

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Northern States Power Company :
2013 Electric Rate Increase : Case No. PU-12-813
Application :

TRANSCRIPT OF
HEARING
VOLUME I

Taken At
State Capitol
Bismarck, North Dakota
August 27, 28 & 29, 2013

BEFORE THE HON. BONNY M. FETCH
-- ADMINISTRATIVE LAW JUDGE --

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15

1 (The proceedings herein were had and made
2 of record, commencing at 9:06 a.m., Tuesday, August
3 27, 2013, as follows:)

4 JUDGE FETCH: Let the record show that it
5 is 9:00 a.m., Central Time, on August 27th, 2013,
6 and we're present in the hearing room of the Public
7 Service Commission in the State Capitol in
8 Bismarck, North Dakota, for the hearing scheduled
9 in the matter of an application filed by Northern
10 States Power Company (NSP) to increase its rates
11 for electric utility service to provide additional
12 2013 test year annual revenue of \$16,900,000 or a
13 9.25 percent increase over current rates effective
14 for electric service on and after January 17th,
15 2013. This is Case No. PU-12-813. The 2013
16 proposed monthly increase for a residential
17 customer using 750 kilowatt-hours in a winter month
18 is \$6.40 and in a summer month is \$6.64.

19 On January 30th, 2013, the Commission
20 approved NSP's request for an interim rate increase
21 based on the projected 2013 increase request. The
22 interim rate increase of \$14,704,000, or 8.5 --
23 8.05 percent over current rates, became effective
24 for electric service on and after February 16th,
25 2013. NSP is required to refund interim rate

16

1 amounts in excess of final rates approved by the
2 Commission, including interest.

3 On January 29th, 2013, the Public Service
4 Commission requested the Office of Administrative
5 Hearings provide an administrative law judge to
6 preside as hearing officer in this matter. My name
7 is Bonny M. Fetch and I am the duly designated
8 procedural administrative law judge.

9 And at this time I'm going to ask for
10 appearances for the record, and we'll begin with
11 the applicant, NSP, Kari Valley.

12 MS. VALLEY: Good morning, Commissioners,
13 Judge Fetch. Kari Valley appearing on behalf of
14 Xcel Energy.

15 JUDGE FETCH: And who is with you, Ms.
16 Valley?

17 MR. JOHNSON: Good morning. Rick Johnson
18 from Moss & Barnett also appearing on behalf of
19 Xcel Energy.

20 JUDGE FETCH: Anyone else?

21 MS. VALLEY: Thank you, Your Honor. We
22 have Deb Paulson here to support our rate case,
23 vice president Laura McCarten is here, as well as
24 the witnesses identified in this proceeding.

25 JUDGE FETCH: All right. Thank you. And

17

1 next the Commission's advocacy staff counsel, Ryan
2 Norrell.

3 MR. NORRELL: Good morning, Your Honor,
4 Commissioners. Ryan Norrell on behalf of North
5 Dakota Public Service Commission advocacy staff.
6 Sitting at the table with me is Sara Cardwell, a
7 public utilities analyst with the Public Service
8 Commission, as well as Mr. Mike Diller, I'd like to
9 identify, is here as well on behalf of advocacy
10 staff, in addition to the witnesses that were
11 submitted prior to this hearing.

12 JUDGE FETCH: Thank you. And next the
13 Commission's legal counsel.

14 MS. JEFFCOAT-SACCO: Illona
15 Jeffcoat-Sacco, adviser to the Commission in this
16 case, and also advising the Commission are Jerry
17 Lein and Patrick Fahn.

18 JUDGE FETCH: Thank you. Did I miss
19 anyone? All right. And we do have a witness list
20 of 11 identified witnesses for NSP and five
21 identified witnesses identified by Mr. Norrell.

22 Besides those individuals, is there anyone
23 else present, any members of the public or anyone
24 not mentioned who is here and intending to present
25 testimony?

18

1 All right. I don't see any hands raised.
2 Thank you.

3 The deadline date to file petitions to
4 intervene was May 1st, 2013. There were no
5 petitions filed. There are no intervenors in this
6 proceeding.

7 Members of the Public Service Commission
8 present today are Brian Kalk, Commission chair,
9 Randy Christmann, and Julie Fedorchak. And at this
10 time I'm going to ask for their opening comments
11 beginning with Commissioner Fedorchak, who holds
12 the portfolio in this matter.

13 COMMISSIONER FEDORCHAK: Good morning,
14 everyone. Judge Fetch, thank you. Looking forward
15 to today's proceedings. We've been hard at work
16 getting through all the materials. I want to thank
17 everyone for the good job you've done in presenting
18 your cases.

19 As I look at this today, I'm looking at it
20 all about balance. I see that -- I'll be looking
21 at the testimony and listening through two lenses,
22 one lens from the view of a potential investor who
23 is looking at investing in your company and what
24 kind of returns they can get, providing you the
25 capital you need to support your growth, et cetera.

19

1 Also looking at it from the lens of a ratepayer, a
 2 business, say a business in Fargo, who is looking
 3 at a potential nearly 10 percent increase in rates
 4 and how that might affect them as they move forward
 5 in their ability to pay their employees, and these
 6 kind of costs kind of pancake, and also the lens of
 7 a ratepayer on, say, a fixed income and how they
 8 might deal with this.

9 So, again, I think it all comes down to
 10 balance. I look forward to hearing your cases and
 11 taking the next step in this whole process. Thank
 12 you.

13 JUDGE FETCH: Thank you, Commissioner.
 14 Commissioner Kalk.

15 COMMISSIONER KALK: Thank you, Your Honor.
 16 Thank you, Commissioner Fedorchak, for your
 17 comments. I would agree with everything she said,
 18 just add a couple thoughts on there.

19 First, I'm going to be trying the iPad
 20 instead of using all the paperwork, so I'm not up
 21 here Googling, just for the record.

22 The work that everyone has done to this
 23 point I really appreciate on the side of the
 24 company, Ryan, your crew, advocacy staff, even
 25 Commission advisers. There's a lot of work that

20

1 takes place before we get to this. I always have
 2 to remind myself to slow down for the court
 3 reporter.

4 But we had the public input sessions.
 5 Quite honestly, they were not very well attended.
 6 But I think it's just the public doesn't quite
 7 understand the process, I don't think. It really
 8 behooves all of us to make sure we do a thorough
 9 job right because, as Commissioner Fedorchak
 10 pointed out, at some point this will be a final
 11 decision and it will be looked at for a lot of
 12 different reasons and it's important to develop a
 13 full record today from all the different
 14 viewpoints, and I think that's why the company has
 15 so many witnesses and that's why advocacy staff has
 16 a lot of people lined up.

17 And with that, I will just caution
 18 everyone that a few years ago we had a rate case
 19 with MDU that the issues were not as far apart as
 20 where we're starting at today, and by the fourth
 21 day of testimony it was pretty testy in here, and
 22 it worked and sometimes that's just the nature of
 23 the beast because there's a lot of facts to go back
 24 and forth that people have different viewpoints, so
 25 let's try to stay focused and get through this

21

1 thing, but understand at the end of the day we have
 2 a job we all have to do, we're going to ask the
 3 questions because the past rates cases that I've
 4 been involved in with Xcel have actually turned out
 5 very well.

6 The last one we did performance based
 7 rates. It turned out very well. We ended up
 8 improving some reliability in the eastern part of
 9 the grid, so I think we've got a very good track
 10 record of developing a good final solution and
 11 that's what, I think, the goal here is today, is to
 12 get all the cards out on the table, get all the
 13 views looked at, answer the questions that we might
 14 have, and then we can look forward to coming to a
 15 decision. I think it will take a while, but we'll
 16 get there.

17 Another thought I would have, if something
 18 comes up that's trade secret -- we talked about
 19 this a little bit yesterday in our preplanning
 20 meeting -- I'll look at the company to make sure
 21 that they advise us of such because sometimes we
 22 forget about what's trade secret and not. You know
 23 the data better than we do. And if that comes up,
 24 which it has in the past in rate cases, then we'll
 25 stop the broadcasting tape, if you will, and we'll

22

1 start the one that we record for ourselves for the
 2 record.

3 I believe that was all that I had for
 4 this. So just thank you all very much. And just
 5 for our Minnesota customers and representatives,
 6 I've got my Vikings tie on for today and we're
 7 looking forward to a good season there as well.
 8 Thank you, Your Honor.

9 JUDGE FETCH: Thank you, Commissioner
 10 Kalk. Commissioner Christmann.

11 COMMISSIONER CHRISTMANN: Not much to add
 12 to that, Your Honor, except to point out just a
 13 further thought on the public input sessions we had
 14 that weren't well attended and we didn't get a lot
 15 of feedback there, which bothered me more at the
 16 time than it does now.

17 This is my first rate case and as I dig
 18 into all these volumes of information, I see that,
 19 you know, it would be hard for the average citizen,
 20 the normal member of the public, to really provide
 21 a lot of good input, and I think the fact is that
 22 they have faith in us to make some tough decisions
 23 here, and the amount of information that we have
 24 shows that there's been a lot of effort put forth
 25 by the company, by our advocacy staff, and by the

23

1 time we get done with hearings and everything, I
 2 think we will have done a thorough job of making
 3 sure that all the evidence is on the record and
 4 before us so that we can make a good decision on
 5 behalf of all the people that Commissioner
 6 Fedorchak referenced and do the job that we're
 7 chosen to do here.

8 So looking forward to the next few days
 9 and whatever time we need after that to make sure
 10 that we have everything we need to make a good
 11 decision.

12 JUDGE FETCH: Thank you, Commissioner
 13 Christmann.

14 The issues to be considered in this matter
 15 are:

16 1. What is the value of NSP's property,
 17 used and useful, for the service and convenience of
 18 the public in North Dakota?
 19 2. What is NSP's rate of return on its
 20 property, used and useful, for the service and
 21 convenience of the public in North Dakota?
 22 3. What is a just and reasonable rate of
 23 return on NSP's property, used and useful, for the
 24 service and convenience of the public in North
 25 Dakota?

24

1 4. What rates and charges are necessary
 2 to provide a just and reasonable rate of return on
 3 NSP's property, used and useful, for the service
 4 and convenience of the public in North Dakota?
 5 5. Are NSP's proposed rate schedules
 6 designed in such a manner that they result in a
 7 basis of charge to its customers that is just and
 8 reasonable without discrimination?
 9 And 6. Other relevant information or
 10 proposals concerning the proceeding.

11 I'm going to outline the hearing
 12 procedure. We had a prehearing conference about a
 13 week or so ago and planned out and agreed to a
 14 number of things to make this run a little more
 15 smoothly. So this is the hearing procedure that
 16 we're going to follow. The applicant, NSP, has the
 17 burden to show that its application should be
 18 approved by the North Dakota Public Service
 19 Commission. NSP has submitted a witness list
 20 identifying 11 witnesses, and each witness called
 21 by NSP will be subject to cross-examination by Mr.
 22 Norrell, questioning from Ms. Jeffcoat-Sacco, and
 23 after that members of the Public Service Commission
 24 may ask questions, I may also ask questions.

25 Following completion -- and we're going to

25

1 try to get through NSP's case today, and in order
 2 to accommodate that, the Commissioners have asked
 3 that we extend the time for today to what is
 4 necessary up until perhaps eight o'clock, if need
 5 be, to complete all of NSP's case in one day. So
 6 we're shooting for that goal.

7 All right. After completion of NSP's
 8 case, Mr. Norrell will present testimony from
 9 Commission advocacy staff. PSC advocacy has
 10 identified five witnesses, and each witness called
 11 by Mr. Norrell will be subject to cross-examination
 12 by Ms. Valley, and after that members of the PSC
 13 and I may also ask questions.

14 No one else is here at least today, but I
 15 will ask again at the completion of NSP's case and
 16 the advocacy staff case whether there is anyone
 17 else who has appeared to testify either in support
 18 or opposition to the application.

19 As far as exhibits go, NSP has submitted a
 20 list of exhibits, NSP 1 through 22. Those exhibits
 21 were stipulated to and are admitted into the
 22 record, so we do not need to stop each time and ask
 23 for that.

24 For advocacy staff I believe there are
 25 seven, PSC 1 through 7. Mr. Norrell, were those

26

1 stipulated to?

2 MR. NORRELL: Yes, Your Honor, they were.

3 JUDGE FETCH: Okay. So PSC Exhibits 1
 4 through 7 are also admitted.

5 Okay. Are there going to be additional
 6 exhibits?

7 MS. VALLEY: Thank you, Judge Fetch. Each
 8 of our witnesses also have an opening statement for
 9 today and they have that in written form as well
 10 and we can enter that as an exhibit into the record
 11 so that people can go back and read that.

12 JUDGE FETCH: Okay. We agreed at the
 13 prehearing conference that witnesses are not going
 14 to read their prefiled testimony. The
 15 Commissioners and the parties have that, so they're
 16 not going to read through all of that. We agreed
 17 that witnesses can present an opening statement
 18 from zero seconds to five minutes in length, and
 19 that's just to summarize the salient points in
 20 their testimony.

21 All right. This hearing is scheduled for
 22 two days, today and tomorrow. If needed, we have a
 23 third day on Thursday also set aside. We will take
 24 an hour break for lunch and an hour for dinner
 25 today and we will be taking breaks throughout the

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1 day, as needed. Commissioners or the court
 2 reporter, signal me if you need to take a break at
 3 any time. Sometimes I'm trying to plow through to
 4 get to a breaking point that seems right, but at
 5 least every hour and a half the court reporter will
 6 need to have a little break, so we'll shoot for
 7 that.

8 The proceedings are being recorded for the
 9 purpose of creating a record. At the conclusion of
 10 this hearing any party not agreeing with the final
 11 decision of the PSC has the right to request a
 12 rehearing, reopening, or appeal of the decision to
 13 District Court under North Dakota Century Code
 14 Chapter 28-32. The expense of transcribing these
 15 proceedings will be the responsibility of the party
 16 appealing the decision.

17 Counsel, are there any questions
 18 concerning the procedures?

19 MR. NORRELL: No, Your Honor.

20 JUDGE FETCH: And you're shaking your head
 21 no, but you need --

22 MS. VALLEY: No.

23 JUDGE FETCH: -- to make a verbal
 24 response.

25 MS. VALLEY: Thank you, Judge Fetch. No.

28

1 JUDGE FETCH: All right. That's the other
 2 thing. I can see you, but we are recording so we
 3 need to have all responses be verbal. And for
 4 those of you testifying, please try to remember,
 5 you know, there's a temptation to rush through,
 6 but, you know, the court reporter needs a little
 7 time to keep up.

8 All right. Then if we're ready to
 9 proceed, NSP may now proceed to present its case
 10 and Kari Valley, attorney for NSP, may have five to
 11 ten minutes to make an opening statement and then
 12 we'll have the same for Mr. Norrell at the
 13 beginning of your case.

14 MS. VALLEY: Thank you, Your Honor, Chair
 15 Kalk, Commissioners.

16 I am Kari Valley, assistant general
 17 counsel for Northern States Power Company. We
 18 appreciate the opportunity to be here to present
 19 our case directly to you today and for our
 20 witnesses to be able to directly respond to the
 21 questions posed by the Commission.

22 Our witnesses look forward to the
 23 opportunity to explain our business and why this
 24 rate request is needed to support continued safe,
 25 reliable, and cost-effective service to our

29

1 customers. We were encouraged by the fact that
 2 advocacy staff and their consultants have generally
 3 supported the main costs that are driving this
 4 case. This includes capital additions to our
 5 nuclear fleet, as well as other investments to keep
 6 our generation, transmission, and distribution
 7 systems functioning and reliable.

8 We were, however, concerned with advocacy
 9 staff and their consultants' proposals to
 10 significantly change the fundamental ratemaking
 11 practices that the company and the Commission have
 12 relied upon for many years. Through the course of
 13 this proceeding we will demonstrate that our
 14 proposal is consistent with standards of
 15 ratemaking, reflects the precedent set by this
 16 Commission, follows standard accounting principles,
 17 and reflects an equitable distribution of costs
 18 between jurisdictions.

19 In contrast, the ratemaking treatment
 20 proposed by the staff consultants is inconsistent
 21 with principles of ratemaking, is a departure from
 22 the precedent set by the Commission and North Dakota
 23 statute, and is unsupported by the record in the
 24 case.

25 Although there is general agreement on our

30

1 continued system investments, there are a number of
 2 disputed ratemaking issues, and I'll briefly
 3 highlight some of those.

4 First, the testimony in the record
 5 supports the continuation of the use of the 12 CP
 6 allocator. The standard adopted by this Commission
 7 in reviewing the jurisdictional allocator is that
 8 it reasonably reflects the incremental cost caused
 9 by each jurisdiction be consistently applied among
 10 each of the jurisdictions and is understandable,
 11 inexpensive to administer and does not result in
 12 large swings in jurisdictional cost responsibility
 13 over time.

14 The company's proposal meets this test.
 15 First, the jurisdictional allocator is based on
 16 cost causation in all of our jurisdictions, and all
 17 four of our jurisdictions use the 12 CP allocator.
 18 Dr. Pavlovic's proposal to change allocators in
 19 North Dakota while other jurisdictions continue to
 20 use the 12 CP allocator would reduce the company's
 21 revenue requirement by approximately \$20 million.
 22 This would be a stranded cost until the company
 23 could persuade FERC, the South Dakota Commission,
 24 and the Minnesota Commission to adopt a change.
 25 However, because this Commission has recognized in

31

1 prior cases there is no basis to move to a 1 CP
 2 allocator, it is unlikely that any other
 3 jurisdiction would adopt a change.

4 The use of the 12 CP allocator reflects
 5 longstanding regulatory practice in North Dakota.
 6 Intervenor's have previously argued for a 1 CP
 7 allocator and the Commission has repeatedly
 8 rejected that move. The 12 CP method was adopted
 9 in this state in 1986 in a case that expressly
 10 found the 1 CP allocator unreasonable. The
 11 Commission adopted a weighted 12 CP method over the
 12 1 CP method again in 1991, and the 12 CP method was
 13 adopted over that 1 CP method yet again in 1992.

14 This 12 CP method has been consistently
 15 used in all of our jurisdictions and the 1 CP has
 16 never been used for jurisdictional allocation
 17 during all of the time in any of our rate cases.

18 The record reflects there's no reason to
 19 depart from this longstanding practice. As Mr.
 20 Brockett well explains in his testimony, the 12 CP
 21 allocator reflects the need to consider the impact
 22 of demand throughout the year on our production
 23 portfolio and how transmission serves specific load
 24 that peaks at different times of the year.

25 In contrast, Dr. Pavlovic essentially

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1 points to the NARUC Manual, which lists 13
 2 different methods of allocating cost, including the
 3 1 CP method. The record demonstrates that method
 4 is simply not appropriate here.

5 With respect to depreciation expense
 6 proposed in this proceeding, the company witness
 7 Ms. Lisa Perkett will explain that the company's
 8 proposal is consistent with the settlement approved
 9 in our 2007 rate case and that the company's
 10 treatment of removal cost reflects the accounting,
 11 reporting, and regulatory practices in North Dakota
 12 and everywhere else.

13 In sharp contrast, Mr. Majoros's proposal
 14 to stop collecting the remediating nonlegal AROs is
 15 unsupported by accounting, reporting, or regulatory
 16 practices and has the adverse consequence of
 17 burdening future ratepayers with today's cost of
 18 service.

19 As Ms. Perkett explains, the company must
 20 remove retired distribution lines and poles and
 21 buildings which are nonlegal AROs, the same way we
 22 have to remove asbestos, which is a legal ARO. If
 23 we don't recover the costs of removal of those
 24 assets during their lives, we will need to recover
 25 those costs from future ratepayers after the assets

33

1 are retired and when those future ratepayers may
 2 not have benefited from the asset during its
 3 lifetime.

4 In making his recommendation, staff
 5 consultant Mr. Majoros has entirely ignored
 6 Schedule 7 to Ms. Perkett's testimony, which is the
 7 North Dakota specific depreciation study filed in
 8 this case that supports the cost of removal used by
 9 the company. Mr. Majoros has not provided evidence
 10 that the removal cost for a single asset is
 11 overstated. Instead, he argues for a cessation of
 12 cost recovery for removal cost for nearly all of
 13 our assets. He made the same basic proposal in
 14 2007, and that proposal was appropriately not
 15 adopted by this Commission. His proposed treatment
 16 of nonlegal AROs was a bad choice for our customers
 17 then and it continues to be a bad choice for
 18 customers today.

19 It's important to note that the company
 20 doesn't earn on depreciation. If we don't recover
 21 the cost of removal over the life of the asset,
 22 then the cost of removal will be added at the time
 23 the asset is retired. The company's interests are
 24 protected in either case, but Mr. Majoros's
 25 proposal is an inappropriate shift of cost

34

1 responsibility to future customers who would pay
 2 for the cost of removal despite having received no
 3 benefit from the asset.

4 Recovering retirement cost over the life
 5 of the asset is sound ratemaking, in the interest
 6 of our current customers, and has been the standard
 7 used in North Dakota and every other jurisdiction
 8 since regulation began.

9 Mr. King's recommendation on ROE is
 10 similarly inconsistent with standards. The ROE
 11 recommended by Mr. King is not consistent with
 12 returns available from other businesses having
 13 similar risks, is not sufficient to support access
 14 to capital at reasonable rates, and does not
 15 reflect market conditions.

16 In contrast, company witness Ms. Ann
 17 Bulkley will demonstrate that the proposed ROE of
 18 10.25 percent, in the range of 10 to 10.5 percent,
 19 is reasonable and reflects market conditions.

20 And with respect to the test year in this
 21 case, the company's proposal matches test year
 22 expenses, sales, and revenues to appropriately
 23 match costs and revenues over a consecutive
 24 12-month period as required by statute, consistent
 25 with this Commission's approved test years in every

35

1 other rate case we have filed.

2 In contrast, Mr. Mugrace uses a three-year

3 historical average to determine all operating

4 expenses, but then uses a future 2013 test year to

5 determine revenues. That proposal is contrary to

6 the express statutory requirement that a test year

7 include 12 consecutive months of revenues matched

8 to the same 12 consecutive months of expenses. His

9 proposed mismatch of historical averages with

10 projected revenues is unprecedented and contrary to

11 the fundamental principles of ratemaking.

12 Mr. Mugrace has provided no evidence that

13 any of our 2013 expenses are not reasonably

14 representative of actual expenses in the test year.

15 Rather, he uses expenses that exclude any

16 consideration of 2013 expenses. And in fact the

17 average expenses proposed by Mr. Mugrace are lower

18 than the expenses approved in our 2010 rate case.

19 His proposal should be rejected.

20 His proposal to disallow incentive comp

21 due to -- compensation due to the decision of the

22 Wisconsin Commission is similarly unsupported. Our

23 witness, Ms. Sharon Koenig, will explain that the

24 annual incentive is a component of total

25 compensation package for our employees, without

36

1 which we would be paying significantly below market

2 levels. They are not bonuses. They are payments

3 to our employees who have performed in a manner

4 that qualifies them to receive the level of

5 compensation needed to compete with other

6 utilities.

7 JUDGE FETCH: You have one more minute,

8 Ms. Valley.

9 MS. VALLEY: And we also note that there

10 are several issues raised by advocacy staff and

11 their consultants which are not included in our

12 current rate request and the bulk of those issues

13 pertain to the company's resources recovered

14 through the FCR. The company requests that those

15 be addressed in a separate proceeding if they're

16 not part of base rates in this case.

17 So for each and every proposed issue we

18 believe that when you compare our request with the

19 proposals from the staff consultants, you will find

20 that our request is consistent with fundamental and

21 well-established regulatory principles for how

22 rates are set. It's based on costs we will and

23 have incurred as this case has proceeded, and our

24 proposals are consistent with the regulatory

25 compact between the state and the company and

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1 appropriately balances the interests of the company

2 and our customers. Thank you.

3 JUDGE FETCH: Thank you. Are all 11 of

4 your witnesses present, Ms. Valley?

5 MS. VALLEY: Yes, Your Honor.

6 JUDGE FETCH: Okay.

7 MS. VALLEY: They are present in the

8 building. Some are in another room. Thank you.

9 JUDGE FETCH: All right. Are all five of

10 your witnesses present, Mr. Norrell?

11 MR. NORRELL: Yes, Your Honor.

12 JUDGE FETCH: All right. All witness

13 testimony at this hearing is taken under oath and

14 is subject to penalties for perjury. By law I am

15 required to inform witnesses as to those penalties,

16 and I'm going to do that at this time. I'll repeat

17 it for those who are not here.

18 Perjury is any material misstatement of

19 fact. In North Dakota it is a Class C felony,

20 punishable by a maximum fine of \$5,000, five years

21 in prison, or both.

22 At this time if there is nothing further,

23 we're going to proceed with your first witness.

24 MS. VALLEY: Thank you. The company will

25 call as its first witness Ms. Laura McCarten.

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1 JUDGE FETCH: Be sure and hit the button

2 there. It should come on and show blue.

3 All right. Ms. McCarten, please raise

4 your right hand.

5 (Witness sworn.)

6 JUDGE FETCH: Thank you. All right. And

7 as agreed -- Commissioner Fedorchak, did you have a

8 question?

9 COMMISSIONER FEDORCHAK: You mentioned --

10 or the company mentioned that the opening comments

11 would be submitted as evidence as well. Do we get

12 copies of those, if it's possible to get those in

13 advance?

14 JUDGE FETCH: Yes. I think that's what's

15 being passed out right now. Is that what you have

16 there is Ms. McCarten's opening statement?

17 MS. PAULSON: Yes.

18 JUDGE FETCH: All right. Thank you. Ms.

19 Valley, proceed.

20 MS. VALLEY: Thank you.

21 **LAURA McCARTEN,**

22 being first duly sworn, was examined and testified

23 as follows:

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1 **DIRECT EXAMINATION**

2 **BY MS. VALLEY:**

3 **Q.** Ms. McCarten, your testimony is marked as

4 Exhibits 5 and 6 and have been entered into the

5 record. Do you have any corrections to that

6 testimony today?

7 **A.** Yes, I do.

8 **Q.** Could you please identify those

9 corrections?

10 **A.** Yes. The corrections are to Exhibit 6, my

11 rebuttal testimony. There are several places in

12 here, and I will articulate those, where I

13 incorrectly attributed information to witness Mr.

14 Mugrace rather than Dr. Pavlovic, so I will correct

15 those references.

16 So in Exhibit 6, page 18, line 23, change

17 the reference from Mr. Mugrace to Dr. Pavlovic, and

18 this will be the same correction through each of

19 the line -- pages and lines that I will now go

20 through.

21 So the first one was page 18, line 23.

22 The second is page 19, line 26. The third is page

23 20, line 6; again on page 20, line 16; on page 21,

24 line 7, line 12, line 15, and line 16.

25 And those are all of the corrections I

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1 wish to make.

2 **Q.** Thank you, Ms. McCarten. Ms. McCarten, do

3 you have an opening statement today?

4 **A.** Yes.

5 **Q.** Please proceed.

6 **A.** Thank you. Good morning, Commissioners,

7 Judge, Commission staff and consultants. I'm Laura

8 McCarten, regional vice president for Northern

9 States Power Company. I appreciate the opportunity

10 to be here today to explain our rate request and

11 help develop a full and thorough record for the

12 Commission.

13 Our modified rate request seeks Commission

14 approval for a \$14.9 million revenue requirement

15 increase based on updated financial information and

16 a 10.25 percent return on equity request. This

17 rate request is necessary to support ongoing

18 investments into our system to ensure safe and

19 reliable service for our customers. These

20 investments include life extensions of both the

21 Prairie Island and Monticello nuclear power plants

22 and a power uprate at Monticello. We are also

23 seeking recovery of investments in transmission and

24 distribution systems. These investments are in our

25 customers' interests, both in the near term and the

41

1 long term, as reliable electric service is one of

2 the highest priorities for our customers and is a

3 key factor in supporting economic growth.

4 We appreciate advocacy staff and the

5 consultants' general support for the investments we

6 are making. While staff and their consultants

7 don't agree on all aspect of our rate request, we

8 are encouraged that the bulk of our request is not

9 in dispute.

10 We do recognize the cost impact that these

11 investments have on our customers, and we're eager

12 to work with the Commission and staff on ways to

13 reduce or mitigate this cost impact. To this end,

14 I've offered in my rebuttal testimony two

15 proposals. First, the use of a cost-smoothing

16 mechanism for our pension expense and, second, the

17 use of a capital step to address future recovery of

18 capital investments that we know we will be making.

19 I also note that Commission approval of our

20 proposed transmission cost recovery rider would

21 help to mitigate the frequency of future general

22 rate requests. I look forward to a full discussion

23 of these possible mitigation mechanisms.

24 As Ms. Valley noted, we are concerned with

25 consultants' proposals to reverse longstanding

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1 ratemaking processes -- practices in North Dakota.

2 We believe it is a better practice, is in the

3 interests of our customers, and is consistent with

4 current circumstances to use the ratemaking

5 methodologies that this Commission has had in place

6 for 20 years or more.

7 The most significant proposed change is

8 that to our demand allocator. As company witness

9 Scott Brockett will explain in more detail, using a

10 12 CP allocator remains the most appropriate

11 jurisdictional allocation method for an integrated

12 system such as ours, is consistent with standards

13 of ratemaking and with this Commission's precedent

14 and is supported by the record in this case.

15 We also recognize the concerns of the

16 Commission and staff regarding the energy policy

17 differences between states and how these

18 differences may affect our North Dakota customers.

19 We have been complying with commitments to this

20 Commission with respect to these issues and we

21 believe that we're making prudent -- we're making

22 resource decisions that are prudent and in the

23 interests of all of our customers. We'll continue

24 to meet these commitments to ensure that this

25 Commission's concerns are met while allowing the

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1 company to recover its cost of service and earn a
2 reasonable rate of return.

3 Other recommendations of staff and their
4 consultants relate to costs that are not part of
5 this rate request. For example, Dr. Pavlovic
6 recommends disallowance of further recovery in our
7 fuel cost rider of the costs of certain power
8 purchase agreements that have been in place for
9 several years. Because these costs are recovered
10 in the fuel clause rider, they are by definition
11 not part of base rates and thus not part of this
12 pending rate request. But should the Commission
13 want to address recovery of these power purchase
14 agreement costs in the fuel clause rider, the
15 appropriate way to do so would be with a separate
16 proceeding where a complete record can be
17 developed. And we're very willing to work with the
18 Commission and staff to ensure that the Commission
19 has a timely opportunity to review any costs that
20 we propose to recover through the fuel clause
21 rider.

22 Similarly, staff's recommendation to
23 disallow certain costs of new wind acquisitions
24 should be addressed in the advance determination of
25 prudency dockets that are already in place for

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1 those projects. Again, those projects are not part
2 of this rate case.

3 Finally, I want to acknowledge the
4 Commission's interest in and concerns with the new
5 Minnesota solar standards. I commit to you that we
6 will make every effort to mitigate the impact of
7 this Minnesota requirement on our North Dakota
8 customers.

9 In summary, we appreciate the general
10 agreement of the parties on the prudence of the
11 necessary investments that are the drivers for this
12 case. However, the disagreements are important in
13 both -- are significant in terms of both importance
14 and magnitude. We believe that the application of
15 longstanding ratemaking principles in North Dakota
16 will result in an outcome that is fair, consistent
17 with this Commission's precedent and current
18 circumstances, and that appropriately balances the
19 interests of our customers with that of the
20 company. And beyond this rate case, we look
21 forward to working in a continued cooperative
22 effort with the staff and the Commission on fuel
23 clause rider issues and other energy policy issues
24 that could affect our customers in North Dakota.
25 Thank you.

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1 JUDGE FETCH: All right. And that is
2 marked as NSP Exhibit 23. Mr. Norrell, is there
3 any objection to this being entered?
4 MR. NORRELL: No, Your Honor.
5 JUDGE FETCH: All right. Thank you. NSP
6 23 is admitted.
7 MS. VALLEY: Thank you, Your Honor. The
8 witness is available for cross-examination.
9 JUDGE FETCH: Mr. Norrell.
10 MR. NORRELL: Thank you, Your Honor.
11 **CROSS-EXAMINATION**
12 **BY MR. NORRELL:**
13 **Q.** Ms. McCarten.
14 **A. Good morning.**
15 **Q.** Good morning. I would like to just start
16 with some broad and maybe narrow down on some of
17 our questions here. One of the things that we
18 noticed throughout your testimony is the repeated
19 statement that the company -- and other witnesses
20 state this as well -- that the company is in a
21 significant -- cycle of significant system
22 investment and has been spending quite a bit of
23 money each year to accommodate this. Could you
24 state when the company believes this system of
25 investment will end? Is there an end in sight?

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1 **A. Mr. Norrell, I believe that we do have --**
2 **in this year and the next year and I think in the**
3 **subsequent year, we do have costs that will**
4 **continue to be incurred to finish out investments**
5 **in some of our major -- to finish out the full**
6 **project completion of some of the major investments**
7 **that we are making. That includes investments to**
8 **finish out the nuclear projects, the life extension**
9 **which adds 20 years of life for those nuclear power**
10 **plants, and significant investments that complete**
11 **some of our major transmission projects, for**
12 **example, the CapX2020 projects.**
13 **I believe that takes us into the next**
14 **couple of years. Beyond that I'm not aware of**
15 **projects of that magnitude that are peeking in, so**
16 **I think that over the next couple of years these**
17 **significant investments will be completed and those**
18 **costs will show up.**
19 **Q.** So we're looking 2015, 2016; would that be
20 appropriate?
21 **A. I don't have that information right in**
22 **front of me, but I think it's through probably 2016**
23 **when the major investments in those CapX2020**
24 **transmission projects are concluded.**
25 **Q.** And are these projects -- are these going

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1 to be of a benefit to the ratepayers, to the actual
2 subscribers and customers in North Dakota?

3 **A. Yes. For example, the investments in our**
4 **nuclear power plants are investments that allow**
5 **those plants to operate for another 20 years, it's**
6 **good baseload, well-priced, clean energy that**
7 **serves all customers in our integrated system,**
8 **including North Dakota customers.**

9 **The investments in our high-voltage**
10 **transmission system ensure that the regional**
11 **transmission system will continue to operate**
12 **reliably, meet federal standards for redundancy and**
13 **reliability, and be present to connect to new power**
14 **sources in the future as those are needed. Those**
15 **benefits accrue to all of our customers in the**
16 **integrated system, including North Dakota**
17 **customers.**

18 JUDGE FETCH: Excuse me one second. Could
19 you slow down just a little bit, Ms. McCarten. At
20 the beginning I said the proceedings are being
21 recorded. They are being recorded by a court
22 reporter and she needs to be able to get what
23 you're saying.

24 THE WITNESS: Thank you, Judge. I
25 appreciate that caution. I will do so.

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1 JUDGE FETCH: Mr. Norrell, continue.

2 MR. NORRELL: Thank you.

3 **Q. (MR. NORRELL CONTINUING) Is it the**
4 **company's position that it deserves a higher ROE**
5 **because of this particular investment cycle?**

6 **A. I would say our position is that we should**
7 **get an ROE that is commensurate with our investment**
8 **needs to serve our customers, and one of the major**
9 **drivers for setting an ROE is what is needed to**
10 **attract capital. We need to -- we are a very**
11 **capital-intensive business, we need to borrow money**
12 **to make the investments which are very costly in**
13 **our system, and we ask an ROE level that we think**
14 **gives us the opportunity to appropriately attract**
15 **capital to support those investments.**

16 **Q. Would it be appropriate then when the**
17 **investment cycle ends to expect a lower return or**
18 **to seek a lower return going forward after that?**

19 **A. Mr. Norrell, I would perhaps direct that**
20 **question to our future witness Ann Bulkley, but I**
21 **think that every rate case I think we would make**
22 **the case as to the circumstances at that time, what**
23 **is appropriate to attract the capital that's needed**
24 **to invest in our company, and it would entail**
25 **looking at the financial markets and other**

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1 **competing investments that investors have available**
2 **to them.**

3 **Q. By virtue of working with the PSC we get**
4 **to hear from some customers. Some customers have**
5 **expressed concern that the size of this increase is**
6 **excessive and they can't afford it. We have**
7 **retired individuals on fixed incomes who have**
8 **similar concerns. How would you respond to these**
9 **concerns of customers?**

10 **A. I appreciate that, and we hear directly**
11 **from customers as well those concerns. I think**
12 **what we're trying to do is to operate our business**
13 **as efficiently as possible, but we have an**
14 **obligation to serve customers, so when we identify**
15 **a need, either for power supply or investments in**
16 **the grid to ensure reliability, we have an**
17 **obligation to act on that. I would say that we act**
18 **on it in a method that we think is prudent and try**
19 **to manage costs to keep them as low as possible.**

20 **We do also try to offer our customers**
21 **suggestions on how they can manage their energy use**
22 **so that they can control their bill even as rates**
23 **go up. So we appreciate the concern that customers**
24 **have, but I think the consequences of not making**
25 **these investments would be even worse for our**

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1 **customers.**

2 **Q. You had mentioned maybe some encouragement**
3 **with customers on managing their energy use,**
4 **balancing that with the obligation to serve those**
5 **customers. It seems then like the burden would be**
6 **put on the customer to conserve -- you know, it's**
7 **on the customer to save the costs. What kind of**
8 **incentives are there on the company to cut the**
9 **costs?**

10 **A. I think that rate cases like these are**
11 **clearly incentives, where we have to come in and**
12 **show that the costs that we incur are necessary to**
13 **run the business, that we are making -- that**
14 **they're prudent costs, and that we're managing our**
15 **business well. So certainly with the oversight of**
16 **regulators we do have that incentive.**

17 **I think that we -- throughout our**
18 **business, we manage as a business, we manage the**
19 **budget, things happen that are outside of our plan**
20 **and we have to react to those, so it's sort of a**
21 **constant thing that we look at every day as how are**
22 **we managing our business, where are the costs,**
23 **where can we avoid costs if possible, but at the**
24 **end of the day we still have this obligation to**
25 **serve and invest in a system in order to provide**

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1 **reliable, safe service to our customers.**
 2 **Q.** Naturally from a customer's perspective,
 3 an easy target is always up at the top of a
 4 company, why the executives got an X percent amount
 5 of raise. Could you address executive pay? Is
 6 that an area where possibly the company could
 7 legitimately look at cutting costs there?
 8 **A.** **In response to that, I would say that the**
 9 **-- our decisions on compensation for every employee**
 10 **in the company from executives through to the front**
 11 **line, union labor, people like me, everybody in the**
 12 **company, it's all based upon trying to establish**
 13 **ourselves to be competitive in the market. We do**
 14 **need to attract employees that are skilled in order**
 15 **to again provide good service to our customers, and**
 16 **if we don't offer a market-competitive**
 17 **compensation, we won't be able to attract or**
 18 **retrain -- or attract or retain the type of skilled**
 19 **employees that we need to run the business. I**
 20 **can't speak to the particulars of the executives'**
 21 **compensation, but I can tell you that all of our**
 22 **compensation is driven by the market**
 23 **competitiveness.**
 24 **Q.** The company, I believe, told its investors
 25 that it had a good year in 2012. Would you agree

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1 that 2012 was a good year for the company?
 2 **A.** **I believe that's correct for Xcel Energy,**
 3 **the overall holding company.**
 4 **Q.** Okay. If Xcel Energy had a good year in
 5 2012, why is there a need for a rate case in 2013?
 6 **A.** **Okay. So this particular rate case is**
 7 **looking at our performance in this jurisdiction,**
 8 **North Dakota, and I think that what we've presented**
 9 **is evidence that our revenue requirements are**
 10 **increasing because of the investments we're making**
 11 **into the NSP system to serve all of our customers,**
 12 **and without this request, then we would not be**
 13 **performing anywhere near what would be a targeted**
 14 **or expected level of financial performance that our**
 15 **investors are looking for for this jurisdiction,**
 16 **nor would we really be able to provide the service**
 17 **level that our customers need.**
 18 **So the Xcel Energy overall holding**
 19 **company, the performance of that is affected by the**
 20 **performance of each of the four operating**
 21 **companies, NSP-Minnesota, NSP-Wisconsin, Public**
 22 **Service of Colorado, and Southwestern Public**
 23 **Service, which is based in Texas. So the overall**
 24 **performance of Xcel Energy is the aggregate of all**
 25 **of those, but for this rate case we're looking at**

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1 **the particulars of this jurisdiction.**
 2 **Q.** Okay. One of the things that's been
 3 discussed is the fuel clause rider, fuel cost
 4 rider, and it's been stated by the company that
 5 this is not part of this case and should be
 6 addressed in a separate case. In North Dakota we
 7 have a small commission, small staff. You know, it
 8 would be a burden upon the Commission to undertake
 9 that kind of project. Would it be a burden on the
 10 company, would it incur more costs on the company,
 11 which would then be passed along to customers, if
 12 we did a separate proceeding on the FCR?
 13 **A.** **I assume so, but I would also say that**
 14 **without such a proceeding, we don't have a complete**
 15 **record on which to make a decision, so I think it**
 16 **would be appropriate to do that.**
 17 **Q.** When most customers look at their bill,
 18 they probably look at the total, they're not
 19 splitting down the bill. Do you think the
 20 customers would react differently if the rate base
 21 was lower as opposed to the cost rider, or would it
 22 be the same reaction to a customer?
 23 **A.** **I agree with you, customers look at the**
 24 **bottom line, the total bill.**
 25 **Q.** As some of the -- some of the ways to

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1 reduce expense and costs to the company, you
 2 mentioned in your testimony the Black Dog and
 3 Prairie Island uprates were canceled and because
 4 the CapX2020 programs were spread over time, those
 5 are examples of smoothing some costs. Were those
 6 projects, in particular Black Dog and Prairie
 7 Island uprates, were those as a result of lack of
 8 load that those were actually cut or canceled over
 9 time?
 10 **A.** **With respect to the Prairie Island uprate,**
 11 **this was a project where we were doing investments**
 12 **at the Prairie Island nuclear plant in order to**
 13 **allow it to produce more power, a significant**
 14 **amount of more power, I think something on the**
 15 **order of 70 megawatts. And as we proceeded with**
 16 **that project, circumstances changed. I think that**
 17 **the future customer growth did change and was**
 18 **reduced. Also another change that was happening is**
 19 **the costs of completing that project were starting**
 20 **to -- we were estimating they would be higher than**
 21 **we originally thought and at the same time the**
 22 **costs of alternative energy supplies, particularly**
 23 **those fueled by natural gas, were coming down.**
 24 **When we put all that together, we said the need is**
 25 **less, the cost of meeting that need by continuing**

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1 the Prairie Island project is greater than we first
2 thought, and the cost of alternatives to provide
3 that power supply is now less costly. We put that
4 all together and we said it no longer is in the
5 best interests of our customers to conclude the
6 Prairie Island uprate project.

7 Oh, excuse me. Then you asked about the
8 Black Dog project.

9 Q. Yep.

10 A. So the Black Dog project was a proposal to
11 build a certain type of power plant, add a unit at
12 an existing power plant, something called a
13 combined cycle natural gas fueled power plant.
14 That's the type of power plant that serves a
15 particular type of need for our customers. It's
16 not a peaking need typically. It's something that
17 runs more often over the course of a year, and it's
18 more costly than, say, a peaking power plant.

19 Again, as we saw our customer needs
20 changing, our forecast of what our customer needs
21 would be out over the future and the cost of that
22 project, it again seemed to us that that wasn't the
23 best project to meet our customers' needs, it
24 wasn't the most cost-effective project to meet our
25 customers' needs so we also ceased that project.

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1 Q. You mentioned looking long term over
2 customer needs. It sounds like there's not as much
3 growth as anticipated. Would it be accurate to say
4 that?

5 A. I think since 2008 there was a huge
6 downturn in energy usage by our customers and
7 that's slowly coming back, but I think that we are
8 forecasting a much flatter rate of growth out into
9 the future than what most utilities saw prior to
10 2008.

11 Q. Is the company currently planning an
12 acquisition of about 750 megawatts of wind energy?

13 A. That's correct. We have proposed in our
14 commissions -- various commissions to secure those.
15 It's four projects at this point, I believe, yes.

16 Q. What impact does that have with a
17 potential lower or planing load growth over time?
18 How does that help smooth out investments over
19 time?

20 A. Those particular projects will overall
21 reduce customer costs because they will displace
22 the use of energy generated by other higher-cost
23 energy sources. So it may serve some growth, but
24 even if there was no growth, it would displace
25 higher-priced generation, so net net reduce costs

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1 to our customers.

2 Q. Would the company be looking at replacing
3 those other units if there wasn't a 30 percent
4 renewable portfolio standard in Minnesota?

5 A. Is your question -- those other units, you
6 mean the 750 megawatts of proposed wind? Is that
7 what you're referring to?

8 Q. The units that that proposed wind project
9 would replace, would the company be looking at
10 those wind projects if there wasn't the 30 percent
11 renewable portfolio in place?

12 A. Yes, those projects serve our customers on
13 their face by the reduced cost to customers that
14 they provide, so that alone provides value to our
15 customers.

16 Q. How much of the company's transmission
17 expenditures go into -- how much percent do you put
18 into wind transmission -- transmission from the
19 wind farms to the baseload? Sorry.

20 A. Mr. Norrell, I don't think I can answer
21 that question. I know several years ago there were
22 some projects that there was some transmission
23 investment that was tied directly to wind, but, for
24 example, the CapX2020, that's a general purpose
25 that it serves. So I don't think I can answer your

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1 question and perhaps there's someone else here we
2 can direct that to.

3 Q. We've seen studies where it looks like up
4 to 75 percent of the cost of transmission
5 investments are necessary for wind integration, so
6 I guess our question is wondering, if there wasn't
7 this additional wind development, would customers'
8 costs be lower?

9 A. Mr. Norrell, I believe that the rationale
10 and the reason that we got approval from our
11 regulatory commissions to proceed with the CapX2020
12 projects, which are 345 kV high-voltage
13 transmission, comes into North Dakota, into South
14 Dakota and over to Wisconsin, that that was
15 approved based upon an overall providing value
16 for -- pertaining to local reliability issues,
17 regional reliability issues, and providing a more
18 robust network that would connect to all types of
19 energy sources. I'm not familiar with what you're
20 referring to with the 70 percent, so I'm not
21 familiar with that piece of information. I don't
22 think I've seen that.

23 Q. Looking to other ways the company could
24 control costs, we've heard that the company is
25 moving to new corporate headquarters. What's going

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1 to happen to the old corporate headquarters on the
 2 Nicollet Mall in Minneapolis?
 3 **A. Okay. So these are costs that are not**
 4 **part of this rate case, first of all. This is a**
 5 **future project. But we have an existing corporate**
 6 **headquarters on Nicollet Mall in Minneapolis. We**
 7 **also lease space in another building that's about**
 8 **two blocks away where a lot of office personnel are**
 9 **housed. The new building will be built across the**
 10 **street from the existing corporate headquarters, so**
 11 **we will retain the existing corporate headquarters,**
 12 **and then rather than leasing space where we**
 13 **currently do, we'll have a new building and we'll**
 14 **be leasing that space, and we'll bring all the**
 15 **employees from that other building over across the**
 16 **street to our existing headquarters. So we'll keep**
 17 **our existing building that we currently own and**
 18 **we'll stop leasing in the current location and,**
 19 **instead, occupy the new building, which we will be**
 20 **occupying under a lease arrangement. I think that**
 21 **was expected in about 2016.**
 22 **Q. Will this be saving customers in the end**
 23 **money at all?**
 24 **A. My understanding is that our valuation is**
 25 **that it's very comparable in cost to continuing the**

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1 **lease at the existing building that we have today.**
 2 **I believe we've also identified nonquantified**
 3 **benefits that we think we will experience in terms**
 4 **of greater efficiency in being able to work with**
 5 **two buildings just right across the street from**
 6 **each other. We think -- I mean, I don't know all**
 7 **the particulars of that, but I think that we**
 8 **believe it is a good investment for our customers.**
 9 **Q. Could you give us an example of how those**
 10 **nonquantified benefits would help a customer?**
 11 **A. Well, again, I don't have that in front of**
 12 **me because it's not part of this case, we're not**
 13 **asking for cost recovery of that future investment,**
 14 **so, I'm sorry, I don't have that information**
 15 **readily available.**
 16 **Q. Okay. So let's look to a past issue.**
 17 **Could you just briefly describe the Sherco failure**
 18 **for the Commission?**
 19 **A. I will try. I'm somewhat familiar with**
 20 **that. But we have our largest power plant in the**
 21 **State of Minnesota that serves all of our**
 22 **customers, it's a coal-fueled power plant called**
 23 **Sherburne County, called Sherco for short. There**
 24 **are three coal-burning units there. The Sherco 3**
 25 **was the unit that experienced this failure, and I**

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1 **believe it was in the fall of 2012, approximately**
 2 **November.**
 3 **As they were coming out of a maintenance**
 4 **outage, which we periodically do at these large**
 5 **units to refurbish everything, one of the most**
 6 **significant steps at startup is to take the massive**
 7 **turbine generator unit, which is truly massive, and**
 8 **to put it through tests before you actually bring**
 9 **it up and start the plant operating in normal**
 10 **operation, and during one of those tests that**
 11 **turbine generator unit experienced a massive**
 12 **failure and suffered extensive damage to the**
 13 **turbine generator, other parts of that unit.**
 14 **We are now -- we have gone through a very**
 15 **massive, extensive repair process. We are at this**
 16 **moment going through startup activities and testing**
 17 **activities. If all goes well, we expect to have**
 18 **that unit back synchronized to the grid and**
 19 **generating power by the end of September.**
 20 **Q. Who is paying for the repair of this**
 21 **Sherco 3 unit?**
 22 **A. It's my understanding that most of that is**
 23 **being covered by the insurance cost that we carry**
 24 **for that unit.**
 25 **Q. Will insurance then in turn go up because**

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1 of this accident?
 2 **A. I do not know.**
 3 **Q. If insurance did indeed go up, how would**
 4 **the increase in the insurance costs be recovered?**
 5 **A. The question of whether insurance costs**
 6 **will go up -- I guess one thing I would also say is**
 7 **that we have determined through extensive forensic**
 8 **analysis of that accident what the cause was. The**
 9 **root cause was in the manufacturing of the turbine**
 10 **itself. There was something called stress**
 11 **corrosion cracking that happened that was due to**
 12 **original manufacturing methodology or materials. I**
 13 **don't know whether that then would influence our**
 14 **insurance because it wasn't an operational issue on**
 15 **our part.**
 16 **If insurance costs would go up in any part**
 17 **of our business, I do believe that's part of the**
 18 **cost of doing business and we would certainly stand**
 19 **to prove that we've secured reasonably priced,**
 20 **prudently priced coverage, but we would see that as**
 21 **a cost of business and so we would seek recovery of**
 22 **that through our rates.**
 23 **Q. I apologize. Just consulting over here in**
 24 **the corner.**
 25 **A. That's okay. I'll get a drink.**

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1 **Q.** With the -- we talked earlier about the
 2 change in the Prairie Island plant, so it looked
 3 like there were some potential cost overruns of
 4 nuclear -- or it appears -- there's an appearance
 5 at least of cost overruns in nuclear projects,
 6 there's major repairs needed at Black Dog, Sherco
 7 you've discussed potentially that may not have been
 8 a company issue, but there's still the question
 9 that we'd like to ask posed on behalf of consumers
 10 is, is there a pattern of mismanagement at the
 11 company? What are your thoughts on that question?

