

Rebuttal Testimony and Schedules
Timothy J. O'Connor

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 No. PU-12-813
Exhibit___(TJO-2)

Nuclear Operations

August 12, 2013

Table of Contents

I.	Introduction	1
II.	Monticello Operations and Maintenance Expenses	2
	A. Monticello Life Cycle Management/Extended Power Uprate Project (LCM/EPU)	2
	B. Monticello O&M	5
III.	Nuclear Retention Program	12
IV.	Outage Amortization Expense	15
V.	Conclusion and Recommendation	16

Schedules

Staff Data Request No. NDPSC-1-028	Schedule 1
Xcel Energy's Nuclear Fleet Attrition Chart and Prairie Island's Industry Performance Indicator. (Non-Public)	Schedule 2

I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND TITLE.

A. My name is Timothy J. O'Connor. I am the Chief Nuclear Officer for Northern States Power Company (Xcel Energy or Company).

Q. HAVE YOU PREVIOUSLY FILED DIRECT TESTIMONY AND SCHEDULES IN THIS PROCEEDING?

A. Yes. I filed Direct Testimony supporting the Company's 2013 capital and O&M nuclear budgets.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY AND SCHEDULES?

A. My Rebuttal Testimony will address Mr. Dante Mugrace's recommended adjustments for our operations and maintenance expenses at Monticello, nuclear retention program and outage amortization.

Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.

A. The operations and maintenance expenses at Monticello will be incurred regardless of the in-service date for the license of the extended power uprate (EPU) because the equipment installed is now operating to support 100 percent power operations. Due to delays in the Nuclear Regulatory Commission's (NRC) review of our license application, we have proposed that the licensing costs be removed from the test year in this case. However, the license approval for the EPU does not impact our ongoing O&M costs to maintain the plant for current operations. Our nuclear retention program was implemented in late 2012 to retain key personnel in the wake of the loss of two top leaders in the nuclear organization. The program has proven effective at retaining critical

1 employees, has demonstrated positive results on our production metrics, and
2 should be approved for cost recovery. Finally, contrary to Mr. Mugrace's
3 analysis, our outage amortization expenses are increasing for 2014 as we conduct
4 the required NRC regulatory life extension work and inspections necessary to
5 keep the facilities operating and compliant for another 20 years. The record does
6 not support a reduction in outage amortization expense in the 2013 test year
7 based on the 2014 outage amortization expense.

8
9 **II. MONTICELLO OPERATIONS AND MAINTENANCE EXPENSES**

10
11 **A. Monticello Life Cycle Management/Extended Power Uprate
12 Project (LCM/EPU)**

13 Q. WILL THE MONTICELLO LCM/EPU PROJECT BE IN-SERVICE IN THE TEST YEAR?

14 A. Yes. Contrary to Mr. Mugrace's statement, the Monticello generating plant is in-
15 service in 2013. Due to delays in the NRC licensing process for the EPU, the
16 Company removed the licensing costs from the test year. Plant equipment from
17 the LCM/EPU is in-service in 2013 and producing at 100 percent power
18 operations.

19
20 Q. DOES THE DELAY IN RECEIVING THE EPU LICENSE APPROVAL REDUCE O&M
21 EXPENSES?

22 A. No. Our operations and maintenance expenses will be incurred regardless of the
23 status of the EPU license approval because all the physical equipment needed to
24 produce 100 percent power operations is currently in-service.

25
26 Q. WHAT IS THE CURRENT OPERATIONAL STATUS OF MONTICELLO?

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1 A. Monticello was operating and generating electricity for our customers up to the
2 start of the Spring outage on March 2, 2013. The work performed in the Spring
3 outage included normal refueling-related work as well as the work necessary to
4 complete the LCM/EPU project. We completed startup activities and synched
5 the plant to the transmission grid on July 19. Monticello is currently at 100
6 percent power operations and delivering electricity for our customers.

