

Direct Testimony and Schedule  
David H. Sederquist

Before the North Dakota Public Service Commission  
State of North Dakota

In the Matter of the Application of Northern States Power Company  
for Authority to Increase Rates for Electric Service in North Dakota

Case Nos. PU-10-657, PU-11-55, PU-11-557  
Exhibit\_\_\_ (DHS-1)

**Reliability Performance Plan  
Testimony**

September 17, 2012

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1                                   **I. INTRODUCTION AND QUALIFICATIONS**

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

4 A. My name is David H. Sederquist. My business address is 2302 Great  
5 Northern Drive, Fargo, North Dakota 58102.

6  
7 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

8 A. I am Senior Regulatory Consultant at Northern States Power Company, doing  
9 business as Xcel Energy. My resume is included as Exhibit\_\_\_ (DHS-1),  
10 Schedule 1.

11  
12 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

13 A. From 1984 to 1991 I held various positions in cost accounting, economic  
14 analysis, and financial analysis and reporting at the Company’s headquarters in  
15 Minneapolis, MN. In 1992 I transferred to the Company’s Fargo, ND office  
16 where I was responsible for financial analysis, business planning, and  
17 performance reporting for our North Dakota jurisdiction. In 1994, I was  
18 given responsibilities for North Dakota regulatory affairs and regulatory  
19 strategy. Since that time I have participated in the development and filing of  
20 over a hundred regulatory applications before the North Dakota Public  
21 Service Commission, and led negotiations for the Company to achieve a  
22 number of settlement agreements that resolved certain cases. In 2000,  
23 working closely with Commission Staff, I led the design of the Company’s first  
24 performance-based regulation plan (the “PLUS Plan”), which was approved  
25 and went into effect in North Dakota for a five year period beginning in 2001.  
26 In 2005, I worked with Staff to implement one of the industry’s first pure  
27 straight-fixed variable rate designs for natural gas distribution service in North

1 Dakota. I have 20 years of experience working with North Dakota regulators,  
2 legislators, and policy makers to help ensure Xcel Energy customers in the  
3 state receive low-cost, reliable energy and good customer service.

4  
5 Q. FOR WHOM ARE YOU TESTIFYING?

6 A. I am testifying on behalf of Xcel Energy.

7  
8 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

9 A. I will provide an overview of the proposed Reliability Performance Plan  
10 (“RPP”). I will summarize the Company’s recent reliability performance in  
11 North Dakota, describe the development of the Plan measures and standards,  
12 and discuss how the Plan supports continued improvement of our North  
13 Dakota electric system reliability. I will also introduce the other Company-  
14 sponsored witness.

15  
16 **II. BACKGROUND**

17  
18 Q. PLEASE SUMMARIZE THE COMPANY’S REQUEST IN THIS PROCEEDING.

19 A. Xcel Energy requests that, prior to January 1, 2013, the Commission approve  
20 the proposed Reliability Performance Plan, developed by the Company in  
21 collaboration with Commission Staff. The RPP satisfies the Commission’s  
22 Order in Case Nos. PU-10-657, PU-11-55, and PU-11-557, complements  
23 other reliability improvement initiatives included in the approved Settlement  
24 Agreement, and establishes a balanced and relevant set of performance  
25 indicators and conditions that customers and Company employees can easily  
26 understand.

1 Q. WHAT EVENTS LED TO THE COMPANY PROPOSING THE RPP?

2 A. In 2011, during the Commission’s review of Xcel Energy’s 2010 electric rate  
3 case, the Company experienced three unusual and high profile electric outages  
4 in its Fargo, ND service area. These events followed an abnormal August  
5 2010 outage affecting 21 customers in a north Fargo neighborhood that  
6 damaged certain household appliances and electronic equipment. Concerned  
7 by these events, the Commission decided that the outages should be reviewed  
8 as part of the then pending rate case. In a subsequent Work Session held later  
9 in the rate proceeding, the Commissioners suggested that the parties consider  
10 a performance-based approach to improving reliability in their settlement  
11 negotiations. The final Settlement Agreement included a provision directing  
12 the Company to file a reliability performance proposal within 90 days of the  
13 final rate case order.

14

15 Q. DID THE COMPANY INVOLVE COMMISSION STAFF IN THE DEVELOPMENT OF  
16 THE PROPOSED RPP?

17 A. Yes. Once the Company had developed an initial framework for our proposal,  
18 we began consulting with Staff to determine if we were on track with  
19 Commission expectations and to refine the development of the reliability  
20 standards. Ultimately, we agreed on a trio of reliability indicators intended to  
21 measure performance using three diverse methods. Staff was helpful in  
22 developing a proposal that was balanced, easy to understand, and that  
23 contained meaningful financial awards and penalties to promote improved  
24 system reliability.