12 **A. My thoughts are, no, there's not. And I'm**
 13 **not sure what your reference was to the repairs at**
 14 **Black Dog.**

15 **Q.** The unit 2, 5.

16 **A. Repairs? I'm sorry. I think you**
 17 **mentioned -- you used the term repairs at Black**
 18 **Dog. I'm not sure what that's referencing.**

19 **Q.** I'm not sure either. We'll just strike
 20 this line of questioning.

21 **A. Okay. Thank you.**

22 **Q.** Let's go to the 12 CP method here. On the
 23 bottom of page 2 and continuing onto page 3 of your
 24 rebuttal, you state that the company -- the CP
 25 method preserves the company's ability to provide

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1 the kind of service your customers depend on and
 2 expect. Would you please explain what kind of
 3 service that is that the customers depend on and
 4 expect, from your position, from your opinion?

5 **A. Sure. Our customers expect that we're**
 6 **going to provide safe electrical service at all**
 7 **times. They expect and require highly reliable**
 8 **electric service. They expect that we are planning**
 9 **our business in a way that looks to the future and**
 10 **takes steps now such that we don't fall into**
 11 **situations of compromising safety or reliability.**
 12 **Our customers want us to be cost-effective. They**
 13 **want us to spend the money we need to, but not**
 14 **more. They want to have an affordable bill. We**
 15 **know that. Our customers also want us to do all of**
 16 **those things as well as possible, and to the extent**
 17 **that we can also continue to achieve clean energy,**
 18 **they want that as well. So at a very high level, I**
 19 **think those are definitely our customers'**
 20 **expectations.**

21 MR. NORRELL: I would like to -- with your
 22 permission, Your Honor, I would like to approach
 23 the stand. I have an exhibit for the witness and I
 24 will definitely provide this to counsel as well.

25 JUDGE FETCH: Go ahead, Mr. Norrell. You

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1 just have one copy?

2 MR. NORRELL: I do not. I'm just
 3 providing it for review.

4 JUDGE FETCH: All right. This will be PSC
 5 8.

6 COMMISSIONER KALK: Bigger font is not a
 7 crime, just so you know, Ryan.

8 JUDGE FETCH: And what is this exhibit,
 9 Mr. Norrell?

10 MR. NORRELL: This is a cable outage
 11 report. It is our belief that this is the latest.

12 **Q.** (MR. NORRELL CONTINUING) Have you seen
 13 this before, Ms. McCarten?

14 **A. I have not reviewed this before, but I'm**
 15 **familiar with the compliance reporting of this type**
 16 **of information with the fact that that does exist.**

17 MR. NORRELL: The counsel -- or PSC staff
 18 would like to admit this as PSC 8.

19 JUDGE FETCH: Any objection, Ms. Valley?

20 MS. VALLEY: No. Thank you, Your Honor.

21 JUDGE FETCH: All right. PSC Exhibit 8 is
 22 admitted. Proceed, Mr. Norrell, please.

23 MR. NORRELL: Thank you.

24 **Q.** (MR. NORRELL CONTINUING) I believe if you
 25 look at the bottom, this is outages through the end

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1 of June; is that correct?

2 **A. That appears to be correct, yes.**

3 **Q.** How many outages then would this be -- the
 4 total for the first six months of 2013?

5 **A. This chart has 33 lines in it. Each**
 6 **appears to designate a separate outage.**

7 **Q.** Okay. Could you look at line number 7 and
 8 tell us where the outage was, how long it was and
 9 how many customers were affected?

10 **A. Line 7, it's a February 16th event, 10:13**
 11 **a.m., the outage duration is two hours and 25**
 12 **minutes, it occurred in Grand Forks, 1,139**
 13 **customers were impacted.**

14 **Q.** Could you look at line 12 as well and
 15 state the same, the date, the duration, the
 16 location and how many customers?

17 **A. Yes. March 29th, 5:03 p.m., the duration**
 18 **was one hour and six minutes, it occurred in Grand**
 19 **Forks, and 1,359 customers were affected.**

20 **Q.** Do you know if these lines will be
 21 replaced and, if not, what is the criteria for when
 22 these lines would be replaced?

23 **A. You know, since I haven't seen this**
 24 **before, I think this question would be best**
 25 **answered by one of our other witnesses.**

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1 **Q.** Do you know which witness?

2 **A. Steve Foss.**

3 **Q.** Thank you. The company each year prepares

4 a comparison study for Xcel Energy and compares the

5 company to peer utility groups; is that correct?

6 **A. I'm aware that we do that on a variety of**

7 **comparisons and performance metrics, so a lot of**

8 **that happens.**

9 **Q.** I'd like to ask you a couple questions in

10 regard to one.

11 MR. NORRELL: May I approach the stand,

12 Your Honor?

13 JUDGE FETCH: Yes, you may.

14 MR. NORRELL: Your Honor, what I have

15 handed out is a -- it's actually a response to data

16 request 10-003, a supplemental response, and

17 Commission staff would like to admit this as PSC 9.

18 JUDGE FETCH: Is there any objection, Ms.

19 Valley?

20 MS. VALLEY: Thank you, Your Honor. No

21 objection.

22 JUDGE FETCH: Okay. PSC Exhibit 9 is

23 admitted.

24 **Q.** (MR. NORRELL CONTINUING) Ms. McCarten,

25 are you familiar with the document in front of you?

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1 **A. I don't think I've reviewed this.**

2 **Q.** Could you look at the top page, which is

3 in the bottom marked page 2. On the docket sticker

4 it's marked Attachment A, page 3 of 23.

5 **A. Okay. I have that.**

6 **Q.** Could you look for us and tell us how many

7 rankings in the top 10 percent or top quarter

8 NSP-Minnesota had for 2012?

9 **A. This report of the rankings for 2011?**

10 **Q.** I'm sorry. Yes, 2011.

11 **A. This reports -- again, your question is**

12 **for NSP-Minnesota?**

13 **Q.** Yes.

14 **A. Okay. It says zero in the top decile.**

15 **Q.** Did NSP-Minnesota fare better in previous

16 years than in this report?

17 **A. I don't know.**

18 **Q.** Do you happen to know what the primary

19 causes of why there weren't any top rankings in

20 this report?

21 **A. I can't speak to this report specifically,**

22 **but, if I could, I would just note that we've**

23 **talked about the fact that our company is in a**

24 **significant investment cycle right now to refresh**

25 **and modernize our system, things like investing in**

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1 **the nuclear power plants. Every utility could be**

2 **at a different point in that cycle, so the things**

3 **that affect costs are -- they're complex and I**

4 **don't know how those other -- where those other**

5 **utilities are that the comparison is here in**

6 **particular with respect to cost.**

7 **Q.** I apologize just a second. Try to get

8 some documents straight here.

9 On page -- it's marked 16 on the bottom

10 right-hand corner. I apologize. I think these are

11 double-sided too. That's part of the issue I'm

12 having on my page is flipping back and forth.

13 It states on the bottom right-hand corner,

14 retail sales per megawatt-hour. This shows that

15 NSP has the highest retail sales per megawatt-hour.

16 How do you reconcile this with trying to encourage

17 customers to use less electricity?

18 **A. So this chart shows three lines on it. I**

19 **really don't know how this chart was calculated, so**

20 **I just can't answer your question. I'm just not**

21 **familiar with this document.**

22 **Q.** Okay. At other places in this document, I

23 believe it would be back on page 10, it states the

24 highest percent of non-fuel O&M costs as compared

25 to retail revenue and megawatt sales. In 2011 --

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1 or 2010, 2011, and 2012, NSPM had the highest

2 non-fuel O&M costs relative to retail sales. Do

3 you know why that would be?

4 **A. Just to be sure I'm with you, you're**

5 **referring to page 10? It's labeled as page 10 in**

6 **the lower right hand?**

7 **Q.** Yes.

8 **A. And the charts that I see are for 2009,**

9 **2010, 2011.**

10 **Q.** Oh, I apologize. I'm on Attachment B.

11 This would be page -- I believe there are two

12 attachments. They're two different years.

13 **A. Okay. So --**

14 **Q.** I'm sorry.

15 **A. So Attachment B, page 11 of 23?**

16 **Q.** Yes.

17 **A. And could you please ask the question**

18 **again.**

19 **Q.** I'm sorry. Page 10 -- okay. This shows

20 that NSPM has the highest non-fuel operating and

21 maintenance costs as related to retail

22 megawatt-hour sales. Do you know why that would

23 be?

24 **A. I don't know particularly why that would**

25 **be other than to say that whatever costs we need to**

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1 **run our business, which, you know, always goes**
 2 **through extensive review by our regulatory**
 3 **commissions over these periods.**

4 **Q.** Okay. We're done with this attachment,
 5 with this exhibit.

6 JUDGE FETCH: Where did you get this
 7 information from, Mr. Norrell?

8 MR. NORRELL: It was submitted as part of
 9 a data request earlier in the case. It is not part
 10 of the --

11 JUDGE FETCH: So it came from Xcel Energy?

12 MR. NORRELL: Yes, it did come from Xcel
 13 Energy.

14 JUDGE FETCH: Thank you.

15 **Q.** (MR. NORRELL CONTINUING) The company
 16 allocates all transmission costs to all
 17 jurisdictions; is that correct?

18 **A.** **It's my understanding that transmission**
 19 **costs are shared across all of our jurisdictions,**
 20 **yes.**

21 **Q.** Even when a transmission line might be
 22 between two substations in Minnesota?

23 **A.** **That might be a question better directed**
 24 **to Steve Foss, but I think the criteria is that**
 25 **it's an element of the high-voltage grid that's**

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1 **needed for regional reliability, and, interestingly**
 2 **enough, with the grid and the way it works, you can**
 3 **have segments that are very critical that can be**
 4 **very far afield from a particular customer but that**
 5 **customer can be affected by the performance or a**
 6 **segment of the high-voltage transmission grid that**
 7 **isn't directly next-door to it.**

8 **Q.** In testimony from the company, from
 9 yourself as well as other witnesses, the company
 10 has stated that there's been things that are based
 11 on precedence here. Would the company -- if the
 12 Commission was looking to change or move from
 13 precedence to something that benefited the company,
 14 would the company be raising the same argument in
 15 that situation?

16 **A.** **I think we would always take the position**
 17 **that the best decisions are guided by principled**
 18 **ratemaking and the regulatory compact that says**
 19 **what is the cost of the activity, who should**
 20 **properly pay for that activity, did the customer --**
 21 **did the company incur reasonable and prudent costs**
 22 **to provide the service, and what's the correct**
 23 **balance between customers and the company. So I**
 24 **think we would always come to every question with**
 25 **that same perspective, is what do the principles of**

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1 **ratemaking and the regulatory compact direct us to**
 2 **and what do the facts tell us.**

3 **Q.** Could you explain for the Commission
 4 briefly what a 12-month coincidental peak demand
 5 allocation method is?

6 **A.** **I'm definitely going to refer you to our**
 7 **witness on that, Scott Brockett.**

8 **Q.** Do you know how long the company has been
 9 using a 12 CP method?

10 **A.** **I am going actually by Ms. Valley's**
 11 **opening statement that we have been using this for,**
 12 **I think, a couple of decades across all of our**
 13 **jurisdictions here in the NSP integrated system**
 14 **here, so that would be North Dakota, South Dakota,**
 15 **Minnesota, Wisconsin.**

16 **Q.** Do you know which method the company used
 17 prior to 12 CP?

18 **A.** **I don't.**

19 **Q.** You had stated, and Ms. Valley had stated
 20 as well in opening statements, about the principles
 21 of ratemaking. Is 1 CP an approved method of
 22 ratemaking?

23 **A.** **I would again direct you to our expert**
 24 **witness, Scott Brockett, for that discussion.**

25 **Q.** An issue that you had brought up was the,

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1 I believe -- let me check real quick. In the
 2 rebuttal testimony and also in other places it's
 3 discussed the incentive compensation issues. Do
 4 you happen to know, did Wisconsin approve or deny
 5 incentive compensation for NSP employees?

6 **A.** **I believe the Wisconsin Commission denied**
 7 **that. If I can just -- if I may just take a look**
 8 **at my --**

9 **Q.** I believe page 10 of your rebuttal
 10 testimony.

11 **A.** **Thank you. Yes, the Wisconsin Public**
 12 **Service Commission decided to not allow incentive**
 13 **compensation in rates.**

14 **Q.** Do you know the reason why Wisconsin
 15 disallowed those?

16 **A.** **I don't.**

17 **Q.** Do you know, do you have a witness who
 18 could testify to those reasons?

19 **A.** **Do we have a witness who could testify as**
 20 **to why Wisconsin disallowed the incentive**
 21 **compensation? I know we have an incentive**
 22 **compensation witness. I'm not sure if she's**
 23 **familiar with the Wisconsin Commission's decision**
 24 **and rationale of that.**

25 **I would note -- I guess I've made this**

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1 point in my testimony -- that pulling a single
2 aspect of a Commission's decision and using it to
3 guide a decision here is really not consistent with
4 the ratemaking, which looks at the overall revenue
5 requirement, it looks at the totality of how issues
6 were handled. The Wisconsin Commission also
7 awarded us a 10.4 ROE and allowed for about 90
8 percent recovery of the costs that we requested,
9 so --

10 Q. So it's fair to say, though, that looking
11 to other states isn't out of the question just to
12 get a gauge of the regulatory environment?

13 A. In general I think that that's true, we do
14 look to other states for directions that are
15 happening.

16 Q. On page 15 of your rebuttal testimony we
17 talk about charitable contributions, and you state
18 that these have been approved in North Dakota in
19 the past. Do you know if those were approved via a
20 settlement agreement, however?

21 A. I'm not certain, Mr. Norrell. I'm sorry.

22 Q. How does a charitable contribution enhance
23 or provide a better utility service to your
24 customers?

25 A. I think for both charitable contributions

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1 and the contributions we make to economic activity
2 in the communities we serve are a couple of things.
3 They're part of what our customers and our
4 communities expect of us as corporate citizens of
5 that community. I think it helps to build a strong
6 community, it helps to encourage economic vitality
7 and hopefully economic growth, and that in turn
8 helps all of our customers because as we have more
9 units of energy to spread fixed costs over, if we
10 have good economic growth, then customers benefit
11 because their share of the costs are less than they
12 could otherwise be.

13 We actually saw this when we had a
14 significant economic downturn and units of energy
15 dropped significantly, we had to share more
16 costs -- this was in a different jurisdiction, but
17 just by way of illustration, it's sort of an
18 extreme, we had to share fixed costs over fewer
19 units of energy and in that case that was a
20 contributor to a rate request. So encouraging
21 economic vitality we think helps our customers in
22 that roundabout way of helping to spread fixed
23 costs over more energy usage.

24 Q. Do the customers have any sort of say in
25 which economic development organizations or which

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1 charities get the funds that NSP gives to them or
2 donates?

3 A. We are guided in our decisions about where
4 we contribute for charitable contributions and
5 economic activity that we engage in by the
6 communities that we serve and more specifically by
7 the employees of Xcel Energy that live in those
8 communities and are leaders of those communities.
9 So we think that we are well aligned in our
10 communities' desires and needs and we make -- our
11 decisions for charitable and economic activity are
12 informed by those, so I think we are responsive to
13 our overall customer intentions or desires.

14 Q. What if a customer or even an employee
15 disagrees with where the money is going, is there
16 any sort of avenue for redress, or how do they
17 change that?

18 A. Well, if someone were to take issue with
19 how we're making charitable contributions or making
20 economic development, they certainly can reach out
21 to us and share their concerns with us. In fact,
22 people do that. But at some point we have to
23 figure out how do we act in a manner that we think
24 comports with the interests of the majority of our
25 customers and with our communities even if there

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1 may be individuals that disagree with parts of
2 those decisions.

3 Q. In your rebuttal testimony, page 10, line
4 6, we're talking about -- and this has been brought
5 up before so far in the hearing -- the historical
6 basis that's been used and the company takes issue
7 with. Has the company, do you know, provided any
8 actual results of its operations in 2013, such as
9 quarterly financial reports or semiannual reports,
10 to determine that its projected forecasts are in
11 line with actual operations in North Dakota?

12 A. Have we provided reports that report on --
13 what aspects in particular are you speaking of?

14 Q. I guess any sort of quarterly financial
15 reports to let us know where your projections are
16 versus where your actuals are for 2013.

17 A. Oh, a projection for 2013. I don't
18 believe we provided a projection for 2013. We have
19 provided -- once we have actuals after the end of
20 the calendar year, we provided data for 2012, I
21 believe, and before. And I may not be -- I'm not
22 aware of reports if we've filed any about our
23 financial -- projected financial performance for
24 2013.

25 Q. Is 2013 the test year that you're using?

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1 **A. Yes, it is. So in that respect our whole**
 2 **rate case is a projection, so it's a projection**
 3 **based upon certain assumptions.**
 4 **Q. And you don't have anything throughout the**
 5 **year that you're going to check those assumptions**
 6 **against?**
 7 **A. Well, we did revise our request, so our**
 8 **original request was at a certain level with a**
 9 **certain requested ROE and we did revise that to**
 10 **reflect some changing market conditions, so a**
 11 **different ROE and some changes in our revenue**
 12 **requirement analysis which brought our request**
 13 **down, so it's about an 8 percent request at this**
 14 **point. I'm not sure exactly what you may be asking**
 15 **of me beyond that.**
 16 **Q. We're just wondering if you have any**
 17 **actual numbers to help provide -- one of the**
 18 **contentions is that we use historical -- we use a**
 19 **three-year historical average. One of the reasons**
 20 **for that is we don't have any actual numbers from**
 21 **the company regarding where they're at in 2013.**
 22 **It's all just a projection and there's nothing to**
 23 **ground it. How would you respond to that?**
 24 **A. I guess I would respond to that that using**
 25 **projected expenses and projected revenues is the**

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1 **basis and the standard for the test year here in**
 2 **North Dakota and it has been how we've approached**
 3 **it in our previous rate cases. And so beyond that**
 4 **I think you'd have to ask one of our attorneys, I**
 5 **guess.**
 6 **Q. How does the company determine that the**
 7 **forecasted data is accurate and reliable?**
 8 **A. Okay. I think we put together a forecast**
 9 **of what our expenses are and revenues and a lot**
 10 **goes into that. There is, for example, a budget**
 11 **system that says here's the costs that we need to**
 12 **incur in 2013. And if I could just speak to that a**
 13 **little bit.**
 14 **All of the costs that come through that**
 15 **are reflected in our 2013 case really result from a**
 16 **very extensive set of planning and budgeting on**
 17 **what projects need to be done. As a very**
 18 **capital-intensive business, it's basically the core**
 19 **of what we have to do because we have to manage so**
 20 **much money because of the nature of our business.**
 21 **The planning prioritization, executing of projects**
 22 **is basically the core of what we do.**
 23 **So part of our rate request in 2013 is**
 24 **driven by investments on the resource planning side**
 25 **or the resource side, in particular our nuclear**

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1 **power plants, and we've spoken a lot about those.**
 2 **Those investments were needed to extend the life**
 3 **another 20 years. Those investments had to happen**
 4 **now in order to get those license renewals. The**
 5 **planning for that started several years ago and it**
 6 **culminates then when the project work gets done,**
 7 **which includes last year, this year, and even into**
 8 **next year. So that's a big part of what our 2013**
 9 **test year is.**
 10 **Another part of it is spending in our**
 11 **transmission and distribution part of our business.**
 12 **The budgets for 2013 that are -- are created**
 13 **starting from a process that begins with the**
 14 **front-line people who manage the system, engineers,**
 15 **operators, planners, whether in the distribution**
 16 **side, the transmission side, or the power supply**
 17 **side. They start by looking at where are there**
 18 **problems or risks of safety, reliability, plant**
 19 **performance, compliance with legal requirements or**
 20 **regulatory requirements, and they develop proposed**
 21 **projects to address those risks.**
 22 **Our standard process internally is they**
 23 **have to then develop data for all of those projects**
 24 **that identify what's the driver, what's the risk,**
 25 **what's the timing of the risk, what happens if you**

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1 **don't do the project. And then from that a list of**
 2 **proposed projects with all these screening criteria**
 3 **are developed and it runs through several layers of**
 4 **management, continuing a process of review,**
 5 **evaluation and prioritization that ultimately says**
 6 **here are the projects that we absolutely need to do**
 7 **to fulfill our obligation for service to customers,**
 8 **operate safely, meet legal and environmental and**
 9 **regulatory requirements.**
 10 **And then each business unit brings those**
 11 **projects up and that's reviewed on a corporate**
 12 **basis. So at a corporate level we're looking at**
 13 **what does distribution think we need to do, how**
 14 **much money, what are the criteria, transmission,**
 15 **energy supply. A totality of a view is taken as to**
 16 **are these the costs that we need to spend this**
 17 **year. That's how we create a budget for a**
 18 **particular year.**
 19 **We also do five-year plans, so we do**
 20 **year-by-year budgets and we're also doing sort of**
 21 **rolling five-year plans so that we can see projects**
 22 **that are going to be out in the future further than**
 23 **this year. All of that is in our test year. All**
 24 **of that is vetted to the fullest of our ability to**
 25 **say this is what we need to do, here's why we need**

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1 to do it, here's the costs that we're going to be
2 managing to.

3 On the revenue side we put together a
4 forecast for what we think our customers' energy
5 use is going to be, and I think that we probably
6 have data even towards the middle of this year
7 where we can say here's where our forecast is,
8 here's what the actual is, are we forecasting well,
9 do we have a good process for forecasting
10 customers' energy growth.

11 So there's a lot that goes into putting
12 together that test year. I think your question
13 was, is there information that says, okay, now
14 we're halfway through the year, where are you
15 relative to that. I'm not familiar with that
16 information. I don't have that in front of me
17 here.

18 JUDGE FETCH: All right. We're going to
19 take a little break at this time. Mr. Norrell, do
20 you know how much longer you're going to be with
21 this witness?

22 MR. NORRELL: Probably only about five
23 more minutes, Your Honor.

24 JUDGE FETCH: Well, take a break and think
25 about it. We're going to take 15 minutes and we

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1 will -- it is 10:35. We will resume at 10:50.

2 (Recess taken.)

3 JUDGE FETCH: We are back on the record
4 and it is about 10:52 a.m., Central Time. And at
5 this time we'll continue with questioning of Laura
6 McCarten by Ryan Norrell.

7 MR. NORRELL: Thank you, Your Honor.

8 **Q.** (MR. NORRELL CONTINUING) Ms. McCarten, I
9 just want to wrap up with a couple questions on
10 your testimony and you stated here today -- you've
11 talked a lot about the principles of ratemaking --
12 could you describe -- and principled ratemaking.
13 Could you describe what that means to the company,
14 principles and principled ratemaking?

15 **A.** I think it goes back to what we would call
16 the regulatory compact and what are the principles
17 of ratemaking that allow the company to recover
18 reasonable and prudently incurred costs that are
19 necessary to serve the customers, that also allow
20 the company the opportunity to earn a rate of
21 return that's adequate to attract capital that we
22 need to invest in our system, that strikes a
23 balance between the customers and the company that
24 provides the company the opportunity for sound
25 financial performance, that provides a stable

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1 regulatory environment. So that again can help the
2 company perform in a financially healthy manner,
3 which ultimately is good for our customers.

4 **Q.** What are those principles based on? Are
5 there any metrics or any sort of -- what are they
6 based on?

7 **A.** So I think the principles start from sort
8 of the desired outcome of a regulatory compact.
9 They are carried through in state statute and we
10 referred to a couple of those that -- here in North
11 Dakota. They are built through Commission
12 decisions, precedent, experience, and certainly the
13 facts that tell you -- the facts that help guide
14 you into decisions that achieve those overarching
15 outcomes that I mentioned at the beginning.

16 **Q.** So these principles, if they're based on
17 state statutes, there are 50 different states, each
18 state is going to have a different set of statutes,
19 each commission is going to have a different set of
20 decisions, each company in each case is going to
21 have a different set of facts at hand. Do these
22 principles -- are they fluid or are they set in
23 stone, do they change over time?

24 **A.** It's my understanding that there's a lot
25 of commonality across the whole country in terms of

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1 ratemaking principles, and I think that makes sense
2 given that for utilities such as ours that need to
3 access the capital market, there is one capital
4 market, so they don't really care what state you're
5 in, they're looking at is your company a good
6 investment. I believe there's a lot of commonality
7 that has been developed in terms of what principles
8 of ratemaking are that achieve that regulatory
9 compact. I believe there are some state-to-state
10 differences. I don't really know what all of those
11 are. But, yeah, I do believe there is a high
12 degree of commonality.

13 MR. NORRELL: Thank you, Your Honor. No
14 further questions for this witness.

15 JUDGE FETCH: Thank you, Mr. Norrell. Ms.
16 Jeffcoat-Sacco, do you have questions?

17 MS. JEFFCOAT-SACCO: I have a few. I
18 won't say a couple because then it's always more
19 than two and then people comment on that. I have a
20 few.

21 I was going to ask exactly what Ryan asked
22 about what was the jurisdictional allocation prior
23 to the 12 CP and I will ask specifically that the
24 company file information to disclose that and the
25 date and maybe the order number, if possible, when

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1 12 CP was approved by the Commission. Would that
2 be acceptable?
3 THE WITNESS: Yes.
4 JUDGE FETCH: Are you asking that to be a
5 late-filed exhibit, Ms. Jeffcoat-Sacco?
6 MS. JEFFCOAT-SACCO: I think that would be
7 appropriate.
8 JUDGE FETCH: Okay. Would you repeat that
9 once again?
10 MS. JEFFCOAT-SACCO: The date, order
11 number -- the date and order number when the 12 CP
12 jurisdictional allocation was approved by the
13 Commission and, in addition, the allocation used
14 just prior to that.
15 JUDGE FETCH: All right. Thank you. And
16 we'll mark that as a late-filed exhibit for NSP.
17 Ms. Valley, do you already have all the
18 witness statements labeled, numbered?
19 MS. VALLEY: Thank you, Your Honor. No,
20 they are not already labeled.
21 JUDGE FETCH: Well, why don't we just call
22 this late-filed Exhibit A for NSP.
23 All right. Thank you. Ms.
24 Jeffcoat-Sacco, please proceed.
25

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1 **CROSS-EXAMINATION**
2 **BY MS. JEFFCOAT-SACCO:**
3 **Q.** On page 5 of your rebuttal, I believe, you
4 talk about -- and I think maybe a little before
5 that you talk about working with staff to smooth
6 certain costs and you talk a little bit in there
7 about smoothing pension costs, and I just thought
8 maybe you could give me the fourth-grade level
9 explanation what you're talking about so I could
10 understand it.
11 **A. Yes. Certainly. In this test year we do**
12 **have pension expenses that are a result of**
13 **amortizing market losses in our pension fund that**
14 **occurred in the 2008 economic downturn. We call**
15 **this the 2008 market loss. What we're proposing is**
16 **that this total amount that we would -- that we're**
17 **proposing to collect in 2013 we could instead**
18 **collect over several years, so the smoothing is to**
19 **reduce the amount we collect in 2013 and then push**
20 **off that collection into some future years so that**
21 **we still collect the full amount, but it takes**
22 **place over a longer period of time so each year the**
23 **impact is less.**
24 **Q.** You don't have a specific proposal for
25 that filed, though, do you, at this time?

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1 **A. No.**
2 **Q.** You're offering that as an option?
3 **A. That's correct. We don't have a proposal**
4 **filed, but we are offering that as an option to**
5 **work with the Commission and staff on if that is of**
6 **interest.**
7 **Q.** Are there other cost items that you are
8 offering that option -- offering to explore that
9 option or only the pension costs?
10 **A. I believe that the smoothing mechanism**
11 **that I just described, we've just offered up for**
12 **the pension costs. If there are other costs that**
13 **the staff or Commission think that that would be an**
14 **appropriate treatment of, we would like to explore**
15 **that with you.**
16 **Q.** This may end up being another late-filed
17 exhibit and I am basically asking for this from --
18 kind of from both sides, but can you give me a
19 simple list of your capital investment items that
20 have been brought up in this rate case -- that you
21 are asserting staff has brought up in this case
22 that you did not ask for recovery for but also that
23 have pending -- other cases pending? Can you give
24 me that list?
25 **A. Yes, we can give you that list. And just**

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1 for the moment, let me try to answer that question,
2 but I think we want to file a specific exhibit for
3 that.
4 **But for capital case -- for capital**
5 **request, I believe that it would encompass one of**
6 **the pending wind projects -- actually two pending**
7 **wind projects. Of the four projects that we're**
8 **proposing to secure, two would be through power**
9 **purchase agreements and the other two would be**
10 **projects that we would own.**
11 **Q.** And give me the names -- the names that
12 we're going to be familiar with, you know, the
13 shorthand version we talk about when we talk about
14 these places, if you can.
15 **A. Okay. Of the two wind projects that we**
16 **would propose to own, one of those is called Border**
17 **Winds, it's located here in North Dakota, and the**
18 **other -- let me just try to find my reference here.**
19 **I think it's the Pleasant Valley. But we'll make**
20 **sure that our exhibit has the correct designation**
21 **of which of those four projects are the two that we**
22 **would propose to own and thus would be capital**
23 **projects.**
24 **Q.** Okay. And then you would give us the case
25 numbers --

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1 **A. Yes.**

2 **Q.** -- associated with those? And also for

3 the two power purchase cases?

4 **A. Okay. And I believe all of those are**

5 **advance determination of prudence cases that would**

6 **be -- those projects would be reviewed under.**

7 **Q.** So there are four pending ADP cases for

8 four projects, two of which would be owned and two

9 of which would be power purchase?

10 **A. Subject to getting the complete accurate**

11 **information, maybe I should just say let's get that**

12 **data filed so that I'm not confusing -- creating**

13 **confusion by saying something that's inaccurate**

14 **here.**

15 MS. JEFFCOAT-SACCO: Let's call that NSP

16 B, if that's okay.

17 JUDGE FETCH: Late-filed NSP B, and give

18 that a title, shorthand version, please, so that

19 when it comes in, we can identify what that is.

20 MS. JEFFCOAT-SACCO: I would say pending

21 ADP cases.

22 JUDGE FETCH: ADP cases. Okay.

23 MS. JEFFCOAT-SACCO: I want to say not

24 part of the rate case, but I don't want to say that

25 because I'm going to ask staff to tell me if, in

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1 their opinion, there are parts of that in the rate

2 case. So pending ADP cases for which NSP has not

3 requested recovery in this rate case. Would that

4 be accurate?

5 THE WITNESS: I think that's accurate.

6 JUDGE FETCH: Has not requested recovery

7 in this rate case.

8 MS. JEFFCOAT-SACCO: In 813, yeah.

9 JUDGE FETCH: Okay.

10 MS. JEFFCOAT-SACCO: But I also would ask

11 staff then to respond -- I hope this doesn't

12 take -- it can be done before the hearing is closed

13 because I do want staff's response to that list.

14 THE WITNESS: I think we could probably do

15 that over the lunch hour. I'm looking at my

16 attorneys.

17 JUDGE FETCH: Well, then they probably

18 would not be late-filed exhibits.

19 MS. JEFFCOAT-SACCO: That's true.

20 JUDGE FETCH: Let's not label the document

21 at this time or discuss admitting it. If you can

22 produce that, then we'll deal with it through the

23 hearing. What about the first document? Is that

24 going to be -- still be a late-filed Exhibit A?

25 THE WITNESS: I believe so. I think we

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1 have to do some research on that, so --

2 MS. JEFFCOAT-SACCO: And I think we can

3 still call them A and B. One will just have

4 late-filed in front of it and one won't.

5 JUDGE FETCH: Okay. Fine.

6 MS. JEFFCOAT-SACCO: Will that work for

7 everybody since they're -- I'm asking for them,

8 they're not on either side?

9 JUDGE FETCH: Okay. Is there going to be

10 any objection to late-filed Exhibit A?

11 MR. NORRELL: No, Your Honor.

12 MS. VALLEY: No, Your Honor.

13 JUDGE FETCH: Okay. Late-filed Exhibit A

14 is admitted. And we'll deal with B when it comes

15 in. All right. Let's proceed.

16 COMMISSIONER KALK: Your Honor, if I could

17 just interject.

18 JUDGE FETCH: Yes, Chairman Kalk.

19 COMMISSIONER KALK: Illona, the Border

20 Winds, there's a decision to be made about

21 transferring it. Does that muddy these waters at

22 all here today, that you're concerned about that?

23 Jerry is shaking his head behind you so I just

24 wanted to ask that question because it may not even

25 go there. There's a series of decisions on Border

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1 Winds that has to take place.

2 MS. JEFFCOAT-SACCO: Right. With all due

3 respect, I was going to try to think through all

4 those related questions when I got the list --

5 COMMISSIONER KALK: Okay.

6 MS. JEFFCOAT-SACCO: -- and I'm sure I

7 knew what I was talking about and then I had Jerry

8 and Pat to help me.

9 COMMISSIONER KALK: All right. Thank you.

10 MS. JEFFCOAT-SACCO: So if we can

11 readdress it when the list comes, that would be

12 great.

13 COMMISSIONER KALK: Thank you, Your Honor.

14 JUDGE FETCH: Thank you. All right. Ms.

15 Jeffcoat-Sacco.

16 **Q.** (MS. JEFFCOAT-SACCO CONTINUING) I have a

17 question that relates back to when you were

18 discussing reassessing the cost benefit of the

19 investment, the Prairie Island, I believe, and

20 another one, and I understood what you were saying

21 about reassessing the benefits, you know, being

22 less and the costs being higher and deciding not to

23 move forward. Are you running an IRP to do that or

24 are you doing it to the extent that you do when you

25 do the initial running of an IRP to make those

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1 choices to begin with, or are you just sitting at
 2 your desk and thinking this is too high, this is
 3 too low, this isn't enough?
 4 **A. So the IRP, the integrated resource plan,
 5 is something that we do on a regular basis where we
 6 look out over 15 years and we identify potential
 7 projects to meet customers' needs, and then
 8 following that we put together a specific
 9 regulatory process and proposal for very specific
 10 projects once we decide, yes, that project does
 11 make sense.**
 12 **So let's take the Prairie Island project,
 13 for example. That began, you know, several years
 14 ago through an IRP process and regulatory review
 15 assessing is this a good project to do for our
 16 customers. And based upon the information
 17 available at the time, the answer was yes. As we
 18 proceed with that project, as we do with all
 19 projects, we're monitoring the cost, we're
 20 comparing what we understand about where we are
 21 today with the cost compared to what we thought at
 22 the time, and because our resource planning process
 23 is really an ongoing process that happens in our
 24 business all the time, we're always aware of what
 25 market conditions are changing, for example,**

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1 natural gas prices. We're also constantly
 2 forecasting and updating our forecast of our
 3 customers' needs out into the future.
 4 **So although we do big resource plan
 5 filings maybe every three years, the whole concept
 6 and the activities in resource planning is
 7 something that happens on a regular basis in our
 8 company. So as we proceeded with the Prairie
 9 Island project in particular, we knew that our
 10 customer demand was starting to drop out in the
 11 future, we knew that prices of gas were coming
 12 down, and we were at a point where we had to make a
 13 decision to proceed to the next stage of the
 14 Prairie Island project that would have been a
 15 commitment of a big -- you know, a lot of money.
 16 It was a critical decision point in that project.
 17 And because of how we monitor and keep track of
 18 major projects like this, we understood that that
 19 was a time where we needed to take a step back and
 20 say we need to look at how all these pieces are
 21 working together and decide is this still in the
 22 best interest of our customers.**
 23 **So it wasn't precisely in a resource
 24 planning process, but it was informed by all the
 25 elements that happen on an ongoing basis as we look**

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1 **at our resource, our customers' needs and decide
 2 how best to meet those needs.**
 3 **Q.** So you're telling me that there's that
 4 element of judgment based on your expertise in the
 5 business, which that element exists when you first
 6 do your -- run your IRPs also, does it not?
 7 **A. Yes, there is an element of judgment.
 8 There's an element of -- certainly whenever you
 9 make a decision today that's going to take five
 10 years to put in place and then be in place for
 11 another 20 or 40 years, you're trying to make the
 12 best decision you can about projecting the future,
 13 and you're looking at making a robust decision that
 14 it's not good only if this narrow set of
 15 circumstances occurs, but it's still good even if a
 16 broad set of circumstances occurs. So you always
 17 make the best decision you can, but things can
 18 change, especially when projects take several years
 19 from the point of, you know, going through the
 20 initial review to actually executing them and then
 21 proceeding with them. And so that's why it's also
 22 prudent on an ongoing basis to keep abreast of what
 23 are the conditions that might change, whether that
 24 project continues to be of value to our customers
 25 or whether there is some other project that would**

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1 **be a greater value to the customers.**
 2 **Q.** So are you -- is it basically that the IRP
 3 is really not worth that much to a company then? I
 4 mean, are you doing it because the regulators
 5 require it and not because you really want to use
 6 it or need to use it? I'm trying to find that
 7 tipping point between when you run them and when
 8 you exercise the judgment, or is it always a
 9 combination?
 10 **A. I think it is always a combination. I
 11 think they're useful, because I think that they are
 12 a useful -- an integrated resource plan presents a
 13 view of the best information known at the time and
 14 provides a guide to the direction that we believe
 15 we need to go to serve our customers. We're also
 16 going to continually correct that course when
 17 circumstances tell us we need to, because it's not
 18 a static world, and we need to provide -- we need
 19 to do long-range planning that shows us the
 20 direction and we also need to do sort of
 21 year-by-year checks and corrections that are --
 22 that circumstances tell us are better for our
 23 customers. The -- so, yeah, I think we need both
 24 that long-range planning and then we also are
 25 always going to have sort of the day-to-day sort of**

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1 **judgments and modifications that need to be made.**

2 **Q.** When is the next one due? When will it be
3 filed?

4 **A.** I believe we're going to file an IRP in
5 the first quarter in 2014 -- early in 2014.

6 **Whether it's the first quarter or the first half**
7 **I'm not exactly sure.**

8 **Q.** And it's every three years or every two?

9 **A.** You know, that moves around. I think
10 generally it's about an every-three-year --
11 intended to be about an every-three-year process.

12 The one thing I will note is that over
13 these last few years, again in the wake of the
14 economic downturn in 2008, it threw a lot of plans
15 off for Xcel, for utilities across the country, as
16 a matter of fact, where we saw demand really drop
17 and then at the same time natural gas prices
18 dropped so precipitously, it was a game changer.
19 So these last few years there have been many things
20 that have caused, say, maybe more adjustments in
21 resource plans than if you looked out maybe five or
22 ten years ago.

23 MS. JEFFCOAT-SACCO: I don't have any more
24 questions, but I do want to thank you for your
25 Exhibit LM-1 --

1 and this isn't included, so if you could -- if you
2 could help me understand.

3 We're talking here a lot about investments
4 that are being made, the company is saying, to
5 refresh and modernize the system. That makes me
6 believe that we're sort of preparing the system for
7 the future. Is that a correct assessment that this
8 rate case we're sort of preparing the system to
9 address future needs?

10 **A.** Commissioner, that's part of what we do
11 with refreshing and investing in our system.

12 **Another big part is to make the investments to**
13 **change out equipment, whatever is necessary to**
14 **assure reliable service today and tomorrow.**

15 **Q.** Okay.

16 **A.** So it's addressing today's needs and as we
17 build and invest in that system, it will be there
18 to address the future needs as well.

19 **Q.** Okay. So in that view then, how should we
20 be looking at -- I can't separate the fact that we
21 have all these ADPs at our desk. I realize they
22 aren't part of this decision, but in terms of
23 understanding and so I can ultimately explain to
24 people who will ask me, so how long is this rate
25 good, this new rate, how long is this good for, why

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1 **A.** You're welcome.

2 **Q.** -- your compliance chart --

3 **A.** Oh, yes. Yes.

4 **Q.** -- which is invaluable, and if it had the
5 12 CP order in there, it would be perfect.

6 **A.** It goes back to 1992 so we have to go back
7 a little further, I guess.

8 MS. JEFFCOAT-SACCO: Thanks.

9 THE WITNESS: Thank you.

10 JUDGE FETCH: Thank you, Ms.
11 Jeffcoat-Sacco.

12 At this time I'm going to turn to the
13 Commission, and any questions from Commissioner
14 Fedorchak?

15 COMMISSIONER FEDORCHAK: I do.

16 **EXAMINATION**

17 **BY COMMISSIONER FEDORCHAK:**

18 **Q.** I want to be respectful of the fact that
19 you're providing kind of the broad policy overview
20 and I won't try to dig into some of the specifics
21 on issues that are going to be addressed by future
22 witnesses. So speaking to some of the more broad
23 companywide decisions, I'm still having a hard time
24 getting my brain around how all this fits together.
25 There's an awful lot of talk about this is included

1 are we doing it. I want to better understand how
2 you're positioning the company to address the needs
3 and for how long. And then if you could in that
4 perspective also just explain how these next ones
5 that we're going to be dealing with fit into the --
6 sort of the big plan.

7 **A.** Okay. So for the first question is, you
8 know, how long are these decisions that we make in
9 this rate case sort of going to be affecting
10 customers, and I'll go back to the fact that we are
11 in sort of a peak in the need for investment into
12 our system. The nuclear power plants being the
13 perfect example of that, that investment has to
14 happen in this period in order to keep those plants
15 operating for another 20 years, so money that's
16 spent now will continue to provide that value.

17 Part of what's driving this peak in our
18 investment needs is the need to build out the
19 regional transmission system as well. We hadn't
20 invested significantly into our regional
21 transmission system, the high-voltage system that
22 connects all the states together -- the last
23 significant level of investment was in the early
24 '70s and a lot has happened since then and we need
25 to invest in that high-voltage system in order to

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1 maintain regional reliability and address local
 2 reliability issues. So those are two major drivers
 3 of this peak in investment that's happening in
 4 these few years.

5 And as I said before, I recognize and
 6 appreciate the concern that's been expressed about,
 7 you know, the impact on customers as this is
 8 happening. But I think that one of the options
 9 that we have proposed for this case is to deal with
 10 this general rate case, which deals with, you know,
 11 the complete picture of all of our rates, all of
 12 our cost, how rates are structured, and then look
 13 in 2014 when these investments that I mentioned
 14 continue to have new cost to finalize these
 15 projects that are going to come up in 2014, we've
 16 proposed that rather than coming in with a full
 17 general rate case such as this is, if we could
 18 agree on something like a capital step that would
 19 allow us to increase our rates in 2014 to recover
 20 the cost of a well-defined set of known capital
 21 projects, and this would essentially be the
 22 continuation of the nuclear power plant investment,
 23 that part of that cost is happening this year. If
 24 we could agree on something like that and if we
 25 could agree on the transmission cost recovery

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1 rider, which would deal with that big chunk of
 2 known investment in the high-voltage transmission
 3 system, those two things, there would be a rate
 4 impact in 2014, it wouldn't be the complete rate
 5 impact that we'd be looking at if we brought in a
 6 complete general case such as this is, but we think
 7 if we structure that correctly, we could stay out
 8 of a general rate increase -- rate proceeding in
 9 2014 and, instead, have very well-defined projects
 10 with an opportunity for the Commission to
 11 understand exactly what those projects are and
 12 approve -- to the cost of then what can flow
 13 through to customers in 2014.

14 So I think that is an approach that it's
 15 still a cost increase because we are still facing
 16 those cost increases to our business all driven by
 17 needs to serve our customers, but it would provide
 18 more predictability to customers of what they can
 19 expect in 2014. It would reduce the resources of
 20 the Commission and the company because that would
 21 be a much more condensed regulatory proceeding than
 22 this full rate case is. So that's an example, I
 23 think, of how we could, you know, address what are
 24 true needs of our business in a way that I think is
 25 helpful to customers.

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1 Q. So you described two big investment areas,
 2 the nuclear uprates and the transmission --

3 A. Correct.

4 Q. -- for this rate case. So that leaves out
 5 a whole bunch of other generation issues that we
 6 have kind of forthcoming probably perhaps, and so
 7 how much does this rate case deal with positioning
 8 the company to meet future load demand in terms of
 9 generation?

10 A. Okay. So this rate case includes costs
 11 that maintain our nuclear power plant, so, in other
 12 words, we keep those plants running so we don't
 13 have to go out and buy something else, which is
 14 what we would have to do if they were shut down.
 15 By the way, our nuclear power plants combined serve
 16 about 30 percent of our customers' energy needs, so
 17 it's hugely significant. So the costs that are in
 18 this case do that -- or part of the costs that do
 19 that. It's also paying for increased power output
 20 from our Monticello plant, so that helps to meet
 21 our customers' future needs. And I think those --
 22 there are some other investments that are in our
 23 existing power plants that are not of the magnitude
 24 of investments in the nuclear power plant, but this
 25 rate case does include some costs that are ongoing

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1 investments in some of our other plants.

2 Q. Do you feel that after this the company
 3 will be positioned to meet the future load, or are
 4 we going to be seeing additional investments in
 5 generation facilities in the future?

6 A. Okay. The total cost of the investments
 7 in the nuclear power plants, that cost doesn't all
 8 happen in one year, so some of that will continue
 9 into next year, so that's a continuation in
 10 concluding those investments.

11 We also have proposed a -- what we call a
 12 simple cycle natural gas power plant to meet what
 13 we'd call more or less peaking needs out in the
 14 2018 time frame. Peaking needs are when our --
 15 well, like days today, when our customer need for
 16 energy is at its highest and you need power plants
 17 that you can turn on and they'll be there and they
 18 serve that last slice of energy need that the
 19 customers have. And they don't run that often
 20 during the year because most of the time our
 21 customers' demand is not up at this level, it's
 22 down here.