7

8 Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE NRC UPRATE LICENSING
9 PROCESS.

10 A. The NRC licensing process for implementing the uprate is unlike the local, state,
11 or even federal permitting processes undertaken by the Company for other major
12 generating projects. In addition to the environmental impact analysis required for
13 fossil fuel generating plants, a nuclear power plant must complete a complex and
14 highly detailed safety analyses for all modes of operation then subject to approval
15 by NRC staff, the Advisory Committee on Reactor Safeguards (ACRS) and the
16 NRC Commissioners. The NRC reviews the Company's submitted analysis and
17 then performs its own independent analysis, along with current industry lessons
18 learned, which generates questions and changes in plant implementation
19 approaches and can cause delays. The current LCM/EPU project involves
20 design, procurement, installation, and detailed testing of new or modified
21 components. For those components that impact the safety of the plant, at either
22 baseline or uprate conditions, the NRC must review and approve those
23 component design plans, including the analytical modeling and performance
24 testing. The analysis requires a demonstration that the structures, systems and
25 components meet the established NRC codes and standards as well the
26 requirements for long-term programmatic management of aging plant
27 components.

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1 A change in NRC requirements occurred after the 2008 EPU license submission
2 for Monticello. The NRC required the use of current applicable design and
3 construction codes for the plant — not those originally used for the plant when it
4 was first licensed. The NRC has stated this is a new license and has adopted the
5 use of current standards versus modifying the existing license. In addition, in
6 response to developments at other plants that have undergone EPUs, and the
7 nuclear accident that occurred at the Fukushima Daiichi nuclear plant, the NRC
8 has identified issues and possible situations that it has incorporated into all
9 pending license reviews, lengthening the duration of the licensing process. These
10 changing rules regarding improved definitions of safety have added
11 unpredictability to the licensing process. Because of this delay in obtaining the
12 license for the EPU, the Company removed the licensing costs from the test year
13 for recovery in a future case. The remaining LCM/EPU project is currently in-
14 service or will be placed in service in the latter half of 2013 in conjunction with
15 the expected NRC license.

16
17 Q. YOU MENTIONED NEW REQUIREMENTS FOR MANAGING AGING COMPONENTS.
18 PLEASE EXPLAIN.

19 A. The operational standards and requirements for the extended license period are
20 very different from those that applied during the initial 40 year license term.
21 These new requirements include increased component evaluations, analysis,
22 inspections and testing for equipment over 40 years of age. These new
23 requirements also impact our outage work, described further in section IV below.

24
25

1 **B. Monticello O&M**

2 Q. PLEASE DESCRIBE THE O&M EXPENSES PROPOSED FOR DISALLOWANCE BY MR.
3 MUGRACE.

4 A. The O&M expense items recommended for disallowance by Mr. Mugrace
5 include the Company's final adjustments made to the test year 2013 budget for
6 the following items:

- 7 • Updated estimates of fees imposed by regulatory and industry
8 associations;
- 9 • The O&M portion of costs to comply with Fukushima-related
10 activities;
- 11 • Estimated O&M costs of emergent compliance work resulting from
12 routine inspections by the Institute of Nuclear Power Operatio
13 (INPO) and the NRC, including a design recalculation project in
14 response to issues raised by INPO and the NRC;
- 15 • Updated estimates of materials costs chargeable to O&M; and
- 16 • Updated estimates of security costs.

17

18 These adjustments were made to the Company's initial budget, prepared in June
19 2012, due to updated and new information which became available before this
20 rate case was filed. None of these categories of costs affected by these
21 adjustments are related to the Monticello EPU license approval. I address each
22 of these cost categories below.

