 686:15</p> <p><b>confirm</b> [1] - 708:23</p> <p><b>confronted</b> [1] - 613:11</p> <p><b>confused</b> [1] - 630:5</p> <p><b>confuses</b> [2] - 630:4, 747:17</p> <p><b>congestion</b> [3] - 656:22, 656:24, 656:25</p> <p><b>connect</b> [2] - 615:4, 662:10</p> <p><b>connected</b> [1] - 663:19</p> <p><b>connection</b> [1] - 701:1</p> <p><b>connector</b> [1] - 664:12</p> <p><b>consequence</b> [10] - 659:21, 663:8, 669:21, 676:4, 681:25, 683:9, 711:9, 723:19, 725:5, 728:7</p> <p><b>consequences</b> [1] - 661:10</p> <p><b>consequently</b> [5] - 618:17, 637:16, 664:20, 716:3,</p>	<p>717:15</p> <p><b>conservation</b> [3] - 713:25, 714:8, 714:10</p> <p><b>consideration</b> [2] - 675:23, 757:13</p> <p><b>considered</b> [3] - 712:18, 727:22, 756:10</p> <p><b>considering</b> [1] - 635:11</p> <p><b>construct</b> [3] - 614:23, 614:25, 663:10</p> <p><b>constructing</b> [2] - 758:2, 758:9</p> <p><b>construction</b> [4] - 664:11, 667:8, 667:10, 712:14</p> <p><b>consulting</b> [1] - 610:8</p> <p><b>consumed</b> [2] - 651:13</p> <p><b>consumption</b> [2] - 621:8, 622:2</p> <p><b>contain</b> [2] - 763:10, 764:10</p> <p><b>contends</b> [1] - 635:20</p> <p><b>contention</b> [1] - 662:8</p> <p><b>context</b> [3] - 619:16, 696:13, 697:5</p> <p><b>contingency</b> [1] - 628:14</p> <p><b>continue</b> [5] - 625:17, 636:15, 676:5, 746:11, 749:13</p> <p><b>continued</b> [2] - 761:15, 761:16</p> <p><b>continues</b> [3] - 733:3, 734:15, 755:10</p> <p><b>CONTINUING</b> [10] - 611:14, 623:25, 660:13, 668:2, 700:1, 709:16, 749:18, 749:23, 750:16, 754:12</p> <p><b>contracts</b> [1] - 659:7</p> <p><b>contrary</b> [1] - 704:2</p> <p><b>contributions</b> [1] - 714:24</p> <p><b>Control</b> [3] - 640:20, 643:13, 643:19</p> <p><b>control</b> [10] - 621:8, 637:4, 637:5, 641:12, 643:11, 644:4, 652:22, 666:11, 702:8, 720:1</p> <p><b>controversy</b> [2] - 630:9, 631:20</p> <p><b>conversations</b> [1] - 612:16</p> <p><b>conversion</b> [2] -</p>	<p>658:22, 718:3</p> <p><b>converting</b> [1] - 756:6</p> <p><b>copies</b> [3] - 608:19, 694:18, 699:13</p> <p><b>copy</b> [3] - 697:20, 733:24, 750:4</p> <p><b>core</b> [3] - 619:19, 734:7, 741:19</p> <p><b>corner</b> [1] - 615:2</p> <p><b>Correct</b> [3] - 672:21, 695:12, 696:6</p> <p><b>correct</b> [38] - 629:22, 646:24, 663:22, 664:24, 665:7, 669:9, 671:24, 671:25, 673:1, 675:5, 679:16, 685:14, 685:23, 688:2, 688:10, 691:19, 693:16, 693:25, 696:5, 706:9, 721:24, 722:5, 731:4, 734:2, 735:4, 738:8, 739:20, 739:21, 740:5, 743:7, 745:5, 745:23, 748:8, 754:1, 754:22, 755:22, 755:23</p> <p><b>correction</b> [1] - 611:24</p> <p><b>correctly</b> [1] - 693:3</p> <p><b>cost</b> [117] - 610:12, 613:25, 616:9, 619:8, 619:11, 620:13, 620:14, 621:1, 621:13, 621:20, 621:21, 622:4, 622:25, 623:2, 623:11, 623:12, 630:25, 631:12, 631:14, 632:4, 644:1, 647:9, 648:17, 650:20, 651:8, 651:17, 651:18, 652:11, 652:12, 652:20, 656:25, 657:16, 659:9, 660:8, 661:10, 662:1, 664:7, 666:17, 667:2, 667:4, 669:10, 669:13, 669:14, 669:19, 670:1, 670:2, 670:5, 670:9, 670:11, 670:16, 670:24, 671:4, 671:5, 671:9, 671:15, 671:20, 671:22, 672:24, 672:25, 673:5,</p>	<p>675:2, 675:3, 675:14, 677:16, 677:18, 677:23, 678:14, 678:20, 679:8, 679:9, 679:20, 680:9, 680:21, 681:19, 681:22, 682:2, 683:3, 683:5, 683:6, 684:10, 684:19, 684:21, 690:6, 706:4, 706:5, 710:13, 710:17, 711:1, 711:2, 711:7, 712:6, 713:18, 715:3, 722:20, 722:22, 722:23, 723:9, 723:13, 725:2, 725:3, 725:4, 727:3, 727:16, 729:25, 737:11, 737:25, 738:11, 738:19, 743:2, 743:10, 758:9</p> <p><b>Cost</b> [1] - 738:1</p> <p><b>cost-allocation</b> [1] - 621:20</p> <p><b>cost-benefit</b> [1] - 644:1</p> <p><b>costly</b> [1] - 652:17</p> <p><b>costs</b> [113] - 616:21, 617:14, 618:21, 618:23, 619:2, 619:10, 619:13, 619:24, 620:6, 620:7, 621:3, 621:4, 621:22, 622:1, 622:9, 622:10, 622:20, 622:21, 623:13, 624:24, 625:6, 625:9, 625:14, 625:15, 625:17, 626:2, 627:18, 629:2, 630:10, 630:12, 630:13, 631:21, 631:22, 632:3, 632:7, 632:12, 632:16, 632:18, 632:20, 632:23, 633:9, 636:21, 639:18, 639:22, 650:6, 651:14, 652:8, 652:21, 652:22, 652:23, 653:13, 657:13, 659:4, 664:22, 665:8, 665:18, 666:1, 666:2, 666:10, 666:22,</p>
---	---	---	---	--

<p>666:24, 667:1, 667:8, 667:10, 669:4, 671:12, 676:1, 676:2, 676:3, 676:7, 676:8, 676:22, 677:9, 677:11, 678:3, 678:12, 678:23, 679:5, 680:3, 681:16, 681:17, 681:20, 682:11, 682:12, 682:13, 683:1, 684:23, 684:24, 685:5, 700:18, 700:21, 710:19, 710:23, 714:4, 714:5, 714:8, 714:13, 714:19, 715:5, 715:7, 715:13, 716:12, 720:21, 729:15, 731:20, 734:18, 738:10, 744:9, 747:22, 758:1, 758:21</p> <p><b>counsel</b> [15] - 608:20, 639:20, 694:20, 695:1, 698:24, 704:17, 704:21, 705:17, 708:23, 750:5, 750:10, 753:13, 757:19, 758:4, 759:17</p> <p><b>count</b> [2] - 608:23, 702:15</p> <p><b>counterintuitive</b> [1] - 710:4</p> <p><b>country</b> [1] - 622:19</p> <p><b>couple</b> [5] - 621:19, 713:14, 718:4, 720:13, 724:15</p> <p><b>course</b> [11] - 625:17, 625:25, 632:22, 635:15, 635:17, 643:7, 690:8, 704:4, 727:18, 733:3, 755:10</p> <p><b>COURT</b> [2] - 763:1, 764:1</p> <p><b>cover</b> [7] - 623:21, 679:5, 681:6, 681:17, 681:19, 682:11, 683:3</p> <p><b>covered</b> [3] - 624:19, 626:3, 714:5</p> <p><b>covers</b> [1] - 623:2</p> <p><b>Cramer</b> [5] - 713:5, 720:14, 746:13, 748:23, 760:20</p> <p><b>CRAMER</b> [9] - 713:6,</p>	<p>713:8, 720:8, 732:21, 746:11, 746:15, 760:21, 761:21, 761:24</p> <p><b>create</b> [1] - 736:7</p> <p><b>created</b> [1] - 721:19</p> <p><b>creates</b> [1] - 633:1</p> <p><b>credit</b> [2] - 719:14, 719:16</p> <p><b>credits</b> [2] - 719:6, 719:7</p> <p><b>cross</b> [1] - 714:22</p> <p><b>CROSS</b> [3] - 639:13, 736:11, 756:15</p> <p><b>cross-examination</b> [1] - 714:22</p> <p><b>CROSS-EXAMINATION</b> [3] - 639:13, 736:11, 756:15</p> <p><b>crossed</b> [1] - 679:14</p> <p><b>crosses</b> [1] - 678:17</p> <p><b>CT's</b> [3] - 693:11, 693:20, 693:24</p> <p><b>current</b> [32] - 618:25, 619:8, 619:11, 619:12, 619:13, 631:9, 631:11, 631:21, 631:22, 632:12, 632:24, 666:5, 667:5, 667:13, 670:6, 670:9, 670:12, 670:24, 671:3, 671:10, 671:22, 675:13, 675:15, 677:24, 681:22, 682:1, 683:2, 683:25, 688:8, 735:11, 738:10, 738:11</p> <p><b>curve</b> [2] - 633:21, 694:12</p> <p><b>curve-shape</b> [1] - 633:21</p> <p><b>customer</b> [12] - 622:17, 622:21, 622:22, 622:23, 623:1, 623:3, 623:4, 623:15, 623:20, 731:18</p> <p><b>customer's</b> [1] - 623:9</p> <p><b>customers</b> [13] - 619:4, 621:15, 621:17, 622:6, 650:1, 650:7, 650:23, 651:8, 661:24, 677:7, 679:15, 680:23, 714:11</p>	<p><b>cut</b> [3] - 714:11, 718:1, 731:6</p> <p><b>cut-and-dried</b> [1] - 731:6</p> <p><b>CWK-4</b> [1] - 708:1</p> <p><b>CWK-8</b> [1] - 668:9</p> <p><b>cycle</b> [6] - 658:20, 678:5, 691:21, 694:6, 694:8, 756:7</p> <p><b>cycling</b> [4] - 647:20, 648:18, 648:20, 689:11</p> <hr/> <p style="text-align: center;"><b>D</b></p> <hr/> <p><b>D.C</b> [3] - 638:9, 638:10, 638:11</p> <p><b>daily</b> [1] - 744:1</p> <p><b>DAKOTA</b> [1] - 607:1</p> <p><b>Dakota</b> [136] - 607:17, 608:8, 609:10, 612:5, 614:19, 615:20, 615:21, 616:2, 616:11, 616:13, 619:15, 619:18, 619:22, 620:1, 620:7, 622:18, 624:4, 625:8, 625:9, 625:12, 625:14, 625:16, 625:18, 625:19, 625:20, 625:24, 626:1, 626:3, 626:13, 627:8, 628:5, 628:23, 629:2, 629:5, 629:12, 629:17, 631:18, 637:13, 637:15, 637:19, 637:22, 637:24, 638:2, 638:5, 639:8, 639:19, 649:18, 649:20, 650:1, 650:17, 650:18, 650:23, 651:8, 651:14, 651:19, 651:20, 659:13, 659:19, 659:20, 659:22, 660:14, 660:20, 660:23, 661:3, 661:5, 661:9, 661:11, 661:15, 661:17, 661:19, 661:20, 661:24, 662:3, 662:21, 663:17, 663:24, 664:1, 664:3, 664:6, 664:14, 666:7, 666:15, 666:23,</p>	<p>700:24, 701:4, 701:9, 701:16, 701:19, 702:4, 702:16, 703:6, 703:8, 703:11, 703:18, 703:20, 703:22, 704:3, 706:24, 706:25, 707:9, 707:12, 709:20, 710:1, 710:6, 710:7, 714:14, 714:15, 715:12, 715:15, 715:16, 716:4, 716:11, 716:13, 716:23, 717:3, 722:8, 722:10, 722:13, 722:16, 723:14, 727:24, 728:9, 728:12, 728:19, 729:6, 729:15, 730:18, 758:3, 758:10, 758:22, 763:13, 764:13</p> <p><b>Dakota-based</b> [1] - 619:15</p> <p><b>data</b> [22] - 620:22, 631:25, 632:14, 652:25, 665:22, 677:14, 686:7, 686:18, 687:9, 688:6, 690:21, 691:16, 691:25, 695:24, 697:21, 697:22, 701:12, 701:14, 703:16, 703:17, 708:3, 726:9</p> <p><b>date</b> [4] - 614:22, 646:12, 685:13, 685:15</p> <p><b>Dated</b> [2] - 763:13, 764:13</p> <p><b>day's</b> [1] - 631:11</p> <p><b>days</b> [2] - 609:4, 744:5</p> <p><b>deal</b> [2] - 628:4, 630:23</p> <p><b>dealing</b> [5] - 659:16, 682:21, 682:22, 682:24, 754:16</p> <p><b>dear</b> [1] - 708:1</p> <p><b>debatable</b> [1] - 626:20</p> <p><b>debate</b> [3] - 622:8, 707:16, 728:17</p> <p><b>debated</b> [1] - 707:6</p> <p><b>debt</b> [5] - 675:22, 682:16, 731:25, 732:6, 732:10</p> <p><b>decent</b> [1] - 615:1</p> <p><b>decide</b> [1] - 683:24</p>	<p><b>decided</b> [5] - 615:10, 625:5, 627:24, 663:9, 694:15</p> <p><b>deciding</b> [1] - 758:21</p> <p><b>decision</b> [1] - 643:18</p> <p><b>declare</b> [1] - 630:16</p> <p><b>declines</b> [1] - 669:23</p> <p><b>decommissioning</b> [8] - 734:18, 737:14, 742:24, 743:2, 743:5, 743:10, 744:2, 744:9</p> <p><b>decoupling</b> [1] - 713:18</p> <p><b>decrease</b> [1] - 628:22</p> <p><b>deduct</b> [1] - 630:25</p> <p><b>deeply</b> [1] - 622:7</p> <p><b>deferred</b> [1] - 718:15</p> <p><b>definitely</b> [1] - 646:16</p> <p><b>definition</b> [2] - 625:25, 649:13</p> <p><b>deflate</b> [2] - 672:25, 738:10</p> <p><b>deflated</b> [2] - 673:14, 737:11</p> <p><b>Delmarva</b> [1] - 638:21</p> <p><b>delay</b> [1] - 642:5</p> <p><b>delayed</b> [1] - 613:9</p> <p><b>deletions</b> [1] - 611:3</p> <p><b>delivery</b> [2] - 713:17, 713:18</p> <p><b>Delmarva</b> [1] - 638:20</p> <p><b>delta</b> [1] - 741:5</p> <p><b>demand</b> [2] - 621:3, 621:4</p> <p><b>demonstrate</b> [9] - 660:7, 664:10, 664:15, 666:9, 666:19, 666:21, 734:4, 735:20, 745:16</p> <p><b>demonstrated</b> [5] - 644:2, 644:3, 687:14, 734:6, 737:2</p> <p><b>demonstrates</b> [1] - 754:17</p> <p><b>demonstration</b> [2] - 748:16, 755:1</p> <p><b>denies</b> [1] - 613:1</p> <p><b>Denise</b> [2] - 763:4, 763:17</p> <p><b>denominator</b> [4] - 710:25, 711:2, 711:6, 711:11</p> <p><b>denouncing</b> [1] - 632:6</p> <p><b>density</b> [2] - 716:18, 716:22</p> <p><b>dependence</b> [1] - 717:12</p>
--	---	---	--	---