23 We have a proposal to bring on a new
 24 resource, I believe it's up to 400 megawatts -- I
 25 need to double-check that -- in the 2018 time frame

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1 **and we do have, I believe, an ADP that's pending**
 2 **before the Commission here regarding two of the**
 3 **projects that we've identified that could**
 4 **potentially serve that need, and those are some gas**
 5 **peaking plants here in the state.**
 6 **So in terms of new need, that peaking need**
 7 **out in the 2018 time frame, there are pending**
 8 **projects that are not part of this rate case that**
 9 **are pointed at serving that need.**
 10 **We've also talked about the wind projects,**
 11 **and we've got four of those that again aren't part**
 12 **of this rate case, but they would be under review.**
 13 **Those do not serve a need like those peaking**
 14 **plants. They're not the things you turn on when**
 15 **you need them, when you're getting that top slice**
 16 **of customer need on really hot days. Those are**
 17 **really more like a fuel, and by having those wind**
 18 **contracts and owning those wind projects, we can**
 19 **reduce our customers' costs because the cost of**
 20 **those wind projects are so cost competitive,**
 21 **they're less than what we project energy from other**
 22 **sources would be. So when we have them, we take**
 23 **the wind when it's running and when it's there, and**
 24 **when we're taking that wind, we're not having to**
 25 **buy more expensive power so the net to our**

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1 **customers is lower costs.**
 2 **Q.** Okay. So the best way to characterize
 3 this -- what we're doing with this rate case is
 4 that we're addressing some baseload generation and
 5 transmission positioning and there will be some
 6 future additional investments needed to meet load?
 7 So I don't want customers thinking like this is it,
 8 because it isn't it, we know that it isn't it, and
 9 it may not even be a peak in investment as we're
 10 saying here because we don't really know how much
 11 those future investments are going to be, so I just
 12 want to have the correct understanding kind of
 13 going into what we're doing here and not misleading
 14 people into thinking that, yes, you can swallow a 9
 15 percent increase today but it's going to be your
 16 last one, because it probably isn't. Is that kind
 17 of a correct evaluation on my part?
 18 **A.** I think that's correct, Commissioner. We
 19 **do know that completing the nuclear investments and**
 20 **the transmission investments will entail**
 21 **significant revenue requirement needs in the next**
 22 **couple of years, and then I can't say what the**
 23 **future holds beyond that.**
 24 **Q.** Mm-hmm. Okay. So with that
 25 understanding, a few more questions. You spoke

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1 earlier about the consequences of not making these
 2 investments being more difficult for customers than
 3 the benefits of making them. Can you tell me what
 4 some of those consequences are?
 5 **A.** Sure. I think the -- I keep coming back
 6 **to the nuclear because it is such a big driver of**
 7 **this case and it presents such a stark and good**
 8 **example to answer your question. If we didn't make**
 9 **the investments in these nuclear power plants, then**
 10 **we would have had to shut them down, they would no**
 11 **longer be operating, they're baseload power plants**
 12 **which run 24/7 generally for 18- to 24-month**
 13 **stretches between refueling. We would have to shut**
 14 **them down, and that's 30 percent of our customer**
 15 **energy needs coming from that. We would have to go**
 16 **and secure brand-new power sources, new power**
 17 **plants, new contracts, something that we could rely**
 18 **on to be there 24/7, that baseload power. So that**
 19 **would be more expensive to do that than the**
 20 **investments we're making to keep those power plants**
 21 **operating and those investments and the cost of**
 22 **them are hitting us today.**
 23 **We also have the fact that because they**
 24 **are not a fossil-fueled energy source, there is a**
 25 **risk mitigation that we have in our energy**

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1 **portfolio by having 30 percent of our energy coming**
 2 **from nuclear, those power plants are not going to**
 3 **be subject to future environmental regulation and**
 4 **whatever that cost may be. So that's part of how I**
 5 **think we are positioning ourselves with our energy**
 6 **portfolio to provide good cost today and great**
 7 **value into the future with some of these risk**
 8 **mitigation features.**
 9 **Q.** Now, if we could talk just for a minute
 10 about wind and its role in all of this. The wind
 11 that you're bringing on is low cost, the company
 12 has said -- extremely low cost and so it's
 13 displacing other higher-cost generation sources.
 14 Tell me about what those are. It's hard for me to
 15 understand how the company deals with the
 16 variability of wind if you're displacing a baseload
 17 -- a baseload generation facility with it.
 18 **A.** Okay. And I'm going to try to answer that
 19 **at a high level, and I would also encourage you to**
 20 **ask the question of our expert on that, Steve**
 21 **Wishart. But when wind is in our portfolio --**
 22 **well, first of all, I would note that we -- over**
 23 **the course of a year a lot of the energy that we**
 24 **secure to serve our customers we purchase from**
 25 **other sources, so we're in the Midwest Independent**

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1 **System Operator system, it's a market for buying**
 2 **energy. And over the course of a year we buy a lot**
 3 **of energy, we're kind of in there looking for good**
 4 **buys and we don't have -- own enough of our own**
 5 **energy sources to meet all of our customers' needs.**
 6 **We rely on that.**
 7 **Q.** Do you know what percent you're buying of
 8 your total?
 9 **A.** I don't know, but I think with one of our
 10 future witnesses we can get that.
 11 **Q.** Rough estimate, is it like 10 percent?
 12 **A.** Roughly I think it's around maybe the 5 to
 13 10 percent on a typical year-over-year basis, some
 14 years maybe more. With the outage at Sherco it was
 15 more in 2013 and 2012.
 16 **So we take the wind when it's blowing, and**
 17 **that means we could perhaps not purchase something**
 18 **or we can back off on some of our gas- or**
 19 **coal-fired power plants. It really all happens**
 20 **according to the relative cost. It's sort of the**
 21 **dispatching decision that happens that says if you**
 22 **have this much wind coming in at this time because**
 23 **the wind is blowing, what's the most -- what's the**
 24 **next most expensive energy resource that it will**
 25 **displace and then you stop that, you stop buying**

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1 **it, you stop operating that plant, so that you're**
 2 **still meeting your customers' energy needs, but**
 3 **because the wind has come in, it's pushed off**
 4 **whatever that next higher price is, because we**
 5 **operate based upon what we call economic dispatch,**
 6 **generally is what's the least expensive power**
 7 **source to serve our customers.**
 8 **Q.** All right. Backing up kind of as a
 9 followup to the earlier questions where you talk
 10 about the resource investments being made in this
 11 case. What percent of the revenue requirement that
 12 the company is seeking is -- boils down to those
 13 two things that you mentioned, the nuclear and the
 14 regional transmission investments? The main things
 15 that are driving this rate case, what percent of
 16 the total revenue requirement is coming from those
 17 things? It doesn't have to be exact. I know I
 18 read it at some point, but I can't recall where I
 19 saw that.
 20 **A.** You know, Commissioner, I guess I'd like
 21 my lawyers to help direct me. I think I had a
 22 chart in my original testimony that showed the
 23 contribution of the drivers, but since we've
 24 revised our request down from 16. -- from the
 25 original request down to 14.9, I don't know whether

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1 **that percentage has changed. So I think it's more**
 2 **than half.**
 3 **Q.** Well, if a future witness can discuss
 4 that, that would be helpful.
 5 **A.** Okay.
 6 **Q.** Okay. So then with the remaining issues,
 7 talk to me about what the company is doing to be as
 8 aggressive as possible in minimizing cost. I'm
 9 going to give you the investments in the generation
 10 and the transmission, say they're all good for the
 11 sake of this discussion. What is NSP-Minnesota
 12 doing to be really aggressive in cutting costs and
 13 living frugally so the customers aren't bearing
 14 additional costs beyond what they really need for
 15 their energy?
 16 **A.** Sure. I think that that happens kind of
 17 across the business, and I'll try to give you some
 18 examples of that. In our labor cost, for example,
 19 we are -- whether it's union or nonunion, we are
 20 looking to always compare ourselves to market and
 21 not to be over market when we look at what our
 22 compensation packages are and benefits packages.
 23 So we always try to say we are here at market so we
 24 can attract people, but we're not overspending in
 25 that regard.

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1 **When we look at our -- what we call our**
 2 **supply chain part of our business, the whole part**
 3 **of the business of buying equipment, services, over**
 4 **the last couple of years we've gone through a real**
 5 **extensive review and restructuring of that so that**
 6 **we have fewer suppliers, we're leveraging cost**
 7 **savings across all four of our operating companies,**
 8 **so we don't just look at our NSP-Minnesota needs,**
 9 **we look at our NSP-Minnesota, Public Service**
 10 **Colorado, Southwestern Public Service and say by**
 11 **buying in bulk, how can we get better prices, how**
 12 **can we secure a better position in manufacturing**
 13 **slots. And we've seen a lot of savings come**
 14 **through to us in that.**
 15 **I think that we have -- in some of the**
 16 **investments that we've made, say, here in the**
 17 **state, we did something called an IntelliTeam**
 18 **switch installation. This is something that's even**
 19 **a type of a smart grid. It allows us to**
 20 **understand -- and this is in downtown Fargo --**
 21 **where outages are occurring to sectionalize and**
 22 **basically cut off all the areas that aren't**
 23 **affected by the outage so that they're back in**
 24 **service immediately and know exactly where that**
 25 **outage is so we can send repair trucks right to it**

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1 so there's efficiency in how we do our business.

2 We have done efforts to consolidate

3 departments so that they're providing service

4 across all of the operating companies and only a

5 share of their costs come to NSP-Minnesota. We do

6 that with technical services as well so that we

7 don't have people kind of waiting for something to

8 happen, but they're able to serve a larger

9 footprint and so you have on a per-state cost less

10 cost associated with that.

11 We're pursuing things called -- through

12 technology just to gain more efficient operation

13 to again direct resources where they need to be and

14 get them right to that.

15 And another big piece of what we're doing

16 is we're looking at more preventative maintenance

17 as an approach to managing our system so that we

18 can, rather than deal with the problem once it's

19 happened, which is always more costly, we're -- and

20 I would direct also to talk about this with our

21 witness Steve Foss. We are doing more preventative

22 maintenance that again lowers overall cost for our

23 customers, lowers cost of the business.

24 Q. So if we provided a tour of your

25 operations to, say, a fixed-income customer or a

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1 business customer who is going to be faced with a

2 significant rate increase, are you comfortable that

3 you could demonstrate that the company is operating

4 in a lean way as much as you possibly can?

5 A. Yes, Commissioner, I think so. In fact,

6 even in this Commission we had some conversation

7 back and forth about what's the proper staffing

8 level, so we always are asking ourselves that and

9 trying to implement lessons learned, best practices

10 that allow us to reduce cost. In fact, if you

11 would ever come to our High Bridge plant, which is

12 in downtown Minneapolis, it was an old coal plant

13 that we converted to natural gas and increased the

14 output of, very cost-effective because we were able

15 to use all the existing substation and transmission

16 interconnections and retain that plant site, but

17 actually get a lot more power. You'll see things

18 like how they're managing the distribution of, we

19 call them, consumables, gloves and little things

20 that people in the power plant use every day, and

21 there's actually vending machines now and every

22 employee has basically a type of credit card and

23 they have to swipe it to get everything they need.

24 It works easy. It's brought the cost way down.

25 Things -- we're keeping very good track -- I mean,

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1 that's just a very small example -- but very good

2 track of where those -- who is using that and what

3 the costs are and we've seen that the overall costs

4 that's been in on that come way down. So we are

5 looking for opportunities like that.

6 Q. Okay. I think I just have one more

7 question, and that is, you mentioned the interest

8 in consumers of having clean energy, and I agree, I

9 think that you can make a general statement like

10 that. I do, however, wonder, and I think there's a

11 lot of -- especially in a state like North Dakota,

12 we don't have a mandate for renewable energy, and I

13 wonder if your company has done any surveying of

14 customers to find out their interest level and

15 tolerance for paying more money for renewable

16 energy, paying higher rates in exchange for

17 renewable energy. We can say these things, but do

18 we know that to be true?

19 A. Sure. Actually we have done some customer

20 surveys, and what we found is that customers, first

21 of all, want reliable energy, they, second of all,

22 want affordable energy, and then they want clean

23 energy. But how much more are they willing to pay

24 for it? Not much. It's, you know, a few percent.

25 So I think that we've always -- that's always

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1 guided us that those are the fundamental table

2 stakes, reliable, safe, affordable energy, and we

3 believe that we've also been able to achieve a very

4 clean energy mix while keeping all of those things

5 in play. So cost is always a very important factor

6 to us whenever we make a resource decision for

7 renewable energy or otherwise.

8 Q. As an aside, not as an official exhibit, I

9 would be interested in any survey results that the

10 company has for North Dakota customers in terms of

11 their willingness to pay more money for cleaner

12 energy, just as -- to inform myself.

13 A. Okay. And I'm not sure that we have that

14 data for North Dakota customers. We have a variety

15 of data on what our customers tell us that we could

16 get you right now. And we could look at doing

17 something that gets the information that you're

18 asking for here.

19 COMMISSIONER FEDORCHAK: Great. That's

20 all of my questions for now, Judge.

21 JUDGE FETCH: Thank you, Commissioner

22 Fedorchak. Right down the line, Commissioner Kalk.

23 COMMISSIONER KALK: Thank you, Your Honor.

24

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1 **EXAMINATION**

2 **BY COMMISSIONER KALK:**

3 **Q.** Thank you, Laura, for your testimony

4 today. You've been there for what, a couple hours

5 up there now?

6 **A. Has it been?**

7 **Q.** I appreciate it. I really mean that. I

8 think it's important that it sends the right

9 signal. I think, speaking for myself, that you're

10 one of the VPs, you come out there and you kick off

11 the rate case and you do your best to answer all

12 the questions and you've got all the detail

13 witnesses coming, but I think it's important that

14 you come out here, and I appreciate it, because

15 there's been rate cases we've had where the senior

16 people don't show up. I think that you being here

17 right away sends the right sign, so I appreciate

18 you coming out here. And you are subject to all

19 the questions first out of the chute that I think

20 the attorneys will clean up as we go down the line.

21 But I do have just a couple -- you know,

22 you and I have -- I think you became the VP in

23 2008, about the same time I got here, so we've

24 spent a lot of time together in rate cases from,

25 you talked about, those team switches and cleaning

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1 up bills, so it's not uncommon ground that you and

2 I are going through.

3 But going through your experience, you

4 didn't go through it because we're trying to save

5 some time, but, I mean, you've been with Xcel for

6 many years. You started out --

7 **A. Thirty-four years.**

8 **Q.** I didn't say that.

9 **A. Okay. That's all right. It's a fact.**

10 **I'm under oath.**

11 **Q.** But you started out as a -- you're a

12 nuclear engineer by trade?

13 **A. Correct.**

14 **Q.** You've worked with regulatory affairs,

15 you've been a general manager at the regional

16 level, you've done with community involvement,

17 regional transmission, and now you're the VP, so

18 you've pretty much managed everything that you're

19 in charge of now from different viewpoints. So in

20 your view over the last 30 years, how much have

21 investor-owned utilities changed in how they

22 operate?

23 **A. In my view, I think that we've gotten**

24 **tighter and tighter on managing our costs and doing**

25 **long-term planning and making sure that that**

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1 **long-term planning is well informed and that we can**

2 **also adjust it, but I do think that over the years**

3 **we are a much leaner organization. Part of that is**

4 **due to taking advantage of technology like any**

5 **business does. Part of it has come from some**

6 **consolidation where we have, for example, a**

7 **centralized call center or a centralized human**

8 **resources function that, you know, can share its --**

9 **it can serve multiple operating companies. I think**

10 **that's a big piece of it.**

11 **I think a big piece of it also is that we**

12 **have moved more towards a diverse energy portfolio**

13 **because of the risks associated with environmental**

14 **regulation, with energy supplies, the variety of**

15 **energy supplies. We've always been a nuclear**

16 **company speaking for NSP, and that has served us**

17 **really well and it has -- we've been through some**

18 **ups and downs of how popular nuclear is, and right**

19 **now the value of nuclear in terms of being a**

20 **baseload resource that's cost-effective, that also**

21 **provides a hedge against future environmental**

22 **regulation, I think, is something that has -- is a**

23 **good position for us.**

24 **So I think in 30 years we have gotten**

25 **tighter, we've gotten -- our business has gotten**

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1 **more complex because of some of these external**

2 **factors that affect the decisions we make and**

3 **affect those decisions over 40-year time periods,**

4 **so I think we've had to get better at working with**

5 **stakeholders and our approach to risk management.**

6 **Q.** I appreciate your thoughts. To further a

7 little bit, when you started, were you trying to

8 satisfy as many jurisdictions as you're trying to

9 satisfy now?

10 **A. Well, for NSP-Minnesota, yes, we served**

11 **North Dakota, South Dakota, Minnesota. And now,**

12 **since 2000, we are an operating company that's part**

13 **of a larger holding company. Xcel Energy is the**

14 **holding company. We are one operating company.**

15 **But we still -- our ability to operate well as a**

16 **company or as a -- as a company comes right back to**

17 **the state jurisdiction and the decisions of the**

18 **regulatory bodies in those states.**

19 **Q.** So as those state policies continue to

20 become farther apart, whose state policies win?

21 **A. Well, I think what we're going to continue**

22 **to try to do, and I think we've tried to do to this**

23 **date, is to work with all of those states that we**

24 **serve and try to find outcomes that serve the**

25 **interest of our customers in the best fashion**

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1 **possible.**

2 **Q.** I think that -- that becomes, I think, the

3 center point of a lot of our discussion in this

4 case because, you know -- I was part of the

5 Commission who gave the ADP for the nuclear. I

6 have no concerns about that as far as the project.

7 The CapX, I don't have any concerns on that. I

8 mean, I do for the cost, but I think that to me

9 becomes the fundamental challenge that do the

10 regulatory bodies as they sit now -- are they

11 organized to meet the needs of the changing

12 industrial and utility makeup. That's a question

13 that we have discussion on all the time.

14 **A. Mm-hmm.**

15 **Q.** And so I think that -- you talked about

16 earlier with setting up capital steps to do things

17 different for some of the transmission tariff,

18 looking at maybe we do things different. So if

19 we're going to look at doing things different

20 there, we can't go back to how we did things 30

21 years ago in investor-owned utilities because we

22 might need to change. So I think that's an

23 argument I don't give up right off the bat that

24 just because the Commission did something in '81 or

25 '92 or 2007 doesn't mean now is not the time to

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1 change it. So that's where I look forward to even

2 more discussion about that, but I'll put that right

3 out front.

4 I think we have different viewpoints from

5 the states and when -- to put the finest point on

6 it is Commissioner Fedorchak started a line of

7 discussion about growing -- meeting different

8 mandates from different states. Well, I would say

9 that Xcel Energy is in violation of North Dakota's

10 goal. Our goal is 10 percent renewable, 90 percent

11 traditional, so by having more than 10 percent

12 you're no longer meeting the North Dakota goal of

13 90 percent baseload fossil fuels. I mean, it's a

14 completely different way to look at it, but that's

15 the way the constituents that I talk to would look

16 at this.

17 So I think that going forward -- I know

18 part of this is you're going to go back and talk to

19 your counterparts there, if you will, but we are

20 really going to set some tone with this rate case

21 as we go forward because I think that we're going

22 to see rate cases from Xcel every next couple years

23 just the build-out cycle we're in. So I didn't

24 mean to lecture like this, but I just put it out

25 there because it sets the -- where I think I'm

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1 going with some of my discussions.

2 A couple points I just wanted to get your

3 thoughts on. Return on equity is going to be a big

4 discussion plan on this. I think that 10 percent

5 return on equity is -- it seems like a lot to me

6 with the advent of advance determination of

7 prudence where the companies have lobbied hard that

8 by coming in and requesting an ADP, it gives them

9 lower rate of capital, it gives them more certainty

10 as they go towards their potential investors, it

11 takes away a lot of the questions. So if you're

12 not coming in for ADP, it seems to me a higher

13 return on equity is reasonable. If you're coming

14 in for ADP and everything, you could get by with a

15 lower return on equity. I would be curious to hear

16 your thoughts on that comment.

17 **A. Well, Commissioner, you're right. The**

18 **return on equity is always a very interesting**

19 **discussion and I think that what we have proposed**

20 **for the return on equity here, what we've**

21 **requested, which we've revised downward to 10.25,**

22 **does consider the fact that we do have ADPs in this**

23 **state, but still is grounded in what does the**

24 **investment community need to see to, you know, make**

25 **this an attractive and reasonable, competitive**

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1 **investment.**

2 **Q.** So you're saying that if you didn't have

3 ADP, you would be asking for even a higher ROE?

4 **A. I don't know. I don't know that answer.**

5 **I guess that would be a good question to put to our**

6 **expert witness on that.**

7 **Q.** And we'll get to that too, Laura. You've

8 been talking a long time. Let's see here. I will

9 have some concerns for future witnesses about the

10 costs of some of the upgrades to the nuclear plant

11 and some of those things.

12 Tell me how a shareholder -- if the

13 company Xcel spends more than they planned on, does

14 the shareholder ever come back and pony up some of

15 that money or does it all go to ratepayers?

16 **A. Well, if it's a legitimate cost of doing**

17 **business and it's prudent, then by definition it is**

18 **a cost that gets included in rates.**

19 **Q.** What if it's mismanagement? What if this

20 Commission deems that the costs above \$10 are not

21 prudent and we don't allow them? You can appeal

22 it, of course, but if you don't, then as opposed to

23 the stranded investment, to go back to the

24 shareholders and say, listen, pony up?

25 **A. I think that's sort of what would happen**

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1 **and that the shareholders would basically get a**
 2 **lower rate of return because you would have --**
 3 **Q.** So it's not a stranded investment then?
 4 There is a way to perhaps recover that?
 5 **A.** Well, I think -- now you might be getting
 6 me out of my element, but I think that we -- if
 7 it's spent, it's spent.
 8 **Q.** Right.
 9 **A.** And then the question is in the course of
 10 a year you have all these outlays of --
 11 **Q.** Sure.
 12 **A.** -- things that you're spending to run the
 13 business, you have revenue that's coming in, you
 14 put it all together and you say ultimately what
 15 does this mean in terms of the return on equity,
 16 the actual return earned in that year. To the
 17 extent that our rates don't allow us to recover all
 18 the costs we incur for whatever reason, either for
 19 a judgment that that wasn't appropriate or other
 20 costs came up, then that does degrade the actual
 21 return that's earned in that jurisdiction.
 22 **Q.** Fair enough. Okay. And the last one,
 23 just for -- there's a question about how much
 24 employees are getting compensated, and I think that
 25 will flesh itself out, but I haven't heard about

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1 the concerns about pension bombs, for lack of a
 2 better term. How much time would you spend in your
 3 position talking about the pensions that are going
 4 to be paid to Xcel employees, NSP employees as they
 5 retire, and people are living longer, they've got
 6 good programs in place? We've seen companies go
 7 bankrupt because they don't have good pension
 8 plans. How much have you looked at that?
 9 **A.** I personally, Commissioner, haven't looked
 10 at that, but I would say that it's a --
 11 **Q.** Is there a future witness that can talk
 12 about it?
 13 **A.** There is a future witness, yes.
 14 **Q.** Maybe if that's not part of your testimony
 15 to talk about how you're -- give us some confidence
 16 that you've included the right cost formulas for
 17 pensions so we're not going to have some big
 18 pension flare-up 15 years from now to pay for Xcel
 19 retirees.
 20 **A.** Yeah. And I think that goes back to our
 21 -- you know, how we fund our pension program and
 22 that we have obligations to fund that fully.
 23 That's part of one of the cost drivers for this
 24 case, so I believe --
 25 **Q.** Maybe that needs to change, how you fund

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1 some of those down the road too.
 2 **A.** No. No. It has to do with the market
 3 downturn that happened in 2008 and the --
 4 amortizing the impact of that downturn is
 5 continuing out over time and it's part of the cost
 6 for 2013.
 7 COMMISSIONER KALK: Thank you very much,
 8 Laura.
 9 JUDGE FETCH: Thank you, Commissioner
 10 Kalk. Commissioner Christmann.
 11 COMMISSIONER CHRISTMANN: Thank you, Your
 12 Honor.
 13 **EXAMINATION**
 14 **BY COMMISSIONER CHRISTMANN:**
 15 **Q.** And, Ms. McCarten, if some of these are
 16 best left for someone else, just deflect them, but
 17 tell me who to ask. Okay?
 18 Picking up with where Commissioner Kalk
 19 left off on the pension funds, if the losses from
 20 2008 and that rough time frame need to be amortized
 21 out, that tells me it's a defined benefit pension
 22 plan?
 23 **A.** I'm not certain.
 24 **Q.** Because I'm assuming if it was otherwise,
 25 that people would just end up with smaller pension.

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1 **A.** I think you're correct. We'll have to
 2 come back and make sure we give you correct
 3 information on that.
 4 **Q.** Can you tell me when the markets were
 5 booming in the previous years, 10, 15, 20 years
 6 ago, was all the money then that was in excess of
 7 what a person would normally expect markets to
 8 produce put into the pension plan, or was some of
 9 it returned to the ratepayers?
 10 **A.** Commissioner, my understanding is that
 11 in -- several years ago when the market was very
 12 strong, our earnings on our pension fund, they
 13 actually reduced the pension expense that we then
 14 sought to recover from our customers. So by being
 15 in the market in the years when the market was
 16 performing strongly, that reduced costs to our
 17 customers because it offset the pension expense.
 18 **Q.** Then moving to charitable and economic
 19 development contributions that were discussed
 20 earlier. Do you have any kind of a chart or a
 21 graph or even just a mental summary of how -- and
 22 tell me if these are different from each other --
 23 how charitable and economic development
 24 contributing has grown or shrunk as part of the
 25 size of the company. Is that something you do more

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1 of or less of or about the same over 10, 20, 30
 2 years?
 3 **A. I think we've generally held that pretty**
 4 **constant over the last five years or so. We might**
 5 **have made a few contractions, but overall I think**
 6 **we're at a comparable level in --**
 7 **Q. I would like to know a longer time frame,**
 8 **though, at least 20, maybe 30 years.**
 9 **A. Okay. So to make sure I understand, would**
 10 **you like information that shows our total dollar**
 11 **amount of charitable contributions and economic**
 12 **development contributions in North Dakota over a**
 13 **20-year period, kind of year by year?**
 14 **Q. That would be good. It seems like it**
 15 **ought to be -- I'm assuming it's based somewhat on**
 16 **company revenues or something. If the company**
 17 **tripled in size, then I would assume that kind of**
 18 **giving would maybe triple as well.**
 19 **A. No, I'm certain that it hasn't. It**
 20 **doesn't follow that sort of a pattern. It's pretty**
 21 **constant and has been pretty constant over the last**
 22 **several years. It doesn't grow -- for example, in**
 23 **a given year if we have really hot weather, our**
 24 **revenues will be much higher than, say, a year that**
 25 **has typical weather. We don't do more charitable**

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1 contributions in that year because of that revenue
 2 spike.
 3 **Q. How do you divide between North Dakota and**
 4 **Minnesota?**
 5 **A. You know, what we do there is we kind of**
 6 **look at what our total customer base is and try to**
 7 **do it proportionally, so that if North Dakota is 5**
 8 **percent or 10 percent of the size of Minnesota,**
 9 **then we have a proportional amount of spending on**
 10 **charitable contributions, roughly speaking.**
 11 **Q. And in your decisionmaking on who to give**
 12 **money, is it encouraged or discouraged whether an**
 13 **entity does lobbying?**
 14 **A. So, for example, if I understand your**
 15 **question, would we decide whether or not to give**
 16 **money to -- would whether a company does lobbying**
 17 **be a factor influencing whether or not we would**
 18 **give them money?**
 19 **Q. Correct.**
 20 **A. For nonprofits I don't think that comes**
 21 **into effect. I think for -- I think an economic**
 22 **development, I think -- I don't know that we say if**
 23 **there's lobbying, we don't provide funds, because**
 24 **for economic development a lot of those**
 25 **organizations do need to participate in the**

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1 **political arena to get support for things, so I**
 2 **think some of the funding that we do particularly**
 3 **in economic development is to companies that could**
 4 **do lobbying.**
 5 **Q. I think it's almost probably more of an**
 6 **issue with charitable groups that then lobby for or**
 7 **against certain things.**
 8 **A. You know, what we use to guide us is what**
 9 **are the community needs, what's the strength of the**
 10 **organization, are they a well-run organization, do**
 11 **they provide the services that our customers need,**
 12 **and basically try to use that as our guide.**
 13 **Q. Okay.**
 14 **JUDGE FETCH: Commissioner, did you want a**
 15 **late-filed exhibit on that?**
 16 **Q. (COMMISSIONER CHRISTMANN CONTINUING)**
 17 **Well, I would like something that would show over a**
 18 **longer period of time than five years, 20 or 30**
 19 **years, the growth in each of those types of**
 20 **contributions.**
 21 **A. Okay. So total dollar contribution in**
 22 **charitable and economic development over maybe like**
 23 **a 10-year period.**
 24 **Q. Can we do 20 or 30? Is that a --**
 25 **A. You know, I think we could probably do 20.**

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1 **I'm going to look at Mark Nisbet because he's the**
 2 **guy that manages that. I don't know if our records**
 3 **go back 20 years. We'll go back as far as we have**
 4 **records.**
 5 **Q. Perfect. Thank you.**
 6 **A. Okay.**
 7 **JUDGE FETCH: All right. And we'll mark**
 8 **that Exhibit C.**
 9 **THE WITNESS: And that will definitely be**
 10 **a late-filed because we will need to go back**
 11 **through.**
 12 **JUDGE FETCH: All right. And is there any**
 13 **objection to that being admitted then?**
 14 **MR. NORRELL: No, Your Honor.**
 15 **JUDGE FETCH: All right. Exhibit C**
 16 **late-filed, will be admitted. Thank you.**
 17 **Q. (COMMISSIONER CHRISTMANN CONTINUING) Then**
 18 **the last line of questions I had, Your Honor, has**
 19 **to do with the combined cycle gas plant that's not**
 20 **being built. And I didn't write it down. Is it**
 21 **Black Dog?**
 22 **A. Black Dog.**
 23 **Q. Did I understand you right, primarily that**
 24 **was planned and developed years ago expecting a**
 25 **certain amount of growth needs and with the**

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1 economic cycle that hit in '08 and that time frame
 2 it just wasn't necessary?
 3 **A. Commissioner, essentially that's correct.**
 4 **I forget the exact time frame of when we developed**
 5 **that concept and when we proposed it and when we**
 6 **actually pulled the plug. But the fundamental**
 7 **reason why we changed direction on that and decided**
 8 **that it was no longer a good value for our**
 9 **customers was because our projection of the nature**
 10 **of our customers' future needs changed.**
 11 **The combined cycle is a power plant that**
 12 **costs more to build, it costs less to run and you**
 13 **run it more. But if you don't have that type of**
 14 **need for your customers, it could be more**
 15 **cost-effective to build a simple cycle that runs**
 16 **less and costs less to build. So it was that sort**
 17 **of evaluation of what our customers' future needs**
 18 **were and the cost of that project that ultimately**
 19 **led us to conclude that it wasn't necessary and in**
 20 **the best interests of our customers.**
 21 **Q. So that move away from more of a baseload**
 22 **power and the move to shut down some coal plants**
 23 **and add the amount of wind you've added, which is**
 24 **again a shift from purely baseload to a more**
 25 **variable power source, is part of certainly a big**

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1 pattern, and you had talked earlier about when the
 2 wind is blowing or the sun is shining in the case
 3 of solar, it allows you then to either purchase
 4 less power off the grid or lower the amount you're
 5 taking from gas or coal. Is nuclear similar to
 6 coal in its ability to ramp the plant up and down?
 7 I know coal is like a big ship, it's hard to ramp
 8 it up and down quickly. Is nuclear about similar?
 9 **A. We don't ramp our nuclear power plants up**
 10 **and down. They are not designed to be ramped up**
 11 **and down. Once we finish a refueling outage, we**
 12 **bring them up to power, we operate them at full**
 13 **power until our next refueling outage essentially.**
 14 **Our coal plants, over the last several**
 15 **years we've learned how to operate them in a way**
 16 **that we can do more ramping, but there are limits**
 17 **on that as well that we observed. And then the**
 18 **other power plants that you mentioned, we took two**
 19 **old coal-fired power plants -- they were very old,**
 20 **they were in downtown Minneapolis, downtown St.**
 21 **Paul. To keep them operating they would have**
 22 **required significant investment. Those were ones**
 23 **we converted to natural gas fueled. We built power**
 24 **plants that could generate even more power. Those**
 25 **are combined cycle and those we can actually use**

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1 **more than -- they're a great resource that we can**
 2 **use more or less as we need to and they can also**
 3 **cycle with wind.**
 4 **Q. Perfect wind conditions suddenly come up.**
 5 **Are there coal plants then that are running but**
 6 **we're just not using all the power they're**
 7 **producing because you can't shift them down**
 8 **quickly, you don't do the -- you don't switch the**
 9 **nuclear plant down quickly, so they're just**
 10 **producing power that's not being used?**
 11 **A. Well, we -- yeah, if the wind ramps up, we**
 12 **look at the whole system and figure out what is the**
 13 **most cost-effective, you know, resource to not --**
 14 **or what resource can we not -- do we not need to**
 15 **take in order to -- as the wind is there, it's**
 16 **servicing a certain need. Some of our coal plants we**
 17 **do operate at less than a hundred percent power in**
 18 **those sorts of situations, but if the market -- the**
 19 **MISO market is such that there's a great need, we**
 20 **can operate those power plants and sell into the**
 21 **market as well. So the whole picture is actually**
 22 **pretty complex and really dynamic, kind of minute**
 23 **by minute, hour by hour of what resources are**
 24 **running, what's in the market, is the wind blowing,**
 25 **how are our power plants operating.**

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1 **Q. So all this to me -- and tell me where I'm**
 2 **looking at this wrong. It sort of looks to me like**
 3 **all this complicated dynamics of the whole market**
 4 **causes sort of a self-fulfilling prophecy that coal**
 5 **is inefficient because we add more wind because**
 6 **it's less expensive than coal or it's less**
 7 **expensive than any other alternative, then on a day**
 8 **when there's not a great demand, but the wind is**
 9 **blowing well, we use the wind and don't use the**
 10 **coal, but all the expenses of having and**
 11 **maintaining the coal plant are there, and so it**
 12 **doesn't change the cost of them any, it just**
 13 **lessens the production of them and so they become**
 14 **less efficient, so we add some more wind because**
 15 **it's cheaper than coal and then even less of the**
 16 **time are we using them full strength and they**
 17 **become less efficient again. Aren't we just**
 18 **playing into a self-fulfilling prophecy that it's a**
 19 **less efficient type of energy production?**
 20 **A. I appreciate your question and I**
 21 **understand the -- I understand the question. I**
 22 **think Steve Wishart is our expert witness on that**
 23 **that could really walk through exactly how we plan**
 24 **our system and then how we operate it and what that**
 25 **means in terms of cost to our customers.**

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1 **But when we, for example, look at new**
 2 **resources, like new wind resources, when we take**
 3 **them through an evaluation, we are really looking**
 4 **at how would the system operate without them and**
 5 **how would it operate with them. So I think we are**
 6 **avoiding sort of that self-fulfilling prophecy.**
 7 **That wouldn't be good business, it wouldn't make**
 8 **sense to operate our system that way so I think**
 9 **that we -- that we don't do that. And I think**
 10 **Steve Wishart would be the one to walk you through**
 11 **exactly how that process works.**
 12 COMMISSIONER CHRISTMANN: Thank you, Ms.
 13 McCarten. Thanks for being here. As Commissioner
 14 Kalk said, it's nice to have management people in
 15 the room, and appreciate that.
 16 THE WITNESS: Thank you.
 17 COMMISSIONER CHRISTMANN: Thank you, Your
 18 Honor.
 19 JUDGE FETCH: Thank you. Ms. Valley, do
 20 you have any questions?
 21 MS. VALLEY: Thank you, Judge Fetch and
 22 Commissioners. I just have a few redirect
 23 questions.
 24 JUDGE FETCH: All right. We'll hold on
 25 then because there will be more and it's noon and

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1 we need to take a little break anyway for the court
 2 reporter.
 3 I can now say with complete confidence we
 4 will not complete the company's case today. I've
 5 asked Mr. Norrell and Ms. Jeffcoat-Sacco to give me
 6 some estimate on the remaining witnesses and that
 7 will eat up the rest of today, and that's without
 8 even the opening statements and then the
 9 Commissioner questioning. So we will not get
 10 through the company's case today. Probably we'll
 11 get through another six witnesses, perhaps seven,
 12 so there will be some witnesses tomorrow. I know
 13 there is one witness that you indicated, Ms.
 14 Valley, that needed to be called today, and that
 15 was Lisa Perkett, so be aware, you know, of how you
 16 present your witnesses and she would -- you know,
 17 if you're going to take them in order, she'll be
 18 able to get on today. But if there's anyone else
 19 who must, you know, testify today because they're
 20 leaving, be aware of that, because we are not going
 21 to go beyond eight o'clock. My experience is
 22 nobody is productive beyond a certain period of
 23 time and that, I think, would be the limits of
 24 pushing it.
 25 So we are going to stand in recess. It is

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1 noon. We will come back to order at one o'clock.
 2 Thank you.
 3 (Recess taken at 12:03 until 1:02 p.m.)
 4 JUDGE FETCH: Thank you. We'll come back
 5 to order. And the time is about two minutes after
 6 one o'clock p.m., Central Time. And we're going
 7 to, at this time, continue with the hearing and the
 8 witness, Laura McCarten. I believe, Kari Valley,
 9 you had some questions for Ms. McCarten.
 10 Oh, I'm going to mention we have a new
 11 court reporter this afternoon. This is Linda
 12 Gingery from Emineth & Associates. And Denise
 13 Andahl will be back after the dinner break tonight.
 14 All right. Let's proceed.
 15 MS. VALLEY: Thank you, Judge Fetch,
 16 Commissioners.
 17 **REDIRECT EXAMINATION**
 18 **BY MS. VALLEY:**
 19 **Q.** Ms. McCarten, I just have a few follow-up
 20 questions from our discussion today.
 21 The Commissioners asked you about the rate
 22 case drivers in this case and where in the
 23 testimony they could find that, and I point you to
 24 page 5 of your direct testimony.
 25 **A. Yes, I'm there.**

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1 **Q.** And does Figure 1 outline the case drivers
 2 and the proportions of the case that are related to
 3 those?
 4 **A. Yes, it does. I apologize for overlooking**
 5 **this, but earlier I was asked a question as to what**
 6 **proportion of the total request relates to nuclear**
 7 **transmission, if I recall correctly, and if you**
 8 **look at this chart, those two items together are**
 9 **close to -- well, they are 12 million. So it's**
 10 **approximately, you know, something under 75 percent**
 11 **of the total request. We did modify our request**
 12 **and the total request is now 14.9, but I believe**
 13 **that the nuclear and transmission total amounts are**
 14 **still very comparable to what is shown in this**
 15 **table.**
 16 **Q.** Thank you. An additional question that
 17 was raised was about future insurance increases.
 18 Are there any future insurance increases,
 19 either related to Sherco or any other matter that
 20 are included in this case?
 21 **A. No.**
 22 **Q.** And following up on the question on
 23 incentive compensation, the question from Advocacy
 24 Staff Counsel was what the basis for the Wisconsin
 25 decision was on AIP. And did you include the

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1 Wisconsin order in your -- as an exhibit to your
2 rebuttal testimony?
3 **A. It is an exhibit to my rebuttal testimony,**
4 **yes.**
5 **Q.** And is it your understanding that the
6 order reflects the decisionmaking of the Commission
7 and the rationale that they adopted?
8 **A. Yes.**
9 **Q.** Ms. McCarten, on the pension expenses,
10 just for clarification for some of the questions
11 that were raised regarding that, does the company
12 use actuarial studies to plan for meeting its
13 future pension obligations?
14 **A. Yes. We do use actuarial studies and we**
15 **are accounting for the expected longer lives of**
16 **current employees. So that factor is planned for**
17 **in our pension plan.**
18 **Q.** And for the test year pension amounts, not
19 reflecting anything outside of the test year, does
20 this include an amortized portion of the 2008
21 market loss?
22 **A. Yes, it does. It includes an amortized**
23 **portion of the 2008 market loss, and our mitigation**
24 **proposal would be to further extend the**
25 **amortization period.**

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1 **Q.** Another question that was raised was on
2 the company's performance for 2012. And was the
3 authorized return on equity for 2012 10.4 percent?
4 **A. For the North Dakota jurisdiction the 2012**
5 **authorized ROE was 10.4 percent.**
6 **Q.** And do you know what the actual earned
7 rate of return on equity was in 2012?
8 **A. Yes. We calculated that and actually**
9 **provided that to the Commission. We calculated**
10 **that as weather normalized and then as just**
11 **straight actual normal. The weather normalized**
12 **return on equity in 2012 was 8.92 percent for the**
13 **North Dakota jurisdiction.**
14 **Q.** So the company did not over earn in 2012?
15 **A. No.**
16 MS. VALLEY: Thank you, Ms. McCarten.
17 JUDGE FETCH: All right. That's all the
18 questions. Let's go to Ryan Norrell. Do you have
19 any more questions for Ms. McCarten?
20 MR. NORRELL: Just a few, Your Honor.
21 JUDGE FETCH: Go ahead.
22 MR. NORRELL: Thank you.
23 I would like to -- may I approach the
24 witness with an exhibit?
25 JUDGE FETCH: Yes. Yes.

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1 MR. NORRELL: Your Honor, the document
2 I've handed out is from the Greater North Dakota
3 Chamber of Commerce's Web site. It is three
4 documents -- or three pages long. A couple of them
5 may be two-sided.
6 JUDGE FETCH: Not the ones I have.
7 MR. NORRELL: I think the black and white
8 copies there may be a different copy.
9 JUDGE FETCH: All right. Thank you. But
10 three pages in total?
11 MR. NORRELL: Three pages in total, that's
12 correct.
13 And we would move to enter this as Exhibit
14 PSC 10.
15 JUDGE FETCH: Are there any objections,
16 Ms. Valley?
17 MS. VALLEY: Thank you, Judge. No
18 objections.
19 JUDGE FETCH: All right. Thank you.
20 Exhibit PSC 10 is admitted.
21 MR. NORRELL: Thank you, Your Honor.
22 **RE-CROSS-EXAMINATION**
23 **BY MR. NORRELL:**
24 **Q.** I offer this exhibit just in clarification
25 of some questions that Commissioner Christmann had

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1 been asking about economic development. Is
2 membership -- is Xcel Energy or NSP part of the
3 Greater North Dakota Chamber of Commerce at all?
4 **A. Yes.**
5 **Q.** And is it true that the company is seeking
6 to -- they're trying to get 50 percent of economic
7 development costs back from ratepayers; is that
8 correct?
9 **A. Correct.**
10 **Q.** And Commissioner Christmann raised some
11 issues about lobbying. And as you had said, part
12 of doing business is lobbying for economic
13 development; is that correct?
14 **A. Yes.**
15 **Q.** The first two pages -- on the second page
16 I would like to just draw attention to about a
17 third -- a quarter of the way down, it does state
18 that Mr. Mark Nisbet as a member or representative
19 of Xcel Energy, is a member of the Greater North
20 Dakota Chamber of Commerce; is that correct?
21 **A. That's correct.**
22 **Q.** On the third page, I would like to draw
23 attention about three-fourths of the way down on
24 the third page is House Bill 1064. And it's -- it
25 points out where the Chamber of Commerce stands on

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1 **Q.** Okay. New for Xcel?

2 **A. New for Xcel Energy, yes.**

3 **Q.** I'm trying not to make decisions while I'm

4 sitting here, but to me it looks like it might be

5 the only alternative short of a rate case every

6 year.

7 Is that the same way you see the

8 transmission rider, that if the Commission wouldn't

9 go with some kind of rider, we're going to be in

10 here every year for a rate case?

11 **A. Well, Commissioner, I think that does tie**

12 **back to one of the proposals that I made, which was**

13 **for a capital step in the next year and, also --**

14 **Q.** Where is that at? You said you made that

15 proposal. Is that somewhere in the record that we

16 can refer to, or is that just what you did today?

17 **A. Commissioner, that is in my rebuttal**

18 **testimony.**

19 **Q.** Okay. All right.

20 **A. And would be glad to explore that further**

21 **with staff.**

22 **Q.** No, I think we're good, Laura. I think

23 you answered my question there. I need to follow

24 up on what Mr. Norrell pointed back, because if you

25 look -- what's the name of this exhibit, Your

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1 Honor?

2 JUDGE FETCH: Ten, PSC 10.

3 **Q.** (COMMISSIONER KALK CONTINUING) i just

4 wanted to -- Laura, if you take a look at page 2

5 and look down to the second from the bottom up, do

6 you see where it says "Jay Skabo" --

7 **A. Yes.**

8 **Q.** -- "MDU Resources Group"?

9 **A. Yes.**

10 **Q.** So that would be a counterpart of Xcel if

11 it was your -- what would we call Xcel's equivalent

12 of MDU Resources?

13 **A. Is MDU Resources their parent company?**

14 **Q.** It's their parent, yeah.

15 **A. Xcel Energy would be the equivalent then.**

16 **Q.** So is Mr. Nisbet employed just with the

17 utility company or is he employed in both areas?

18 **A. Mr. Nisbet is entirely an NSP Minnesota**

19 **company employee.**

20 **Q.** Okay. I think it's just a nuance -- my

21 personal opinion, it's just a nuance of how this

22 is. And I know that -- belonging to these

23 organizations, I know that oftentimes we'll seek

24 Xcel's viewpoints on testimony. Actually, quite

25 honestly, on 1064, we had Carlee Mcleod out here

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1 from Utility Shareholders. Xcel was a supporter of

2 that through Utility Shareholders of North Dakota.

3 That's the way I understand that, but I wanted to

4 make sure that you're aware that you work through

5 Utility Shareholders, if you have any comment on

6 that, for your lobbying efforts, if you will.

7 **A. We certainly provide support to the North**

8 **Dakota Utility Investor Company. I think that they**

9 **represent their shareholders. That's their prime**

10 **mission, is to represent the people who own**

11 **stock -- I should say stockholders in the**

12 **companies. So -- and I don't argue with your**

13 **representation that we supported that. I wasn't**

14 **directly involved, but I take your position on**

15 **that.**

16 **Q.** Okay. And then the follow on of donations

17 in -- the Sooner scenario with Ottetail, this came

18 up, and the Commission at that time, myself,

19 Commissioners Clark and Kramer, basically agreed we

20 did not want to have ratepayer dollars going for

21 that. We have not made any decisions here. We

22 talked with the company about a phaseout of that.

23 If the Commission would decide to say no

24 on that, would a phaseout plan be something that

25 may be acceptable, or would that be one of those

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1 things, if you can't have it, it's either in or

2 out?

3 **A. Well, Commissioner, I await your**

4 **decision on that. I think if we are --**

5 **Q.** Okay.

6 **A. Yeah, we would like to recover 50 percent**

7 **of those costs.**

8 **Q.** Okay. Thank you.

9 COMMISSIONER KALK: Thank you, Your Honor.

10 JUDGE FETCH: Thank you.

11 Commissioner Christmann, any follow-up?

12 COMMISSIONER CHRISTMANN: No further

13 questions, Your Honor.

14 JUDGE FETCH: Ms. Valley, any further

15 questions?

16 MS. VALLEY: Thank you. No, Your Honor.

17 JUDGE FETCH: Mr. Norrell?

18 MR. NORRELL: No, Your Honor.

19 JUDGE FETCH: All right. Thank you.

20 Ms. Jeffcoat-Sacco?

21 MS. JEFFCOAT-SACCO: No.

22 JUDGE FETCH: Okay. No more from the

23 Commission. That will be all. Ms. McCarten,

24 you're excused.

25 THE WITNESS: Thank you very much.

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1 JUDGE FETCH: Thank you. All right.
 2 At this time, Ms. Valley, identify your
 3 next witness, please.
 4 MS. VALLEY: Thank you, Your Honor. The
 5 company calls as its next witness Mr. Steve Foss.
 6 JUDGE FETCH: All right. Mr. Foss.
 7 Mr. Foss, were you present earlier when I
 8 instructed about perjury and penalties for perjury?
 9 THE WITNESS: Yes, I was.
 10 JUDGE FETCH: All right. Thank you.
 11 Please raise your right hand.
 12 Do you solemnly swear the testimony you're
 13 about to give shall be the truth under the pains
 14 and penalties of perjury? If so, answer, I do.
 15 THE WITNESS: I do.
 16 JUDGE FETCH: Thank you. All right. And
 17 I believe you have a prepared witness opening
 18 statement?
 19 THE WITNESS: Yes, I do.
 20 JUDGE FETCH: That is now being passed out
 21 to the Commissioners and Mr. Norrell, and everyone.
 22 All right. Ms. Valley, you may proceed.
 23 First of all, we'll identify this. You
 24 have marked it as NSP Exhibit 24.
 25 And is there going to be any objection,

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1 Mr. Norrell?
 2 MR. NORRELL: No, Your Honor.
 3 JUDGE FETCH: Thank you. That exhibit is
 4 admitted. Go ahead.
 5 **STEPHEN FOSS,**
 6 Being first duly sworn, was examined and testified
 7 as follows:
 8 **DIRECT EXAMINATION**
 9 **BY MS. VALLEY:**
 10 **Q.** Mr. Foss, you have in front of you what
 11 has been marked as Exhibit 7 as your prefiled
 12 direct testimony already admitted into the record
 13 in this proceeding.
 14 Do you have any corrections to that
 15 testimony?
 16 **A. No.**
 17 **Q.** And, Mr. Foss, please proceed with your
 18 opening statement.
 19 **A. Thank you. My testimony discusses the**
 20 **2013 capital and O&M budgets for operations**
 21 **organization, which includes energy supply,**
 22 **transmission and distribution. Operations is**
 23 **focused on excellence in employee and public**
 24 **safety, continuous improvement, and efficiency.**
 25 **Our goal is to provide the safe and reliable**

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1 **service our customers expect.**
 2 While each major function within
 3 operations has a slightly different planning and
 4 budgeting process due to the business they manage,
 5 overall our processes are extensive and
 6 comprehensive and entail significant analysis and
 7 review. The 2013 capital and O&M budgets reflected
 8 in this rate application include expenditures we
 9 expected at the time to incur. Since the original
 10 filing, we have made changes to some projects and
 11 appropriate adjustments were made and described in
 12 Ms. Heuer's rebuttal testimony.
 13 One of these adjustments was to remove the
 14 emissions chemicals and avoidable O&M costs at Unit
 15 3 of our largest coal plant, the Sherco facility,
 16 for the first nine months of 2013. As discussed in
 17 our status reports to the Commission, the turbine
 18 failure in November of 2011 caused major damage to
 19 the plant. We have managed the massive repair
 20 effort with two fundamental objectives in mind:
 21 First, doing the job right so Sherco 3 can provide
 22 safe and reliable services for many years to come
 23 and, second, protecting the interests of our
 24 customers.
 25 The Sherco 3 project work is progressing

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1 well. The extensive investigation of the event
 2 indicates that the original cause was a failure of
 3 the mechanical connections between the low pressure
 4 turbine blades and the rotor. The failure was not
 5 one we could have predicted or prevented. All
 6 major equipment restoration and reassembly work has
 7 been completed and we are in the final stages of
 8 testing. We expect the plant to be back in service
 9 and in use to serve our customers around the end of
 10 September.
 11 Maintaining and improving reliability for
 12 our North Dakota customers is an important priority
 13 for our operations area. The reliability of our
 14 North Dakota operations continues to be the best in
 15 the NSP system. As part of our settlement
 16 agreement in the last rate case, several
 17 reliability-based commitments were made, each of
 18 which has been completed or is in the process,
 19 including the establishment of a North
 20 Dakota-focused Reliability Performance Plan
 21 approved in late 2012.
 22 The investments and costs that we have
 23 included in the test year for the operations
 24 organization are what we believe to be necessary to
 25 maintain the high quality, safe, and reliable

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1 service our North Dakota customers expect.