25

1 Q. HAS XCEL ENERGY PREVIOUSLY OPERATED UNDER A PERFORMANCE-BASED  
2 PLAN IN NORTH DAKOTA?

3 A. Yes. During a five-year period beginning in 2001, the Company operated  
4 under an innovative plan called the “PLUS” Plan (PLUS was an acronym for  
5 “Performance Linking Utility Stakeholders”). The PLUS Plan was a  
6 comprehensive plan that included performance metrics and standards for  
7 reliability, customer satisfaction, electric rates, and employee safety. In  
8 addition, the plan enforced rate decreases and allowed rate increases based on  
9 earnings levels, operational performance, price rankings, and economic  
10 indicators. The PLUS Plan essentially “linked” operational performance with  
11 rates and financial results so that when the Company performed well, both  
12 customers and shareholders realized direct benefits.

13

14 Q. WAS THE PLUS PLAN SUCCESSFUL?

15 A. We believe it was for a number of reasons. First, while the PLUS Plan was in  
16 effect there was heightened awareness throughout the Company of the  
17 established performance targets for North Dakota, and the PLUS Plan’s  
18 standards influenced the setting of internal performance goals and shaped  
19 action plans. Second, our customers benefited from solid operational  
20 performance and low rates, while our employees achieved very impressive  
21 safety results during all five years. Third, by achieving or exceeding most of  
22 the operational standards, the Company was able to implement, without the  
23 expense and delay of a full rate case application, small but justifiable rate  
24 increases in years when our electric earnings in North Dakota were below  
25 authorized levels.<sup>1</sup> During the PLUS Plan’s five year term, Xcel Energy had

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<sup>1</sup> A 1.4 percent increase was implemented in 2004, and a 1.6 percent increase went into effect in 2005

1 the lowest residential rates in the upper Midwest<sup>2</sup> in three of the Plan years  
2 while the Company earned a moderate average regulated return on equity of  
3 11.56 percent, just below the approved ROE range midpoint.

4  
5 Q. HOW DID THE COMPANY PERFORM WITH RESPECT TO RELIABILITY DURING  
6 THE PLUS PLAN TERM?

7 A. From 2001 through 2005 the Company achieved or exceeded the PLUS Plan  
8 standards for outage frequency and restoration time nine out of a possible ten  
9 times.<sup>3</sup>

10  
11 Q. WHAT HAS BEEN THE COMPANY'S RECENT ELECTRIC RELIABILITY  
12 PERFORMANCE IN NORTH DAKOTA?

13 A. While recent reliability has been strong in all of the jurisdictions served by the  
14 Company, since 2007 our results in North Dakota have led the way. As  
15 shown in Figure 1 below, excluding the impact of storm days and other  
16 unusual (and largely uncontrollable) outage event days, our average annual  
17 total outage time per electric customer in North Dakota is the lowest at  
18 around 72 minutes.

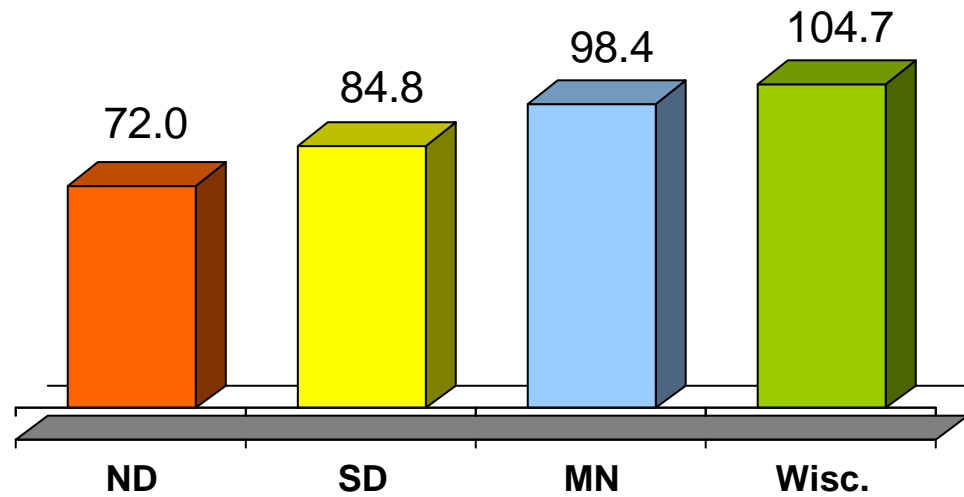
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<sup>2</sup> Among 29 investor-owned utility service jurisdictions in the states of ND, SD, MT, MN, WY, IA, and WS.