<p><b>dependent</b> [1] - 717:16</p> <p><b>depreciate</b> [11] - 618:5, 618:7, 636:3, 675:6, 683:25, 688:25, 690:2, 690:13, 690:17, 700:18, 747:4</p> <p><b>depreciated</b> [8] - 617:20, 689:1, 690:10, 690:11, 725:1, 726:12, 726:22, 726:23</p> <p><b>depreciating</b> [5] - 617:17, 636:15, 675:25, 700:17, 725:12</p> <p><b>depreciation</b> [74] - 612:9, 616:13, 616:15, 616:17, 617:9, 617:22, 618:3, 618:17, 618:19, 618:23, 627:9, 629:1, 630:8, 631:25, 633:11, 633:12, 633:17, 633:19, 634:2, 634:5, 634:8, 634:9, 635:18, 636:6, 636:20, 637:11, 638:3, 638:6, 638:13, 638:18, 638:22, 638:25, 639:5, 667:17, 668:21, 668:24, 669:4, 669:6, 669:7, 669:15, 669:17, 677:20, 683:12, 683:13, 684:6, 690:14, 700:10, 706:24, 707:18, 707:23, 708:4, 710:11, 710:12, 724:14, 724:21, 724:23, 724:24, 725:6, 725:8, 727:13, 727:14, 727:19, 727:24, 728:10, 728:19, 740:1, 741:16, 744:14, 745:3, 745:11, 747:3, 747:8, 753:24</p> <p><b>Depreciation</b> [1] - 742:2</p> <p><b>derive</b> [1] - 668:22</p> <p><b>derived</b> [1] - 664:23</p> <p><b>describe</b> [1] - 678:16</p> <p><b>description</b> [1] - 724:19</p>	<p><b>design</b> [6] - 610:12, 620:12, 620:14, 620:24, 622:14, 713:15</p> <p><b>designed</b> [1] - 745:21</p> <p><b>desired</b> [1] - 662:16</p> <p><b>detail</b> [1] - 643:22</p> <p><b>detailed</b> [1] - 620:21</p> <p><b>determine</b> [6] - 644:10, 661:7, 693:10, 693:13, 738:9, 741:5</p> <p><b>determined</b> [5] - 647:21, 651:5, 652:5, 697:17, 724:25</p> <p><b>determining</b> [3] - 646:23, 670:1, 755:21</p> <p><b>devalue</b> [2] - 672:2, 672:7</p> <p><b>devalued</b> [1] - 674:7</p> <p><b>develop</b> [7] - 616:1, 619:8, 619:21, 640:17, 707:22, 736:19, 738:18</p> <p><b>developed</b> [6] - 614:20, 721:22, 728:9, 728:10, 745:1, 760:10</p> <p><b>developer</b> [3] - 719:8, 720:3, 720:4</p> <p><b>developers</b> [2] - 718:19, 719:8</p> <p><b>development</b> [2] - 719:17, 721:23</p> <p><b>diagram</b> [2] - 608:19, 681:5</p> <p><b>die</b> [2] - 630:19, 631:14</p> <p><b>difference</b> [9] - 620:3, 649:8, 669:16, 720:7, 741:9, 741:15, 745:12, 751:4, 752:22</p> <p><b>differences</b> [3] - 703:20, 705:25, 706:2</p> <p><b>different</b> [14] - 621:15, 638:7, 639:1, 639:2, 645:17, 649:1, 654:10, 656:23, 657:2, 707:8, 707:12, 710:24, 734:19</p> <p><b>Different</b> [1] - 639:4</p> <p><b>differential</b> [6] - 614:13, 623:22, 652:21, 702:17, 711:17, 720:7</p>	<p><b>differentials</b> [1] - 621:14</p> <p><b>differently</b> [1] - 757:22</p> <p><b>difficult</b> [2] - 659:16, 718:11</p> <p><b>Diller</b> [1] - 660:19</p> <p><b>direct</b> [1] - 648:6</p> <p><b>DIRECT</b> [3] - 610:1, 733:11, 755:17</p> <p><b>directly</b> [1] - 653:1</p> <p><b>disadvantages</b> [1] - 718:21</p> <p><b>disagree</b> [5] - 628:18, 654:17, 658:5, 700:8, 736:14</p> <p><b>disagrees</b> [1] - 725:20</p> <p><b>disallow</b> [3] - 647:9, 652:10, 747:21</p> <p><b>disallowance</b> [8] - 626:20, 647:17, 647:25, 652:15, 659:11, 664:8, 664:9, 665:3</p> <p><b>disallowances</b> [13] - 624:23, 625:11, 625:23, 626:16, 626:19, 627:9, 627:14, 628:18, 628:22, 629:3, 629:6, 655:19, 715:4</p> <p><b>disallowed</b> [7] - 614:15, 616:11, 620:7, 624:24, 625:14, 629:5, 723:9</p> <p><b>disallowing</b> [2] - 659:8, 664:22</p> <p><b>discontinue</b> [1] - 734:22</p> <p><b>discount</b> [9] - 632:15, 723:22, 738:12, 738:15, 738:17, 738:25, 739:12, 739:14, 740:9</p> <p><b>discounted</b> [1] - 618:18</p> <p><b>discuss</b> [2] - 759:10, 759:16</p> <p><b>discussed</b> [8] - 608:18, 618:21, 626:6, 656:13, 735:12, 737:15, 748:12, 750:19</p> <p><b>discussion</b> [11] - 627:23, 629:23, 672:3, 713:15, 721:3, 730:24, 739:11, 756:5, 756:21, 758:24, 761:17</p> <p><b>discussions</b> [2] -</p>	<p>758:19, 760:18</p> <p><b>disguise</b> [2] - 734:5, 741:18</p> <p><b>disparities</b> [1] - 633:16</p> <p><b>dispatch</b> [4] - 621:24, 648:14, 648:16, 648:20</p> <p><b>dispute</b> [17] - 645:20, 647:14, 651:4, 654:11, 654:15, 657:18, 659:2, 659:3, 662:11, 662:16, 662:17, 663:15, 663:16, 689:2, 689:5, 702:10</p> <p><b>disputes</b> [2] - 658:8, 658:13</p> <p><b>disregard</b> [1] - 754:13</p> <p><b>distant</b> [2] - 619:1, 676:7</p> <p><b>distinction</b> [1] - 668:21</p> <p><b>distinguished</b> [1] - 637:14</p> <p><b>distorted</b> [1] - 622:3</p> <p><b>distributed</b> [2] - 758:4, 759:5</p> <p><b>distributing</b> [2] - 686:10, 686:21</p> <p><b>distribution</b> [9] - 622:20, 623:12, 637:25, 639:6, 677:25, 700:24, 703:6, 707:1, 710:21</p> <p><b>District</b> [2] - 638:12, 638:17</p> <p><b>disturbs</b> [1] - 666:6</p> <p><b>diversification</b> [1] - 721:1</p> <p><b>diversify</b> [1] - 720:24</p> <p><b>Divide</b> [1] - 673:20</p> <p><b>divide</b> [7] - 673:22, 674:12, 674:23, 675:3, 740:24, 741:1, 751:7</p> <p><b>divided</b> [3] - 673:19, 726:21, 754:14</p> <p><b>divides</b> [1] - 674:24</p> <p><b>DO</b> [4] - 763:6, 763:9, 764:6, 764:9</p> <p><b>doable</b> [1] - 639:5</p> <p><b>document</b> [5] - 677:3, 686:9, 687:16, 749:24, 758:7</p> <p><b>documents</b> [5] - 706:11, 708:22, 709:13, 759:4, 759:6</p> <p><b>dog</b> [2] - 612:5, 616:13</p>	<p><b>dollar</b> [12] - 618:25, 625:18, 677:12, 705:25, 706:2, 707:2, 718:25, 751:25, 752:1, 753:8</p> <p><b>dollar-for-dollar</b> [1] - 718:25</p> <p><b>dollars</b> [28] - 670:6, 670:12, 670:13, 670:14, 670:24, 671:10, 675:15, 676:19, 679:8, 680:5, 681:8, 681:23, 682:5, 682:9, 682:14, 683:2, 683:7, 683:11, 685:6, 710:24, 711:4, 711:10, 711:11, 735:13, 737:15, 748:10</p> <p><b>domino</b> [1] - 721:18</p> <p><b>done</b> [24] - 613:21, 614:8, 616:4, 628:4, 655:21, 658:8, 658:13, 661:7, 661:21, 664:25, 686:3, 689:16, 697:14, 700:15, 701:3, 701:10, 703:15, 703:16, 703:18, 705:17, 726:24, 737:15, 745:16</p> <p><b>down</b> [19] - 613:18, 614:2, 630:20, 631:1, 631:3, 631:12, 631:13, 633:5, 643:18, 645:19, 648:8, 689:24, 691:10, 692:13, 693:2, 711:5, 718:10, 727:12, 728:21</p> <p><b>dramatic</b> [1] - 713:12</p> <p><b>draw</b> [1] - 665:3</p> <p><b>dried</b> [1] - 731:6</p> <p><b>driven</b> [2] - 714:13, 734:19</p> <p><b>driver</b> [1] - 711:15</p> <p><b>drivers</b> [1] - 714:4</p> <p><b>dual</b> [2] - 613:19, 697:8</p> <p><b>due</b> [3] - 617:12, 627:1, 727:23</p> <p><b>duly</b> [1] - 609:22</p> <p><b>during</b> [8] - 614:20, 623:8, 670:3, 671:6, 682:18, 724:13, 733:13, 751:13</p>
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<p><b>During</b> [2] - 725:14, 755:19</p>	<p><b>emitting</b> [1] - 667:14 <b>employ</b> [1] - 675:21 <b>employment</b> [1] - 610:7 <b>enactment</b> [5] - 613:3, 626:25, 644:23, 645:4, 645:5 <b>encounter</b> [1] - 692:22 <b>end</b> [17] - 615:15, 615:17, 630:19, 636:16, 672:10, 675:20, 678:18, 681:7, 694:12, 705:10, 727:15, 735:3, 735:6, 748:5, 752:1, 752:20, 760:12 <b>Energy</b> [5] - 652:2, 652:6, 661:3, 668:15, 701:5 <b>energy</b> [17] - 649:15, 649:16, 649:20, 650:2, 650:20, 650:24, 650:25, 651:7, 651:9, 651:11, 651:12, 651:13, 651:18, 661:16, 662:1, 689:11, 730:10 <b>Energy's</b> [3] - 658:9, 658:14, 690:25 <b>Engelking</b> [20] - 612:21, 626:6, 640:9, 645:18, 647:12, 648:15, 648:22, 656:20, 657:15, 657:20, 657:25, 662:9, 662:13, 663:12, 705:3, 705:5, 711:20, 713:1, 723:7, 723:8 <b>Engelking's</b> [1] - 645:23 <b>engineering</b> [3] - 689:16, 689:19, 702:24 <b>enormous</b> [1] - 683:7 <b>entering</b> [1] - 718:18 <b>entire</b> [5] - 674:23, 681:23, 682:13, 697:8, 727:16 <b>entitled</b> [6] - 650:1, 719:16, 728:14, 730:9, 761:12 <b>environment</b> [3] - 613:14, 643:1, 700:23 <b>environmental</b> [1] - 629:20</p>	<p><b>EPA</b> [1] - 665:11 <b>equal</b> [3] - 660:22, 746:5, 748:11 <b>equals</b> [5] - 632:17, 734:1, 735:17, 736:15, 737:1 <b>equipment</b> [2] - 667:3, 689:14 <b>equity</b> [2] - 675:22, 732:11 <b>equivalent</b> [2] - 750:23, 751:1 <b>ERP</b> [2] - 640:13, 643:4 <b>error</b> [1] - 725:13 <b>especially</b> [3] - 706:25, 713:11, 713:16 <b>establish</b> [2] - 641:1, 722:11 <b>established</b> [6] - 641:14, 641:18, 677:20, 678:3, 711:25, 759:25 <b>estate</b> [1] - 630:19 <b>estimate</b> [3] - 619:8, 670:23, 710:16 <b>estimated</b> [2] - 758:1, 758:9 <b>evaluated</b> [1] - 701:17 <b>evasive</b> [1] - 653:2 <b>evers</b> [1] - 623:5 <b>eventually</b> [2] - 678:17, 681:6 <b>evidence</b> [15] - 646:11, 652:2, 652:4, 653:19, 653:21, 655:22, 655:23, 655:24, 656:2, 656:19, 659:19, 757:7, 758:1, 758:14, 761:16 <b>evolve</b> [1] - 689:12 <b>exactly</b> [9] - 612:20, 627:7, 630:23, 631:17, 639:7, 639:8, 727:19, 737:18, 746:8 <b>Exactly</b> [3] - 642:13, 671:13, 671:17 <b>EXAMINATION</b> [20] - 610:1, 639:13, 704:23, 706:20, 713:7, 720:11, 723:5, 724:11, 726:2, 733:11, 736:11, 742:12, 744:23, 746:1, 746:14, 748:1,</p>	<p>752:13, 753:21, 755:17, 756:15 <b>examination</b> [1] - 714:22 <b>examine</b> [2] - 614:8, 633:19 <b>examined</b> [5] - 609:22, 687:16, 708:8, 733:9, 755:15 <b>example</b> [25] - 628:11, 630:13, 630:21, 633:3, 635:3, 635:23, 640:1, 667:6, 680:15, 714:24, 725:16, 732:4, 734:3, 734:10, 735:15, 735:18, 737:21, 738:21, 744:25, 745:15, 747:12, 748:21, 753:3, 753:10, 753:11 <b>examples</b> [3] - 734:5, 739:5, 754:13 <b>excellent</b> [1] - 667:19 <b>except</b> [3] - 622:1, 691:18, 698:19 <b>excesses</b> [1] - 634:4 <b>excessive</b> [3] - 617:9, 618:16, 623:7 <b>exchange</b> [1] - 704:21 <b>exclusion</b> [1] - 722:13 <b>exclusive</b> [1] - 661:13 <b>exclusively</b> [1] - 666:3 <b>excuse</b> [5] - 657:21, 683:16, 690:3, 690:5, 754:10 <b>exhibit</b> [21] - 608:21, 611:18, 611:21, 695:7, 695:9, 696:4, 696:15, 697:6, 697:9, 699:5, 699:9, 707:25, 736:4, 736:7, 737:2, 750:6, 750:7, 750:17, 755:4, 758:11, 759:6 <b>Exhibit</b> [19] - 608:24, 609:1, 611:10, 611:13, 639:16, 668:8, 695:14, 698:11, 698:12, 698:19, 698:24, 699:18, 708:1, 725:15, 733:17, 733:25, 750:15, 759:3, 759:7 <b>exhibits</b> [4] - 694:17, 695:18, 697:8, 699:13 <b>existing</b> [6] - 613:18,</p>	<p>635:21, 656:21, 663:2, 700:11, 756:18 <b>expansion</b> [1] - 658:19 <b>expect</b> [1] - 761:5 <b>expectancy</b> [1] - 701:9 <b>expected</b> [3] - 635:16, 655:14, 714:14 <b>expended</b> [2] - 618:24, 700:19 <b>expense</b> [18] - 669:7, 683:12, 683:14, 684:2, 690:16, 726:21, 741:16, 743:13, 743:16, 747:10, 747:13, 750:23, 750:24, 751:1, 751:5, 751:6, 753:24, 753:25 <b>expensed</b> [1] - 618:23 <b>expenses</b> [4] - 684:15, 688:16, 700:13, 744:2 <b>expensive</b> [5] - 617:10, 659:5, 675:22, 716:3, 731:21 <b>Experience</b> [1] - 632:14 <b>experience</b> [12] - 610:16, 635:7, 637:13, 637:23, 637:24, 694:5, 703:8, 703:9, 713:13, 716:8, 716:9, 716:14 <b>experienced</b> [2] - 710:19 <b>expertise</b> [2] - 713:13, 714:12 <b>expired</b> [1] - 674:19 <b>explain</b> [13] - 610:6, 611:7, 611:15, 630:9, 670:21, 725:22, 729:5, 733:23, 734:9, 734:11, 750:17, 756:2, 758:20 <b>Explain</b> [1] - 681:3 <b>explained</b> [4] - 636:19, 681:5, 684:9, 695:20 <b>explaining</b> [1] - 668:3 <b>explains</b> [2] - 610:16, 696:12 <b>explore</b> [2] - 753:12, 761:1 <b>explored</b> [1] - 709:18 <b>express</b> [5] - 631:21,</p>
<b>E</b>				
<p><b>e-mailed</b> [1] - 745:15 <b>earliest</b> [1] - 694:4 <b>Early</b> [1] - 705:1 <b>early</b> [6] - 614:21, 705:1, 721:7, 721:19, 742:20, 749:5 <b>earnings</b> [2] - 628:23, 628:24 <b>easier</b> [3] - 672:6, 716:3, 716:10 <b>eastern</b> [1] - 703:12 <b>easy</b> [1] - 738:5 <b>economic</b> [1] - 610:8 <b>effect</b> [11] - 620:3, 621:24, 637:5, 637:6, 676:20, 699:8, 721:18, 729:23, 730:1, 741:8, 743:11 <b>effective</b> [1] - 671:15 <b>efficient</b> [1] - 689:10 <b>efficiently</b> [1] - 651:16 <b>efforts</b> [1] - 760:4 <b>EIA</b> [1] - 686:18 <b>either</b> [4] - 651:15, 695:17, 698:9, 722:9 <b>elected</b> [2] - 714:17 <b>Electric</b> [1] - 607:5 <b>electric</b> [8] - 608:7, 608:14, 622:18, 638:11, 717:18, 717:24, 758:2, 758:10 <b>electricity</b> [3] - 622:21, 717:12, 717:23 <b>elements</b> [1] - 620:4 <b>Elizabeth</b> [2] - 723:7, 723:8 <b>elsewhere</b> [1] - 621:12 <b>elusive</b> [1] - 716:7 <b>embedded</b> [2] - 622:9, 635:24 <b>emission</b> [6] - 612:7, 612:10, 652:22, 666:1, 666:2, 666:11 <b>emissions</b> [9] - 613:24, 614:5, 640:12, 642:1, 665:9, 666:7, 666:9, 666:22, 666:24 <b>Emissions</b> [2] - 612:13, 626:22</p>				

<p>670:6, 670:13, 680:5, 760:22  <b>expressed</b> [9] - 635:11, 670:12, 670:24, 671:9, 679:8, 681:22, 711:3, 755:20, 757:14  <b>expression</b> [1] - 671:9  <b>extend</b> [6] - 636:1, 636:10, 702:8, 726:13, 726:19, 726:21  <b>extended</b> [2] - 727:17, 762:1  <b>extension</b> [7] - 614:19, 636:9, 636:25, 685:9, 690:16, 700:13, 702:13  <b>extent</b> [10] - 620:5, 621:2, 621:4, 727:1, 729:9, 729:18, 730:16, 730:19, 732:3, 732:8  <b>extra</b> [5] - 629:14, 649:16, 656:4, 656:7, 694:17  <b>extraordinarily</b> [1] - 623:11  <b>extreme</b> [2] - 638:24, 753:6  <b>extremely</b> [1] - 617:21</p>	<p>754:24, 757:24  <b>factor</b> [11] - 622:6, 648:7, 648:9, 648:13, 649:8, 649:9, 649:11, 659:14, 660:14, 660:17, 664:6  <b>factors</b> [2] - 659:20, 675:16  <b>facts</b> [3] - 626:18, 627:5, 645:11  <b>factual</b> [5] - 626:16, 627:4, 645:22, 647:2, 734:14  <b>failed</b> [2] - 664:10, 695:25  <b>failing</b> [1] - 617:6  <b>fails</b> [1] - 622:4  <b>failure</b> [1] - 616:16  <b>fair</b> [2] - 630:24, 631:9  <b>Fair</b> [1] - 758:25  <b>fairly</b> [5] - 620:21, 630:13, 694:2, 712:1, 760:17  <b>fall</b> [1] - 637:7  <b>falls</b> [1] - 702:3  <b>false</b> [1] - 609:8  <b>familiar</b> [3] - 717:5, 717:8, 756:17  <b>family</b> [1] - 762:1  <b>far</b> [6] - 615:2, 616:2, 630:21, 663:18, 725:10, 751:22  <b>far-fetched</b> [1] - 630:21  <b>Fargo</b> [1] - 716:24  <b>farm</b> [6] - 659:10, 659:11, 660:6, 661:18, 664:21, 723:12  <b>farms</b> [2] - 664:11, 664:20  <b>faster</b> [3] - 689:1, 710:6, 716:3  <b>fate</b> [1] - 689:7  <b>favor</b> [1] - 722:13  <b>favorite</b> [1] - 683:19  <b>FCA</b> [1] - 718:25  <b>feasibility</b> [1] - 756:5  <b>feasibly</b> [1] - 615:15  <b>federal</b> [6] - 611:23, 629:24, 630:1, 630:6, 663:14, 663:21  <b>felony</b> [1] - 609:11  <b>fetch</b> [1] - 630:21  <b>few</b> [8] - 620:21, 624:16, 705:11, 706:19, 711:10, 733:21, 748:19,</p>	<p>749:2  <b>fewer</b> [1] - 701:18  <b>field</b> [1] - 721:15  <b>figure</b> [2] - 683:23, 696:24  <b>figures</b> [4] - 735:19, 748:21, 754:20, 754:22  <b>file</b> [5] - 643:16, 644:15, 699:14, 707:4, 736:4  <b>filed</b> [12] - 643:12, 644:17, 685:11, 696:15, 697:9, 699:8, 699:13, 708:12, 708:19, 708:22, 727:23, 737:14  <b>filing</b> [4] - 643:14, 644:24, 699:12, 708:18  <b>filings</b> [3] - 709:9, 728:3, 758:1  <b>final</b> [4] - 619:14, 674:12, 752:20, 755:4  <b>finally</b> [2] - 629:11, 734:21  <b>financial</b> [3] - 625:23, 731:22, 732:5  <b>findings</b> [1] - 757:24  <b>fine</b> [4] - 609:11, 640:9, 715:2, 759:24  <b>finger</b> [1] - 692:18  <b>finish</b> [2] - 660:3, 702:23  <b>fire</b> [1] - 718:11  <b>Fire</b> [1] - 660:12  <b>fired</b> [6] - 613:20, 614:3, 652:13, 658:2, 658:20, 658:23  <b>firm</b> [1] - 610:9  <b>First</b> [5] - 637:2, 657:1, 724:13, 736:13, 748:3  <b>first</b> [25] - 609:22, 611:6, 612:7, 612:15, 614:16, 624:8, 625:13, 632:9, 642:13, 649:7, 651:10, 657:8, 670:20, 672:13, 678:9, 687:15, 692:13, 692:22, 694:22, 694:24, 695:1, 717:21, 748:15, 751:2, 761:4  <b>fits</b> [3] - 658:11,</p>	<p>658:15, 660:17  <b>Five</b> [1] - 673:10  <b>five</b> [30] - 609:12, 612:19, 632:2, 636:3, 636:25, 670:3, 670:15, 670:19, 672:22, 672:25, 673:14, 674:1, 674:5, 674:7, 674:14, 677:7, 677:12, 691:4, 700:3, 703:24, 711:6, 724:3, 724:4, 740:6, 740:10, 740:24, 745:13, 747:5, 754:14, 761:3  <b>five-year</b> [5] - 636:25, 670:3, 670:15, 670:19, 677:12  <b>fixed</b> [9] - 622:21, 623:2, 623:12, 669:17, 669:19, 669:22, 714:5, 714:8, 714:9  <b>flat</b> [7] - 622:17, 690:5, 690:13, 690:20, 703:22, 725:13, 727:12  <b>flat-out</b> [6] - 690:5, 690:13, 690:20, 703:22, 725:13, 727:12  <b>flatly</b> [1] - 636:16  <b>flatter</b> [3] - 752:17, 753:3, 753:4  <b>flexibility</b> [7] - 658:1, 711:23, 712:3, 712:9, 712:11, 712:13, 717:25  <b>flexible</b> [1] - 718:9  <b>flipside</b> [1] - 718:7  <b>flow</b> [6] - 661:19, 679:3, 719:6, 719:9, 719:20  <b>flows</b> [1] - 679:2  <b>fluctuates</b> [1] - 717:14  <b>focus</b> [3] - 670:18, 682:20, 693:19  <b>fold</b> [1] - 618:22  <b>folks</b> [1] - 715:20  <b>follow</b> [1] - 677:19  <b>following</b> [4] - 608:1, 686:7, 721:3, 760:19  <b>follows</b> [4] - 608:3, 609:23, 733:10, 755:16  <b>followup</b> [3] - 724:9, 732:14, 732:15  <b>Followup</b> [2] - 747:24, 753:17</p>	<p><b>followups</b> [1] - 720:13  <b>forced</b> [4] - 648:18, 660:6, 663:6, 664:19  <b>forecast</b> [3] - 679:20, 709:24, 729:24  <b>forecasted</b> [6] - 669:11, 669:13, 669:25, 671:20, 729:10, 729:12  <b>forecasting</b> [2] - 710:23, 729:4  <b>forefront</b> [1] - 622:19  <b>foregoing</b> [4] - 763:7, 763:10, 764:7, 764:10  <b>forest</b> [1] - 701:22  <b>forever</b> [2] - 676:23, 678:14  <b>forfeited</b> [1] - 712:21  <b>forget</b> [1] - 745:2  <b>form</b> [2] - 683:21, 720:25  <b>Forty</b> [1] - 660:16  <b>forward</b> [7] - 633:6, 634:14, 681:10, 725:8, 726:19, 760:18, 761:14  <b>forwarded</b> [1] - 761:10  <b>forwarding</b> [1] - 721:7  <b>foster</b> [1] - 719:17  <b>four</b> [4] - 688:1, 696:8, 696:11, 696:20  <b>fourth</b> [1] - 692:5  <b>fraction</b> [3] - 710:25, 711:13, 711:18  <b>frame</b> [1] - 662:15  <b>frankly</b> [1] - 633:2  <b>free</b> [1] - 650:2  <b>French</b> [1] - 664:24  <b>Friday</b> [1] - 708:12  <b>friend</b> [1] - 630:22  <b>friends</b> [1] - 761:24  <b>fringes</b> [1] - 761:1  <b>front</b> [7] - 633:8, 694:12, 708:19, 734:20, 743:18, 752:22  <b>front-load</b> [1] - 743:18  <b>front-loading</b> [1] - 734:20  <b>front-loads</b> [1] - 633:8  <b>fuel</b> [7] - 621:12, 621:18, 623:11, 628:12, 652:21, 659:5, 664:23  <b>fuel-adjustment</b> [1] - 621:18  <b>fuels</b> [2] - 621:14, 621:16  <b>full</b> [19] - 610:3,</p>
<b>F</b>				
<p><b>facie</b> [1] - 722:11  <b>facilities</b> [7] - 619:9, 664:23, 665:15, 702:9, 707:1, 723:13, 731:10  <b>facility</b> [5] - 615:7, 615:8, 652:13, 723:24, 731:3  <b>fact</b> [35] - 609:9, 613:6, 613:8, 614:7, 618:15, 625:5, 629:19, 634:13, 637:3, 644:11, 652:6, 655:22, 656:15, 660:5, 661:24, 668:15, 675:19, 686:11, 688:1, 690:2, 692:4, 706:22, 706:23, 716:10, 716:22, 723:22, 725:9, 727:13, 727:23, 729:19, 735:15, 738:18, 741:19,</p>	<p>754:24, 757:24  <b>factor</b> [11] - 622:6, 648:7, 648:9, 648:13, 649:8, 649:9, 649:11, 659:14, 660:14, 660:17, 664:6  <b>factors</b> [2] - 659:20, 675:16  <b>facts</b> [3] - 626:18, 627:5, 645:11  <b>factual</b> [5] - 626:16, 627:4, 645:22, 647:2, 734:14  <b>failed</b> [2] - 664:10, 695:25  <b>failing</b> [1] - 617:6  <b>fails</b> [1] - 622:4  <b>failure</b> [1] - 616:16  <b>fair</b> [2] - 630:24, 631:9  <b>Fair</b> [1] - 758:25  <b>fairly</b> [5] - 620:21, 630:13, 694:2, 712:1, 760:17  <b>fall</b> [1] - 637:7  <b>falls</b> [1] - 702:3  <b>false</b> [1] - 609:8  <b>familiar</b> [3] - 717:5, 717:8, 756:17  <b>family</b> [1] - 762:1  <b>far</b> [6] - 615:2, 616:2, 630:21, 663:18, 725:10, 751:22  <b>far-fetched</b> [1] - 630:21  <b>Fargo</b> [1] - 716:24  <b>farm</b> [6] - 659:10, 659:11, 660:6, 661:18, 664:21, 723:12  <b>farms</b> [2] - 664:11, 664:20  <b>faster</b> [3] - 689:1, 710:6, 716:3  <b>fate</b> [1] - 689:7  <b>favor</b> [1] - 722:13  <b>favorite</b> [1] - 683:19  <b>FCA</b> [1] - 718:25  <b>feasibility</b> [1] - 756:5  <b>feasibly</b> [1] - 615:15  <b>federal</b> [6] - 611:23, 629:24, 630:1, 630:6, 663:14, 663:21  <b>felony</b> [1] - 609:11  <b>fetch</b> [1] - 630:21  <b>few</b> [8] - 620:21, 624:16, 705:11, 706:19, 711:10, 733:21, 748:19,</p>	<p>749:2  <b>fewer</b> [1] - 701:18  <b>field</b> [1] - 721:15  <b>figure</b> [2] - 683:23, 696:24  <b>figures</b> [4] - 735:19, 748:21, 754:20, 754:22  <b>file</b> [5] - 643:16, 644:15, 699:14, 707:4, 736:4  <b>filed</b> [12] - 643:12, 644:17, 685:11, 696:15, 697:9, 699:8, 699:13, 708:12, 708:19, 708:22, 727:23, 737:14  <b>filing</b> [4] - 643:14, 644:24, 699:12, 708:18  <b>filings</b> [3] - 709:9, 728:3, 758:1  <b>final</b> [4] - 619:14, 674:12, 752:20, 755:4  <b>finally</b> [2] - 629:11, 734:21  <b>financial</b> [3] - 625:23, 731:22, 732:5  <b>findings</b> [1] - 757:24  <b>fine</b> [4] - 609:11, 640:9, 715:2, 759:24  <b>finger</b> [1] - 692:18  <b>finish</b> [2] - 660:3, 702:23  <b>fire</b> [1] - 718:11  <b>Fire</b> [1] - 660:12  <b>fired</b> [6] - 613:20, 614:3, 652:13, 658:2, 658:20, 658:23  <b>firm</b> [1] - 610:9  <b>First</b> [5] - 637:2, 657:1, 724:13, 736:13, 748:3  <b>first</b> [25] - 609:22, 611:6, 612:7, 612:15, 614:16, 624:8, 625:13, 632:9, 642:13, 649:7, 651:10, 657:8, 670:20, 672:13, 678:9, 687:15, 692:13, 692:22, 694:22, 694:24, 695:1, 717:21, 748:15, 751:2, 761:4  <b>fits</b> [3] - 658:11,</p>	<p>658:15, 660:17  <b>Five</b> [1] - 673:10  <b>five</b> [30] - 609:12, 612:19, 632:2, 636:3, 636:25, 670:3, 670:15, 670:19, 672:22, 672:25, 673:14, 674:1, 674:5, 674:7, 674:14, 677:7, 677:12, 691:4, 700:3, 703:24, 711:6, 724:3, 724:4, 740:6, 740:10, 740:24, 745:13, 747:5, 754:14, 761:3  <b>five-year</b> [5] - 636:25, 670:3, 670:15, 670:19, 677:12  <b>fixed</b> [9] - 622:21, 623:2, 623:12, 669:17, 669:19, 669:22, 714:5, 714:8, 714:9  <b>flat</b> [7] - 622:17, 690:5, 690:13, 690:20, 703:22, 725:13, 727:12  <b>flat-out</b> [6] - 690:5, 690:13, 690:20, 703:22, 725:13, 727:12  <b>flatly</b> [1] - 636:16  <b>flatter</b> [3] - 752:17, 753:3, 753:4  <b>flexibility</b> [7] - 658:1, 711:23, 712:3, 712:9, 712:11, 712:13, 717:25  <b>flexible</b> [1] - 718:9  <b>flipside</b> [1] - 718:7  <b>flow</b> [6] - 661:19, 679:3, 719:6, 719:9, 719:20  <b>flows</b> [1] - 679:2  <b>fluctuates</b> [1] - 717:14  <b>focus</b> [3] - 670:18, 682:20, 693:19  <b>fold</b> [1] - 618:22  <b>folks</b> [1] - 715:20  <b>follow</b> [1] - 677:19  <b>following</b> [4] - 608:1, 686:7, 721:3, 760:19  <b>follows</b> [4] - 608:3, 609:23, 733:10, 755:16  <b>followup</b> [3] - 724:9, 732:14, 732:15  <b>Followup</b> [2] - 747:24, 753:17</p>	<p><b>followups</b> [1] - 720:13  <b>forced</b> [4] - 648:18, 660:6, 663:6, 664:19  <b>forecast</b> [3] - 679:20, 709:24, 729:24  <b>forecasted</b> [6] - 669:11, 669:13, 669:25, 671:20, 729:10, 729:12  <b>forecasting</b> [2] - 710:23, 729:4  <b>forefront</b> [1] - 622:19  <b>foregoing</b> [4] - 763:7, 763:10, 764:7, 764:10  <b>forest</b> [1] - 701:22  <b>forever</b> [2] - 676:23, 678:14  <b>forfeited</b> [1] - 712:21  <b>forget</b> [1] - 745:2  <b>form</b> [2] - 683:21, 720:25  <b>Forty</b> [1] - 660:16  <b>forward</b> [7] - 633:6, 634:14, 681:10, 725:8, 726:19, 760:18, 761:14  <b>forwarded</b> [1] - 761:10  <b>forwarding</b> [1] - 721:7  <b>foster</b> [1] - 719:17  <b>four</b> [4] - 688:1, 696:8, 696:11, 696:20  <b>fourth</b> [1] - 692:5  <b>fraction</b> [3] - 710:25, 711:13, 711:18  <b>frame</b> [1] - 662:15  <b>frankly</b> [1] - 633:2  <b>free</b> [1] - 650:2  <b>French</b> [1] - 664:24  <b>Friday</b> [1] - 708:12  <b>friend</b> [1] - 630:22  <b>friends</b> [1] - 761:24  <b>fringes</b> [1] - 761:1  <b>front</b> [7] - 633:8, 694:12, 708:19, 734:20, 743:18, 752:22  <b>front-load</b> [1] - 743:18  <b>front-loading</b> [1] - 734:20  <b>front-loads</b> [1] - 633:8  <b>fuel</b> [7] - 621:12, 621:18, 623:11, 628:12, 652:21, 659:5, 664:23  <b>fuel-adjustment</b> [1] - 621:18  <b>fuels</b> [2] - 621:14, 621:16  <b>full</b> [19] - 610:3,</p>