2 Commissioners, I appreciate the

3 opportunity to be here today, and I will do my very

4 best to answer any questions you or your staff may

5 have about my testimony in this case. Thank you.

6 MS. VALLEY: The witness is available for

7 cross-examination.

8 JUDGE FETCH: Thank you, Ms. Valley.

9 Mr. Norrell.

10 MR. NORRELL: Thank you, Your Honor.

CROSS-EXAMINATION

11 **BY MR. NORRELL:**

12 **Q.** Mr. Foss, and everybody in the room, I'd

13 like to refer everyone to PSC Exhibit 8.

14 MR. NORRELL: And with the Judge's

15 permission, I'd like to approach the witness with

16 this as well.

17 JUDGE FETCH: Go ahead, Mr. Norrell.

18 **Q.** (MR. NORRELL CONTINUING) This was a

19 question I had asked Ms. McCarten. She referred it

20 to you. Were you in the room when I asked the

21 question regarding items 7 and 12? We've got two

22 failures here, both over an hour long, both over

23 1,000 customers, but the outage report says that

24 the criteria has not been met to replace these

25

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1 lines. What does it take to meet that criteria to

2 replace this, especially in light of a rate

3 increase like this?

4 **A.** Yeah, we have several guidelines that our

5 engineers utilize. Simply stated, we look at,

6 first, you know, does it have two failures within

7 two years, and that would be criteria one that our

8 engineers would like at. Within that, there are a

9 few more, you know, details, depending -- that our

10 engineers would look at, depending on, you know,

11 how it's segmented and that type of thing, but the

12 short version is two outages in two years -- within

13 two years and it's meeting the replacement

14 criteria.

15 **Secondly, as related to our 500 mcm cable**

16 **that we've talked about the proactive program to**

17 **replace, if it's a 500 mcm cable, it would then go**

18 **on the list for replacement at that time. It would**

19 **not require the two years.**

20 **Now, I would, you know, comment that, you**

21 **know, as these outages occur, you know, certainly,**

22 **you know, our first action is to attempt to get**

23 **things back in service, so we may replace that**

24 **cable at that time. We may -- or more likely would**

25 **be attempting to splice it to return service, and**

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1 **then our engineers would take a look at our**

2 **criteria, the particular situation, and make a**

3 **determination whether it goes on the schedule to**

4 **be, you know, eventually completed.**

5 MR. NORRELL: All right. I have no

6 further questions, Your Honor.

7 JUDGE FETCH: Thank you.

8 Ms. Jeffcoat-Sacco, any questions?

9 **EXAMINATION**

10 **BY MS. JEFFCOAT-SACCO:**

11 **Q.** Towards the end of your testimony, you

12 talk about adding performance metrics to drive

13 employee engagement and operational excellence. I

14 think it's page 36. Can you give me some idea what

15 you're talking about there?

16 **A.** You know, there's probably a lot of

17 examples depending on the business segments. I'll

18 speak to distribution, which is an area that I'm

19 involved in. Certainly, we're starting to put more

20 and more in place related to cost per unit. I

21 would say looking at the productivity of our crews,

22 we have measures currently, estimate to actuals,

23 where we're looking at, okay, you know, if it's

24 designed this way and estimated, are crews being

25 productive and accomplishing it in that manner, you

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1 know, that would be two examples.

2 **Q.** Could you be a little more specific with

3 one of those? It's just so general.

4 **A.** Yes. So, for instance, on a cost-per-

5 unit measure, you know, we would look at some

6 different segments of our distribution business

7 that we typically spend a lot of resource on. For

8 instance, the replacement of underground cables.

9 You know, we know roughly what a, you know, cost

10 per unit typically would be on average and we would

11 track each project to see how we performed against

12 that to determine whether, you know, there's

13 improvements, discussions with employees, you know,

14 that could be made in that process.

15 **Q.** Is that tied -- is the incentive pay tied

16 to those efforts?

17 **A.** No, it's not. No.

18 **Q.** So they're just used not for compensation

19 at all, but simply for changing something in

20 operations to improve?

21 **A.** I would say that's generally accurate.

22 However, you know, the management staff, using this

23 example for distribution, to the extent that, you

24 know, we choose to focus on that in a particular

25 area and put it into their performance plan to try

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1 to drive a change, it would certainly impact their
 2 individual performance, which eventually has some
 3 tie to their compensation, but not directly to the
 4 incentive.
 5 MS. JEFFCOAT-SACCO: Okay. Thank you.
 6 JUDGE FETCH: Thank you. At this time
 7 we'll go to the Commission.
 8 Commissioner Fedorchak.
 9 **EXAMINATION**
 10 **BY COMMISSIONER FEDORCHAK:**
 11 **Q.** Good afternoon.
 12 **A.** Good afternoon.
 13 **Q.** In your testimony on page 6, in your
 14 original testimony, you outline -- Table 2 outlines
 15 your five year kind of capital expenditure plan.
 16 What are we looking at from this included in this
 17 rate case? What is included, just the 2013 stuff?
 18 **A.** Yes, but, I mean, in particular, the plan
 19 additions would probably be the bigger driver on
 20 Table 1, so that would outline, you know, the
 21 capital additions that are going in plan and
 22 service that eventually work into the revenue
 23 requirements that Ms. Heuer, you know, utilizes.
 24 So what you're seeing there is over a two-year
 25 period, the additions in 2012 and 2013, the

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1 addition of \$923 million in plan and service for
 2 those three business areas.
 3 What Table 2 then references is actual
 4 capital expenditures leading up to those additions,
 5 and then this provides a forward look at what our
 6 current forecasts are for those years. So the 2013
 7 column would be -- you know, we would say our 2013
 8 capital expenditure budget is and then this would
 9 be a forward look at currently what we're seeing
 10 out there and projected as part of our budgeting
 11 process.
 12 **Q.** And is this how it typically looks when
 13 you're building out? What does it -- when you're
 14 not doing these massive upgrades and build-outs,
 15 what would that table look like, a five-year
 16 capital expenditure? What's normal?
 17 **A.** You know, I don't really know what's
 18 normal.
 19 **Q.** Is there normal?
 20 **A.** Dating back, I'm not sure that there is.
 21 You know, but I would comment, you know, possibly
 22 an indicator there is, if you look at energy
 23 supply, you can see a fairly stable expenditure
 24 pattern, so, you know, this does not include
 25 nuclear, so this is our coal, you know, and gas

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1 units for NSP MN. And you can see a fairly stable
 2 capital expenditure, so not a lot of build-out, as
 3 discussed, you know, within my testimony, focus on
 4 more modernization, you know, and updating those
 5 existing plants.
 6 Similar on the distribution, you can see a
 7 slight ramp-up, but not a large buildup. A lot of
 8 our focus, as discussed in my testimony, is in
 9 modernization and some of our reliability programs.
 10 What you can see, however, in the transmission is
 11 the build-out that I believe you may be referring
 12 to on the transmission. In 2013, as an example, if
 13 you look at the \$500 million number, you know,
 14 approximately 66 percent of that is cap ex
 15 expenditures. Similar in 2014, approximately 50
 16 percent of that \$397 million is cap ex, and then
 17 you can see kind of the ramp-down of the cap ex
 18 programs, the group one programs during that
 19 period.
 20 **Q.** Okay. And then in his questioning,
 21 Mr. Norrell asked Laura about this chart, page 9 of
 22 this -- what do you call it -- the NDPSC data
 23 request 10-003. Are you familiar with this? Would
 24 you be the correct person among the witnesses to
 25 discuss why NSP Minnesota is at -- their percent

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1 non-fuel O&M is at more than 30 percent of retail
 2 revenue versus Xcel Energy as a whole or NSP
 3 Wisconsin which is way down at 15 percent?
 4 **A.** (Witness reviews document.) I'm not
 5 familiar with it, and I'm not sure I would be the
 6 right person.
 7 **Q.** I'd like someone to explain why there's
 8 such a big difference between the O&M expenditures
 9 for NSP Minnesota versus Wisconsin or Xcel as a
 10 whole.
 11 **A.** Yeah, I'm not sure who could address that.
 12 I don't know that offhand here to answer that
 13 question. And whatever I would tell you would
 14 probably be speculation.
 15 COMMISSIONER FEDORCHAK: Okay. All right.
 16 That's it for me.
 17 JUDGE FETCH: Thank you, Commissioner
 18 Fedorchak. Commissioner Kalk?
 19 COMMISSIONER KALK: Thank you, Your Honor.
 20 **EXAMINATION**
 21 **BY COMMISSIONER KALK:**
 22 **Q.** Thank you, Steve, for your testimony. You
 23 have to talk to your boss, Laura, and ask her why
 24 she couldn't get through hers as quick as you got
 25 through yours.

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1 Are you the best person to talk about this
 2 transmission rider? Is there a future witness
 3 dedicated to that?
 4 **A. Yeah, I would not be the right person.**
 5 **I'm kind of the operations person. I guess I defer**
 6 **to our attorneys on who they may suggest.**
 7 **Q.** Okay. So cost allocation issues, you
 8 wouldn't want to talk about those?
 9 **A. No, I wouldn't.**
 10 **Q.** We're wearing it down here. In the
 11 previous rate case you talked about in your
 12 testimony, the Commission, I wouldn't say we
 13 approved, I'd say we almost directed those 25
 14 IntelliSwitches. Could we use those
 15 IntelliSwitches in Grand Forks or Minot?
 16 **A. Yeah, you know, we're taking a look at**
 17 **that. You know, first of all, the main reason we**
 18 **focused in Fargo was related to the distribution**
 19 **system design. You know, we have the different**
 20 **voltage. We have the 23.9, which typically we are**
 21 **carrying more customers on the feeder segments,**
 22 **which is where that IntelliTeam can really provide**
 23 **its value, you know, isolating, segmenting that and**
 24 **putting a lot of customers in quickly.**
 25 **You know, with the design of the system in**

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1 **Minot and Grand Forks, you know, at the 13.15 kV**
 2 **systems essentially, there's not as many**
 3 **opportunities, but I would say that in talking to**
 4 **our engineering group, you know, we do think there**
 5 **may be some opportunities with some of the critical**
 6 **facilities in town, you know, for us to take a look**
 7 **and see, you know, what --**
 8 **Q.** How would we wrap that up, because I look
 9 forward to hearing your thoughts. If you think
 10 that we could use some in Grand Forks, that's
 11 something I would be willing to look at it, because
 12 the initial results for Fargo, it's made a
 13 difference, a positive difference.
 14 **A. Whatever mechanism we'd like to tie up.**
 15 **You know, we certainly -- we're looking at it right**
 16 **now and, certainly, you know, we can commit, you**
 17 **know, to provide an update of that --**
 18 **Q.** How would we want to do that?
 19 **A. -- outside of this rate case or however**
 20 **you'd like to do that.**
 21 COMMISSIONER KALK: Would that be a
 22 late-filed exhibit? That's something that's kind
 23 of open-ended. In a previous rate case we
 24 basically just sat down and said you're going to do
 25 it, and then said figure it out. It would be nice

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1 to have some dialogue from the company, saying,
 2 yes, we think we could, if you could use some of
 3 those in the Grand Forks area, then that could be
 4 something we could certainly consider.
 5 MS. JEFFCOAT-SACCO: Well, I think if you
 6 ask the company if they would be able to produce
 7 such an exhibit, it would be appropriate as a
 8 late-filed exhibit. If the company is not able to
 9 answer that question -- nothing inappropriate.
 10 **Q.** (COMMISSIONER KALK CONTINUING) Do you
 11 think you could get something like that within the
 12 next 30 days?
 13 **A. We will do something.**
 14 COMMISSIONER KALK: All right. That would
 15 be great, Your Honor, to get a late-filed exhibit
 16 on IntelliTeam switches potential in Grand Forks
 17 and Minot, or maybe even additional ones needed in
 18 Fargo.
 19 JUDGE FETCH: Okay. Do you understand
 20 what --
 21 THE WITNESS: I do.
 22 JUDGE FETCH: -- is being asked, Mr. Foss?
 23 THE WITNESS: I do.
 24 JUDGE FETCH: Okay. Then what we'd be
 25 looking at is late-filed exhibit -- well, Exhibit D

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1 being a late-filed exhibit.
 2 Any objections, counsel?
 3 MR. NORRELL: No, Your Honor.
 4 MS. VALLEY: No, Your Honor.
 5 JUDGE FETCH: All right. Late-filed
 6 Exhibit D, then, will be admitted. Thank you.
 7 COMMISSIONER KALK: Thank you, Your Honor.
 8 **Q.** (COMMISSIONER KALK CONTINUING) The NERC
 9 reliability standards, are anything that's happened
 10 in the exhibit that's been talked about up in Grand
 11 Forks with the number of hours, is any of those in
 12 violation of NERC standards? That's not NERC
 13 standard's jurisdiction, for lack of a better term,
 14 is it?
 15 **A. Will you restate that question?**
 16 **Q.** The standards for NERC, different
 17 standards of how you do things, none of the outages
 18 that have happened in Grand Forks violate anything
 19 in the NERC standards?
 20 **A. I would have to verify, but my**
 21 **understanding is not, but I would have to verify**
 22 **that answer.**
 23 **Q.** Okay. My assumption would be it wouldn't,
 24 but I wanted to double-check that question.
 25 COMMISSIONER KALK: That was all that I

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1 had, Your Honor.

2 JUDGE FETCH: Thank you, Commissioner

3 Kalk. Commissioner Christmann?

4 COMMISSIONER CHRISTMANN: Your Honor, I

5 have no questions for Mr. Foss.

6 JUDGE FETCH: Thank you.

7 Ms. Valley, do you have any redirect?

8 MS. VALLEY: No, Your Honor.

9 JUDGE FETCH: Mr. Norrell, any further

10 questions?

11 MR. NORRELL: No, Your Honor. Thank you.

12 JUDGE FETCH: Ms. Jeffcoat-Sacco?

13 **FURTHER EXAMINATION**

14 **BY MS. JEFFCOAT-SACCO:**

15 **Q.** Well, I do. I was going to ask if you

16 were the appropriate witness for the cost

17 accounting treatment for Brookings, and then when I

18 heard the discourse, I was going to guess no, but

19 there is a portion of your testimony, page 28, that

20 talks about the transmission revenues from MISO.

21 And what I wanted to know, if you're the

22 appropriate person to answer, is are all the

23 revenues credited back to customers through the

24 fuel adjustment? All, you know, transmission

25 revenues that come from MISO credited back to

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1 customers?

2 **A. That would probably be something better**

3 **answered by Ms. Heuer, I believe.**

4 MS. JEFFCOAT-SACCO: Okay. That's all.

5 Thank you.

6 JUDGE FETCH: Does anyone have any further

7 questions for this witness? All right. Seeing no

8 further questions, that will comprise your

9 testimony. And thank you, Mr. Foss.

10 THE WITNESS: Thank you. Thank you,

11 Commissioners.

12 JUDGE FETCH: All right. Ms. Valley,

13 identify your next witness, please.

14 MS. VALLEY: Thank you. The company calls

15 as its next witness, Mr. Timothy J. O'Connor.

16 JUDGE FETCH: Thank you. And,

17 Mr. O'Connor, I believe you were present earlier

18 when I instructed about penalties for perjury, were

19 you not?

20 THE WITNESS: Yes, ma'am.

21 JUDGE FETCH: Thank you. Please raise

22 your right hand.

23 Do you solemnly swear the testimony you're

24 about to give shall be the truth under pains and

25 penalties of perjury?

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1 THE WITNESS: I do.

2 JUDGE FETCH: Thank you.

3 And is Ms. Paulson passing out the witness

4 statement for Mr. O'Connor?

5 MS. PAULSON: Yes.

6 JUDGE FETCH: All right. Thank you. And

7 this is NSP Exhibit 25. Is there any objection to

8 this exhibit?

9 MR. NORRELL: No, Your Honor.

10 JUDGE FETCH: Thank you. NSP 25 is

11 admitted.

12 Ms. Valley, you may proceed.

13 **TIMOTHY J. O'CONNOR,**

14 being first duly sworn, was examined and testified

15 as follows:

16 **DIRECT EXAMINATION**

17 **BY MS. VALLEY:**

18 **Q.** Mr. O'Connor, as you walked up to the

19 stand today, you were presented with copies of

20 Exhibits NSP 8, NSP 9A, and NSP 9B. Those are

21 copies of your public and nonpublic versions of the

22 direct and rebuttal testimony filed in this case.

23 Do you have any corrections to your

24 testimony?

25 **A. I have NSP 8 and NSP 9A.**

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1 **Q.** Oh, I'm sorry. 9B has been admitted

2 separately as trade secret. I apologize,

3 Mr. O'Connor.

4 Do you have any corrections to your

5 testimony?

6 **A. No, I do not.**

7 **Q.** Thank you. Do you have an opening

8 statement?

9 **A. I do.**

10 **Q.** Please proceed.

11 **A. Good afternoon. My name is Tim O'Connor.**

12 **I'm the Senior Vice-President and Chief Nuclear**

13 **Officer for Xcel Energy.**

14 **The company has made and continues to make**

15 **significant investment in the Prairie Island and**

16 **the Monticello nuclear facilities to maximum the**

17 **clean, reliable energy produced over their extended**

18 **operating lives. The investments are necessary to**

19 **keep the units operating and available as**

20 **round-the- clock carbon-free base load units.**

21 **The company is ensuring that it is**

22 **efficiently using its nuclear plants by performing**

23 **work necessary to extend the operating lives of all**

24 **the plants and also increasing the generating**

25 **capacity at Monticello. Monticello extended power**

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1 uprate/life cycle management project will allow us
 2 to provide safe, reliable, low cost energy to our
 3 customers through 2030. We are currently waiting
 4 for our power uprate license approval by the
 5 Nuclear Regulatory Commission, and have removed the
 6 licensing costs from our current rate request.
 7 However, all investments and plant upgrades to date
 8 are in service and being used today to generate
 9 power, and our customers are currently benefitting
 10 from those investments. Therefore, as explained in
 11 my rebuttal testimony, the operating and
 12 maintenance costs for Monticello are not avoided
 13 due to the license delay. Rather all these costs
 14 are currently being incurred as Monticello is in
 15 service and providing electricity to all of our
 16 customers.

17 The nuclear operations arena is changing
 18 as safety continues to be redefined. Safe nuclear
 19 power operations is compliance-driven by an
 20 independent regulator, specifically the Nuclear
 21 Regulatory Commission, promulgating regulations in
 22 response to lessons learned from day-to-day
 23 operations of all nuclear plants operating world-
 24 wide. The Fukushima event is an example of a
 25 worldwide event reshaping nuclear safety and

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1 certainly USA nuclear operations. Public health
 2 and safety standards in nuclear operations are not
 3 stagnant as demonstrated by the increased
 4 regulatory requirements. The license requirements
 5 under life extension are more stringent than those
 6 under the original license and we are responding
 7 accordingly to ensure the safety and long-term
 8 availability of these key resources through their
 9 extended operating lives.

10 In addition, nuclear employee retention is
 11 a significant issue. The nuclear industry is
 12 facing a decline in experienced nuclear workers, as
 13 well as increased competition globally for those
 14 remaining experienced workers, which has
 15 contributed to a shortage of specialized, skilled
 16 labor. We have implemented a practical and
 17 necessary plan for recruiting and retaining the
 18 highly-qualified workforce to assure workforce
 19 stability as our customers are better served by
 20 retaining the employees with the experience and
 21 skill sets necessary to keep our plants operating
 22 safely, efficiently, and effectively.

23 I appreciate the opportunity to be here
 24 today, and I'm available to answer any questions.
 25 JUDGE FETCH: Thank you.

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1 MS. VALLEY: Thank you, Mr. O'Connor. The
 2 witness is available for cross-examination.
 3 JUDGE FETCH: Thank you. Mr. Norrell.
 4 MR. NORRELL: Thank you, Your Honor.
 5 **CROSS-EXAMINATION**
 6 **BY MR. NORRELL:**
 7 **Q.** Mr. O'Connor, my first question is just,
 8 could you address the company's outstanding license
 9 renewals? What is the status of those?
 10 **A.** Are you referring to the extended licenses
 11 for the plants, or are you referring to --
 12 **Q.** The extended licenses, yes.
 13 **A.** Monticello has been granted and is already
 14 in its new operating license, extended license
 15 life. It's a 20-year extension. Prairie Island
 16 Unit 1 just went -- both plants have been approved.
 17 Unit 1 went into its extended life August 9th, and
 18 Prairie Island Unit 2 will enter its new 20-year
 19 life a year from approximately today.
 20 **Q.** Does that mean that the -- okay. I
 21 apologize. I'm getting notes here. On page 2 of
 22 your rebuttal, and you have stated here as well in
 23 your introductory statement, that the Monticello
 24 upgrade is in service or the Monticello -- is the
 25 upgrade in service at this point right now? What's

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1 the status of that?
 2 **A.** I think what you're referring to is the
 3 power uprate portion --
 4 **Q.** Yes. Yes.
 5 **A.** -- is that correct?
 6 **Q.** That's correct.
 7 **A.** Well, let me try to explain. The project
 8 that was undertaken for Monticello was twofold.
 9 First, it was to go into the extended operating
 10 license life of 20 more years, which required
 11 certain pieces of equipment to either be replaced,
 12 which is one option, or I would say reengineered,
 13 which is another option. We chose to replace. And
 14 by doing that in what I would say an engineered
 15 fashion, we could do it by replacing the equipment
 16 and affording us the ability to increase the power
 17 output of the plant simply by changing the size of
 18 some of the equipment that was in the facility.
 19 That's the project approach that we took to get a
 20 twofold outcome.
 21 All of the equipment necessary for current
 22 operating or running at the new 100 percent are in
 23 service running to the current license of 100
 24 percent power. So if I replace reactor feed pumps
 25 for the old condition, I'm running them now for the

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1 **current condition, as well as the anticipated**
 2 **higher output levels. We simply will increase the**
 3 **output of the existing equipment.**
 4 **Q.** But the increase has not yet taken place
 5 yet; is that correct?
 6 **A.** The increase has not been allowed yet by
 7 the NRC. However, the equipment is ready and in
 8 service, functioning, ready to go.
 9 **Q.** When do you anticipate the NRC will allow
 10 that increase to take place?
 11 **A.** We've been in the process for a period of
 12 time. The next approval cycle for the NRC is
 13 actually coming up here September 5th with a
 14 subcommittee of the Commissioners. Once that's
 15 done, within 30 to 40 days, we expect a
 16 recommendation to be made to the Commissioners, at
 17 which point a license would either be granted or
 18 not. We expect, given all of our inputs, that the
 19 license will be granted.
 20 **Q.** Do you know how long after September 5th
 21 it would be -- anticipating the approval, how long
 22 that would be? Are we talking weeks or months?
 23 **A.** From the time that -- if I receive the
 24 license, where I would say increase power, is that
 25 what you're asking?

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1 **Q.** Yes. Yeah.
 2 **A.** There are -- it would be approximately 40
 3 to 60 days before we would see the first increase
 4 in power, and that's because of the license
 5 requirements between the NRC and us is that I may
 6 be allowed to go to a higher level, but we do it in
 7 very -- in increment stages, and that's to validate
 8 that the design and the analysis all support the
 9 mathematical models that have been done. The NRC,
 10 because of experiences in the industry, has more of
 11 an integrated evaluation with the licensee as we
 12 raise power. So, roughly, I would say it will be
 13 about 60 days where we'll start to see the first
 14 power increase.
 15 **Q.** Okay. On page 13 of your rebuttal
 16 testimony, you state that you provide -- I
 17 apologize. It's your direct testimony.
 18 **A.** Direct. Okay.
 19 **Q.** Okay. Wonders of technology here. Let me
 20 see if I can pull that up. You state that you
 21 could provide some additional information on the
 22 program to retain your nuclear employees.
 23 Could you describe what -- what steps -- I
 24 guess even regardless of what's in the testimony,
 25 what steps have you guys taken? Could you describe

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1 the company's plan to retain nuclear employees?
 2 **A.** Are you on a particular page, just so I'm
 3 on the same that you are? I'm on page 13 of
 4 direct. And I don't think that's the correct
 5 place.
 6 **Q.** It's rebuttal. I'm sorry.
 7 **A.** Is it rebuttal?
 8 **Q.** Yes, rebuttal. It would be line 25, page
 9 13.
 10 **A.** Thank you.
 11 JUDGE FETCH: What was the question,
 12 Mr. Norrell?
 13 MR. NORRELL: The question is just
 14 additional information was submitted by
 15 Mr. O'Connor, if he could just give an overview of
 16 that additional information, what kind of plans are
 17 in place regarding the retention.
 18 THE WITNESS: The plans that -- the
 19 economics of the plans I would refer to another
 20 witness. The philosophy of the plan I can
 21 certainly give you understanding. Is that what
 22 you're asking, or are you looking for the details
 23 of the numbers?
 24 **Q.** (MR. NORRELL CONTINUING) Even the
 25 philosophy of the plan would be fine.

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1 **A.** I'll explain the philosophy. That's the
 2 one I can give best. As I said in my opening
 3 remarks, the industry is shrinking in experienced
 4 workers. Baby boomers, a lack of interest in
 5 nuclear, has shrunk the experience level. This is
 6 not an industry that takes people directly from the
 7 outside and just puts them in jobs because of the
 8 consequences and ramifications that come from
 9 making mistakes. So there's a great deal of
 10 experience that's necessary, particularly in
 11 decisionmaking.
 12 So that's very high premium to obtain, and
 13 that knowledge base has begun to shrink because of
 14 disinterest in nuclear, retirements, and so on.
 15 And we have experienced that it's America and
 16 people have choices and they do make it when there
 17 is better competition than me. Quite frankly, a
 18 workforce that is in constant turnover is not a
 19 good recipe for, I would say, sustainable nuclear
 20 operations and, therefore, we experienced some
 21 losses and found that we had to change our
 22 attraction and retention in order for us to keep
 23 that experience and, therefore, keep the stability
 24 in our power plants and, therefore, have more
 25 predictability behind the operations.

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1 **And that's exactly what it was designed to**
 2 **do, was simply to relook at market competitiveness,**
 3 **look at our competition and structure ourselves so**
 4 **that we were more in those lines.**
 5 **Q.** Okay. Is it -- what do you think drives
 6 the lack of interest in the nuclear employment?
 7 **A.** It's not an easy game. I think that the
 8 pressures that are put on engineers, on managers
 9 and supervisors, it's a 24/7 job. It is extremely
 10 regulated by the Nuclear Regulatory Commission. It
 11 isn't just -- in fact, there are people that are
 12 assigned to the sites on a 24, basically, 7 basis.
 13 So every activity that employee does is being
 14 watched. It's not being watched the way you would
 15 watch me. It's being watched to look at every
 16 single detail. It's a precision type of approach.
 17 That puts a lot of pressure on people. I find that
 18 some people don't like that and don't think that
 19 that's something they want the stress in their
 20 lives, and they have choices and they decide to get
 21 away from it. I think that's one -- one impact.
 22 Over the last 15 years, the interest in
 23 nuclear from schools has reduced and so the
 24 candidates coming out of schools don't meet what I
 25 would say are the types of entry criteria that they

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1 used to, and so we find that the inputs or the
 2 sources have started to shrink. And the military
 3 itself, which is another source that we go to, has
 4 also shrunk in available resources.
 5 **Q.** You had mentioned that some of the entry-
 6 level candidates that come in aren't necessarily,
 7 for lack of a better term, you didn't say this, so
 8 I apologize, I'm rephrasing, but not up to par or
 9 subpar or whatever it might be?
 10 **A.** Not experienced yet.
 11 **Q.** Yeah, there you go. Case in point.
 12 Anyway --
 13 JUDGE FETCH: Not relevant, Mr. Norrell.
 14 THE WITNESS: I'm sure you do well.
 15 **Q.** (MR. NORRELL CONTINUING) Could the
 16 company look at ways to invest in those employees
 17 to make them, to grant them -- is there anything
 18 that they can grant, in lieu of experience from the
 19 company side, to bring them up to a level that you
 20 would feel comfortable?
 21 **A.** I think what you're asking is, is the
 22 company participating in any kind of educational or
 23 program alliances with schools or other types of
 24 sources; is that what you're asking?
 25 **Q.** That's one -- that's one way of looking at

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1 it, or just what can the company do to help those
 2 entry-level people get to the level that they need?
 3 **A.** Yes, we do have. First, the company does
 4 have -- we have very robust qualification programs
 5 for all of our employees. Every single employee,
 6 including me, is trained and qualified and receives
 7 a qualification status for being able to perform
 8 various types of things in the facility. They
 9 range -- can range from a six-month period to as
 10 much as a two-and-a-half-year time period for
 11 someone to gain, I'll call it, additional
 12 education, experience and then demonstration of
 13 that experience before qualification is given.
 14 Very similar to, say, a physician in an internship.
 15 And so the company has those established
 16 for engineers, for managers, for mechanics,
 17 technicians, all of the different skill sets that
 18 we use in the facilities. But as I said, it takes
 19 time. If you see a loss with bringing in new,
 20 that's a good thing, but it takes time for you to
 21 be able to optimize the usage of those people, so
 22 you're left with essentially having to go find that
 23 gap filler with experience from other places until
 24 your own come up to speed.
 25 And so it's a combination, I want

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1 external, plus experience as the right mix, I
 2 think, for long-term operations of our facility.
 3 Then on top of that, we do have now alliances and
 4 programs with local universities, both on the
 5 professional side and nonprofessional side, to, I
 6 would say, create more career paths for people to
 7 want to come into the nuclear facilities. And
 8 we're starting to see some shift in that direction
 9 positively. It's getting better, but it's a ways
 10 to go yet.
 11 **Q.** Is it fair to say that the company is
 12 concerned about the long-term operations in lieu of
 13 this lack of interest and having available workers?
 14 **A.** Well, I would say that our concern is
 15 having a long-term workforce, which is one reason
 16 why we've increased our staffs a bit, was so that
 17 knowing it takes several years to qualify, knowing
 18 the -- I would say the retirement probabilities of
 19 our workforce, we try to make sure that we're
 20 accommodating that potential so that we keep a
 21 stability in the long term of the pipeline for our
 22 power plants. It's working very effectively, but
 23 it is something we have to keep constant vigilance
 24 on.
 25 **Q.** You had mentioned the Fukushima event. Is

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1 that the incident in Japan --

2 **A. Yes, sir.**

3 **Q.** -- with the tidal wave? Are there any

4 similarities to environmental threats at Monticello

5 that they faced in Japan in that incident? What --

6 I'll leave the question there first.

7 **A. First of all, I'm into event prevention,**

8 **not just event mitigation. The only place and the**

9 **only way to operate facilities is to prevent**

10 **situations that we're seeing on television**

11 **overseas. Is the possibility that we could have an**

12 **event that is like that? I would say that's very**

13 **low in probability.**

14 **And, quite frankly, the United States has**

15 **a very different operating philosophy than the**

16 **Japanese do. As an anecdotal example, I have run**

17 **some of these same accident scenarios in our**

18 **simulators, and with our mitigating strategies for**

19 **safety of the plant, for protection, we don't come**

20 **out with the same outcomes.**

21 MR. NORRELL: I have no further questions,

22 Your Honor.

23 JUDGE FETCH: Thank you.

24 Ms. Jeffcoat-Sacco?

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1 **EXAMINATION**

2 **BY MS. JEFFCOAT-SACCO:**

3 **Q.** Is the employee -- excuse me. Scratchy

4 throat.

5 Attracting qualified employees and

6 retaining them, is the incentive plan for that, for

7 the nuclear portion of the business, the same as

8 for the rest of the utility, or is there a special

9 one for the nuclear employees?

10 **A. We have a -- we're part of the whole, but**

11 **there are some special attributes that have been**

12 **applied for the nuclear side.**

13 **Q.** And I apologize if this is buried in

14 somebody's testimony someplace, but is there -- can

15 you point to the cost difference in the rate case

16 in the revenue requirement for the nuclear portion

17 above and beyond the general portion?

18 **A. I would ask -- I don't think I'm the**

19 **correct witness for that. I would ask that one of**

20 **the witnesses coming after me can answer that on**

21 **the retention -- or, I mean, on the compensation**

22 **program as a whole, including the nuclear piece.**

23 MS. JEFFCOAT-SACCO: Okay. That's all I

24 have. Thank you.

25 JUDGE FETCH: Thank you. All right. At

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1 this time we'll go to the Commission. Commissioner

2 Fedorchak.

3 **EXAMINATION**

4 **BY COMMISSIONER FEDORCHAK:**

5 **Q.** Tim, some comments have been made that

6 nuclear was less volatile from a regulatory

7 standpoint. You're talking about a lot of measures

8 needing to be taken because of regulations. So

9 tell me -- talk to me a little bit about whether

10 nuclear really is less or more volatile from a

11 regulatory standpoint, than say some of the fossil

12 fuels.

13 **A. I don't know if I can say that nuclear is**

14 **more or less. As safety standards get redefined by**

15 **industry experiences, regulations change. I think**

16 **that's the case no matter what you're talking**

17 **about, whether you're talking about OSHA standards**

18 **for safety on humans or you're talking about**

19 **nuclear regulatory items or effluents from a fossil**

20 **plant. So the regulations are coming from -- at**

21 **least from the nuclear piece is redefining safety**

22 **as lessons learned come in and assuring that**

23 **similar instances don't occur.**

24 **Now, there is -- it's a moving target at**

25 **times. That's a true statement. Do I think it's**

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1 **predictable? I think we understand the Fukushima**

2 **situation very clearly in the U.S. And the Nuclear**

3 **Regulatory Commission, I think, has done a very**

4 **good job in phasing approaches and having cost**

5 **benefits for doing the right things for the right**

6 **reasons. And so I see there are some increases**

7 **that are coming from those, but I see some level of**

8 **predictability also with that. That's the answer I**

9 **will provide.**

10 **Q.** Do you think that we're going through a

11 period now where there's some new regulations that

12 are built on the lessons learned from that event

13 and then it will stabilize?

14 **A. I don't have a crystal ball, but I would**

15 **tell you that the Fukushima experience is pretty**

16 **much through the regulatory new rule writing that**

17 **the NRC and Commissioners have been doing. There**

18 **are some that we know what they will look like, but**

19 **the rule hasn't been written, but we're already**

20 **anticipating what we think those changes or**

21 **expectations on our plants are. The NRC has**

22 **expected that all industry nuclear plants will**

23 **implement all of those items over the next five**

24 **years. And then at that point I would say this**

25 **situation, I think, is behind us.**

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1 **Q.** So more than 50 percent of the costs that
 2 you're recovering here are focused on the nuclear
 3 side. What -- and you obviously have determined
 4 that this is a good investment. This is wise.
 5 Tell us why. How did you guys determine this? Why
 6 are you comfortable that investing this much in the
 7 nuclear portfolio is a good investment at this
 8 point?

9 **A.** Well, even with some of the rule changes,
 10 when you look at a base load unit running 24/7, I
 11 really don't change my workforce very often. I
 12 mean, I have to have the right workforce and I have
 13 to deal with turnover, but the labor force, the
 14 maintenance costs associated with running the plant
 15 are fairly predictable, assuming regulations don't
 16 change a whole lot, but they're fairly predictable
 17 to run the machine.

18 **And when you look at that, which is a low**
 19 **cost with the energy that you get from nuclear**
 20 **fuel, it's still very, very competitive amongst all**
 21 **other resources that are out there. It's clean and**
 22 **it's extremely reliable, meaning it's very -- you**
 23 **can count on it. I'll give you an example. The**
 24 **Prairie Island Unit 2 reactor is now in day 500 of**
 25 **continuous operation. That's a phenomenal**

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1 **reliability statistic for base load units. And**
 2 **that type of clean energy, that kind of reliability**
 3 **is what we offer to the customers. And I**
 4 **personally believe, the company believes that the**
 5 **economics still show it as being a very good**
 6 **investment for customers for the long term.**

7 **Q.** Okay. Now, just to get, again, kind of
 8 the big picture here, I was looking at the chart on
 9 the drivers of the cost and it showed, I believe,
 10 8.4 million, I believe were related to the nuclear.
 11 And then in your testimony I can't find a chart
 12 that breaks down that 8.4 million. I see a chart
 13 that breaks down like 10.4 -- 10.7 nuclear
 14 generation business area O&M cost, but am I
 15 understanding these correctly? Is the 8.4 and the
 16 10.7, are these the same figures? Where I can get
 17 a breakdown of the nuclear components of the case,
 18 the drivers?

19 **A.** I'm not sure the 8.4 that you're referring
 20 to -- I'm sorry, that one I'm -- but the table, I'm
 21 familiar with the table and I know what that is. I
 22 don't know if there's been any adjustment. I can't
 23 answer that.

24 **Q.** Well, let me -- the 8.4 is from this chart
 25 on page 5 of Ms. -- -- of Laura's testimony at the

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1 beginning. This one. Are you familiar with that?

2 **A.** I have seen it. I have not studied it.

3 **Q.** So should that be -- 8.4, should that be
 4 10.7?

5 **A.** I'm sorry. I can't answer that question.

6 **Q.** Okay. Let me ask it this way. Is 10.7
 7 the right number for total nuclear?

8 **A.** The 10.7 is what our changes from one year
 9 to another year. Now, what that converts to in
 10 actual change in rates, that, I'm sorry, I can't
 11 give you that answer. What I'm explaining in that
 12 testimony is what's the difference in the nuclear
 13 cost from one year to another year and what was the
 14 primary drivers for it.

15 **Q.** Okay. Then how do I get to that, from
 16 that to how much of that percent -- how much of
 17 that is into the rate case, the money that we're
 18 seeking to recover?

19 **A.** I'm sorry. I'd have to refer to others to
 20 help with that answer. I didn't make those
 21 conversions. I don't know.

22 **Q.** Okay. Then let's talk a little bit about
 23 employees, because that is a big driver, it sounds
 24 like, in the costs. A lot of it is coming dow to
 25 the employees, the cost of retaining them --

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1 **A.** It is.

2 **Q.** -- and training them. Where are you --
 3 where are your employees coming from? Where are
 4 the training programs for these employees?

5 **A.** Well, the training programs are Xcel
 6 training programs. So we have a combination of
 7 hiring what I would say less experienced and using
 8 our training programs to bring them up to an
 9 experienced qualified level, and, quite frankly, is
 10 going out to the industry and obtaining them who
 11 already have the qualifications.

12 **For example, the Kewaunee plant that shut**
 13 **down in Wisconsin was a source for us to obtain**
 14 **already trained and qualified people. The plant in**
 15 **San Onofre in California is a second plant that we**
 16 **actually were able to go out and recruit and bring**
 17 **experienced, qualified people into our facility.**
 18 **Those are two places that have been very successful**
 19 **for us.**

20 **Q.** So it's pretty much all on-the-job
 21 training?

22 **A.** Yes, ma'am. A great portion of it is.

23 **Q.** What percent of your staff is it on-the-
 24 job training versus, you know, nuclear engineers
 25 and those folks that graduate from a four-year or

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1 six-year program?

2 **A. Speaking from experience, since I am an**

3 **engineer, I would say that you have to have a**

4 **degree to understand the business and understand**

5 **the technical aspects of it, but from the total**

6 **operation of the facility, it's maybe 10 percent of**

7 **what you get from our nuclear programs and the on-**

8 **the-job experience. Ninety percent comes from the**

9 **actual in-plant and in the job itself.**

10 **Q. Mm-hmm. Do you guys have recruiting**

11 **programs through the trade schools and the**

12 **universities to try to get in and bring in more**

13 **talent?**

14 **A. We do. We actually, as I had mentioned**

15 **earlier, Commissioner, that over the last couple of**

16 **years, we've had to help universities with**

17 **pipelines so that they structure their programs,**

18 **not only the four-year programs, but the two-year**

19 **associate programs. And most recently we've**

20 **interacted with the Institute of Nuclear Power for**

21 **the trade schools so that we can get welders and we**

22 **can get various types of other skills that are**

23 **essential, you know, for operating our facilities**

24 **for the long term. Those programs are starting to**

25 **infiltrate into their journeyman sessions, and**

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1 **we're starting to see -- in fact, this past year we**

2 **had our first seven graduates that we were able to**

3 **get from that program and bring into our nuclear**

4 **facilities. So it's working, but it's got a ways**

5 **to go yet.**

6 **Q. Mm-hmm. Did this suddenly come up or**

7 **why does -- it sort of seems like the industry is a**

8 **little behind the eight ball on the staffing. Why**

9 **is this now such a big issue?**

10 **A. Well, as I said, there aren't too many --**

11 **I'll try to say this as delicately as I can since**

12 **I'm in the 50 category. There's either someone who**

13 **is 20 or 50 and in between not much. What's**

14 **happening is the people that have the -- there was**

15 **a period of time that there was not a lot of**

16 **recruiting, not a lot of what I would say -- there**

17 **was a good deal of stability and assumptions that I**

18 **think people would come into the business, and that**

19 **did not turn out to be true. In the last five to**

20 **eight years that recognition that the schools**

21 **aren't promoting nuclear like they used to,**

22 **computer science and those types of things are far**

23 **more exciting than some of the things that we do,**

24 **and the fact that the population is starting to**

25 **shrink with us that are in the higher ages, is**

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1 **starting to show a deficit.**

2 COMMISSIONER FEDORCHAK: All right. That

3 concludes my questions.

4 JUDGE FETCH: Thank you, Commissioner.

5 Commissioner Kalk.

6 COMMISSIONER KALK: Thank you, Your Honor.

7 **EXAMINATION**

8 **BY COMMISSIONER KALK:**

9 **Q. Thank you, Tim, for your testimony.**

10 Interesting to bring up San Onofre. I got

11 a chance to tour that place. When did that close

12 down again, you said, they're all done now?

13 **A. The announcement is already done. It's**

14 **already shut down.**

15 **Q. Fair enough. Just a couple questions for**

16 **you. The 2030ish -- you feel now that with the**

17 **improvements you've made, the plant will be able to**

18 **run until 2030; right?**

19 **A. Yes, sir.**

20 **Q. I'll tell you, from my viewpoint, the ADP**

21 **to approve what you did to that plant was the**

22 **easiest decision I made as a Commission as far as**

23 **nuclear power. It's good power all the way around.**

24 Is there something that we could do now

25 that would be able to extend the plant past 2030,

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1 or is the limiting factor just the federal approval

2 of this facility?

3 **A. Well, let me ask answer it this way. The**

4 **current regulatory process was a new plant is 40**

5 **years, a license extension is 20. Why those**

6 **numbers? I would say it was more those were**

7 **numbers that were pretty defensible for various**

8 **safety analyses on materials and that type of, I'll**

9 **say, structures. There is a great deal of energy**

10 **right now in licensing past -- past 60 years with**

11 **EPRI and NEI and some of it, I'll call it larger**

12 **utilities. My personal view is that we will see**

13 **nuclear plants going past 60 years, in other words,**

14 **40 plus 20. I expect that you will see past 60**

15 **become more likely in the next five to ten years.**

16 **Q. Is there a role that the North Dakota**

17 **Commission or Minnesota Commission could play to**

18 **help you extend those lifecycles? I mean, could we**

19 **then intervene on your behalf with the authorities**

20 **that grant those? It just -- I mean, we do that**

21 **all the time. We find a good energy source, we'll**

22 **say it's good for policy, good for the ratepayers**

23 **and we'll make sure it's around. Is this something**

24 **that we should be looking at now as the Commission**

25 **to start weighing in with the discussion?**

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1 **A. Commissioner, obviously, I'm a nuclear-**
 2 **type of person so I would always say that there's a**
 3 **possibility. You know, I think the comment that**
 4 **was made earlier about we have to look at the**
 5 **economics, we have to look at the risk factors. We**
 6 **have to look at, you know, regulatory environments.**
 7 **It may or may not be the right decision in 2030. I**
 8 **don't know. I'd like it to be out there in the**
 9 **future. I'm not sure what the United States will**
 10 **do without nuclear power, but it's certainly a**
 11 **policy setting and how the Nuclear Regulatory**
 12 **Commission looks at business is something I think**
 13 **all of us should participate in some fashion to**
 14 **help them shape policy most effectively.**

15 **Q.** Okay. And then speaking of policy, you
 16 talked in your testimony a little bit about the dry
 17 cask storage issues. I see one of the D.C. Courts
 18 now basically said Congress didn't have the right
 19 to stop the moving forward of the storage issue,
 20 something to that effect?

21 **A. Yes. The specific issue was the Nuclear**
 22 **Regulatory Commission decided that it was no longer**
 23 **going to continue the licensing efforts of Yucca**
 24 **Mountain. And they made that decision**
 25 **independently of the Courts, I'll say, or the**

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1 **federal rules or federal law. And the court system**
 2 **said that the NRC didn't have that authority to**
 3 **just say we're not going to do it, so they told**
 4 **them they have to go back and continue the**
 5 **licensing efforts with Yucca Mountain. Whether**
 6 **that happens or not, I don't know.**

7 **Q.** So if we are somehow able to keep this
 8 plant going, is there a limiting time frame for the
 9 current storage plan that will become the limiting
 10 factor in this plant?

11 **A. No. That's, I think, probably one reason**
 12 **why there's some extended times on Yucca Mountain**
 13 **and these kinds of long-term repositories, is**
 14 **because both by testing and by actual operations,**
 15 **dry cask storage has been proven to be extremely**
 16 **safe and can go on for an extended period of time.**
 17 **Well beyond probably what is currently licensed.**
 18 **And I think many know that, and I think that's one**
 19 **reason why it's taking time to come up with a**
 20 **long-term storage, is because the existing methods**
 21 **are very safe and very practical.**

22 **Q.** Okay.

23 **A. So the answer is, I don't see that**
 24 **influencing operations of our facilities.**

25 **Q.** Okay. The -- toured the plant out there

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EMINETH & ASSOCIATES

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1 at Monticello. The physical security, I understand
 2 you have your own unique plan out there, but is the
 3 cyber security setup different for the nuclear
 4 plant than your other facilities, or is it all one
 5 integrated security plan?

6 **A. Nuclear is different. There is cyber**
 7 **security for the company as a whole. However, the**
 8 **Nuclear Regulatory Commission has issued specific**
 9 **cyber security directions for various types of**
 10 **components and systems directed at nuclear power**
 11 **plants as standalone laws and orders.**

12 **Q.** So to get right to the punch line, so with
 13 the physical upgrades that you've done, do you feel
 14 you've done enough upgrades for the -- I just lost
 15 my -- computer security, or is that something that
 16 maybe you could use some more resources to upgrade?

17 **A. We're well on our way. We have to be**
 18 **completed with those by the second quarter of 2014**
 19 **and that's the path that we're on, so we have**
 20 **ourselves positioned to meet that.**

21 COMMISSIONER KALK: Okay. Thank you for
 22 your testimony.

23 JUDGE FETCH: Thank you, Commissioner.
 24 Commissioner Christmann.

25 COMMISSIONER CHRISTMANN: Thank you, your

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1 Honor.

2 **EXAMINATION**

3 **BY COMMISSIONER CHRISTMANN:**

4 **Q.** Mr. O'Connor, how far are Prairie Island
 5 and Monticello apart geographically?

6 **A. Oh, I would say an hour and 45 minutes --**
 7 **I drive a lot -- so I'd say many an hour 45**
 8 **minutes, maybe around 100 miles.**

9 **Q.** When we talked about the regulatory
 10 requirements for safety and, well, all kinds of
 11 requirements that are leading to these costs, are
 12 there state regulatory requirements that exceed the
 13 federal requirements that are part of this, or are
 14 state regulations not exceeding federal?

15 **A. The latter is true. Nuclear power plants**
 16 **are governed by the code of federal regulations and**
 17 **they supersede any state item. Probably the only**
 18 **one area is effluent monitoring of the facility's**
 19 **water and air. The state criteria is what we**
 20 **follow.**

21 **Q.** Were there concessions made some years ago
 22 when one or both of these facilities needed more
 23 storage space, anything in order to get the state
 24 regulatory approval to add storage?

25 **A. I guess I'm not sure I can answer that**

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1 **question. I don't know.**

2 COMMISSIONER CHRISTMANN: Okay. I have no

3 further questions, Your Honor.