<sup>3</sup> As measured by System Average Interruption Frequency Index (SAIFI) and Customer Average Interruption Duration Index (CAIDI), respectively.

1 **FIGURE 1**

2  
3 2007-2011 Average Annual Outage Minutes per Customer



13  
14 Q. HOW HAS XCEL ENERGY BEEN ABLE TO PROVIDE THIS LEVEL OF RELIABILITY?

15 A. I believe the Company has performed well throughout its system -- and in  
16 particular in North Dakota -- through the application of a well-developed  
17 portfolio of reliability management programs, skilled and responsive field  
18 crews, and an advanced system of reliability monitoring and reporting. We  
19 have described these ongoing programs on various occasions to the  
20 Commission, most recently at our July 27 Periodic Information Exchange  
21 meeting. They include our Reliability Exception Monitoring System  
22 (“REMS”), Vegetation Management program, our Feeder Performance  
23 Improvement Program (“FPIP”), Feeder InfraRed Examinations (“FIRE”),  
24 pole testing, and field inspections.

25

1 Q. WHAT OTHER RELIABILITY INITIATIVES IS THE COMPANY CURRENTLY  
2 UNDERTAKING AS PART OF THE RATE CASE SETTLEMENT AGREEMENT, AND  
3 HOW DOES THE RPP FIT WITHIN THESE EFFORTS?

4 A. We are currently implementing four different initiatives to improve reliability  
5 in North Dakota:

- 6 • We are installing 25 Intelliteam “smart” switches on a number of strategic  
7 Fargo feeders to isolate and automatically redirect power flows during a  
8 major outage;
- 9 • We have increased our vegetation management budget by about 25 percent  
10 to add an additional line clearance crew and shorten the trimming cycle to  
11 four years;
- 12 • We are proactively locating and removing, over a three year period, non-  
13 standard 500 MCM cable still remaining on our system; and
- 14 • We are reporting additional outage and reliability information to the  
15 Commission on an annual, quarterly, and real-time basis.

16  
17 The proposed RPP complements these other reliability initiatives and  
18 reporting commitments in the Settlement Agreement by providing an  
19 additional focus on performance *results* in North Dakota, and establishing  
20 direct financial implications for these results. I further discuss these elements  
21 later in my testimony.

22

### 23 **III. RELIABILITY PERFORMANCE PLAN COMPONENTS**

24

25 Q. WHAT ARE THE PRIMARY COMPONENTS OF THE RPP?

26 A. The RPP contains three elements:

- 1 • The establishment of an “excellence threshold” and related financial award  
2 for the Company’s overall reliability performance as measured by the System  
3 Average Interruption Duration Index (“SAIDI”),
- 4 • Compensation, in the form of annual one-time billing credits, to Customers  
5 Experiencing Multiple Interruptions (“CEMI”) in a Plan year; and
- 6 • Measurement and reporting to the Commission of customer perceptions of  
7 Xcel Energy’s reliability as measured by an annual reliability-focused survey.<sup>4</sup>

8  
9 Q. WHY DID THE COMPANY SELECT THE INDICES LISTED ABOVE?

10 A. As we considered various options for performance indicators, standards,  
11 incentives, and general RPP design, we worked with Staff to adhere to the  
12 following general objectives: a) keep the plan simple and understandable; b)  
13 ensure the incentives and penalties are meaningful enough to influence  
14 Company behavior; c) include indicators that relate closely to customer  
15 experience; and d) comply with the Settlement Agreement and the  
16 Commission’s Order. The selected reliability indicators provided the type of  
17 diversity and focus needed to meet all of these objectives.

18  
19 Q. WHY DID YOU SELECT SAIDI AS THE “CENTERPIECE” OF THE RPP?

20 A. SAIDI is one of the most common and comprehensive measures for reliability  
21 in the electric utility industry. This indicator measures the total amount of  
22 time, on average, that each customer is out of electric service during a calendar  
23 year. As such, SAIDI is affected by both the frequency of outages on a  
24 utility’s electric system and the time it takes the utility to restore power to

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<sup>4</sup> This third component does not contain a financial incentive because the Company is implementing new surveying methods in 2013, and it would be difficult to determine a reasonable standard without any comparable historical results. However, the survey results will provide a valuable and unique customer perspective of the Company’s reliability performance.

1 customers when an outage occurs. Thus, SAIDI represents a comprehensive  
2 and objective measure of overall reliability, and it follows that a lower SAIDI  
3 result reflects a better degree of reliable service.