<p>623:21, 628:24, 629:1, 647:2, 649:25, 675:14, 676:8, 694:5, 694:6, 694:8, 694:11, 696:17, 722:20, 723:20, 730:9, 760:12 <b>full-life</b> [1] - 694:5 <b>fully</b> [4] - 625:21, 627:6, 627:10, 695:20 <b>function</b> [3] - 649:22, 649:23, 716:18 <b>fund</b> [1] - 714:24 <b>fundamental</b> [1] - 637:11 <b>FURTHER</b> [6] - 720:11, 723:5, 746:1, 753:21, 763:9, 764:9 <b>furthermore</b> [2] - 734:14, 747:19 <b>future</b> [63] - 618:25, 619:2, 619:3, 619:10, 621:7, 629:5, 630:12, 632:15, 635:21, 636:20, 653:16, 665:18, 666:10, 667:12, 669:21, 669:25, 670:5, 670:9, 670:11, 670:16, 670:24, 671:4, 671:9, 671:12, 672:22, 674:5, 676:7, 676:8, 677:6, 677:11, 678:3, 678:24, 679:8, 679:15, 679:24, 680:4, 680:23, 681:16, 681:22, 681:25, 682:12, 683:1, 684:12, 684:18, 690:3, 690:12, 700:11, 700:20, 710:23, 727:3, 727:9, 728:23, 729:2, 735:10, 737:24, 738:18, 738:19, 740:7, 743:18, 745:24, 750:21</p>	<p>622:20, 638:16, 652:13, 652:18, 653:3, 654:22, 658:1, 658:10, 658:15, 658:20, 658:24, 692:15, 692:22, 693:17, 717:12, 717:14, 717:16, 717:18, 717:21, 717:22, 718:1, 718:5 <b>Gas</b> [3] - 659:5, 692:14, 692:15 <b>gas-fired</b> [3] - 614:3, 652:13, 658:20 <b>gather</b> [1] - 708:10 <b>gathered</b> [2] - 677:5, 680:22 <b>general</b> [4] - 612:2, 624:13, 677:25, 720:19 <b>generally</b> [1] - 609:10 <b>generating</b> [3] - 619:18, 717:12, 717:23 <b>generation</b> [7] - 614:24, 614:25, 615:11, 627:6, 628:13, 633:7, 659:9 <b>generational</b> [1] - 633:1 <b>get-go</b> [2] - 660:8, 663:23 <b>Gingery</b> [2] - 764:4, 764:17 <b>given</b> [4] - 720:4, 725:11, 759:4, 760:15 <b>Given</b> [1] - 722:6 <b>goal</b> [5] - 743:11, 743:15, 747:9 <b>going-forward</b> [1] - 725:8 <b>gold</b> [1] - 679:21 <b>government</b> [2] - 630:15, 630:23 <b>gradually</b> [1] - 623:1 <b>Grand</b> [16] - 659:9, 662:13, 663:1, 663:10, 663:12, 664:5, 664:21, 719:20, 721:4, 722:21, 723:11, 723:12, 723:16, 723:17, 723:21 <b>granted</b> [1] - 737:19 <b>graph</b> [3] - 672:17, 735:3, 752:16 <b>greater</b> [2] - 701:18, 729:6</p>	<p><b>Grivna</b> [1] - 620:16 <b>grossly</b> [1] - 617:16 <b>grounds</b> [1] - 638:6 <b>grow</b> [3] - 676:25, 702:6, 734:15 <b>growing</b> [8] - 676:11, 676:12, 676:18, 676:20, 678:14, 710:6, 710:7, 717:11 <b>growth</b> [9] - 614:9, 709:20, 710:2, 729:6, 729:7, 729:10, 729:12, 734:21 <b>GT</b> [3] - 692:13, 692:22 <b>GT's</b> [4] - 693:11, 693:20, 693:24, 694:11 <b>guess</b> [6] - 626:19, 680:23, 685:24, 740:15, 746:22, 751:24 <b>gun</b> [1] - 628:10 <b>guys</b> [2] - 715:16, 715:19</p>	<p>760:1, 760:3, 760:13, 760:19, 762:2 <b>hearings</b> [1] - 610:24 <b>heating</b> [2] - 717:21, 717:22 <b>heavily</b> [1] - 622:5 <b>heck</b> [1] - 685:4 <b>hedge</b> [1] - 653:16 <b>hellacious</b> [1] - 633:5 <b>Hello</b> [1] - 733:1 <b>help</b> [2] - 718:16, 744:4 <b>helpful</b> [3] - 705:19, 706:16 <b>HEREBY</b> [4] - 763:6, 763:9, 764:6, 764:9 <b>herein</b> [1] - 608:1 <b>hereinbefore</b> [2] - 763:8, 764:8 <b>HERTZLER</b> [8] - 620:17, 620:19, 708:25, 757:9, 759:15, 761:20, 761:23, 761:25 <b>Hertzler</b> [3] - 757:8, 758:15, 759:13 <b>Heuer</b> [1] - 706:8 <b>Heuer's</b> [1] - 628:20 <b>high</b> [9] - 615:11, 617:22, 622:5, 623:10, 623:11, 630:2, 672:5, 745:10 <b>High</b> [21] - 613:18, 613:25, 627:3, 629:7, 629:13, 629:14, 652:10, 652:23, 653:4, 653:7, 653:25, 654:8, 654:13, 654:21, 658:10, 658:15, 658:19, 658:23, 712:5, 730:7, 756:6 <b>high-load</b> [1] - 622:5 <b>higher</b> [15] - 629:25, 634:9, 634:10, 648:16, 657:17, 659:14, 659:20, 676:9, 682:18, 735:7, 741:12, 743:1, 748:7, 753:9 <b>highest</b> [1] - 648:14 <b>historical</b> [3] - 677:13, 710:18, 737:15 <b>history</b> [1] - 614:20 <b>hmm</b> [3] - 679:11, 740:8, 744:3 <b>HON</b> [1] - 607:21 <b>Honor</b> [21] - 608:17,</p>	<p>639:12, 660:2, 660:10, 667:16, 668:1, 694:15, 694:23, 695:16, 695:22, 697:7, 699:12, 699:17, 724:10, 726:1, 732:16, 750:13, 757:6, 757:9, 758:17, 759:15 <b>hook</b> [2] - 615:6, 722:22 <b>hooked</b> [5] - 615:8, 720:5, 731:11, 731:14, 731:15 <b>hooking</b> [1] - 616:10 <b>hookups</b> [1] - 628:17 <b>hope</b> [1] - 761:21 <b>horribly</b> [1] - 633:8 <b>hour</b> [3] - 663:15, 718:12, 749:9 <b>hourly</b> [1] - 658:3 <b>house</b> [8] - 630:15, 630:17, 630:20, 630:22, 631:1, 631:2, 631:8, 633:5 <b>housekeeping</b> [2] - 608:17, 699:11 <b>huge</b> [1] - 707:19 <b>hundred</b> [1] - 635:7 <b>hundreds</b> [1] - 683:7 <b>Huso</b> [1] - 620:15 <b>hypothetical</b> [3] - 671:18, 684:8, 749:25 <b>Hypothetically</b> [1] - 670:7</p>
<b>G</b>		<b>H</b>		
<p><b>gained</b> [1] - 712:4 <b>gap</b> [1] - 677:13 <b>gas</b> [23] - 614:3,</p>		<p><b>half</b> [4] - 614:1, 684:10, 740:19, 744:5 <b>hand</b> [7] - 609:14, 613:8, 650:13, 651:23, 653:14, 655:4, 686:25 <b>handle</b> [2] - 757:21, 757:22 <b>handling</b> [1] - 744:1 <b>handout</b> [3] - 694:21, 695:2 <b>happy</b> [3] - 627:11, 673:3, 761:19 <b>hard</b> [5] - 639:6, 645:13, 709:24, 720:5, 743:25 <b>head</b> [2] - 628:11, 725:21 <b>hear</b> [3] - 648:22, 665:17, 714:22 <b>heard</b> [9] - 609:3, 635:19, 654:12, 683:18, 705:4, 712:8, 712:11, 715:21, 733:16 <b>HEARING</b> [1] - 607:12 <b>hearing</b> [10] - 608:6, 608:12, 614:21, 627:6, 759:23,</p>	<p style="text-align: center;"><b>I</b></p> <p><b>IC</b> [1] - 692:6 <b>IC's</b> [2] - 693:23, 694:7 <b>ice</b> [1] - 637:18 <b>idea</b> [2] - 621:12, 638:5 <b>ideas</b> [1] - 621:10 <b>identification</b> [2] - 698:23 <b>identified</b> [8] - 612:14, 626:4, 626:18, 635:1, 666:25, 709:14, 758:6, 758:12 <b>identifies</b> [1] - 610:15 <b>identify</b> [6] - 655:1, 694:19, 695:3, 698:11, 709:4, 756:23 <b>Ill</b> [1] - 607:13</p>	

<p><b>illustrate</b> [1] - 749:25</p> <p><b>imbalances</b> [2] - 633:16, 633:24</p> <p><b>impact</b> [1] - 709:21</p> <p><b>impacts</b> [1] - 613:14</p> <p><b>impair</b> [1] - 625:23</p> <p><b>implement</b> [3] - 642:12, 653:23, 713:24</p> <p><b>implemented</b> [2] - 640:24, 665:16</p> <p><b>implementing</b> [2] - 613:16, 619:7</p> <p><b>important</b> [4] - 612:12, 630:5, 675:24, 751:3</p> <p><b>impose</b> [2] - 625:6, 714:18</p> <p><b>imposed</b> [1] - 619:22</p> <p><b>impression</b> [3] - 640:25, 648:11, 710:5</p> <p><b>imprisonment</b> [1] - 609:12</p> <p><b>improved</b> [1] - 658:2</p> <p><b>improves</b> [1] - 689:9</p> <p><b>improving</b> [1] - 658:4</p> <p><b>imprudent</b> [5] - 624:24, 639:21, 639:25, 640:2, 640:4</p> <p><b>inappropriate</b> [2] - 625:9, 632:18</p> <p><b>incent</b> [1] - 713:24</p> <p><b>incentive</b> [2] - 714:7, 719:2</p> <p><b>inches</b> [3] - 696:8, 696:12, 696:20</p> <p><b>incidentally</b> [1] - 631:24</p> <p><b>incidents</b> [1] - 645:11</p> <p><b>include</b> [5] - 670:9, 670:11, 690:15, 700:12, 704:5</p> <p><b>included</b> [8] - 622:16, 627:18, 650:12, 655:3, 655:6, 666:17, 667:1, 696:4</p> <p><b>includes</b> [2] - 681:14, 704:7</p> <p><b>including</b> [2] - 670:2, 684:24</p> <p><b>incomplete</b> [1] - 633:23</p> <p><b>incorporate</b> [1] - 712:14</p> <p><b>incorporated</b> [1] - 666:22</p> <p><b>incorrect</b> [2] - 630:3, 752:6</p> <p><b>Increase</b> [1] - 607:5</p>	<p><b>increase</b> [23] - 608:7, 608:14, 623:1, 623:18, 623:22, 649:3, 649:5, 653:10, 656:24, 656:25, 683:24, 691:4, 700:2, 706:4, 729:13, 729:14, 729:21, 741:22, 741:24, 741:25, 747:12, 752:4, 761:12</p> <p><b>increased</b> [4] - 650:4, 653:24, 656:24, 685:14</p> <p><b>increases</b> [4] - 623:19, 672:13, 706:4, 751:10</p> <p><b>incremental</b> [5] - 651:6, 651:10, 651:11, 651:23, 652:23</p> <p><b>incrementally</b> [1] - 718:6</p> <p><b>incur</b> [1] - 639:22</p> <p><b>incurred</b> [10] - 625:2, 625:3, 681:17, 712:6, 730:19, 730:21, 730:22, 743:16, 747:11, 751:11</p> <p><b>incurrence</b> [1] - 621:2</p> <p><b>incurance</b> [1] - 617:21</p> <p><b>indeed</b> [4] - 654:14, 655:3, 655:19, 657:13</p> <p><b>independent</b> [5] - 643:14, 650:10, 653:13, 727:24, 730:13</p> <p><b>indicate</b> [1] - 736:14</p> <p><b>indicated</b> [8] - 640:10, 648:1, 648:15, 650:9, 650:11, 670:25, 763:8, 764:8</p> <p><b>indicates</b> [2] - 643:25, 697:21</p> <p><b>indifferent</b> [1] - 714:10</p> <p><b>individual</b> [1] - 706:7</p> <p><b>industrial</b> [2] - 621:7, 621:14</p> <p><b>industry</b> [4] - 622:24, 634:21, 635:6, 689:20</p> <p><b>inequitable</b> [1] - 633:8</p> <p><b>inequities</b> [1] - 633:1</p> <p><b>infirmary</b> [1] - 730:1</p> <p><b>inflate</b> [1] - 738:19</p> <p><b>inflated</b> [4] - 619:1,</p>	<p>619:10, 620:5, 738:23</p> <p><b>inflates</b> [1] - 737:12</p> <p><b>inflating</b> [1] - 739:2</p> <p><b>inflation</b> [21] - 619:3, 671:16, 672:2, 672:4, 672:8, 676:21, 737:9, 737:17, 738:23, 743:12, 743:18, 745:6, 745:24, 747:10, 747:11, 748:11, 748:13, 751:10, 751:13, 751:25, 753:24</p> <p><b>informally</b> [1] - 759:19</p> <p><b>information</b> [18] - 608:13, 646:11, 677:1, 686:14, 687:17, 687:23, 690:22, 695:18, 695:23, 695:25, 696:9, 696:16, 697:3, 703:3, 703:23, 718:14, 759:24, 760:16</p> <p><b>informed</b> [1] - 698:4</p> <p><b>initial</b> [8] - 617:24, 689:1, 694:9, 721:16, 751:6, 751:9, 751:25, 754:25</p> <p><b>initiated</b> [1] - 637:3</p> <p><b>innovative</b> [1] - 621:10</p> <p><b>install</b> [2] - 628:13, 657:16</p> <p><b>installed</b> [3] - 692:19, 693:4, 694:9</p> <p><b>installing</b> [1] - 667:3</p> <p><b>instant</b> [1] - 746:25</p> <p><b>instead</b> [9] - 615:16, 629:9, 634:21, 636:18, 672:14, 706:5, 730:19, 753:7, 753:8</p> <p><b>Instead</b> [2] - 669:25, 671:3</p> <p><b>institutes</b> [1] - 731:23</p> <p><b>integrated</b> [8] - 613:3, 619:15, 626:7, 644:13, 705:9, 705:12, 730:17</p> <p><b>intend</b> [1] - 690:6</p> <p><b>intended</b> [1] - 719:17</p> <p><b>intention</b> [2] - 620:8, 723:14</p> <p><b>intents</b> [1] - 641:7</p> <p><b>interconnection</b> [3] - 662:15, 663:20,</p>	<p>748:22</p> <p><b>interest</b> [1] - 753:2</p> <p><b>interesting</b> [2] - 704:21, 759:23</p> <p><b>intermediate</b> [2] - 689:12, 689:13</p> <p><b>internal</b> [2] - 692:6, 692:9</p> <p><b>interpreted</b> [1] - 711:21</p> <p><b>interrogatories</b> [1] - 646:10</p> <p><b>intersection</b> [2] - 740:15, 746:17</p> <p><b>interstate</b> [1] - 639:3</p> <p><b>intrastate</b> [1] - 639:4</p> <p><b>introduce</b> [1] - 611:9</p> <p><b>introduced</b> [1] - 750:6</p> <p><b>introductory</b> [1] - 668:3</p> <p><b>invest</b> [3] - 625:11, 635:22, 690:12</p> <p><b>invested</b> [2] - 722:7, 722:9</p> <p><b>investing</b> [1] - 625:18</p> <p><b>investment</b> [11] - 635:24, 665:18, 669:4, 688:17, 689:1, 690:9, 690:18, 690:19, 690:20, 721:17, 747:4</p> <p><b>investments</b> [2] - 628:7, 629:4</p> <p><b>invests</b> [1] - 625:19</p> <p><b>involved</b> [1] - 613:17</p> <p><b>involves</b> [2] - 612:4, 657:12</p> <p><b>IRP</b> [21] - 619:21, 626:24, 629:8, 640:10, 645:10, 648:1, 650:12, 651:5, 654:7, 656:12, 656:17, 708:6, 708:9, 709:5, 713:11, 713:12, 755:20, 755:25, 756:4, 756:18, 756:20</p> <p><b>irrelevant</b> [1] - 752:25</p> <p><b>Island</b> [9] - 617:11, 618:12, 628:11, 635:23, 635:24, 636:11, 664:24, 688:9, 714:25</p> <p><b>issue</b> [26] - 614:4, 618:20, 620:12, 624:6, 640:6, 649:2, 657:10, 658:18, 707:19, 707:20,</p>	<p>708:7, 708:13, 709:17, 714:13, 720:15, 734:4, 734:6, 734:7, 734:11, 741:19, 747:17, 754:16, 754:17, 755:2, 760:23, 761:2</p> <p><b>issues</b> [3] - 675:22, 755:22, 761:1</p> <p><b>item</b> [4] - 693:9, 693:10, 704:25, 757:20</p> <p><b>itemize</b> [1] - 706:7</p> <p><b>items</b> [2] - 705:20, 744:10</p> <p><b>itself</b> [2] - 627:5, 712:16</p>
<b>J</b>				
<p><b>JEFFCOAT</b> [1] - 699:15</p> <p><b>JEFFCOAT-SACCO</b> [1] - 699:15</p> <p><b>Jerry</b> [1] - 744:20</p> <p><b>job</b> [7] - 621:1, 666:9, 666:18, 666:19, 666:21, 701:11</p> <p><b>JR</b> [1] - 733:8</p> <p><b>JUDGE</b> [88] - 607:21, 608:4, 608:23, 609:1, 609:3, 609:20, 611:11, 611:13, 639:11, 660:3, 667:19, 667:23, 694:19, 694:24, 695:6, 695:10, 695:13, 695:21, 696:2, 696:18, 696:21, 697:1, 697:10, 697:23, 698:3, 698:8, 698:17, 698:22, 699:2, 699:7, 699:21, 699:24, 704:13, 704:18, 706:18, 709:7, 709:12, 713:5, 720:10, 723:3, 724:1, 724:7, 725:25, 732:14, 732:17, 732:23, 733:2, 733:7, 736:10, 742:8, 742:11, 744:18, 744:22, 746:13, 747:18, 747:23, 749:4, 749:8, 749:12, 749:15,</p>				