23 1. *Fees*

24 Q. PLEASE ADDRESS THE RECOMMENDATION TO REMOVE THE NUCLEAR FEES.

25 A. Nuclear fees fund the operations of various regulatory agencies, including all
26 routine baseline inspections, based on the financial guidance we receive from the
27 agencies themselves, and are not within the control of the Company. We have

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1 seen a significant increase in fees required for emergency preparedness (EP) by
2 the Federal Emergency Management Agency (FEMA), with related impact on
3 state agencies that support our Emergency Plan. In addition, we are experiencing
4 an increase in fees from our nuclear industry associations.

5
6 Q. HOW ARE NUCLEAR FEES CALCULATED?

7 A. Nuclear regulatory fees are based on fiscal periods, not calendar periods. We
8 base our estimate of nuclear regulatory fees based on the fee estimates we receive
9 from the respective agencies for the current fiscal period and then project
10 increases through the end of the test year based on estimates obtained from the
11 source organizations of the fees. Agency fees may vary based on the expected
12 work to be performed by the individual agencies, as well as changes in budgets
13 and funding needs of the agencies.

14
15 Since these agencies are funded through the assessed fees, the nuclear regulatory
16 fee estimate is primarily based on that agency's budget and not ours. Over the
17 two-year period from 2011 to 2013, EP fees assessed by FEMA and state EP
18 agencies have increased approximately \$2.4 million (55 percent), or an average of
19 about 27 percent per year. This increase is primarily due to NRC and FEMA
20 regulations that have added requirements for Hostile Action Based Emergency
21 Preparedness drills and the Homeland Security and Exercise and Evaluation
22 Programs causing state and federal agency support staffs and programs to
23 increase.

24
25 The level of fee increases overall can be summarized as follows:
26
27

Table 1: Nuclear Fees (\$ in millions)

	2011 Actual	2012 Actual	2013 Test Year Budget	Increase 2013 vs. 2012	Avg Annual Increase 2011-13
FEMA / State EP	\$4.4	\$4.9	\$6.8	38.8%	27.3%
All other Nuclear fees	\$26.5	\$26.8	\$28.0	4.5%	2.8%
Total Nuclear Fees	\$30.9	\$31.7	\$34.8	9.8%	6.3%

None of these fees are related to the Monticello EPU license approval.

Q. PLEASE DESCRIBE THE BOILING WATER REACTOR OWNERS' GROUP (BWROG) FEES.

A. The BWROG is an industry technical authority recognized by the NRC for resolving common issues across boiling water reactors in the U.S. The BWROG fees reflect Xcel Energy's share of the costs of assessing and addressing changes in operational requirements for boiling water reactors. The range of technical issues that the BWROG undertakes is broad, and incorporates changes in nuclear fuel management and aging management of reactor vessel components. The fee adjustment in the test year reflects additional BWROG work planned in response to the Fukushima accident.

Fees related to the BWROG, as well as the Westinghouse Owners Group and the Nuclear Utility Group on Equipment Qualification and Pooled Inventory Management System, are all increasing. We anticipate a \$400,000 increase total in these fees in the test year. These fees are the shared costs related to the services these organizations provide, including increased knowledge sharing and coordination resulting from Fukushima regional response coordination, organizing shared equipment and inventory so that individual owners do not need to maintain inventories of critical parts, reducing carrying costs, and

1 evaluation and analysis of the impacts of changing NRC guidance and initiatives
2 such as reactor vessel component inspections. Because we can build upon the
3 experience of the other members, membership in these organizations helps
4 maintain and improve operating efficiency, providing value to all stakeholders.
5 In some cases, the NRC will approve and accept a proposed method of resolving
6 a technical issue developed by, and proprietary to, the BWROG members that
7 participated in and funded the effort. Without membership in the BWROG,
8 resolution of these technical issues using the methods developed by the
9 BWROG would not be available to Xcel Energy.

10
11 Q. DOES THE COMPANY ANTICIPATE FUTURE INCREASES IN FEES?

12 A. The Company recognizes that regulatory requirements, particularly in the area of
13 emergency preparedness, are increasing. We expect that nuclear fees will reflect
14 additional costs the agencies will experience as a result of these new
15 requirements. However, none of these fees are related to the Monticello EPU
16 license approval.