4  
5 Q. ARE ANY OUTAGES EXCLUDED FROM THE RELIABILITY DATA THAT IS USED TO  
6 DETERMINE SAIDI RESULTS AND CEMI CREDITS?

7 A. Yes. It is common in the electric utility industry to track and report reliability  
8 results which exclude outages caused by major storms or other unusual and  
9 generally uncontrollable events. The reason why these types of outages are  
10 removed from the data (or “normalized”) is so that performance measurement  
11 focuses, to the extent possible, on what is most “controllable” by the utility.  
12 While Xcel Energy is prepared to respond to outages 24 hours a day, seven  
13 days a week, it would not be prudent for a utility to be staffed to a level  
14 necessary to maintain normal levels of reliability during more unusual and  
15 damaging conditions such as high winds, ice storms, or electrical storms. Nor  
16 would it be appropriate to judge a utility’s performance from year to year  
17 without taking into account such storms and other unusual events.

18  
19 Having said that however, we do control our investment in the system and  
20 perform ongoing maintenance to keep our facilities in good working order.  
21 Since it is not possible to entirely prevent outages (equipment sometimes fails  
22 unexpectedly even when maintained, or can be damaged by weather related or  
23 other uncontrollable events) the normalization process distinguishes outages  
24 over which we have greater control from those which we have little, if any,  
25 ability to prevent.

26

1 In order to have comparable reliability performance results across the industry,  
2 the Institute of Electrical and Electronic Engineers (“IEEE”) has established a  
3 standard normalization methodology for utilities to use to remove “abnormal”  
4 circumstances in a consistent manner. Ms. Coppock discusses this in her  
5 Direct Testimony.

6  
7 Q. PLEASE EXPLAIN THE SAIDI “EXCELLENCE THRESHOLD” IN THE RPP.

8 A. The RPP establishes a financial incentive for the Company to outperform an  
9 exceptionally low SAIDI target called the Excellence Threshold. The RPP  
10 Excellence Threshold is 58.8 minutes per customer, and it represents a more  
11 than 13 minute improvement from the Company’s already exemplary SAIDI  
12 average in North Dakota for the most recent five year period (2007-2011).

13  
14 Q. HOW DID YOU DETERMINE THE 58.8 MINUTE EXCELLENCE THRESHOLD?

15 A. The Excellence Threshold of 58.8 minutes reflects our five year historical  
16 average of 72.0 minutes, reduced by 2.8 minutes for the estimated annual  
17 impact on North Dakota SAIDI from our Intelliteam project in Fargo, and  
18 then reduced further to reflect a 15 percent improvement from this  
19 Intelliteam-adjusted level.<sup>5</sup> The Excellence Threshold essentially establishes a  
20 “stretch goal” for the Company. If we achieve this difficult goal, which  
21 benefits our customers through significantly improved reliability, the Company  
22 earns a financial incentive that would mostly offset any earnings deficiency  
23 that may exist. Thus, the Excellence Threshold aligns the interests of the  
24 Company and our customers in North Dakota. Ms. Coppock explains in

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<sup>5</sup> The 2007 – 2011 average of 75.9 minutes shown in Figure 1 was restated to reflect a meter-based customer count, consistent with the RPP methodology being proposed.

1 further detail how the Company calculated this 58.8 minute Excellence  
2 Threshold.

3  
4 Q. WHY DID YOU MAKE AN ADJUSTMENT FOR THE ESTIMATED IMPACT OF THE  
5 INTELLITEAM PROJECT, THEREBY MAKING IT HARDER TO ACHIEVE THE  
6 EXCELLENCE THRESHOLD?

7 A. During our work designing the RPP, Commission Staff raised a concern that  
8 because our Excellence Threshold was built off of historical data (i.e., before  
9 Intelliteam smart switch technology was employed), the target would not  
10 reflect an adequate level of improvement. To address this, we factored in a  
11 reasonable estimate of the likely reduction to our annual North Dakota SAIDI  
12 score (beginning in 2013) based on the feeders in Fargo that were being  
13 protected by the Intelliteam switches and their general load profiles. Ms.  
14 Coppock explains more fully the calculations and assumptions used to arrive  
15 at the estimated impact of the switches, and the resulting 2.8 minute  
16 adjustment to the Excellence Threshold.

17  
18 Q. WHY DID YOU SELECT A 15 PERCENT IMPROVEMENT IN THE HISTORICAL  
19 AVERAGE TO DETERMINE THE EXCELLENCE THRESHOLD?