<p>749:20, 749:22, 750:7, 750:12, 750:15, 752:11, 753:15, 753:17, 753:19, 754:3, 754:6, 754:8, 754:11, 755:6, 755:9, 755:13, 756:14, 756:25, 757:3, 757:8, 757:19, 758:25, 759:3, 759:12, 759:18, 760:7, 760:20, 762:2 <b>Judge</b> [1] - 709:3 <b>July</b> [2] - 763:14, 764:14 <b>June</b> [4] - 607:17, 608:3, 608:5, 762:3 <b>jurisdictions</b> [4] - 638:11, 638:14, 638:19, 638:23 <b>justifiable</b> [1] - 636:5 <b>justified</b> [2] - 656:14, 656:17 <b>justify</b> [3] - 614:10, 635:1, 644:7</p>	<p>648:2, 648:7, 648:12, 648:19, 649:14, 651:6, 654:16, 654:19, 655:7, 657:4, 665:7, 665:24, 668:2, 675:4, 677:1, 677:4, 677:8, 678:6, 688:12, 697:13, 697:14, 697:17, 698:1, 700:22, 709:16, 724:13, 730:6, 731:22, 732:18, 733:20, 734:24, 736:23, 755:8, 755:9, 756:4, 756:9, 757:4, 761:10 <b>KING</b> [2] - 609:21, 755:14 <b>King's</b> [4] - 705:1, 733:14, 744:14 <b>knowledge</b> [3] - 642:3, 689:19, 704:2 <b>known</b> [2] - 636:13, 646:15 <b>knows</b> [3] - 684:16, 702:1, 702:2</p>	<p><b>lawyer</b> [1] - 624:11 <b>lay</b> [1] - 623:11 <b>lead</b> [1] - 615:12 <b>leads</b> [1] - 617:8 <b>learn</b> [2] - 761:6, 761:7 <b>least</b> [8] - 637:23, 651:3, 657:17, 660:8, 678:15, 716:23, 722:23, 736:17 <b>least-cost</b> [1] - 660:8 <b>led</b> [1] - 616:16 <b>left</b> [4] - 618:6, 692:5, 726:23, 744:25 <b>legal</b> [2] - 706:11, 728:16 <b>legislation</b> [1] - 730:13 <b>Legislature</b> [4] - 628:2, 628:10, 639:23, 663:6 <b>legitimate</b> [2] - 745:22, 747:22 <b>legs</b> [1] - 724:4 <b>LEIN</b> [2] - 744:24, 747:2 <b>Lein</b> [1] - 746:3 <b>length</b> [3] - 618:21, 620:13, 705:10 <b>less</b> [15] - 637:17, 637:18, 652:17, 669:24, 673:7, 673:13, 685:4, 694:13, 702:5, 704:2, 716:3, 717:2, 742:21, 751:24, 752:22 <b>level</b> [3] - 621:8, 621:24, 734:25 <b>levels</b> [2] - 628:23, 703:11 <b>lie</b> [1] - 609:10 <b>Life</b> [1] - 668:23 <b>life</b> [94] - 616:24, 617:23, 618:1, 618:4, 618:7, 618:10, 618:13, 618:14, 630:18, 633:11, 633:18, 633:21, 633:23, 634:1, 634:8, 634:9, 634:21, 636:1, 636:9, 636:10, 636:23, 636:25, 668:5, 668:16, 668:20, 668:22, 669:1, 669:8, 669:23, 674:3, 674:13, 674:15,</p>	<p>674:16, 674:19, 674:20, 674:21, 674:22, 674:24, 677:19, 681:8, 682:18, 685:9, 685:18, 685:21, 685:22, 688:8, 688:17, 688:18, 688:19, 688:23, 690:16, 691:7, 693:10, 693:13, 693:25, 694:5, 694:14, 697:17, 698:14, 698:24, 700:10, 700:13, 700:15, 700:17, 700:19, 701:9, 702:8, 702:13, 703:12, 717:23, 717:24, 724:14, 724:21, 724:23, 725:7, 726:14, 726:16, 726:20, 726:21, 727:4, 727:19, 737:9, 738:4, 745:6, 746:25, 747:8, 747:16, 755:22 <b>Light</b> [1] - 638:20 <b>likely</b> [1] - 707:8 <b>limitation</b> [1] - 642:1 <b>limited</b> [1] - 624:13 <b>Linda</b> [2] - 764:4, 764:17 <b>line</b> [44] - 611:17, 615:6, 615:9, 615:16, 615:18, 655:15, 663:9, 664:19, 669:3, 669:6, 669:14, 669:17, 675:11, 676:24, 678:16, 678:17, 678:20, 679:14, 682:5, 716:21, 718:14, 734:1, 734:20, 734:25, 735:3, 735:4, 735:8, 737:6, 738:7, 739:19, 741:6, 748:16, 748:17, 750:23, 751:1, 751:12, 752:17, 753:3, 758:2, 758:10 <b>lines</b> [7] - 637:7, 637:8, 716:15, 717:3, 740:16, 745:17, 746:18 <b>list</b> [5] - 705:20, 705:22, 705:23,</p>	<p>706:12 <b>listen</b> [1] - 610:24 <b>listening</b> [1] - 713:1 <b>live</b> [2] - 617:8, 638:9 <b>lives</b> [12] - 616:19, 616:22, 634:15, 635:16, 668:13, 677:21, 690:23, 690:24, 695:5, 695:11, 700:3, 707:13 <b>load</b> [31] - 614:8, 614:9, 617:4, 621:25, 622:2, 622:5, 648:8, 648:9, 648:12, 648:23, 649:23, 649:24, 650:5, 650:18, 653:15, 655:14, 656:21, 661:3, 661:4, 661:6, 661:9, 661:13, 661:14, 661:18, 689:6, 689:11, 730:18, 743:18, 758:22 <b>loading</b> [1] - 734:20 <b>loads</b> [6] - 621:7, 633:8, 633:9, 650:19, 651:21, 689:8 <b>located</b> [3] - 656:21, 658:10, 659:12 <b>location</b> [5] - 654:10, 654:20, 658:10, 658:15, 659:22 <b>locations</b> [3] - 660:17, 661:3, 663:25 <b>long-term</b> [2] - 718:20, 732:1 <b>look</b> [22] - 610:11, 613:2, 616:17, 624:9, 626:24, 645:10, 647:8, 660:18, 687:8, 687:19, 692:5, 708:5, 709:6, 709:17, 722:2, 741:4, 750:21, 753:23, 758:5, 760:18, 761:14 <b>looked</b> [6] - 624:7, 709:22, 709:25, 722:3, 746:23, 747:5 <b>looking</b> [7] - 644:13, 651:5, 691:24, 701:21, 704:16, 745:2, 756:5 <b>low</b> [1] - 622:4 <b>lower</b> [9] - 630:2, 634:9, 634:11,</p>
<b>K</b>	<b>L</b>			
<p><b>keep</b> [9] - 628:12, 634:18, 689:6, 698:15, 698:18, 719:9, 719:13, 741:25 <b>keeps</b> [2] - 634:14, 669:1 <b>kept</b> [1] - 654:7 <b>Killing</b> [1] - 699:18 <b>kind</b> [4] - 616:3, 626:11, 630:8, 715:17 <b>King</b> [77] - 609:2, 609:3, 609:15, 610:3, 610:5, 610:9, 611:6, 611:14, 611:22, 612:15, 612:17, 612:22, 612:24, 613:4, 620:1, 620:2, 624:1, 626:20, 626:21, 627:1, 629:7, 629:8, 630:6, 639:10, 639:15, 640:1, 640:6, 641:21, 642:5, 642:20, 644:5, 644:12, 645:9, 646:19, 647:3, 647:10, 647:14, 647:19,</p>	<p><b>laid</b> [2] - 627:6, 743:24 <b>land</b> [1] - 704:6 <b>landed</b> [1] - 701:23 <b>large</b> [4] - 621:7, 676:10, 718:19, 722:7 <b>larger</b> [1] - 676:4 <b>Larson</b> [5] - 624:22, 625:10, 626:5, 627:14, 648:6 <b>Larson's</b> [2] - 625:22, 626:15 <b>last</b> [11] - 635:2, 636:18, 637:8, 637:9, 694:16, 694:21, 705:11, 711:5, 748:14, 750:22, 761:22 <b>late</b> [7] - 614:21, 696:15, 697:9, 699:8, 699:13, 736:4, 736:7 <b>late-filed</b> [4] - 696:15, 697:9, 699:8, 699:13 <b>LAW</b> [1] - 607:21 <b>law</b> [4] - 609:5, 666:7, 666:14, 757:25 <b>laws</b> [2] - 619:24, 625:6</p>			

634:12, 648:17, 703:10, 712:6, 725:6, 751:18 <b>ludicrous</b> [1] - 633:2 <b>lumpiness</b> [1] - 655:11 <b>lunch</b> [4] - 749:5, 749:7, 749:9, 750:2 <b>Lunch</b> [1] - 749:14	<b>mass</b> [2] - 682:22, 682:23 <b>match</b> [9] - 679:3, 680:2, 688:16, 688:17, 690:6, 743:9, 743:16, 747:10, 747:14 <b>matching</b> [4] - 734:13, 737:9, 751:14, 751:19 <b>material</b> [3] - 609:8, 696:9, 696:12 <b>materialized</b> [1] - 680:6 <b>math</b> [8] - 672:6, 672:10, 673:4, 673:5, 673:18, 674:10, 683:23, 738:5 <b>matter</b> [9] - 609:17, 612:3, 661:22, 669:23, 682:10, 705:3, 707:3, 710:15, 718:12 <b>matters</b> [1] - 610:10 <b>maximize</b> [1] - 714:7 <b>Meadow</b> [10] - 659:10, 663:1, 663:13, 664:5, 664:21, 721:4, 723:10, 723:11, 723:12 <b>Meadows</b> [7] - 662:14, 663:10, 719:20, 722:21, 723:16, 723:18, 723:21 <b>mean</b> [16] - 629:4, 642:17, 649:5, 652:21, 667:6, 684:18, 693:2, 700:14, 705:6, 707:18, 717:9, 728:12, 737:3, 741:17, 746:17, 746:20 <b>means</b> [6] - 623:8, 680:11, 692:1, 692:2, 724:22, 726:14 <b>meant</b> [1] - 702:14 <b>meantime</b> [1] - 675:19 <b>measure</b> [1] - 677:13 <b>measures</b> [1] - 713:25 <b>mechanism</b> [5] - 633:24, 634:17, 636:7, 669:15, 745:20 <b>meet</b> [2] - 658:21, 730:17 <b>meeting</b> [1] - 715:1 <b>megawatt</b> [1] - 663:15	<b>megawatt-hour</b> [1] - 663:15 <b>megawatts</b> [16] - 615:13, 629:15, 647:13, 647:21, 648:5, 649:15, 650:5, 650:10, 650:13, 650:22, 651:12, 653:4, 653:7, 661:8, 730:6, 730:7 <b>mention</b> [1] - 756:3 <b>mercury</b> [7] - 665:9, 665:10, 665:12, 665:18, 665:22, 667:2, 667:14 <b>merely</b> [3] - 653:15, 734:5, 756:19 <b>MERP</b> [36] - 612:11, 612:22, 613:4, 613:14, 613:17, 626:25, 627:2, 629:8, 640:5, 640:15, 643:4, 643:20, 644:11, 644:13, 644:23, 645:4, 645:10, 646:9, 646:13, 647:1, 647:7, 650:10, 650:11, 651:5, 653:13, 656:13, 656:17, 665:2, 708:6, 708:9, 712:2, 712:3, 712:9, 713:11, 713:12, 756:9 <b>met</b> [1] - 613:22 <b>method</b> [9] - 632:7, 632:8, 632:9, 633:11, 672:1, 674:20, 710:12, 743:8, 743:24 <b>methodologies</b> [1] - 740:4 <b>methodology</b> [6] - 670:8, 670:15, 671:22, 678:15, 679:12, 725:13 <b>methods</b> [1] - 750:18 <b>metro</b> [1] - 650:15 <b>Metro</b> [3] - 640:13, 643:4 <b>MICHAEL</b> [1] - 733:8 <b>middle</b> [1] - 678:4 <b>might</b> [16] - 617:23, 621:19, 623:18, 631:5, 651:17, 662:4, 666:11, 682:9, 682:20, 689:25, 712:6, 718:21, 736:25, 746:19, 749:10, 752:16 <b>Mike</b> [2] - 732:24, 749:20 <b>mile</b> [2] - 716:19, 716:21 <b>million</b> [21] - 613:11, 615:5, 631:10, 631:11, 631:16, 633:4, 636:1, 636:5, 658:25, 676:22, 676:25, 679:9, 679:13, 679:15, 684:12, 684:18, 684:19, 688:13, 711:14, 734:19 <b>millions</b> [1] - 683:7 <b>mind</b> [3] - 660:9, 743:23, 761:14 <b>minimize</b> [1] - 714:8 <b>Minnesota</b> [122] - 611:18, 611:21, 612:5, 612:13, 613:13, 613:23, 614:5, 614:18, 614:22, 614:24, 614:25, 615:1, 615:6, 615:9, 615:12, 616:6, 616:10, 616:12, 616:15, 619:23, 619:24, 619:25, 620:5, 624:5, 625:2, 625:5, 626:22, 627:8, 627:21, 628:1, 628:2, 628:10, 628:14, 628:15, 628:16, 629:24, 630:7, 637:14, 637:19, 637:21, 639:8, 639:23, 640:11, 640:13, 640:19, 641:25, 642:21, 642:22, 642:25, 643:13, 643:14, 643:16, 643:17, 643:18, 644:20, 650:16, 659:12, 659:14, 659:21, 660:5, 660:21, 661:18, 661:25, 662:20, 662:23, 663:5, 663:6, 663:7, 664:2, 664:19, 664:20, 665:10, 665:14, 665:25, 666:14, 666:24, 667:1, 677:21, 700:25, 701:5, 701:20, 703:8, 703:12, 703:21, 707:9, 710:2, 710:5, 714:13, 714:16, 715:1, 715:3, 715:5, 715:6, 715:7, 715:11, 715:13, 715:14, 716:5, 716:13, 716:22, 716:23, 717:4, 717:6, 721:7, 721:9, 722:12, 722:15, 722:22, 728:4, 728:6, 728:12, 728:13, 729:7, 730:4, 730:8, 730:12, 730:20, 730:21, 730:22 <b>Minnesota's</b> [1] - 756:17 <b>Minnesota-</b> <b>mandated</b> [2] - 615:6, 667:1 <b>Minnesota-only</b> [1] - 715:13 <b>Minnesotans</b> [2] - 616:5, 715:8 <b>Minot</b> [2] - 704:7, 704:9 <b>minutes</b> [4] - 724:3, 724:4, 748:20, 749:3 <b>misinterpreted</b> [2] - 619:17, 725:21 <b>misleading</b> [1] - 754:15 <b>MISO</b> [2] - 662:10, 731:19 <b>misspoke</b> [1] - 683:15 <b>mistakes</b> [1] - 733:21 <b>mitigates</b> [1] - 656:22 <b>mix</b> [3] - 621:14, 621:15, 720:20 <b>model</b> [4] - 626:12, 719:24, 720:1 <b>modeled</b> [1] - 659:17 <b>modeling</b> [2] - 658:8, 658:13 <b>modifications</b> [1] - 706:13 <b>moment</b> [1] - 705:16 <b>Monday</b> [1] - 610:23 <b>money</b> [22] - 635:22, 641:10, 665:21, 669:18, 669:19, 675:17, 675:18, 675:20, 675:21, 679:2, 682:16, 683:3, 684:21, 684:22, 690:3,		
<b>M</b>				
<b>mailed</b> [1] - 745:15 <b>maintain</b> [4] - 655:12, 655:16, 657:7, 731:3 <b>major</b> [2] - 654:6, 702:11 <b>majority</b> [1] - 634:7 <b>Majoros</b> [17] - 610:9, 619:2, 619:11, 682:3, 706:3, 706:6, 718:14, 725:18, 732:25, 733:2, 733:13, 734:24, 736:13, 748:19, 749:18, 750:16, 752:15 <b>MAJOROS</b> [1] - 733:8 <b>Majoros'</b> [2] - 705:24, 725:15 <b>Man</b> [1] - 740:21 <b>managed</b> [1] - 662:18 <b>mandate</b> [5] - 614:18, 721:8, 721:11, 721:19, 721:20 <b>mandated</b> [4] - 615:6, 615:10, 667:1, 721:8 <b>manner</b> [3] - 677:16, 679:4, 680:10 <b>map</b> [3] - 660:18, 660:19, 660:23 <b>margin</b> [4] - 621:23, 622:3, 655:13, 655:16 <b>marginal</b> [2] - 621:21, 622:9 <b>mark</b> [2] - 695:6, 758:11 <b>marked</b> [2] - 698:10, 750:5 <b>market</b> [2] - 630:24, 631:9 <b>marking</b> [2] - 759:3, 759:5 <b>Marks</b> [1] - 729:9 <b>Marks'</b> [2] - 729:4, 729:5 <b>Maryland</b> [3] - 638:12, 638:16, 638:21				