17
18 *2. Fukushima Compliance Work*

19 Q. ARE THE FUKUSHIMA ACTIVITIES SEPARATE FROM THE FUKUSHIMA-COMPLIANCE
20 WORK BEING COMPLETED AS PART OF THE MONTICELLO LCM/EPU OUTAGE?

21 A. Yes. The initial O&M budget assumed that all costs to comply with the NRC's
22 Fukushima program requirements would qualify for capital treatment. We
23 ultimately determined that some of these compliance efforts could not be
24 capitalized, and should be charged to O&M expense. These activities include
25 seismic and flooding plant design walk-down inspections to current license
26 expectations. We have incurred and continue to incur these costs associated with
27 Fukushima program compliance, on track with the estimate included in the rate

1 case test year. These costs are unrelated to the Monticello LCM/EPU project
2 costs.

3

4 3. *Emergent Regulatory Work*

5 Q. PLEASE DESCRIBE THE EMERGENT REGULATORY WORK AND DESIGN
6 CALCULATION RECONSTITUTION PROJECT BEING COMPLETED IN RESPONSE TO
7 THE INPO AND NRC.

8 A. Our nuclear plants are continually subject to inspections by INPO (for
9 performance excellence evaluations) and the NRC (for safety reviews). Any
10 findings resulting from these inspections require review, analysis and responsive
11 actions by the Company to appropriately address the issues raised. Historically
12 we had not budgeted any O&M costs for these responsive actions resulting from
13 emergent regulatory work. An adjustment was made to provide an estimate of
14 such costs in the final 2013 test year budget.

15

16 In addition, one particular NRC inspection resulted in a requirement to analyze
17 Monticello's design basis (known as reconstituting design calculations) based on
18 certain assumed conditions with loss of power and degraded grid voltage
19 conditions. In our initial budget for 2013, we assumed that such a project would
20 qualify for capital treatment. However, it was later determined that the project
21 would not qualify for capital work (and would therefore be O&M) under
22 accounting requirements. Thus an adjustment was made to increase O&M for
23 this item in the final 2013 test year budget.

24

25 We have incurred and continue to incur these costs associated with emergent
26 regulatory work and inspections, on track with the estimate included in the test

1 year. A disallowance is not appropriate as these costs are unrelated to the
2 Monticello LCM/EPU project costs.

3
4 *4. Materials*

5 Q. WHAT ARE THE MATERIALS COSTS MR. MUGRACE RECOMMENDS NOT BE
6 INCLUDED FOR RECOVERY?

7 A. The materials costs include costs for tools, equipment and other resources to
8 maintain and operate our nuclear generating facilities. These O&M materials
9 costs are unrelated to the Monticello EPU license approval.

10
11 Q. ARE THERE ANY CHANGES TO YOUR MATERIALS BUDGET SINCE THE COMPANY
12 FILED ITS INITIAL CASE?

13 A. We updated our estimate for materials costs after the initial filing to reflect that
14 some materials costs originally budgeted as O&M expenses were able to be
15 capitalized. However, as shown in Table 2 below, although our updated forecast
16 for materials costs are now expected to be lower than the test year budget
17 provided last fall, the Company's total estimate of non-outage O&M costs for
18 Nuclear Generation is more than \$10 million higher than the initial test year.
19 These changes are further discussed below.

