

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 II

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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1 (The proceedings continued, commencing at  
2 9:04 a.m., Wednesday, the 28th day of August, 2013,  
3 as follows:)  
4 JUDGE FETCH: Good morning, everyone.  
5 Today is August 28th, 2013, and this is the second  
6 day of hearing in the matter of an application  
7 filed by Northern States Power Company (NSP) to  
8 increase its rates for electric utility service for  
9 the test year 2013. I'm not going to read the  
10 entire intro into the record because we already  
11 have that.  
12 Yesterday we heard from six of the  
13 company's witnesses and there are five listed  
14 witnesses remaining, and who's taking it this  
15 morning? Mr. Johnson?  
16 MR. JOHNSON: Yes, Your Honor.  
17 JUDGE FETCH: Okay. Mr. Johnson, are you  
18 going to be presenting Ann Bulkley, Steve Wishart,  
19 Anne Heuer, Michael Peppin, and Steven Huso this  
20 morning?  
21 MR. JOHNSON: Your Honor, we're going to  
22 do another handoff today. I will do Ann Bulkley,  
23 Kari Valley will do Steve Wishart, then I will do  
24 Anne Heuer, and Kari Valley will finish the last  
25 two witnesses.

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1 JUDGE FETCH: All right. Thank you. Make  
2 a note here.  
3 Counsel, at the end of the evening last  
4 night, did you have a chance to look at or gain  
5 some documents that you want to present today  
6 before we get going with the next witnesses?  
7 MR. JOHNSON: Your Honor, I was unable to  
8 get clean copies of the orders that Scott Brockett  
9 was talking about. Mine just have too many pencil  
10 notes to be usable. I believe Commission counsel  
11 can get those. We do have a 1987 order which I  
12 believe was also referred to, talking about the  
13 12 CP, and we can certainly make that available to  
14 everyone, I believe, and then that could just be  
15 distributed rather than marked as an exhibit, if  
16 that's acceptable to you.  
17 JUDGE FETCH: Ms. Jeffcoat-Sacco.  
18 MS. JEFFCOAT-SACCO: Yeah, that's  
19 certainly acceptable, and sometime today we will  
20 have those other orders retrieved.  
21 JUDGE FETCH: Okay. Then before we begin  
22 with the first witness, are there any preliminary  
23 matters, Mr. Johnson?  
24 MR. JOHNSON: None that I'm aware of, Your  
25 Honor.

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1 JUDGE FETCH: Mr. Norrell?  
2 MR. NORRELL: None that I'm aware of, Your  
3 Honor.  
4 JUDGE FETCH: Ms. Jeffcoat-Sacco?  
5 MS. JEFFCOAT-SACCO: None.  
6 JUDGE FETCH: We're ready to roll then.  
7 I'm going to -- I see at least one new face today,  
8 and so I'm going to just repeat some instructions  
9 from yesterday.  
10 All witness testimony at this hearing is  
11 taken under oath and is subject to penalties for  
12 perjury, and by law I'm required to inform  
13 witnesses as to those penalties. Perjury is any  
14 material misstatement of fact. In North Dakota it  
15 is a Class C felony, punishable by a maximum fine  
16 of \$5,000, a maximum five years in prison, or both.  
17 All right. With that, Mr. Johnson, please  
18 call your witness.  
19 MR. JOHNSON: Thank you, Your Honor. NSP  
20 calls Ann Bulkley.  
21 JUDGE FETCH: Ms. Bulkley, please come  
22 forward.  
23 And, Ms. Paulson, you're handing out the  
24 witness statement, I believe.  
25 MS. PAULSON: I am.

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1 JUDGE FETCH: Ms. Bulkley, please raise  
2 your right hand.  
3 (Witness sworn.)  
4 JUDGE FETCH: Thank you. Please speak up  
5 nice and loudly. Is that microphone in front of  
6 you on? The button, when you push it, it should  
7 light up.  
8 THE WITNESS: It's blue, yes.  
9 JUDGE FETCH: Okay. All right. Mr.  
10 Johnson, proceed.  
11 MR. JOHNSON: Thank you, Your Honor. I  
12 believe in addition to the witness statement, there  
13 is one replacement page, for lack of a better word,  
14 for one of the pages in Ms. Bulkley's rebuttal  
15 testimony. The change will be marked in a red  
16 line. It is the change only to a footnote. There  
17 was an erroneous footnote, and having her read the  
18 entire thing into the record seemed more trouble  
19 than good, so we will have that replacement page  
20 for you in a moment. Should we wait for that to be  
21 passed out, Your Honor?  
22 JUDGE FETCH: No. She can proceed with  
23 her witness statement.  
24 MR. JOHNSON: Fair enough.  
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1                   **ANN E. BULKLEY,**  
 2 being first duly sworn, was examined and testified  
 3 as follows:  
 4                   **DIRECT EXAMINATION**  
 5 **BY MR. JOHNSON:**  
 6       **Q.** Ms. Bulkley, you have in front of you  
 7 what's been marked as Exhibits NSP 14 and 15. Do  
 8 you have any corrections to make to either of  
 9 those?  
 10       **A.** I do have two small corrections to make to  
 11 Exhibit 15, which would be my rebuttal testimony.  
 12       **Q.** Okay.  
 13       **A.** On page 62 -- is this picking up? I'll  
 14 try closer. On page 62 --  
 15       **Q.** That's better.  
 16       **A.** -- line 21, I reference Schedule 9, which  
 17 should actually be a Schedule 6 reference. And  
 18 then on page 64, also at line 21, in the parens,  
 19 there is a number 0.71 percent. It should be 0.31  
 20 percent.  
 21               JUDGE FETCH: Did everyone get that?  
 22       **Q.** (MR. JOHNSON CONTINUING) And, Ms.  
 23 Bulkley, is there also a substitution or a footnote  
 24 to be added or corrected on page 39?  
 25       **A.** Yes.

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1               MR. JOHNSON: And I believe that has been  
 2 passed out to everyone. Your Honor, did you get a  
 3 copy?  
 4               JUDGE FETCH: I did.  
 5               MR. JOHNSON: Thank you.  
 6               THE WITNESS: Yes, that was footnote 47.  
 7       **Q.** (MR. JOHNSON CONTINUING) Ms. Bulkley, do  
 8 you have an opening statement?  
 9       **A.** I do.  
 10       **Q.** Could you please provide that?  
 11       **A.** Good morning. My name is Ann Bulkley.  
 12               In my rebuttal testimony I demonstrate  
 13 that the range for the cost of equity for NSP's  
 14 North Dakota operations is between 10 percent and  
 15 10.5 percent. Within that range, I conclude that  
 16 an ROE of 10.25 percent is reasonable, if not  
 17 conservative.  
 18               The cost of equity is based on the return  
 19 that investors require to make an investment, which  
 20 depends on what investors can earn from comparable  
 21 alternative investments. As this Commission has  
 22 recognized in prior decisions, the determination of  
 23 the ROE is not simply a mathematical exercise.  
 24 Rather, other factors that investors would consider  
 25 in establishing their return requirements should

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1 also be taken into consideration. Therefore, while  
 2 I have applied well-accepted ROE estimation  
 3 methodologies, using widely available indicators of  
 4 investors' expectations, my recommendation also  
 5 takes into consideration several other factors.  
 6 Those factors include current market conditions,  
 7 authorized ROEs available to investors for other  
 8 vertically integrated electric companies in other  
 9 jurisdictions, the Commission's history of  
 10 moderation in adjusting ROEs, and the significance  
 11 of the company's extensive capital investment plan.  
 12               There is currently a great amount of  
 13 uncertainty in the equity markets related to when  
 14 the Federal Reserve will begin to reduce its  
 15 purchases of long-term treasury bonds. The result  
 16 of that anticipated change in federal policy has  
 17 been an increase in the yields on treasury bonds  
 18 and a decline in stock market indices in general,  
 19 and in the utility sector in particular. I believe  
 20 it is important to consider this rising interest  
 21 rate environmental in determining the appropriate  
 22 ROE for NSP from within the range of results  
 23 established using traditional ROE estimation  
 24 models.  
 25               My recommended ROE of 10.25 percent is

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1 consistent with recently authorized ROEs for other  
 2 vertically integrated electric utilities. My  
 3 testimony shows that ROEs available from other  
 4 jurisdictions support my analysis and  
 5 recommendation and show that Mr. King's  
 6 recommendation of 9 percent is below all but one  
 7 authorized ROE for vertically integrated electric  
 8 utilities since January 2012. That single 9  
 9 percent ROE that was recently authorized was  
 10 reduced in a settlement context based on the  
 11 particular facts in that case.  
 12               In contrast to Mr. King's 9 percent  
 13 suggested ROE, my proposed 10.25 percent ROE is  
 14 also consistent with the moderate approach  
 15 demonstrated by the Commission over several recent  
 16 decisions. While interest rates have declined, the  
 17 Commission has reduced ROEs, and those changes have  
 18 been gradual and moderate. That measured approach  
 19 to regulation has been noted by industry analysts  
 20 as constructive regulation and is consistent with  
 21 the fair return standard.  
 22               Finally, I explain the significance of the  
 23 ROE to the company's ability to continue to access  
 24 capital markets on favorable terms, which will have  
 25 long-run effects on the cost of capital and the

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1 **corresponding costs of service and rates. Awarding**  
 2 **a very low authorized ROE sends a signal to**  
 3 **investors that the regulatory environment in that**  
 4 **jurisdiction is less constructive than other**  
 5 **jurisdictions and as a result an investment in**  
 6 **other jurisdictions with more constructive**  
 7 **regulation could be more desirable.**  
 8 **I appreciate the opportunity to appear**  
 9 **before the Commission and I look forward to**  
 10 **answering your questions regarding my analysis and**  
 11 **testimony. Thank you.**  
 12 JUDGE FETCH: Thank you, Ms. Bulkley. For  
 13 the record, your witness statement is admitted as  
 14 Exhibit NSP 29 as stipulated. Thank you.  
 15 MR. JOHNSON: Thank you, Your Honor. Ms.  
 16 Bulkley is available for cross-examination.  
 17 JUDGE FETCH: Thank you. Mr. Norrell.  
 18 MR. NORRELL: Thank you, Judge.  
 19 **CROSS-EXAMINATION**  
 20 **BY MR. NORRELL:**  
 21 **Q.** Good morning, Ms. Bulkley.  
 22 **A.** Good morning.  
 23 **Q.** Do you think that return on equity, or  
 24 ROE, or overall rate of return and capital  
 25 structures are some of the more contentious issues

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1 in rate cases?  
 2 **A.** It's an issue that comes up often.  
 3 **Q.** Why is that?  
 4 **A.** Just as many other factors in the case, it  
 5 typically has an effect on the revenue requirement,  
 6 so it comes up as many other items in the revenue  
 7 requirement come up.  
 8 **Q.** What models are used to make ROE  
 9 recommendations?  
 10 **A.** What are the traditional ROE estimation  
 11 models?  
 12 **Q.** Yes.  
 13 **A.** Typically the models that we use in  
 14 testimony are in the discounted cash flow model,  
 15 the capital asset pricing model, a bond yield risk  
 16 premium -- traditionally the models that are  
 17 considered.  
 18 **Q.** Do you have a preference for a particular  
 19 model?  
 20 **A.** I don't. I generally like to use all of  
 21 the models and then look at the models and all of  
 22 the other information that investors would consider  
 23 and take all of that information into  
 24 consideration, not necessarily a particular model.  
 25 **Q.** Thank you. On page 4 of your rebuttal

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1 argument -- or testimony -- I apologize -- you make  
 2 the statement that it is important to take into  
 3 account the likelihood that borrowing costs will  
 4 increase rather significantly in the near to  
 5 immediate term during which the ROE set in this  
 6 case might be in effect. Given that NSP has been  
 7 filing for rate increases annually, how long do you  
 8 expect the rate of return determined in this case  
 9 to be in effect?  
 10 **A.** That's not a piece of information that I  
 11 have in terms of when the company will file their  
 12 next case. I can tell you that interest rates are  
 13 rising very quickly. Even since the filing of my  
 14 rebuttal testimony, interest rates have increased  
 15 quite considerably. In the month of August there's  
 16 been a significant run-up in interest rates. And,  
 17 in fact, many of the analysts have revised their  
 18 expectations for interest rates to be higher in the  
 19 shorter term. For example, I was reading an  
 20 article on Monday and a Barclays analyst had  
 21 changed their projection for interest rates, I  
 22 believe it was a 10-year treasury bond for 2014 --  
 23 mid-2014, and their initial expectation was 3.1  
 24 percent, and they had revised that expectation up  
 25 to 3.75. So the expectation is that the interest

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1 rates are going to rise and they're going to rise  
 2 in the short term.  
 3 **Q.** What's your definition of "short term" for  
 4 just a chronological?  
 5 **A.** You know, in the next year. That  
 6 particular example was -- you know, the Barclays  
 7 analysis, their expectation was mid-2014, so that's  
 8 slightly less than a year from now.  
 9 **Q.** I had asked Ms. McCarten this question  
 10 yesterday and she had said that you may be able to  
 11 offer some insight. The company's position  
 12 obviously is that it deserves a higher ROE because  
 13 of the current investment cycle that the company is  
 14 also involved in. The question was, when this  
 15 investment cycle ends, would it be appropriate to  
 16 seek a lower return?  
 17 **A.** The ROE is typically estimated based on  
 18 the market conditions at that time, so one of the  
 19 factors that we -- we look at all of the ROE  
 20 estimation models, which are populated by market  
 21 data, and so you would need to look at all of the  
 22 results of those models as well as the particular  
 23 risks associated with the situation at that time.  
 24 **If you were to hold all of those things**  
 25 **equal today and not have a capital investment plan**

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1 that's as sizable as the company's, it's entirely  
2 possible that there would be a return that would be  
3 expected that would be, you know, not as high all  
4 else equal, but you have to look at the situation  
5 at the time, so to be able to say today, you know,  
6 an ROE a year from now, two years from now without  
7 the risk of capital investment would be higher or  
8 lower is just something that I wouldn't be able to  
9 tell you.