<p>711:16, 711:18, 715:17, 718:23, 731:9, 745:21, 745:22 <b>monitoring</b> [1] - 667:2 <b>month</b> [2] - 623:14 <b>month-to-month</b> [1] - 623:14 <b>monthly</b> [1] - 713:22 <b>morning</b> [3] - 754:14, 754:21, 757:18 <b>most</b> [9] - 626:19, 632:2, 670:3, 689:7, 693:23, 707:8, 717:20, 717:24, 747:15 <b>motivated</b> [1] - 643:1 <b>mountains</b> [1] - 630:15 <b>move</b> [2] - 632:19, 737:16 <b>moved</b> [1] - 674:5 <b>mover</b> [1] - 692:6 <b>MR</b> [89] - 608:17, 608:25, 609:2, 610:2, 611:9, 611:12, 611:14, 623:25, 639:9, 639:12, 639:14, 660:2, 660:10, 660:13, 667:16, 668:1, 668:2, 694:15, 694:22, 695:4, 695:8, 695:12, 695:16, 695:22, 696:6, 696:8, 696:11, 696:14, 696:19, 696:23, 697:6, 697:13, 697:25, 698:4, 698:7, 698:14, 698:25, 699:6, 699:11, 699:17, 699:23, 700:1, 704:11, 706:10, 708:21, 724:10, 724:12, 725:23, 726:1, 726:3, 732:13, 732:16, 732:24, 733:12, 736:6, 736:9, 736:12, 742:7, 744:24, 747:2, 747:25, 748:2, 748:18, 748:24, 748:25, 749:18, 749:21, 749:23, 750:4, 750:9, 750:11, 750:13, 750:16,</p>	<p>752:10, 752:12, 752:14, 753:14, 754:5, 754:7, 755:7, 755:18, 756:12, 756:16, 756:24, 757:2, 757:6, 758:17, 759:2, 759:10 <b>MS</b> [9] - 620:17, 620:19, 699:15, 708:25, 757:9, 759:15, 761:20, 761:23, 761:25 <b>Multi</b> [1] - 734:5 <b>multi</b> [1] - 734:8 <b>Multi-asset</b> [1] - 734:5 <b>multi-asset</b> [1] - 734:8 <b>multipage</b> [1] - 693:1 <b>multiple</b> [4] - 638:11, 676:2, 682:24, 716:8 <b>multiyear</b> [1] - 659:7 <b>must</b> [2] - 654:3, 709:22</p>	<p>689:14, 708:18, 709:4, 709:10, 723:13, 727:15, 733:23, 742:5, 743:22, 757:17 <b>needed</b> [9] - 647:20, 647:22, 652:6, 653:12, 654:3, 654:22, 657:12, 676:9, 696:10 <b>needs</b> [7] - 658:11, 658:16, 658:21, 661:16, 676:5, 730:23, 742:24 <b>net</b> [4] - 616:21, 618:6, 618:20, 710:13 <b>network</b> [3] - 663:20, 663:21, 731:16 <b>never</b> [16] - 625:1, 634:19, 659:17, 662:3, 675:11, 675:25, 676:1, 678:16, 678:24, 679:13, 679:14, 679:25, 683:9, 722:17, 734:9, 746:23 <b>new</b> [23] - 614:2, 614:7, 618:3, 618:17, 652:12, 655:8, 657:6, 657:11, 657:12, 658:1, 667:17, 673:4, 676:14, 676:15, 676:16, 676:17, 677:7, 691:22, 694:2, 711:11, 711:24, 726:20 <b>newest</b> [1] - 617:20 <b>next</b> [9] - 648:19, 678:4, 681:24, 694:20, 741:10, 745:7, 745:8, 750:25 <b>nice</b> [1] - 761:22 <b>night</b> [1] - 761:22 <b>nighttime</b> [1] - 622:2 <b>nine</b> [1] - 741:11 <b>nobody</b> [2] - 734:21, 745:20 <b>Nobody</b> [2] - 745:22, 747:21 <b>nominal</b> [1] - 682:9 <b>non</b> [1] - 625:4 <b>non-prudence</b> [1] - 625:4 <b>None</b> [1] - 754:7 <b>none</b> [3] - 627:8, 665:18, 754:5 <b>normal</b> [2] - 648:9,</p>	<p>711:23 <b>normally</b> [2] - 655:12, 688:16 <b>NORTH</b> [1] - 607:1 <b>North</b> [136] - 607:17, 608:7, 609:10, 612:5, 614:19, 615:20, 615:21, 616:2, 616:11, 616:13, 619:14, 619:18, 619:22, 620:1, 620:7, 622:18, 624:4, 625:8, 625:9, 625:12, 625:14, 625:16, 625:18, 625:19, 625:20, 625:24, 626:1, 626:3, 626:13, 627:8, 628:5, 628:23, 629:2, 629:5, 629:11, 629:17, 631:18, 637:12, 637:13, 637:15, 637:18, 637:21, 637:22, 637:24, 638:2, 638:5, 639:8, 639:19, 649:18, 649:19, 650:1, 650:17, 650:18, 650:23, 651:8, 651:14, 651:19, 651:20, 659:13, 659:18, 659:20, 659:22, 660:14, 660:19, 660:23, 661:3, 661:5, 661:9, 661:11, 661:15, 661:17, 661:19, 661:20, 661:24, 662:3, 662:20, 663:17, 663:24, 664:1, 664:3, 664:6, 664:14, 666:7, 666:15, 666:22, 700:24, 701:4, 701:9, 701:16, 701:19, 702:4, 702:15, 703:5, 703:7, 703:11, 703:17, 703:20, 703:22, 704:3, 706:24, 706:25, 707:9, 707:12, 709:20, 710:1, 710:6, 710:7, 714:14, 714:15, 715:12, 715:15, 715:16, 716:4, 716:11, 716:12,</p>	<p>716:23, 717:3, 722:8, 722:10, 722:13, 722:16, 723:14, 727:24, 728:9, 728:12, 728:19, 729:6, 729:15, 730:18, 758:2, 758:10, 758:22, 763:13, 764:13 <b>Northern</b> [5] - 607:5, 608:6, 608:11, 608:13, 616:15 <b>note</b> [2] - 698:10, 751:2 <b>noted</b> [1] - 677:10 <b>notes</b> [4] - 612:20, 705:18, 763:11, 764:11 <b>nothing</b> [5] - 609:18, 615:20, 661:12, 700:9, 720:8 <b>Nothing</b> [1] - 757:2 <b>notice</b> [7] - 708:18, 709:1, 709:8, 757:24, 758:8, 758:13, 758:18 <b>NOx</b> [3] - 659:1, 666:3, 666:5 <b>NSP</b> [23] - 610:21, 610:25, 614:23, 616:18, 624:18, 625:11, 631:7, 631:17, 634:11, 666:12, 697:12, 699:5, 718:4, 718:18, 718:22, 719:5, 720:5, 725:10, 731:11, 731:14, 750:22, 751:5, 751:19 <b>NSP's</b> [4] - 628:22, 633:3, 706:1, 734:23 <b>nuclear</b> [2] - 636:11, 734:17 <b>number</b> [12] - 619:1, 637:21, 669:24, 687:20, 694:20, 699:12, 699:15, 725:15, 726:23, 739:1, 745:9, 756:22 <b>numbers</b> [5] - 741:16, 746:4, 746:5, 747:1, 755:1 <b>numerator</b> [3] - 711:1, 711:3, 711:12</p>
<b>N</b>				
	<p><b>name</b> [3] - 610:4, 610:5, 640:18 <b>namely</b> [1] - 704:2 <b>national</b> [5] - 630:17, 691:14, 697:14, 697:16, 698:24 <b>National</b> [1] - 698:14 <b>natural</b> [8] - 652:18, 658:24, 717:12, 717:14, 717:16, 717:18, 718:1, 718:4 <b>nature</b> [3] - 681:2, 681:4, 702:17 <b>nauseam</b> [1] - 609:4 <b>near</b> [2] - 735:6, 748:6 <b>nearest</b> [1] - 661:17 <b>nearly</b> [2] - 689:14, 761:3 <b>necessarily</b> [3] - 669:22, 708:2, 730:13 <b>necessary</b> [6] - 667:4, 667:5, 667:11, 667:12, 758:19 <b>necessity</b> [2] - 717:22, 717:24 <b>need</b> [25] - 614:6, 615:25, 635:12, 644:2, 644:3, 648:4, 648:5, 652:3, 655:9, 655:10, 656:13, 656:17, 657:10, 667:13, 681:6,</p>	<p><b>new</b> [23] - 614:2, 614:7, 618:3, 618:17, 652:12, 655:8, 657:6, 657:11, 657:12, 658:1, 667:17, 673:4, 676:14, 676:15, 676:16, 676:17, 677:7, 691:22, 694:2, 711:11, 711:24, 726:20 <b>newest</b> [1] - 617:20 <b>next</b> [9] - 648:19, 678:4, 681:24, 694:20, 741:10, 745:7, 745:8, 750:25 <b>nice</b> [1] - 761:22 <b>night</b> [1] - 761:22 <b>nighttime</b> [1] - 622:2 <b>nine</b> [1] - 741:11 <b>nobody</b> [2] - 734:21, 745:20 <b>Nobody</b> [2] - 745:22, 747:21 <b>nominal</b> [1] - 682:9 <b>non</b> [1] - 625:4 <b>non-prudence</b> [1] - 625:4 <b>None</b> [1] - 754:7 <b>none</b> [3] - 627:8, 665:18, 754:5 <b>normal</b> [2] - 648:9,</p>	<p>689:14, 708:18, 709:4, 709:10, 723:13, 727:15, 733:23, 742:5, 743:22, 757:17 <b>needed</b> [9] - 647:20, 647:22, 652:6, 653:12, 654:3, 654:22, 657:12, 676:9, 696:10 <b>needs</b> [7] - 658:11, 658:16, 658:21, 661:16, 676:5, 730:23, 742:24 <b>net</b> [4] - 616:21, 618:6, 618:20, 710:13 <b>network</b> [3] - 663:20, 663:21, 731:16 <b>never</b> [16] - 625:1, 634:19, 659:17, 662:3, 675:11, 675:25, 676:1, 678:16, 678:24, 679:13, 679:14, 679:25, 683:9, 722:17, 734:9, 746:23 <b>new</b> [23] - 614:2, 614:7, 618:3, 618:17, 652:12, 655:8, 657:6, 657:11, 657:12, 658:1, 667:17, 673:4, 676:14, 676:15, 676:16, 676:17, 677:7, 691:22, 694:2, 711:11, 711:24, 726:20 <b>newest</b> [1] - 617:20 <b>next</b> [9] - 648:19, 678:4, 681:24, 694:20, 741:10, 745:7, 745:8, 750:25 <b>nice</b> [1] - 761:22 <b>night</b> [1] - 761:22 <b>nighttime</b> [1] - 622:2 <b>nine</b> [1] - 741:11 <b>nobody</b> [2] - 734:21, 745:20 <b>Nobody</b> [2] - 745:22, 747:21 <b>nominal</b> [1] - 682:9 <b>non</b> [1] - 625:4 <b>non-prudence</b> [1] - 625:4 <b>None</b> [1] - 754:7 <b>none</b> [3] - 627:8, 665:18, 754:5 <b>normal</b> [2] - 648:9,</p>	<p>716:23, 717:3, 722:8, 722:10, 722:13, 722:16, 723:14, 727:24, 728:9, 728:12, 728:19, 729:6, 729:15, 730:18, 758:2, 758:10, 758:22, 763:13, 764:13 <b>Northern</b> [5] - 607:5, 608:6, 608:11, 608:13, 616:15 <b>note</b> [2] - 698:10, 751:2 <b>noted</b> [1] - 677:10 <b>notes</b> [4] - 612:20, 705:18, 763:11, 764:11 <b>nothing</b> [5] - 609:18, 615:20, 661:12, 700:9, 720:8 <b>Nothing</b> [1] - 757:2 <b>notice</b> [7] - 708:18, 709:1, 709:8, 757:24, 758:8, 758:13, 758:18 <b>NOx</b> [3] - 659:1, 666:3, 666:5 <b>NSP</b> [23] - 610:21, 610:25, 614:23, 616:18, 624:18, 625:11, 631:7, 631:17, 634:11, 666:12, 697:12, 699:5, 718:4, 718:18, 718:22, 719:5, 720:5, 725:10, 731:11, 731:14, 750:22, 751:5, 751:19 <b>NSP's</b> [4] - 628:22, 633:3, 706:1, 734:23 <b>nuclear</b> [2] - 636:11, 734:17 <b>number</b> [12] - 619:1, 637:21, 669:24, 687:20, 694:20, 699:12, 699:15, 725:15, 726:23, 739:1, 745:9, 756:22 <b>numbers</b> [5] - 741:16, 746:4, 746:5, 747:1, 755:1 <b>numerator</b> [3] - 711:1, 711:3, 711:12</p>
<b>O</b>				

**o'clock** [1] - 608:5

<p><b>oath</b> [4] - 609:5, 609:7, 733:3, 755:11</p> <p><b>object</b> [5] - 638:4, 638:5, 695:16, 736:6, 758:18</p> <p><b>objecting</b> [1] - 696:23</p> <p><b>objection</b> [17] - 608:25, 637:10, 637:11, 696:3, 696:16, 697:4, 699:22, 699:23, 708:25, 739:13, 748:24, 750:10, 750:11, 750:14, 757:21, 759:1, 759:2</p> <p><b>objections</b> [1] - 611:12</p> <p><b>objective</b> [8] - 613:2, 646:23, 646:25, 679:6, 680:1, 680:2, 683:4, 683:6</p> <p><b>objects</b> [1] - 638:2</p> <p><b>obligated</b> [1] - 641:1</p> <p><b>obligation</b> [1] - 664:16</p> <p><b>oblige</b> [1] - 614:11</p> <p><b>obliged</b> [2] - 662:5, 662:6</p> <p><b>observation</b> [1] - 694:3</p> <p><b>obtain</b> [1] - 707:12</p> <p><b>obtained</b> [1] - 620:22</p> <p><b>obtaining</b> [1] - 712:5</p> <p><b>obvious</b> [1] - 627:16</p> <p><b>obviously</b> [1] - 731:6</p> <p><b>Obviously</b> [1] - 660:16</p> <p><b>occur</b> [3] - 671:21, 742:24, 745:7</p> <p><b>occurred</b> [2] - 706:13, 747:11</p> <p><b>occurring</b> [1] - 678:7</p> <p><b>occurs</b> [3] - 737:17, 743:5, 751:13</p> <p><b>odd</b> [3] - 629:15, 710:3, 722:9</p> <p><b>OF</b> [4] - 607:1, 607:10, 763:1, 764:1</p> <p><b>offer</b> [2] - 608:13, 654:2</p> <p><b>office</b> [1] - 735:16</p> <p><b>official</b> [4] - 709:8, 757:24, 758:8, 758:13</p> <p><b>officials</b> [2] - 714:16, 714:17</p> <p><b>offset</b> [10] - 683:11, 683:12, 683:13, 683:15, 683:16, 684:3, 684:5, 690:16, 700:13, 729:21</p>	<p><b>offsetting</b> [1] - 719:4</p> <p><b>old</b> [5] - 640:10, 653:6, 657:7, 711:8, 711:9</p> <p><b>on-line</b> [1] - 655:15</p> <p><b>once</b> [6] - 615:8, 626:3, 636:8, 642:15, 730:15</p> <p><b>Once</b> [1] - 716:24</p> <p><b>one</b> [67] - 608:17, 611:16, 614:2, 617:3, 619:6, 619:7, 621:11, 621:19, 622:14, 626:19, 632:10, 633:5, 633:11, 633:15, 637:10, 640:24, 647:8, 648:3, 652:25, 658:6, 660:17, 662:25, 664:25, 667:9, 675:23, 675:24, 676:17, 680:12, 683:2, 685:4, 685:21, 692:21, 693:2, 693:25, 694:22, 695:6, 695:9, 695:11, 696:1, 704:25, 706:1, 707:4, 707:6, 707:8, 708:17, 709:19, 712:17, 713:20, 716:16, 717:7, 718:13, 719:11, 725:19, 726:16, 728:23, 731:2, 736:7, 740:2, 741:22, 742:16, 746:25, 747:20, 753:18, 754:10, 757:20, 761:3</p> <p><b>One</b> [6] - 611:5, 616:19, 666:5, 675:17, 702:15, 713:15</p> <p><b>open</b> [3] - 628:13, 709:6, 757:10</p> <p><b>opening</b> [1] - 700:22</p> <p><b>operate</b> [1] - 731:3</p> <p><b>operating</b> [1] - 646:19</p> <p><b>operation</b> [2] - 664:3, 722:21</p> <p><b>operational</b> [1] - 658:1</p> <p><b>operations</b> [2] - 625:24, 626:1</p> <p><b>opinion</b> [2] - 715:8, 719:22</p> <p><b>opinions</b> [1] - 610:17</p> <p><b>opportunity</b> [5] - 610:20, 610:24, 722:23, 757:15,</p>	<p>761:6</p> <p><b>oppose</b> [1] - 758:23</p> <p><b>opposed</b> [6] - 639:17, 703:11, 707:9, 711:16, 718:19, 718:23</p> <p><b>optimal</b> [6] - 615:25, 662:5, 662:7, 664:13, 664:16, 664:18</p> <p><b>option</b> [3] - 707:21, 712:17, 719:12</p> <p><b>order</b> [12] - 641:21, 641:22, 641:23, 648:15, 648:16, 650:15, 655:16, 682:14, 688:7, 689:4, 700:5, 728:22</p> <p><b>orders</b> [1] - 757:25</p> <p><b>original</b> [4] - 711:7, 725:2, 727:16, 753:8</p> <p><b>originally</b> [1] - 685:12</p> <p><b>Otherwise</b> [1] - 695:19</p> <p><b>otherwise</b> [3] - 617:16, 622:13, 712:6</p> <p><b>ought</b> [4] - 637:24, 665:3, 715:6, 746:21</p> <p><b>ourselves</b> [1] - 732:9</p> <p><b>outages</b> [1] - 702:10</p> <p><b>outfit</b> [1] - 640:19</p> <p><b>outlined</b> [1] - 627:10</p> <p><b>over-allocation</b> [1] - 729:16</p> <p><b>over-forecast</b> [1] - 729:24</p> <p><b>Over-forecasted</b> [1] - 729:12</p> <p><b>overaccrual</b> [1] - 734:23</p> <p><b>overaccrue</b> [1] - 734:16</p> <p><b>overbuilding</b> [1] - 655:19</p> <p><b>overbuilt</b> [5] - 653:18, 653:20, 655:22, 655:23, 655:25</p> <p><b>overcharge</b> [1] - 735:10</p> <p><b>overcharges</b> [1] - 636:8</p> <p><b>overcharging</b> [1] - 636:6</p> <p><b>overcollected</b> [1] - 727:8</p> <p><b>overdepreciate</b> [2] - 618:2, 724:21</p> <p><b>overdepreciated</b> [3] - 725:10, 726:5, 726:17</p>	<p><b>overdepreciating</b> [6] - 618:13, 618:15, 634:16, 635:20, 690:4, 725:4</p> <p><b>overdepreciation</b> [2] - 617:24, 683:20</p> <p><b>overdone</b> [1] - 665:1</p> <p><b>overhead</b> [7] - 637:1, 637:12, 701:1, 702:14, 703:9, 703:13, 707:6</p> <p><b>overrecovered</b> [2] - 727:2, 727:14</p> <p><b>overstate</b> [1] - 684:6</p> <p><b>overstated</b> [6] - 633:20, 634:16, 711:13, 724:22, 724:25, 726:15</p> <p><b>overstatement</b> [1] - 634:18</p> <p><b>owing</b> [1] - 626:22</p> <p><b>own</b> [6] - 630:19, 643:23, 645:23, 708:13, 708:18, 719:2</p> <p><b>owner</b> [1] - 731:7</p> <p><b>ownership</b> [3] - 719:24, 720:16, 720:20</p> <p><b>owning</b> [4] - 718:22, 718:23, 730:25, 731:2</p>	<p><b>particular</b> [4] - 628:11, 687:16, 709:5, 712:21</p> <p><b>particularly</b> [7] - 624:10, 636:7, 639:6, 668:4, 716:15, 719:5, 720:4</p> <p><b>parties</b> [2] - 708:17, 759:25</p> <p><b>pass</b> [3] - 620:6, 625:5, 625:7</p> <p><b>passed</b> [4] - 614:19, 614:23, 618:18, 642:16</p> <p><b>passed-over</b> [1] - 618:18</p> <p><b>passing</b> [1] - 625:16</p> <p><b>past</b> [8] - 609:4, 634:15, 688:2, 725:10, 726:14, 726:17, 727:14, 728:2</p> <p><b>patently</b> [4] - 617:5, 617:7, 619:5, 680:4</p> <p><b>Patently</b> [1] - 685:15</p> <p><b>patience</b> [1] - 760:24</p> <p><b>pattern</b> [2] - 694:11, 751:22</p> <p><b>pay</b> [19] - 627:22, 627:25, 628:12, 630:24, 631:4, 631:9, 631:10, 669:7, 679:21, 684:21, 714:20, 714:23, 715:2, 730:5, 742:16, 742:20, 743:1, 743:3, 743:10</p> <p><b>payback</b> [1] - 617:24</p> <p><b>paying</b> [5] - 723:20, 723:23, 742:18, 748:13</p> <p><b>peak</b> [1] - 717:13</p> <p><b>peddle</b> [1] - 720:3</p> <p><b>penalties</b> [2] - 733:4, 755:11</p> <p><b>penalty</b> [1] - 714:11</p> <p><b>pending</b> [3] - 707:18, 709:13, 717:6</p> <p><b>people</b> [10] - 619:12, 627:21, 714:18, 716:19, 743:9, 760:2, 760:3, 760:23, 761:8, 761:11</p> <p><b>per</b> [4] - 663:15, 671:23, 716:19, 740:10</p> <p><b>perceived</b> [1] - 632:6</p> <p><b>percent</b> [46] - 616:9,</p>
<b>P</b>				
<p><b>p.m</b> [1] - 762:3</p> <p><b>package</b> [3] - 642:21, 645:7, 645:9</p> <p><b>page</b> [11] - 611:5, 611:17, 629:20, 639:16, 668:9, 677:10, 686:24, 692:12, 692:24, 692:25, 695:2</p> <p><b>pages</b> [4] - 695:8, 705:11, 763:10, 764:10</p> <p><b>paid</b> [3] - 714:14, 745:11, 747:4</p> <p><b>panoply</b> [1] - 681:23</p> <p><b>parameters</b> [1] - 752:24</p> <p><b>paraphrase</b> [2] - 716:5, 716:6</p> <p><b>Part</b> [1] - 675:19</p> <p><b>part</b> [7] - 642:18, 677:22, 697:23, 698:19, 710:7, 710:8</p> <p><b>partial</b> [1] - 695:20</p>				