20 A. We explored a number of different approaches for calculating a reasonable  
21 Excellence Threshold. We looked at using statistical methods (such as one  
22 standard deviation from our mean SAIDI score), the historical highs and lows  
23 of the previous five to seven years, and we also looked at using the same  
24 performance ranges adopted in the PLUS Plan (+/- 15 percent). In the end,  
25 we felt that the best approach for achieving a reasonably stretching target and  
26 with simplicity in its application was the PLUS Plan threshold of 15 percent.

27

1 Q. DID STAFF AGREE WITH THIS APPROACH?

2 A. Staff did not take issue with our attempt to develop a mathematically  
3 supported Excellence Threshold. However, upon seeing our proposed  
4 calculation, Staff indicated that they would like to see the Excellence  
5 Threshold reflect an even greater improvement, and suggested that the  
6 Threshold be reduced an additional two minutes to 56.8 minutes. This  
7 represented a 17.9 percent reduction in the Intelliteam-adjusted average. In  
8 our view, the Excellence Threshold we are proposing will already be very  
9 difficult to achieve and when viewed in the context of the total RPP proposal,  
10 represents an appropriate level of symmetry. Therefore, we continue to  
11 support the proposed Excellence Threshold of 58.8 minutes as a reasonably  
12 stretching target.

13

14 I should note that setting the Excellence Threshold can be considered more  
15 art than science and reasonable people can differ on where the threshold  
16 should be set. However, it is important to keep in mind that any incentive  
17 based goal must be both difficult *and* reasonably possible to obtain in order to  
18 maximize the effectiveness of the associated incentive. I believe the proposed  
19 target of 58.8 minutes properly balances these two considerations.

20

21 Q. WHAT IS THE PROPOSED FINANCIAL INCENTIVE FOR ACHIEVING THE  
22 EXCELLENCE THRESHOLD?

23 A. Under the RPP, the financial incentive for achieving an annual SAIDI result of  
24 58.8 minutes or lower in North Dakota ranges from as low as \$250,000 to as  
25 high as \$1,000,000, depending on the Company's revenue deficiency during

1 the plan year.<sup>6</sup> A base incentive amount of \$250,000 would be awarded in any  
2 year the Company can achieve the Excellence Threshold, without regard to its  
3 reported electric earnings. The incentive amount would be increased,  
4 however, for every dollar the Company is revenue deficient for the Plan year  
5 and capped once the total incentive reached the maximum of \$1,000,000.

6  
7 Q. WHY DID THE COMPANY PROPOSE A FINANCIAL AWARD “RANGE” INSTEAD OF  
8 A STATIC AWARD AMOUNT?

9 A. In an effort to address the Commission’s Order that the Company file a Plan  
10 “...including rate of return incentives/penalties...” we proposed to link the  
11 award to the reported return on equity, while at the same time protecting  
12 customers from paying significantly more in years when Company earnings  
13 may already exceed the authorized level. Given that the Commission has  
14 already authorized a 10.4 percent return on equity, it seemed appropriate to  
15 include an incentive that would not generate earnings appreciably higher than  
16 the authorized 10.4 percent return on equity. Developing an award range  
17 determined by the amount of earnings deficiency during the plan year achieves  
18 this goal. Table 2 in our RPP application illustrates some examples of the  
19 interplay between Company SAIDI performance, earnings, and the Excellence  
20 Threshold award.

21  
22 Q. WHY DIDN’T THE COMPANY PROPOSE A PENALTY IF SAIDI RESULTS ARE  
23 WORSE THAN A CERTAIN LEVEL?

24 A. Given the Company’s strong reliability performance over the past decade,  
25 establishing a penalty threshold (based on our history) that was symmetrical to

---

<sup>6</sup> The revenue deficiency is determined relative to the currently authorized Return on Equity of 10.4 percent

1 the Excellence Threshold would create an unfair penalty. In other words,  
2 given the proposed 58.8 minute Excellence Threshold, the symmetrical  
3 penalty threshold would have been 85.2 minutes. However, 85.2 minutes  
4 would generally be considered a good SAIDI score for many utilities in the  
5 industry, based on the IEEE’s annual survey of utility reliability performance.<sup>7</sup>  
6 Establishing such a low penalty threshold would not be appropriate because it  
7 would in effect penalize Xcel Energy for having such good historical  
8 performance.

9  
10 On the other hand, setting a higher and non-symmetrical penalty threshold (of  
11 say, 100 minutes) that did not penalize the Company for having a history of  
12 good SAIDI performance would likely create a standard that would rarely be  
13 exceeded, and thus would not constitute a meaningful incentive. The RPP  
14 approaches symmetry a different way: by pairing the SAIDI award with a  
15 “penalty only” measure such as CEMI.