10 Q. Sure. On page 11 of your rebuttal  
11 testimony there's a table there.

12 A. Chart 1?

13 Q. Yes.

14 A. Yes.

15 Q. I apologize. Yes, Chart 1. Could you  
16 describe for us briefly what this chart shows?

17 A. It's basically just a histogram of  
18 authorized returns from January 2012 through July  
19 2013 for vertically integrated electric utilities.  
20 The source of the data is Regulatory Research  
21 Associates, which is a very commonly used database  
22 of returns. I do believe that the caveat to their  
23 data is that there's a certain threshold that they  
24 track, so not every single rate case is necessarily  
25 covered, and I forget what their threshold is that

1 data sets are fairly small to begin with that  
2 you're working with, so to build a histogram, we  
3 try to get a data set that's a reasonable  
4 magnitude.

5 Q. Have you been tracking recent rate cases  
6 at all to see what the ROEs in those have been in  
7 the past six months, say?

8 A. Oh, sure.

9 Q. Would it be fair to state that those ROEs  
10 are lower than what this chart would indicate the  
11 majority returns are?

12 A. I don't know if I can say that the  
13 majority are. I don't have that information  
14 specifically for integrated electric utilities at  
15 my fingertips. I'm just looking to see if I have  
16 anything here. I do know -- and I don't have it.  
17 I'm sorry.

18 Q. How about the fact that the company is now  
19 willing to support a lower ROE than the initial  
20 proposal, would that indicate a downward trend in  
21 ROEs -- authorized ROEs?

22 A. I don't know if that necessarily indicates  
23 a trend. As I said, I do look at all of the ROE  
24 estimation models as well as the other particular  
25 risks in the market conditions. Certainly the

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1 they track, but they do track the vast majority of  
2 rate cases.

3 Q. So this doesn't include all rate cases  
4 then?

5 A. This would not include -- well, the chart  
6 specifically does not include TND companies. It's  
7 vertically integrated companies. So the subset of  
8 the data that I relied on is vertically integrated  
9 electric utilities, which, I believe, Mr. King and  
10 I agreed, is probably the appropriate proxy group  
11 to be using in this case. And then there are some  
12 rate cases that they have not followed that are  
13 considerably smaller. They don't purport to have  
14 every single case in their database, but they are a  
15 well-accepted database.

16 Q. This chart indicates that the highest  
17 number of decisions authorized returns in the 10  
18 and a quarter to 10.49 percent range; is that  
19 correct?

20 A. That's correct.

21 Q. Do you know what this chart would look  
22 like if it only included decisions from January  
23 2013 to July 2013?

24 A. No, I didn't do that analysis, and the  
25 reason is that the data set is -- you know, the

1 results of the models are -- do produce lower  
2 results than when I filed my direct testimony, and  
3 I did consider that in the recommendation.

4 Q. This chart, by my count, shows  
5 approximately 19 cases above the 10 and a quarter  
6 percent range, that would be -- looks to be 16 in  
7 the 10 and a quarter to 10.49 and then it looks  
8 like another three from 10 and a half to 10 and  
9 three-quarters, but there appear to be 31 cases  
10 that are lower than the ROE that you're advocating;  
11 is that correct?

12 A. Subject to check, I'll accept your 31.  
13 There are several cases that are within that range.

14 Q. So the majority of cases would be lower  
15 than the ROE sought in this case; is that correct?

16 A. Based on this histogram, yes. As I said  
17 to you as we were starting this discussion, one of  
18 the major factors that has changed quite  
19 considerably has been rising interest rates. So if  
20 you were to look at how interest rates have changed  
21 since January 2012 and today, interest rates had  
22 been falling over time. We are now seeing a  
23 situation where we're on the other side of that.  
24 Interest rates have been increasing pretty  
25 significantly since May and certainly even since

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1 the filing of my direct testimony.

2 So when I filed my direct testimony, the

3 30-year treasury bond -- the yield on the 30-year

4 treasury bond was 2.81, and in my rebuttal

5 testimony it was 3.46. I happen to note August

6 16th, which is a spot close, was 3.67. That's an

7 individual day. We don't typically use individual

8 days in our analysis, but just to give you sort of

9 an indicator of where things were going, in August

10 it has been climbing.

11 So while I do recognize that there are

12 some returns here that are lower, I do believe that

13 the market situation that we're looking at right

14 now does indicate interest rates are going to be

15 rising. It's something that we've been expecting

16 for a while. Certainly keeping them at as low as

17 they have been due to federal intervention was not

18 a long-term sustainable situation and we're seeing

19 the increase.

20 Q. Sure. On page of 12 of your rebuttal

21 testimony you were asked, "Does an extremely low

22 authorized ROE provide financial incentives to a

23 utility to file another rate case?" What was your

24 answer to that question?

25 A. The answer to that question -- do you want

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1 me to read it back to you?

2 Q. Sure.

3 A. Answer to that question is, "Yes.

4 Investors expect utility management to take

5 appropriate action to obtain a reasonable return.

6 Accordingly, an extremely low authorized ROE could

7 provide a strong incentive to promptly reapply for

8 a rate increase and a reasonable return. The

9 incentive to refile is made stronger by the

10 company's history of low actual earnings in North

11 Dakota, as shown on Exhibit AEB-2, Schedule 15,

12 which is based on the company's annual reports to

13 the Commission."

14 Q. Has the award of a return of 10.4 percent

15 in the last case, has that discouraged the company

16 from filing rate cases?

17 A. You know, I'm not involved in their

18 planning sessions. I can't really tell you what

19 has caused them to file a case or not recently. I

20 can tell you that, you know, investors do look at

21 earned ROEs as well as authorized ROEs in their

22 analysis of the company and that in particular

23 earned returns are coming under closer scrutiny at

24 this point.

25 Q. Moving on to page 14, you make the

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1 statement, "An authorized ROE of 9 percent, as

2 proposed by Mr. King, is not sufficient based on

3 current market conditions and the returns on

4 alternative investments of comparable risk." Aside

5 from your references in your testimony to other

6 commissions' decisions, do you have any objective

7 quantifiable demonstration of that to support that

8 statement?

9 A. I think I did reference the viewpoint of

10 several analysts. Certainly when -- in the South

11 Dakota case, which I referenced in my testimony,

12 the 9 and a quarter percent return that was

13 authorized in South Dakota did cause analysts to

14 lower their overall regulatory ranking of the South

15 Dakota Commission. Similarly, I have an article

16 from J.P. Morgan, after the return in Minnesota

17 that was downgrading Xcel Energy to an underweight

18 status from a neutral rating related to that.

19 Q. When was that article written?

20 A. This article was written on August 20th,

21 this year.

22 Q. And so is that the most recent rate case

23 in Minnesota that it references?

24 A. Yes, I believe that is the most recent

25 rate case.

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1 Q. What was the return on equity there, the

2 ROE on that one?

3 A. Return on that case was 9.83 percent, I

4 believe. Yeah, and that resulted in a downgrade.

5 MR. NORRELL: Your Honor, I would move

6 that the document the witness is holding be

7 admitted as a late-filed exhibit just so it's

8 available to all parties.

9 JUDGE FETCH: Any objection, Mr. Johnson?

10 MR. JOHNSON: No objection, Your Honor.

11 JUDGE FETCH: All right. That will be

12 Exhibit F, a late -- does it need to be late filed?

13 She's got it right here, Mr. Norrell.

14 MR. NORRELL: I suppose not.

15 JUDGE FETCH: Do you have another copy?

16 THE WITNESS: I don't, but I'm sure we

17 could make one.

18 JUDGE FETCH: All right.

19 MR. JOHNSON: We have copies, Your Honor.

20 JUDGE FETCH: All right. We'll just label

21 that Exhibit F and enter that into the record.

22 MR. NORRELL: Thank you, Your Honor.

23 Thank you, Ms. Bulkley.

24 THE WITNESS: Sure.

25 Q. (MR. NORRELL CONTINUING) See if I can

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1 figure out where I was again now. I apologize.

2 **A. Sure.**

3 **Q.** On pages 8 and 9 of your rebuttal

4 testimony you list the virtues, if you will, of

5 your return recommendation. The last of these

6 bullet points here on page 9 states, it balances

7 shareholder and ratepayer interests. I read a lot

8 about the shareholder interests in your testimony.

9 Where do you mention the ratepayer interests in

10 your testimony?

11 **A. I don't know that I've explicitly**

12 **discussed that. I'm happy to talk to you about it.**

13 **Q.** Could you please define those or describe

14 what those ratepayer interests would be?

15 **A. Sure. I do think that there is a benefit**

16 **to ratepayers over the long term of the company**

17 **being financially sound and having a reasonable**

18 **return that it allows them to attract capital,**

19 **especially at a time when they are in the process**

20 **of a very large capital investment plan.**

21 **One of the factors, as I've talked about,**

22 **when a return is below what is sort of typically**

23 **expected by investors is that it causes investors**

24 **to lose confidence in the regulatory jurisdiction.**

25 **That has long-term effects for a company on its**

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1 **ability to attract capital. One of those ways is**

2 **on the credit side companies like Moody's and S&P**

3 **rate utilities. One of the factors that they**

4 **consider in those ratings is a regulatory -- the**

5 **regulatory relationship and the constructiveness of**

6 **that relationship. Moody's rates that fairly**

7 **heavily, so to the extent that that rating were to**

8 **slip, that could have implications on the cost**

9 **of -- on their credit ratings and their cost of**

10 **attracting capital on the debt side.**

11 **On the equity side certainly in the short**

12 **term a lower return does mean a lower cost to**

13 **customers in the short term, but investors --**

14 **again, as I've pointed out in the J.P. Morgan**

15 **article, investors note that and note that those**

16 **jurisdictions have higher risk, and higher risk**

17 **typically does mean higher return in the long term.**

18 **So the long term for customers could potentially be**

19 **higher costs.**

20 **Q.** On page 17 of your rebuttal you state that

21 you disagree with Mr. King's conclusion that low

22 interest rates imply a correspondingly low cost of

23 equity for electric utilities such as the company.

24 Is that correct?

25 **A. I'd just like you to provide the reference**

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1 **for me.**

2 **Q.** It would be line 10 and 11 and 12.

3 **A. Yeah, I see that.**

4 **Q.** Then on the next page -- let me get the

5 reference here for you -- line 3, 4, 5, it states,

6 "This change in federal reserve policy would

7 represent a significant risk for dividend paying

8 stocks such as electric and gas utilities, as

9 interest rates on government and corporate bonds

10 becomes more competitive with dividend yields."

11 What change in reserve policy would that be?

12 **A. That would be the change in the Federal**

13 **Reserve's quantitative easing program, which is**

14 **that they have been purchasing long-term treasury**

15 **bonds.**

16 **Q.** And does that mean interest rates are

17 going to increase or decrease?

18 **A. As I mentioned earlier, that's going to be**

19 **the cause of rising interest rates.**

20 **Q.** So why would an increase in interest rates

21 increase the required rate of return on NSP's

22 equity when, according to your testimony earlier,

23 reductions in interest rates do not reduce the cost

24 of their equity?

25 **A. I do think you need to look at the entire**

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1 **market situation. So in the last recessionary**

2 **period we have had low interest rates but**

3 **extraordinary volatility that also presents some**

4 **significant risk, so I don't think it's necessarily**

5 **a one-to-one relationship. I think you do need to**

6 **look at the entire market. When interest rates --**

7 **the Federal Reserve entered into their first**

8 **quantitative easing program, you had a very**

9 **unstable market condition, and I wouldn't**

10 **necessarily say that that was a lower cost of**

11 **capital environment either. So I do think there**

12 **are other factors. I don't think you can just look**

13 **at the interest rate, which was my point there.**

14 **Q.** Could you go to Chart 3 on page 20 of your

15 rebuttal testimony?

16 **A. Yes.**

17 **Q.** This chart compares price changes of

18 utility stocks and S&P 500 on the left scale with

19 interest rates on the 30-year treasury bonds on the

20 right scale. Are the gradations the same between

21 the two scales?

22 **A. No.**

23 **Q.** The gradations on the right are actually

24 much more refined than the ones on the left; is

25 that correct?