4 JUDGE FETCH: Thank you, Commissioner.

5 COMMISSIONER KALK: Your Honor, I would

6 maybe follow up on what Commissioner Christmann

7 was --

8 JUDGE FETCH: Okay. Commissioner Kalk.

9 **FURTHER EXAMINATION**

10 **BY COMMISSIONER KALK:**

11 **Q.** Did the Minnesota Public Utility

12 Commission have you guys hung up a little bit for a

13 while on these -- some extensions?

14 **A.** **There has been -- are you talking about**

15 **extensions for license? There are several license.**

16 **Q.** But the Minnesota PUC has more

17 jurisdiction over what you -- they have some hammer

18 over nuclear plants because you're physically in

19 Minnesota, it's not all federal jurisdiction?

20 **A.** **For, I believe, dry cask storage that is a**

21 **true statement.**

22 **Q.** Okay. So the State of Minnesota could

23 make a policy change that could make operations a

24 lot tougher, and that was some debate a while back,

25 I think?

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1 **A.** **I suppose that's possible.**

2 COMMISSIONER KALK: I don't know if that's

3 what you were driving at, but I remember that

4 discussion that you were talking about.

5 JUDGE FETCH: Any follow-up, Commissioner

6 Christmann?

7 COMMISSIONER CHRISTMANN: No, thank you.

8 JUDGE FETCH: Thank you.

9 **EXAMINATION**

10 **BY JUDGE FETCH:**

11 **Q.** Mr. O'Connor, I just want to ask one

12 question, but I want to comment first.

13 When I was on the Commission, I had the

14 opportunity to tour the Prairie Island plant, and

15 while I was there, there was a simulation as much

16 as you were talking about going through, you know,

17 some various scenarios. And, as I recall, because

18 it was a pretty vivid experience, the simulation

19 was one of the worst-case scenarios and I heard

20 them say something like this is kind of what

21 happened at Fukushima. It was a meltdown. It was

22 rather spine chilling, by the way.

23 But when you talked about what could

24 happen here being very low compared to what

25 happened at Fukushima, what were you comparing?

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1 Was it because of the -- we've heard about the way

2 the government in Japan kind of at the top-level

3 decisions when you can actually take action and

4 intervene and it seemed there was a lot of delay

5 that maybe then led to one disaster after another

6 that might have been curtailed sooner if they could

7 have gotten in there; is that what you're referring

8 to, or are you referring to like actual technical

9 steps?

10 **A.** **All of the above.**

11 **Q.** All of the above.

12 **A.** **If I might, I can explain that a bit.**

13 **Q.** Please.

14 **A.** **If you take a step back and look at the**

15 **Fukushima situation, the first thing is that the**

16 **operating approaches is that in the U.S. every**

17 **operator that's on the boards that's managing the**

18 **reactor itself is federally licensed by the**

19 **government to take actions that they see fit in**

20 **order to reduce any kind of concern to health and**

21 **safety of the public. That's their primary**

22 **objective. They do that before they take an order**

23 **from me. In the Japanese society -- so**

24 **decisionmaking is left to the control room, who are**

25 **best suited to evaluate the situation and given the**

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1 **different circumstances make the best decision.**

2 **In Japan that decisionmaking is not left**

3 **in the control room. It's, as you pointed out,**

4 **elevated outside of the control room to those who**

5 **have less firsthand knowledge. Delays did occur**

6 **and the situation got worse, not better. And when**

7 **actions did take, it was a little bit late. That's**

8 **one problem. After 9/11 in the you U.S., there**

9 **were a variety of different changes we took, both**

10 **in security and worst-case scenarios about our**

11 **nuclear facilities. That prompted us to change**

12 **again our methods of auxiliary equipment in the**

13 **event of a worst-case scenario. So let's say you**

14 **have a loss of power, nobody is coming to help you,**

15 **can you remedy the situation on your own?**

16 **The U.S. required in early years after**

17 **9/11 to put auxiliary equipment in to provide**

18 **additional power, to provide additional water and**

19 **to provide different methods for fire suppression**

20 **should we have any or all of these combinations to**

21 **keep the fuel covered at all times. And that's the**

22 **mission of the U.S., keep the fuel covered at all**

23 **times. That's, again, a different approach than**

24 **the Japanese took. They did not apply security**

25 **issues that we did from 9/11.**

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1 **And then, finally, the U.S. went into**
 2 **what's called beyond design basis situations. The**
 3 **plants are designed for certain types of accidents,**
 4 **but -- and we said, well, what if it goes past**
 5 **that? So we created more procedures and more**
 6 **training scenarios for our operators, our**
 7 **maintenance and engineers for those types of**
 8 **situations. That was all to try to take high**
 9 **consequence but extremely low probability**
 10 **situations and be sure that we could, in fact,**
 11 **implement plans and not have an outcome that we're**
 12 **experiencing overseas.**

13 **Those are the three larger differences**
 14 **that I'm referring to as to why I believe those are**
 15 **very low probability concerns or conditions in the**
 16 **U.S. as compared to overseas.**

17 **Q.** Thank you. That's an excellent
 18 explanation of the security measures.

19 JUDGE FETCH: Ms. Valley, do you have any
 20 questions?

21 MS. VALLEY: No, Your Honor.

22 JUDGE FETCH: Thank you. Mr. Norrell, any
 23 follow-up?

24 MR. NORRELL: No, Your Honor.

25 JUDGE FETCH: Ms. Jeffcoat-Sacco?

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1 MS. JEFFCOAT-SACCO: No. Thank you.

2 JUDGE FETCH: Commissioners, any follow-
 3 up? No follow-up. Thank you, Mr. O'Connor.

4 THE WITNESS: Thank you very much.

5 JUDGE FETCH: Okay. Is your next witness
 6 going to be Sharon Koenig?

7 MS. VALLEY: Yes, Your Honor.

8 JUDGE FETCH: All right. We're going to
 9 take about a ten-minute break here, give the court
 10 reporter a chance to refresh.

11 (Recess was taken.)

12 JUDGE FETCH: We're back on the record.
 13 And the time is about 2:44 p.m., Central Time.

14 And at this time, Ms. Valley, I believe
 15 you were calling Sharon -- is it Koenig?

16 MS. VALLEY: Thank you, Your Honor. It's
 17 Sharon Koenig.

18 JUDGE FETCH: Koenig. Thank you.

19 Ms. Koenig. Ms. Koenig, I believe you
 20 were present earlier when I instructed about
 21 penalties for perjury, were you not?

22 THE WITNESS: Yes, I was.

23 JUDGE FETCH: All right. Thank you.
 24 Please raise your right hand.
 25 Do you solemnly swear the testimony you're

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1 about to give shall be the truth under pains and
 2 penalties of perjury?

3 THE WITNESS: I do.

4 JUDGE FETCH: Thank you. And Ms. Paulson
 5 is passing out your witness statement, I believe,
 6 and this will be -- I have to look at my list here
 7 to see what number we're at -- NSP Exhibit 26.

8 And, Mr. Norrell, do you have any
 9 objections to this exhibit?

10 MR. NORRELL: No, Your Honor.

11 JUDGE FETCH: All right. NSP 26 is
 12 admitted.

13 Please proceed, Ms. Valley.

14 **SHARON KOENIG,**
 15 being first duly sworn, was examined and testified
 16 as follows:

17 **DIRECT EXAMINATION**

18 **BY MS. VALLEY:**

19 **Q.** Ms. Koenig, your prefiled written
 20 testimony has been stipulated into the record in
 21 this proceeding. Do you have any corrections to
 22 your written testimony today?

23 **A. No.**

24 **Q.** Would you please proceed with your opening
 25 statement?

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1 **A. Yes. My name is Sharon Koenig, and I hold**
 2 **the position of Director of Compensation for Xcel**
 3 **Energy. My purpose in this proceeding is to**
 4 **provide testimony to demonstrate the reasonableness**
 5 **of the company's annual incentive program and**
 6 **nuclear retention program costs. For individual**
 7 **but related reasons, these programs are necessary**
 8 **to attract, retain and engage highly-skilled**
 9 **employees that help provide reliable electric**
 10 **service throughout our system each day.**

11 **Delivering safe and reliable electric**
 12 **service to our North Dakota customers is dependent**
 13 **upon attracting talented employees to our company**
 14 **in the present and upon planning for the long-term**
 15 **success of the utility. I'm concerned that we**
 16 **would not be able to attract and retain capable**
 17 **employees in a consistent manner unless we continue**
 18 **to offer total cash compensation, meaning a**
 19 **combination of base salary and incentive**
 20 **compensation that is competitive with what is**
 21 **offered elsewhere in the market. We therefore**
 22 **utilize industry best practices to compare our**
 23 **total cash compensation for a position to what is**
 24 **offered in the marketplace for the same or similar**
 25 **jobs. By that objective measure, we know that**

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1 without annual incentive, our employees' cash
 2 compensation would be 14 to 17 percent below that
 3 which comparable utilities pay. That would be like
 4 paying our employees \$85 for a job that elsewhere
 5 would pay \$100.

6 Furthermore, the annual incentive is a
 7 prevalent compensation tool used by corporations
 8 and utilities alike for the dual purposes of
 9 motivating employees to attain business goals that
 10 benefit customers and managing the overall cost of
 11 employee compensation. Because incentive
 12 compensation must be newly earned each year, and
 13 because certain employee benefit costs increase as
 14 base pay amounts increase, our annual incentive is
 15 more cost-effective than providing cash
 16 compensation solely through annual -- through base
 17 salary. As a human resources professional, I'm
 18 concerned about any potential inability to recover
 19 incentive compensation costs that are designed to
 20 help us fairly compensate and motivate employees,
 21 and at the same time serve to manage the overall
 22 cost of employee compensation.

23 To further manage costs and provide value
 24 for North Dakota customers, we are not seeking 100
 25 percent of our annual incentive costs. Instead, we

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1 propose to cap our recovery of these costs at 25
 2 percent of base pay. This cap essentially
 3 precludes rate recovery of costs of providing
 4 incentive compensation to executive-level
 5 employees, while recognizing that it is reasonable
 6 to recover the cost of incentives for those skilled
 7 employees in a variety of other jobs so they have
 8 the opportunity to receive market-level cash
 9 compensation. We have also aligned our annual
 10 incentive program with the goals that benefit out
 11 customers, such as safety and reliability
 12 standards. For each of these reasons, I believe
 13 that our annual incentive program provides
 14 significant overall benefits to our customers, that
 15 program costs are reasonable both in the nature and
 16 the amount of the costs and that rate recovery in
 17 North Dakota is appropriate.

18 Similarly, our nuclear incentive programs
 19 are designed to help us retain employees who are in
 20 key positions in our nuclear business. My
 21 testimony provides information about our recent
 22 experiences with critical nuclear employees leaving
 23 the company and describes the limited pool of
 24 skilled nuclear industry employees for which we
 25 compete. While we have had some success when

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1 utilizing retention programs for our nuclear
 2 programs, we have struggled to hire needed
 3 employees where other utilities were able to
 4 implement retention programs ahead of us. In
 5 combination with the annual incentive, our nuclear
 6 retention programs align employee interests with
 7 nuclear operational goals, reduce the significant
 8 costs of employee turnover, and ensure employee
 9 stability in this particularly complex and highly
 10 unique area of our business.

11 MS. VALLEY: Thank you. Ms. Koenig is
 12 available for cross.

13 JUDGE FETCH: Thank you, Ms. Valley.
 14 Mr. Norrell, questions?

15 MR. NORRELL: Thank you, Your Honor.

CROSS-EXAMINATION

17 **BY MR. NORRELL:**

18 **Q.** Ms. Koenig, how long have you been
 19 employed by Xcel or NSP?

20 **A.** I actually started with the company
 21 earlier this year, in March.

22 **Q.** Did the other company -- did you work for
 23 another company prior to coming to Xcel?

24 **A.** Yes. I've been working in the
 25 compensation field for about the last 13 years at

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1 other corporations in the Minneapolis marketplace,
 2 and then in addition to my full corporate career
 3 since college.

4 **Q.** Okay. Did any of the other companies you
 5 worked for have incentive programs?

6 **A.** Yes, all of them did.

7 **Q.** And how did they compare to the one that
 8 we're discussing here with Xcel -- or NSP? I'm
 9 sorry.

10 **A.** Well, I can say that all of the other
 11 companies that I've worked at that had -- in the
 12 compensation field had incentive programs that had
 13 predetermined goals that they set out each year and
 14 a certain number of employees were eligible for
 15 those opportunities to pay out incentive. And
 16 while that varied from industry to industry, it was
 17 a really prevalent practice that was in addition to
 18 paying base salary, such as increasing with merit
 19 pay, and so on.

20 **Q.** And is that how the NSP incentive pay is
 21 generally structured or structured in general?

22 **A.** Well, our compensation philosophy is that
 23 we pay -- we look to median pay practices and look
 24 to total cash compensation that is comparable in
 25 our utility company market where we compete for

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1 **talent. So we do look to salary surveys that**
 2 **compare us with other utility companies.**
 3 **Q.** Okay. Could you explain, kind of in a
 4 nutshell, what the compensation, the incentive
 5 compensation policy is for NSP? What kind of --
 6 you mentioned certain things need to be met. What
 7 needs to be met, what kind of goals?
 8 **A.** I can explain our general parameters of
 9 our annual incentive program. We call it AIP, and
 10 it is the short-term incentive that we utilize to
 11 motivate employee behavior with performance
 12 metrics. So it is an annual incentive. It is
 13 different from a bonus. It is really setting out
 14 predetermined metrics that are in place.
 15 And we have really three elements that we
 16 look to when they set these performance criteria.
 17 We look to corporate level metrics or scorecard,
 18 business unit scorecard metrics and, also, an
 19 individual component that is tied to the individual
 20 employee's performance.
 21 **Q.** What kind of items would go under the
 22 individual component?
 23 **A.** Well, the individual component would be
 24 for employees similar to other companies. We have
 25 a performance rating where we assess the

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1 individual's performance throughout the whole
 2 performance cycle. And, generally, that's a fiscal
 3 year in the case of our company. And between the
 4 individual and their leader or their department
 5 they work for or their business unit, there are
 6 several individual goals that they aspire to
 7 throughout the year. And so, like many other
 8 companies, we have performance ratings and those
 9 performance ratings are assessed and, really,
 10 through a performance management system they're
 11 discussed throughout the year, but mostly at a
 12 year-end that assessment is done through an annual
 13 performance review in which we rate our employees.
 14 **Q.** Do you do any sort of surveying of your
 15 employees, or is it part of this annual review as
 16 to their mentality within the workforce, how do
 17 they like working for NSP and what things do they
 18 like working about that -- about NSP?
 19 **A.** Not specifically to my department in
 20 compensation, but in HR, in general, we do employee
 21 engagement surveys at our organization, and that
 22 speaks to a number of characteristics, including
 23 their engagement level and their satisfaction
 24 level.
 25 **Q.** Do the engagement level and satisfaction

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1 level have any sort of impact on their
 2 compensation? Is there any tradeoff there, or any
 3 correlation between the two?
 4 **A.** Well, we do certainly want our employees
 5 to respond with their engagement scores so we
 6 certainly promote them engaging in those surveys
 7 throughout the year. We do them annually and on
 8 occasion we also do pulse surveys in the middle of
 9 the year. But your question is specific, I
 10 believe, to is there any impact related to
 11 compensation. And, in fact, to be an employer of
 12 choice, one thing that we strive for is to make
 13 sure that we do have engaged and motivated
 14 employees, and so one of the scorecard metrics that
 15 we have, a very small portion of our corporate
 16 scorecard, is related to employee engagement.
 17 **Q.** Do you guys look to other -- besides
 18 compensation, do you look to other things to help
 19 keep employees engaged, such as opportunities to
 20 learn or develop their career, flexible hours,
 21 recognition, any of that sort of issue?
 22 **A.** Yes, many of the things that you mentioned
 23 are things that we certainly provide to make sure
 24 that we have a good total rewards experience, and
 25 not only total rewards, but also really what is

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1 that work experience for our employees. And so you
 2 mentioned a couple items like recognition. We do
 3 have a recognition program where we are able to
 4 give kind of on-the-spot thanks and appreciation
 5 for a job well done. We also offer development and
 6 training. And, really, as part of that performance
 7 management process, one element that leaders are
 8 held accountable to for their employees is to make
 9 sure that they're looking to continue to develop
 10 their employees as well. So there's a continual
 11 check-in between a leader and their employee on not
 12 only performance, but also how is their development
 13 plan going, and there are many training
 14 opportunities that are available to our employees
 15 to allow them to continue to develop.
 16 **Q.** Are there any sort of outside studies,
 17 third-party studies, that you're aware of, that
 18 have been conducted to determine how an employee's
 19 work experience at NSP compares to an employee at
 20 Ottertail or other like-minded companies?
 21 **A.** I'm not sure that I'm aware of those
 22 studies about how our engagement scores compare to
 23 other engagement scores in the utility industry,
 24 but because I haven't heard of them doesn't mean
 25 that they might not exist.

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1 **Q.** There was a lot of talk earlier about the
2 Wisconsin Commission disallowing the incentive
3 payments. Are you familiar with that situation,
4 and can you testify to any reasons why Wisconsin
5 would have disallowed those?

6 **A.** I can tell you that I'm familiar with the
7 matter regarding Wisconsin and I know that -- while
8 I'm not involved in the details of that, of that
9 case, I am aware that that decision about allowance
10 of AIP was probably done in connection with an
11 array of other decisions, not just solely on the
12 purpose of whether AIP should be allowable for
13 recovery, so that's about the extent I'm familiar
14 with that case. I'm not involved in that one
15 specifically.

16 **Q.** So you don't know what the particular
17 concerns that Wisconsin had with the AIP in
18 Wisconsin, in that Wisconsin case were?

19 **A.** I individually don't know. I'm sorry.

20 **Q.** You've mentioned, and it's been mentioned
21 in your testimony, that the incentive pay is
22 offered each and every year, that employees
23 essentially have to re-earn that; is that correct?

24 **A.** Yes. It is what we call variable pay
25 versus fixed pay, which is part of one's annual

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1 base salary. So incentive pay is what we call
2 variable, meaning they do have to re-earn that
3 opportunity for performance outcomes.

4 **Q.** In your rebuttal testimony, there's
5 conversation about the nuclear incentive programs.
6 Are those structured under the same kind of
7 umbrella or guidelines as the regular AIP?

8 **A.** Well, what I can explain a little further
9 is that the retention program was put in place. It
10 is a compensation tool that's used to make sure
11 that we are looking at skilled and critical talent
12 that we have in our workforce and making sure that
13 we work towards retaining them. So it is a
14 compensation tool that we use called retention to
15 make sure that we're putting some focused area on
16 those employees. However, it's not directly
17 associated with a broader aspect of our annual
18 incentive program, if I understood your question
19 correctly.

20 **Q.** I guess my question kind of in line with
21 if AIP needs to be re-earned every year, your
22 testimony talks about long-term incentives to
23 nuclear employees. How do those two mesh? If it
24 needs to be re-earned, how can you have a long-term
25 incentive?

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1 **A.** Well, let me explain a little further
2 about the construct of that nuclear retention
3 program. So it is, in part, performance based, so
4 setting aside the annual incentive program for a
5 moment, which is an annual opportunity that we
6 provide eligible employees, what occurred with our
7 nuclear retention efforts would be that we put in
8 place certain -- for certain key positions as
9 Mr. O'Connor explained further -- or earlier in his
10 testimony, that we wanted to make sure that we were
11 retaining them and making sure we continue to have
12 that good investment in their development and that
13 continuity in their work with us. So we put in
14 place a variety of different mechanisms in place
15 with that retention. We used a time-based cash
16 component that was put in place to make sure that
17 we have some continuity, but more importantly we
18 put in place some performance-based awards in
19 addition to that, that were connected to KPIs, key
20 performance indicators, that they coordinated with
21 their leadership. The LTI that was given to them
22 called retention stock units, that is also a
23 performance-based award. So it is not -- it is
24 stock-related. It is not cash. And that is
25 triggered around a three-year performance cycle on

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1 **EPS.**

2 **Q.** Okay. On page 6 of your testimony, at
3 line 23, you state that there's a cost savings that
4 occurs in the form of reduced cash compensation.

5 Do you have any sort of charts or anything
6 that you can show how much money is saved upfront
7 in the form of reduced cash compensation, or do you
8 know what that dollar amount is?

9 **A.** I don't have that calculation with me,
10 but, you know, if we are providing incentive
11 compensation, for example, at a percentage of let's
12 just say 10 percent AIP opportunity of someone's
13 base pay, if we weren't providing an annual
14 incentive plan opportunity for them to re-earn that
15 award each year, if we were to transfer that to
16 their base salaries, it would be about a 10 percent
17 difference, because we do strive in our
18 compensation philosophy to pay total cash
19 compensation at median pay practices. So if that
20 can give you a good -- if that gives you a good
21 gauge of what difference that might be, that would
22 show an individual kind of employee example.

23 **Q.** So then is your rate -- your base pay is
24 lower than what the median is?

25 **A.** Can you restate that question, please?

223

1 **Q.** You mentioned the incentive compensation.
2 I guess my question is, so you start the person
3 with a lower base pay, their cash compensation is
4 going to be lower than what their peers elsewhere
5 might be receiving; is that correct? Did I
6 understand you correctly?

7 **A.** If I could clarify that a little further,
8 that's not exactly what I meant by that so let me
9 break it out a little further.

10 When we talk about total cash
11 compensation, that is data that we are able to look
12 to and attain from third-party salary surveys. We
13 also receive information in those surveys about
14 base salary information. So you really see all
15 components of what is being delivered
16 competitively; base pay, annual incentive, and then
17 the sum of those two would be called total cash
18 compensation.

19 And I believe you were making a statement
20 do we start people lower on the base salary. We
21 don't have that philosophy, but what we do is, we
22 want to make sure that we're setting our salary
23 structures based on what we are seeing delivered
24 compared to those market studies as base salary
25 levels and then we look to set our incentive plan

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1 target opportunities also consistent with what
2 we're seeing in the surveys.

3 So our entire compensation philosophy is
4 to make sure that we're monitoring what our median
5 pay practice is and we look to see that total
6 package, which is called total cash compensation,
7 for the majority of our employees.

8 **Q.** Have there been any years recently where
9 the company has not provided AIP to employees?

10 **A.** Well, I'm -- as you noted earlier, I'm new
11 to the company, but what I understand is that while
12 the AIP, the annual incentive program, has been an
13 opportunity that's been offered, I believe there
14 was a prior year that was not paid out, but I don't
15 have the specifics -- specifics of that with me.

16 **Q.** Okay. Is there still an annual cost of
17 living pay increase or something comparable to that
18 for NSP employees aside from the AIP?

19 **A.** No, I'm not familiar with that. When we
20 structure our market-based compensation programs,
21 we do set those programs up for our non-bargaining
22 employees, and so I'm not aware of any historical
23 cost of living adjustment that would also have been
24 added on to that for our non-bargaining employees.

25 **Q.** On page 7, line 4 of your testimony, you

225

1 state that incentive compensation tends to reduce
2 benefit costs. How does that work?

3 **A.** Sure. I can explain that a little
4 further. If we weren't able to provide the
5 program, including our annual incentive program, in
6 order to continue to retain our talent and motivate
7 people and attract new talent to the company, we
8 would still look to those market surveys to provide
9 median competitive total cash compensation. So if
10 we didn't have our AIP, for example, available to
11 us and we, you know, just hypothetically paid
12 everything in base salaries, we would really be
13 raising the cost of the total administrative costs
14 of our company because an employee's base salary is
15 a factor in how we determine other benefits
16 payable, such as on our pension or certain
17 insurance coverages that we have or opportunities
18 in our health and welfare plans. And so,
19 ultimately, that employee's base salary can be a
20 factor in determining those other costs. So we see
21 that as if we didn't have the AIP and we still had
22 our objective to pay median total compensation,
23 total cash compensation, we'd really be probably
24 raising those costs of the organization in our
25 total rewards program.

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1 **Q.** Do you know or do you have a document that
2 can show how much savings there are in this term in
3 reducing the benefit costs on a yearly basis
4 because of the AIP program?

5 **A.** I haven't prepared that so I don't have
6 that number or that document.

7 MR. NORRELL: Your Honor, Advocacy Staff
8 would like to request, if it's at all possible, a
9 document that goes to that effect. The two
10 questions, the one to see the savings in the form
11 of reduced cash compensation and maybe in the same
12 one the reduced -- the reduction in benefit costs
13 as a late-filed exhibit.

14 JUDGE FETCH: Savings in the form of
15 reduced cash compensation and a reduction in
16 benefits cost --

17 MR. NORRELL: Yes, Your Honor.

18 JUDGE FETCH: -- is that what you said?

19 All right.

20 Ms. Valley, any objection to having an
21 exhibit prepared?

22 MS. VALLEY: Just one moment, Your Honor.

23 Thank you, Your Honor. I guess one
24 question I would likely like to pose to Ms. Koenig
25 is if she understands --

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1 JUDGE FETCH: Go ahead.

2 MS. VALLEY: -- what's being asked and if

3 she thinks that this is something that they can put

4 together. As she explained, there are a lot of

5 programs affected by this and thousands of

6 employees, so it's a little -- it sounds like a

7 somewhat complicated calculation so I wanted to

8 clarify.

9 THE WITNESS: So what I can address is

10 that while I understand the methodology of how that

11 would be put together, I think you are correct,

12 Ms. Valley, that all of those aspects would not be

13 in my total control of putting them together. I

14 guess I would need to make sure I understand from

15 my other colleagues who are in the retirement

16 benefits and health and welfare to figure out how

17 to calculate that. I would not be the expert to be

18 able to pull all that data together myself solely.

19 MS. VALLEY: We certainly want to make

20 this a full and complete record and provide all of

21 the information that the Commission would like to

22 see in making its final determination. I guess

23 with respect to this particular request because it

24 does sort of stretch across a variety of areas that

25 perhaps maybe there be some acknowledging what

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1 Mr. Norrell has identified here as the rate

2 request, but maybe some flexibility to work with

3 them if there are some modifications as we identify

4 what information we have and how it can be compiled

5 for this exhibit.

6 JUDGE FETCH: Sure. Are you saying,

7 Ms. Valley, that it seems overly broad and you're

8 not sure what specifics are being requested?

9 MS. VALLEY: Well, it sounds like what

10 Mr. Norrell would like are the savings that we

11 experience by reduced base pay and having that

12 separation between base pay and AIP and how that

13 also carries over into reduced benefit costs. And

14 I just want to be clear that because we don't have

15 all of the individuals with that information

16 currently present, I don't myself, and it sounds

17 like Ms. Koenig doesn't know what the complexity

18 and feasibility of pulling that analysis together

19 is, so I just want to make sure that everybody is

20 aware that we'll certainly make our best efforts,

21 but as we identify what that information might be,

22 we may need to work with Advocacy Staff to come up

23 with something that is representative of what

24 they're looking for.

25 JUDGE FETCH: Sure. You're asking for

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1 maybe an opportunity to work with staff to get more

2 clearly identified what information they're looking

3 for and what the parameters are.

4 Does that sound reasonable, Mr. Norrell,

5 or can you shed a little more light on it?

6 MR. NORRELL: Well, the testimony just

7 states in numerous places it saves costs. We'd

8 just like to see in what way, but we would be

9 willing to work with Xcel, NSP to get something.

10 We'd like to see some numbers, other than just

11 stating broadly it saves costs.

12 JUDGE FETCH: Okay. All right. Sounds

13 like there's some agreement.

14 Sure. Commissioner Kalk.

15 COMMISSIONER KALK: I was thinking the

16 same thing. It would sure be nice if you've got

17 your bargaining employees, your non-bargaining

18 employees, different management. I wouldn't think

19 all of the employees, but some classes, this type

20 of class employee you might save 8 percent, this

21 class employee you might save 2 percent, this class

22 you might not save anything. I don't know if that

23 would be overly complex to break your employees

24 into their classes, which are probably already

25 defined. I don't know if that muddies the water.

230

1 I don't think -- I think you're just trying to get

2 a feel for -- to quantify some of these things.

3 MR. NORRELL: Yeah. I guess are we

4 looking at a minute cost savings here with AIP?

5 Are we looking at this class of organized labor

6 employees, for example, are we looking at 8

7 percent, 2 percent? Nothing, you know, too overly

8 complex.

9 JUDGE FETCH: So you're saying you don't

10 necessarily need to see, you know, 2, 3, 4,000

11 employees, you know, broken out on a chart and what

12 each of the savings are, but something, you know, a

13 lot more condensed than that, and as I think --

14 Commissioner Kalk, I think that's a good way to

15 explain that what you would be looking for is kind

16 of classes and, basically, the information savings

17 in that manner. But, again, working, you know,

18 with staff to kind of see that this is -- you're

19 getting something usable. All right?

20 That would be a late-filed exhibit,

21 obviously, since they need to compile the

22 information.

23 MR. NORRELL: Certainly.

24 JUDGE FETCH: And I will admit that as

25 Exhibit E, and I'll just write up a description.

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1 All right. Thank you. Mr. Norrell.

2 MR. NORRELL: Thank you, Your Honor.

3 **Q.** (MR. NORRELL CONTINUING) On page 3 of

4 your testimony you state that the Wisconsin

5 decision regarding the incentive pay is under

6 review. And I know you already kind of spoke to

7 this.

8 Do you know any details about what is

9 exactly under review about that?

10 **A. No. I'm sorry. I don't have any further**

11 **insights on it.**

12 MR. NORRELL: Okay. I have no further

13 questions.

14 JUDGE FETCH: Thank you.

15 Ms. Jeffcoat-Sacco?

16 **EXAMINATION**

17 **BY MS. JEFFCOAT-SACCO:**

18 **Q.** Who would know the answer to the under

19 review question? That was one of my questions

20 also. Under review by the company or Wisconsin, or

21 who would know who is here today from NSP?

22 THE WITNESS: Ms. Valley, do you have any

23 suggestions who may have more insights on that?

24 I'm sorry. I don't know.

25 MS. VALLEY: Your Honor, to the extent --

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1 I actually maybe would like a little bit more

2 clarification of what they're looking for in terms

3 of the Wisconsin decision. That is included as an

4 attachment to Ms. McCarten's testimony, which lays

5 out the decisionmaking of that Commission.

6 JUDGE FETCH: Ms. Jeffcoat-Sacco, could

7 you restate your question, rephrase it?

8 MS. JEFFCOAT-SACCO: My question was -- I

9 mean, I understand that the case is attached to

10 McCarten's testimony. I looked at the case. But I

11 didn't -- I did also have the same question about

12 it being -- the statement that it was under review.

13 And I asked, because you just answered Mr. Norrell

14 that you didn't know what "under review" meant, and

15 I'd like to know if anybody at NSP or in the room

16 can answer the question, what does "under review"

17 mean?

18 JUDGE FETCH: Are you asking the attorney

19 or the witness?

20 MS. JEFFCOAT-SACCO: I'm asking -- the

21 witness has already answered that she does not

22 know. And I am asking the attorney to tell us if

23 there's another witness who can answer that

24 question or if the attorney can express what "under

25 review" means.

233

1 JUDGE FETCH: Okay. Ms. Valley?

2 MS. VALLEY: Thank you, Your Honor. And

3 perhaps we could -- as Ms. Koenig is not able to

4 respond to that question right now, we'll follow up

5 and maybe in our next break we'll identify who

6 could answer that question going forward.

7 MS. JEFFCOAT-SACCO: Thank you.

8 JUDGE FETCH: All right. Thank you.

9 **Q.** (MS. JEFFCOAT-SACCO CONTINUING:) And you

10 did previously respond that you weren't familiar

11 with the decision in Wisconsin, but having looked

12 at that decision, and it can speak for itself, but

13 the Commission, Wisconsin Commission, says it's too

14 inextricably linked, the performance, the stock

15 performance -- or the return performance, I should

16 say, is too linked to the plan for the Commission

17 to approve it.

18 What I would like to know is your

19 description of the linkage between the plan and

20 company performance.

21 **A. Well, I can explain my review of the**

22 **annual incentive program and what those metrics**

23 **are. I can explain further that it is based on**

24 **three types of KPIs that are put together based on**

25 **scorecards. There's a corporate scorecard.**

234

1 **Q.** Excuse me. But "KPI" means what?

2 **A. Key performance indicator. And so those**

3 **are generally goals that are set that are**

4 **monitoring performance and leaders select what**

5 **those goals are as they are applicable to their**

6 **business. So there are corporate scorecard key**

7 **performance indicators. There are business unit**

8 **key performance indicators that are structured, and**

9 **then the third component would be the individual**

10 **performance of the employees. So the AIP is**

11 **structured to be a performance-based incentive and**

12 **it takes into account those three areas. And**

13 **individuals are weighted on them separately and**

14 **then there is also a funding factor that is related**

15 **to a minimum EPS target, so that is a funding**

16 **factor that makes sure that we have affordability**

17 **to pay the annual incentive each year.**

18 **Q.** And which of those are tied to the

19 company's performance as far as return -- earnings?

20 **A. If your question is -- is your question**

21 **whether the EPS is tied to corporate performance?**

22 **The answer is yes.**

23 **Q.** Yes. And I was asking you to tell me, for

24 the record, which of the factors you just mentioned

25 is that factor, that first one, corporate

235

1 performance, not the business unit performance or
2 the individual?
3 **A. The funding factor ability applies to the**
4 **corporate scorecard. But what I may add, too, is**
5 **that that minimum threshold of EPS needs to be met**
6 **in order for any payout under the AIP to any**
7 **employee.**

8 **Q. What is the North Dakota precedent for the**
9 **company on incentive pay?**

10 **A. I believe in -- we are asking for an**
11 **opportunity to get recovery on annual incentive**
12 **program up to a cap of 25 percent of base salaries.**
13 **I believe historically it was up to 15 percent.**

14 **Q. And for all employees or for a portion of**
15 **the employees? That question applies to what**
16 **you're asking for and what the North Dakota**
17 **precedent is.**

18 **A. We are asking for recovery on annual**
19 **incentive program up to a cap of 25 percent of base**
20 **salaries for those employees who are eligible.**

21 **Q. For everyone who is on the incentive plan?**

22 **A. That's correct.**

23 **Q. And is the North Dakota precedent 15**
24 **percent for everyone or 15 percent for a smaller**
25 **group?**

236

1 **A. I'm sorry. I don't have the history to**
2 **answer that question.**

3 MS. JEFFCOAT-SACCO: I would like to add
4 that to the list of questions that NSP should
5 answer when they figure out who can answer that,
6 please.

7 **Q. (MS. JEFFCOAT-SACCO CONTINUING) Is it**
8 **impossible to pay only base pay, your total**
9 **compensation as a base pay? Is it impossible to**
10 **have a plan that only pays that, not incentive, but**
11 **still be tied to performance?**

12 **A. I think your question is relating to if we**
13 **look at only -- if we only paid our exempt**
14 **employees base salary and not an annual incentive**
15 **opportunity, I believe your question is, are you**
16 **able to tie that to performance? We wouldn't be**
17 **able to -- I mean, certainly that's a design**
18 **question. And I guess, certainly, what we look to,**
19 **how we hold employees accountable for performance**
20 **with their base pay is something that we deliver in**
21 **an annual merit review. So performance ratings do**
22 **impact individuals on their base salary with**
23 **respect to their individual performance rating**
24 **every year. And so, in fact, today for our base**
25 **salaries, people are impacted by their performance**

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1 **rating, but if you wanted to design a program that**
2 **is based on broader group metrics, I think it might**
3 **be a little difficult to do that just based on base**
4 **salary.**

5 **Q. Aren't the problems -- I mean, anybody who**
6 **has ever managed anybody, I think, would know the**
7 **answer to this. Aren't the problems exactly the**
8 **same, the challenges of tying pay to performance**
9 **the same whether you're paying base pay or you're**
10 **paying base plus incentive?**

11 **A. Well, there are -- I'm sorry. Can you**
12 **restate your question?**

13 **Q. The challenges of trying to tie pay to**
14 **performance are the same, are they not, whether you**
15 **are only trying to do it as a base salary or trying**
16 **to do it as an incentive plan? The challenges, the**
17 **hurdles, the hard part of doing it is the same, is**
18 **it not?**

19 **A. Well, I guess I would respond to that**
20 **that, you know, certainly doing performance**
21 **management and applying performance ratings to**
22 **employees' performance throughout the year is a**
23 **challenge for any business leader, but there are**
24 **ways that you could do it objectively and,**
25 **actually, when you look at performance-based**

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1 **incentives like an annual incentive program and you**
2 **have quantifiable, objective scorecard metrics, you**
3 **actually have something to look to that is a little**
4 **bit more objective versus subjective.**

5 **So when I look to how we rate our**
6 **employees and we assess what they should receive**
7 **for a merit increase and whether they earn that**
8 **merit increase each year based on their performance**
9 **rating, that is based on providing leaders with**
10 **good training about how to assess performance, but**
11 **it is a bit subjective, versus when we look at**
12 **performance metrics that are outlined in an annual**
13 **incentive program, those are based on quantifiable**
14 **things that we can measure. So I guess I would say**
15 **that it's a little easier to really conduct a**
16 **pay-for- performance culture when we have**
17 **quantifiable methods to look to versus subjective.**

18 **Q. Thank you. I had the same question as**
19 **Mr. Norrell about the cost benefit versus the cost**
20 **savings, but I have a follow-up question even**
21 **though I'm looking forward to that exhibit.**

22 **And that is, doesn't the company need to**
23 **know if there's going to be a cost savings before**
24 **it decides to go to an incentive pay plan? I mean,**
25 **isn't that the question the company should be**

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1 asking itself initially?

2 **A. Yes, that is part of an analysis that one**

3 **would do if you haven't already created an annual**

4 **incentive program. If you were an employer and you**

5 **were looking to how to restructure or redo**

6 **compensation programs, yes, any type of modeling is**

7 **a good thing to conduct if you're deciding how**

8 **shall I invest our dollars, should I put them into**

9 **fixed pay such as base salaries versus variable**

10 **pay, such as annual incentives, versus even**

11 **long-term incentives. But I think what designers**

12 **do when they look at how to construct a market**

13 **competitive pay package, we look to what are those**

14 **drivers that are going to provide the operations of**

15 **the company with the best outcomes.**

16 **And there are many good reasons why we**

17 **have base salaries and we look every year to how an**

18 **employee is performing and we give them the**

19 **opportunity to earn a merit increase. However, the**

20 **benefits of doing an annual incentive plan are what**

21 **we talked about earlier, which is you have to**

22 **re-earn that outcome every year, but it also drives**

23 **higher levels of performance. You can very much**

24 **distinguish those employees who are really going**

25 **above and beyond and performing well versus**

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1 **employees who are performing more at just baseline**

2 **levels. So there are a lot of reasons why**

3 **incentive plans are put in place, to distinguish**

4 **performance, but it's also so the company can**

5 **achieve higher than planned performance outcomes.**

6 **Q. And that's what we're asking. The**

7 **company, that should be a continually ongoing**

8 **assessment of whether it's worth sticking with this**

9 **plan or not, correct, so the company should be**

10 **providing that information to us, and I guess I'm**

11 **thinking it shouldn't be that hard to come up with**

12 **if the company is looking at it each year, is this**

13 **still the plan we want to use, should we redesign**

14 **it, is it producing the results we think, is it**

15 **producing the cost savings or the performance.**

16 **There should be some way that the company can give**

17 **us that information.**

18 **A. Well, and what I would add to you, and I**

19 **know you had requested this information as did the**

20 **other gentleman for additional followup, but what I**

21 **can respond to about should the company be looking**

22 **at the design of how we deliver pay, we do that**

23 **annually and we do get information out of surveys**

24 **to find out with companies similar in our size, in**

25 **our utility industry, what is that mix of pay that**

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1 **we're delivering, and we do see that it's very**

2 **prevalent to have both base salaries, incentive**

3 **opportunity, and on certain levels at executives or**

4 **even mid management and higher, long-term**

5 **incentives in the form of stock or other**

6 **performance-based incentives. So we do assess that**

7 **each year and find out if that is a prevalent**

8 **practice in companies similar to our size.**

9 **Q. And then do you also assess in any summary**

10 **fashion the productivity changes? Is that**

11 **something that you could provide?**

12 **A. Well, one thing that these key performance**

13 **indicators that we mentioned, KPIs, those are used**

14 **in our annual incentive program but, they're used**

15 **for much more at our company as well. They assess**

16 **how we're performing and how we're providing**

17 **service to our customers and how the business is**

18 **operating. So those are activities that business**

19 **leaders are going with to assess how is performance**

20 **on safety, reliability and other business operating**

21 **activity, and they do assess whether they are**

22 **making improvements in those areas. And so I think**

23 **that speaks to your question about are we seeing**

24 **that there is a gain or a good outcome in providing**

25 **those types of performance.**

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1 **Q. It does, but can you produce any**

2 **supporting documentation that would be simple -- I**

3 **mean, that would be clear and simple data to**

4 **support the assertion? I don't know what the**

5 **company might produce that you could turn into us**

6 **so that we could see what you're saying is**

7 **happening.**

8 **A. And perhaps that could be something that**

9 **we could look to to help provide you with some**

10 **background there, but other companies like ours who**

11 **practice market-based compensation, they do similar**

12 **steps that we do each year. We look to third-party**

13 **surveys to find out is this a prevalent practice,**

14 **the mix of pay that we're delivering, who we**

15 **deliver pay to and in what forms, and what are**

16 **those median pay practices, so other companies that**

17 **are doing that kind of activity are kind of**

18 **conducting the same steps we are when we say that**

19 **we're market-based. We're looking to those**

20 **surveys.**

21 **And I think what you're asking for is**

22 **specifically the quantifiable outcomes, but I think**

23 **that's a little bit beyond the compensation design**

24 **that we look to and how we set these compensation**

25 **programs up.**

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1 MS. JEFFCOAT-SACCO: Okay. Thank you.
 2 That's all.
 3 JUDGE FETCH: Thank you. At this time
 4 then, we'll go to the Commission.
 5 Commissioner Fedorchak.
 6 **EXAMINATION**
 7 **BY COMMISSIONER FEDORCHAK:**
 8 **Q.** Sharon, I'm not a human resource expert so
 9 you'll have to bear with me as I get up to speed on
 10 some of your terminology.
 11 **A.** Sure.
 12 **Q.** So just to make it really simple, in the
 13 total compensation packages I'm kind of assuming
 14 there's three things; base pay, benefits, and AIP.
 15 In general, those are the company's expenses?
 16 **A.** Well, that would be what we -- I think
 17 what you're describing is total rewards, which is a
 18 component of what we pay people in compensation,
 19 whether base short-term incentives or long-term,
 20 but then when you mention benefits, such as, I'm
 21 assuming, you mean like health and welfare
 22 benefits --
 23 **Q.** Right.
 24 **A.** -- or retirement benefits --
 25 **Q.** Whatever the benefits package.

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1 **A.** -- that's what we call total rewards. So
 2 it's a little broader than compensation.
 3 **Q.** Okay. So of your total rewards, what
 4 percent is AIP? Of the costs? I'm looking at
 5 costs now just in terms of -- so what we're going
 6 to have to be recovering. Of your total
 7 compensation costs, what percent is AIP? Is it
 8 like 3 percent or even if you just compared it to
 9 base salary, how much of an incentive bonus can
 10 employees get?
 11 **A.** Well, so -- I believe your first question
 12 was how much of AIP is part of total rewards?
 13 **Q.** Yeah.
 14 **A.** And I don't have that number. That would
 15 have to be -- it's really a detailed calculation
 16 that we would have to do because different
 17 employees are getting opportunity at certain
 18 pension levels, versus 401(k), versus that whole
 19 array of total rewards, but I think your second
 20 question actually focused more on what percentage
 21 of AIP is part of our total cash compensation.
 22 What I can explain a little further, I
 23 think you said how do we know how much people are
 24 getting, and we do vary the level of AIP
 25 opportunity based upon their job level so certain

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1 **grades are --**
 2 **Q.** What's the range? I understand some might
 3 be 2 percent, some might be 10. But I'd like to
 4 know what the range of potential AIP benefit would
 5 be to an employee?
 6 **A.** So I believe our lowest opportunity level
 7 is 6 percent for some individual contributor exempt
 8 employees. And as we go up through our grade
 9 structure, the people who are part of our standard
 10 grade structure, those levels go up, I believe --
 11 actually, can I look to something just to
 12 double-check?
 13 **Q.** Sure. Absolutely.
 14 **A.** I don't think I have that with me, but I
 15 believe the levels would be either at 50 percent or
 16 slightly above 50 percent, and those are for our
 17 more senior level executive positions.
 18 **Q.** So of their base pay they get 50 percent
 19 more of their base pay as a bonus?
 20 **A.** Based on those performance metrics.
 21 **Q.** Yes. Okay. So that helps explain. I was
 22 not clear in a line of rebuttal testimony that said
 23 the cost greater than 25 percent base pay. So you
 24 would only be recovering in here up to 25 percent
 25 if an employee, say, Dave over there, had a 50

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1 percent bonus that he could have earned, he'd only
 2 get 25 percent coverage?
 3 **A.** Yes. And I should add that a high
 4 majority of all our eligible employees are at 25
 5 percent or lower in those levels, opportunity
 6 levels.
 7 **Q.** In planning for this, does the company
 8 assume they're going to be paying the full amount?
 9 **A.** I'm sorry. Can you restate that when you
 10 say "paying the full amount"?
 11 **Q.** Well, if you've got up to 25 percent
 12 increase in compensation to an employee, that's a
 13 huge variable. How does the company plan for maybe
 14 they don't need it, or do you just assume everybody
 15 does?
 16 **A.** Well, I'm in HR, but not an accounting
 17 expert, but what we do is in our compensation area,
 18 we provide eligibility data to our finance and
 19 accounting area and we do assume that target level
 20 opportunity is accrued throughout the year, but
 21 then they make adjustments in that based upon how
 22 the business is trending, and so forth. So, again,
 23 that would be not in my area of expertise, but we
 24 do accrue for that and plan for that.
 25 **Q.** Okay. And I don't know that I need to

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1 know this, but "target level opportunity," what
 2 does that mean?
 3 **A. Target level opportunity means that when**
 4 **we look to these third-party salary surveys and**
 5 **compensation surveys, when we receive information**
 6 **in there that at certain jobs it's -- for example,**
 7 **in a very simple example, if you were working with**
 8 **an employee that was earning \$50,000 annually and**
 9 **if their target opportunity was \$10,000, that**
 10 **target amount is what we're seeing coming out of**
 11 **the survey data. So it's not the actual amount**
 12 **that's paid out that we see in survey data, but**
 13 **it's the target opportunity that one could earn for**
 14 **an annual incentive.**
 15 **Q.** Okay. So going back to the percent here,
 16 if you've got a range of the compensation costs
 17 that goes from 2 percent to 50 percent and we
 18 disallowed AIP altogether, that would be a huge,
 19 significant amount of money that would not be
 20 allowed for cost recovery; right?
 21 **A. Yes. Well, what I can --**
 22 **Q.** It's not just 2 or 3 percent, you're
 23 talking this is a big component of your
 24 compensation packages, AIP, as a percentage?
 25 **A. The AIP when we look -- if your question**

1 **watch what our surveys are saying as a general**
 2 **merit opportunity that would be delivered. We look**
 3 **to those survey sources to set those merit budgets,**
 4 **but annually when we conclude our performance year,**
 5 **which is our fiscal year, we rate people based on**
 6 **how they're performing and then we conduct a merit**
 7 **opportunity cycle and leaders assess how their**
 8 **employees are doing and that's their opportunity to**
 9 **say with discretion how certain employees are**
 10 **performing based on their performance rating and**
 11 **the role that they're in. And so that's their**
 12 **opportunity to make a change to their employee's**
 13 **base salary.**
 14 **Q.** And that's an annual opportunity as well?
 15 **A. We have been conducting that annually for**
 16 **our non-bargaining employees.**
 17 COMMISSIONER FEDORCHAK: Okay. I think
 18 that concludes my questions. Thank you.
 19 THE WITNESS: You're welcome.
 20 JUDGE FETCH: Thank you, Commissioner
 21 Fedorchak. Commissioner Kalk.
 22 COMMISSIONER KALK: Thank you, Your Honor.
 23 **EXAMINATION**
 24 **BY COMMISSIONER KALK:**
 25 **Q.** Thank you, Sharon. This is a lot of fun;

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1 **is how do I respond to that, what we look to is**
 2 **these are what we consider competitive pay levels**
 3 **and so we look to total cash compensation and that**
 4 **is a driving factor in how we want to retain our**
 5 **talent and attract new talent. So we consider**
 6 **paying annual incentive as a key factor in how we**
 7 **compensate, so it's not just base salary. It is**
 8 **also incentive opportunity.**
 9 **Q.** How long has the company been using AIP?
 10 **A. I don't have an exact year, but I believe**
 11 **it's been in place for many, many years. So I**
 12 **would have to get back to you, if you need an**
 13 **exact.**
 14 **Q.** Well, an approximate, 10 years, 20, that
 15 would be good to know.
 16 Let's see here. And then how does an
 17 employee get an increase in their base salary?
 18 **A. What we have annually is an opportunity to**
 19 **earn a merit increase. So I had mentioned earlier**
 20 **that our employees have a performance management**
 21 **system in place, our leaders do with their**
 22 **employees, to assess the performance of each**
 23 **employee, and they receive ratings based on that**
 24 **and how they're performing throughout the year.**
 25 **And so a merit opportunity is where we, again,**

1 right?
 2 **A. Yes.**
 3 **Q.** How long have you been with the company,
 4 you said?
 5 **A. It will be six months, I think, next week.**
 6 **Q.** What an opportunity; right? No, I
 7 appreciate your answer to all the questions. Just
 8 a couple to clarify.
 9 When you've been making comments about
 10 employees, are you talking about employees that
 11 work for NSP, doing business as Xcel Energy
 12 exclusively, or are you talking about employees for
 13 that company, as well as employees who work for
 14 Xcel Energy, Inc.?
 15 **A. Well, our compensation programs are really**
 16 **done and organized centrally so that we have the**
 17 **same compensation philosophy and structure.**
 18 **Q.** So your comments are dealing with not only
 19 the regulated company, as well as the
 20 privately-held company, if you will?
 21 **A. Well, all of our -- I would quantify that**
 22 **as these are compensation programs that apply to**
 23 **all of our non-bargaining employees, so if your**
 24 **specific question is related to the Op Co. versus**
 25 **the service company.**

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1 **Q.** We don't regulate Xcel Energy, Inc., so
 2 are you talking about some of the employee
 3 compensation that work for that company?
 4 **A. The compensation programs that I described**
 5 **here today do apply to all of our non-bargaining**
 6 **employees.**
 7 **Q.** So does that mean yes?
 8 **A. Yes, I guess that would include the**
 9 **services company.**
 10 **Q.** I'm trying to -- this is always a point of
 11 contention whenever we get to salary, because you
 12 have MDU Resources, MDU Utilities, Ottertail
 13 Corporation, Ottertail Utilities, and it's very
 14 confusing for many Commissioners and others to
 15 understand the rate pay structure, because what
 16 somebody working for Xcel Energy, Inc., gets paid,
 17 that's their own business, it's coming out of their
 18 own investor dollars. But it is our business when
 19 you get into what people are getting paid that get
 20 part of their salaries out of the regulated part of
 21 it.
 22 So what I'm trying to get a feel for is,
 23 take someone like Laura, who testified this
 24 morning, did a great job in her testimony, is her
 25 salary all dedicated to the regulated portion of

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1 the company or does some of her salary come from
 2 the non-regulated portion of the company?
 3 **A. You know, I'm probably not the best person**
 4 **to answer that, because I don't know how we break**
 5 **out which employees are assigned to which operating**
 6 **company. Again, when I work on our compensation**
 7 **programs, they apply to all of those business**
 8 **lines.**
 9 **Q.** I think that's a big point of
 10 clarification, because if we're going to take
 11 investor-owned dollars potentially and provide it
 12 for a compensation plan for someone that is not
 13 even in the regulated employee pool, that's not a
 14 good setup, whether we've done it or not in the
 15 past. So that's also -- maybe we'll ask that
 16 question to our attorney on the break, but that's a
 17 big point, so I don't know how we would tie that
 18 up.
 19 I mean, do you understand the question I'm
 20 asking?
 21 **A. Yes, I do.**
 22 **Q.** Maybe I'm not asking --
 23 COMMISSIONER KALK: I'll ask your
 24 attorney. Are you tracking what I'm driving at
 25 here?