16  
17 Q. WHY DOES THE RPP INCLUDE A CEMI PERFORMANCE INDICATOR?

18 A. The CEMI indicator reflects a more “localized” or customer-experience  
19 approach to reliability by helping us determine how well we are addressing  
20 specific reliability issues on our system. CEMI tracks those customers who  
21 experience more than three sustained electric service interruptions in a year.<sup>8</sup>  
22 These types of “repeat” reliability issues may not have a significant effect on  
23 the overall SAIDI indicator, yet we acknowledge they are significant for the  
24 affected customers. Because the CEMI component of the RPP would provide

---

<sup>7</sup> Ms. Coppock further describes the IEEE Survey in her Direct Testimony.

<sup>8</sup> Similar to the normalization process for SAIDI, CEMI interruptions will not include those resulting from storms or other unusual outage events, including public damage. They are also sustained outages (at least 5 minutes long).

1 an annual, one-time \$50 billing credit to each customer impacted, the  
2 “penalty” for not meeting the CEMI standard (no more than three repeat  
3 sustained outages) is paid directly to the affected home or business instead of  
4 being applied more generally to a maintenance fund or other similar approach.

5  
6 Q. HOW WILL XCEL ENERGY DETERMINE WHO SHOULD RECEIVE A CEMI  
7 CREDIT?

8 A. At the end of each calendar year, the Company will conduct a review of its  
9 Outage Management System and Customer Resource System databases to  
10 identify those customers that experienced more than three qualifying outages  
11 during the previous year.<sup>9</sup> Then, beginning with bills rendered on May 1 of  
12 the following year, one (or possibly more) one-time credits of \$50 will be  
13 reflected on the bill for these customers (i.e., those of record during the  
14 qualifying outages at the qualifying premise).

15  
16 Q. DOES THE COMPANY OFFER CEMI CREDITS TO CUSTOMERS IN OTHER STATES  
17 IT SERVES?

18 A. Yes. In fact, Xcel Energy currently administers similar service quality  
19 programs in its largest jurisdictions – Minnesota and Colorado. To implement  
20 a CEMI credit in North Dakota the Company will be able to add a North  
21 Dakota “version” to its current database query and reporting processes. So,  
22 while the credit criteria is different in Minnesota and Colorado (credits in

---

<sup>9</sup> For residential customers who have moved one or more times during the year, the tally of qualifying outages is cumulative for all current and previous premises. For all commercial customers, the tally of CEMI outages is counted separately for each premise (i.e., building, facility, or structure) that received or is receiving electric service. All customers with more than one active premise will qualify for a \$50 CEMI credit for each premise at which they experience more than 3 qualifying outages.

1 those states are paid to customers experiencing more than five interruptions  
2 per year), we can easily accommodate the stricter outage threshold (more than  
3 three per year) proposed for North Dakota in this Plan.

4  
5 Q. HOW DID YOU ARRIVE AT THE PROPOSED PAYOUT FOR CEMI CUSTOMERS IN  
6 NORTH DAKOTA?

7 A. The \$50 credit is consistent with what is paid in the current programs in  
8 Minnesota and Colorado. However, the CEMI program proposed for North  
9 Dakota is more stringent, as credits would be issued to North Dakota  
10 customers after only three interruptions. This approach was primarily based  
11 on Staff's view that a customer should not have to experience more than five  
12 interruptions to qualify for a credit. A review of our approximate CEMI  
13 history in North Dakota indicated the potential to pay out anywhere from  
14 \$20,000 to about \$220,000 each year. I believe this range is reasonable and  
15 that it adequately balances the less frequent upside financial potential of the  
16 SAIDI performance threshold.

17  
18 Q. WHY DOES THE RPP INCLUDE A RELIABILITY-BASED CUSTOMER SURVEY  
19 RESULT?

20 A. In an effort to apply more focus on our customers' experience and satisfaction  
21 with our reliability, the proposed RPP also includes our customers' ratings of  
22 the electric reliability and outage restoration services we provide. Including  
23 survey results in the RPP helps provides some insight into our efforts to  
24 understand what drives our customers' perceptions and convey to the  
25 Commission what our customers think about Xcel Energy's electric reliability  
26 in North Dakota.