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1 **A. That's correct.**  
 2 **Q.** Might this difference in the two scales  
 3 lead one to exaggerate the effect of treasury  
 4 interest rates on stock prices?  
 5 **A. I think the trajectory of the two are**  
 6 **pretty clear regardless of the scale. So the**  
 7 **30-year treasury bond is clearly climbing at the**  
 8 **same time that the utility index was clearly**  
 9 **falling. In fact, they cross the axes, so if you**  
 10 **look at the line that I included on the chart,**  
 11 **there's clearly a change in the relationship**  
 12 **between the two indices. Starting in January 2013,**  
 13 **we had the treasury bonds considerably higher than**  
 14 **the utility index. That inverted in March. And**  
 15 **since -- I'm just trying to find the low point**  
 16 **here. Since early May 2013 the treasury bonds have**  
 17 **been increasing clearly regardless of scale.**  
 18 **Q.** Is the -- the left scale, is that the S&P  
 19 utility and the 500 stock index or is that the  
 20 change in those indices?  
 21 **A. The left scale is the change -- the**  
 22 **percent change in stock price.**  
 23 **Q.** Does the change continue to be positive  
 24 overall throughout this period?  
 25 **A. Yes. It is above the zero line.**

1 **that model, considering three specific stages,**  
 2 **stage 1 is years one through five, stage 2 is years**  
 3 **six through ten, and then stage 3 is years 11**  
 4 **through 200, and that model then discounts back**  
 5 **those growth -- that growth over a period of time,**  
 6 **so it considers the time value of money.**  
 7 **I do think that the difference between --**  
 8 **as I understand it, the difference between my model**  
 9 **and Mr. King's model is that Mr. King's model is a**  
 10 **constant growth model that blends three growth**  
 11 **rates that considers that growth rate in**  
 12 **perpetuity. So I do believe there are differences**  
 13 **in the models.**  
 14 **Q.** How familiar are you with Otter Tail Power  
 15 Corporation -- Otter Tail Corporation?  
 16 **A. I'm reasonably familiar.**  
 17 **Q.** On page 30 you included them in part of  
 18 your proxy group.  
 19 **A. I'm sorry. Which testimony are you**  
 20 **referring to?**  
 21 **Q.** I'm sorry. Rebuttal testimony. I  
 22 apologize.  
 23 **A. Okay. Thank you. Are you focused on the**  
 24 **table?**  
 25 **Q.** Yes.

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413

1 **Q.** On page 26 of your testimony and again on  
 2 page 28 you indicate that the multistage DCF model  
 3 by Mr. King be disregarded. Is that correct?  
 4 **A. That is correct.**  
 5 **Q.** Could you turn to page 18 of your initial  
 6 direct testimony?  
 7 **A. I'm there.**  
 8 **Q.** Did you also prepare a multistage model?  
 9 **A. Yes, I did.**  
 10 **Q.** Does this also have three stages?  
 11 **A. My model actually does have three stages.**  
 12 **I don't believe that Mr. King's model has three**  
 13 **stages in the same way that my model does.**  
 14 **Q.** Does your first stage consist of dividend  
 15 increases during the first five years as Mr.  
 16 King's?  
 17 **A. So the differences between my model and**  
 18 **Mr. King's is that my model actually does consider**  
 19 **the time value of money in the multistage model,**  
 20 **and so there is a stage 1 that actually considers**  
 21 **the growth in dividends based on -- growth in**  
 22 **dividends based on earnings, growth rates for five**  
 23 **years, transitioning to, in the second stage, a**  
 24 **transition period leading to long-term GDP growth.**  
 25 **That is calculated out over a 200-year period --**

1 **A. Okay.**  
 2 **Q.** And you kept Otter Tail in whereas Mr.  
 3 King did not; is that correct?  
 4 **A. That is correct.**  
 5 **Q.** Would you agree that 40 percent of Otter  
 6 Tail's revenue is from nonregulated activities --  
 7 I'm sorry -- 60 percent of Otter Tail's revenue  
 8 would be from nonregulated activities?  
 9 **A. I don't have that data actually. I rely**  
 10 **on operating income. I think as I've mentioned in**  
 11 **my rebuttal testimony too, if you look at Otter**  
 12 **Tail's investor presentations, they're clearly**  
 13 **focused on their electric utility operations.**  
 14 **Q.** Moving on a little further in your  
 15 testimony to page 33, you state that you disagree  
 16 with Mr. King's use of Value Line's next year's  
 17 forecasted dividends in his dividend yield  
 18 calculation; is that correct?  
 19 **A. Yes.**  
 20 **Q.** What is -- could you just describe for the  
 21 Commission briefly, as Ms. Jeffcoat mentioned  
 22 yesterday at a fourth-grade level, what Value Line  
 23 is?  
 24 **A. Value Line is a publication that tracks**  
 25 **all different industries. I'm not even sure how**

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1 many. In particular, we rely on Value Line for  
 2 electric utility and gas utility companies'  
 3 financial -- they're basically a financial  
 4 analyst -- a single financial analyst for each  
 5 company that tracks all of the historical and mixed  
 6 projections of the growth of the individual  
 7 company.

8 Q. You mention on page 33 that using Value  
 9 Line forecasts of next year's dividends violates  
 10 the assumption of the DCF formulation, which are  
 11 that dividends earnings and book value all increase  
 12 at the same rate; is that your -- is that correct?

13 A. Can you provide the reference for me?

14 Q. Line 8 and 9, I believe it is.

15 A. No, I don't believe that that's what that  
 16 line says. If you're referring to the sentence  
 17 that starts in line 8, the sentence reads, "Mr.  
 18 King's dividend yield calculation violates these  
 19 assumptions by including dividend payments that are  
 20 the same in the future period as in the current  
 21 period even though these earnings are expected to  
 22 increase." So the constant growth DCF model  
 23 assumes constant growth in perpetuity, and holding  
 24 the dividend yield constant in two periods violates  
 25 that assumption.

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1 MR. NORRELL: Can I ask for just a minute,  
 2 please?

3 JUDGE FETCH: That's fine, Mr. Norrell.

4 MR. NORRELL: Can I please approach the  
 5 witness stand with a potential exhibit?

6 JUDGE FETCH: You may. Can you identify  
 7 what you've passed out, Mr. Norrell?

8 MR. NORRELL: What I've passed out is a  
 9 Value Line report for Empire City Electric Company.

10 JUDGE FETCH: All right. Mr. Johnson, you  
 11 have the document in front of you.

12 MR. JOHNSON: No objections, Your Honor.

13 JUDGE FETCH: All right. This will be PSC  
 14 Exhibit 13, and I will admit that into the record.

15 Mr. Norrell, please proceed.

16 MR. NORRELL: Thank you.

17 Q. (MR. NORRELL CONTINUING) Would you please  
 18 focus on the dividend-per-share line?

19 A. I see that.

20 MR. JOHNSON: Your Honor.

21 JUDGE FETCH: Yes, Mr. Johnson.

22 MR. JOHNSON: Could Mr. Norrell help the  
 23 rest of us find the dividend-per-share line?

24 JUDGE FETCH: Thank you. I'm looking  
 25 myself.

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1 MR. NORRELL: On the left-hand side at the  
 2 top it says top Value Line, go through the graph,  
 3 there's a copyright Value Line Publication. It  
 4 would be the one, two, three -- fourth line beneath  
 5 that, dividend declared per share; is that correct?

6 JUDGE FETCH: Did you mean on the right  
 7 side?

8 MR. NORRELL: I'm sorry. The right side,  
 9 yes.

10 JUDGE FETCH: Okay. The right side, and  
 11 walk us through that again, please.

12 MR. NORRELL: Beneath the graph it says  
 13 Value Line Publication LLC, there's a copyright  
 14 symbol there, and one, two, three -- fourth line  
 15 beneath that.

16 JUDGE FETCH: Does everyone have that?

17 THE WITNESS: Yes.

18 JUDGE FETCH: Thank you. Proceed.

19 Q. (MR. NORRELL CONTINUING) What was Empire  
 20 City's dividend in 2012?

21 A. One dollar.

22 Q. How about in 2013, what's the forecast?

23 A. Value Line is forecasting it to be one  
 24 dollar.

25 Q. Do you think those forecasts are wrong

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1 then?

2 A. I have no way of knowing whether it's  
 3 wrong. It is their forecast.

4 Q. You mentioned earlier that holding the  
 5 value steady for two periods, I believe it was, was  
 6 incorrect or violated --

7 A. In the constant growth model the  
 8 assumption of the model is that dividends -- that  
 9 it is growth in perpetuity. So that is the benefit  
 10 of the multistage model that I have also relied on,  
 11 is that you can actually use the multistage model  
 12 to create differentiation between growth rates over  
 13 time, which is sort of a nice feature in that  
 14 model, that you could look at a growth rate for the  
 15 first five years and then change that growth rate  
 16 over time to a long-term growth, which we have done  
 17 and used GDP as the long-term estimate of growth.  
 18 It's the benefit of that model versus the constant  
 19 growth application.

20 Q. Does Value Line use the constant growth?

21 A. Value Line isn't doing a discounted cash  
 22 flow here. They're just reporting dividend --  
 23 projected dividend growth.

24 Q. On page 39 of your rebuttal testimony, you  
 25 take issue with Mr. King's long-term GDP growth

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1 rate. The question begins at line 9.

2 **A. Yes.**

3 **Q.** Where did Mr. King get his numbers for the

4 analysis of the GDP rate?

5 **A. I'm sorry. Could you say your question**

6 **again? I didn't hear it entirely.**

7 **Q.** Did Mr. King, himself, conduct an

8 independent analysis of the future rate of GDP

9 growth?

10 **A. No. My understanding is that he used the**

11 **SSA.**

12 **Q.** So then is your argument more with the SSA

13 or the Congressional Budget Office, he also

14 mentions here? I think that's --

15 **A. It's the use of those estimates of growth**

16 **in this context.**

17 **Q.** How so? Could you please clarify or

18 specify on that?

19 **A. Right. I think I've actually discussed it**

20 **at pretty good length here in the testimony that**

21 **the concern with using -- and this is actually --**

22 **the response that you're referring to here is**

23 **actually the American Academy of Actuaries'**

24 **assessment of the SSA growth rate. I personally**

25 **have not done an analysis of the SSA growth in GDP,**

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1 **so this is done by the American Academy of**

2 **Actuaries. And as noted on line 17, the American**

3 **Academy of Actuaries states that the SSA trustees**

4 **do not make -- this is a quote actually from that**

5 **report -- do not make an assumption regarding the**

6 **growth of GDP. Rather, the trustees arrive at**

7 **their estimate of GDP growth indirectly by**

8 **estimating growth in the labor force and growth in**

9 **productivity.**

10 **Q.** So the Social Security Administration

11 would be wrong in predicting that GDP will grow

12 more slowly in the future than it has in the past?

13 **A. Can you ask your question again? I**

14 **didn't --**

15 **Q.** Would -- in your opinion or in the AAA

16 opinion, would the Social Security Administration

17 be wrong in predicting that GDP will grow more

18 slowly in the future?

19 **A. The AAA report indicates that there are**

20 **observers who question whether or not the basis for**

21 **those -- the assumptions to the SSA model are**

22 **appropriate.**

23 **Q.** So the assumptions are appropriate?

24 **A. They have questions as to whether or not**

25 **those are appropriate. If you look at page 40,**

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1 **actually that's discussed as well.**

2 **Q.** On page 41 of your rebuttal testimony,

3 could you describe, what is an implied yield?

4 **A. I'm sorry. Can you direct me to the**

5 **location of that statement?**

6 **Q.** I guess there would be the utilities'

7 implied return.

8 **A. That is part of the quantitative profiles**

9 **report produced by the Bank of America, Merrill**

10 **Lynch. That's their implied return estimate.**

11 **Q.** How was that calculated?

12 **A. It is calculated using a dividend discount**

13 **model similar to the multistage model. I don't**

14 **have all of the assumptions of it. But it does use**

15 **a dividend discount model.**

16 **Q.** What are the utilities' implied returns in

17 the three months that you show here?

18 **A. For all utilities, so this is not electric**

19 **specific, so all utilities range in February**

20 **through April 9.7, 9.6, and 9.5. That would**

21 **include gas utilities, transmission and**

22 **distribution utilities, as well as vertically**

23 **integrated electric utilities. I'm not sure**

24 **exactly of the weighting of any of those.**

25 **Q.** Do you know, has that downward trend -- it

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1 looks like 9.7, 9.6, 9.5, has that downward trend

2 continued since April?

3 **A. I don't have the publication since April.**

4 **Q.** In any case, would you agree that these

5 implied returns are well below the 10.25 percent

6 that the company is seeking here?

7 **A. They are, but they are for a combination**

8 **of a variety of different utilities. I can't**

9 **necessarily say that the risk profiles associated**

10 **with those utilities are the same. The point of**

11 **this chart was to sort of demonstrate what an**

12 **analyst is considering as an implied long-term**

13 **growth rate. And as you can see in the chart,**

14 **based on the returns and the yields that they**

15 **report, if you sort of back into it, the long-term**

16 **implied growth rate that they are using in their**

17 **models is 5 and a half percent, which is generally**

18 **consistent with the 5.4 percent GDP growth rate**

19 **we're using in our models, and quite a bit higher**

20 **than Mr. King's long-term growth rate.**

21 **But I really cannot equate the implied**

22 **return to this particular case because it is not**

23 **necessarily for vertically integrated electric**

24 **utilities. It could be for a wide variety of**

25 **utility companies and varying risk.**

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1 **Q.** At the bottom of page 49 of your  
2 testimony, you make a statement that -- it would be  
3 line 23 and it goes into the top of page 50, it  
4 states, "Mr. King did not rely on the sustainable  
5 growth rate in his DCF analysis, even though in a  
6 recent rate case" -- I apologize, it starts at 22,  
7 "in another recent proceeding in New York, Mr. King  
8 did not rely on the sustainable growth rate in his  
9 DCF analysis, even though that jurisdiction," which  
10 would be New York, "has historically placed  
11 significant emphasis on sustainable growth DCF  
12 models."