<p>626:10, 631:15, 648:8, 648:13, 649:4, 649:5, 649:16, 650:6, 650:22, 655:13, 655:15, 657:17, 659:8, 659:13, 660:15, 660:16, 664:6, 664:8, 666:3, 672:3, 672:8, 672:25, 723:9, 730:7, 739:11, 739:15, 740:10, 741:14, 746:24, 747:12, 748:13, 751:11, 751:15, 751:18, 752:4, 752:22, 753:2, 753:7, 753:8, 754:18, 754:19, 754:21, 754:23</p> <p><b>percentage</b> [2] - 615:11, 732:6</p> <p><b>perhaps</b> [4] - 708:17, 720:17, 747:2, 760:25</p> <p><b>period</b> [8] - 609:12, 670:3, 671:6, 673:10, 741:17, 743:12, 747:10, 751:8</p> <p><b>periodically</b> [1] - 644:16</p> <p><b>periods</b> [3] - 677:24, 743:16, 747:14</p> <p><b>perjury</b> [5] - 609:6, 609:11, 609:15, 733:4, 755:11</p> <p><b>Perjury</b> [1] - 609:8</p> <p><b>permanent</b> [1] - 676:15</p> <p><b>permanently</b> [2] - 629:4, 683:8</p> <p><b>permits</b> [1] - 712:13</p> <p><b>phone</b> [1] - 638:24</p> <p><b>phony</b> [2] - 683:22, 683:23</p> <p><b>phrase</b> [1] - 738:12</p> <p><b>phrasing</b> [1] - 738:21</p> <p><b>physically</b> [1] - 699:10</p> <p><b>pick</b> [3] - 651:17, 714:12, 754:20</p> <p><b>picked</b> [1] - 664:1</p> <p><b>pipeline</b> [1] - 717:19</p> <p><b>pipelines</b> [2] - 717:17</p> <p><b>place</b> [9] - 610:6, 615:1, 615:15, 665:13, 677:8, 721:12, 721:23, 763:8, 764:8</p>	<p><b>placed</b> [2] - 647:3, 711:7</p> <p><b>plan</b> [34] - 613:3, 613:17, 614:15, 619:15, 620:14, 627:4, 640:22, 640:23, 641:1, 641:23, 641:24, 642:14, 642:19, 642:20, 643:3, 643:9, 644:13, 644:22, 644:23, 645:8, 647:7, 653:22, 653:23, 654:3, 655:12, 662:5, 662:7, 663:9, 664:15, 664:17, 670:7, 728:11, 730:21</p> <p><b>Plan</b> [1] - 613:22</p> <p><b>planning</b> [1] - 626:12</p> <p><b>plans</b> [2] - 613:16, 719:19</p> <p><b>plant</b> [190] - 611:22, 612:15, 612:17, 612:23, 612:24, 613:4, 613:18, 613:25, 614:2, 614:7, 617:1, 617:3, 617:5, 617:7, 617:9, 617:10, 617:12, 617:17, 618:2, 618:4, 618:6, 618:12, 618:20, 620:1, 620:2, 627:1, 628:13, 629:7, 629:8, 629:9, 629:14, 630:6, 634:12, 634:21, 634:22, 635:2, 635:13, 635:21, 635:24, 636:11, 636:15, 636:23, 638:14, 638:18, 639:2, 639:6, 639:7, 640:4, 640:6, 644:5, 644:12, 645:9, 645:16, 645:18, 645:25, 646:6, 646:19, 647:3, 647:10, 647:14, 647:19, 647:20, 648:2, 648:7, 648:8, 648:10, 648:12, 648:14, 648:19, 648:21, 648:23, 649:8, 649:11, 649:14, 649:20, 649:21, 650:5, 650:14, 650:21,</p>	<p>651:1, 651:2, 651:7, 651:15, 651:25, 652:12, 652:18, 652:20, 652:23, 653:4, 653:6, 653:18, 653:20, 653:25, 654:5, 654:7, 654:10, 654:13, 654:14, 654:19, 654:22, 655:1, 656:4, 656:7, 656:14, 656:18, 656:21, 657:6, 657:7, 657:9, 657:11, 657:12, 657:16, 658:10, 658:15, 658:19, 658:23, 658:24, 667:7, 667:8, 667:9, 668:13, 668:16, 674:13, 676:14, 676:18, 677:14, 677:15, 677:21, 677:25, 678:23, 678:25, 679:10, 679:18, 679:19, 680:4, 680:9, 681:13, 683:2, 683:4, 684:24, 685:17, 686:1, 688:12, 688:21, 689:6, 689:13, 689:24, 690:4, 690:7, 690:9, 690:13, 693:4, 693:7, 695:5, 695:11, 697:18, 700:11, 701:2, 701:9, 702:14, 703:7, 703:17, 707:1, 707:23, 708:4, 710:20, 710:21, 710:22, 711:3, 711:5, 711:6, 711:7, 712:5, 715:25, 718:12, 726:14, 726:18, 734:14, 734:21, 755:21, 756:4, 756:9, 756:19</p> <p><b>plant's</b> [2] - 626:21, 645:12</p> <p><b>plants</b> [38] - 616:20, 616:22, 616:24, 617:4, 622:2, 651:17, 664:24, 665:2, 668:4, 676:16, 679:24, 681:14, 682:24, 682:25, 686:1, 686:4, 686:23,</p>	<p>687:5, 688:1, 688:14, 689:7, 689:9, 689:12, 689:21, 690:19, 694:8, 694:10, 697:19, 700:5, 711:24, 712:25, 717:13, 718:4, 718:10, 725:12, 726:6, 756:6, 756:22</p> <p><b>pleased</b> [1] - 736:17</p> <p><b>pleasure</b> [1] - 760:1</p> <p><b>plenty</b> [2] - 684:20, 684:22</p> <p><b>plus</b> [5] - 655:14, 726:22, 746:4, 751:13, 754:17</p> <p><b>point</b> [22] - 630:5, 634:20, 642:13, 654:6, 655:7, 662:6, 672:18, 679:18, 682:18, 696:11, 701:10, 716:2, 727:1, 728:8, 739:19, 739:25, 740:1, 740:18, 742:14, 746:16, 746:18, 746:23</p> <p><b>Point</b> [1] - 672:20</p> <p><b>pointed</b> [2] - 619:2, 619:12</p> <p><b>points</b> [1] - 735:20</p> <p><b>poles</b> [1] - 637:9</p> <p><b>policy</b> [3] - 610:10, 620:9, 720:23</p> <p><b>Pollution</b> [4] - 640:19, 640:20, 643:13, 643:18</p> <p><b>pollution</b> [7] - 641:12, 643:2, 643:8, 643:11, 644:4, 650:15, 652:22</p> <p><b>pool</b> [4] - 661:23, 676:3, 676:4, 676:9</p> <p><b>poor</b> [1] - 710:22</p> <p><b>population</b> [2] - 716:18, 716:22</p> <p><b>portion</b> [2] - 731:24</p> <p><b>portray</b> [1] - 632:8</p> <p><b>position</b> [2] - 646:20, 658:18</p> <p><b>possible</b> [4] - 627:24, 645:13, 720:2, 732:12</p> <p><b>Possibly</b> [3] - 647:5, 654:5, 664:25</p> <p><b>possibly</b> [2] - 622:15, 647:4</p> <p><b>post</b> [1] - 713:12</p> <p><b>post-MERP</b> [1] -</p>	<p>713:12</p> <p><b>posture</b> [1] - 720:18</p> <p><b>pot</b> [1] - 679:21</p> <p><b>Power</b> [4] - 607:5, 608:6, 608:11, 638:20</p> <p><b>power</b> [15] - 616:3, 616:5, 616:10, 622:5, 661:19, 661:22, 661:25, 662:3, 681:14, 712:25, 718:20, 719:10, 722:8, 723:16, 731:19</p> <p><b>Power's</b> [1] - 608:14</p> <p><b>PPA</b> [4] - 719:24, 720:1, 720:20, 732:1</p> <p><b>PPA's</b> [5] - 720:16, 730:25, 731:24, 731:25, 732:9</p> <p><b>practical</b> [3] - 661:22, 669:22, 682:10</p> <p><b>practically</b> [1] - 634:13</p> <p><b>practice</b> [4] - 616:14, 624:14, 717:20, 728:3</p> <p><b>practices</b> [2] - 624:4, 728:15</p> <p><b>Prairie</b> [9] - 617:11, 618:12, 628:11, 635:23, 635:24, 636:11, 688:8, 714:25, 723:10</p> <p><b>prairie</b> [2] - 701:22, 704:5</p> <p><b>prairies</b> [1] - 704:8</p> <p><b>pre</b> [8] - 629:8, 644:13, 645:10, 650:11, 651:5, 708:6, 708:9, 713:11</p> <p><b>pre-IRP</b> [1] - 708:9</p> <p><b>pre-MERP</b> [7] - 629:8, 644:13, 645:10, 650:11, 651:5, 708:6, 713:11</p> <p><b>preceded</b> [3] - 613:3, 626:25, 647:7</p> <p><b>preceding</b> [2] - 644:22, 647:6</p> <p><b>precipitation</b> [4] - 637:17, 702:18, 703:11, 704:3</p> <p><b>precisely</b> [1] - 745:16</p> <p><b>precluded</b> [1] - 722:1</p> <p><b>predominant</b> [1] - 622:23</p> <p><b>predominantly</b> [1] - 661:16</p> <p><b>prefer</b> [1] - 754:16</p>
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<p><b>preferred</b> [3] - 671:11, 677:10, 680:8</p> <p><b>Preferred</b> [1] - 677:15</p> <p><b>premature</b> [2] - 636:10, 657:23</p> <p><b>prematurely</b> [2] - 657:22, 691:8</p> <p><b>prepared</b> [1] - 610:13</p> <p><b>prescribed</b> [1] - 677:22</p> <p><b>prescription</b> [1] - 677:18</p> <p><b>prescriptions</b> [2] - 677:20, 678:2</p> <p><b>present</b> [34] - 608:10, 610:23, 632:16, 632:17, 632:23, 633:4, 633:6, 636:6, 656:9, 671:12, 671:14, 672:1, 675:3, 677:12, 678:2, 678:12, 679:7, 680:2, 680:3, 683:10, 690:4, 690:13, 699:10, 720:18, 733:13, 734:12, 734:16, 738:13, 738:22, 739:1, 751:7, 751:9, 751:12, 754:25</p> <p><b>present-day</b> [1] - 633:4</p> <p><b>present-value</b> [3] - 671:14, 672:1, 734:16</p> <p><b>presented</b> [4] - 610:25, 691:16, 750:1, 750:4</p> <p><b>presently</b> [1] - 676:6</p> <p><b>president</b> [1] - 610:8</p> <p><b>presumably</b> [4] - 614:10, 661:15, 731:8, 745:4</p> <p><b>pretty</b> [2] - 632:17, 693:18</p> <p><b>previous</b> [1] - 654:8</p> <p><b>previously</b> [2] - 733:9, 755:15</p> <p><b>price</b> [8] - 628:12, 630:25, 659:6, 713:25, 717:15, 719:9, 719:10, 723:20</p> <p><b>pricing</b> [1] - 621:6</p> <p><b>prima</b> [1] - 722:11</p> <p><b>primary</b> [1] - 711:15</p> <p><b>prime</b> [1] - 692:6</p> <p><b>principal</b> [2] - 634:3, 634:6</p> <p><b>principally</b> [1] -</p>	<p>702:18</p> <p><b>principle</b> [1] - 621:22</p> <p><b>principles</b> [1] - 728:15</p> <p><b>printed</b> [1] - 608:20</p> <p><b>priority</b> [1] - 717:21</p> <p><b>proactive</b> [1] - 627:15</p> <p><b>probability</b> [1] - 734:15</p> <p><b>problem</b> [16] - 612:4, 669:2, 675:4, 678:5, 678:6, 686:20, 686:22, 688:4, 694:1, 697:15, 698:2, 698:7, 709:12, 718:7, 719:15, 722:16</p> <p><b>problems</b> [2] - 616:19, 637:2</p> <p><b>procedure</b> [7] - 617:23, 618:1, 621:21, 633:14, 688:19, 727:5</p> <p><b>procedures</b> [1] - 633:12</p> <p><b>proceed</b> [3] - 608:15, 667:23, 699:24</p> <p><b>proceeding</b> [3] - 647:1, 698:6, 706:14</p> <p><b>proceedings</b> [5] - 608:1, 610:7, 643:21, 763:7, 764:7</p> <p><b>process</b> [11] - 643:4, 656:13, 676:24, 677:23, 678:8, 684:9, 712:1, 712:19, 756:18</p> <p><b>processes</b> [3] - 711:24, 728:4, 728:6</p> <p><b>procurement</b> [1] - 712:1</p> <p><b>procuring</b> [1] - 711:24</p> <p><b>produce</b> [1] - 723:16</p> <p><b>product</b> [2] - 651:24, 686:15</p> <p><b>Production</b> [1] - 677:21</p> <p><b>production</b> [19] - 616:20, 616:22, 616:24, 634:11, 668:4, 668:13, 668:16, 677:15, 680:9, 682:24, 682:25, 688:20, 702:14, 707:23, 710:22, 725:12, 726:6, 726:14, 728:11</p> <p><b>Professional</b> [4] - 763:5, 763:18, 764:5, 764:18</p>	<p><b>Program</b> [2] - 612:13, 626:23</p> <p><b>program</b> [18] - 613:14, 616:18, 627:2, 640:5, 640:12, 640:17, 641:9, 641:11, 644:11, 645:4, 646:9, 647:7, 650:11, 650:16, 665:2, 665:12, 665:22, 667:6</p> <p><b>programs</b> [3] - 640:15, 665:15, 666:11</p> <p><b>project</b> [11] - 653:13, 662:14, 663:1, 663:2, 663:13, 663:18, 664:5, 712:9, 721:6, 732:4</p> <p><b>project's</b> [1] - 645:2</p> <p><b>projected</b> [7] - 669:20, 669:21, 671:15, 685:12, 709:20, 737:23, 737:24</p> <p><b>projects</b> [5] - 643:5, 644:2, 662:11, 712:14, 717:6</p> <p><b>proof</b> [3] - 640:9, 640:10, 734:17</p> <p><b>proper</b> [1] - 688:23</p> <p><b>properly</b> [1] - 628:19</p> <p><b>property</b> [1] - 682:23</p> <p><b>proportionately</b> [2] - 649:17, 650:7</p> <p><b>proposal</b> [5] - 643:6, 656:10, 665:5, 685:17, 700:2</p> <p><b>propose</b> [4] - 626:11, 626:12, 670:1, 747:21</p> <p><b>proposed</b> [7] - 659:8, 662:10, 664:22, 677:4, 686:2, 691:9, 715:5</p> <p><b>proposing</b> [14] - 615:22, 619:19, 631:18, 632:19, 652:10, 659:10, 670:5, 691:4, 723:16, 734:21, 734:22, 737:8, 737:17, 745:20</p> <p><b>proposition</b> [1] - 617:4</p> <p><b>proprietary</b> [1] - 698:1</p> <p><b>protection</b> [1] - 747:20</p> <p><b>prove</b> [5] - 643:5, 662:5, 703:3, 703:4, 761:11</p> <p><b>proved</b> [2] - 662:7,</p>	<p>728:8</p> <p><b>proven</b> [1] - 722:23</p> <p><b>proves</b> [1] - 735:16</p> <p><b>provide</b> [7] - 610:17, 612:2, 649:15, 689:10, 695:25, 696:3, 699:5</p> <p><b>provided</b> [10] - 633:14, 649:17, 658:1, 677:2, 687:12, 687:24, 695:18, 695:23, 697:21, 697:24</p> <p><b>provides</b> [3] - 658:2, 664:7, 701:5</p> <p><b>providing</b> [1] - 760:5</p> <p><b>proving</b> [1] - 647:24</p> <p><b>provision</b> [1] - 667:11</p> <p><b>prudence</b> [3] - 625:4, 656:14</p> <p><b>prudent</b> [1] - 625:1</p> <p><b>PU-07-776</b> [2] - 607:5, 608:8</p> <p><b>public</b> [2] - 686:13, 714:16</p> <p><b>PUBLIC</b> [1] - 607:2</p> <p><b>Public</b> [4] - 608:8, 715:12, 715:14, 715:15</p> <p><b>PUC</b> [7] - 616:15, 643:10, 643:17, 677:21, 715:11, 715:18</p> <p><b>pull</b> [2] - 662:18, 662:19</p> <p><b>pulled</b> [2] - 662:20, 663:3</p> <p><b>punishable</b> [1] - 609:11</p> <p><b>purchase</b> [2] - 659:1, 718:20</p> <p><b>purchased</b> [1] - 615:20</p> <p><b>purchasing</b> [1] - 720:16</p> <p><b>pure</b> [1] - 747:15</p> <p><b>purpose</b> [2] - 648:18, 758:7</p> <p><b>purposes</b> [10] - 616:11, 629:12, 629:17, 639:4, 641:7, 672:3, 698:5, 731:24, 739:11</p> <p><b>pursuant</b> [4] - 640:17, 644:3, 650:16, 698:12</p> <p><b>pursue</b> [1] - 718:13</p> <p><b>push</b> [1] - 717:25</p> <p><b>put</b> [16] - 615:14, 615:15, 616:6,</p>	<p>628:5, 628:10, 641:5, 661:8, 663:8, 677:8, 690:1, 690:8, 694:17, 705:22, 707:21, 717:19, 760:14</p> <p><b>puts</b> [2] - 696:12, 712:16</p> <p><b>putting</b> [1] - 716:20</p>
<b>Q</b>				
				<p><b>qualifications</b> [1] - 610:17</p> <p><b>qualify</b> [3] - 641:21, 663:14, 663:21</p> <p><b>quality</b> [3] - 645:12, 645:15, 646:19</p> <p><b>questioned</b> [1] - 748:23</p> <p><b>questioning</b> [4] - 705:17, 715:21, 724:14, 725:14</p> <p><b>questions</b> [27] - 624:3, 624:16, 639:9, 646:17, 704:12, 704:16, 704:20, 706:17, 713:10, 713:14, 725:15, 725:19, 725:24, 732:13, 733:16, 736:9, 742:7, 742:8, 744:18, 747:23, 748:3, 752:10, 753:14, 754:3, 756:13, 756:24, 756:25</p> <p><b>Questions</b> [2] - 704:13, 753:15</p> <p><b>queue</b> [3] - 662:14, 663:2, 663:11</p> <p><b>quibbling</b> [1] - 753:11</p> <p><b>quick</b> [1] - 737:21</p> <p><b>quickly</b> [3] - 642:17, 673:11, 718:10</p> <p><b>quiet</b> [1] - 660:12</p> <p><b>quite</b> [6] - 620:21, 622:10, 627:24, 651:16, 653:23, 666:13</p> <p><b>quote</b> [2] - 727:2, 731:11</p>
<b>R</b>				
				<p><b>radar</b> [1] - 756:8</p> <p><b>radical</b> [2] - 645:14, 645:15</p> <p><b>raging</b> [1] - 622:8</p>

<p><b>rain</b> [2] - 637:16, 702:6</p> <p><b>rainfall</b> [5] - 702:2, 702:3, 702:18, 702:22, 703:1</p> <p><b>raise</b> [1] - 609:14</p> <p><b>raised</b> [1] - 753:12</p> <p><b>raises</b> [1] - 721:25</p> <p><b>ran</b> [2] - 687:18, 687:23</p> <p><b>range</b> [3] - 682:13, 683:1, 690:25</p> <p><b>rapidly</b> [1] - 658:3</p> <p><b>rarely</b> [1] - 717:13</p> <p><b>Rate</b> [1] - 607:5</p> <p><b>rate</b> [51] - 608:7, 608:14, 610:11, 617:9, 617:21, 618:3, 618:17, 620:12, 620:14, 620:23, 622:14, 623:13, 628:25, 629:1, 629:5, 637:11, 668:24, 672:2, 672:4, 672:8, 672:11, 672:13, 672:15, 675:8, 677:6, 677:7, 680:22, 683:12, 683:16, 683:21, 684:2, 684:3, 707:17, 709:21, 712:15, 713:15, 718:24, 721:18, 724:24, 725:6, 727:13, 731:23, 738:17, 738:23, 740:1, 744:14, 748:13, 752:19, 752:21, 761:4</p> <p><b>Ratepayers</b> [1] - 684:5</p> <p><b>ratepayers</b> [29] - 616:11, 625:20, 628:5, 631:18, 633:4, 633:7, 634:19, 636:8, 642:24, 651:20, 658:25, 665:14, 669:7, 679:7, 683:21, 684:1, 684:4, 684:12, 684:18, 714:15, 715:7, 718:21, 719:4, 719:7, 719:23, 723:14, 735:10, 735:11, 743:1</p> <p><b>rates</b> [29] - 621:2, 624:1, 634:8, 634:9, 636:21, 638:6,</p>	<p>638:7, 638:13, 638:18, 638:22, 638:25, 639:1, 639:2, 639:5, 670:2, 670:9, 671:4, 681:9, 682:17, 707:23, 707:24, 714:6, 714:9, 725:7, 725:8, 728:10, 741:24, 742:1, 742:2</p> <p><b>rather</b> [7] - 627:15, 673:15, 673:21, 720:5, 739:25, 753:2, 761:12</p> <p><b>rating</b> [1] - 731:23</p> <p><b>raw</b> [7] - 686:7, 690:21, 691:16, 691:24, 695:23, 697:21, 697:22</p> <p><b>re</b> [4] - 677:18, 677:20, 677:22, 678:2</p> <p><b>re-prescribed</b> [1] - 677:22</p> <p><b>re-prescription</b> [1] - 677:18</p> <p><b>re-prescriptions</b> [2] - 677:20, 678:2</p> <p><b>reach</b> [1] - 734:25</p> <p><b>reaches</b> [1] - 678:17</p> <p><b>reaching</b> [2] - 622:22, 623:2</p> <p><b>reaction</b> [1] - 711:21</p> <p><b>reactive</b> [3] - 627:14, 627:16, 628:4</p> <p><b>read</b> [2] - 611:20, 641:3</p> <p><b>reading</b> [2] - 693:3, 761:16</p> <p><b>ready</b> [2] - 608:16, 749:17</p> <p><b>Real</b> [1] - 621:6</p> <p><b>real</b> [4] - 669:23, 713:9, 718:10, 722:2</p> <p><b>Real-time</b> [1] - 621:6</p> <p><b>realistic</b> [2] - 630:13, 679:3</p> <p><b>really</b> [17] - 616:18, 620:8, 669:2, 670:5, 675:24, 683:20, 686:13, 688:22, 689:10, 710:14, 721:11, 721:17, 722:10, 722:12, 725:22, 741:8, 748:15</p> <p><b>reason</b> [20] - 616:4, 620:23, 627:17, 631:10, 636:2, 636:5, 644:6, 663:5, 664:4, 664:10,</p>	<p>664:18, 676:16, 676:21, 681:21, 683:22, 684:21, 686:10, 697:7, 722:17, 730:2</p> <p><b>reasonable</b> [5] - 631:5, 637:20, 668:5, 703:10, 739:10</p> <p><b>reasonableness</b> [2] - 643:6, 643:7</p> <p><b>reasons</b> [3] - 662:21, 662:22, 702:13</p> <p><b>Rebuttal</b> [1] - 757:8</p> <p><b>rebuttal</b> [4] - 610:21, 685:13, 708:11, 757:10</p> <p><b>recalculations</b> [1] - 628:21</p> <p><b>received</b> [3] - 609:1, 611:13, 750:15</p> <p><b>recent</b> [3] - 632:2, 670:3, 711:4</p> <p><b>recess</b> [6] - 667:20, 724:2, 749:5, 749:12, 749:14</p> <p><b>Recess</b> [2] - 667:22, 724:6</p> <p><b>recognition</b> [4] - 616:8, 618:14, 680:14, 745:23</p> <p><b>recognize</b> [5] - 615:23, 617:6, 618:18, 688:9, 725:9</p> <p><b>recognized</b> [1] - 617:15</p> <p><b>recognizing</b> [3] - 622:20, 717:22, 720:21</p> <p><b>recommend</b> [5] - 619:5, 619:6, 619:17, 620:9, 623:16</p> <p><b>recommendation</b> [7] - 613:7, 619:14, 619:16, 622:14, 665:4, 677:10, 730:5</p> <p><b>recommendations</b> [3] - 624:13, 655:18, 744:15</p> <p><b>recommended</b> [2] - 616:8, 620:25</p> <p><b>recommending</b> [7] - 623:20, 625:13, 632:10, 632:11, 705:21, 707:3, 707:17</p> <p><b>reconsider</b> [1] - 730:3</p> <p><b>reconsidered</b> [1] - 678:1</p>	<p><b>record</b> [31] - 608:2, 608:4, 608:22, 610:4, 612:21, 643:20, 647:1, 647:3, 667:24, 694:17, 695:13, 698:19, 699:20, 703:19, 708:24, 709:2, 724:8, 749:16, 757:20, 759:6, 759:9, 759:11, 759:12, 759:14, 759:24, 759:25, 760:5, 760:10, 760:12, 763:8, 764:8</p> <p><b>recorded</b> [2] - 763:6, 764:6</p> <p><b>recover</b> [14] - 651:8, 652:8, 676:7, 678:20, 679:15, 681:6, 681:8, 682:1, 682:14, 684:9, 684:12, 726:20, 727:16, 734:2</p> <p><b>recoverable</b> [1] - 666:24</p> <p><b>recovered</b> [16] - 636:22, 650:7, 650:23, 650:25, 651:19, 651:20, 666:1, 666:2, 669:13, 671:23, 679:13, 680:13, 681:9, 700:21, 714:9, 751:8</p> <p><b>recovering</b> [7] - 619:10, 639:18, 669:4, 670:16, 670:22, 684:15</p> <p><b>recovers</b> [1] - 634:4</p> <p><b>recovery</b> [7] - 666:10, 666:13, 666:14, 666:17, 669:14, 677:9, 712:22</p> <p><b>RECROSS</b> [2] - 726:2, 752:13</p> <p><b>RECROSS-EXAMINATION</b> [2] - 726:2, 752:13</p> <p><b>red</b> [1] - 719:1</p> <p><b>Red</b> [2] - 664:23, 716:24</p> <p><b>REDIRECT</b> [2] - 724:11, 748:1</p> <p><b>reduce</b> [3] - 650:15, 664:7, 725:1</p> <p><b>reduced</b> [1] - 683:21</p> <p><b>reducing</b> [2] - 691:9, 719:10</p>	<p><b>Reduction</b> [2] - 612:13, 626:22</p> <p><b>reduction</b> [4] - 613:24, 640:12, 727:3, 729:11</p> <p><b>refer</b> [1] - 695:4</p> <p><b>referenced</b> [1] - 608:22</p> <p><b>referred</b> [2] - 640:12, 708:24</p> <p><b>referring</b> [4] - 695:1, 709:1, 724:19, 735:18</p> <p><b>refined</b> [2] - 708:3, 709:23</p> <p><b>reflect</b> [15] - 621:1, 621:5, 621:18, 622:4, 624:23, 634:13, 636:17, 636:21, 637:12, 647:17, 677:24, 712:7, 714:3, 727:3, 727:13</p> <p><b>reflected</b> [3] - 622:23, 635:18, 725:7</p> <p><b>reflection</b> [2] - 660:1, 660:5</p> <p><b>reflects</b> [5] - 619:1, 619:21, 621:13, 711:5, 728:11</p> <p><b>refund</b> [3] - 724:15, 727:7, 727:10</p> <p><b>refunded</b> [1] - 634:19</p> <p><b>refunding</b> [1] - 636:7</p> <p><b>refunds</b> [1] - 634:4</p> <p><b>refurbish</b> [1] - 689:3</p> <p><b>refurbished</b> [2] - 612:17, 756:20</p> <p><b>refurbishing</b> [2] - 647:13, 756:22</p> <p><b>refurbishments</b> [2] - 688:24, 688:25</p> <p><b>refuse</b> [1] - 664:23</p> <p><b>refuse-derived</b> [1] - 664:23</p> <p><b>regard</b> [15] - 621:10, 624:1, 627:9, 630:8, 635:10, 644:5, 666:8, 700:1, 703:9, 706:25, 714:13, 715:24, 718:5, 720:15, 757:18</p> <p><b>regarding</b> [10] - 609:6, 609:15, 624:3, 624:17, 630:10, 709:20, 715:22, 733:17, 749:25, 758:1</p> <p><b>Regardless</b> [1] - 700:15</p>
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<p><b>regardless</b> [2] - 623:16, 666:23</p> <p><b>regards</b> [2] - 627:3, 629:8</p> <p><b>region</b> [1] - 722:7</p> <p><b>Registered</b> [4] - 763:4, 763:18, 764:4, 764:18</p> <p><b>regulated</b> [1] - 638:25</p> <p><b>regulations</b> [1] - 625:6</p> <p><b>regulators</b> [2] - 717:7, 760:11</p> <p><b>regulatory</b> [4] - 715:23, 716:12, 717:20, 728:15</p> <p><b>rehabilitate</b> [4] - 613:24, 652:20, 652:24, 700:16</p> <p><b>rehabilitated</b> [17] - 612:22, 612:24, 613:6, 640:7, 640:8, 645:20, 646:1, 646:8, 646:12, 648:2, 649:21, 651:1, 651:15, 654:1, 654:21, 688:12</p> <p><b>rehabilitating</b> [3] - 640:3, 651:25, 712:4</p> <p><b>rehabilitation</b> [21] - 613:5, 613:6, 613:12, 626:21, 627:1, 639:25, 641:20, 642:5, 647:10, 647:18, 650:14, 651:2, 652:12, 652:16, 688:10, 690:15, 700:4, 700:12, 700:18, 700:20, 756:10</p> <p><b>rehabilitations</b> [2] - 689:23, 690:1</p> <p><b>relate</b> [3] - 622:22, 744:9, 744:11</p> <p><b>related</b> [8] - 643:8, 647:9, 650:21, 666:3, 690:23, 711:22, 712:2, 713:11</p> <p><b>relates</b> [1] - 629:20</p> <p><b>relating</b> [2] - 610:11, 755:22</p> <p><b>relationship</b> [3] - 710:1, 715:18, 718:19</p> <p><b>relationships</b> [1] - 710:18</p> <p><b>relative</b> [2] - 633:20, 678:4</p>	<p><b>relevant</b> [3] - 645:6, 752:9, 758:21</p> <p><b>reliability</b> [1] - 658:2</p> <p><b>relicensed</b> [2] - 617:13, 617:15</p> <p><b>relicensing</b> [2] - 617:12, 617:15</p> <p><b>relied</b> [1] - 697:14</p> <p><b>rely</b> [1] - 728:14</p> <p><b>relying</b> [1] - 646:14</p> <p><b>remainder</b> [1] - 761:18</p> <p><b>Remaining</b> [2] - 674:15, 674:21</p> <p><b>remaining</b> [35] - 616:24, 617:23, 618:1, 618:7, 634:1, 634:8, 634:14, 636:23, 668:5, 668:13, 668:16, 668:19, 668:20, 668:22, 674:20, 674:22, 674:23, 674:24, 675:3, 677:19, 677:21, 677:24, 688:18, 688:19, 688:23, 704:20, 724:14, 724:21, 724:23, 726:20, 727:4, 727:19, 745:5, 747:8, 747:16</p> <p><b>remaining-life</b> [16] - 617:23, 618:1, 634:1, 634:8, 668:20, 674:20, 688:18, 688:19, 688:23, 724:14, 724:21, 724:23, 726:20, 727:4, 727:19, 747:16</p> <p><b>Remember</b> [2] - 747:7, 747:9</p> <p><b>remember</b> [6] - 612:20, 677:4, 709:19, 724:16, 747:6</p> <p><b>reminder</b> [1] - 761:9</p> <p><b>removal</b> [66] - 616:21, 618:21, 619:10, 630:10, 630:11, 631:21, 632:3, 632:4, 632:7, 632:12, 632:16, 632:17, 632:20, 632:23, 633:9, 669:19, 670:1, 670:2, 670:3, 670:5, 670:24, 671:5, 671:9, 675:2, 675:3, 675:14, 676:1,</p>	<p>676:2, 676:3, 676:22, 677:5, 677:9, 677:11, 677:16, 677:18, 677:23, 678:3, 678:14, 678:24, 679:5, 679:20, 680:9, 680:21, 680:22, 681:16, 681:17, 681:19, 681:22, 682:2, 682:11, 682:12, 683:1, 683:5, 683:6, 684:19, 684:23, 710:17, 710:19, 710:23, 711:1, 711:2, 737:25, 738:1</p> <p><b>remove</b> [4] - 670:7, 671:15, 675:6, 680:4</p> <p><b>removed</b> [1] - 665:8</p> <p><b>removing</b> [4] - 619:8, 670:10, 670:12, 678:25</p> <p><b>rendition</b> [2] - 643:23, 643:25</p> <p><b>renewable</b> [2] - 612:8, 714:24</p> <p><b>renewables</b> [1] - 614:17</p> <p><b>renovation</b> [1] - 629:16</p> <p><b>repairs</b> [1] - 727:3</p> <p><b>repealed</b> [1] - 642:2</p> <p><b>repeat</b> [1] - 624:20</p> <p><b>Repeat</b> [1] - 658:12</p> <p><b>repeatedly</b> [5] - 657:9, 682:4, 714:22</p> <p><b>replace</b> [1] - 679:18</p> <p><b>replaced</b> [3] - 689:14, 723:13, 756:19</p> <p><b>replacement</b> [3] - 652:18, 653:3, 657:16</p> <p><b>replaces</b> [1] - 684:25</p> <p><b>replacing</b> [1] - 613:19</p> <p><b>replicate</b> [1] - 754:24</p> <p><b>reply</b> [1] - 757:15</p> <p><b>REPORTER</b> [2] - 763:1, 764:1</p> <p><b>Reporter</b> [4] - 763:5, 763:18, 764:5, 764:18</p> <p><b>represent</b> [1] - 714:18</p> <p><b>request</b> [9] - 653:1, 696:3, 697:11, 698:13, 699:18, 708:16, 709:21, 750:5, 757:23</p> <p><b>requested</b> [4] - 708:9, 728:18, 736:3,</p>	<p>749:24</p> <p><b>requesting</b> [1] - 718:18</p> <p><b>requests</b> [1] - 620:22</p> <p><b>require</b> [4] - 627:21, 640:14, 640:16, 757:12</p> <p><b>required</b> [19] - 609:5, 614:5, 616:5, 625:2, 629:15, 639:23, 640:5, 641:20, 643:5, 650:10, 650:18, 651:21, 651:24, 658:21, 659:11, 700:5, 730:16, 730:19</p> <p><b>requirement</b> [15] - 614:23, 615:12, 615:24, 620:5, 623:17, 623:22, 640:3, 642:1, 647:23, 647:24, 666:23, 715:1, 729:11, 729:13, 729:22</p> <p><b>requirements</b> [18] - 612:8, 613:23, 614:5, 614:9, 614:10, 614:11, 619:22, 625:21, 626:4, 629:21, 644:4, 648:4, 653:15, 653:16, 664:16, 728:12, 730:14</p> <p><b>requires</b> [5] - 628:1, 628:2, 649:24, 730:20, 730:21</p> <p><b>research</b> [1] - 666:19</p> <p><b>reserve</b> [25] - 618:2, 618:4, 630:17, 633:17, 633:19, 633:24, 634:5, 634:16, 655:13, 655:16, 679:5, 681:12, 681:13, 681:15, 681:16, 681:19, 682:1, 682:10, 683:5, 683:6, 684:19, 724:22, 724:25, 725:2</p> <p><b>reserves</b> [2] - 618:16, 678:14</p> <p><b>reset</b> [1] - 677:23</p> <p><b>residential</b> [1] - 621:16</p> <p><b>resist</b> [1] - 715:9</p> <p><b>resistance</b> [3] - 716:14, 716:20,</p>	<p>717:3</p> <p><b>resource</b> [12] - 613:3, 616:2, 619:15, 644:13, 658:11, 658:16, 720:2, 720:25, 721:14, 721:16, 722:3, 723:18</p> <p><b>resources</b> [4] - 616:1, 660:20, 660:23, 720:25</p> <p><b>respect</b> [1] - 612:10</p> <p><b>respond</b> [6] - 634:23, 636:24, 638:3, 641:25, 658:3, 725:19</p> <p><b>responded</b> [2] - 641:9, 642:17</p> <p><b>response</b> [14] - 624:25, 625:12, 625:22, 626:8, 626:15, 628:8, 665:23, 677:1, 680:8, 680:19, 690:22, 695:19, 695:20, 696:4</p> <p><b>responses</b> [3] - 624:17, 733:17, 733:19</p> <p><b>responsibility</b> [3] - 680:2, 680:3, 731:8</p> <p><b>rest</b> [3] - 611:19, 615:4, 745:12</p> <p><b>restated</b> [1] - 677:11</p> <p><b>restatement</b> [1] - 678:12</p> <p><b>restored</b> [1] - 647:13</p> <p><b>restrictive</b> [1] - 630:2</p> <p><b>result</b> [4] - 651:11, 651:12, 729:10, 730:12</p> <p><b>resulting</b> [1] - 677:14</p> <p><b>results</b> [5] - 688:6, 707:13, 728:3, 729:13, 729:14</p> <p><b>retained</b> [1] - 610:10</p> <p><b>retire</b> [3] - 682:16, 685:25, 690:20</p> <p><b>retired</b> [10] - 681:24, 691:8, 691:25, 692:20, 693:4, 693:18, 694:10, 697:22, 711:3, 711:8</p> <p><b>retirement</b> [19] - 669:10, 671:12, 671:15, 671:20, 671:21, 671:22, 674:12, 679:9, 682:17, 685:12, 685:20, 686:4,</p>
--	--	--	---	---