Table 2
Nuclear Generation Business Area O&M Costs – Non-Outage (\$ in millions)

	Adjusted 2013 Test Year Budget	Updated 2013 Test Year Forecast June 2013	Increase (Decrease)
<u>Non-outage O&M – Site Costs</u>			
Labor (including overtime & premiums)	\$131.6	\$138.0	\$ 6.4
Contractors and Consultants	32.0	39.0	7.0
Materials	16.8	14.8	(2.0)
Employee Expenses	4.2	4.8	0.6
Other	5.8	4.3	(1.5)
Total Non-outage Site O&M	\$190.4	\$200.9	\$10.5
<u>Non-site Costs</u>			
Regulatory Fees	34.8	35.0	0.2
Security Costs	27.2	27.2	0.0
Total Non-Site Costs	\$62.0	\$62.2	\$0.2
Total Non-outage O&M	\$252.4	\$263.1	\$10.7

13 Q. DOES THE COMPANY HAVE AN UPDATED FORECAST OF NUCLEAR O&M COSTS
14 FOR THE TEST YEAR?

15 A. Yes. We update our forecast for O&M each month. The latest forecast
16 completed was in July 2013, which includes actual costs through June 2013.
17 Although we are not requesting any increase in test year costs for recovery in this
18 rate case, as reflected in Table 2 above, our expected costs for Nuclear continue
19 to rise.

20
21 These forecasted cost increases are primarily related to additional in-house and
22 contractor labor to increase staffing under our 2-year nuclear excellence program,
23 and for contractors to help us respond to an additional regulatory compliance
24 issue at Monticello to address the risk of a Fukushima-like worst case scenario
25 regarding flooding. The excellence program is intended to close the gaps
26 between our performance levels and top industry standings and includes efforts
27 to improve machine performance, safety systems and reliability for our

1 customers and stakeholders. Industry experience has demonstrated it is more
2 cost-effective to be at top performance levels in safety and reliability and that
3 such performance leads to long-term efficiencies.

4
5 We are not seeking an adjustment to the case for these additional O&M costs
6 now forecasted. However, our current forecast does support the full amount of
7 test year O&M costs submitted in this case, including the adjustments being
8 challenged by Mr. Mugrace.

9
10 *5. Security Costs*

11 Q. PLEASE DESCRIBE THE SECURITY COSTS IDENTIFIED BY MR. MUGRACE.

12 A. The Company revised its level of estimated security costs for 2013 to be 3.7
13 percent over actual 2012 costs. Our initial budget had been prepared early in
14 2012, but was revised later in the year to be more consistent with the level of
15 cost increases recently experienced. These security costs are not related to the
16 Monticello EPU license approval. Rather, these costs are related to meeting the
17 security requirements imposed by NRC regulations. We have incurred and
18 continue to incur security costs at a level on track with the estimate included in
19 the test year.

20
21 **III. NUCLEAR RETENTION PROGRAM**

22
23 Q. WHEN DID THE COMPANY INITIATE THE NUCLEAR RETENTION PROGRAM?

24 A. The Company initiated the program in Fall 2012 to address the significant
25 staffing challenges we were experiencing. Thirty-three employees in “Key
26 Positions,” as defined by INPO, are eligible for the program. Company witness

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1 Ms. Sharon L. Koenig provides additional detail on the program structure and
2 purpose.

3

4 Q. PLEASE EXPLAIN SOME OF YOUR STAFFING CHALLENGES.

5 A. We have experienced a high degree of turnover in upper-level management
6 positions and in skilled workers. In August 2012, we identified that there had
7 been 36 changes at the senior level, manager and above, in the prior two years.
8 The loss of our prior Chief Nuclear Officer (CNO) and Site Vice President (Site
9 VP) at Prairie Island in 2012 further weakened an already stretched nuclear
10 executive management team and exacerbated the challenge we continue to face
11 in stabilizing our workforce. Both the prior CNO and Prairie Island Site VP left
12 for better opportunities. Notably, our prior CNO left to become the CEO at
13 South Texas Project Nuclear Operating Company. Our former Prairie Island Site
14 VP started his own company. Because these are highly-skilled, highly-recruited
15 and in-demand employees, we initiated the nuclear retention program to combat
16 the threat of losing more of these valuable employees.