13 Do you have any Public -- New York Public  
14 Service Commission orders placing a significant  
15 emphasis on that growth model?

16 **A. I don't believe I have them with me. New  
17 York is a very formulated jurisdiction that has a  
18 specific way for calculating the discounted cash  
19 flow using a sustainable growth model. We could  
20 certainly -- I could certainly produce that.**

21 **Q.** Yes, could you please do that.

22 **A. Sure. As part of their generic finance  
23 proceeding back in the '90s, it's a very prescribed  
24 methodology. Oh, I can provide something more  
25 recent. It's a longstanding principle in the State**

1 **Q.** Are these essentially, for lack of a  
2 better term, like underwriting costs?

3 **A. Transaction costs, yes.**

4 **Q.** Are they incurred after the stock is  
5 issued or is it just --

6 **A. Yeah, they are a cost of issuing the  
7 stock, so they do -- they do get paid after the  
8 stock is issued.**

9 **Q.** Is there a finite amount of these costs  
10 for each stock issuance?

11 **A. There is a defined amount of flotation  
12 cost. It does affect the long-term equity of the  
13 company, so I don't necessarily question -- it  
14 reduces the overall equity of the company, so it's  
15 not really finite in that sense.**

16 **Q.** Should the flotation costs be recovered  
17 from ratepayers?

18 **A. I believe that that's appropriate.**

19 **Q.** Why would that be appropriate?

20 **A. Because they benefit from the ability to  
21 attract capital.**

22 **Q.** Don't the shareholders as well?

23 **A. It's a cost of operating the company just  
24 as any other cost. The cost to attract capital to  
25 be able to invest in the organization is not any**

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425

1 of New York.

2 **Q.** We would like something recent that would  
3 show that principle.

4 **A. Sure.**

5 JUDGE FETCH: So are you asking for that  
6 as a late-filed exhibit, Mr. Norrell?

7 MR. NORRELL: Yes, advocacy staff would  
8 move that that be a late-filed.

9 JUDGE FETCH: And that would be Exhibit G  
10 then. Mr. Johnson, would you have any objections?

11 MR. JOHNSON: No objection, Your Honor.

12 JUDGE FETCH: Thank you. Exhibit G will  
13 be admitted. And what is that document going to be  
14 called? Orders from the State of New York?

15 MR. NORRELL: Yeah, focusing putting  
16 emphasis on sustainable growth model.

17 JUDGE FETCH: Okay. Thank you.

18 **Q.** (MR. NORRELL CONTINUING) Since we're on  
19 page 50 -- the top of page 50, could you address,  
20 explain what a flotation cost is? When are they  
21 incurred?

22 **A. Flotation costs can be incurred in two  
23 different ways. They're the cost associated with  
24 issuing equity and the cost associated with issuing  
25 debt.**

1 different than any other cost the company incurs to  
2 do business.

3 MR. NORRELL: I don't think I have any  
4 more questions, Your Honor.

5 JUDGE FETCH: Thank you, Mr. Norrell.

6 Ms. Jeffcoat-Sacco, do you have questions?

7 MS. JEFFCOAT-SACCO: Just a few.

8 **CROSS-EXAMINATION**

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

10 **Q.** Good morning.

11 **A. Good morning.**

12 **Q.** Several of us here in the Commission  
13 advisory camp have had some questions. There seems  
14 to be focus on existing environment when it suits  
15 the argument and focus on future projections when  
16 that suits the argument, and we're trying to get a  
17 handle on whether your position is that you have to  
18 look -- that you have to look forward when you're  
19 talking about the potential for interest rates to  
20 rise, the potential for the economy, or are you  
21 looking at -- are you basing your opinion and your  
22 conclusion, recommendation on the existing  
23 environment for the test year?

24 **A. Sure. The ROE -- the estimation of ROE is  
25 a forward-looking concept, so all of the ROE**

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1 estimation models are using forward-looking  
 2 estimates. So I do think there is forward-looking  
 3 aspects to this.  
 4 The goal here is to be establishing a  
 5 return on equity -- or the opportunity for the  
 6 company to earn a return on equity -- a reasonable  
 7 return on equity over the period that rates are  
 8 going to be in effect. So I don't think it's  
 9 appropriate to not consider the fact that interest  
 10 rates are going to be rising over that period. I  
 11 think it's perfectly appropriate to recognize that  
 12 that is -- we've seen it in the last several  
 13 months, it's continuing, analysts are projecting  
 14 that to occur going forward. I think it's fairly  
 15 well-documented at this point in the marketplace  
 16 that the expectation is for interest rates to rise,  
 17 and I do think it's appropriate to consider that in  
 18 order to give the company a reasonable opportunity  
 19 to earn a return -- a reasonable return over the  
 20 time of their -- this rate is in effect.  
 21 Q. And are basically all the model options  
 22 incorporating that forward-looking view?  
 23 A. So the models are all incorporating -- the  
 24 discounted cash flow models, for example, are  
 25 incorporating analysts' expectations of earnings

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1 growth. That's a forward look. In my analysis  
 2 of -- my application of the capital asset pricing  
 3 model I have used projected interest rates as well,  
 4 which I do think reflects that expectation for  
 5 rising interest rates.  
 6 Q. And you've talked a little bit about a  
 7 sort of forward-looking view of the regulatory  
 8 environment, but I didn't see -- and forgive me if  
 9 it's in here and I missed it, but I didn't see a  
 10 lot of discussion about the regulatory environment  
 11 in North Dakota -- I mean, talk about the fear what  
 12 will people think if the Commission sets too low a  
 13 rate, what will investors think then about the  
 14 Commission, but the existing regulatory environment  
 15 I always thought should be a large component of  
 16 this -- basically this setting a number which is  
 17 pulling a number out of the air after you look at  
 18 everybody's models and what's wrong with them, but  
 19 the existing regulatory environment I thought was  
 20 supposed to be a pretty big component of that, and  
 21 it seems to me that the existing regulatory  
 22 environment in North Dakota is pretty good for the  
 23 company. I mean, a lot of ADPs being granted, rate  
 24 cases, rate increases being granted via settlement.  
 25 Have you incorporated anything for the regulatory

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1 environment in North Dakota being very positive for  
 2 the company and, therefore, perhaps affecting that  
 3 expected return?  
 4 A. I have taken into consideration, and I  
 5 think I did mention it even in the opening  
 6 statement, that the regulatory environment in North  
 7 Dakota today is considered to be constructive. I  
 8 think I might need --  
 9 Q. Well, I apologize if I missed a couple  
 10 phrases of your opening statement.  
 11 A. No, no. That's okay.  
 12 Q. But I guess I was looking for a more  
 13 specific incorporation of that into how you arrived  
 14 at the number. Is that here anywhere?  
 15 A. It's -- as I said, it's not a formulated  
 16 process, so it's -- yes, it is a factor to the  
 17 extent that the jurisdiction was not considered to  
 18 be constructive and that there were a lot of risk  
 19 factors associated with regulation that would be an  
 20 increase in risk. The current jurisdiction is  
 21 reasonably constructive.  
 22 Q. So did that put any downward pressure on  
 23 the number you're recommending? Were you going to  
 24 recommend something higher if that didn't exist?  
 25 A. I think if the regulatory jurisdiction had

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1 been -- if there was a higher risk associated with  
 2 regulation, that would have factored into the  
 3 number, yes.  
 4 MS. JEFFCOAT-SACCO: I think that was more  
 5 of a comment than a question.  
 6 JUDGE FETCH: For the record, that was not  
 7 directed to the witness, but to Commission staff.  
 8 MS. JEFFCOAT-SACCO: Right. That's all I  
 9 have at this point.  
 10 JUDGE FETCH: Thank you. At this time  
 11 we'll turn to the Commissioners, beginning with the  
 12 portfolio holder, Commissioner Fedorchak.  
 13 COMMISSIONER FEDORCHAK: Thank you, Judge  
 14 Fetch.  
 15 **EXAMINATION**  
 16 **BY COMMISSIONER FEDORCHAK:**  
 17 Q. Good morning, Ann.  
 18 A. Good morning.  
 19 Q. Thank you for your presentation. I'll try  
 20 to ask questions in some sort of sensible order,  
 21 but there's no promises. There are a few random  
 22 things in here.  
 23 A. Okay.  
 24 Q. First of all, generally why did you reduce  
 25 your original request from 10.75 -- I believe it

430

1 was 10.75 -- to 10.25 in your rebuttal testimony?

2 **A. I believe the original request was 10.6**

3 **percent.**

4 **Q. Okay.**

5 **A. But, yeah, there was a reduction between**

6 **direct and rebuttal testimony. You know, as I**

7 **mentioned, we take into consideration the results**

8 **of all of the models, which I'm just sort of**

9 **searching for the page that they're presented on.**

10 **On page 66 of my rebuttal testimony is a nice**

11 **summary of the results of the models, so we did --**

12 **I did compare that with the results from the direct**

13 **testimony.**

14 **The market results have come down a little**

15 **bit, so I did factor that in. And then within that**

16 **range, looking at the range of results presented**

17 **here, I considered all of the other factors that**

18 **I've discussed, rising interest rates, the**

19 **company's very large capital investment plan, their**

20 **actual earned returns.**

21 JUDGE FETCH: Excuse me. Could you speak

22 up a little?

23 THE WITNESS: Sure.

24 JUDGE FETCH: When -- my experience is as

25 witnesses are turning to the side, you're away from

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1 the microphone and so you're not being picked up.

2 So either speak up or move the microphone or please

3 be aware. Thank you.

4 THE WITNESS: Thank you. I'll do that.

5 Is that better?

6 JUDGE FETCH: Yes.

7 THE WITNESS: Okay. So in looking at that

8 range of results and considering those factors,

9 that's how I came to a lower.

10 **Q. (COMMISSIONER FEDORCHAK CONTINUING) Did a**

11 **lot of the factors change from when you first**

12 **applied to when you did the rebuttal? Was there a**

13 **big change in some of the -- obviously some of the**

14 **capital plans and those investment factors didn't**

15 **change. What were the significant factors that**

16 **changed?**

17 **A. So the results of some of the models did**

18 **change comparing Table 9 in the rebuttal testimony**

19 **to -- let me just find the table for you from the**

20 **direct.**

21 **Q. Is it on --**

22 **A. On page 41, it would be Table 7.**

23 **Comparing those two tables, the results of the ROE**

24 **estimation models did change and so that was a**

25 **factor that was considered, but then, as I**

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1 **mentioned, interest rates have -- you know, I think**

2 **we've come to the point where interest rates are**

3 **now rising. We've been expecting that to happen**

4 **for a while. The Federal Reserve programs, that's**

5 **not sustainable in perpetuity, so the expectation**

6 **is that they'll back off of their purchasing**

7 **programs and that interest rates will rise, and**

8 **we're seeing that quite a bit now, so that factored**

9 **in as well.**

10 **Q. Okay. So you rerun the models?**

11 **A. Yes.**

12 **Q. Okay. But rising interest rates -- if I**

13 **understand your argument, rising interest rates**

14 **should result in a higher ROE?**

15 **A. That's correct.**

16 **Q. And your request decreased.**

17 **A. Right. Because we're taking into**

18 **consideration both that the models have not**

19 **responded to that at this point in time and the**

20 **fact that interest rates are increasing, so we are**

21 **considering all of the information that is**

22 **available to investors.**

23 **Q. All right. Help me understand. When**

24 **you're seeking equity, is it Xcel Energy or is it**

25 **NSPM? How does -- the equity for North Dakota**

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1 projects, how is it actually requested on the stock

2 market? Is it Xcel?

3 **A. I believe it's Xcel, but I need to check**

4 **that.**

5 **Q. Okay. So when investors are looking at**

6 **investing in Xcel, how big a factor is the ROE in**

7 **North Dakota, which is a very small portion of the**

8 **overall Xcel portfolio?**

9 **A. Sure. That's a good question. So the**

10 **process of setting the return on equity is**

11 **typically done assuming each company is an**

12 **individual, freestanding company, and so the**

13 **purpose for that is that you don't want to have**

14 **subsidizing of -- across jurisdictions, right, so**

15 **you set the return in each jurisdiction based on**

16 **the -- as it's a freestanding entity.**

17 **Q. Do investors dig in and look at all the**

18 **ROEs in every single component of the company, and**

19 **how big of a factor is the North Dakota one?**

20 **A. That's really hard to -- that's very hard**

21 **to assess. They do. In terms of specifically how**

22 **do investors view North Dakota separate from the**

23 **rest of NSP, I will say that in the J.P. Morgan**

24 **article, they certainly picked up very specifically**

25 **the Minnesota return. When the South Dakota return**

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1 came through, that was picked up by Regulatory  
 2 Research Associates very quickly and it was  
 3 reflected in the regulatory ranking from RRA. So I  
 4 know in each jurisdiction they are watched fairly  
 5 closely. I don't have all the specifics for how  
 6 they would weight that.

7 Q. Then at the same time, what's more  
 8 important, in your view, to investors, your  
 9 authorized ROE -- and you touched on this with Ryan  
 10 a bit, but your authorized ROE or your actual ROE?