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1 MS. VALLEY: Thank you, Commissioner Kalk.
 2 We do, and we think that there's another witness,
 3 Anne Heuer, that would be able to address that.
 4 COMMISSIONER KALK: All right. Then I'll
 5 let that go then. Okay. Thank you.
 6 **Q.** (COMMISSIONER KALK CONTINUING) I was
 7 looking at the Web site while you were talking.
 8 You show a vacancy of 85 employees for the company
 9 all over the country. It seems like that's not
 10 very many employees that you're short right now
 11 considering the size of your company.
 12 So do you really have a shortage of hiring
 13 employees when you just have that small number of
 14 vacancies for such a large company?
 15 **A. You know, I'm not as in touch with what**
 16 **our staffing group is working on with talent**
 17 **acquisition opportunities, so I don't know whether**
 18 **what the Web site is showing reflects all open**
 19 **positions so I would not be the best person to ask**
 20 **about whether that's reflective of every open**
 21 **position we have.**
 22 **Q.** So what can you point to maybe in the
 23 record if you're trying to connect the dots that
 24 you need this plan to recruit and retrain good
 25 people that shows that you maybe have had

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1 challenges hiring people?
 2 **A. Well, I think the focus of my rebuttal**
 3 **testimony focused a lot on some of the complexities**
 4 **and challenges that we've had in the nuclear space,**
 5 **and I know that there are a number of open**
 6 **positions in there and I think there's a number**
 7 **quoted in that document as well, but I know some of**
 8 **the stories or the anecdotal kind of responses that**
 9 **we've had from our talent acquisition, our**
 10 **recruiting group, talk about the challenges of**
 11 **really trying to get new talent in the door in**
 12 **those critical areas like nuclear.**
 13 **Q.** Okay. So I think for me, just speaking
 14 for myself, just through what I picked up today and
 15 read before, that I view the employees dealing with
 16 the nuclear energy side of it as their own
 17 category. When I talked about that before, I'm
 18 looking at more people not in that field, if you
 19 will.
 20 The last question. You made the comment
 21 to our attorney about, you know, the companies
 22 you're talking about, other companies do this all
 23 the time. Are you referring to other companies
 24 that are investor-owned utilities, or are you
 25 referring to other companies like Coke and Pepsi

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1 that have the same type incentive plans?

2 **A. So I think you're referring to when I made**

3 **the statement that other companies that use market-**

4 **based compensation approach, if that's correct?**

5 **Q. Yes.**

6 **A. Okay. So when I made that reference, I**

7 **was referring to, I think, specifically the third-**

8 **party surveys that we look to. So I can expand a**

9 **little bit further on that comment.**

10 **And it doesn't have to be specific to**

11 **utility company experience, but if you are an**

12 **organization that practices market-based**

13 **compensation philosophy, you are looking to see**

14 **what other similarly-situated companies are out**

15 **there. Like in our case we are looking to survey**

16 **specific to utility company or investor-owned**

17 **utilities --**

18 **Q. So you are comparing yourself to --**

19 **A. -- so we do that, yes.**

20 **Q. -- investor-owned somewhere else in the**

21 **country?**

22 **A. Yes. We actually look to surveys that are**

23 **specific to utility benchmarking and companies that**

24 **are our size, but when I made that statement**

25 **earlier, it can be in general industry practices,**

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1 **too, that companies that look to market-based**

2 **approaches, they look to quantifiable data like**

3 **third-party surveys to benchmark themselves about**

4 **how they're paying. So that was the reference I**

5 **made.**

6 COMMISSIONER KALK: Okay. Thank you very

7 much.

8 THE WITNESS: Thank you.

9 JUDGE FETCH: Thank you, Commissioner

10 Kalk.

11 Commissioner Christmann.

12 **EXAMINATION**

13 **BY COMMISSIONER CHRISTMANN:**

14 **Q. Ms. Koenig, are you the expert on the**

15 **pension fund issues that Ms. McCarten discussed**

16 **earlier about, you know, involving the possibility**

17 **of smoothing the needs over a longer period of**

18 **time?**

19 **A. Actually, I'm not. My area of focus is**

20 **compensation, so I wouldn't be able to address**

21 **those pension questions.**

22 COMMISSIONER CHRISTMANN: Okay. Then I

23 have no more questions, Judge Fetch.

24 JUDGE FETCH: All right. Thank you.

25 Ms. Valley, do you have any redirect?

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1 MS. VALLEY: No, Your Honor.

2 JUDGE FETCH: Thank you. Mr. Norrell?

3 MR. NORRELL: Yes, Your Honor.

4 **RECROSS-EXAMINATION**

5 **BY MR. NORRELL:**

6 **Q. Ms. Koenig, you had stated -- when**

7 **Ms. Jeffcoat-Sacco had mentioned you said that the**

8 **API is tied to corporate performance, and you**

9 **mentioned how there was the earnings per share**

10 **requirement and everything.**

11 **Doesn't this, in fact, benefit the**

12 **shareholders of NSP as opposed to the ratepayers?**

13 **A. So if you were referring to the EPS**

14 **funding factor that I mentioned?**

15 **Q. (Nods.)**

16 **A. I think that it actually does benefit our**

17 **customers as well as shareholders, but more**

18 **importantly, what that does is it shows that we are**

19 **looking at our financial performance and we're**

20 **prudently looking at whether we have the available**

21 **funding to pay out an annual incentive. So while**

22 **our annual incentive program has operating metrics**

23 **that very directly speak to reliability and safety**

24 **and other important areas of the scorecards that**

25 **directly benefit our customers, what it also does**

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1 **is, it makes sure that as a publicly-owned company,**

2 **we're also looking to that EPS factor to make sure**

3 **that we have the affordability to pay it. We**

4 **wouldn't want to be in a position where we're**

5 **paying out an incentive when we're really not**

6 **achieving those earnings outcomes that we're**

7 **striving for.**

8 **Q. Well, then that still protects the**

9 **shareholder, doesn't it, because they're insulated**

10 **against a loss?**

11 **A. Well, I would say that it protects both,**

12 **the customers as well. If we're paying out on an**

13 **annual incentive program, for example, that really**

14 **we could put those funds towards other investments**

15 **that we're making in capital, for example, so we**

16 **are paying out on an annual incentive plan when we**

17 **achieve target results or something in our**

18 **threshold target or up to above target opportunity.**

19 **So we pay out when there's performance and it is**

20 **variable pay.**

21 **Q. So if an employee meets all of their**

22 **performance metrics, I think was the term you used,**

23 **but the company doesn't meet their earnings per**

24 **share requirement, how would that employee be**

25 **compensated?**

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1 **A. Well, because of that affordability**
 2 **trigger and if that did not get met for that annual**
 3 **incentive program year, the employee or other**
 4 **employees like them would not receive a payout. So**
 5 **because it is variable in nature, they would not be**
 6 **getting an annual incentive payout that year**
 7 **because the company did not perform on all of their**
 8 **metrics that were required.**

9 **Q. So even though that employee may have**
 10 **exceeded their performance, they'd still be -- use**
 11 **the term "baseline employee," they'd still be**
 12 **treated like a baseline employee, even though their**
 13 **performance was above that baseline?**

14 **A. I don't recall the term "baseline**
 15 **employee," but I think I understand what you're**
 16 **saying, but I can offer up a different way that**
 17 **that employee would be recognized for their**
 18 **contribution. So while in that event if that**
 19 **funding factor was not met and we were not able to**
 20 **pay out an annual incentive program payout that**
 21 **year, another way an employee could be recognized**
 22 **for their individual contribution is actually in**
 23 **the merit cycle opportunity, which I described**
 24 **further for the Commissioners here, that that is an**
 25 **opportunity to recognize an individual's**

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1 **performance and assess whether they should receive**
 2 **an increase in their base salary.**

3 **Q. And just a question clarifying the merit**
 4 **opportunity. Is that contingent upon the**
 5 **supervisor bringing that to the company, or is that**
 6 **mainly on the employee? Who presents that? Maybe**
 7 **my question is not clear.**

8 **A. So I think your question is, how does that**
 9 **occur annually? Is it employee driven or leader**
 10 **driven, or is it -- I think you're saying is it a**
 11 **cycle that we go through that?**

12 **Q. Correct.**

13 **A. It is not an employee directive or driven**
 14 **initiative. What we do as an HR organization is**
 15 **that we offer that opportunity to recognize**
 16 **individual employees for their performance**
 17 **throughout the year, and we do that in what's**
 18 **called an annual merit cycle. So it is a process**
 19 **that we go through and we assess what our budget is**
 20 **for that and we hold leaders accountable to what**
 21 **those budgets are and how much is an affordable**
 22 **amount that we can put towards a merit increase**
 23 **that would affect their base salary. So it is**
 24 **coordinated by HR. The leaders work with that**
 25 **opportunity and then they participate in that event**

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1 **with their employee.**

2 MR. NORRELL: Okay. Thank you. No
 3 further questions, Your Honor.

4 JUDGE FETCH: Thank you.

5 Ms. Jeffcoat-Sacco, any further questions?

6 **FURTHER EXAMINATION**

7 **BY MS. JEFFCOAT-SACCO:**

8 **Q. I'm not sure if you're the right person to**
 9 **ask. I did wonder if the nuclear issue, attracting**
 10 **and retaining nuclear employees, if the cost of**
 11 **that incentive program was disproportionately high**
 12 **compared to the general -- the rest of the company,**
 13 **if -- you know, if you had to invest more in the**
 14 **incentive program for nuclear than the relative**
 15 **amount for everybody else? Can you answer that or**
 16 **is that the witness that's coming to answer that?**

17 **A. Well, I would say that the details of what**
 18 **those costs are and the dollars of the recovery**
 19 **that we're requesting associated with this case**
 20 **would be more for Ms. Heuer.**

21 MS. JEFFCOAT-SACCO: Okay. Thank you.
 22 That's all.

23 JUDGE FETCH: Commissioners, any further
 24 questions? Commissioner Fedorchak.

25

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1 **FURTHER EXAMINATION**

2 **BY COMMISSIONER FEDORCHAK:**

3 **Q. Two more that I should have asked before,**
 4 **but missed them.**

5 **A. Mm-hmm.**

6 **Q. In your testimony that you've read today,**
 7 **you say, "...we propose to cap our recovery of**
 8 **these costs at 25 percent of base pay. This cap**
 9 **essentially precludes rate recovery of the costs of**
 10 **providing incentive compensation to executive-level**
 11 **employees."**

12 Why does that preclude the executive-level
 13 employees?

14 **A. Well, what is meant by that is that any**
 15 **leadership or management or even executive level**
 16 **that has the opportunity for their AIP at a**
 17 **percentage above 25 percent, for example, 30**
 18 **percent in this case, 5 percent of that would not**
 19 **be part of our request for rate recovery. So what**
 20 **we are trying to do is to say that we're not asking**
 21 **for recovery on 100 percent of our costs. We're**
 22 **asking for what we see as a reasonable amount that**
 23 **would reflect 25 percent of base pay.**

24 **Q. "...precludes rate recovery of the costs**
 25 **of providing compensation to executive-level**

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1 employees." To me that means that the executive
 2 team, their AIP isn't included in this, would not
 3 be included in this, and what you just said leads
 4 me to believe that 25 percent of it would be. So
 5 if their's was 50 percent, say 50 percent of --
 6 their API was 50 percent, then 25 percent would be?

7 **A. The example I just gave was to kind of**
 8 **illustrate about the difference of someone at a 30**
 9 **percent target, but the exact numbers of how that**
 10 **is calculated might be best answered by Ms. Heuer.**

11 **Q.** All right. And then maybe she's the one
 12 to address why the company is going from 15 percent
 13 to 25 percent. Previously you had recovery of 15
 14 percent of AIP costs and now you're asking for 25
 15 percent. I'm curious why.

16 **A. Well, we believe that that is a reasonable**
 17 **cost of doing business because we look to what is**
 18 **market competitive and the median pay practices for**
 19 **total cash compensation, and we feel that that is a**
 20 **reasonable cost. But, again, as I mentioned**
 21 **earlier, I don't know the history of that**
 22 **background.**

23 COMMISSIONER FEDORCHAK: Okay. Thank you,
 24 Sharon.

25 THE WITNESS: Thank you.

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1 JUDGE FETCH: Any other questions from
 2 Commissioners? Okay. Any further questions?

3 MS. VALLEY: No, Your Honor.

4 JUDGE FETCH: Mr. Norrell, anything
 5 further?

6 MR. NORRELL: No, Your Honor.

7 MS. JEFFCOAT-SACCO: No. Thank you.

8 JUDGE FETCH: All right. Thank you.
 9 Ms. Koenig, you are excused.

10 All right. Ms. Gingery, do you need a
 11 few-minutes break? All right. We are going to
 12 just take a 10-minute break. Be back -- we are
 13 going to reconvene at about two minutes after four.
 14 (Recess was taken.)

15 JUDGE FETCH: All right. We are back on
 16 the record. It is 4:02 p.m., Central Time. And at
 17 this time I believe Ms. Valley is going to step
 18 back and let Richard Johnson handle the questioning
 19 at this point.

20 MR. JOHNSON: That is correct, Your Honor.
 21 Thank you.

22 JUDGE FETCH: Thank you.

23 MR. JOHNSON: The company would call Lisa
 24 Perkett as its next witness.

25 JUDGE FETCH: I appreciate that. Thank

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1 you.

2 And, Ms. Paulson, do you have the witness
 3 statement?

4 MS. PAULSON: I do.

5 JUDGE FETCH: Please pass those out.

6 And, Mr. Johnson, did you want to instruct
 7 something about that?

8 MR. JOHNSON: Yes, Your Honor.

9 Ms. Perkett's statement takes a little bit
 10 more than five minutes to read, and consistent with
 11 the protocol we've adopted, Ms. Perkett is not
 12 going to read the entire statement. She's going to
 13 try to read the gist of the statement. So if
 14 you're attempting to follow along off the written
 15 document, you may miss a paragraph or two or she
 16 may skip over a paragraph or two. It may make it a
 17 little easier to listen.

18 JUDGE FETCH: That's very good. And this
 19 is marked NSP Exhibit 27, and I believe we did
 20 stipulate that all of those would be admitted, so
 21 that document is admitted into the record.

22 And, Ms. Perkett, were you here earlier
 23 when I instructed as to penalties for perjury?

24 THE WITNESS: No, I was not. And we were
 25 not quite up and running downstairs so we missed

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1 the beginning.

2 JUDGE FETCH: All right. All witness
 3 testimony at this hearing is taken under oath and
 4 is subject to penalties for perjury. By law I am
 5 required to inform you that perjury is a material
 6 misstatement of fact. In North Dakota it is a
 7 Class C felony, which is punishable by a maximum
 8 fine of \$5,000, maximum five years in prison, or
 9 both.

10 Please raise your right hand.

11 Do you solemnly swear the testimony you're
 12 about to give shall be the truth under the pains
 13 and penalties of perjury?

14 THE WITNESS: I do.

15 JUDGE FETCH: Thank you. And speak up
 16 nice and loudly.

17 THE WITNESS: Okay.

18 JUDGE FETCH: Mr. Johnson.

19 MR. JOHNSON: Thank you, Your Honor.

20 **LISA PERKETT,**
 21 being first duly sworn, was examined and testified
 22 as follows:

23 **DIRECT EXAMINATION**
 24 **BY MR. JOHNSON:**
 25 **Q.** Ms. Perkett, your direct and rebuttal

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1 testimony has been marked and admitted as Exhibits
 2 11 and 12. It's my understanding there are no
 3 corrections to that.

4 **A. That is correct.**

5 **Q.** Would you like to read your opening
 6 statement at this time?

7 **A. I would.**

8 **Q.** Thank you.

9 **A. I am the director of capital asset**
 10 **accounting for Xcel Energy Services. I have over**
 11 **32 years of experience in utility accounting.**

12 **In my direct testimony, I discuss two**
 13 **topics. First, I sponsor our North Dakota specific**
 14 **depreciation study. While Mr. Majoros questions**
 15 **the results of the removal cost included in our**
 16 **depreciation study, Mr. Majoros has not identified**
 17 **any facts relied upon in the depreciation study**
 18 **that are incorrect, and the advisory staff proposed**
 19 **adjustments to the revenue requirement are**
 20 **inconsistent with longstanding regulatory and**
 21 **accounting practice. If adopted, Mr. Majoros'**
 22 **recommendations would cause future ratepayers to**
 23 **pay the removal cost of assets after retirement**
 24 **when the assets would no longer be providing any**
 25 **benefits. Depreciation is expressly designed to**

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1 **recover the investment and net removal costs over**
 2 **the lives of the assets so that the customers who**
 3 **benefit from the asset pay those costs.**

4 **I'll skip the next paragraph.**

5 **My rebuttal testimony responds to**
 6 **Mr. Majoros' recommendations concerning**
 7 **depreciation expense. Mr. Majoros lists three**
 8 **recommendations on page 3 of his testimony.**

9 **First, he recommends that the company**
 10 **refund the difference between the actual**
 11 **depreciation reserve and the theoretical**
 12 **depreciation reserve for our transmission,**
 13 **distribution, and general assets. There is on a**
 14 **total company basis a surplus of \$176.6 million.**
 15 **In my direct testimony I explain how the surplus**
 16 **has been generated, essentially as a result of**
 17 **increased service lives and changes in the cost of**
 18 **removal. I also explain our proposal to use the**
 19 **surplus to lower depreciation rates over the**
 20 **remaining lives of the assets. This proposal is**
 21 **consistent with the use of the straight line**
 22 **depreciation. This proposal results in an**
 23 **approximately \$4.2 million annual reduction in**
 24 **depreciation expense at the total company level.**

25 **Mr. Majoros' other two recommendations on**

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1 **page 3 of his direct would limit recovery of**
 2 **removal cost to those items that qualify as legal**
 3 **AROs. And ARO stands for asset retirement**
 4 **obligation. My rebuttal testimony explains that**
 5 **the distinction between legal AROs and nonlegal**
 6 **AROs is based on financial reporting requirements**
 7 **and is not based on operating, accounting, or**
 8 **regulatory requirements. In my rebuttal testimony**
 9 **at page 13, I presented a table that lists all the**
 10 **types of legal AROs that apply to the company. I**
 11 **will not read the list in the document.**

12 **There are many expected removal activities**
 13 **and components that are not legal AROs, including**
 14 **buildings, transmission lines and poles,**
 15 **distribution lines and poles, which are only**
 16 **examples of a few major categories of assets that**
 17 **are not legal AROs and which cannot be retired in**
 18 **place.**

19 **For example, there is no legal ARO to**
 20 **remove retired distribution lines and poles or**
 21 **retired transmission lines and poles, but we could**
 22 **not abandon those dead poles and wires in place.**
 23 **Since we need to remove those poles and wires, we**
 24 **should recover the costs and those costs should be**
 25 **recovered from the customers who benefit from the**

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1 **use of those assets to provide electric service.**

2 **Mr. Majoros -- excuse me. Mr. Majoros'**
 3 **assertion that there is no requirement to remove**
 4 **nonlegal AROs is not true. In Case No. PU-07-776,**
 5 **we expressly agreed to the creation of a regulatory**
 6 **liability. More specifically, the Commission-**
 7 **approved settlement states: "Both parties agree**
 8 **that, unless directed otherwise by the Commission,**
 9 **rate recovery, past, present, and future, for the**
 10 **removal and retirement of company utility property**
 11 **will be used solely for the retirement of the**
 12 **company's utility property and recognized as a**
 13 **regulatory liability."**

14 **Mr. Majoros states that we have not**
 15 **reported the accumulated nonlegal ARO in our**
 16 **financial statements, in FERC Form 1, or in our**
 17 **North Dakota annual earnings reports. We have**
 18 **reported the financial information we are required**
 19 **to report by the SEC, the FERC, and the Commission.**
 20 **I will skip the rest of the paragraph.**

21 **Finally, Mr. Majoros asserts that the**
 22 **company uses an inappropriate methodology for**
 23 **determining removal costs. The company uses its**
 24 **historical removal costs to determine the current**
 25 **cost of removal. Prior to his supplemental direct,**

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1 **Mr. Majoros argued that we should use a five-year**
 2 **historical average to determine the cost of**
 3 **removal. He has abandoned that approach because,**
 4 **as I had indicated in my rebuttal testimony, using**
 5 **a five- year average would increase the cost of**
 6 **removal. In an effort to respond to our specific**
 7 **removal cost study, he makes broad general**
 8 **arguments based on mistaken assumptions without**
 9 **identifying any facts relied upon in the**
 10 **depreciation study that are incorrect.**
 11 **That is the conclusion of my statement.**
 12 JUDGE FETCH: Thank you.
 13 MR. JOHNSON: Your Honor, Ms. Perkett is
 14 now available for cross-examination.
 15 JUDGE FETCH: Thank you, Mr. Johnson.
 16 Mr. Norrell.
 17 MR. NORRELL: Thank you, Judge.
 18 **CROSS-EXAMINATION**
 19 **BY MR. NORRELL:**
 20 **Q.** Ms. Perkett, I'd like to ask you to refer
 21 to page 15 of your direct testimony, specifically
 22 Table 4.
 23 **A.** I am there.
 24 **Q.** Okay. There do you show that your overall
 25 depreciation study decreases depreciation expense

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1 on a total company basis?
 2 **A.** Yes, it does, by \$6.7 million, \$6.8 if you
 3 round up.
 4 **Q.** But it increases the North Dakota
 5 jurisdictional expense; is that correct?
 6 **A.** That is correct. And the reason is that
 7 the distribution line was not allocated. That is
 8 100 percent North Dakota assets so that carries
 9 forth in its entirety. The rest of the numbers,
 10 electric transmission, electric general, software,
 11 common general and common software all need to be
 12 allocated -- those are total systems costs -- to
 13 the North Dakota jurisdiction and their effect. By
 14 allocating it, it decreases the decrease and in
 15 total it then becomes an increase, because electric
 16 distribution is an increase.
 17 **Q.** Okay. On your direct testimony, Schedule
 18 7, page 4 of 48, could you please turn to that?
 19 JUDGE FETCH: Did you say page 4?
 20 MR. NORRELL: Yes, page 4 of 88. I
 21 apologize.
 22 **Q.** (MR. NORRELL CONTINUING) There you refer
 23 to a study, do you not, that recommended an overall
 24 decrease of approximately \$7.9 million in the
 25 annual depreciation expense for electric facilities

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1 here in North Dakota?
 2 **A.** Yes. The Table 4 we talked about was just
 3 the transmission, distribution, and general, and
 4 then the electric and common for those. There is
 5 production changes as well.
 6 **Q.** Okay. But overall, instead of reducing
 7 the depreciation expense, you're actually
 8 increasing it in North Dakota?
 9 **A.** As it is allocated to its pieces, yes,
 10 because the distribution piece that we have shown
 11 in the North Dakota study is 100 percent of
 12 distribution assets in the State of North Dakota.
 13 There are no Minnesota or South Dakota distribution
 14 assets in that study. And so when you allocate a
 15 system cost like transmission, which is the entire
 16 transmission system, you pick up between 5 and 6
 17 percent for North Dakota. So you get 5 to 6
 18 percent of the depreciation change, but because in
 19 this study 100 percent of the assets within the
 20 State of North Dakota for distribution, you got 100
 21 percent of the change for distribution and so when
 22 you jurisdictionalize it, it moves the numbers
 23 around. And this study was done at total company
 24 level, except for distribution.
 25 **Q.** Except for distribution. Okay.

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1 On page 2 of that same schedule, about the
 2 middle part of that page, it states that you have
 3 lengthened several lives in the transmission and
 4 distribution functions; is that correct?
 5 **A.** Yes.
 6 **Q.** Now, as you lengthen a life, doesn't
 7 that -- doesn't straight line depreciation rate go
 8 down as a result of that?
 9 **A.** As a result of just that change, yes. If
 10 the removal net salvage rate increased, it would
 11 take it the other way, so it's how those two play
 12 off against each other. On top of that we've
 13 worked into this change the average remaining life
 14 method so that we can amortize the surplus over the
 15 average remaining life of all the individual
 16 assets.
 17 **Q.** In that same paragraph, you mentioned that
 18 there is a trend toward higher negative net
 19 salvage; is that correct?
 20 **A.** That is correct.
 21 **Q.** Based on my very elementary understanding
 22 of this, net salvage is the result of salvage minus
 23 the cost of removal; is that correct?
 24 **A.** That is correct. That is the basic
 25 equation.

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1 **Q.** Okay. So then does that mean that the
2 higher negative net salvage, in fact, means higher
3 future costs of removal?
4 **A.** That means that over a long period of
5 trends, and our trends for many accounts go back
6 over 60 years, that we are seeing an increase in
7 overall net salvage. It could be a factor of
8 removal stays the same and salvage is decreasing,
9 or it could be that salvage is decreasing and
10 removal is increasing. And that's -- it makes
11 sense in the fact that there are environmental
12 rules and disposing of the asset once you remove it
13 from the field have been increasing over time.
14 What you could do maybe in the 1950s with some of
15 these poles, you can't do today, so that adds cost
16 to remove those poles permanently at the end of
17 their life.
18 **Q.** So it would be regulations that have
19 driven that. Could you give an example?
20 **A.** Some of the regulations, they're either
21 the state ones or the federal ones. They can be
22 even as small as a local area will have some
23 requirements on dealing with, you know, the waste,
24 if you will. I can get specific ones. I don't
25 have them all listed. We do track them all and

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1 talk with environmental quite often on removal.
2 **Q.** Okay. Would you agree that most of the
3 increase to the North Dakota distribution plant
4 depreciation expense is driven by higher future
5 cost of removal estimates?
6 **A.** For the distribution portion?
7 **Q.** Yeah.
8 **A.** Without going into one line item after
9 another, yes. It's been offset. There's higher
10 removal and there's longer lives, but the removal
11 has outpaced, if you will, causing the depreciation
12 to go up.
13 **Q.** Are there any ways to reverse that trend,
14 decrease that?
15 **A.** Well, you know, you have to be
16 environmentally responsible. You know, we need to
17 dispose of the product and we need to take the
18 product back out of the field. We need to make
19 sure our workers are safe. We need to transport
20 the product to where it is processed. Sometimes
21 you can't just take it to a landfill or a garbage
22 depot. You might have to break the product down.
23 For instance, you might have to drain the oils out
24 of some of the products. Even as simple as mineral
25 oil would need to be drained before the remaining

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1 **asset is dealt with.**
2 **Sometimes we do break the asset down to**
3 **see if we can get some scrap value out of it, so**
4 **you'd want to do that as well. So we try to keep**
5 **it as low as possible, but, again, you want to be**
6 **environmentally safe. And in some instances you**
7 **just can't leave it where it's at. For instance, a**
8 **neighborhood that has poles down in their backyard,**
9 **you want to replace that line. I think we**
10 **discussed replacing a line, poles and conductor.**
11 **You certainly don't want to leave those poles and**
12 **conductor where they are, just drop them on the**
13 **ground, because you want to keep your removal at**
14 **zero. You certainly would want to take it out and**
15 **put the new stuff in and deal with it.**
16 **Q.** Is this an example of where a very
17 restrictive area or jurisdiction could really drive
18 the cost up of removal?
19 **A.** I'm not exactly sure. Do you mean like
20 could state rules cause the removal --
21 **Q.** State, county, local.
22 **A.** They could. Yes, they could be an
23 influence, and we do look at the individual areas
24 as well as the -- you know, EPA and others that
25 have requirements. We look at the DOT, too, that

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1 has transportation requirements. Depending on how
2 hazardous it is, what do you have to do to protect
3 it on the rail lines and the truck lines and such
4 like that.
5 So it really varies. Some of it might be
6 dealing with, you know, groundwater, you know, so
7 that it doesn't come out of the asset and go into
8 the ground as well, so protect like the oils, and
9 such.
10 **Q.** Is there -- and I don't want to accuse the
11 company of anything untoward, but is there any
12 effort to kind of shop around, for lack of a better
13 term, for the cheapest way of disposing and
14 removing some of these things?
15 **A.** Absolutely. I mean, they do look for the
16 absolute -- you know, what they can do at the
17 lowest cost. And we also have a group that's
18 actually dedicated to trying to get the best scrap
19 value out of a lot of the assets. And sometimes
20 there are companies that will just take the asset
21 from the field once we disconnect it, and assuming
22 like here on copper wire and such, they would want
23 to extract it. So we do look for those
24 opportunities as well.
25 **Q.** Okay. Could you give just a baseline

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1 example of -- or definition, from your perspective,
 2 of what a legal ARO is, as you used the term?
 3 **A. Sure. Legal AROs is a term that was**
 4 **created when the FASB, the Financial Accounting**
 5 **Standards Board, decided to standardize everybody**
 6 **in the industry, not just us, but, you know, the**
 7 **grocery stores and the gas stations and all**
 8 **reporting of removal costs. They wanted a standard**
 9 **reporting of removal costs. And they based it on**
 10 **what is written in the legal statutory rules so**
 11 **everybody would have a common ground.**
 12 **So the rules around asbestos, that was one**
 13 **of their areas that they focused at. The rules**
 14 **around asbestos are clear, so if Xcel has or NSP**
 15 **has asbestos in any of its plants, you know, that**
 16 **became a legal ARO. If K-Mart has asbestos in one**
 17 **of their buildings, they would have a very similar**
 18 **obligation as well, because they'd have to follow**
 19 **that rule. So it was a standard and it was a**
 20 **minimum amount of presentation of what could be out**
 21 **there, but it didn't intend to cover all the**
 22 **business removal. There's business reasons to do**
 23 **removal, and I discussed one of them with the poles**
 24 **down in the backyard. So there's business removal**
 25 **that goes beyond the legal AROs.**

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1 **Just to carry it forward, as the legal**
 2 **AROs were defined by the FASB and we were obviously**
 3 **required to report, everything that was not**
 4 **accounted for that was a business reason to remove**
 5 **under the legal became the nonlegal portion. But**
 6 **in reality, we actually look at it a little**
 7 **different at a regulated entity. A nonlegal is the**
 8 **regulatory removal method, how the Commissions have**
 9 **directed us to do removal recovery through the**
 10 **depreciate rate in its entirety so we can always**
 11 **have that number. It wouldn't get blended or**
 12 **melded into this legal ARO for financial reporting**
 13 **purposes. So asbestos is actually in legal and**
 14 **it's in nonlegal AROs for NSP, because it's being**
 15 **covered on the depreciation rates and its being**
 16 **represented for financial. We do balance that out**
 17 **for financial purposes. We do balance those two**
 18 **out for reporting to the SEC, but we wanted to make**
 19 **sure whatever was authorized and approved under**
 20 **depreciation rates was kept clean and separate from**
 21 **any financial reporting we are required to do. May**
 22 **I ask, I had a water here: Before I start**
 23 **coughing. I appreciate it. Thank you.**
 24 **Q. The line in Schedule 7 on page 2 where you**
 25 **discuss the higher negative net salvage, the trend**

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1 towards higher negative net value, is that just
 2 legal AROs or nonlegal, or both?
 3 **A. In this removal study, it's all the**
 4 **nonlegal AROs. This is all the analysis that's**
 5 **done on many years of history for a total business-**
 6 **related removal that we have been including in**
 7 **depreciation rates, so it's the nonlegal.**
 8 **Q. Does the company report its liability for**
 9 **nonlegal AROs to shareholders or to the SEC or**
 10 **anyone like that?**
 11 **A. Yes, we do. It is very clear in there.**
 12 **It is actually reported for total Xcel and it's**
 13 **actually reported for each of the operating**
 14 **companies.**
 15 **Q. Okay.**
 16 **A. And just to be clear, the legal ARO --**
 17 **nonlegal ARO reg liability is actually a component**
 18 **of accumulated depreciation when we do ratemaking.**
 19 **It offsets or reduces rate base because it has been**
 20 **collected through the depreciation rate and it's a**
 21 **proper reduction to rate base.**
 22 **MR. NORRELL: Your Honor, I'd like**
 23 **permission to approach the witness.**
 24 **JUDGE FETCH: Yes. Thank you.**
 25 **MR. NORRELL: Your Honor, what I have**

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1 handed out is a North Dakota Public Service
 2 Commission data request from -- this is the
 3 response from the Company.
 4 **JUDGE FETCH: Okay. What is the -- my**
 5 **copy says ND PCS 8-068.**
 6 **MR. NORRELL: Yes, that would be correct.**
 7 **JUDGE FETCH: But this would actually**
 8 **become Exhibit 10.**
 9 **MR. NORRELL: Eleven by my count.**
 10 **JUDGE FETCH: I'm sorry. 11. I'm looking**
 11 **at 10.**
 12 **Mr. Johnson, do you have a copy of the**
 13 **proposed exhibit?**
 14 **MR. JOHNSON: Yes, we do, Your Honor.**
 15 **JUDGE FETCH: Any objection?**
 16 **MR. JOHNSON: No, Your Honor.**
 17 **JUDGE FETCH: All right. Thank you. This**
 18 **is PSC Exhibit 11, and it is admitted.**
 19 **MR. NORRELL: Thank you, Your Honor.**
 20 **JUDGE FETCH: Proceed.**
 21 **Q. (MR. NORRELL CONTINUING) Are you familiar**
 22 **with this document?**
 23 **A. Yes, I am.**
 24 **Q. Could you describe briefly what it is?**
 25 **A. Just briefly, it's walking through the**

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1 **legal ARO process.**

2 **Q.** Did staff ask you to provide the work

3 papers and calculation of the obligation as of

4 December 31st, 2010 and also the same date in 2011?

5 **A.** That was the question, yes.

6 **Q.** Does that relate to the legal or nonlegal

7 AROs?

8 **A.** The asset retirement obligation is the

9 legal AROs. The legal AROs are the minimum amount

10 to be reported under FASB to the SEC reporting. It

11 is not the amount that's used in ratemaking. It's

12 not the amount that's being recovered through

13 depreciation rates. I'd be happy to walk through

14 the math showing how to do that.

15 **Q.** Sure.

16 **A.** But, again -- would you like to hear it?

17 Sure. Again, it's the method that we use for

18 financial reporting, which is important, because we

19 do trade. Basically, it's a method, like I said, a

20 minimum that every company that is trading on the

21 Stock Exchange must report. It is an estimate at a

22 point in time of removal. And let's just use the

23 asbestos. So we're going to estimate asbestos

24 today and we have an obligation on a building with

25 it. We must take that obligation way out into the

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1 future when we think we will settle that

2 obligation, in other words, remove the asbestos,

3 and then we most present value it back to when the

4 obligation occurred.

5 Now, if you've followed asbestos, asbestos

6 has not been used in business since 1984, so it

7 might be an asset that went in in 1970. Okay. So

8 we bring it all the back to 1970 and put the

9 obligation on. And then from that point, you

10 have -- and let's just use dollars because it makes

11 it easier. Let's say it was \$100 at that point.

12 We would have an asset retirement obligation or

13 liability at the time we would recognize an asset

14 requirement cost or an ARC. So we put a plant

15 piece on and a liability piece on. Now, over time,

16 let's just assume that the future value is \$150.

17 Keep it very simple. Over time that \$100 in 1970

18 is going to accrete or accrue interest to go from

19 \$100 to \$150, so we would recognize for FASB \$50 in

20 interest expense over the debt time period. At the

21 same time the asset retirement cost will depreciate

22 over that period of time and it will depreciate

23 \$100. Okay. So choose a 10-year period and assume

24 the accretion is level because it's easy, we can do

25 it in our heads, you would have, you know, annual

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1 expense of \$10 of depreciation, \$5 of interest,

2 you'd have \$15 to the income statement in a given

3 year.

4 Just to contrast with our removal that did

5 a historical method, it's looking at what we expect

6 to spend, assuming that it's the same \$150 for

7 asbestos, we would depreciate over that 10-year

8 period, \$15. So your income statement is seeing

9 \$15 through depreciation under the regulatory

10 method, it's seeing \$15 in depreciation and

11 interest through the FASB. So it's kind of moving

12 through time getting the same point, but at the end

13 of the day, the regulatory method is the one that's

14 used in depreciation ratemaking.

15 **Q.** Thank you.

16 **A.** You're welcome.

17 **Q.** At the bottom of this question, the first

18 paragraph, staff also requests the papers

19 supporting the regulatory liability of \$463 million

20 and \$439 million; is that correct?

21 **A.** That is correct.

22 **Q.** Now, do these -- does that number refer to

23 the legal or nonlegal AROs?

24 **A.** The regulatory liability is the nonlegal

25 ARO, the one that has been accumulated in

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1 depreciation rates over time. So it's at a point

2 in time how much has been run through depreciation

3 expense up to that point in time. So if it was

4 2011, how much is accumulated in depreciation for

5 removal over time and then if it's the next year,

6 it's one more year's.

7 **Q.** Could you please read aloud the first

8 sentence of your response for the record?

9 **A.** "The company respectfully objects to this

10 request as not reasonably calculated to lead to the

11 discovery of relevant evidence because the

12 requested information is irrelevant to determine

13 the North Dakota depreciation expense included in

14 the test year revenue requirement. Asset

15 retirement obligations relate to the required

16 financial presentation necessary for every public

17 trading entity."

18 **Q.** Thank you. Could you, please, then read

19 the last sentence of your response, which begins

20 with "Subject to this obligation."

21 **A.** Oh, in that paragraph?

22 **Q.** Yes. Yes.

23 **A.** "Subject to this objection and discussion,

24 the Company notes that the amounts related to the

25 regulatory liabilities are based on regulatory

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1 orders and/or approved rates, and the detail
2 underlying these amounts can be seen on page 82 of
3 our 2011 SEC report 10-K."

4 Q. You mentioned the regulatory orders and/or
5 approved rates. Does that mean that the North
6 Dakota PSC has specifically addressed these
7 liabilities for nonlegal AROs and regulatory orders
8 or rates?

9 A. They don't have a separate docket for
10 depreciation, so they've dealt with it in the rate
11 cases, and they've either dealt with it through
12 specific rates or setting a depreciation expense
13 based on depreciation rates.

14 Q. Okay. So it has been dealt with in
15 prior --

16 A. It is. And just for the record, there is
17 a separate reserve -- we maintain a separate
18 reserve accumulated depreciation based on North
19 Dakota rates, another one for Minnesota based on
20 Minnesota, rates, and another one for South Dakota
21 based on South Dakota rates, because for a single
22 asset there may be three different depreciation
23 rates set, three different Commissions controlling
24 that asset. And in order to make sure when we
25 report North Dakota, we've used North Dakota rates,

1 deal with, you know, the paper waste or any of the
2 nonhazardous standard take it to the standard
3 landfill-type waste. That is still an appropriate
4 cost if you have to pay for that, it's just not
5 necessarily dealt with in a regulation.

6 Q. Mm-hmm. And the term "legal" relates to
7 the fact that there's a legal requirement to remove
8 them?

9 A. Correct. And we do have our legal
10 department go through all of our contracts and our
11 statutes and the rules for every state we're in.
12 So even a contract could set it. For instance, the
13 wind farms are usually on leased land and if you
14 choose to read a contract, it does state once we
15 stop operating, we must remove the entirety all the
16 way down below ground so that the land can be
17 reestablished, and most of it is farmland, as
18 farmland. So that would present another type of
19 obligation through contractual.

20 Q. And would that be considered a legal ARO?

21 A. It would with that, yes.

22 Q. Okay. And then the nonlegal, you're not
23 legally bound to remove them?

24 A. We're aren't legally --

25 JUDGE FETCH: Ms. Perkett, could I ask you

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1 we maintain in our system all three of those and
2 then also a financial set of books.

3 So when we come and report to you and to
4 your rate base, we're using your approved rates.

5 MR. NORRELL: I think I have no further
6 questions, Your Honor.

7 JUDGE FETCH: Thank you, Mr. Norrell.

8 Ms. Jeffcoat-Sacco, any questions?

9 MS. JEFFCOAT-SACCO: I don't believe we
10 have any. Thank you.

11 JUDGE FETCH: Thank you. We'll turn to
12 the Commission at this time.

13 Commissioner Fedorchak.

14 EXAMINATION

15 BY COMMISSIONER FEDORCHAK:

16 Q. Ms. Perkett, help educate me a little bit
17 on some of these terms. If I'm looking at the
18 legal AROs, it looks to me like most of those
19 things listed are hazardous. Is that an
20 appropriate way to look at them?

21 A. That's a fairly good way to look at it,
22 because most of your statutes, your rules, your
23 regulations, will deal with the hazardous ones.

24 Q. Okay.

25 A. So I'd say it probably isn't something to

1 to speak up just a little bit?

2 THE WITNESS: Oh, I'm sorry. I apologize.

3 JUDGE FETCH: And when you turn to the
4 side, that makes it even more difficult to project
5 out here.

6 THE WITNESS: Would this help? Okay.
7 Sorry.

8 Nonlegal AROs, for look of a better term,
9 it was -- the legal AROs were what they were and
10 everything else was coined nonlegal AROs. It is an
11 obligation, if you will, we are collecting it
12 through our depreciation rate, accumulating it in
13 accumulated depreciation. At the end of the day it
14 was required and allowed by a Commission. If it
15 isn't used for removal, let's say we don't need any
16 more poles and wires. Miraculous new technology
17 comes along, we don't need any poles and wires, now
18 we have to remove them all and we had extra, we
19 would have to ask the Commissions, each one of
20 them, what to do with that extra. Because it was
21 accumulated and collected through rates, it has to
22 be dealt with at the end through rates and
23 regulation.

24 Q. (COMMISSIONER FEDORCHAK CONTINUING) If it
25 weren't for the financial reporting that you have

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1 to do on the legal AROs, would you separate them?
 2 **A. We probably don't have them separated if**
 3 **we weren't going to do it, but it actually helps to**
 4 **see what's there. The reason they separated it out**
 5 **in, I think it was 2005 it was required, and the**
 6 **reason was, when you have removal in the normal**
 7 **accumulated depreciation on the financial**
 8 **statements, your net plant looks smaller. To an**
 9 **investor it looks like you're better recovered on**
 10 **your asset, your original cost of your asset,**
 11 **because the removal is kind of dampening that net**
 12 **plant. So it was a better presentation. That's**
 13 **what the SEC wanted to show, true net plant on**
 14 **original cost and put the removal piece off to the**
 15 **side under regulatory liability. So you could see**
 16 **both, but you had a better presentation of net**
 17 **plant for the investor.**

18 COMMISSIONER FEDORCHAK: Okay. Thank you.

19 THE WITNESS: Does that work on the
 20 microphone?

21 COMMISSIONER FEDORCHAK: That's all for
 22 me.

23 JUDGE FETCH: Thank you, Commissioner.
 24 Commissioner Kalk.

25 COMMISSIONER KALK: Thank you, Your Honor.

1 **facility.**

2 **Q.** Okay. Now, that's --

3 **A. We can look it up. We do report**
 4 **production separate from transmission, distribution**
 5 **because for this Commission and all of NSP MN we do**
 6 **not use a depreciation rate for production. We use**
 7 **what's called a remaining life method, so we**
 8 **take --**

9 **Q.** Okay. So you feel -- 8 percent -- have
 10 you done any testing on taking down wind farms that
 11 8 percent is adequate?

12 **A. We haven't taken any down, but we did have**
 13 **an external engineering firm do a removal cost**
 14 **estimate for us on our production facilities,**
 15 **including the wind farms back in 2010. And so that**
 16 **external engineering firm looked at all the removal**
 17 **components, including offsetting the salvage**
 18 **components so that we could get a good**
 19 **representation of those removal costs, because as**
 20 **you're hinting at, we haven't removed any, so where**
 21 **do you get that information. And around the**
 22 **country, you could look to others, but, again,**
 23 **there hasn't been a lot of current type of wind**
 24 **farms being removed, so went outside and got an**
 25 **external engineering estimate on that.**

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1 **EXAMINATION**

2 **BY COMMISSIONER KALK:**

3 **Q.** Thank you, Lisa, for your testimony. I
 4 read through both sides of the argument and I
 5 really didn't have any questions when we started,
 6 but I think we'll just have to see what all shakes
 7 out in the discussion.

8 You did have a couple things that prompted
 9 two questions. One is to follow up when
 10 Commissioner Fedorchak and you were discussing
 11 about the wind farms. So built into these tables
 12 there is decommissioning plans cost allocated for
 13 taking down the wind farms?

14 **A. That is correct. It's in the production**
 15 **depreciation.**

16 **Q.** So how would that be listed? You said
 17 production so is there a certain table? Because
 18 I'm not that familiar with all the different --

19 **A. There's a different table for production,**
 20 **yes.**

21 **Q.** So could we glean out of this how much
 22 money Xcel -- that we're giving back Xcel, if you
 23 will, to decommission these wind farms?

24 **A. Yes, we could. I believe it's around 8**
 25 **percent of the total of the original cost of the**

1 **Q.** Is that something that you could provide
 2 us pretty easy?

3 **A. I could, and it might have already been**
 4 **part of one of the discoveries, but, yes, it's very**
 5 **easy to give you that.**

6 **Q.** Okay. We'll look tonight and see if we
 7 have it in there, Illona and I, and if we do, I
 8 just wanted to look at that some more.

9 **A. We could find a reference, if we can.**

10 MS. JEFFCOAT-SACCO: Commissioner, excuse
 11 me. As a discovery item we would not have it with
 12 the Commission. It would be with staff or the
 13 Company. So if you wanted to look in your
 14 discovery responses, that would be appreciated. If
 15 it's an attachment to your testimony, we would all
 16 have it.

17 THE WITNESS: No, it is not. It would be
 18 discovery so we could provide it again.

19 COMMISSIONER KALK: Okay. Thank you.

20 **Q.** (COMMISSIONER KALK CONTINUING) And, quite
 21 honestly, this is an example of a broader issue in
 22 North Dakota of when they set up wind farms 10-year
 23 grace period and now the Commission has the
 24 authority we may go back and require bonding. And
 25 so it's an issue that is surfacing to the top

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1 inside the Commission, and it's helpful that you've
 2 done this work that we may be able to use it for a
 3 model for investor-owned, I could see, and maybe a
 4 whole different model for privately-held wind
 5 farms. So a sidebar.

6 **A. Sure.**

7 **Q.** The last question I had was, you talked
 8 about the depreciation rates, three different
 9 jurisdictions using three different rate. What if
 10 at the end of the day they don't add up to what it
 11 costs to take the thing down?