<p>687:2, 691:17, 694:12, 695:5, 695:11, 737:23, 737:24 <b>Retirement</b> [1] - 737:25 <b>retirements</b> [3] - 691:22, 694:3, 710:20 <b>retiring</b> [2] - 676:19, 684:10 <b>retracted</b> [1] - 646:16 <b>retracts</b> [1] - 646:22 <b>return</b> [4] - 628:25, 629:1, 684:3, 707:17 <b>returning</b> [1] - 727:22 <b>revenue</b> [9] - 620:4, 623:17, 623:22, 666:23, 729:11, 729:13, 729:20, 729:21, 729:24 <b>reverse</b> [1] - 753:5 <b>review</b> [7] - 616:23, 627:11, 668:12, 702:25, 705:17, 755:25, 761:15 <b>reviewed</b> [8] - 620:22, 643:20, 643:22, 656:12, 668:25, 669:1, 729:4, 755:20 <b>reviewing</b> [1] - 610:21 <b>reviews</b> [1] - 677:3 <b>revised</b> [2] - 706:7, 707:24 <b>RFP</b> [1] - 712:1 <b>rid</b> [1] - 698:21 <b>rider</b> [9] - 641:10, 641:11, 641:17, 641:22, 665:25, 666:7, 666:10, 712:22 <b>Ridge</b> [10] - 660:22, 661:2, 663:8, 663:24, 664:11, 664:12, 664:17, 721:4, 721:12, 721:21 <b>ridge</b> [1] - 615:1 <b>ridiculous</b> [4] - 617:6, 617:7, 685:25, 723:15 <b>right-hand</b> [1] - 686:25 <b>rigorous</b> [1] - 712:1 <b>risk</b> [3] - 719:22, 719:25, 720:7 <b>River</b> [1] - 716:25 <b>Riverside</b> [2] - 658:23, 756:6 <b>Robinson</b> [7] -</p>	<p>633:10, 634:20, 635:1, 636:12, 638:2, 685:16, 700:3 <b>Robinson's</b> [4] - 636:24, 685:13, 689:2, 689:22 <b>role</b> [1] - 610:7 <b>rolling</b> [1] - 723:20 <b>Rosvold</b> [2] - 658:22, 666:25 <b>Rosvold's</b> [1] - 665:17 <b>rough</b> [2] - 708:2, 710:16 <b>routinely</b> [1] - 661:21 <b>rule</b> [5] - 696:22, 696:24, 697:2, 733:22 <b>rulings</b> [1] - 616:15 <b>run</b> [6] - 649:9, 649:10, 649:12, 651:16, 692:18, 748:20 <b>running</b> [1] - 651:3 <b>runs</b> [1] - 623:9</p>	<p>736:18, 737:21, 748:22, 760:1 <b>seeking</b> [1] - 625:7 <b>seeks</b> [1] - 620:6 <b>seem</b> [1] - 722:9 <b>selected</b> [1] - 639:25 <b>selective</b> [1] - 697:3 <b>self</b> [4] - 712:9, 712:17, 719:11, 719:14 <b>self-build</b> [3] - 712:9, 712:17, 719:14 <b>send</b> [2] - 646:10, 713:25 <b>sense</b> [2] - 699:9, 720:17 <b>sensitive</b> [1] - 612:18 <b>sentence</b> [6] - 611:17, 611:19, 611:21, 680:8, 680:15, 680:18 <b>separate</b> [3] - 638:13, 638:22, 642:18 <b>separating</b> [1] - 713:17 <b>seriously</b> [1] - 733:6 <b>serve</b> [2] - 638:10, 638:11 <b>served</b> [3] - 656:22, 661:16, 710:8 <b>serves</b> [3] - 638:12, 638:16, 638:20 <b>service</b> [11] - 622:18, 661:10, 667:9, 667:11, 674:18, 690:24, 691:6, 694:14, 701:6, 701:19, 704:5 <b>SERVICE</b> [1] - 607:2 <b>Service</b> [3] - 608:8, 715:12, 715:15 <b>servicing</b> [1] - 623:3 <b>set</b> [5] - 677:15, 680:9, 740:2 <b>sets</b> [1] - 638:17 <b>Several</b> [1] - 701:15 <b>several</b> [2] - 613:9, 761:10 <b>severe</b> [1] - 665:10 <b>shaking</b> [1] - 725:21 <b>Shall</b> [1] - 749:5 <b>shall</b> [1] - 609:17 <b>shallow</b> [1] - 635:8 <b>shape</b> [1] - 633:21 <b>Sherco</b> [19] - 617:1, 617:3, 634:22, 635:2, 635:13, 648:15, 658:4, 679:10, 679:19,</p>	<p>679:22, 684:10, 684:21, 684:23, 684:25, 685:9, 688:8, 689:3, 689:6, 689:12 <b>shift</b> [1] - 633:6 <b>short</b> [2] - 666:16, 760:17 <b>shorter</b> [3] - 703:25, 707:13, 726:16 <b>shortfalls</b> [1] - 634:5 <b>shorthand</b> [4] - 763:7, 763:11, 764:7, 764:11 <b>shove</b> [1] - 717:25 <b>show</b> [3] - 608:4, 686:6, 690:21 <b>showed</b> [1] - 633:3 <b>shown</b> [1] - 686:11 <b>shows</b> [5] - 611:18, 611:21, 629:8, 686:3, 688:1 <b>shut</b> [2] - 645:19, 689:24 <b>side</b> [1] - 720:22 <b>sides</b> [2] - 622:11, 760:23 <b>sift</b> [1] - 760:16 <b>signals</b> [1] - 714:1 <b>significantly</b> [4] - 653:24, 660:25, 710:24, 748:6 <b>similar</b> [3] - 671:1, 677:16, 680:10 <b>similarly</b> [1] - 679:19 <b>simple</b> [4] - 664:9, 696:24, 698:21, 736:19 <b>simply</b> [11] - 623:13, 625:15, 651:23, 653:25, 690:11, 694:11, 703:21, 707:16, 718:11, 723:20, 730:20 <b>Simply</b> [1] - 661:17 <b>single</b> [12] - 675:25, 676:1, 682:20, 682:21, 697:6, 725:16, 734:3, 734:10, 736:20, 736:21, 739:5, 739:8 <b>single-asset</b> [6] - 725:16, 734:3, 734:10, 736:20, 736:21, 739:5 <b>site</b> [3] - 656:23, 657:2, 657:5 <b>situation</b> [1] - 732:9 <b>situs</b> [1] - 639:7 <b>six</b> [1] - 742:18</p>	<p><b>size</b> [1] - 721:15 <b>skew</b> [1] - 722:12 <b>skewed</b> [1] - 722:15 <b>sky</b> [2] - 623:10 <b>slammer</b> [1] - 612:19 <b>small</b> [5] - 615:16, 615:20, 621:16, 622:1, 760:15 <b>smaller</b> [3] - 660:23, 660:25, 725:5 <b>smart</b> [1] - 761:7 <b>smoke</b> [1] - 741:18 <b>Snavely</b> [4] - 610:9, 697:14, 697:16, 698:1 <b>so-called</b> [1] - 727:7 <b>soak</b> [1] - 679:6 <b>sold</b> [1] - 642:16 <b>solution</b> [8] - 615:24, 616:1, 616:9, 631:5, 659:17, 660:8, 664:13, 664:16 <b>solved</b> [1] - 696:25 <b>someplace</b> [1] - 654:22 <b>sometimes</b> [1] - 760:15 <b>somewhat</b> [4] - 622:3, 703:12, 725:5, 725:6 <b>somewhere</b> [2] - 691:3, 716:6 <b>soon</b> [5] - 612:17, 612:23, 613:10, 646:8, 689:15 <b>sorry</b> [10] - 654:17, 673:9, 688:6, 692:24, 694:24, 711:1, 729:12, 744:22, 750:7, 753:19 <b>sort</b> [4] - 633:23, 634:17, 648:19, 723:21 <b>Sounds</b> [1] - 653:8 <b>source</b> [3] - 697:4, 697:5, 758:12 <b>southern</b> [2] - 701:5, 716:23 <b>southwest</b> [1] - 615:2 <b>span</b> [10] - 618:11, 668:22, 668:23, 669:1, 674:15, 674:16, 700:10, 700:15, 700:17, 700:20 <b>speaking</b> [2] - 609:10, 704:18 <b>specific</b> [18] - 635:3, 638:2, 638:5, 652:25, 702:16,</p>
<b>S</b>				
<p><b>SACCO</b> [1] - 699:15 <b>safely</b> [1] - 761:18 <b>sales</b> [2] - 729:19, 729:21 <b>salvage</b> [4] - 616:21, 618:20, 710:13, 710:14 <b>sample</b> [1] - 693:19 <b>sat</b> [1] - 682:3 <b>saves</b> [1] - 658:24 <b>saw</b> [1] - 683:19 <b>schedule</b> [3] - 677:19, 759:11, 759:17 <b>scheduled</b> [2] - 613:4, 613:5 <b>screen</b> [1] - 756:8 <b>seasons</b> [1] - 713:22 <b>second</b> [5] - 612:8, 655:1, 687:3, 697:16, 750:22 <b>Second</b> [1] - 614:17 <b>section</b> [1] - 705:13 <b>see</b> [26] - 608:9, 613:4, 619:23, 626:25, 660:18, 660:19, 662:4, 671:18, 677:4, 680:20, 687:2, 693:1, 693:2, 693:23, 694:1, 701:22, 707:25, 715:17, 718:3, 735:23, 735:24,</p>				

703:6, 705:3, 705:7, 705:20, 706:24, 706:25, 707:12, 713:9, 728:9, 744:10, 758:7, 761:1	615:2, 615:4, 639:2, 639:3, 639:17, 649:22	<b>strike</b> [1] - 611:19	<b>subtracting</b> [1] - 725:2	705:12, 718:4, 720:5, 722:3, 730:17, 731:11, 731:15, 754:23
<b>specifically</b> [3] - 648:23, 712:4, 758:6	<b>State</b> [3] - 607:16, 619:22, 619:23	<b>structure</b> [1] - 677:8	<b>suburbs</b> [1] - 704:9	<b>systems</b> [1] - 682:15
<b>specifics</b> [3] - 634:22, 634:25, 635:5	<b>state's</b> [1] - 661:13	<b>studies</b> [7] - 661:7, 670:25, 695:24, 702:24, 702:25, 709:25, 737:14	<b>suffer</b> [1] - 714:11	
<b>speculative</b> [1] - 719:19	<b>statement</b> [7] - 609:8, 633:22, 645:23, 646:15, 656:15, 711:19	<b>study</b> [33] - 638:3, 686:3, 686:15, 687:14, 689:16, 689:19, 691:14, 693:21, 696:17, 697:8, 697:14, 697:16, 697:20, 697:23, 698:1, 698:14, 698:24, 701:3, 701:7, 701:8, 701:12, 702:16, 703:6, 703:15, 703:16, 703:18, 706:24, 707:12, 707:18, 710:11, 710:12, 727:24, 728:19	<b>sufficient</b> [2] - 682:1, 698:23	
<b>speech</b> [1] - 700:23	<b>states</b> [8] - 622:19, 638:8, 648:7, 651:22, 715:24, 716:8, 717:10, 729:18	<b>studying</b> [2] - 637:22, 637:24	<b>suggested</b> [2] - 701:8, 707:24	<b>T</b>
<b>spend</b> [4] - 636:1, 636:4, 676:23, 690:3	<b>States</b> [5] - 607:5, 608:6, 608:11, 608:14, 616:16	<b>subject</b> [7] - 631:25, 672:8, 673:3, 733:4, 740:12, 755:11, 757:21	<b>suggesting</b> [2] - 657:1, 748:18	<b>T&amp;D</b> [3] - 676:16, 682:23, 710:20
<b>spent</b> [7] - 614:14, 615:5, 632:5, 669:18, 669:20, 683:9	<b>states'</b> [1] - 650:19	<b>Subject</b> [1] - 741:20	<b>suggestion</b> [1] - 662:2	<b>table</b> [1] - 754:17
<b>spread</b> [1] - 745:12	<b>status</b> [1] - 647:2	<b>submit</b> [6] - 608:21, 611:6, 640:18, 640:22, 641:23, 706:11	<b>suggests</b> [3] - 677:17, 680:11, 722:14	<b>tail</b> [3] - 612:6, 614:16, 616:12
<b>square</b> [2] - 716:19, 716:21	<b>statute</b> [20] - 640:11, 640:14, 640:16, 640:18, 641:4, 641:6, 641:8, 641:13, 641:19, 641:21, 642:2, 642:10, 642:11, 642:14, 642:16, 642:19, 645:5, 645:8, 730:20	<b>submitted</b> [10] - 610:21, 613:16, 624:18, 627:4, 643:9, 643:10, 643:11, 653:22, 656:11, 696:7	<b>suitable</b> [1] - 666:13	<b>takedown</b> [1] - 679:22
<b>stable</b> [1] - 659:6	<b>statutory</b> [3] - 613:23, 619:21, 728:11	<b>submitting</b> [1] - 610:19	<b>summary</b> [5] - 612:2, 623:24, 626:23, 629:18, 630:12	<b>talented</b> [3] - 760:2, 760:3, 761:8
<b>staff</b> [10] - 608:12, 696:14, 697:12, 705:21, 707:16, 708:10, 727:22, 757:6, 757:12, 759:1	<b>stay</b> [1] - 669:22	<b>subsequent</b> [2] - 677:7, 721:23	<b>summer</b> [1] - 623:8	<b>tariffs</b> [1] - 624:1
<b>stake</b> [1] - 721:17	<b>steam</b> [7] - 634:21, 686:4, 689:7, 691:18, 695:5, 695:11, 697:18	<b>subsequently</b> [1] - 663:9	<b>sums</b> [1] - 631:19	<b>task</b> [1] - 760:15
<b>stand</b> [4] - 619:18, 626:13, 736:8	<b>stick</b> [1] - 739:5	<b>substantial</b> [1] - 635:12	<b>supplement</b> [1] - 614:12	<b>tax</b> [8] - 663:14, 663:21, 664:7, 719:6, 719:7, 719:14, 719:16, 719:20
<b>stand-alone</b> [3] - 619:18, 626:13, 728:19	<b>still</b> [5] - 651:3, 664:8, 672:24, 674:15, 757:13	<b>substantive</b> [1] - 613:15	<b>supplemental</b> [1] - 678:13	<b>tax</b> [8] - 663:14, 663:21, 664:7, 719:6, 719:7, 719:14, 719:16, 719:20
<b>standard</b> [3] - 635:5, 635:6, 644:19	<b>stipulated</b> [1] - 628:25	<b>substitute</b> [3] - 611:20, 670:4, 670:23	<b>supplied</b> [1] - 690:22	<b>tared</b> [6] - 614:2, 630:20, 631:3, 631:12, 631:13, 633:5
<b>standards</b> [14] - 611:19, 611:22, 611:23, 612:7, 612:10, 629:20, 629:24, 629:25, 630:1, 630:6, 630:7, 665:10, 665:11, 666:6	<b>stonewalled</b> [2] - 631:24, 701:14	<b>subtract</b> [3] - 618:4, 745:2, 745:10	<b>supply</b> [1] - 697:8	<b>tearing</b> [2] - 613:18, 631:1
<b>standpoint</b> [6] - 623:5, 640:3, 664:15, 690:14, 707:2, 734:14	<b>stop</b> [2] - 677:13, 741:7	<b>subtracted</b> [1] - 747:3	<b>support</b> [6] - 626:17, 659:13, 664:8, 664:9, 689:17, 716:9	<b>technology</b> [3] - 689:9, 691:22, 694:2
<b>stands</b> [4] - 612:11, 612:12, 642:19, 642:20	<b>stop-gap</b> [1] - 677:13		<b>suppose</b> [1] - 630:23	<b>temporarily</b> [1] - 653:18
<b>start</b> [5] - 667:7, 667:17, 689:8, 718:9, 752:19	<b>story</b> [1] - 645:17		<b>Suppose</b> [1] - 630:14	<b>temporary</b> [1] - 670:4
<b>started</b> [2] - 674:3, 738:22	<b>straight</b> [11] - 669:3, 669:6, 669:14, 669:17, 676:24, 731:6, 737:6, 738:7, 748:16, 748:17, 751:12		<b>supposed</b> [4] - 616:23, 703:2, 703:4, 703:14	<b>tenancy</b> [1] - 630:18
<b>starting</b> [1] - 747:13	<b>straight-line</b> [6] - 669:3, 669:6, 669:14, 669:17, 676:24, 751:12		<b>surmise</b> [1] - 637:20	<b>term</b> [3] - 630:2, 718:20, 732:1
<b>starts</b> [1] - 742:14	<b>strain</b> [1] - 717:19		<b>surprised</b> [1] - 717:9	<b>terms</b> [6] - 645:12, 646:18, 648:17, 669:23, 689:3, 747:7
<b>STATE</b> [1] - 607:1	<b>stretch</b> [1] - 724:4		<b>surprisingly</b> [1] - 620:24	<b>territory</b> [1] - 704:5
<b>state</b> [7] - 610:3,			<b>surrogate</b> [4] - 631:22, 632:12, 632:18, 671:7	<b>test</b> [11] - 613:2, 614:8, 626:24, 663:24, 665:8, 665:19, 665:21, 666:17, 667:6, 708:3, 730:23