11 A. Well, I think they are both very  
 12 important. And I was recently reading an article  
 13 that -- certainly the authorized ROEs are very  
 14 closely watched, the market response to them.  
 15 Earned returns are also very important. And I was  
 16 reading an article recently that that's something  
 17 that analysts are paying close attention to, is  
 18 whether or not, through the context of the rate  
 19 case, they actually -- a company actually has the  
 20 opportunity to earn whatever return has been  
 21 authorized to the extent that there's a return  
 22 authorized, but significant disallowances that make  
 23 it unlikely for that company to earn a return,  
 24 that's a concern for investors as well.

25 Q. Okay. What's NSPM and maybe Xcel Energy

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1 as a whole, what's your lowest authorized ROE right  
 2 now?

3 A. The companies -- so I believe in South  
 4 Dakota that was -- the most recent is a settlement  
 5 so I'm not certain actually. I would need to find  
 6 that information.

7 Q. You can report back. That would be fine.  
 8 All right. You mentioned South Dakota. I  
 9 wanted to ask a question about that. I believe  
 10 this is in the testimony here. Okay. On page 6 of  
 11 your rebuttal testimony you talk about the South  
 12 Dakota case and they authorized a 9.25 in 2012 ROE  
 13 and then the Regulatory Research Associates  
 14 downgraded South Dakota -- their rating. Did this  
 15 hurt South Dakota ratepayers and, if so, how?

16 A. It's unclear at this point, I guess is the  
 17 answer to that, how that will affect South Dakota  
 18 ratepayers. As I mentioned earlier, it's kind of  
 19 short term and long term.

20 Q. Mm-hmm.

21 A. So in the short term if you have a lower  
 22 return, you have a lower cost to ratepayers, but  
 23 over time -- the regulatory component is very  
 24 important to the investment community, it's very  
 25 important to Moody's and Standard & Poor's when

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1 they do their rankings of a company, and those  
 2 rankings affect a company's ability to attract debt  
 3 at reasonable cost. Similarly, on the equity side  
 4 when investors feel that the jurisdiction is higher  
 5 risk, the expectation would be higher risk is  
 6 higher return over time.

7 Q. Yep. And was that -- that was your  
 8 company, NSP. Has that hurt NSP? Has that hurt  
 9 you guys, the 9.25 ROE?

10 A. So --

11 Q. As a company.

12 A. Well, it causes subsidies across the  
 13 organization.

14 Q. Has it been harder to attract the  
 15 investors and attract the capital because of that  
 16 9.25? That's the contention that we have to have a  
 17 decent ROE, that's one of the most legitimate  
 18 arguments is you need access to the capital and  
 19 it's difficult to attract it if you don't have a  
 20 high enough ROE. So I'm wondering if the 9.25 ROE  
 21 in South Dakota has actually resulted in a  
 22 difficulty for the company in attracting that  
 23 capital.

24 A. Right. You know, underearning or lower  
 25 returns in one jurisdiction versus another

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1 jurisdiction certainly does make it less desirable  
 2 to invest in one jurisdiction versus another. I  
 3 am -- just to clarify, I'm not an NSP employee, so  
 4 when you say "your company," it's the company.

5 Q. Oh, okay. Sorry. I didn't realize that.

6 A. No, no. I should have clarified that at  
 7 the outset. So my viewpoint isn't from the company  
 8 perspective but from an investor perspective.

9 Q. I understand.

10 A. And so I think the focus in this case is  
 11 sort of the responsibility to set the return that's  
 12 reasonable by jurisdiction, and that's kind of the  
 13 Hope and Bluefield standard that we all rely on  
 14 when we look at estimating the cost of capital, is  
 15 just setting a fair return for each individual  
 16 jurisdiction as if it was a freestanding entity  
 17 regardless of who actually is supplying the capital  
 18 and how the companies are interrelated.

19 COMMISSIONER FEDORCHAK: Mr. Johnson, is  
 20 there someone from the company who can ask that  
 21 question later -- or answer that question later,  
 22 who would that be, about the impact that the 9.25  
 23 percent ROE in South Dakota has had on the ability  
 24 of the company to attract capital?

25 MR. JOHNSON: Commissioner, I don't

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1 believe we have any witnesses -- any witness  
 2 scheduled that can speak to that of the remaining  
 3 witnesses. I would have to confer with the company  
 4 to see who of the people available may be best able  
 5 to speak to that question.  
 6 COMMISSIONER FEDORCHAK: Okay. Well, it  
 7 is a pretty central piece of your argument so we  
 8 should probably -- I would be interested in hearing  
 9 from -- the actual results that you've had with  
 10 that level of ROE if there's somebody who can do  
 11 that even, I don't know, if it's allowed by phone.  
 12 I have no idea what the rules are there.  
 13 MR. JOHNSON: Fair enough. We will look  
 14 into that, Commissioner. We're not taking that  
 15 request casually.  
 16 COMMISSIONER FEDORCHAK: Okay. Thank you.  
 17 **Q.** (COMMISSIONER FEDORCHAK CONTINUING) Okay.  
 18 Let's see here. In your opinion, how would  
 19 investors look at an ROE that was paired with a  
 20 requirement that if the company earns higher  
 21 returns, those are either returned to ratepayers or  
 22 shared with ratepayers at some percentage level? I  
 23 know that's used some places. Is that fairly  
 24 common? How does that affect -- or how does the  
 25 investment community view those types of setups?

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1 **A. Earning sharing mechanisms?**  
 2 **Q.** Yeah.  
 3 **A. They are relied on in other jurisdictions**  
 4 **and I think to the extent that the -- to the extent**  
 5 **that the return that's set is reasonable and**  
 6 **comparable with alternative investments that are**  
 7 **comparable risk, an earning sharing mechanism is**  
 8 **generally endorsed.**  
 9 **Q.** Okay. Now, you talked a bit with Mr.  
 10 Norrell about the flotation costs, and I'm going to  
 11 ask you again to explain what's included in  
 12 flotation costs and who does the company pay them  
 13 to?  
 14 **A. Flotation costs include underwriters'**  
 15 **costs, generally all of the costs associated with**  
 16 **issuing equity or debt, so printing fees, legal**  
 17 **fees, underwriter cost replacement, those are the**  
 18 **types of fees that are included in flotation costs.**  
 19 **Q.** Okay. And tell me how they're calculated,  
 20 like as a percentage, or if you're looking at the  
 21 cost of issuing this debt, how do you add that on  
 22 as a percentage? I'm not quite clear. It seems  
 23 like a lot of money. Let me just say that, it  
 24 seems like a lot of money over a big period of time  
 25 for basically just administrative costs, is what it

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1 seems like to me, but tell me how that's calculated  
 2 and added on, and maybe, if you can, just give me  
 3 like a real-life example of something simple, like  
 4 a thousand dollars, that sort of thing.  
 5 **A. Sure. I think there's a schedule that**  
 6 **might be helpful. I typically show all of the**  
 7 **company's issuances. Sure, here it is. So**  
 8 **Schedule 2, page 1 of 2, summarizes the flotation**  
 9 **costs associated with all of the company's equity**  
 10 **issuances back to 1949.**  
 11 MS. JEFFCOAT-SACCO: Is it Schedule 2  
 12 direct or rebuttal?  
 13 THE WITNESS: Oh, I'm sorry. This is  
 14 AEB-2, so this would be rebuttal, Schedule 2, page  
 15 1 of 2.  
 16 **Q.** (COMMISSIONER FEDORCHAK CONTINUING) So  
 17 can you walk through that chart, please.  
 18 **A. Sure. This chart is showing the date of**  
 19 **issuance, the number of shares that were issued,**  
 20 **and the market price at which they were issued, and**  
 21 **the offering price. The underwriter discount would**  
 22 **be an expense. And then the offering expenses are**  
 23 **also another cost associated with --**  
 24 **Q.** Who gets the offering expense? Where is  
 25 that paid? Is that to like the stock exchange?

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1 Or, I mean, these are all just numbers.  
 2 **A. No. They include legal fees and other**  
 3 **associated expenses, printing costs. They kind**  
 4 **of --**  
 5 **Q.** Is it the company that's experiencing them  
 6 and then adding them up here or are they paid to  
 7 outside vendors?  
 8 **A. They're outside. They get paid out so**  
 9 **they reduce their net proceeds.**  
 10 **Q.** Okay.  
 11 **A. So then your net proceeds are the**  
 12 **difference between your -- I wish I had my**  
 13 **calculator up here -- your market price and**  
 14 **underwriting -- taking out your underwriter**  
 15 **discount and the offering expense.**  
 16 **Q.** Okay.  
 17 **A. I think it's probably most clearly seen --**  
 18 **the difference between the gross equity before**  
 19 **issuance costs and the net proceeds, that**  
 20 **difference would be the cost associated with**  
 21 **flotation.**  
 22 **Q.** Okay.  
 23 **A. And then that's calculated on a percentage**  
 24 **term -- on percentage terms there. What we**  
 25 **typically use is the percent that's listed at the**

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1 **bottom of this chart, so the 5.281 percent is**  
 2 **basically the percent that we use to calculate what**  
 3 **the adjustment is to the ROE.**  
 4 **Q.** Okay. So basically the flotation costs  
 5 are the underwriting discount plus the offering  
 6 expense?  
 7 **A. Correct.**  
 8 **Q.** Okay. Thank you. That's very helpful.  
 9 Okay. And then you mentioned that New York has a  
 10 very formulae process and ours is not. So tell me  
 11 about a formulae process versus one that has all  
 12 these other factors that we consider and just  
 13 ultimately pick what we think is reasonable. Am I  
 14 understanding what you said correctly, that their  
 15 ROE, they have like a formula they use to set the  
 16 ROE in New York?  
 17 **A. They use a very structured discounted cash**  
 18 **flow model, yes, with specific growth rates in it.**  
 19 **Q.** And what it spits out is the ROE? There's  
 20 not all this negotiation about, you know, different  
 21 formulas and how much we should consider market  
 22 influences and all that, it's the formula spits it  
 23 out and they use it?  
 24 **A. No, that discussion does happen. That's**  
 25 **just how the staff actually generates their**

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1 **analysis and then the Commission has traditionally**  
 2 **looked at that particular model as one of the**  
 3 **models that they rely on -- or the model that they**  
 4 **rely on. All the other factors still get**  
 5 **considered and flotation costs still get considered**  
 6 **and all the other issues are still discussed by all**  
 7 **of the parties typically.**  
 8 COMMISSIONER FEDORCHAK: Okay. I thought  
 9 there might have been an easier way. All right.  
 10 That's it for me. Thank you, Ann.  
 11 THE WITNESS: You're welcome.  
 12 JUDGE FETCH: Thank you, Commissioner.  
 13 Commissioner Kalk, good morning.  
 14 COMMISSIONER KALK: Good morning, Your  
 15 Honor. Thank you.  
 16 **EXAMINATION**  
 17 **BY COMMISSIONER KALK:**  
 18 **Q.** Thank you, Ann, for your testimony. I see  
 19 you're from Marlborough, Massachusetts.  
 20 **A. Our office is Marlborough, Massachusetts.**  
 21 **Q.** Is that by Boston somewhere?  
 22 **A. It is about 30 miles west of Boston.**  
 23 **Q.** Fair enough. It seems like we have a lot  
 24 of, quote/unquote, experts that come out of Boston  
 25 for different things, so I don't know if it's

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1 something to do with the water out there, but good  
 2 to have you out here.  
 3 A lot of good discussion today. I just  
 4 kind of want to boil it down to a couple little  
 5 things. You talked about the -- let's use my fancy  
 6 iPad here -- this Supreme Court decision, United  
 7 States Supreme Court Hope and Bluefield case set  
 8 out three parameters, one, that ROE should be  
 9 consistent with other businesses with similar  
 10 comparable risks, the adequacy of return supported  
 11 financial soundness and access to capital, but the  
 12 third one at the end, as opposed to any  
 13 methodology, the controlling factor, is it just and  
 14 reasonable. So I read that as saying pick a  
 15 formula, at the end of the day as long as it's  
 16 reasonable, the company has access to capital, it's  
 17 fair, you can do whatever you want. Would you read  
 18 that the same way?  
 19 **A. I would read it that it's not the**  
 20 **methodology that's the driver, but a reasonable**  
 21 **result that allows the company to attract capital**  
 22 **on reasonable terms is the desired goal.**  
 23 **Q.** So would you view it reasonable that the  
 24 company can attract capital, and how would you  
 25 measure that? Just that the company has ability to

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1 build things they need to? That would be the only  
 2 way to measure it, I would think.  
 3 **A. I think the other measure would be looking**  
 4 **at the comparability of the return to --**  
 5 **Q.** Say that again. The what?  
 6 **A. The comparability of the return that's**  
 7 **authorized to the company versus similarly situated**  
 8 **companies with similar risk factors.**  
 9 **Q.** Fair enough, because we're -- are you  
 10 familiar with something called the advance  
 11 determination of prudence?  
 12 **A. Yes, I am.**  
 13 **Q.** Okay. Great. So within the last six to  
 14 eight years North Dakota has put that statute in  
 15 place where companies can come in to the Commission  
 16 and ask for advance determination of prudence where  
 17 the company basically makes their pitch and the  
 18 Commission will say, yes, this is a prudent  
 19 project. We don't determine how much it's going to  
 20 cost, but basically the argument that we've heard  
 21 from all the companies is that it helps them get  
 22 access to capital, it helps them get investors, it  
 23 helps them do all these great things, which in my  
 24 mind would be why you get a higher return on  
 25 equity. Would you see the relationship the same

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1 way or would you see it differently?