12 **A. Well, in each jurisdiction we do it at**
 13 **total company. So just to get complicated, I**
 14 **apologize, let's just assume that we've got two**
 15 **jurisdictions; one is using a 10-year depreciation**
 16 **rate, recovering it over 10 years, and another one**
 17 **is using a 20-year. Okay.**

18 **Technically, the 10-year when they got to**
 19 **their 10-year, they would stop. They wouldn't have**
 20 **any more depreciation and the 20-year would finish**
 21 **out. So to make it easy -- because I can do the**
 22 **simple math in my head. I don't have my ten-key**
 23 **here -- each one is 50/50.**

24 **Q.** So you're telling me that this is not
 25 going to happen?

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1 **A. It would not happen. So the one**
 2 **jurisdiction that is at ten would stop when it got**
 3 **to five, because our system is actually doing**
 4 **depreciation calculations at the individual**
 5 **jurisdictional books set of level, so it's watching**
 6 **North Dakota's reserve and when it becomes fully**
 7 **depreciated for North Dakota rates, it stops. It**
 8 **may not have fully filled up Minnesota so Minnesota**
 9 **may continue. But it does stop when 100 percent of**
 10 **the asset for all jurisdictions are done. So it**
 11 **knows when that is, based on that jurisdictional**
 12 **percent, that 50 -- in my example 50-50.**

13 COMMISSIONER KALK: Thank you.
 14 JUDGE FETCH: Thank you, Commissioner
 15 Kalk.
 16 Commissioner Christmann?
 17 COMMISSIONER CHRISTMANN: Thank you, Your
 18 Honor.

19 **EXAMINATION**
 20 **BY COMMISSIONER CHRISTMANN:**

21 **Q.** I'm on PSC 11. The third sheet.
 22 **A. Okay.**
 23 **Q.** Which is the December 31st, 2011 numbers.
 24 **A. I want to make sure I'm on the right page.**
 25 **The actual page 3 of it?**

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1 **Q.** It's listed as Attachment A, page 1 of
 2 2 --
 3 **A. Okay.**
 4 **Q.** -- but it was the third sheet, it's
 5 December 31st, 2011.
 6 **A. The one that says Attachment B, this one?**
 7 **Q.** No, it says Attachment A.
 8 COMMISSIONER FEDORCHAK: A, page 1 of 2.
 9 THE WITNESS: Page 1 of 2. I'm sorry. I
 10 heard 3, something for page 3. Okay.
 11 **Q.** (COMMISSIONER CHRISTMANN CONTINUING) I
 12 don't understand what I have here, so it doesn't
 13 matter which page so much, as long as we're on the
 14 same one. (Laughter.)
 15 **A. Us accountants are complicated and**
 16 **confusing because it keeps us employed. No, I'm**
 17 **just kidding.**
 18 **Q.** I'm picking up two lines here so I can
 19 reference them and ask questions.
 20 **A. Sure.**
 21 **Q.** I'm skipping the first one because it's
 22 not identified in the description, but the second
 23 and third lines are Black Dog and Minnesota Valley;
 24 right?
 25 **A. Correct.**

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1 **Q.** We're on the same page. Okay. So the
 2 asset retirement obligation liability, the first
 3 column, that is how much you figure it would cost
 4 to dismantle, clean up each of those facilities and
 5 have it gone; correct?
 6 **A. Just for the legal obligation portion. So**
 7 **it might be the asbestos, the lead, the oils, the**
 8 **ash ponds, evaporation ponds and such that are at**
 9 **Black Dog, and that is the current value today. So**
 10 **it's not -- it will be inflated forward, accreted**
 11 **forward to the final cost and that's what we will**
 12 **spend.**

13 **So if I could go back to my example again,**
 14 **that \$100 when we recognized the ARO liability,**
 15 **when I say accrete forward, it will move from \$100**
 16 **to \$150 and so that liability at the end of the day**
 17 **will be \$150, and then when I spend for the removal**
 18 **of asbestos, I will spend \$150 if I'm doing**
 19 **financial reporting. Okay? I've got \$150 sitting**
 20 **in my liability or savings account, I will spend**
 21 **out of that. The cash will come out of there.**
 22 **So at any point in time as you're moving**
 23 **through from today to that future period, you can**
 24 **take a look at what the liability is and that's**
 25 **what its value is, so one year would be \$100 and**

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1 then it would be \$105, \$110 as you go through time.
 2 And it's just a snapshot of that balance at this
 3 point in time, December 2011.

4 Q. And that's why on the flip side the 2010
 5 numbers were slightly smaller for each?

6 A. Correct. Correct.

7 Q. Okay. And then the asset retirement cost
 8 asset line is what?

9 A. That is the amount of the asset that we
 10 recognized when we originally put the ARO on the
 11 balance sheet. Okay. So when we put the ARO in my
 12 example on the balance sheet, we put \$100 on the
 13 liability side and we put \$100 on the asset side,
 14 because us accountants, liabilities and assets have
 15 to balance.

16 The asset depreciates down to zero and has
 17 actually an accumulated depreciation that's not part
 18 of regulation that depreciates to \$100. So at the
 19 end of the day, when I'm removing this liability, I
 20 don't have any asset anymore. It's zero, because I
 21 have accumulated depreciation of \$100. So it's a
 22 zero. My liability is now at \$150. I retire my
 23 asset retirement costs and accumulated
 24 depreciation, get rid of that off the asset side,
 25 and then I spend the liability down to zero.

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1 Now, on the FASB rules, because they're
 2 not the regulatory rules, the FASB rule says if you
 3 have leftover, you know, it's a gain, and if you
 4 have too little accumulated, you have to spend \$180
 5 and you only have a \$150, you have a loss on the
 6 income statement, but we don't -- we're regulated
 7 and where we're going to spend our money for
 8 removal is out of that accumulated or that reg
 9 liability. And the ARO is always balanced to what
 10 our total expectations are for those legal
 11 obligations under what's in your studies, the
 12 studies that we present to you and you've approved.

13 Q. But unlike the first column, which is
 14 growing each year, this is the original amount?

15 A. Correct.

16 Q. So it stays the same throughout the time
 17 period?

18 A. It does, unless we have a new estimate,
 19 just to make things complicated.

20 Q. What would cause the Black Dog facility to
 21 have a positive ARC asset when you first started
 22 this and the Red Wing to have a negative?

23 A. I appreciate that question. When you
 24 re-recognized it in 2005 for the first time, we
 25 based it on an estimate that we had for the

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1 contaminants, the legally obligated contaminants at
 2 that point in time. As we go through time, we have
 3 more removal cost estimates and we had one in 2010,
 4 and that one adjusted what we thought some of the
 5 numbers out there.

6 And just going back to asbestos, why would
 7 asbestos change? You had asbestos in 2005, why
 8 would it change? Well, when you're doing
 9 maintenance out there, they may take out some of
 10 the asbestos. If they're working on a piece of
 11 equipment, they may clean out the asbestos at that
 12 point in time. So the amount of asbestos may go
 13 down just in normal operations and maintenance. So
 14 when we reevaluate how much is asbestos, we have to
 15 reevaluate the obligation, and the obligation, if
 16 it goes down, brings the asset retirement cost
 17 down, and it could send that cost -- it's just a
 18 balancing factor -- it could bring it down below
 19 zero.

20 It gets really complicated so I'm doing it
 21 in 2010, I set the cost in 2010. So maybe a
 22 simpler example. My \$100 example. I did it at the
 23 point in time I set it up. Three years later I
 24 came back and I realized that it went down. It
 25 really isn't \$100 anymore. And my example won't

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1 make it go negative, but it can be negative. I
 2 realize it's \$50. Okay. So I'm going to have to
 3 bring my liability down to the point where it is.
 4 I also have to bring my costs down. Now, if you
 5 remember, these asset retirement obligations and
 6 costs were set up when we were originally obligated
 7 for them. On Black Dog we were originally
 8 obligated on asbestos in the 1950s. Okay. So the
 9 asset cost was present valued all the way back to
 10 1954, I believe it was. That's the cost, asset
 11 retirement cost that went on the books, the 1954
 12 cost.

13 Now, our liability has moved through time
 14 and is now at 2011. The cost is still in 1954. If
 15 it gets reevaluated at today's cost, it may
 16 decrease more than I have -- the liability may
 17 decrease more than I have the asset retirement cost
 18 on the books.

19 Q. Okay. Third column is ARC reserve?

20 A. The ARC reserve is just the accumulated
 21 depreciation on the ARC. And the ARC is
 22 depreciated over the life of the asset. So at the
 23 end of the asset, when the asset is retired, the
 24 ARC reserve will equal the ARC asset, and then when
 25 the asset is retired, those two are retired.

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1 **Now, the ARO may accrete forward after**
 2 **that retirement because we may wait three years or**
 3 **more on some assets before we have to retire them.**
 4 **Especially on production, if you have multiple**
 5 **units, you may take one unit down and put it in a**
 6 **mothball state waiting for the second unit to come**
 7 **down and then do the removal all together, because,**
 8 **going back to your point, it's more cost effective**
 9 **to do two together, rather than one and then the**
 10 **other.**

11 **Q.** And the regulatory asset?

12 **A.** The regulatory asset is our balancing
 13 account. From an accounting perspective, at the
 14 end of the day, when I'm at \$150, I have \$150 for
 15 my reg liability, and I have \$150 for my ARO. My
 16 liability is on asbestos. I've got it there twice,
 17 if you really think about it. To balance that out,
 18 I'll have \$150 on my reg asset for financial
 19 purposes. The reg asset balances out the ARO, and
 20 what remains on my financial statement is the reg
 21 liability that has been accumulated through the
 22 depreciation rate in your orders.

23 COMMISSIONER CHRISTMANN: No further
 24 questions. Thank you.

25 JUDGE FETCH: Thank you.

1 **Q.** So to the extent that there were
 2 regulations that were driving those distribution
 3 costs, they're your estimates of the North Dakota
 4 regulations and requirements?

5 **A.** That is based on that, yes.

6 MR. JOHNSON: Thank you. No other
 7 questions, Your Honor.

8 JUDGE FETCH: Thank you, Mr. Johnson.
 9 Mr. Norrell, any further questions?

10 MR. NORRELL: No. Thank you, Your Honor.

11 JUDGE FETCH: Ms. Jeffcoat-Sacco, any
 12 further questions?

13 MS. JEFFCOAT-SACCO: No.

14 JUDGE FETCH: Commissioners, any further
 15 questions? You're dismissed, Ms. Perkett.

16 THE WITNESS: Thank you very much.

17 JUDGE FETCH: And we're timely. It's five
 18 minutes to five. We are going to stand in recess
 19 until 6 p.m. for dinner and -- well, whenever.

20 Have dinner. Come back. We're going to reconvene
 21 at six. And Mr. Sheldon will step in and tell us
 22 how you can get back into the Capitol if you leave,
 23 because I believe the doors will be locked and so
 24 he'll need to get us back in.

25 So it appears to me, from the time

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1 Mr. Johnson, do you have any redirect?

2 MR. JOHNSON: One area, Your Honor.

3 JUDGE FETCH: Go ahead.

4 **REDIRECT EXAMINATION**

5 **BY MR. JOHNSON:**

6 **Q.** Ms. Perkett, you had some discussion with
 7 Mr. Norrell concerning your Table 4 and also the
 8 effect of local regulations on the costs of
 9 removal. Do you remember that generally?

10 **A.** Generally, yes.

11 **Q.** And you also had some discussion regarding
 12 the effect of higher retirement or removal costs on
 13 the distribution depreciation rate?

14 **A.** Yes.

15 **Q.** I'd like to direct your attention back to
 16 Table 4 for just a moment, which is on page 15 of
 17 your direct.

18 **A.** Yes.

19 **Q.** Let's see if I can find it now. And I'm
 20 looking at the line entry for electric
 21 distribution.

22 **A.** I'm there.

23 **Q.** Which states are involved in that line?

24 **A.** The total company one and the North Dakota
 25 one is only the North Dakota assets.

1 estimates, we might get through Scott Brockett and
 2 Ann Bulkley yet. So we are in recess until 6 p.m.
 3 Thank you.

4 (Recessed at 5:02 p.m. to 6:02 p.m.)

5 JUDGE FETCH: Let's come to order.

6 COMMISSIONER KALK: Like that, Your Honor.

7 JUDGE FETCH: Thank you. Remind me to
 8 take you to all my hearings and you can be the
 9 gavel man. Are we on?

10 MR. SHELDON: Thank you.

11 JUDGE FETCH: All right. This hearing is
 12 reconvened and the time is about 6:02 p.m., Central
 13 Time, on August 27th, 2013, and at this time we'll
 14 continue with the NSP case, and I believe you have
 15 listed as your next witness, Mr. Johnson, would be
 16 Scott Brockett?

17 MR. JOHNSON: That's correct, Your Honor.
 18 We would wish to call Mr. Brockett as our next
 19 witness.

20 JUDGE FETCH: Okay. Mr. Brockett. Good
 21 evening. Mr. Brockett, were you here earlier when
 22 I instructed as to penalties for perjury?

23 THE WITNESS: I was.

24 JUDGE FETCH: All right. Thank you. All
 25 right. Mr. Brockett, would you raise your right

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1 hand, please.
2 (Witness sworn.)
3 JUDGE FETCH: Thank you. And I believe
4 your witness statement is being passed out. All
5 right.

6 Mr. Johnson, turn it over to you and this
7 is NSP Exhibit 28 and that was stipulated to, it is
8 admitted into the record.

9 MR. JOHNSON: Thank you, Your Honor.

10 **SCOTT BROCKETT,**

11 being first duly sworn, was examined and testified
12 as follows:

13 **DIRECT EXAMINATION**

14 **BY MR JOHNSON:**

15 **Q.** Mr. Brockett, your direct -- excuse me --
16 your rebuttal testimony has been marked and
17 received into evidence as NSP Exhibit 13. It's my
18 understanding you do not have any corrections that
19 need to be made to that.

20 **A.** That's correct.

21 **Q.** Do you have an opening statement?

22 **A.** I do have an opening statement.

23 **Q.** Please deliver that for the record.

24 **A.** Sure. My name is Scott Brockett. I am
25 director of regulatory administration and

1 method we recommend meets all of the Commission's
2 criteria and should continue to be used in this
3 case.

4 **Accuracy is the Commission's primary**
5 **criteria. The 12 CP method we have used in North**
6 **Dakota for about 20 years and again proposed in**
7 **this case most accurately captures the drivers of**
8 **our fixed production costs. The 12 CP method**
9 **recognizes that our fixed production costs are**
10 **incurred not only to ensure reliable service, but**
11 **also to minimize overall system energy costs over**
12 **the course of a year. Specifically, the 12 CP**
13 **method considers loads in all 12 months, thereby**
14 **recognizing that loads in all months contribute to**
15 **our overall system costs. The 12 CP method**
16 **recognizes that the costs incurred to ensure**
17 **reliable service (demand-related costs) cannot be**
18 **allocated to any specific hourly load in any**
19 **specific month, or even to a single season, because**
20 **we design and operate our system to ensure reliable**
21 **service at the least cost in all months. As a**
22 **result, potential loads in many different summer**
23 **hours, as well as hours outside the summer season,**
24 **also contribute to the need for production**
25 **capacity. The 12 CP method gives more weight to**

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1 **compliance for Xcel Energy Services Incorporated.**
2 **In my rebuttal testimony I explain why the**
3 **Commission should continue to use the 12 CP method**
4 **to determine the North Dakota jurisdictional**
5 **portion of costs for our production and**
6 **transmission facilities. I also explain why the**
7 **Commission should not adopt the 1 CP method**
8 **recommended by the advocacy staff consultant, Karl**
9 **R. Pavlovic. As part of his recommendation, Dr.**
10 **Pavlovic proposes a \$20 million reduction in the**
11 **test year revenue requirement. As a result, use of**
12 **the right jurisdictional allocator is a critical**
13 **financial issue for the company.**

14 **As part of an integrated system, our**
15 **production and transmission facilities are used to**
16 **provide service to more than one state. As a**
17 **result, it is necessary to determine the North**
18 **Dakota portion of the cost of these facilities as**
19 **part of the process of setting our North Dakota**
20 **rates.**

21 **The Commission has historically applied**
22 **three criteria for selecting a method for**
23 **allocating costs to the North Dakota retail**
24 **jurisdiction: accuracy, stability, and consistency**
25 **with other jurisdictions. The weighted 12 CP**

1 **summer peak loads, but also recognizes the**
2 **significance of peak demands in other months.**
3 **The 12 CP method also better captures the**
4 **drivers of our fixed transmission cost. The**
5 **company designs the various segments of its**
6 **transmission system to meet the peak demands of the**
7 **specific regions served by each segment of the**
8 **system. These regional peak demands are not**
9 **necessarily coincident with the NSPM coincident**
10 **peak, and may occur in the winter. Moreover, MISO**
11 **uses the 12 CP method as a basis for its monthly**
12 **transmission billings.**

13 **The Commission has found that it is**
14 **appropriate to recognize peak usage in all 12**
15 **months with a weighting that recognizes the added**
16 **significance of higher usage months. The 12 CP**
17 **method, which reflects peak loads in all months**
18 **with an added weighting of higher usage months,**
19 **meets the Commission criteria for accuracy.**

20 **The Commission has also recognized that**
21 **the 1 CP method was an inappropriate method to**
22 **determine the drivers of the company's costs**
23 **because it ignores the costs that off-peak**
24 **customers impose on the company's system.**

25 **The 12 CP method also yields more stable**

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1 results (the Commission's second criterion) than
 2 the 1 CP method, because the 12 CP method takes
 3 into consideration peak loads throughout the year.
 4 As a result, year-to-year changes are smaller than
 5 the changes under the 1 CP method that has been
 6 recommended by the staff consultant in this case.
 7 Such variability can have a significant impact on
 8 test year revenue requirements and ultimately
 9 electric rates.

10 The Commission's third criterion is
 11 consistency with the approach used by other
 12 jurisdictions. The 12 CP method is used by the
 13 other four NSP system states and MISO. While this
 14 factor may be less significant to the Commission,
 15 it nevertheless points to the 12 CP method as the
 16 best approach under the Commission's criteria.

17 Finally, as staff consultant Dr.
 18 Pavlovic's supplemental testimony recognizes, the
 19 NARUC Manual focuses on which method best reflects
 20 the utility's actual system planning and operation.
 21 My rebuttal testimony explains why the 12 CP best
 22 reflects: (1) our planning and operation of
 23 production facilities both to ensure very high
 24 levels of reliability during the entire year and to
 25 minimize system energy costs; and (2) the effects

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1 of loads other than the system annual coincident
 2 peak demand on our transmission planning, given the
 3 need for each transmission facility to meet the
 4 peak demand on that particular facility.

5 We submit that the 12 CP method that has
 6 been in place for many years in North Dakota and
 7 elsewhere should again be approved because it best
 8 meets the three Commission criteria. It is
 9 accurate, yields stable results, and is more
 10 consistent with the methods approved by other
 11 jurisdictions. In contrast, the staff consultant
 12 has proposed the 1 CP method, which the Commission
 13 has previously found to be inappropriate and has
 14 rejected. Accordingly, the 12 CP method should be
 15 adopted in this case.

16 MR. JOHNSON: Your Honor, Mr. Brockett is
 17 available for cross-examination.

18 JUDGE FETCH: Thank you, Mr. Johnson. Mr.
 19 Norrell.

20 MR. NORRELL: Thank you, Your Honor.

21 **CROSS-EXAMINATION**

22 **BY MR. NORRELL:**

23 **Q.** Mr. Brockett, good evening.

24 **A.** Hello.

25 **Q.** Could you state for the Commission what a

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1 12 month coincident peak demand allocation method
 2 is?

3 **A.** Yes. It's an approach or a method to
 4 allocating cost to jurisdictions or customer
 5 classes based on the respective contributions to
 6 each of a -- each of the 12 month system peaks.

7 **Q.** And what is a 1 month coincidental demand
 8 peak allocation method?

9 **A.** A 1 month coincidental peak demand
 10 allocation is a method that allocates cost to
 11 jurisdictions or customer classes based on their
 12 contributions to the system annual coincident peak.

13 **Q.** Okay. Thank you. As you mentioned, the
 14 advocacy staff witness recommends that this
 15 Commission approve a change to the 1 month CP
 16 method. In your testimony you state that the
 17 Commission shouldn't change the jurisdictional
 18 allocation methodology for two reasons, the first
 19 reason is that it deviates from widely accepted
 20 ratemaking principles. If the 1 CP method deviates
 21 from widely accepted ratemaking principles, can you
 22 explain why it's included in the NARUC Manual as a
 23 valid cost allocation method?

24 **A.** Could you refer to me the citation in my
 25 testimony?

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1 **Q.** Oh, I apologize. This was actually a
 2 question that was -- I believe, was posed to Ms.
 3 McCarten, but she thought that you would be able to
 4 answer. I guess the question is just -- I'll just
 5 dumb it down to this. Is the -- is the -- does the
 6 NARUC Manual approve 1 CP?

7 **A.** The NARUC Manual includes the 1 CP method
 8 as one of the alternatives for allocating
 9 production and transmission costs.

10 **Q.** So it would be an approved methodology; is
 11 that correct?

12 **A.** I hesitate to use the word "approved" in
 13 the context of the NARUC Manual because, in my
 14 opinion, the NARUC Manual provides guidance, it
 15 lists some alternatives for commissions to consider
 16 and provides some very general guidance as to when
 17 these methods might be more or less applicable, but
 18 I wouldn't go so far as to say that the NARUC
 19 Manual either endorses or proposes a method.

20 **Q.** But it proposes it as a valid method --
 21 the 1 CP method?

22 **A.** Yes, it includes it as a potential method.

23 **Q.** The company has applied for some other
 24 advance determination and prudence such as the two
 25 Red River Valley units potentially built in North

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1 Dakota. One of the things they talk about is these
2 units need to be built to meet peak demand -- not
3 peaks, just peak demand. Why wouldn't the company
4 build a unit to meet more than one peak or is it
5 just one peak?

6 **A. As I explained in my testimony, I think**
7 **the level and mix of our generation fleet as well**
8 **as the power purchase, for that matter, depends on**
9 **a couple of factors. One is the need to provide**
10 **reliable service over the course of the year and**
11 **the second is to minimize total energy cost. When**
12 **you're talking about having total capacity be the**
13 **system peak, it begs the question, well, when is**
14 **that system peak going to occur. And on the NSP**
15 **system that system peak can occur in a number of**
16 **different hours during the course of the year.**

17 **And as I went on to explain in my**
18 **testimony, even if you can bound the potential**
19 **hours to some limited period, which I'm not sure**
20 **you can, you also have to bring in planned**
21 **maintenance, diversity exchanges, things like that,**
22 **that might affect your probability of losing load**
23 **during any one hour any specific period. My**
24 **contention is those factors in turn affect what**
25 **plants you're going to install either for**

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1 **reliability or to minimize the energy cost or for**
2 **both.**

3 **Q. For the summer of 2013, MISO has changed**
4 **its methodologies to provide a credit for utilities**
5 **that don't peak with MISO's summer peak. Isn't**
6 **that similar to what North Dakota is requesting in**
7 **this situation to be recognized for not**
8 **contributing to the company's summer peak?**

9 **A. I'm not familiar with that change that**
10 **you're referring to for MISO.**

11 **Q. You had mentioned trying to allocate the**
12 **peak for the year to a number of hours. Wouldn't**
13 **you say if you can allocate the biggest load of the**
14 **year to a number of hours and the company can meet**
15 **that load, can't it meet the peak load in any of**
16 **the other 12 months?**

17 **A. Could you repeat that question?**

18 **Q. If you can meet the peak load of the year,**
19 **wouldn't it follow that you can meet the peak load**
20 **at any of the other 12 months -- or the other 11**
21 **months of the year?**

22 **A. Well, when you say can we meet the peak**
23 **load of the year, I would first point out that**
24 **that's certainly a legitimate planning criteria and**
25 **an important one, but it begs the question when**

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1 **that peak hour is going to occur, which you can't**
2 **predict. It's not stochastic or random. You can**
3 **bound it, but you don't know when it's going to**
4 **occur so you can't say, well, I'm going to install**
5 **a level of production capacity to meet the load**
6 **that I predict on July 15th at 3:00 p.m. You don't**
7 **know when that peak load is going to occur, and**
8 **that was the point I was trying to bring up, that**
9 **even to the extent that's the salient planning**
10 **criterion, it still begs the question of what**
11 **period you're going to consider relevant in terms**
12 **of actually experiencing net peak hour or hours.**

13 **Q. Couldn't you look at historical data to**
14 **determine on a yearly basis what that -- within**
15 **reason -- obviously we can't get a precise hour,**
16 **date and minute, but within reason, can't you look**
17 **at historical data and see where that historically**
18 **has lain, that peak load?**

19 **A. You can, and I would add that that's one**
20 **of the reasons why I provided that loss of load**
21 **probability study as a check on the reasonableness**
22 **of the methods because it tries to do just that.**
23 **It considers not only the probability of when the**
24 **peak load is going to occur but also maintenance**
25 **and forced outages, diversity exchanges, all the**

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1 **other factors that affect whether you may or may**
2 **not have sufficient capacity. I think it's a**
3 **better way of doing that than just looking at when**
4 **peak loads have occurred on a historical basis.**

5 **Q. On page 3 of your testimony you state that**
6 **the 12 CP methodology is the preferred methodology**
7 **among the various jurisdictions served by the**
8 **company. What evidence do you have to support that**
9 **statement?**

10 **A. What I was referring to with that**
11 **statement is that the 12 CP method is used by the**
12 **commissions in Minnesota and South Dakota and North**
13 **Dakota historically for the purpose of determining**
14 **the percentage of production and transmission costs**
15 **that would be allocated to their respective**
16 **jurisdictions.**

17 **Q. Have any other jurisdictions expressed any**
18 **concern in regards to the 12 CP?**

19 **A. Yeah, you mean Minnesota or South Dakota?**

20 **Q. Or are you aware of any besides the four**
21 **that NSP is involved in anywhere in the country, or**
22 **is this uniformly adopted?**

23 **A. Oh, no, I wouldn't say that the 12 CP**
24 **method is uniformly adopted, no. I know that there**
25 **are other utilities that don't use the 12 CP**

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1 **method.**

2 **Q.** Can you describe what a combined system
3 is? I read somewhere that the NSP system operates
4 as a combined system.

5 **A.** I would prefer to have a specific citation
6 so I can better familiarize myself with the
7 context. In my opinion, a combined system refers
8 to a system that serves more than one jurisdiction,
9 but the dispatch occurs on a combined basis so that
10 it's basically operating as if it were one system.

11 **Q.** So then the Xcel Energy Company, is that
12 treated as a single entity for production and
13 transmission costs?

14 **A.** Xcel Energy is not, no.

15 **Q.** Or, I'm sorry, NSPM.

16 **A.** NSP-Minnesota I would characterize as a
17 combined system for production, anyway, not for
18 distribution.

19 **Q.** How does a 12 CP methodology minimize
20 energy costs?

21 **A.** No allocation method minimizes energy
22 cost. What a 12 CP method attempts to do is
23 account for the fact that one of the company's
24 goals is minimizing energy cost, and we are
25 determining the costs out to be allocated to a

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1 **specific jurisdiction, that factor ought to be**
2 **considered in the development of the allocation**
3 **factor or the selection of the allocation factor.**

4 **Q.** Does it minimize rates at all to
5 ratepayers?

6 **A.** No. In my opinion, you should not, and
7 really cannot at the end of the day, choose an
8 allocation method that minimizes cost. The whole
9 point of an allocation method is to take a pie of
10 cost and split it up into different slices. As I
11 point out in my testimony, various jurisdictions
12 acting in concert could adopt different allocation
13 methods that leave the utility short so it doesn't
14 recover all its costs. In that respect, I wouldn't
15 say that was necessarily a principled approach, but
16 that could be one way in which an allocation method
17 could be construed as minimizing costs to customers
18 by making the shareholders bear some of them.

19 **Q.** On page 4 of your rebuttal testimony,
20 lines 6 to 13, I was just wondering if you could
21 clarify. You state that the Commission has, in
22 part, approved using -- that would be line 9 and
23 10, then again at 13 it states the Commission. Are
24 you referring to the North Dakota Commission?

25 **A.** Give me one second while I refamiliarize.

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1 **Q.** Sure.

2 COMMISSIONER FEDORCHAK: What page is it,
3 Ryan?

4 MR. NORRELL: Page 4.

5 THE WITNESS: I'm referring to the North
6 Dakota Commission.

7 **Q.** (MR. NORRELL CONTINUING) Okay. And you
8 state that proceedings where intervenors have
9 proposed the 1 CP method, the Commission has
10 consistently rejected these proposals. Do you know
11 that the Commission has consistently rejected
12 these?

13 **A.** I know that from the research that I've
14 conducted that there were three prior cases, I
15 think one was a docket in 1987, one was a docket in
16 1991, and one was a docket in 1992. The latter two
17 were rate cases. I'm not sure about the 1987 case.
18 The upshot is in each case the Commission confirmed
19 the 12 CP method as the appropriate allocator.

20 **Q.** Were these North Dakota intervenors, do
21 you know, in those matters where 1 CP was proposed?

22 **A.** I don't recall.

23 **Q.** Ms. McCarten had earlier stated that there
24 was -- in 1986 12 CP was adopted, in 1991 it was
25 adopted, in 1992 it was readopted. That would lead

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1 me to believe that somewhere between '86 and '92 if
2 it was readopted -- are you familiar, was there a
3 point where 1 CP was actually adopted in the State
4 of North Dakota between 1986 and 1992?

5 **A.** I had a little difficulty piecing together
6 that chronology, to tell you the truth. That case
7 in '87 that I looked at, the final decision after
8 appeal or whatever didn't come out until 1992, so I
9 guess while that was in abeyance, I assume there
10 was some method in place. I can't say for sure
11 what it was. What I do know in the 1991, 1992
12 cases, which were resolved on a more expeditious
13 basis, that the 12 CP method was approved. So I'm
14 a little bit unclear as to what was actually in
15 effect during that period you're talking about.

16 **Q.** Were you aware that in the approximately
17 2000 era there was a demand allocator factor for
18 the NSP plus plan that was a 36-month allocator?
19 Were you aware of that at all in your research?

20 **A.** No.

21 **Q.** If that were true, wouldn't that speak to
22 the fact that commissions can change and adopt the
23 demand allocation method?

24 **A.** I think it would depend on what context
25 that was approved and how it was applied.

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1 **Q.** You state -- or I think in your opening
 2 statement you mention it too -- that the 12 CP
 3 method produces more stable results. Does that
 4 mean that the 1 CP methodology is inherently
 5 unstable?
 6 **A.** I'm speaking in relative terms. I don't
 7 want to characterize one as stable and one as
 8 unstable. If you compare the results of the two,
 9 what I can say unequivocally is that both on a
 10 conceptual and empirical basis, it appears that the
 11 12 CP method is more stable, and I put a page in my
 12 Schedule 2 to try to demonstrate that.
 13 **Q.** Why would 12 CP predict peak load any more
 14 accurately than 1 CP -- the hour? I'm sorry.
 15 **A.** I wouldn't -- again, I don't think it
 16 does, and that's not really necessarily the point
 17 of a cost allocation method. A cost allocation
 18 method is supposed to allocate or assign costs to
 19 jurisdictions based on the costs that they actually
 20 impose on the system to the best you can identify
 21 it.
 22 **My point is the 12 CP method best**
 23 **accounts -- or better accounts, I should say, for**
 24 **the drivers of the company's costs than the 1 CP**
 25 **method. And one of the basic premises of my**

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1 **testimony is you can't simply look at one hour and**
 2 **say, well, by definition that's the drivers of the**
 3 **company's cost. That's the premise I reject.**
 4 **Q.** Well, didn't you earlier say that that is
 5 one of the drivers of the cost, is meeting that --
 6 I believe you said -- and I apologize, I didn't
 7 write it down -- that 12 CP hopes to meet that peak
 8 demand as does 1 CP. Why is one any better than
 9 the other?
 10 **A.** Well, if I said that, I misspoke. I don't
 11 think any one allocation method accomplishes that
 12 goal. What I was trying to suggest is that I
 13 understand the company looks at its peak load or
 14 peak loads that it expects during the course of the
 15 year to form its planning. That's what I was
 16 agreeing to. But an allocation method doesn't in
 17 any sense drive the company's cost.
 18 **MR. NORRELL:** Just a second. I need to
 19 confer with my --
 20 **JUDGE FETCH:** Go ahead.
 21 **Q.** (MR. NORRELL CONTINUING) I have a
 22 question about the projected test year. What are
 23 you using to base your 2013 loads on for the test
 24 year purposes?
 25 **A.** The 12 CP allocator is based on our

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1 **projected monthly peak loads for NSP-Minnesota and**
 2 **in this case for the jurisdiction of North Dakota.**
 3 **Q.** So it's an estimate that you're using?
 4 **A.** Yes, it is an estimate.
 5 **Q.** You mentioned that the 12 CP method should
 6 be continued to be used because it provides for a
 7 total recovery of costs among the jurisdictions
 8 within the system, but if all the jurisdictions
 9 switch to 1 CP, wouldn't that lead to a total
 10 recovery of costs?
 11 **A.** Yes. The point is that if a consistent
 12 allocation method is used, then the utility will
 13 collect a hundred percent of its prudently incurred
 14 cost. And that can occur no matter -- to satisfy
 15 that goal alone, that can occur under a number of
 16 different allocation methods.
 17 **Q.** I apologize. I've got to log back into
 18 the iPad here.
 19 On page 19 of your testimony you stated
 20 that the 12 CP method is the most commonly used
 21 method; is that correct?
 22 **A.** Can you give me a citation?
 23 **Q.** I guess it's put in a question-and-answer
 24 format. It says, Is there any evidence -- line 14
 25 through 16 -- Is there any evidence that the 12 CP

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1 method is more commonly used across the country,
 2 and then your answer is in the affirmative?
 3 **A.** Yes, in that particular citation I'm
 4 simply quoting from the NARUC Manual.
 5 **Q.** In your Exhibit 2 you show the monthly
 6 North Dakota system peaks. Are these showing --
 7 are these showing high peaks or are these pretty
 8 level? What's your analysis of this data from
 9 month to month?
 10 **A.** You're talking about the North Dakota?
 11 **Q.** Yes -- I'm sorry -- the North Dakota
 12 peaks.
 13 **COMMISSIONER FEDORCHAK:** Ryan, what
 14 exhibit are you on?
 15 **MR. NORRELL:** I'm on Exhibit -- it's
 16 actually marked Schedule 2.
 17 **COMMISSIONER FEDORCHAK:** On the rebuttal
 18 testimony?
 19 **MR. NORRELL:** Yes, Mr. Brockett's
 20 rebuttal.
 21 **COMMISSIONER FEDORCHAK:** Okay.
 22 **THE WITNESS:** And, I'm sorry, your
 23 question to me is whether I detect any unusual
 24 pattern in them or --
 25 **Q.** (MR. NORRELL CONTINUING) Well, just

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1 the -- are the peaks constant or do they vary
 2 greatly?
 3 **A. The peaks vary. In terms of greatly, I**
 4 **don't know whether they vary any more or less than**
 5 **someone would expect.**
 6 **Q.** Looking at 2012, the actuals, this would
 7 be on page 1, what would you say the difference
 8 between the April system peak and the July system
 9 peak is?
 10 **A. Well, it looks roughly -- I can't do the**
 11 **math too accurately in my head. It looks like the**
 12 **difference is about 150 megawatts.**
 13 **Q.** I was referring to the actual system, the
 14 total, on this one. I apologize.
 15 **A. Oh, I'm sorry. You're looking at the**
 16 **total CP for NSP-Minnesota?**
 17 **Q.** Yes.
 18 **A. That difference looks like it's about 3**
 19 **-- let's see -- about 3,300 megawatts.**
 20 **Q.** Just under 50 percent difference between
 21 April and July?
 22 **A. Well, let's see. Can I use my calculator?**
 23 **Q.** Sure. That's fine.
 24 **A. All right. 049 -- I come up with about 41**
 25 **percent.**

1 be revised according to the NARUC Manual?
 2 **A. I would -- to answer that question, I**
 3 **think you have to, first of all, understand that**
 4 **the NARUC Manual, what it really does is it lays**
 5 **out various options for commissions and**
 6 **stakeholders in regulatory proceedings to consider.**
 7 **It talks very generally and briefly about the**
 8 **conditions under which one might be preferred over**
 9 **another, but I wouldn't characterize the NARUC**
 10 **Manual as giving very specific guidance as to what**
 11 **method is better. I think what the authors were**
 12 **saying is, look, you know, if we were going to have**
 13 **a manual like that, it would be about 2,000 pages,**
 14 **but we'll just provide some general guidance and**
 15 **emphasize to the practitioners that these are the**
 16 **considerations that are important when developing**
 17 **the allocation methods.**
 18 **Q.** You would agree that peak demand methods
 19 are considered appropriate by the NARUC Manual; is
 20 that correct?
 21 **A. Well, peak demand methods are certainly**
 22 **included in the NARUC Manual as options. Again, I**
 23 **hesitate to use the word "appropriate." I think**
 24 **the whole point of the manual is they're saying**
 25 **here's some options, you decide the extent to which**

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1 **Q.** What would the same ratio be for the North
 2 Dakota differential between July and April of 2012?
 3 **A. About 34 percent, but I'm using July as**
 4 **the base. It's the percentage April varies from**
 5 **July. If you do it the reverse, you'll come up**
 6 **with a different percentage.**
 7 **Q.** Does the NARUC Manual state that no single
 8 cost methodology would be superior to any other? I
 9 believe you testified to this, as a matter of fact.
 10 **A. I don't recall a specific statement, but**
 11 **that's the tone of it, yes.**
 12 **Q.** On page 6 of your testimony, lines 21
 13 through 24, you state, "These methods are laid out
 14 here to reveal their flexibility; they can be seen
 15 as maps and the road you take is the one that best
 16 suits you." Where does that quote come from?
 17 **A. I don't recall. It would take me a little**
 18 **bit to try to find it in the manual.**
 19 **Q.** Earlier in that same question you mention
 20 that -- I believe you're quoting from the NARUC
 21 Manual.
 22 **A. I am, yes. I'm trying to find it now. On**
 23 **my version it would be page 68. It would be the**
 24 **last sentence of Chapter 4.**
 25 **Q.** Do you know upon what basis a method would

1 **one or more are appropriate based on the specific**
 2 **circumstances of your utilities.**
 3 MR. NORRELL: Okay. Judge, can I ask for
 4 just a minute, please, off record?
 5 JUDGE FETCH: Yes, you may.
 6 MR. NORRELL: I apologize. Can we take a
 7 five-minute break, Judge?
 8 JUDGE FETCH: All right. We'll take five
 9 minutes.
 10 MR. NORRELL: Thank you.
 11 (Recess taken.)
 12 JUDGE FETCH: We'll come back to order.
 13 Mr. Norrell, you were in the middle of questioning
 14 Mr. Brockett.
 15 MR. NORRELL: Thank you, Judge. Thank
 16 you, Mr. Brockett.
 17 **Q.** (MR. NORRELL CONTINUING) I'd like to draw
 18 your attention to the NARUC Manual, which you
 19 have -- I believe it is in front of you.
 20 Approximately page 46 of that, it reads, where
 21 monthly peaks lie within -- a 12 CP method is used
 22 where monthly peaks lie within a narrow range; is
 23 that correct?
 24 **A. I see that citation, yes.**
 25 **Q.** And it also says, the 12 CP method may be

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1 appropriate when the utility plans its maintenance
 2 to have equal reserve margins; is that correct?
 3 **A. I see that citation as well.**
 4 MR. NORRELL: Your Honor, may I approach
 5 the witness stand?
 6 JUDGE FETCH: You may.
 7 MR. NORRELL: Thank you, Your Honor. What
 8 I have handed out is a chart based on the
 9 aforementioned Schedule 2 in Mr. Brockett's
 10 testimony regarding the total CP column for 2005
 11 through 2012.
 12 **Q. (MR. NORRELL CONTINUING) Mr. Brockett,**
 13 **would you say these numbers in general, do they**
 14 **look accurate to you based on --**
 15 MR. JOHNSON: Your Honor, may I ask a
 16 question for purposes of just determining where
 17 this came from and who prepared it?
 18 JUDGE FETCH: Yes, Mr. Johnson.
 19 MR. JOHNSON: Mr. Brockett, have you seen
 20 this before?
 21 THE WITNESS: No.
 22 MR. JOHNSON: Mr. Norrell, could you
 23 provide a little bit more background as to what
 24 this is and where it came from?
 25 MR. NORRELL: Just a second, please. This

1 MR. NORRELL: Thank you.
 2 **Q. (MR. NORRELL CONTINUING) Looking at this**
 3 **graph of monthly system peaks since 2005, would you**
 4 **say NSP's monthly peaks lie within a narrow range?**
 5 **A. I think I'd say they lie within a typical**
 6 **range.**
 7 **Q. What would be defined as a typical range?**
 8 **A. I'm thinking about a typical utility that**
 9 **might have a normal mix of customers and normal mix**
 10 **of end uses of those customers.**
 11 JUDGE FETCH: Could you speak up just a
 12 bit, please.
 13 THE WITNESS: Oh, sure. I'm talking about
 14 a utility that might have a normal mix of customers
 15 and those customers might have a normal array of
 16 end uses, and I would expect to see variations in
 17 the monthly peak demands as exhibited in this graph
 18 here. I kind of hesitate whether they're narrow,
 19 wide. I really -- I really don't know how to
 20 answer that question.
 21 **Q. (MR. NORRELL CONTINUING) But the NARUC**
 22 **Manual -- we're talking a 3 million kilowatt here**
 23 **between, you know, looking at maybe April and as**
 24 **opposed to -- there's a 3 million kilowatt**
 25 **difference between April and July; would you agree**

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1 was prepared, Your Honor, in Mr. -- I'm sorry. Mr.
 2 Johnson, this was prepared from the Schedule 2
 3 provided by Mr. Brockett by Ms. Cardwell, a
 4 research analyst here at the Public Service
 5 Commission.
 6 JUDGE FETCH: Mr. Johnson, any other
 7 questions?
 8 MR. JOHNSON: No, Your Honor. Thank you.
 9 JUDGE FETCH: Are you intending to offer
 10 this as an exhibit --
 11 MR. NORRELL: Yes, actually --
 12 JUDGE FETCH: -- or is this just for him
 13 to refer to?
 14 MR. NORRELL: Actually as an exhibit, Your
 15 Honor. I would like to propose this as PSC Exhibit
 16 11 -- or 12.
 17 JUDGE FETCH: This would be 12. Any
 18 objections, Mr. Johnson?
 19 MR. JOHNSON: Your Honor, we're not going
 20 to object. We're working and quite comfortable
 21 with the assumption that it's been accurately
 22 prepared by staff.
 23 JUDGE FETCH: Thank you. Then I will
 24 admit PSC Exhibit 12.
 25 Mr. Norrell, continue.

1 with that?
 2 **A. Those numbers look to be about the slice**
 3 **of the difference, yes.**
 4 **Q. The NARUC Manual states again that the**
 5 **12 CP method should be used where there's a narrow**
 6 **range; is that correct?**
 7 **A. I think that's a very incomplete**
 8 **characterization. What the NARUC Manual says is**
 9 **that one indicator is of -- when the 12 CP method**
 10 **might be appropriate is when the monthly peaks lie**
 11 **within a narrow range. The manual goes on to say**
 12 **the 12 CP method may be appropriate when the**
 13 **utility plans its maintenance so as to have equal**
 14 **reserve margins, loss of load probabilities, or**
 15 **other reliability index values in all months.**
 16 **I would also add that the NARUC Manual,**
 17 **the sum total of its discussion, the 12 CP method,**
 18 **is about a half a page, including the table. So I**
 19 **caution against in looking at this NARUC Manual**
 20 **reading it verbatim and saying, okay, these are the**
 21 **conditions under which we ought to use the 12 CP**
 22 **method, or any other method, for that matter.**
 23 **That's why in my testimony I went through the**
 24 **specifics of how we plan our system and what drives**
 25 **our costs, because I don't think you can just read**

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1 **these couple paragraphs and come to any conclusion.**

2 **Q.** Does NSP plan its maintenance so as to

3 have the same reliability index each month?

4 **A.** It does not plan its maintenance to have

5 the same index each month, but from a practical

6 perspective, it schedules its maintenance of its

7 generation units during the shorter periods,

8 perhaps a little bit more during the winter so that

9 those reserve margins are much -- I should say the

10 dispersion of those reserve margins from month to

11 month are much narrower than would be suggested by

12 this exhibit you've introduced, and that's one of

13 the reasons why I think it's very dangerous to rely

14 solely on these exhibits or on loads in general.

15 **Q.** Is there targeted reserve margins that NSP

16 uses?

17 **A.** I'm sure there is, yes, for planning

18 reserve purposes. I don't know what it is in the

19 NSP-Minnesota footprint.

20 **Q.** Do you know if the use of a reliability

21 index is described in any planning and cost

22 allocation documents provided by NSP in this case?

23 **A.** I'm sorry. **Could you repeat that**

24 **question.**

25 **Q.** Is the use of a reliability index or

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1 reserve margin -- is that described, do you know,

2 in any of the documents submitted by NSP in this

3 case? Can we find an answer to the earlier

4 question as to how do you plan your maintenance so

5 that there's a reliability index? You said you

6 weren't sure earlier. I'm just wondering if we can

7 find it somewhere.

8 **A.** Well, just to be clear with the record,

9 what I said is I'm pretty sure we don't plan our

10 system so that we equalize the reliability indexes

11 each month. I'm saying from a practical

12 perspective, we plan maintenance and enter into

13 diversity exchanges with other power providers and

14 take other steps so that the margins from month to

15 month are much more similar than they would be --

16 than you would conclude just by looking at peak

17 loads.

18 **Q.** Could you describe what demand-related

19 production costs would be?

20 **A.** The definition -- there's various

21 definitions of demand-related production costs, but

22 I would -- I would characterize demand-related

23 production costs as the fixed costs of our

24 production facilities that are incurred to ensure

25 reliable service to customers.

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1 **Q.** What is an energy-related production cost?

2 What's that definition?

3 **A.** I'm not sure if there's any one commonly

4 accepted definition. In my testimony I mention

5 that the prime example is fuel cost and variable

6 operation and maintenance expenses. And then also,

7 depending on how a practitioner uses this cost, the

8 capital cost of intermediate and baseload units

9 that are above the cost of an equivalent peaker can

10 also be considered energy-related costs.

11 MR. NORRELL: I believe that's all my

12 questions for now, Your Honor.

13 JUDGE FETCH: Thank you, Mr. Norrell. Ms.

14 Jeffcoat-Sacco.

15 MS. JEFFCOAT-SACCO: Yes, I have a couple

16 of questions.

17 **CROSS-EXAMINATION**

18 **BY MS. JEFFCOAT-SACCO:**

19 **Q.** I'm going to start with the last one

20 because I was just looking at something in your

21 testimony -- your rebuttal testimony towards the

22 end about meeting the Commission's third criterion,

23 and then I went back to find where in your rebuttal

24 testimony or anywhere else do you tell us the

25 Commission criterion -- or criteria for choosing an

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1 allocation factor because I'm not finding it. And

2 I'm sure it's here.

3 **A.** I thought I listed those criteria early in

4 my testimony. On page 2, lines 13 through 19.

5 **Q.** Okay. I did see that, but -- and I even

6 have it marked. However, do you have a citation of

7 -- is it the case in the footnote 400-87-6 that

8 established the criteria, or all of them or -- I'm

9 just a little confused and I don't have all those

10 orders in front of me.

11 **A.** I would have to go back and check and see

12 which specific orders dealt with each of the three

13 criteria or whether they all did. I can't answer

14 that.

15 MS. JEFFCOAT-SACCO: Does anyone have

16 copies of those orders available? I mean, I can

17 find them later another time, but I just didn't

18 know if you had them right here.

19 JUDGE FETCH: Mr. Johnson.

20 MR. JOHNSON: Your Honor, I do not have

21 them with me. We can certainly make them

22 available, but we would not be able to do it while

23 Mr. Brockett is on the stand unless he happens to

24 have them with him.