17

18 Retaining our existing staff enables long-term sustainable operations and
19 succession planning, provides consistency, builds efficiency, and supports a high
20 level of operational performance at our facilities. Without continuity in
21 personnel, the nuclear facilities cannot operate as effectively and efficiently as
22 other facilities that have not have experienced similar levels of turn-over at the
23 upper management level. This aspect of nuclear management is highly
24 scrutinized as a leading indicator of organizational effectiveness and future
25 performance of a facility by both the NRC and INPO. Additional information
26 regarding this program was provided in response to Staff Data Request No. 1-
27 028, attached as Exhibit ____ (TJO-2), Schedule 1.

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1 Q. PLEASE ADDRESS WHETHER WAGES ARE A PRIMARY DRIVER FOR EMPLOYEE
2 RETENTION IN THE NUCLEAR ORGANIZATION.

3 A. Certainly wages are a significant factor for our mobile nuclear employees. In
4 addition, these uniquely skilled workers are looking for a utility with a positive
5 upward advancement potential.

6
7 We reached out to employees at the Kewaunee plant in Wisconsin when the
8 announcement of the closing of that plant became public. Many indicated they
9 were not interested in a position at the Company. Reasons cited included
10 insufficient salary, concerns with long-term operational commitment with a
11 smaller nuclear utility, the position not being in line with their career goals, and
12 being unwilling to relocate from Wisconsin to Minnesota. In addition, many of
13 these employees were themselves subject to retention agreements as Kewaunee
14 was set to close and were unavailable to transfer.

15
16 Q. BASED ON THE FEEDBACK YOU RECEIVED FROM CANDIDATES AT KEWAUNEE,
17 DO YOU BELIEVE THE RETENTION PROGRAM IS NECESSARY?

18 A. Yes. The feedback we received that our offers could not match other employers
19 or that the relocation to Minnesota was not of interest makes it even more
20 important for us to keep our existing personnel and reinforces our experience
21 that it is difficult to hire the specialized personnel needed at our nuclear facilities.
22 The fact that some Kewaunee employees were unavailable due to their own
23 retention agreements provided further evidence that such a retention mechanism
24 works.

25
26 We believe that the Company does an outstanding job of training and developing
27 nuclear experienced workers, supervisors, and managers. Employees without

1 retention agreements are extremely vulnerable to other nuclear competitors and
2 this is one reason why the Company has lost a large experience base. Our
3 customers are better served by retaining our current employees with the
4 experience and skill sets necessary to keep these plants operating efficiently and
5 effectively.

6
7 Q. IS THERE ANY INDICATION THE RETENTION PROGRAM IS WORKING?

8 A. Yes. Exhibit ___(TJO-2), Schedule 2 shows Xcel Energy's Nuclear Fleet
9 attrition and Prairie Island's Industry Performance Indicator since the fourth
10 quarter of 2011. Comparing these two metrics over the same time period shows
11 that as the nuclear organization turnover rate has declined and (we have gone
12 from a net loss of 20 individuals in 2010 to a net gain of seven individuals in
13 2013), our industry performance indicator has improved.

14
15 **IV. OUTAGE AMORTIZATION EXPENSE**

16
17 Q. PLEASE RESPOND TO THE RECOMMENDATION OF MR. MUGRACE TO REDUCE THE
18 TEST YEAR REVENUE REQUIREMENT DUE TO A REDUCTION IN OUTAGE
19 AMORTIZATION EXPENSE IN 2014.

20 A. The Company's outage amortization expenses are increasing in 2014. The
21 proposed reduction is in error as Mr. Mugrace appears to have relied on the
22 wrong figure from the workpapers. Company witness Ms. Anne E. Heuer
23 addresses the error.

24
25 Q. PLEASE EXPLAIN THE CURRENT OUTAGE COSTS.