2 **A. I would say that if this was the only**

3 **jurisdiction that was -- that had advance**

4 **determination of prudence -- again, this is a**

5 **comparability situation so you're looking at**

6 **comparable risk and comparable benefits to**

7 **companies.**

8 **Q.** But I've taken away all their risk by

9 giving an ADP -- their regulatory risk, let's say.

10 **A. You have -- you've provided a mechanism**

11 **that's produced similar to mechanisms that other**

12 **utilities have for capital investment plans, so I**

13 **think it is fairly comparable to what other**

14 **jurisdictions are using. Florida does an advance**

15 **determination. I'm trying to think. I actually**

16 **just recently read a report that listed many of**

17 **them -- listed many of the advance determinations.**

18 **Some states for generation purposes authorize the**

19 **return ahead of time for that -- for the plant, so**

20 **they agree to an ROE upfront. Others have a**

21 **predetermination for cost recovery.**

22 **Q.** So you don't agree with my premise that by

23 granting ADP, it can be a lower return on equity?

24 You don't agree with that?

25 **A. By itself, yes. Comparable to other**

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1 **states, not necessarily, because I do believe that**

2 **those types of determinations are being made in**

3 **other jurisdictions as well.**

4 **Q.** Okay. So what would you think if I look

5 at it -- me personally -- that if I'm going to

6 authorize a higher ROE, I'm done granting advance

7 determination of prudence? What kind of effect

8 would that have on the companies? There must be a

9 benefit for ADPs because, otherwise, why do it?

10 **A. I think -- again, like I said, I think the**

11 **issue is sort of comparability. So companies are**

12 **in the middle of an enormous capital investment**

13 **program. There are a lot of companies out there**

14 **who are in that situation where they're spending a**

15 **lot of money to upgrade their systems and a lot of**

16 **these jurisdictions have authorized capital**

17 **trackers specific to programs or allowing companies**

18 **to pass the costs associated with capital programs**

19 **through without the need for a rate case,**

20 **generation assets that are being put in service are**

21 **being done with advance determinations of cost --**

22 **Q.** Fair enough.

23 **A. -- and advance ROEs that are authorized,**

24 **so I think a lot of those mechanisms are out there.**

25 **Q.** Okay. Then in your rebuttal testimony,

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1 and this is just a paraphrase, basically selecting

2 the appropriate ROE is not simply a matter of

3 calculations, it's more a matter of judgment. That

4 was in your rebuttal. So do you admit -- or do

5 you, I guess, reinforce at the end of the day it

6 comes down to what commissioners think is

7 appropriate?

8 **A. I do think at the end of the day it comes**

9 **down to looking at all of the factors that are**

10 **presented, so the models, the markets, the risks**

11 **that are presented, and coming up with a return on**

12 **equity that is comparable to what other -- what is**

13 **available --**

14 **Q.** Sure. I get your argument. I don't know

15 that I agree with it, but I've heard that a lot, we

16 have to be comparable with all the other states,

17 but if other states want to do something different,

18 then we have to join them, not they join us.

19 Anyway, that's another discussion.

20 Right now in this rate increase request

21 the company is asking for a rate increase of, I

22 believe, 9.25 percent. How would you see the

23 relationship between the increase they're asking

24 for in rates to the return on equity? How do those

25 two tie together, in your opinion?

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1 **A. The percentages? I'm not sure I**

2 **understand the question.**

3 **Q.** The company is asking for an increase of

4 overall rates of 9.25 percent, so let's just say

5 hypothetically that I was sold on let's go ahead

6 and give a higher return on equity, but let's

7 reduce their actual rate of increase for the

8 average customer down to a lower number. There

9 must be some relationship of those two.

10 **A. I think there is. I think that goes to**

11 **the issue of earned -- of the ability to actually**

12 **earn the return that's authorized, and I do think**

13 **that's an important component that investors**

14 **consider so it's not really --**

15 **Q.** What do they consider the most important

16 on that? Is the return on equity the most

17 important thing that investors look at, or is it

18 maybe just the rate increase that's authorized at

19 the end of the day?

20 **A. I think it's the ability to earn. I mean,**

21 **I think one of the factors is the ability to**

22 **actually earn it, not the number that's actually**

23 **authorized, but the true ability to earn it is very**

24 **important as well.**

25 **Q.** That makes sense. Okay. I think -- I

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1 can't get you to admit that ADP should give you a  
2 lower return on equity?

3 **A. I -- you know, as I said, I think there**  
4 **are many of these mechanisms out there, so by**  
5 **itself, you know, if no one else was ever offering**  
6 **one, maybe that would be a risk reduction measure**  
7 **relative to the proxy group and to other companies,**  
8 **but I do believe there are a lot of them out there**  
9 **at this point.**

10 COMMISSIONER KALK: Okay. Thank you.  
11 THE WITNESS: Sure.  
12 JUDGE FETCH: Thank you, Commissioner.  
13 Commissioner Christmann.  
14 COMMISSIONER CHRISTMANN: Good morning,  
15 Your Honor.  
16 JUDGE FETCH: Good morning.

**EXAMINATION**

18 **BY COMMISSIONER CHRISTMANN:**  
19 **Q. Ms. Bulkley, good morning. You were**  
20 **talking to Commissioner Fedorchak about South**  
21 **Dakota's rate of return is 9.25.**  
22 **A. That was the most recent authorized**  
23 **return. I do believe that the company had a**  
24 **settlement case subsequent, so I'm not certain what**  
25 **the return was that was part of that settlement.**

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1 **Q. Higher?**  
2 **A. I don't actually have that information. I**  
3 **believe the settlement was -- it was unspecified,**  
4 **is my understanding.**  
5 **Q. What's Minnesota's?**  
6 **A. Minnesota just received a 9.83 percent**  
7 **return, and that's the one I was referring to**  
8 **earlier today when I was talking about the J.P.**  
9 **Morgan article that downgraded the company to an**  
10 **underweight status.**  
11 **Q. So then when you said earlier that North**  
12 **Dakota's regulatory environment is considered**  
13 **constructive, what is Minnesota's and South**  
14 **Dakota's considered?**  
15 **A. So as I said, J.P. Morgan actually**  
16 **downgraded Xcel Energy on the basis of a Minnesota**  
17 **decision, so that's certainly less favorable. The**  
18 **South Dakota -- I referenced it in my rebuttal**  
19 **testimony actually. South Dakota was -- the**  
20 **regulatory ranking was downgraded by Regulatory**  
21 **Research Associates as well.**  
22 **Q. So Minnesota and South Dakota, would you**  
23 **say, are both less favorable and it would be based**  
24 **on this?**  
25 **A. As a result of those returns, yes.**

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1 **Q. Is there a pattern nationally by people**  
2 **who invest in investor-owned utilities? Is it**  
3 **generally something they look at a computer list of**  
4 **all the many, many utilities they could invest in**  
5 **and their spot and where it looks like the best**  
6 **deal for them, or do many of them tend to invest in**  
7 **the company that serves their area or a real close,**  
8 **nearby area?**  
9 **A. I think capital is pretty widespread. I'm**  
10 **not certain that it's a regional determination in**  
11 **terms of what an investor seeks to invest in. I**  
12 **don't think the -- I think it's based on what you**  
13 **can get as a return, not necessarily based on your**  
14 **affiliation with or location relative to the**  
15 **utility company.**  
16 **Q. Do you have any idea how much investment**  
17 **equity is in NSPM from these three state**  
18 **jurisdictions in Xcel?**  
19 **A. I'm sorry. The question is how much local**  
20 **investment?**  
21 **Q. How much North Dakota investment is there,**  
22 **how much South Dakota and how much Minnesota?**  
23 **A. I don't. I don't know how you would get**  
24 **that actually.**  
25 **Q. It just seems like -- why don't I phrase**

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1 it in the form of a question.  
2 Is there any need to consider the amount  
3 of money that you expect is available in a  
4 jurisdiction or basically the success of the  
5 economy in setting these rates? My thought is if  
6 times are tight and an economy is struggling, maybe  
7 you need a higher rate to attract some of that  
8 money, and if times are really good and people are  
9 looking for somewhere to part money -- I would  
10 think that we're not setting these rates just to be  
11 nice and to be comparable, but setting them at a  
12 level that is needed to attract the needed amount  
13 of capital. And so do we take into consideration  
14 the strength of the economy in the jurisdiction?  
15 **A. You know, I think that goes back to the**  
16 **short run, long run questions in terms of for**  
17 **ratepayers' purposes, what is the benefit to**  
18 **ratepayers of a reasonable return. And I do think**  
19 **that there are long-term benefits to ratepayers for**  
20 **the company getting a return that is, you know,**  
21 **reasonably comparable to other utility companies of**  
22 **a similar risk and allows the company to be able to**  
23 **attract the capital they need on reasonable terms**  
24 **in order to meet their investment programs and to**  
25 **operate the company, be financially sound.**

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1 COMMISSIONER CHRISTMANN: Thank you. I  
2 have no further questions.

3 JUDGE FETCH: I just want to ask one  
4 question to follow up on what Commissioner  
5 Christmann was just asking you.

6 Are investors -- are they generally -- do  
7 you look at those generally from within the  
8 jurisdiction so you would look at the economy in  
9 that area or is it more widespread?

10 THE WITNESS: No, I believe it's more  
11 widespread. I think investment is -- capital is  
12 pretty fungible and I believe that people are  
13 making decisions not based on necessarily the local  
14 investment they can make, but the best investment  
15 they can make with their money.

16 JUDGE FETCH: So investors, say, in  
17 Minnesota or, say, North Dakota, whatever this  
18 jurisdiction would be considered, might there be  
19 investors from New York or California or somewhere  
20 else?

21 THE WITNESS: In Xcel Energy?  
22 JUDGE FETCH: Yes.  
23 THE WITNESS: Certainly.  
24 JUDGE FETCH: Okay. So it would be pretty  
25 hard to pin down looking at the economy just, say,

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1 in North Dakota if you were considering what the  
2 rates should be here?

3 THE WITNESS: Yes, I think that's right,  
4 because I think investors are looking at all of the  
5 opportunities that are available to them in  
6 publicly traded companies.

7 JUDGE FETCH: Okay. Thank you.

8 We're going to take a 15-minute recess at  
9 this time and we'll come back and ask if there's  
10 any further questions for you, so you are not  
11 excused at this time.

12 THE WITNESS: Okay.  
13 (Recess taken.)

14 JUDGE FETCH: All right. We're back on  
15 the record and at this time we'll continue with  
16 redirect examination, if there is any, of Ann  
17 Bulkley.

18 MR. JOHNSON: Thank you, Your Honor. Yes,  
19 there are a few questions.

20 JUDGE FETCH: Mr. Johnson, go ahead.

21 **REDIRECT EXAMINATION**  
22 **BY MR. JOHNSON:**  
23 **Q.** Ms. Bulkley, I'm going to have to bounce  
24 around a little bit here because you've had quite a  
25 number of questions, so I'm going to attempt to

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1 reorient you to the discussion and then ask the  
2 question I have.

3 **A. Okay.**

4 **Q.** We had some discussion earlier on, and  
5 we'll have a late-filed exhibit from, I believe --  
6 a J.P. Morgan report that talked about a  
7 downgrading of XEI stock. Do you remember that?  
8 **A. Yes, I do.**

9 **Q.** You used the term "underweight." What  
10 does that mean?  
11 **A. So it's sort of the below neutral ranking,**  
12 **I guess, for J.P. Morgan. And maybe it's best to**  
13 **just sort of read from their report on that topic**  
14 **on the valuation.**

15 **Q.** If it's short, that would be fine.  
16 **A. Yeah, it's just a couple sentences.**  
17 **We're downgrading XEI to UW, which stands**  
18 **for underweight, from N, which is neutral, in**  
19 **reducing our December 14th price target from -- to**  
20 **27 from 33. I feel shares should trade at a**  
21 **discount due to the potential for incremental near-**  
22 **term equity needs and regulatory risk in**  
23 **jurisdictions such --**  
24 **(The court reporter interrupted the**  
25 **proceedings.)**

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1 THE WITNESS: Oh, I'm so sorry.  
2 JUDGE FETCH: I'm sorry. I should have  
3 cautioned that we have a court reporter and so you  
4 need to speak at a rate that she can pick that up.  
5 Thank you.

6 THE WITNESS: We feel shares should trade  
7 at a discount due to the potential for incremental  
8 near-term equity needs and regulatory risk in  
9 jurisdictions such as Minnesota.