27

1 Q. WHY ISN'T THERE A FINANCIAL INCENTIVE RELATED TO THE RELIABILITY  
2 SURVEY RESULTS?

3 A. The Company is currently testing different surveying techniques and may  
4 transition from phone-based surveys to an online approach. We are also  
5 experimenting with the style and content of the survey questions themselves.  
6 Because of likely, but yet-to-be-determined modifications to the survey for  
7 2013 and beyond, we do not propose developing a performance standard or  
8 attaching any financial incentives to this customer survey metric. Unlike the  
9 SAIDI standard, there is no clear "baseline" against which we can compare  
10 survey results.

11

12 Q. WHAT KINDS OF RELIABILITY QUESTIONS WILL CUSTOMERS RESPOND TO IN  
13 THE SURVEY?

14 A. The reliability questions that would be reported are currently being developed,  
15 but the primary performance rating questions could be similar to the following  
16 questions:

17 The current online question (which would be targeted to residential  
18 customers) is: *Overall, how satisfied are you with Xcel Energy's service reliability (e.g.,  
19 Continuous service – Service is always on, fast repairs when problems arise)?*

20 The current phone question (which could be used for both residential and  
21 commercial customers) is: *Based on anything you have heard or any impressions that  
22 you have, how would you rate Xcel Energy's performance on providing reliable electric  
23 service?*

24

1 Q. WHAT CHANGES DO YOU ENVISION IN THE SURVEYING OF CUSTOMERS?

2 A. Ultimately, the Company will pursue either a phone-based or an online survey  
3 approach (or both – a different approach for each of the residential and  
4 commercial customer classes), and new questions will likely be developed to  
5 look more closely at the factors shaping our customers’ perceptions. If the  
6 Commission desires to see other kinds of information from our surveys, we  
7 would be happy to work with Staff to make the appropriate modifications.

8

9 **IV. OTHER PLAN TERMS**

10

11 Q. WHEN DO YOU PROPOSE THE RPP BE EFFECTIVE?

12 A. The RPP is proposed to be in effect for a period of three years, beginning  
13 January 1, 2013 (i.e., calendar year 2013 will serve as the first full year of the  
14 Plan, and calendar year 2015 will be the final year).

15

16 Q. HOW WILL ELECTRIC RATES BE IMPACTED BY THE RPP?

17 A. Base rates will not change as a result of this plan. Any Excellence Threshold  
18 incentive, if achieved, would be recovered through a one-time surcharge added  
19 to the Fuel Cost Recovery Rider (assuming Commission approval of any  
20 needed variance). CEMI customer credits will be issued in the form of one-  
21 time bill credits, and the cost to the Company of these credits will not be  
22 recovered from customers in either base rates or any other charge.

23

24 Q. HOW WILL THE COMMISSION BE INFORMED OF THE ANNUAL RPP RESULTS?

- 1 A. On or before May 1 of the year following the given Plan year (i.e., May 1, 2014  
2 for the 2013 Plan year), Xcel Energy proposes to file an RPP summary report  
3 showing:
- 4 1. Annual SAIDI performance, normalized under the IEEE methodology  
5 and compared to the RPP Excellence Threshold;
  - 6 2. The number of CEMI credits to be issued and total CEMI payout for the  
7 year;
  - 8 3. The results of the reliability-focused customer satisfaction rating in our  
9 “Voice of the Customer” survey. Customer ratings of our reliability, on a  
10 scale of zero to ten, will be shown on an overall basis;
  - 11 4. The calculation of the SAIDI incentive, if achieved. This information  
12 will include the actual (not weather normalized) amount of any revenue  
13 deficiency reported to the Commission for the Plan year and its impact, if  
14 any, on the determination of the final Excellence Threshold award. In  
15 addition, a summary of the recovery (surcharge) plan will accompany the  
16 summary report, if applicable; and
  - 17 5. A brief commentary of the reporting year’s SAIDI, CEMI, and survey  
18 results will also accompany the summary report.

19  
20 Q. WILL THE COMMISSION OR STAFF HAVE AN OPPORTUNITY TO REVIEW THE  
21 RPP REPORT PRIOR TO ANY RECOVERY OF AN EXCELLENCE THRESHOLD  
22 AWARD?