<p><b>testify</b> [3] - 608:10, 620:23, 648:22</p> <p><b>testimony</b> [53] - 609:4, 609:16, 610:13, 610:15, 610:20, 610:21, 610:25, 611:4, 611:25, 612:3, 612:6, 620:8, 620:11, 622:16, 624:17, 627:10, 629:18, 629:19, 632:6, 635:10, 639:16, 648:6, 654:9, 654:11, 654:18, 654:23, 654:25, 659:2, 665:17, 665:24, 685:12, 685:14, 689:2, 689:22, 700:8, 702:10, 705:1, 705:2, 705:7, 705:10, 705:24, 708:14, 723:7, 723:8, 733:3, 733:14, 749:25, 755:10, 755:19, 757:12, 757:17, 760:9, 761:16</p> <p><b>THE</b> [16] - 607:21, 609:19, 620:18, 620:20, 660:4, 660:11, 732:19, 733:1, 733:5, 747:6, 747:19, 749:2, 749:6, 749:10, 755:5, 755:12</p> <p><b>theoretically</b> [1] - 747:15</p> <p><b>theory</b> [2] - 690:14, 719:4</p> <p><b>therefore</b> [7] - 637:20, 663:3, 675:21, 711:10, 711:12, 712:10, 721:22</p> <p><b>they've</b> [4] - 634:15, 691:11, 711:4, 726:11</p> <p><b>thick</b> [1] - 696:20</p> <p><b>thin</b> [1] - 693:18</p> <p><b>thinking</b> [4] - 642:9, 746:22, 747:7, 753:5</p> <p><b>third</b> [6] - 608:5, 612:8, 616:7, 616:12, 680:18, 692:12</p> <p><b>thorough</b> [1] - 761:15</p> <p><b>three</b> [14] - 612:6, 614:16, 617:3, 631:15, 638:17, 638:19, 640:15,</p>	<p>648:3, 651:21, 664:23, 678:1, 678:4, 687:5, 717:7</p> <p><b>three-year</b> [1] - 678:4</p> <p><b>throughout</b> [7] - 622:24, 623:6, 685:7, 689:20, 713:22, 735:13, 760:3</p> <p><b>thunderstorms</b> [1] - 637:17</p> <p><b>timeline</b> [3] - 641:14, 641:18, 641:25</p> <p><b>title</b> [1] - 691:24</p> <p><b>today</b> [6] - 678:16, 684:9, 743:19, 745:15, 755:19, 761:10</p> <p><b>together</b> [1] - 759:7</p> <p><b>took</b> [4] - 612:20, 646:22, 648:3, 701:16</p> <p><b>top</b> [1] - 691:24</p> <p><b>topic</b> [1] - 705:7</p> <p><b>total</b> [2] - 693:23, 751:11</p> <p><b>totally</b> [1] - 619:17</p> <p><b>tough</b> [1] - 716:16</p> <p><b>toward</b> [1] - 722:15</p> <p><b>towards</b> [1] - 700:24</p> <p><b>tracker</b> [8] - 677:5, 677:17, 680:10, 680:21, 681:2, 681:4, 742:5</p> <p><b>trade</b> [1] - 686:15</p> <p><b>training</b> [1] - 610:16</p> <p><b>TRANSCRIPT</b> [1] - 607:10</p> <p><b>transcript</b> [2] - 763:11, 764:11</p> <p><b>transfer</b> [1] - 718:18</p> <p><b>transmission</b> [29] - 615:3, 615:6, 615:9, 615:16, 615:18, 628:17, 656:22, 656:24, 657:13, 659:9, 663:8, 663:20, 677:25, 707:1, 710:21, 715:24, 716:4, 716:15, 716:21, 717:3, 717:5, 721:21, 722:21, 723:10, 731:16, 731:17, 731:20, 758:2, 758:10</p> <p><b>Travel</b> [1] - 761:17</p> <p><b>treat</b> [3] - 630:11, 731:24, 732:5</p> <p><b>treatment</b> [2] - 616:19,</p>	<p>616:20</p> <p><b>tree</b> [1] - 699:18</p> <p><b>trees</b> [7] - 637:7, 637:15, 701:17, 701:18, 701:24, 702:5, 702:6</p> <p><b>tried</b> [1] - 760:25</p> <p><b>trouble</b> [1] - 615:2</p> <p><b>true</b> [23] - 609:9, 617:11, 617:18, 629:13, 633:22, 635:4, 638:19, 645:10, 649:13, 656:16, 657:19, 660:25, 663:17, 666:4, 666:20, 678:19, 682:17, 682:21, 688:24, 710:20, 715:4, 727:6, 728:5</p> <p><b>truth</b> [4] - 609:17, 609:18, 733:22</p> <p><b>try</b> [7] - 672:7, 676:7, 713:13, 715:17, 736:7, 741:4, 743:8</p> <p><b>trying</b> [17] - 621:1, 621:5, 631:20, 659:25, 660:4, 679:2, 680:6, 696:24, 716:2, 738:5, 738:14, 739:3, 739:7, 745:23, 747:14, 753:12, 754:20</p> <p><b>Tuesday</b> [1] - 610:23</p> <p><b>turbine</b> [9] - 613:19, 613:20, 614:3, 634:23, 658:20, 692:14, 692:15, 692:23, 700:2</p> <p><b>turbines</b> [15] - 617:19, 635:4, 635:13, 690:23, 690:25, 691:5, 691:7, 691:14, 691:18, 691:21, 692:3, 692:16, 693:18, 712:5, 756:7</p> <p><b>turn</b> [5] - 641:11, 643:18, 668:8, 694:13, 721:12</p> <p><b>turned</b> [1] - 728:21</p> <p><b>turns</b> [3] - 613:8, 665:21, 694:13</p> <p><b>Twin</b> [7] - 661:20, 664:12, 701:23, 702:4, 710:5, 731:18, 758:23</p> <p><b>two</b> [40] - 610:18, 612:14, 613:16,</p>	<p>616:18, 629:6, 632:14, 633:11, 637:2, 638:14, 644:17, 644:21, 644:24, 645:3, 645:14, 648:3, 655:8, 655:9, 671:1, 675:16, 676:17, 680:13, 685:20, 695:2, 695:7, 695:8, 702:12, 704:17, 713:9, 715:24, 717:7, 718:12, 729:18, 740:4, 740:15, 741:16, 744:5, 745:17, 747:1, 748:3, 750:18</p> <p><b>two-page</b> [1] - 695:2</p> <p><b>type</b> [1] - 700:4</p> <p><b>types</b> [1] - 692:2</p> <p><b>typewritten</b> [2] - 763:10, 764:10</p> <p><b>typical</b> [2] - 689:7, 717:9</p> <p><b>typically</b> [2] - 659:7, 710:17</p>	<p>631:25, 714:4</p> <p><b>underrecover</b> [1] - 679:24</p> <p><b>underrecovered</b> [2] - 680:12, 681:7</p> <p><b>underrecovery</b> [2] - 678:7, 678:10</p> <p><b>understated</b> [1] - 633:20</p> <p><b>understood</b> [3] - 649:11, 696:2, 697:5</p> <p><b>undertake</b> [1] - 640:14</p> <p><b>unfair</b> [1] - 680:5</p> <p><b>unfolded</b> [1] - 643:24</p> <p><b>unfortunate</b> [1] - 727:11</p> <p><b>Unfortunately</b> [1] - 693:17</p> <p><b>unit</b> [1] - 654:1</p> <p><b>units</b> [9] - 634:23, 658:2, 681:13, 685:21, 685:22, 691:17, 691:25, 694:4, 697:22</p> <p><b>units-combined</b> [1] - 691:25</p> <p><b>unknown</b> [1] - 652:19</p> <p><b>unless</b> [2] - 634:17, 645:15</p> <p><b>unlikely</b> [1] - 720:4</p> <p><b>unnecessarily</b> [1] - 684:7</p> <p><b>unnecessary</b> [1] - 684:1</p> <p><b>unneeded</b> [1] - 657:21</p> <p><b>unproprietary</b> [1] - 698:5</p> <p><b>unquestionably</b> [1] - 617:8</p> <p><b>unreasonable</b> [1] - 703:7</p> <p><b>unrecovered</b> [3] - 674:25, 725:3, 725:4</p> <p><b>up</b> [41] - 609:11, 609:12, 615:6, 615:9, 616:10, 621:9, 631:19, 641:11, 641:24, 645:16, 648:19, 651:17, 661:19, 672:10, 673:8, 673:12, 678:8, 678:11, 678:24, 679:13, 681:6, 689:10, 691:5, 716:1, 718:1, 718:9, 718:11, 720:5, 722:22, 731:11, 731:14, 731:15, 737:6, 737:16,</p>
<b>U</b>				
			<p><b>ultimately</b> [2] - 619:6, 713:16</p> <p><b>umbrage</b> [1] - 701:16</p> <p><b>unable</b> [3] - 625:11, 660:7, 754:24</p> <p><b>unacceptable</b> [2] - 628:23, 633:25</p> <p><b>undepreciated</b> [1] - 618:5</p> <p><b>under</b> [25] - 609:5, 614:14, 622:25, 633:3, 641:14, 641:21, 656:10, 669:6, 670:8, 671:21, 678:8, 679:12, 681:18, 682:14, 684:8, 685:17, 692:5, 725:7, 733:3, 735:7, 735:8, 740:4, 741:5, 748:20, 755:11</p> <p><b>Under</b> [4] - 618:1, 643:4, 672:1, 734:12</p> <p><b>underaccrual</b> [1] - 734:22</p> <p><b>underaccrue</b> [2] - 734:13, 745:21</p> <p><b>undercharge</b> [1] - 735:10</p> <p><b>underlying</b> [2] -</p>	

<p>739:16, 741:18, 741:25, 746:8, 751:2, 752:20, 753:25 <b>updated</b> [1] - 707:18 <b>upgrades</b> [3] - 635:12, 635:17, 636:20 <b>upgrading</b> [4] - 637:4, 637:5, 637:6 <b>urbanized</b> [1] - 717:10 <b>useful</b> [4] - 665:13, 685:18, 685:21, 685:22 <b>uses</b> [4] - 621:21, 669:3, 676:24, 727:4 <b>utilities</b> [7] - 632:14, 634:7, 638:10, 671:1, 683:19, 717:18, 717:24 <b>utility</b> [2] - 720:18, 722:6 <b>Utility</b> [1] - 715:14 <b>utilize</b> [1] - 713:13</p>	<p><b>Virginia</b> [2] - 638:16, 638:21 <b>virtual</b> [1] - 636:17 <b>virtually</b> [2] - 636:13, 694:8 <b>volatility</b> [1] - 623:14 <b>VOLUME</b> [1] - 607:13 <b>volume</b> [3] - 713:17, 713:18, 714:7 <b>volumetric</b> [4] - 623:8, 623:13, 623:23, 714:6</p>	<p>757:3, 757:8, 757:19, 758:25, 759:3, 759:12, 759:18, 760:7, 760:20, 762:2 <b>Wahl's</b> [1] - 612:18 <b>wait</b> [1] - 673:4 <b>waited</b> [2] - 642:6, 657:16 <b>walk</b> [2] - 631:6, 750:17 <b>wants</b> [3] - 630:11, 719:13, 731:8 <b>Washington</b> [3] - 638:9, 638:10 <b>Watson</b> [5] - 632:5, 632:21, 632:25, 676:13, 710:10 <b>wave</b> [1] - 621:6 <b>weak</b> [1] - 728:7 <b>weather</b> [3] - 701:4, 715:22 <b>Wednesday</b> [1] - 608:3 <b>week</b> [2] - 708:12, 761:18 <b>Wefald</b> [9] - 624:2, 704:18, 706:10, 723:3, 742:11, 748:4, 753:20, 759:21, 761:8 <b>WEFALD</b> [23] - 698:15, 698:20, 704:15, 704:19, 704:24, 706:15, 723:4, 723:6, 723:25, 742:10, 742:13, 744:16, 744:20, 746:2, 746:10, 753:18, 753:22, 754:2, 754:9, 754:12, 755:3, 757:16, 759:22 <b>Wefald's</b> [1] - 620:12 <b>welcome</b> [1] - 740:20 <b>west</b> [1] - 702:3 <b>whichever</b> [1] - 758:16 <b>whole</b> [17] - 609:17, 611:20, 620:4, 625:5, 633:11, 633:18, 633:23, 634:9, 643:1, 662:22, 667:17, 683:1, 688:25, 693:17, 705:11, 722:4, 725:7 <b>whole-life</b> [3] - 633:11, 634:9, 725:7 <b>wildlife</b> [1] - 630:17</p>	<p><b>willing</b> [6] - 627:22, 653:23, 654:2, 698:5, 714:20, 736:4 <b>willingly</b> [1] - 714:19 <b>Wilmarth</b> [1] - 664:24 <b>wind</b> [60] - 614:18, 614:24, 614:25, 615:1, 615:7, 615:8, 615:10, 615:11, 615:13, 615:14, 615:17, 615:19, 615:25, 616:1, 616:5, 616:10, 627:6, 627:7, 628:13, 659:10, 659:11, 659:13, 660:5, 660:19, 660:20, 661:8, 661:16, 661:18, 661:25, 662:3, 662:11, 663:7, 663:25, 664:11, 664:20, 664:21, 678:24, 712:24, 718:19, 719:6, 719:8, 719:18, 720:2, 720:4, 720:15, 720:16, 721:3, 721:8, 721:23, 722:2, 722:8, 722:10, 722:13, 723:12, 723:18, 730:7, 730:25, 731:19, 732:4 <b>window</b> [1] - 701:21 <b>Wing</b> [1] - 664:23 <b>wintertime</b> [1] - 637:18 <b>withdraw</b> [3] - 613:7, 665:4, 699:18 <b>Witness</b> [2] - 668:10, 677:3 <b>witness</b> [2] - 704:22, 706:1 <b>WITNESS</b> [15] - 609:19, 620:18, 620:20, 660:4, 660:11, 732:19, 733:1, 733:5, 747:6, 747:19, 749:2, 749:6, 749:10, 755:5, 755:12 <b>witness's</b> [1] - 708:14 <b>witnesses</b> [3] - 709:19, 715:22, 757:7 <b>wondering</b> [2] - 711:20, 746:3 <b>word</b> [13] - 646:21,</p>	<p>646:22, 646:23, 653:5, 653:8, 672:12, 673:6, 691:2, 693:22, 711:22, 724:15, 724:18, 727:12 <b>words</b> [15] - 609:10, 611:20, 612:25, 619:25, 621:2, 621:23, 633:18, 640:6, 674:25, 694:5, 706:6, 710:14, 717:21, 738:14, 751:20 <b>works</b> [3] - 731:9, 745:16, 751:6 <b>worry</b> [2] - 678:11, 683:20 <b>worth</b> [5] - 631:2, 663:14, 696:9, 699:19, 719:23 <b>written</b> [8] - 608:19, 610:13, 610:15, 610:20, 611:3, 611:25, 612:3, 666:12</p>
<b>V</b>	<b>W</b>		<b>X</b>	
<p><b>vague</b> [1] - 716:7 <b>Valley</b> [1] - 716:25 <b>valuable</b> [2] - 711:9, 711:11 <b>value</b> [29] - 618:25, 619:1, 631:9, 632:12, 632:24, 671:12, 671:14, 672:1, 673:14, 674:11, 675:3, 675:13, 677:12, 678:2, 678:12, 710:25, 711:16, 711:18, 713:23, 734:12, 734:16, 738:13, 738:22, 739:1, 750:21, 751:7, 751:9, 751:13, 754:25 <b>valued</b> [1] - 670:14 <b>variable</b> [1] - 621:12 <b>variation</b> [2] - 649:24 <b>vary</b> [2] - 621:3, 621:4 <b>vast</b> [1] - 634:6 <b>vegetation</b> [3] - 637:4, 637:5, 702:7 <b>versus</b> [5] - 622:9, 719:24, 720:16, 730:25, 752:21 <b>viability</b> [1] - 625:24 <b>viable</b> [1] - 654:2 <b>vintage</b> [2] - 677:14, 703:17</p>	<p><b>wag</b> [1] - 614:17 <b>wagged</b> [1] - 616:13 <b>wagging</b> [1] - 612:5 <b>wags</b> [2] - 612:6, 614:16 <b>Wahl</b> [1] - 709:4 <b>WAHL</b> [88] - 607:21, 608:4, 608:23, 609:1, 609:3, 609:20, 611:11, 611:13, 639:11, 660:3, 667:19, 667:23, 694:19, 694:24, 695:6, 695:10, 695:13, 695:21, 696:2, 696:18, 696:21, 697:1, 697:10, 697:23, 698:3, 698:8, 698:17, 698:22, 699:2, 699:7, 699:21, 699:24, 704:13, 704:18, 706:18, 709:7, 709:12, 713:5, 720:10, 723:3, 724:1, 724:7, 725:25, 732:14, 732:17, 732:23, 733:2, 733:7, 736:10, 742:8, 742:11, 744:18, 744:22, 746:13, 747:18, 747:23, 749:4, 749:8, 749:12, 749:15, 749:20, 749:22, 750:7, 750:12, 750:15, 752:11, 753:15, 753:17, 753:19, 754:3, 754:6, 754:8, 754:11, 755:6, 755:9, 755:13, 756:14, 756:25,</p>		<p><b>Xcel</b> [15] - 652:2, 652:6, 658:9, 658:14, 661:3, 668:15, 690:24, 692:9, 692:15, 701:5, 706:23, 709:19, 715:22, 720:19, 722:9 <b>Xcel's</b> [1] - 721:22</p>	
			<b>Y</b>	
			<p><b>year</b> [63] - 616:23, 619:13, 623:6, 631:15, 634:13, 636:25, 642:6, 644:14, 645:25, 659:1, 665:8, 665:19, 665:21, 666:17, 669:8, 670:3, 670:8, 670:14, 670:15, 670:19, 671:23, 672:13, 675:5, 675:13, 677:12, 677:22, 678:4, 680:12, 680:13, 681:24, 683:25, 708:4, 713:22, 740:2, 740:10,</p>	

<p>741:10, 741:11, 741:22, 741:24, 742:16, 742:18, 745:1, 745:5, 745:7, 745:8, 745:9, 746:4, 746:5, 747:11, 748:14, 748:15, 750:23, 751:9, 751:10, 751:11, 751:14</p> <p><b>years</b> <sup>[80]</sup> - 609:13, 612:19, 613:9, 617:2, 617:5, 617:8, 618:24, 622:11, 631:13, 631:16, 633:6, 635:3, 635:7, 636:2, 636:4, 636:16, 636:18, 644:18, 644:21, 644:24, 645:3, 645:14, 648:3, 655:8, 655:9, 662:10, 671:21, 671:23, 672:8, 672:22, 673:1, 673:10, 673:14, 674:1, 674:5, 674:7, 674:14, 675:20, 677:7, 678:1, 678:18, 681:24, 681:25, 685:18, 685:21, 685:22, 686:2, 686:4, 688:2, 689:4, 689:7, 691:1, 691:5, 691:13, 693:7, 693:25, 694:9, 697:18, 697:20, 700:3, 703:24, 711:6, 711:8, 717:7, 726:23, 732:4, 739:15, 739:24, 740:6, 740:10, 740:24, 742:20, 745:3, 745:11, 745:13, 747:5, 748:20, 750:21, 761:3</p> <p><b>years'</b> <sup>[1]</sup> - 632:3</p> <p><b>Yesterday</b> <sup>[1]</sup> - 608:18</p> <p><b>yesterday</b> <sup>[9]</sup> - 619:2, 682:4, 709:18, 718:15, 735:12, 737:6, 737:15, 748:12, 758:4</p> <p><b>yourself</b> <sup>[1]</sup> - 624:20</p>	<p><b>Zins</b> <sup>[4]</sup> - 620:17, 620:19, 620:20</p>
<b>Z</b>	
<b>zero</b> <sup>[2]</sup> - 685:2, 685:3	