26 A. As explained in my Direct Testimony, we are performing significant inspection
27 and testing work in the outages in 2012 and 2013 to allow these plants to operate

1 through their extended operating lives. The requirements of the next 20 years
2 are very different than for the initial operating life, as the new requirements are
3 intended to address inspections for, and management of, aging equipment and
4 new processes for operating the plants. The significant inspection and testing
5 work being completed includes that for license renewal inspections, performance
6 of the containment integrated leak test conducted every ten years, and local leak
7 testing, among others. This additional inspection and testing work, in addition to
8 the refueling and other operations and maintenance work will help ensure these
9 plants remain available through the end of their licensed lives.

10
11 **V. CONCLUSION AND RECOMMENDATION**

12
13 Q. PLEASE SUMMARIZE YOUR CONCLUSION.

14 A. The costs described above for operating and maintaining our Monticello facility,
15 to retain our highly-skilled nuclear employees, and to support our outages at
16 both facilities are necessary to ensure safe and reliable operation of these
17 baseload generating resources through their extended operating lives. We
18 continue to support our request for recovery of our nuclear capital and O&M
19 costs. The record simply does not support the adjustments proposed by Mr.
20 Mugrace.

21
22 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

23 A. Yes it does.
24

1 STATE OF NORTH DAKOTA
2 BEFORE THE
3 PUBLIC SERVICE COMMISSION
4

5
6 In the Matter of the Application of Northern)
7 States Power Company, a Minnesota Corporation)
8 For Authority to Increase Rates for Electric Service)
9 in North Dakota)

Case No. PU-12-813

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11
12
13 AFFIDAVIT OF
14 Timothy J. O'Connor
15

16
17 I, the undersigned, being duly sworn, depose and say that the foregoing is
18 the Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and
19 the exhibits or schedules sponsored by me to the best of my knowledge,
20 information and belief, are true, correct, accurate and complete, and I hereby adopt
21 said testimony as if given by me in formal hearing, under oath.
22

23
24 
25 _____
26 Timothy J. O'Connor
27

28
29
30 Subscribed and sworn to before me, this 8th day of August, 2013.
31

32 Lisa A Parker
33 _____
34 Notary Public
35 My Commission Expires:
36



- Non Public Document – Contains Trade Secret Data**
 Public Document – Trade Secret Data Excised
 Public Document

Xcel Energy

Case No.: PU-12-813

Response To: North Dakota Public Service Commission Data Request No. NDPSC-1-028

Requestor: Michael Diller & Sara Cardwell

Date Received: February 26, 2013

Question:

On page 29 of O’Connor’s testimony, there is a discussion of the program developed to help retain nuclear employees. Please provide a copy of this plan.

Response:

Xcel Energy Human Resources created a management retention program for critical positions in Nuclear Generation. These critical positions are vital to the success of Nuclear Generation and the retention program is designed to retain this talent. The program is not a plan like our annual incentive plan. Rather, the nuclear retention program is a program separate and distinct from the Company’s compensation plans with the purpose of maintaining a stable leadership team and avoiding potential distractions within plant operations as a result of high turnover at these levels in recent years. This program is described in detail below.

The nuclear employment environment is such that employees in “Key Positions”, as defined by the nuclear industry as documented in Institute of Nuclear Power Operations (INPO) guidelines, are highly sought after throughout the industry. NSP competes for talent with nuclear facilities across the country, and perhaps around the world, because the pool of potential employees that have the unique skills and experience in nuclear operations and engineering required to safely and effectively manage a nuclear facility is limited. Consequently, when competitors approach employees with more lucrative offers, better plant locations, and/or potential for career advancement, turn-over occurs. Thus, to help support business continuity, the national nuclear industry has commonly used retention agreements to hold talent in Key Positions in place for designated periods of time.

For business continuity purposes, the Company used retention agreements during the transition period of moving management and operations of our nuclear fleet from the Nuclear Management Company to NSP in the fall of 2008. Since that time, such tools were used sparingly. While there was staff turnover since, NSP experienced particularly significant turnover in Key leadership Positions during 2012.