10 **Q.** (MR. JOHNSON CONTINUING) You also had  
11 some discussions regarding a settlement in South  
12 Dakota. Do you recall that?  
13 **A. Yes, I do.**

14 **Q.** Is the ROE that is included in that  
15 settlement disclosed publicly or is it a so-called  
16 black box settlement?  
17 **A. It's a black box.**

18 **Q.** What was the last authorized ROE in South  
19 Dakota?  
20 **A. The last authorized ROE was 9.25 percent.**

21 **Q.** And was that the ROE, the last authorized,  
22 that led to the downgrading of the regulatory  
23 environment in South Dakota?  
24 **A. Yes, it was.**

25 **Q.** You had some discussion regarding the

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1 effect of advance determinations of prudence. Do  
 2 you recall that generally?  
 3 **A. Yes, I do.**  
 4 **Q.** Do advance determinations of prudence  
 5 provide a benefit to the companies that receive  
 6 them?  
 7 **A. They do provide a benefit. The value**  
 8 **associated with advance -- the advance**  
 9 **determination of prudence is basically reflected in**  
 10 **the analysis we've done. I think, as I mentioned**  
 11 **to the Commissioner, many companies have similar**  
 12 **types of predeterminations of need, cost recovery**  
 13 **return determinations, and so the value of that is**  
 14 **reflected in the analysis that's been done.**  
 15 **Q.** So there's a benefit, but it's already  
 16 been taken into account?  
 17 **A. That's correct.**  
 18 **Q.** You had some discussion with Ms.  
 19 Jeffcoat-Sacco regarding whether investors look at  
 20 current or future market conditions. Do you  
 21 remember that generally?  
 22 **A. Yes.**  
 23 **Q.** Can you explain which of the two or both  
 24 investors may look at?  
 25 **A. I do think that they look at both.**

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1 **Q.** How do they do that just in a summary  
 2 form, please?  
 3 **A. By looking at the models as we've done in**  
 4 **this analysis and also looking at expectations in**  
 5 **the near term, so, for example, the rising interest**  
 6 **rates that we discussed earlier.**  
 7 **Q.** Ms. Bulkley, I'm going to try to take you  
 8 back to a discussion that you had with respect to  
 9 the effect of a 9 -- of a particular ROE in a  
 10 particular jurisdiction, and do you recall that  
 11 generally, you had that with Commissioner  
 12 Fedorchak?  
 13 **A. Yes.**  
 14 **Q.** Let me give you a hypothetical situation,  
 15 but let me ask a question. There was some  
 16 uncertainty, at least as I heard it, as between you  
 17 and Commissioner Fedorchak as to how that worked.  
 18 Was that in the context of trying to parse out what  
 19 happens to a utility that has several jurisdictions  
 20 as opposed to a single?  
 21 **A. I believe the discussion was related to**  
 22 **several jurisdictions, yes.**  
 23 **Q.** Let's assume for the moment that you had  
 24 -- and how does that relate to the Hope and  
 25 Bluefield standards? Does -- should a Commission

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1 look at returns in other jurisdictions and sort of  
 2 say we can do something different because we're  
 3 part of a bigger entity?  
 4 **A. No. I think as we discussed, we're**  
 5 **looking at establishing the return for the company**  
 6 **as a freestanding entity, so it would be the North**  
 7 **Dakota jurisdiction of NSP as a freestanding**  
 8 **company on its own.**  
 9 **Q.** And why is that an important stance to  
 10 take?  
 11 **A. Because it's important to set a return for**  
 12 **this jurisdiction that is comparable with the**  
 13 **returns available in similarly situated companies,**  
 14 **similar risk factors.**  
 15 **Q.** Does that relate to the Hope and Bluefield  
 16 standard?  
 17 **A. Yes, it does.**  
 18 **Q.** Explain how.  
 19 **A. The Hope and Bluefield standard requires**  
 20 **that we provide a -- that a return be -- or the**  
 21 **opportunity to earn a return that is reasonable to**  
 22 **attract capital on reasonable terms that is**  
 23 **comparable to other similarly situated companies.**  
 24 **Q.** And that determination should be made  
 25 jurisdiction by jurisdiction?

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1 **A. That determination should be made for each**  
 2 **company in a jurisdiction on a freestanding basis,**  
 3 **yes.**  
 4 **Q.** Let's assume you had a freestanding  
 5 utility or, that is to say, a utility that had  
 6 operations in only one jurisdiction and that  
 7 utility was awarded a 9.25 percent ROE or a 9.00  
 8 ROE. How would investors react to an investment  
 9 opportunity in that -- for that particular utility?  
 10 **A. That return -- we've actually discussed a**  
 11 **few of those in rebuttal testimony where the**  
 12 **Commission's regulatory rankings had been**  
 13 **downgraded, so it would react unfavorably to that.**  
 14 **Q.** I'll move along to the next one. You had  
 15 some discussion about the effect of a local economy  
 16 on an investor's interest in making an investment.  
 17 That was with, I believe, Commissioner Christmann.  
 18 **A. Yes.**  
 19 **Q.** Can you amplify that discussion a little  
 20 bit? What are the elements of risk that pertain to  
 21 a utility operation?  
 22 **A. There is business risk and there is**  
 23 **economic risk, so --**  
 24 **Q.** Describe those two for me a little bit,  
 25 please.

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1 **A. Business risk such as the company's**  
 2 **capital investment program, that might be one from**  
 3 **a business risk that we could talk about. There**  
 4 **are a whole host of business risks but that's**  
 5 **probably the most tangible in this case. Economic**  
 6 **risk would be the local economic conditions and the**  
 7 **ability of the company to grow its system or**  
 8 **maintain sales in that area.**

9 **Q.** Does a utility's regulatory environment  
 10 affect its business risk?

11 **A. Yes, it does.**

12 **Q.** Explain how that works.

13 **A. It affects the company's ability to -- it**  
 14 **can affect the company's ability to attract**  
 15 **capital. That pertains to the discussion I had**  
 16 **earlier on the Moody's -- on how Moody's rates**  
 17 **companies. Moody's takes fairly heavy weighting on**  
 18 **regulatory risk into consideration when they**  
 19 **actually assign their credit ratings to companies**  
 20 **so to the extent that a jurisdiction was -- had**  
 21 **significant regulatory risk, that would be factored**  
 22 **into a rating and could result in a lower rating.**

23 **Q.** And would an investor take into account  
 24 both underlying economic strength and the  
 25 regulatory environment of a utility in making an

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1 investment decision?

2 **A. Yes.**

3 **Q.** How would they do that?

4 **A. They would consider all of those factors,**  
 5 **specific weightings. I can't offer a specific**  
 6 **weighting, but all of those factors would be**  
 7 **considered.**

8 MR. JOHNSON: Thank you. I have no  
 9 further questions. May I make a comment?

10 JUDGE FETCH: Yes, Mr. Johnson.

11 MR. JOHNSON: Commissioner Fedorchak, that  
 12 was not intended to be a rebuff of your earlier  
 13 request for a different witness. We may or may not  
 14 be able to provide a different witness.  
 15 Accordingly, I attempted to take Ms. Bulkley  
 16 through the line of questioning that I thought you  
 17 were trying to get at.

18 JUDGE FETCH: Commissioner, did you have a  
 19 comment?

20 COMMISSIONER FEDORCHAK: No. That's fine.  
 21 Thank you.

22 MR. JOHNSON: It may be the best we can  
 23 do.

24 COMMISSIONER FEDORCHAK: Okay.

25 JUDGE FETCH: Thank you, Mr. Johnson.

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1 Mr. Norrell, any recross?  
 2 MR. NORRELL: Actually, yes, just one  
 3 question.

**RECCROSS-EXAMINATION**

4 **BY MR. NORRELL:**

5 **Q.** I noticed on Schedule 2, page 1 of 2 of  
 6 your rebuttal testimony -- this was the flotation  
 7 cost adjustment.

8 **A. Bear with me while I get there.**

9 **Q.** No problem.

10 **A. I'm there.**

11 **Q.** It appears the last time shares were  
 12 offered was August of 2010. Is there any plans in  
 13 the future to offer more shares that you're aware  
 14 of?  
 15 of?

16 **A. I'm not necessarily aware of any plans for**  
 17 **additional shares. Flotation costs are actually --**  
 18 **the intention of the flotation cost adjustment is**  
 19 **to recover the costs associated with past equity**  
 20 **issuances that remain on the company's capital**  
 21 **stock.**

22 MR. NORRELL: Okay. Thank you. No  
 23 further questions.

24 JUDGE FETCH: All right. Thank you. Ms.  
 25 Jeffcoat-Sacco?

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1 MS. JEFFCOAT-SACCO: Yes, I have one.

**RECCROSS-EXAMINATION**

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

3 **Q.** When you were discussing the regulatory  
 4 environment with me and with Commissioner Kalk and  
 5 you were talking about comparability and that many  
 6 states have advance prudence processes now, and you  
 7 mentioned trackers, which I had kind of neglected  
 8 to mention, but I agree with you that trackers  
 9 should tend to reduce risk, it seemed to me that  
 10 you were supporting the theory that perhaps even  
 11 comparable companies, that those returns are too  
 12 high given the fact that the traditional regulatory  
 13 risk is no longer existent by these mechanisms that  
 14 North Dakota and many other states are  
 15 implementing, so maybe the concept that have we  
 16 simply been too high for everybody, you know, has  
 17 some merit based on what you were saying about  
 18 comparability and the reduction of risk with these  
 19 mechanisms.

20 **A. I think we should clarify that. That's**  
 21 **not at all what I intended to say. So my intention**  
 22 **in having that discussion was to demonstrate that**  
 23 **these types of mechanisms are actually in place in**  
 24 **many other companies, many of the proxy companies**  
 25

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1 that we've used in our analysis, and so in fact  
 2 that benefit associated with those types of  
 3 programs have already been reflected in any of the  
 4 analysis that we've done. So to the -- so I  
 5 think --

6 Q. I understood that to be your answer, but  
 7 my question is then perhaps -- do you not also  
 8 agree that that has reduced regulatory risk  
 9 nationwide wherever those are available, tracking  
 10 mechanisms and advance prudence-type decisions?

11 A. I think they have reduced some risk.

12 Q. Thank you.

13 A. But I do think it's embedded in the  
 14 analysis already.

15 MS. JEFFCOAT-SACCO: Thank you. That's  
 16 all.

17 JUDGE FETCH: Thank you. Back to the  
 18 Commission. Commissioner Fedorchak.

**FURTHER EXAMINATION**

**BY COMMISSIONER FEDORCHAK:**

21 Q. One question I forgot to ask you earlier.  
 22 So a higher ROE will result in higher costs for the  
 23 ratepayers and consumers, business and individuals,  
 24 and with the number of rate cases that are  
 25 occurring in North Dakota and throughout the

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1 country to pay for the increase in improvements of  
 2 the fleet and also all the new environmental  
 3 regulations, customers are seeing, you know, higher  
 4 -- paying more and so energy costs are just higher  
 5 and growing. How big -- how does that weigh on  
 6 investors, the impact of higher energy costs as a  
 7 whole on the economy and on their investments and  
 8 in relation to like an ROE which, if we had it a  
 9 little lower, would minimize that impact a bit?

10 I know it's kind of a broader question,  
 11 but that's kind of the domino effect of raising  
 12 rates, is how it impacts the economy and I would  
 13 assume that investors care about that too.

14 A. I do believe that there is some balancing  
 15 there, and I think that's why it's important for it  
 16 to be a comparable return across, consistent with  
 17 other types of investments, and I do think there is  
 18 sort of the short-term, long-term that we discussed  
 19 earlier. The short-term gains might lower rates,  
 20 you know, for customers in the short term. In the  
 21 long term I think the costs increase. So having a  
 22 company that's financially sound and can attract  
 23 capital on a reasonable basis provides sort of the  
 24 best opportunity for customers as well.

25 COMMISSIONER FEDORCHAK: Okay. Thanks.

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1 THE WITNESS: Sure.

2 JUDGE FETCH: Other questions,  
 3 Commissioner?

4 COMMISSIONER FEDORCHAK: No.

5 JUDGE FETCH: Thank you. Commissioner  
 6 Kalk.

7 COMMISSIONER KALK: Travel safe.

8 JUDGE FETCH: Thank you. Commissioner  
 9 Christmann.

**FURTHER EXAMINATION**

**BY COMMISSIONER CHRISTMANN:**

12 Q. Ms. Bulkley, I do not understand what  
 13 we're talking about with an undisclosed settlement.  
 14 If a higher ROE is going to attract more capital  
 15 and the lower ROE is going to attract less capital,  
 16 what does an undisclosed one do? I thought that  
 17 that's like just a fundamental thing that people  
 18 need to know.

19 A. Settlements do occur that the specific  
 20 trade-offs that were made in settlement  
 21 negotiations are not made public. That's a  
 22 pretty -- that does happen in many jurisdictions.  
 23 It's not an uncommon thing.

24 Q. Don't people find out when they get their  
 25 dividends what the return was?

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1 A. No, because -- that's not necessarily --  
 2 dividend is a management decision that's made,  
 3 right, so it's not necessarily related to the  
 4 dividend.

5 COMMISSIONER CHRISTMANN: Okay. Thank  
 6 you. No further questions.

7 JUDGE FETCH: I guess I would like some  
 8 clarification. Are you saying the bottom-line ROE  
 9 is not disclosed -- the final bottom-line ROE?

10 THE WITNESS: Yes, that's correct. In  
 11 black box settlements often none of the factors are  
 12 disclosed, the specific line items that are  
 13 discussed and the determination that's made on the  
 14 individual line items. It's a total number.

15 JUDGE FETCH: Thank you. Any further  
 16 questions from Mr. Johnson?

17 MR. JOHNSON: One follow-up question,  
 18 please.

19 JUDGE FETCH: Okay.

**REDIRECT EXAMINATION**

**BY MR. JOHNSON:**

22 Q. In the context of a black box settlement,  
 23 Ms. Bulkley, is the total rate increase disclosed?

24 A. Typically, yes.

25 Q. So the components aren't, but the total

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1 is?