25 JUDGE FETCH: Mr. Brockett, do you happen

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1 to have those?
 2 THE WITNESS: Well, I have some of them.
 3 **Q.** (MS. JEFFCOAT-SACCO CONTINUING) I guess
 4 what I was wondering is, the way your testimony is
 5 worded, it sounds like a very specific -- like the
 6 order said here's the three things that this
 7 Commission looks at to set a jurisdictional
 8 allocation factor, but I, going from memory, don't
 9 recall that -- I don't have the orders in front of
 10 me -- and I need to know if that's what you're
 11 saying or if you're generalizing in your testimony.
 12 **A.** I can't verify the specific verbiage,
 13 whether it's exactly lifted from an order, but I
 14 put those in there because I believed at the time I
 15 wrote that testimony they reflected what the
 16 Commission provided for in its previous orders.
 17 **Q.** Well, I think maybe for tomorrow we will
 18 try to get to the bottom of that because I think
 19 the Commission would appreciate copies. We'll
 20 either make them from you or we'll find them and
 21 we'll see -- perhaps you might have to come back to
 22 the stand on that, but we'll see what the criteria
 23 actually is in those orders.
 24 JUDGE FETCH: Mr. Johnson.
 25 MR. JOHNSON: Your Honor, we do in fact

1 where it would be helpful if the company went
 2 through and if you could find that and just pass
 3 that copy out tomorrow.
 4 JUDGE FETCH: I have a suggestion,
 5 Commissioner Kalk. It's just about seven o'clock.
 6 When we finish with this witness, we're going to
 7 try at least to get part of the next witness's
 8 testimony. Maybe during that time this witness
 9 could look through those orders and attempt to find
 10 that language and that way we could still recall
 11 him to the stand. Does that work?
 12 MR. JOHNSON: Your Honor, I have a
 13 suggestion that may be very similar to yours. We
 14 do have the orders, I've read them, I know the
 15 passages are in there. I think if we took a
 16 corresponding five-minute recess, Mr. Brockett
 17 could speak to the questions right now.
 18 JUDGE FETCH: Let's take five minutes.
 19 (Recess taken.)
 20 JUDGE FETCH: All right. We are back on
 21 the record. It is about 8 minutes after 7:00 p.m.,
 22 Central Time.
 23 And, Mr. Johnson, I believe you gave me
 24 the high sign. Did your witness find the
 25 information?

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1 have copies of the orders available here. I'm not
 2 sure that that addresses the point that's being
 3 made in terms of availability, but we do have them
 4 and copies could be made.
 5 MS. JEFFCOAT-SACCO: And I think it would
 6 be okay to make it after, if that's all right,
 7 because we would all have to read through them to
 8 answer the question and we don't have time to do
 9 that right now, if that's all right.
 10 JUDGE FETCH: Well, we could take a
 11 recess.
 12 MS. JEFFCOAT-SACCO: It's up to the
 13 Commission. We can revisit it in the morning.
 14 COMMISSIONER KALK: When I talked to
 15 Illona --
 16 JUDGE FETCH: Commissioner Kalk.
 17 COMMISSIONER KALK: If I could, Your
 18 Honor, when I talked to Illona, I just -- your
 19 statement -- I just want somewhere to show me
 20 verbatim it says what you said. So that's the
 21 part. I don't want a bunch of orders saying
 22 general. It's something that says these are the
 23 three criteria that some commission put in some
 24 order at some point in time, that's the specific
 25 piece that I think we're talking about. So that's

1 MR. JOHNSON: Yes, Your Honor.
 2 JUDGE FETCH: Okay. And, Ms.
 3 Jeffcoat-Sacco, you were asking questions of Mr.
 4 Brockett, so I believe he has now the information
 5 in front of him. Do you remember the question or
 6 do you need to have it repeated, Mr. Brockett?
 7 THE WITNESS: No, I remember it.
 8 JUDGE FETCH: Okay.
 9 THE WITNESS: I did find the citation, I
 10 think, and there's two citations actually. The
 11 first one is Case No. PU-400-92-399. It's findings
 12 of fact, conclusions of law and order on
 13 reconsideration dated April 7th, 1993, and it's
 14 paragraph 5 in findings of facts, and I quote, "The
 15 standards we look to in determining an appropriate
 16 allocation factor are fair cost apportionment,
 17 consistency among jurisdictions, and administrative
 18 ease."
 19 **Q.** (MS. JEFFCOAT-SACCO CONTINUING) What
 20 finding number was that?
 21 **A.** That's finding of fact 5. And then to
 22 interpret what's meant by "administrative ease," we
 23 went back to -- goodness -- it's the same case
 24 number, Case No. PU-400-92-399, this is findings of
 25 fact, conclusions of law and order dated December

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1 15th, 1992, and on paragraph -- yeah, paragraph 11,
 2 these same standards are fleshed out a little bit
 3 more by this staff -- or Commission consultant Dr.
 4 Larry Dobesh, and under 11(c) specifically he
 5 defines "administrative ease" as a jurisdictional
 6 allocation method -- or he defines "administrative
 7 ease" as occurring when a jurisdictional allocation
 8 method should be understandable, inexpensive to
 9 administer, and not result in large swings in
 10 jurisdictional cost responsibility over time, which
 11 in my mind then provides a context for what's meant
 12 later by "administrative ease," which would
 13 encompass both the ease of coming up with the
 14 allocator and the fact that it's stable.

15 MS. JEFFCOAT-SACCO: Okay. And the dates
 16 again? I think it was April 7th, '93, and December
 17 something of '92, and many of us know what happened
 18 at the end of that year. Between the first order
 19 and the reconsideration order we had a change in a
 20 Commission -- change in Commissioner. So, anyway,
 21 we have two orders. Thank you. I do appreciate
 22 that. And I will get copies of that at least for
 23 staff. If Commissioners want it, they can have it
 24 also.

25 COMMISSIONER FEDORCHAK: New commissioners

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1 are nothing but trouble.

2 MS. JEFFCOAT-SACCO: New commissioners
 3 make trouble, yes.

4 JUDGE FETCH: I sort of resent that. That
 5 second date was December 15th, 1992.

6 MS. JEFFCOAT-SACCO: 15th. Okay. Thank
 7 you for looking that up.

8 THE WITNESS: You're welcome.

9 Q. (MS. JEFFCOAT-SACCO CONTINUING) I wanted
 10 to ask you when we were talking about the NARUC
 11 Allocation Manual and you were talking about the
 12 general guidelines, there's not a lot of
 13 information, there's half a page. Short of simply
 14 looking at company testimony, where would someone
 15 go for more specific guidance on how to do
 16 jurisdictional allocation? I recognize your
 17 testimony lays out how you think it should be done,
 18 staff testimony lays out how they think it should
 19 be done, and the Commission obviously laid it out
 20 in '92 and '93 how they think it should be done.
 21 But is there -- are there some resources that we
 22 can look at -- professional resources since the
 23 NARUC Manual you're saying is more general and
 24 simply, you know, lays out a general road map but
 25 not the specific guidance. Is there anything else

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1 we can look to that is a neutral professional
 2 resource?

3 A. Well, here's as I see the dilemma. I
 4 don't fault the NARUC Manual for being laid out as
 5 it is because I think the point they're trying to
 6 make is, look, we can provide these general
 7 criteria, but it really comes down to an in-depth
 8 look at each utility, and breaching that gap
 9 between the in-depth look for a utility and this
 10 general guidance is sometimes difficult to do, you
 11 know, and I guess it depends on the practitioner,
 12 what authoritative sources they might find useful.
 13 For example, I'm old enough that I remember when I
 14 first started, they had those old gray book series
 15 that were the Public Utilities Regulatory Policy
 16 Act. They had a whole series on marginal costing
 17 and all that. I found those very useful to
 18 understand the economics of system planning, but
 19 maybe someone else wouldn't. So I can't give you
 20 any one source to go to.

21 Q. I think we threw all those away out of our
 22 vault. I'm sure they were there at one point in
 23 time.

24 I did have a question on page 13 on your
 25 rebuttal, lines 21 through 23. You say, The 12 CP

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1 method (as applied in this proceeding), and I
 2 assume you mean as the company applied it in their
 3 application, but you can correct me if I'm wrong,
 4 assigns weights based solely on the differences in
 5 their magnitudes, weights to the 12 loads -- peak
 6 loads. Can you explain how the weighting is done,
 7 and are you then suggesting a weighted 12 CP, as I
 8 recall it being called, or not?

9 A. Yeah, you know, and I'm not familiar with
 10 the history of what was called weighted in North
 11 Dakota and what wasn't. I'm very hesitant to put
 12 those labels on it because what I mean by weighting
 13 is that when we develop our 12 CP, we simply sum
 14 the monthly peaks for the system, we sum the
 15 monthly peaks for North Dakota, we take North
 16 Dakota divided by the system peak -- the
 17 NSP-Minnesota peak and come up with a percentage.
 18 If you work through the algebra of that, what
 19 happens is that months where there's greater loads,
 20 they contribute more to the numerator and the
 21 denominator. In that sense there's a weighting.
 22 But I don't want to imply that there's any real
 23 strong conceptual framework for that particular
 24 weighting. It's just that it happens to have the
 25 benefit, if you will, of giving more weight to high

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1 **load months.**

2 **Q.** Okay. That explains it. I also need --
3 and I apologize for not getting a clear explanation
4 of this from the testimony, but this loss of load
5 probability, the LOLP method. Are we talking about
6 another subpart of 12 CP that has this LOLP
7 component, or is that something that you were --
8 just explain it to me at the fourth-grade level, if
9 you would, please.

10 **A.** Okay. First of all, I can state that, no,
11 it's not an adjunct to the 12 CP method. It's an
12 independent analysis. The reason I provided it was
13 to provide what I think is a pretty good check on
14 the results of both the 12 CP method and the 1 CP
15 method.

16 **It is -- to the extent you're interested**
17 **in going back to the manual, the loss of load is**
18 **included in the NARUC Manual, the loss of load**
19 **probability method is included in the NARUC Manual.**
20 **It's one of the energy-weighting methods -- or, no,**
21 **I'm sorry, I misspoke there. It's one of the**
22 **methods included in the production section of the**
23 **NARUC Manual.**

24 **In my opinion, it does a better job of**
25 **identifying responsibility by period for pure**

1 us appropriately assign costs?

2 **A.** Okay. Putting aside what peaks you're
3 going to look at, in general --
4 **Q.** Right.
5 **A.** -- the reason why you want to look at
6 peaks is when a company plans its system, whether
7 it be a collective system like generation and
8 transmission or localized system like distribution,
9 it needs to have sufficient capacity so that the
10 lights will go on no matter what time of the year
11 we're talking about. And generally you look at
12 peaks because you figure, well, if I can meet those
13 loads, I can meet all the other loads that are less
14 so that becomes one of your important planning
15 criterion.

16 **Q.** Okay. So then if you're trying to
17 allocate -- fairly allocate the costs, you should
18 be looking at the peak in the area that you're
19 allocating cost to so you should be looking at
20 North Dakota's peak?

21 **A.** Well, you should be looking at North
22 Dakota's contribution to the NSP system peak, in my
23 opinion. Because we plan our system on a
24 consolidated basis -- this goes back to the
25 questions I was asked earlier -- particularly with

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1 capacity cost than energy cost for reasons I've
2 explained in my testimony, but I think it's a
3 little bit more sophisticated than simple methods
4 that look just at loads. It also is more data
5 intense obviously.

6 **Q.** But you just applied it to sort of
7 double-check the two methods?

8 **A.** Correct.

9 MS. JEFFCOAT-SACCO: That's all I have at
10 this point.

11 JUDGE FETCH: Thank you. At this time
12 we'll turn to the Commission and begin with
13 Commissioner Fedorchak.

14 **EXAMINATION**

15 **BY COMMISSIONER FEDORCHAK:**

16 **Q.** Scott, I'm going to dumb this way down, so
17 if we can go back to the whole point of the cost
18 allocation factor, we want to fairly assign costs
19 to the customers that are contributing to them; is
20 that correct? That's what we're trying to do with
21 this?

22 **A.** Yes.

23 **Q.** So why do we analyze peaks? Just explain
24 that like in simple terms, why does looking at the
25 peak and how the company prepares for the peak help

1 production, we're dispatching a joint system and so
2 it could be that if you looked at the sum of the
3 three peaks for North Dakota, South Dakota, and
4 Minnesota, maybe it's 9,000 megawatts, and the NSP
5 system peak is 7,500 megawatts, you're going to
6 plan it for the 7,500 because you have some
7 diversity you can take advantage of. Does that
8 make sense?

9 **Q.** Mm-hmm. Is North Dakota's peak at a
10 different time?

11 **A.** I would have to go back and look at the
12 data. Generally North Dakota now -- I don't think
13 that was always the case, but it now peaks in the
14 summer. I don't -- I didn't go back and check to
15 see whether the hourly peak for North Dakota was
16 coincident with the NSP-Minnesota hourly
17 coincident --

18 JUDGE FETCH: Could you please speak up,
19 Mr. Brockett.

20 THE WITNESS: I'm sorry.

21 JUDGE FETCH: Thank you.

22 **Q.** (COMMISSIONER FEDORCHAK CONTINUING) And
23 what are the big drivers of the peak in North
24 Dakota, some of the classes of them or some of the
25 customers? Like can you give me some real tangible

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1 examples?

2 **A. Well, the -- when you look at the North**
 3 **Dakota peak load, you're looking at the combined**
 4 **load of all the customers at that particular period**
 5 **when the North Dakota load is the highest. If**
 6 **you're asking which customers might be more likely**
 7 **to contribute to that hourly peak load, I suggest**
 8 **you might want to direct that question at Mr. Huso**
 9 **or Mr. Peppin.**

10 **Q. All right. I notice in some of the**
 11 **testimony that there are different investments**
 12 **being made in certain regions in North Dakota, say**
 13 **Minot, to deal with peak there. How does that --**
 14 **those kinds of things, how are they better captured**
 15 **in the 12 CP versus the 1 CP?**

16 **A. Okay. Now we're talking about**
 17 **transmission specifically with the example you've**
 18 **provided, and in that case the idea is that**
 19 **transmission facilities are going to be built --**
 20 **are going to be sized, rather, to meet the load**
 21 **downstream from them.**

22 **Q. Mm-hmm.**

23 **A. And so that -- the time at which that kind**
 24 **of microsystem peaks may not be our system**
 25 **coincident peak. In fact, it's very likely that it**

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1 **won't be, because you could have a very hot period**
 2 **in Minneapolis that's driving the system peak, but**
 3 **in North Dakota it might be a lot cooler, for**
 4 **example, and you'll see your system peak served by**
 5 **that transmission system occur at a different time.**

6 **The 12 CP method, what it does is it**
 7 **allows you to take the kind of loads in not only**
 8 **one month or two months, but all 12 months of the**
 9 **year to recognize that all those loads can drive**
 10 **system peaks. In fact, some of the loads may peak**
 11 **in the winter.**

12 **Q. Mm-hmm. All right. You talk on page 4**
 13 **and 5 on your rebuttal testimony about stability**
 14 **and say that the 12 -- the 1 CP method would lead**
 15 **to significant -- could lead to significant swings**
 16 **and results because you're just looking at the one**
 17 **peak; right? Just explain this whole issue of**
 18 **stability a little bit more and why the 12 CP is**
 19 **better at creating more stability than the 1,**
 20 **because I don't see what is going on in North**
 21 **Dakota that would change wildly one year to the**
 22 **next that would change that peak.**

23 **A. Sure. I look at it as a matter of basic**
 24 **statistics and probabilities. The more data points**
 25 **you have, the more likely the need of that sample**

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1 **is going to be -- or the population, rather, is**
 2 **going to be similar or experience less of a**
 3 **variation from year to year than if you just have**
 4 **one data point. So I think just from a pure**
 5 **statistical mathematical basis, it's always better**
 6 **in terms of stability to be working with more data**
 7 **points.**

8 **The other concern I have, I mention in my**
 9 **testimony, is when you look at one single hour in a**
 10 **historical year, that could be influenced quite**
 11 **heavily by what I call anomalous circumstances,**
 12 **like a large customer being down for maintenance.**
 13 **We had that in Michigan. I don't know if that's a**
 14 **case in North Dakota so much. But a large customer**
 15 **being down for maintenance or having a very cool or**
 16 **a very hot summer, and so that's why, when you look**
 17 **at one historical hour, you might see a lot of this**
 18 **noise or anomalies being captured and then the next**
 19 **year you might have a completely different set of**
 20 **circumstances and you're going to see quite a bit**
 21 **of variation not only in the NSP system peak, but**
 22 **perhaps in the North Dakota peak, and as a result**
 23 **the percentage of cost allocated in North Dakota**
 24 **based on the 1 CP method is going to exhibit**
 25 **greater swings from year to year than if you had**

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1 **the 12 data points. And that's why in the last**
 2 **page of my exhibit I show on a historical basis**
 3 **that that in fact has been true.**

4 **Q. So if you can give us the reasons again**
 5 **why 1 CP is not appropriate, and if you can give**
 6 **some like specific examples, not theory, why is**
 7 **1 -- what's the problem with 1 CP? Why doesn't it**
 8 **work?**

9 **A. 1 CP doesn't work because it doesn't**
 10 **fairly recognize the drivers of our system cost.**

11 **Q. Why? What drivers?**

12 **A. Let's take a baseload plant, for example,**
 13 **like Sherco 3 or a nuclear unit. If we had a --**
 14 **I'll just throw out something. If we had a 500-**
 15 **megawatt nuclear unit, we didn't incur all that**
 16 **cost and go through all that process of siting and**
 17 **licensing a nuclear unit so we could get an**
 18 **additional 500 megawatts of capacity solely. We**
 19 **did it because not only do we get that capacity,**
 20 **but we would also get very cheap energy over the**
 21 **course of a year. So it wasn't like we were**
 22 **looking at what we thought our one-hour peak load**
 23 **would be and saying, okay, we need a nuclear unit**
 24 **to meet that load. It doesn't work that way. Your**
 25 **system planning is more sophisticated. It takes**

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1 into account loads other than your peak coincident
 2 hour. And that's the point I was trying to make
 3 mainly in my testimony.
 4 And then my second point was even if you
 5 did assume that these costs were driven solely by
 6 reliability or capacity needs, you needed the 500
 7 megawatts, I still don't think looking at one peak
 8 hour is appropriate for all the reasons I've said
 9 because I don't think you can predict from year to
 10 year when that peak hour is going to occur.
 11 Moreover, you've got all sorts of considerations
 12 like forced outages and planned maintenance,
 13 diversity exchanges and things that really affect
 14 as well as peak loads what your reserve margin is
 15 going to be. So I don't think it captures cost
 16 causality very accurately.
 17 The second point -- I think this is
 18 critical, we haven't talked about this -- is the
 19 consistency. You know, in my mind, with the
 20 regulatory compact if a utility has incurred a
 21 prudently incurred cost, it should recover 100
 22 percent of that cost unless there are very, very
 23 special circumstances. And when you have different
 24 allocation methods approved by different
 25 jurisdictions, that doesn't happen, and most likely

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1 a jurisdiction is going to approve an allocation
 2 factor that lowers the cost to its jurisdiction and
 3 then the shareholders are what's holding -- or
 4 bearing some of that cost. So I think that's a
 5 huge problem.
 6 And then the third thing is the stability
 7 that we just talked about. I think as a utility
 8 employee, and also, I think, as the Commission,
 9 it's in the public interest to have an allocator
 10 that's going to be reasonably stable over time.
 11 You don't want to see large swings that don't
 12 necessarily reflect cost causality very well.
 13 So those are the basic reasons that I
 14 don't think a 1 CP method is warranted in this
 15 case.
 16 Q. Okay. So my last question was going to
 17 be, and you touched on this, but what are the risks
 18 of having an allocation method different in North
 19 Dakota to Minnesota and South Dakota?
 20 A. The risk to those jurisdictions, in my
 21 opinion, is very minimal in terms of the cost to
 22 customers, because Minnesota can say, Hey, well,
 23 we'll just keep with the 12 CP method, our
 24 customers get X dollars, but if the company's total
 25 costs are a thousand dollars and you add up all the

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1 recovery from the jurisdictions and it's 900, sure,
 2 none of the jurisdictions are necessarily hurt, but
 3 our shareholders are on the hook for a hundred
 4 dollars of costs that were prudently incurred.
 5 There's no collection of those costs.
 6 Q. And why will having the different method,
 7 like a 1 CP versus 12, result in that? Where does
 8 the hundred dollars get lost, if you can give me
 9 like a tangible example of how that would happen?
 10 A. Sure. Yeah. Okay. So if you have a
 11 thousand dollars of costs and you're trying to
 12 collect it from three jurisdictions, let's just say
 13 to make things simple, and one commission says,
 14 well, gosh, I'm going to use the 1 CP method and
 15 that gives me \$200, another commission says, well,
 16 I'm going to use a 4 CP method, that gives me \$500,
 17 and the third commission says, I'm going to use a
 18 12 CP method and that gives my jurisdiction \$200,
 19 the utility only gets to collect in total \$900
 20 because, remember, those percentages will only sum
 21 to one if consistent allocation methods are used,
 22 that's just a matter of math, if you use a
 23 different allocation method.
 24 Q. Yeah, I'd have to just accept that as fact
 25 because I -- why? I mean, all these allocation

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1 methods are coming on at different times?
 2 A. Let me try another way.
 3 Q. Yeah.
 4 A. Let's suppose -- let's just take North
 5 Dakota, for example. Let's suppose one allocation
 6 method gave North Dakota one-third of the cost and
 7 by coincidence NSP in the Minnesota jurisdiction
 8 and the South Dakota jurisdiction also picked up
 9 one-third of the cost using that specific
 10 allocation method. Now, let's assume NSP's North
 11 Dakota and Minnesota commissions keep the same
 12 approach, so they're still collecting two-thirds of
 13 the cost, and the North Dakota Commission says,
 14 hey, I'm going to change to another method that
 15 only gives us one-sixth of the cost. At the end of
 16 the day we're only collecting five-sixths of our
 17 cost in total because we're still collecting the
 18 same amounts from Minnesota and South Dakota,
 19 they're not changing, but North Dakota said, hey,
 20 we're going to go to a method that gives us less
 21 cost. So mathematically I will guarantee you that,
 22 yeah, you're not going to collect your total cost.
 23 Q. So there's no way for you guys to collect
 24 your total costs unless all the states are doing
 25 the same method?

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1 **A. Yeah, unless the methods are consistent.**
 2 **There might be some small slippage in terms of**
 3 **timing, I understand that, but unless all the**
 4 **states have a consistent method, then it's very**
 5 **difficult for a utility to collect a hundred**
 6 **percent of its cost, yeah.**
 7 **Q.** Is there any way you can explain that to
 8 me, why the 1 CP would leave some of the costs
 9 stranded versus the 12 CP?
 10 **A. Well, remember where we're starting from.**
 11 **We're starting from a place where all the states**
 12 **have adopted the 12 CP method. Let's suppose it's**
 13 **just that one-third, one-third, one-third I was**
 14 **talking about then that's the result of that 12 CP**
 15 **method. Now all of a sudden in the back let's say**
 16 **North Dakota says, hey, I want to go to another**
 17 **method that gives us one-sixth of the cost. Well,**
 18 **that's not being filtered through Minnesota and**
 19 **South Dakota. That's just the reduction in the**
 20 **cost responsibility to North Dakota so then you go**
 21 **back to the math and you get five-sixths of your**
 22 **costs instead of all of them.**
 23 **Q.** I get all that. I'm just struggling with
 24 what about the method leaves certain things out.
 25 You know, what is it about the 1 CP method that

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1 results in less than the 12 CP? You know what I'm
 2 saying?
 3 **A. It's not any one specific method that**
 4 **results in that. It's the inconsistencies between**
 5 **the methods. If in fact -- let's suppose we used**
 6 **the 4 CP method in all three states and North**
 7 **Dakota went to a 12 CP method, you could have the**
 8 **same results. It's the inconsistency that leads to**
 9 **the shortage. That's why the starting point is so**
 10 **important to consider.**
 11 COMMISSIONER FEDORCHAK: Okay. All right.
 12 I think that's all for me. Thank you.
 13 JUDGE FETCH: All right. Thank you.
 14 We'll go to Commissioner Kalk.
 15 COMMISSIONER KALK: Thank you, Your Honor.
 16 **EXAMINATION**
 17 **BY COMMISSIONER KALK:**
 18 **Q.** Scott, you do this for a living all the
 19 time? Good for you. All right. We need good
 20 people. Whatever that compensation discussion we
 21 were having before, I think you've made your case
 22 on that.
 23 Anyway, to kind of elaborate what
 24 Commissioner Fedorchak was saying, that if -- let's
 25 just say North Dakota -- we went with 1 CP -- and I

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1 get the argument the different cost allocations --
 2 could you then go back to those other jurisdictions
 3 and say, listen, North Dakota changed their formula
 4 so we're going to ask you to pick up more of the
 5 cost?
 6 **A. It's a possibility, but then if I'm the**
 7 **Minnesota Commission --**
 8 **Q.** Oh, I understand that, but --
 9 **A. You're talking theoretically?**
 10 **Q.** Yeah. If we approve two bucks and you go
 11 back to the other commissions and say, listen,
 12 North Dakota has got a different state policy.
 13 We're going to ask you to pay more. Similar to
 14 their renewable policy and we end up having to pay
 15 more, how would this be any different?
 16 **A. I see one difference with cost**
 17 **allocation --**
 18 **Q.** Fair enough.
 19 **A. -- with renewable policy. I understand**
 20 **the analogy you're drawing.**
 21 **Q.** The best I could come up with.
 22 **A. What's that?**
 23 **Q.** It's the best I could come up with because
 24 it's different state visions.
 25 **A. No, it's a pretty good one, but here's the**

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1 **difference, I think. In the case of the**
 2 **allocations the risk you run is that the utility is**
 3 **not going to be able to recover a hundred percent**
 4 **of its prudently incurred cost. If you take the**
 5 **case of renewables and the State of North Dakota**
 6 **says, hey, you know, we don't like this stuff for**
 7 **whatever reason.**
 8 **Q.** We like it, just not as much.
 9 **A. Not as much. And I don't mean to be**
 10 **facetious.**
 11 **Q.** Sure.
 12 **A. I'm just saying if you think the cost is**
 13 **imprudently incurred, you say, hey, I'm going to**
 14 **take that million dollars out of the revenue**
 15 **requirement. Yeah, we don't recover our cost, but**
 16 **there's a good, solid basis for it.**
 17 **Q.** Fair enough.
 18 **A. The Commission says we don't like that**
 19 **cost.**
 20 **Q.** Back to your point -- and I really
 21 appreciate you digging out the Commission order
 22 PU-400-92. I think talking to my esteemed staff
 23 out there that was here back in those days,
 24 Commissioner Wefald, Reinbold and Bruce Hagen, it
 25 was Commissioner Wefald's first big decision, if

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1 you will, when she got here, and sent it back to a
2 12 CP. And so I think -- and you can give me your
3 thoughts on my comments -- back when it was a
4 system in North Dakota where you had your own
5 generation, your own transmission, the state peaked
6 pretty much the same time, 1 CP was the best way to
7 do things. When we switched to a multi-
8 jurisdictional, regional transmission MISO
9 organization where we're all bidding in and bidding
10 out, the 12 CP has emerged as the policy that has
11 to be followed. I mean, I guess you would agree
12 with that because that's been your whole point of
13 all of this.

14 **A. I would agree, yeah, with the developments**
15 **in our system over the years that the 12 CP method**
16 **makes sense, yes.**

17 **Q.** But perhaps the biggest driver -- let me
18 rephrase this. How much do you think the
19 integration of regional transmission organizations
20 such as MISO have driven the use of 12 CP?

21 **A. Nationally or --**

22 **Q.** Well, for our case regionally, but
23 nationally too, because I suspect other commissions
24 have the same challenges with RTOs, that you're
25 going to pay more for a state like North Dakota on

1 **well, let me back up.**

2 **There are some obviously backbone**
3 **components of the transmission system that serve a**
4 **very wide area. There's no denying that. But a**
5 **large percentage of our transmission plant is sized**
6 **to serve what I will call, for lack of a better**
7 **term, radial load downstream from it. And when you**
8 **look at when those different areas may peak, it's**
9 **most likely not going to be at our system peak --**
10 **system hourly peak, and that's what I was trying to**
11 **explain before, perhaps awkwardly, that, you**
12 **know --**

13 **Q.** I'm tracking there.

14 **A. -- it's better to look at the peak loads**
15 **in all months because it's probably a better proxy**
16 **what's really driving an aggregate are different**
17 **transmission investments.**

18 **Q.** And that's what's driving our transmission
19 investments to meet those differing peaks?

20 **A. Correct.**

21 **Q.** Depending on whether it would be the 12 CP
22 or the 1 CP, would that change the philosophy
23 behind your transmission tariff you're requesting
24 in this rate case, or is that completely apples and
25 oranges in the tariff?

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1 the western edge of an RTO, you're not going to see
2 the benefits of it, but you're going to have to
3 follow those rules to play in those larger
4 transmission groups.

5 **A. That's a good question. You know, it's**
6 **had an impact, but I can't accurately give you an**
7 **idea of the extent of it or the magnitude of it**
8 **because I think even before we went to RTO world,**
9 **that there was a -- I wouldn't call it a rebuttable**
10 **presumption, by any means, but I think there was a**
11 **trend towards using 12 CP even before MISO existed**
12 **or PJM existed or any of the other RTOs we know**
13 **today.**

14 **Q.** Okay. You had something in your -- I
15 don't know exactly what the testimony today --
16 we'll call it your summary, the 12 CP method also
17 better captures the drivers of our fixed
18 transmission costs. Can you explain that a little
19 bit?

20 **A. Sure. What I meant mainly is that when**
21 **you go from production to transmission, I think you**
22 **change your view of the cost drivers a little bit**
23 **and that we don't necessarily dispatch a**
24 **transmission system on a consolidated basis.**
25 **Different segments of the transmission system --**

1 **A. I'm sorry, I cannot answer that question.**

2 COMMISSIONER KALK: Okay. I'll save that
3 for the transmission guru. Thank you.

4 JUDGE FETCH: Thank you, Commissioner
5 Kalk. Commissioner Christmann.

6 **EXAMINATION**
7 **BY COMMISSIONER CHRISTMANN:**

8 **Q.** You've made a number of points why the 12
9 CP is the preferred method, one of those points
10 being consistency among the jurisdictions. Which
11 is more important, the sum of the other reasons or
12 the consistency between the jurisdictions?

13 **A. It depends probably on who you ask. I**
14 **personally would say that the consistency is just**
15 **below cost causality as an important reason because**
16 **I feel very strongly a utility ought to be allowed**
17 **to recover all of its prudently incurred costs.**
18 **Other people might say, no, cost causality is much**
19 **more important than consistency. It's a matter of**
20 **judgment, I suppose. I tend towards the former.**

21 **Q.** Your explanation and the answer, I guess,
22 I'm mixed up on which it was. If two of these
23 jurisdictions chose 1 CP methods, would you be
24 arguing for maintaining the 12 CP for all the other
25 reasons, or would you be saying, no, go with the

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1 other two so that it is the same across all the
2 jurisdictions within the unit?

3 **A. That's a hypothetical I haven't considered**
4 **or confronted. What I can tell you in that**
5 **situation, I would say, absolutely, that using the**
6 **1 CP method in that case would better promote the**
7 **goal of consistency. I don't think it would better**
8 **promote the goal of cost causality, then you would**
9 **have to balance those goals and reach a judgment.**

10 **Q.** You mentioned, and I'm paraphrasing, that
11 inconsistency in methods leads to shortages for the
12 company. To me that would assume that the
13 jurisdictions will always pick the method that
14 provides the lowest rates for their people or else
15 it could just as easily end up with excess returns
16 for the company; correct?

17 **A. Yeah. My presumption is perhaps cynical,**
18 **but I think under an expected value basis -- well,**
19 **let me put it this way. There might be cases where**
20 **a commission would adopt an allocation method that**
21 **would assign more costs -- allocate more costs to**
22 **that jurisdiction. My experience over time is you**
23 **would expect the opposite to occur as a general**
24 **matter.**

25 **Q.** Okay. Since I wouldn't know how to do it,

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1 but I'm assuming you would know how to predict
2 this, what are the characteristics within these
3 three jurisdictions that would make a 12 CP method
4 beneficial over a 1 CP or vice versa? I'm assuming
5 that we're having this discussion because if you
6 disregarded any of the concerns of the company, I'm
7 assuming that a 1 CP method must be better for
8 North Dakota members.

9 **A. Yeah, it is.**

10 **Q.** What characteristics lead us to that
11 conclusion?

12 **A. Which conclusion is that, Commissioner?**

13 **Q.** That a 1 CP method would be beneficial to
14 North Dakota consumers.

15 **A. Oh, well, if you actually apply the 1 CP**
16 **method to the 2013 test year, for example, or to**
17 **the 2010 to 2012 historical period that Dr.**
18 **Pavlovic chose, in either case you're going to get**
19 **a smaller percentage allocation to the North Dakota**
20 **jurisdiction using the 1 CP method than the 12 CP**
21 **method, so it's largely an empirical matter.**

22 **Q.** But does that happen where our high
23 temperatures in the summer are not as extreme or
24 more extreme compared to the rest of our usage
25 throughout the year? I'm trying to figure out what

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1 characteristics cause this difference between the
2 jurisdictions.

3 **A. Well, all I can tell you is that if you**
4 **look at the monthly peaks for North Dakota, they**
5 **tend to be in a little bit narrower range over the**
6 **course of the year than the monthly peaks for the**
7 **system. I don't know whether I can say the load**
8 **factor is materially higher in North Dakota than in**
9 **Minnesota or South Dakota. I haven't run that**
10 **analysis. So that's all I can really tell you.**

11 **Q.** Are you familiar with South Dakota's
12 numbers? Are they more similar to North Dakota or
13 more similar to Minnesota?

14 **A. I'm not familiar with South Dakota's**
15 **numbers, no.**

16 **Q.** Now, just regarding the consistency
17 between the jurisdictions, and this is along the
18 same lines as Commissioner Kalk's question, but --
19 I do get the point that it's nice for the company
20 and it does make some sense to have the same rules
21 within each jurisdiction. Do you personally -- or
22 did the company object just as strenuously to
23 renewable energy mandates in Minnesota which --
24 through the jurisdictions and the completely
25 different set of guidelines as well?

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1 **A. That's difficult for me to characterize.**
2 **I'm not based in Minnesota or haven't been since**
3 **1998, and there have been a series of different**
4 **renewable requirements over the course of the years**
5 **and the companies either acceded or objected to**
6 **them with various degrees of vigor, I guess.**

7 JUDGE FETCH: They can't hear you back
8 here at all. Could you please speak up.

9 THE WITNESS: Okay. I'm sorry.

10 JUDGE FETCH: Is that on?

11 THE WITNESS: It is, yes. Can you hear me
12 now?

13 JUDGE FETCH: Is that better? Thank you.

14 THE WITNESS: I apologize for that. I
15 don't know where I was.

16 JUDGE FETCH: You haven't lived in
17 Minnesota since 1998 and you're not familiar with
18 the renewables.

19 THE WITNESS: Oh, yeah. And so --

20 JUDGE FETCH: Judges hear everything.

21 THE WITNESS: What?

22 JUDGE FETCH: Judges hear and remember
23 everything.

24 THE WITNESS: Thank you. I appreciate
25 that -- that reminder.

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1 So I can't really say -- you know, I don't
 2 want to paint with too broad a brush how adamant
 3 the company has been either in supporting or
 4 opposing some of these renewable mandates or
 5 encouragements, if you will.
 6 But I will go back to the discussion that
 7 I had with Chair Kalk, and that is, I do think
 8 there is a difference to be drawn -- or distinction
 9 to be drawn, rather, between the costs of renewable
 10 mandates and the costs allocated among
 11 jurisdictions, because at least -- you know, with
 12 the renewable mandates or any other costs that a
 13 commission has concerns about, it can explicitly
 14 disallow that cost if it wants. I'm not saying it
 15 should, but if it wants, it has that right under
 16 the regulatory compact. In my mind, shorting a
 17 utility for prudently incurred costs due to the
 18 mechanics of specific cost allocations can be
 19 construed as inconsistent with the regulatory
 20 compact and that's the difference I would draw.
 21 **Q.** (COMMISSIONER CHRISTMANN CONTINUING) Are
 22 there any jurisdictions that you're familiar with
 23 that do something to blend methods like this
 24 where -- you know, maybe you'd figure it out -- and
 25 then just throwing out an example, not a

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1 suggestion, but like maybe you'd figure it out
 2 under a 1 CP formula and a 12 CP formula and then
 3 split the difference or use a couple parts of one
 4 and one of the other, something like that that
 5 blends it out? I know it wouldn't solve the
 6 problems as far as inconsistency between
 7 jurisdictions, but is there a medium ground between
 8 these two alternatives?
 9 **A.** I think Dr. Pavlovic in his supplemental
 10 testimony mentioned that the number of potential
 11 allocation methods is only bounded by the ingenuity
 12 or the imagination of the practitioner, but -- I'm
 13 not quoting him directly. I would kind of agree to
 14 that conceptually or theoretically. There's all
 15 sorts of different approaches that you can develop
 16 to allocate costs, there's no question about it,
 17 but you have to come back to the fundamental
 18 question, just because you average two methods
 19 doesn't mean that that result is better.
 20 **Q.** But my question was or it was meant to be,
 21 are there examples that you're familiar with where
 22 it is something in between, some kind of a blend
 23 like that, that are being used right now?
 24 **A.** I apologize. I'm sorry. No, I'm not
 25 aware of any methods like that where you average

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1 **12 CP and 1 CP or 4 CP and 1 CP. I'm sure there**
 2 **are some. I just don't know of them.**
 3 COMMISSIONER CHRISTMANN: Thank you. I
 4 have no more questions, Judge.
 5 JUDGE FETCH: Commissioner. Mr. Johnson,
 6 any redirect?
 7 MR. JOHNSON: Just a couple of areas, Your
 8 Honor.
 9 JUDGE FETCH: Thank you.
 10 **REDIRECT EXAMINATION**
 11 **BY MR. JOHNSON:**
 12 **Q.** Mr. Brockett, you had -- you made a
 13 reference to your Schedule 2 as being a document
 14 that explains the varying levels of stability or
 15 instability of the 1 CP and the 12 CP. Could you
 16 kind of walk us through that in brief and tell us
 17 which of these line items one would look at to see
 18 that?
 19 **A.** Yes. The specific page is page 5 of 5 of
 20 Schedule 2, and I show data before transmission
 21 loss multiplier and after, but for this -- for my
 22 response I'll just concentrate on the after
 23 transmission loss multipliers. And if you look on
 24 line 35, I provide the simple average of the North
 25 Dakota percentage of cost using the different

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1 methods from 2007 through 2013. So, for example,
 2 4.69 percent is the average percentage of cost
 3 North Dakota would bear under the 1 CP method and,
 4 likewise, the North Dakota jurisdiction would bear
 5 5.73 percent of the cost under the 12 CP method on
 6 average and 5.78 percent of the cost under the loss
 7 of load probability method.
 8 I then -- on line 37 I tried to indicate
 9 what the range of the values is from 2007 through
 10 2013, and so that range is the high minus the low,
 11 so, for example, the 1.65 percent means that the
 12 range of the values of the percentage of cost
 13 allocated in North Dakota under the 1 CP method
 14 varies by 1.65 percentage points. And I've done
 15 the same analysis for the 12 CP method and then the
 16 loss of load probability method.
 17 I have two other metrics here that I'll
 18 just mention briefly. I take the maximum value
 19 under each method as a percentage above the average
 20 and I take the minimum value as a percentage below
 21 average, and I just do that to show again what
 22 the -- another measure of what the range of
 23 stability of these results is over time.
 24 **Q.** Looking at those three lines, 37, 39, and
 25 42, it appears that in each case the range of

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1 variability is substantially greater under the 1 CP
2 than the 12?
3 **A. That's correct.**
4 **Q.** Now, if I were wanting to say what a
5 potential effect would be on a rate case -- you
6 know, you could file a rate case in any particular
7 year -- which of these lines would it be -- I mean,
8 would it be the sort of line 39 as the most
9 indicative of what kind of a range you could get on
10 a revenue requirement?
11 **A. I would say line 37 probably gives you the**
12 **best indication. You could say, well, gosh,**
13 **depending on what year -- what test year I'm**
14 **talking about, the percentage allocated to my state**
15 **might vary by 1.65 percent -- percentage points --**
16 **not percent, but percentage points -- so I don't**
17 **know how much that means in terms of revenue but**
18 **it's quite a bit.**
19 **Q.** As compared to the .44 percent for the
20 12 CP?
21 **A. Yes.**
22 **Q.** A couple of clarifying points. You
23 referred to the NSP system. Do you recall that?
24 You had several questions on that.
25 **A. Yes.**

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1 **Q.** And does that include -- which states are
2 included in that?
3 **A. I was referring to Minnesota, North**
4 **Dakota, and South Dakota.**
5 **Q.** Is the -- the system that serves
6 Minnesota, North and South Dakota, does it also
7 serve Wisconsin?
8 **A. Yes, and there's an interchange agreement**
9 **to allocate the cost.**
10 **Q.** And how about a portion of Michigan also?
11 **A. Yes, a little bit of the UP.**
12 **Q.** Is it fair then to conclude that the NSP
13 system serves portions of five states, all of
14 three -- I guess all of four and part of five --
15 part of a fifth? I guess it's not all of any of
16 them, is it? It's just your --
17 **A. No, it sure isn't. It's part of five**
18 **states, yeah.**
19 **Q.** Thank you. Now, you had earlier questions
20 regarding the significance of the fact that since
21 you don't know the exact date when a peak is going
22 to occur, it has an effect on your planning. Can
23 you amplify that a little bit for me? That wasn't
24 clear to me.
25 **A. Well, my point was simply you don't know**

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1 **when your peak load is going to occur. It could**
2 **occur in many different hours during the year. And**
3 **you also don't know when you're going to incur**
4 **forced outages and you don't know when -- there**
5 **could be other contingencies that you haven't**
6 **planned for. The point being is that you have to**
7 **plan your system so that you can meet your loads**
8 **reliably in all hours of the year, not just what**
9 **was one peak hour in historical year.**
10 MR. JOHNSON: That's all the questions I
11 have. Thank you, Your Honor.
12 JUDGE FETCH: You're welcome. Mr.
13 Norrell, any further questions?
14 MR. NORRELL: Yes, Your Honor, just a
15 couple.
16 **RECROSS-EXAMINATION**
17 **BY MR. NORRELL:**
18 **Q.** Mr. Brockett, are you aware of any
19 utilities that are located in multiple
20 jurisdictions but use different methods -- cost
21 allocation methods in those different
22 jurisdictions?
23 **A. I haven't researched that so I don't know**
24 **if there are any.**
25 **Q.** Do you know if there are any jurisdictions

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1 where public utilities -- or utilities -- I
2 apologize -- that use 1 CP as an allocation method?
3 **A. Well, yes. I know Otter Tail uses the**
4 **1 CP method. I'm sure there's others as well.**
5 MR. NORRELL: Thank you. No further
6 questions, Your Honor.
7 JUDGE FETCH: All right. Thank you. Ms.
8 Jeffcoat-Sacco, any questions?
9 MS. JEFFCOAT-SACCO: Yes.
10 **RECROSS-EXAMINATION**
11 **BY MS. JEFFCOAT-SACCO:**
12 **Q.** You touched on this, but I don't think I
13 got the answer -- I mean, I wasn't hearing the
14 answer to the question that was in my head. What's
15 the magic of 12 as opposed to 4 or 6 or some other
16 number of coincident peaks?
17 **A. There's no magic or specific algorithm**
18 **that spits out specific numbers of months. I think**
19 **the reason why people gravitated towards these**
20 **different number of months is they either want to**
21 **look at peak hour during the year or they want to**
22 **look at a specific season, which suggests the use**
23 **of 3 CP or 4 CP, or they think loads in all months**
24 **are important, which means you use the 12 CP.**
25 **Now, in the NARUC Manual there's also**

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1 **another method where you just look at summer and**
 2 **winter loads, more the shorter seasons. That's**
 3 **another permutation, I guess.**

4 **Q.** We talked a lot about a utility not
 5 recovering a hundred percent of its costs if the
 6 jurisdictional allocation didn't add up to one, but
 7 it's also theoretically possible that it could add
 8 up to more than one; correct?

9 **A. Theoretical, yeah.**

10 **Q.** On your Schedule 2, which I've spent more
 11 time looking at now than I really cared to, and
 12 this just kind of came to Pat and I here in the
 13 last few minutes, but the projected -- a projected
 14 winter peak again for the North Dakota NSP system
 15 whereas the last several years have been summer
 16 peaking -- used to be winter peaking, then we have,
 17 I think, '10, '11, and '12 as summer peaking, but
 18 your 2013 projected is winter peaking again, which
 19 kind of surprised us. So why?

20 **A. That question would probably be best**
 21 **directed to another company witness. I did not**
 22 **prepare or develop those monthly peak loads.**

23 **Q.** Do you know which witness? Is it one that
 24 has not appeared yet?

25 **A. I think it would probably be Ms. Heuer.**

1 just being prepared for the magnitude of the peak?

2 If you're prepared for the magnitude, does it

3 matter so much when it happens?

4 **A. It can matter because when you plan, you**
 5 **have to look not only at the demand side of the**
 6 **equation but also the supply side, and so you have**
 7 **to look at your assumed forced outage rates and**
 8 **your planned maintenance and your diversity**
 9 **exchanges.**

10 **And I think -- and I'll take a simple**
 11 **example and I'm not sure this even holds for our**
 12 **system. But, you know, if you have an increase in**
 13 **January peak loads, for example, under some**
 14 **conditions maybe you have to back off a diversity**
 15 **exchange with Manitoba Hydro. That means you have**
 16 **less in the summer, and so that increase in the**
 17 **January load actually caused an increase in the**
 18 **amount of capacity you have to install.**

19 **And that's why I say things get pretty**
 20 **complicated, which is why I like to look at the**
 21 **LOLP, but I think if you just simply look at one**
 22 **hour of peak load and say, hey, that's what we're**
 23 **going to plan for, I think there's some danger in**
 24 **that.**

25 COMMISSIONER FEDORCHAK: Thank you, Scott.

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1 MS. JEFFCOAT-SACCO: That's all we have.
 2 Thank you.

3 JUDGE FETCH: Thank you. Commissioners,
 4 any further questions?

5 COMMISSIONER KALK: I have one, Your
 6 Honor.

7 COMMISSIONER FEDORCHAK: I do too.

8 JUDGE FETCH: All right. We'll begin with
 9 Commissioner Fedorchak and we've got two minutes.

10 **FURTHER EXAMINATION**

11 **BY COMMISSIONER FEDORCHAK:**

12 **Q.** Okay. So can you recover a hundred
 13 percent of your prudently incurred costs with the
 14 1 CP method?

15 **A. If all three -- or all jurisdictions used**
 16 **that method, yes, you could.**

17 **Q.** But, otherwise, you will not be able to?

18 **A. Anytime there's a difference in the**
 19 **allocation methods, you're either going to recover**
 20 **less or more than a hundred percent of your cost,**
 21 **and my belief is at an average it will be less.**

22 **Q.** Okay. And then you were just talking with
 23 Mr. Johnson about the not knowing when the peak is
 24 going to be, but in this -- when we're considering
 25 preparing for peak, does it matter as much when as

1 THE WITNESS: You're welcome.

2 JUDGE FETCH: Commissioner Kalk.

3 COMMISSIONER KALK: Thirty seconds, right,
 4 Your Honor?

5 JUDGE FETCH: Yes, sir.

6 **FURTHER EXAMINATION**

7 **BY COMMISSIONER KALK:**

8 **Q.** Did you just tell Illona that you think
 9 Otter Tail is a 1 CP, or are you sure Otter Tail is
 10 a 1 CP?

11 **A. The most recent order I read for North**
 12 **Dakota suggested Otter Tail used -- or the**
 13 **Commission approved a 1 CP method for Otter Tail in**
 14 **its last rate case.**

15 **Q.** Okay.

16 **A. That's just for North Dakota.**

17 **Q.** Right. That was a question that I've got
 18 staff already working on for tomorrow.

19 Do you have any reason why you would think
 20 that the Commission may have approved the 1 CP for
 21 Otter Tail -- how that would be a different
 22 scenario than for your case? My thought right
 23 away, they're a winter peaker. You're just trying
 24 to make the argument you're a winter peaker now.

25 **A. Well, I don't know. Part of the issue**

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1 with looking back at that North Dakota case is I

2 couldn't find any discussion of the issue.

3 COMMISSIONER KALK: It may have been a
4 settlement agreement issue that never came to the
5 Commission. I think for today I just wanted to
6 make sure I understood what you told our attorneys.

7 JUDGE FETCH: I think staff will be
8 working a little longer tonight.

9 All right. Commissioner Christmann.

10 COMMISSIONER CHRISTMANN: Well, we're out
11 of time, Your Honor, but that's okay because I
12 don't have any more questions.

13 JUDGE FETCH: Thank you, sir. Anything
14 further?

15 MR. JOHNSON: No, Your Honor.

16 JUDGE FETCH: Anything further over here?

17 MR. NORRELL: No, Your Honor.

18 MS. JEFFCOAT-SACCO: No. Thank you.

19 JUDGE FETCH: Thank you. You're excused.

20 THE WITNESS: Thank you.

21 JUDGE FETCH: And I saw some looks of
22 shock on the other side of the room. I think
23 they'll be doing a little research tonight as well.

24 So it is 8:01 p.m., Central Time, on
25 August 27th, 2013. We will stand in recess and we

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1 will reconvene tomorrow morning -- Commissioners,
2 what's your pleasure?

3 COMMISSIONER KALK: Don't we have nine
4 o'clock announced?

5 JUDGE FETCH: I'm not sure. Is nine
6 o'clock announced?

7 COMMISSIONER KALK: I'm okay with earlier,
8 but I suspect nine o'clock is what we go with.

9 JUDGE FETCH: Nine o'clock tomorrow
10 morning, August 28th, we will reconvene, and there
11 are five listed witnesses for the company. By my
12 calculations we should be done by noon with the
13 company's case. All right. Good night, everyone.

14 (Recessed at 8:02 p.m., August 27, 2013.)

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