Specifically, in September of 2012, two key leadership positions were vacated within two weeks. First the Chief Nuclear Officer and then the Prairie Island Site Vice President resigned. Additionally, due to the challenges mentioned above, we experienced difficulty in sourcing and recruiting to replace these positions. For Prairie Island, we brought in a very experienced loaned executive from INPO as an interim Site VP. His role is to provide leadership and assist with talent development at the plant. The INPO executive was the third person to hold the Site VP position during 2012.

Such turnover and inability to immediately fill the critical leadership positions can lead to additional staffing issues at all levels of management and in other key skilled positions at the plants during the transition periods. As a direct result of losing these key employees, and in order to stabilize the existing leadership team and other critical positions with responsibility for the Company's nuclear operations and management, the Company developed the retention program. The retention program also serves to maintain the Company's knowledge base and allow for better focus on operational and program performance improvement plans. Without continuity in personnel, the nuclear facilities cannot operate as effectively and efficiently as other facilities that have not experienced similar levels of turn-over at the upper management level. As part of our succession planning efforts, the Company identified thirty-three (33) critical leadership positions in nuclear plant operations, engineering and corporate (fleet) support areas that are Key Positions for which the Company utilizes retention agreements. The positions were identified based on the following criteria:

- a. Positions identified as critical for the safe operation of the nuclear power plant by the nuclear industry.
- b. Positions for which it has been difficult for the Company to attract and retain talent due to rare skill sets that are unique to the military and the nuclear power generating industry and thus demand very competitive total compensation packages (e.g. radiation and chemistry supervisors and managers).

- c. Positions requiring senior reactor operating licenses and certifications for technical and operations management and individual contributor positions. These positions require a two year training program to become certified or licensed. (e.g. Senior Reactor Operator).

The job attributes tie to the nuclear industry critical position guidelines.

This retention program includes both cash compensation and long-term incentives (LTI). A schedule of retention values was compiled based on the pay grades of the positions included in the program. The majority of the cash payouts are time-based and are earned over a 20 to 27 month retention period ending in 2014. The remaining cash bonuses are performance-based based on criteria established for program participants, which have measurement dates ranging from late 2012 through 2014.

The 20 month period ending on May 31, 2014, was selected for the Prairie Island and Fleet support positions to insure stability in leadership throughout the various projects scheduled for the end of 2012 and through all of 2013, with a six month stability cushion ending at the end of May 2014. The 27 month period ending December 31, 2014, was selected for the Monticello station Vice President retention agreement to retain that leadership position through the completion and closeout of the LCM/EPU project.

The time-based payout of cash portion of the program was allocated at 70% of the total value of the Nuclear Employee Retention and Performance Agreement. An additional 10% of the total value of the agreement was granted as an equity based award in November 2012 under the Company's long term incentive program eligible for payment in 2015.

All payments require the employee to remain with Xcel Energy through the designated time period.

The performance goals have various expected achievement dates based upon the scheduled plant outages associated with key capital projects or nuclear licensing renewals. Achieving all of the performance goals would result in a 20% payout of the total agreement amount, with each performance goal being paid out at time of successful project completion. These include the following:

Specific Project Performance Goals**	Prairie Island	NSP Fleet	Monticello
Complete refueling outage (Fall 2012)	25%	20%	N/A
Steam Generator Replacement (Fall 2013)	25%	20%	N/A
Successful License Renewal Inspection by the Nuclear Regulatory Commission (NRC)	25%	20%	N/A
Performance Improvement Plan creation & full implementation per Institute of Nuclear Power Operations (INPO)	25%	20%	N/A
Complete station LCM/EPU outage (Spring 2013)	N/A	20%	100%

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Northern States Power Company
Electric Utility – North Dakota

Case No. PU-12-813
Exhibit ____ (TJO-2), Schedule 2
Page 1 of 1

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