23 A. Yes. Upon receiving the annual RPP report in May, the Commission Staff  
24 would review the information. Once Commission Staff completes its review  
25 of the report and indicates its concurrence with the results, the Company will  
26 collect a one-time surcharge beginning on September 1 of the following year.  
27 By recovering the surcharge during a low energy use month, like September,

1 we will minimize the customer impact. We estimate that recovery of any  
2 SAIDI Excellence Threshold could have a one-time impact of one dollar to  
3 six dollars per customer, depending on the earnings-adjusted SAIDI award.  
4

## 5 **V. BENEFITS OF THE RELIABILITY PERFORMANCE PLAN**

6

7 Q. WHY IS THE PROPOSED RPP BENEFICIAL TO NORTH DAKOTA CUSTOMERS?

8 The RPP represents the capstone to the portfolio of reliability projects and  
9 reporting requirements committed to in the Settlement Agreement. While  
10 those commitments comprise specific actions and information sharing, the  
11 RPP adds performance measurement and direct financial implications to  
12 promote successful implementation of these efforts and add further  
13 accountability.  
14

15 The RPP balances the downside-only impact to the Company of the CEMI  
16 credits with the upside incentive for achieving excellent SAIDI performance  
17 (though the latter could be larger, it is much more difficult to achieve).  
18

19 The proposed Plan utilizes three well-established and familiar reliability  
20 measurements to determine if the Company's electric reliability performance is  
21 meeting customer and regulator expectations. Efforts were made to avoid  
22 complicated incentive schemes so that the implications of achieving better  
23 reliability would be easily understood.  
24

25 Q. DOES THE RPP COMPLY WITH THE COMMISSION'S FEBRUARY 29 RATE ORDER?

26 A. Yes. The RPP meets both the requirements and the spirit of both the  
27 Settlement Agreement and February 29 Order. Meaningful, comprehensive

1 metrics are included in the Plan as well as financial implications substantive  
2 enough to influence Company decisions and actions. A linkage to the  
3 Company's earnings (*i.e.*, return on equity) is also included to mitigate  
4 concerns that customers could be charged more than what is appropriate  
5 during the Plan term. The three-year plan term provides enough time for  
6 reliability actions to take root and their impacts reflected in the proposed  
7 metrics.

## 8 9 **VI. PRESENTATION OF WITNESSES**

10  
11 Q. PLEASE INTRODUCE THE OTHER WITNESS THE COMPANY IS SPONSORING IN  
12 THIS PROCEEDING.

13 A. In addition to my testimony, the Company sponsors the following witness:

- 14 • *Betsy Coppock*, who sponsors the engineering review, technical calculations  
15 pertaining to the reliability indicators and standards, and reliability data  
16 normalization methods.

## 17 18 **VII. CONCLUSION**

19  
20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21 A. The proposed Reliability Performance Plan complies with the Settlement  
22 Agreement and February 29 Order in Case Nos. PU-10-657, PU-11-55, and  
23 PU-11-557. It provides meaningful and balanced financial incentives to  
24 facilitate improved electric service reliability in North Dakota, and it is in the  
25 public interest. The Company respectfully request that the Commission  
26 approve the proposed RPP effective for the 2013, 2014, and 2015 calendar  
27 years.

1 .

2 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

3 A. Yes, it does.

**David H. Sederquist**

Sr. Regulatory/Financial Consultant

Northern States Power Company, a Minnesota Corporation  
2302 Great Northern Drive, Fargo, North Dakota 58102

**Current Responsibilities**

Responsible for regulatory affairs within NSP's North Dakota jurisdiction, including communication of regulatory issues and events to ND management, assisting with preparation of ND filings, testifying at NDPSC hearings, participating in joint regulatory task forces, coordinating meetings/events involving NDPSC and Company personnel, acting as liaison with corporate Regulatory Services staff, and other special regulatory projects. Also responsible for analyzing ND financial reports, performing economic analysis, monitoring key performance indicators, and assisting with legislative initiatives.

**Previous Employment**

Sr. Regulatory/Financial Consultant, ND	September 2000 - present
Regulatory/Financial Analyst, ND	May 1993 - August 2000
Senior Financial Analyst, ND	Mar. 1992 - Apr. 1993
Lead Financial Analyst, Financial Accting, Budgets, & Reports	Dec. 1990 - Feb. 1992
Senior Financial Analyst, NSP Electric Utility	May 1988 - Nov. 1990
Operations Analyst, Corporate Depreciation & Economics	Jun. 1984 - Apr. 1988

**Education**

University of Minnesota	2006
Minnesota Management Institute Program	
Minnesota State University Moorhead	1983
Bachelor of Science (Mathematics)	

**Previous Testimony**

Electric Rate Case	Case #s PU-10-657, 11-55, 11-557
Performance Based Regulation Plan	Case # PU-400-00-195
NSP/NCE Merger	Case # PU-400-99-418
Natural Gas Rate Reduction	Case # PU-400-96-559
DSM Accounting Change	Case # PU-400-95-401
NSP/WEC Merger	Case # PU-400-95-340
Electric Demand Allocation Correction	Case # PU-400-94-514
Manitoba Hydro Cost Recovery	Case # PU-400-93-731
Viking Acquisition Recovery	Case # PU-400-93-534