2 **A. Yes.**

3 **Q.** And when a company reports to its

4 individual jurisdictions, it reports its actual

5 returns, but not an authorized?

6 **A. That's correct.**

7 MR. JOHNSON: Thank you. That's all I

8 have.

9 JUDGE FETCH: Thank you. That actually

10 was my question. You worded it better, I guess.

11 Thank you.

12 Mr. Norrell, anything further?

13 MR. NORRELL: No, Your Honor.

14 JUDGE FETCH: Ms. Jeffcoat-Sacco?

15 MS. JEFFCOAT-SACCO: No.

16 JUDGE FETCH: Commissioners, anybody? I'm

17 seeing heads saying no. All right.

18 Thank you at this time, Ms. Bulkley, you

19 are excused.

20 THE WITNESS: Thank you.

21 JUDGE FETCH: Mr. Johnson, I believe you

22 indicated Kari Valley would be examining the next

23 witness, who is Steve -- is it Wishart?

24 THE WITNESS: Wishart.

25 JUDGE FETCH: Wishart. All right.

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1 MR. NORRELL: Your Honor, if I may.

2 JUDGE FETCH: Mr. Norrell.

3 MR. NORRELL: During the break Ms.

4 Cardwell had to step out to attend to a matter.

5 Could we please have a couple minutes just to make

6 a few additional more copies of a couple proposed

7 exhibits for this witness?

8 JUDGE FETCH: Sure. We'll just take a

9 couple of minutes. And, in the meantime, Ms.

10 Paulson, you can be passing out the witness

11 statements.

12 MS. PAULSON: Yes, I will.

13 (Recess taken.)

14 JUDGE FETCH: All right. We're back on

15 the record. At this time we'll proceed with NSP

16 witness Steven Wishart.

17 All right. Mr. Wishart, you were present

18 and heard me instruct as to penalties for perjury,

19 were you not?

20 THE WITNESS: I was.

21 JUDGE FETCH: Thank you. Please raise

22 your right hand.

23 (Witness sworn.)

24 JUDGE FETCH: And you have a nice volume

25 to your voice. I appreciate that.

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1 All right. At this time, Mr. Johnson,

2 please proceed. I'm sorry. Ms. Valley is going to

3 handle the examination.

4 MS. VALLEY: Thank you, Judge Fetch.

5 **STEVE WISHART,**

6 being first duly sworn, was examined and testified

7 as follows:

8 **DIRECT EXAMINATION**

9 **BY MS. VALLEY:**

10 **Q.** Mr. Wishart, you have in front of you what

11 are marked as Exhibits 16 and 17, which are your

12 already admitted copies of your supplemental

13 testimony and rebuttal testimony in this

14 proceeding; is that correct?

15 **A. That's correct.**

16 **Q.** And do you have any corrections to your

17 testimony today?

18 **A. I do.**

19 **Q.** And could you please identify those?

20 **A. In my rebuttal testimony I have several**

21 **places where I state the incorrect name of staff**

22 **consultant. Many instances reference Mr. Mugrace**

23 **when they should reference Mr. Pavlovic.**

24 **Q.** And can you identify those instances?

25 **A. I can. It's a long list. On page 2,**

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1 **lines 4, 14, and 17. On page 3, lines 18 and 24.**

2 **On page 5, lines 1, 4, and 16. Page 6, lines 4 and**

3 **6. Page 7, line 11. Page 9, lines 20 and 21. On**

4 **page 10, line 4. On page 11, lines 20 and 26. On**

5 **page 12, line 26. On page 13, lines 1 and 13.**

6 **Page 14, line 24. Page 15, line 14. Page 16, line**

7 **25. Page 18, line 6. Page -- also on page 18,**

8 **lines 9 and 18.**

9 JUDGE FETCH: For the record, I believe

10 Mr. Mugrace --

11 THE WITNESS: Mugrace. Pardon me.

12 JUDGE FETCH: -- pronounces his name -- is

13 it Mugrace?

14 MR. MUGRACE: It can be Mugrace, Mugrace.

15 JUDGE FETCH: Mugrace.

16 THE WITNESS: My apologies.

17 JUDGE FETCH: I rarely heard a name so

18 butchered so many times. Thank you.

19 **Q.** (MS. VALLEY CONTINUING) And, Mr. Wishart,

20 do you also have in front of you an exhibit marked

21 as Exhibit B?

22 **A. I do.**

23 **Q.** And under C does that identify the 17 PPAs

24 that you've discussed in your rebuttal testimony?

25 **A. It does.**

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1 **Q.** Thank you. Mr. Wishart, do you have an  
 2 opening statement today?  
 3 **A. I do.**  
 4 **Q.** Please proceed.  
 5 JUDGE FETCH: The opening statement is  
 6 labeled NSP 30 and by stipulation is admitted into  
 7 the record. And Exhibit B, Ms. Valley, was  
 8 identified last night, and that document was  
 9 requested actually by Ms. Jeffcoat-Sacco, so  
 10 Exhibit B is admitted into the record as well.  
 11 Go ahead with your opening statement, Mr.  
 12 Wishart.  
 13 THE WITNESS: Commissioners, Judge Fetch,  
 14 Commission staff, good afternoon. I am Steve  
 15 Wishart, director of resource planning for the  
 16 company.  
 17 My testimony addresses the company's  
 18 recovery of the costs for the Prairie Rose project  
 19 as well as staff's consultants' concerns regarding  
 20 17 other power purchase agreements, or PPAs, the  
 21 costs of which are currently recovered through our  
 22 fuel cost recovery tariff. We agree with the staff  
 23 consultants' assessment that the Prairie Rose  
 24 project is prudent and that, therefore, the company  
 25 should be able to recover all of its costs for the

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1 project. We also believe that continued recovery  
 2 of the 17 other PPAs is appropriate. However, the  
 3 PPAs that I address are not included in rate base  
 4 -- base rates. While we appreciate the  
 5 Commission's interest in these PPAs, the issues  
 6 raised by staff should properly be reviewed in a  
 7 separate proceeding.  
 8 We understand the Commission's concerns  
 9 and, as Ms. McCarten has stated, we have committed  
 10 to providing the Commission with the opportunity to  
 11 fully review our resource decisions in a timely  
 12 manner. I look forward to working with Commission  
 13 staff on our next long-term resource plan, making  
 14 sure that our strategy is fully vetted with them  
 15 and that the desires and concerns of North Dakota  
 16 are incorporated.  
 17 In my rebuttal testimony I point out that  
 18 most of the purchase power contracts identified by  
 19 Mr. Pavlovic have been operating on our system for  
 20 several years and were included in the fuel cost  
 21 rider in compliance with established rules. The  
 22 criticism of these contracts is based on 20/20  
 23 hindsight and does not consider all of the factors  
 24 that were in place at the time the decisions were  
 25 made. Such retrospective judgment does not comply

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1 with longstanding practice in North Dakota. We  
 2 make our business decisions based on the best  
 3 information available at the time. Many of the  
 4 identified contracts were acquired at a time when  
 5 natural gas was at an all-time high and our  
 6 assessment was that the contracts could be a  
 7 cost-effective way to protect our customers from  
 8 the volatile natural gas market.  
 9 We do want to work with the Commission and  
 10 staff to respond to the concerns raised. If the  
 11 Commission would like to review these PPAs further,  
 12 the appropriate place to do so is in a separate  
 13 proceeding reviewing our FCR and the PPAs we  
 14 recover through it. This would also allow the  
 15 opportunity for the Commission to review our FCR  
 16 mechanism and the information we provide so that we  
 17 can ensure it meets the Commission's needs and that  
 18 projects are reviewed on a prospective basis.  
 19 Fundamentally, we manage our system to  
 20 serve customers in our five different  
 21 jurisdictions. I believe that the benefits of the  
 22 integrated system far outweigh policy differences  
 23 between the states. NSP offers an incredibly  
 24 diverse portfolio of resources that has delivered  
 25 reliable power to all five states in the NSP system

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1 at a lower cost than any one state could have  
 2 achieved on its own with an isolated system. We  
 3 are happy to work with the Commission and their  
 4 staff on a prospective basis to ensure that we meet  
 5 the expectations -- their expectations and that the  
 6 integrated system continues to benefit North Dakota  
 7 ratepayers.  
 8 I appreciate the opportunity to be here  
 9 today. I will do my best to answer questions about  
 10 these issues and any other resource planning-  
 11 related questions that parties may have.  
 12 MS. VALLEY: Thank you, Your Honor. Mr.  
 13 Wishart is available for cross-examination.  
 14 JUDGE FETCH: Thank you, Ms. Valley. Mr.  
 15 Norrell.  
 16 MR. NORRELL: Thank you, Your Honor.  
 17 **CROSS-EXAMINATION**  
 18 **BY MR. NORRELL:**  
 19 **Q.** Good morning, Mr. Wishart.  
 20 **A. Good morning.**  
 21 **Q.** Looking at the various contracts that the  
 22 advocacy staff witness recommends removing from the  
 23 fuel cost rider in North Dakota -- and those are  
 24 the -- I believe these are the ones on item 7; is  
 25 that correct -- item C; is that correct?

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1 **A. Exhibit B, item C.**

2 **Q.** Were these projects modeled for

3 cost-effectiveness at all and, if so, how?

4 **A. I was not personally involved in some of**

5 **these contracts. Some of these contracts predate**

6 **my involvement in the resource planning area. I**

7 **was involved with the economic analysis of some.**

8 **Q.** Which ones were you involved in?

9 **A. To the best of my recollection, I**

10 **evaluated the two solar contracts, the KODA biomass**

11 **contract, the Moraine Wind, and I believe that's**

12 **all.**

13 **Q.** Do you know, in addition to the four

14 projects that you identified that you worked on and

15 any of the other 17 -- the other 13, what approvals

16 have been gained for these purchase power contracts

17 in the company's portfolio?

18 **A. Many of these are under the 50-megawatt**

19 **limit that requires application of a certificate of**

20 **need. I believe -- I believe, yeah, they're all**

21 **under 55 megawatts.**

22 **Q.** So no jurisdiction has approved these

23 contracts?

24 **A. No, but they were added to the fuel cost**

25 **recovery rider in accordance with the established**

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1 **rules of that rider.**

2 **Q.** Does the Minnesota Commission review costs

3 recovered through the company's fuel cost

4 adjustment in Minnesota?

5 **A. I'm not aware of the Commission's review**

6 **process for the fuel clause in Minnesota.**

7 **Q.** Do you know who would be familiar with

8 that process?

9 **A. Of the remaining witnesses, I'm not aware.**

10 **Counsel.**

11 MS. VALLEY: Thank you, Your Honor. I'm

12 not aware which of our witnesses would be able to

13 respond to that question, but we'll certainly

14 review that and see if we can identify who.

15 JUDGE FETCH: Thank you.

16 MR. NORRELL: Thank you, Your Honor.

17 Thank you, Ms. Valley.

18 **Q.** (MR. NORRELL CONTINUING) You had stated

19 in your rebuttal testimony it was the contention, I

20 believe, that advocacy staff is requesting North

21 Dakota customers receive energy for free. Are

22 North Dakota customers currently receiving free

23 energy because they aren't paying for the Prairie

24 Rose contract?

25 **A. No. Per agreement with the Commission,**

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1 **when the Prairie Rose contract was removed from the**

2 **FCR, we also removed the associated energy, and**

3 **that was not staff's recommendation as I read it**

4 **for the other contracts.**

5 **Q.** So how are North Dakota customers paying

6 for energy right now that would be priced at the

7 Prairie Rose contract price otherwise?

8 **A. I'm not sure I understand the question.**

9 **Q.** If North Dakota customers aren't receiving

10 free energy, how are they paying for that energy

11 right now?

12 **A. The way the fuel cost rider is calculated,**

13 **you take the total cost of fuel divided by the**

14 **megawatt-hours of sales essentially. By removing**

15 **both the costs and the megawatt-hours, it has the**

16 **implicit effect of replacing Prairie Rose at the**

17 **average cost of energy for the system. However, in**

18 **my supplemental direct testimony, I did point out**

19 **that we do not believe replacement with average**

20 **energy prices is proper. Rather, it should be**

21 **marginal energy costs, which is truly**

22 **representative of the costs that North Dakota**

23 **ratepayers would have been paying had the Prairie**

24 **Rose contract not been entered into.**

25 **Q.** Is it higher or lower than the average?

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1 **A. In today's current market it's very**

2 **similar. In periods when natural gas prices could**

3 **be potentially high if we see another spike in**

4 **natural gas prices, marginal costs would be higher.**

5 **Q.** So it's variable, that marginal cost?

6 **A. Both marginal and average are both**

7 **variable.**

8 **Q.** On page 5 of your rebuttal testimony you

9 mentioned there are four biomass projects that Dr.

10 Pavlovic recommends be excluded from the recovery.

11 These represent 120 megawatts of baseload

12 resources; is that correct?

13 **A. That's correct.**

14 **Q.** Can you tell us what the names of those

15 four projects are?

16 **A. As listed on Exhibit B, FibroMinn, KODA,**

17 **Laurentian and St. Paul Cogen.**

18 **Q.** How were these contracts selected?

19 **A. These contracts were selected from various**

20 **proposals. I think the -- I believe the process**

21 **began back in the late '90s and these were -- which**

22 **predated my involvement so I don't know the**

23 **specifics.**

24 **Q.** How about the KODA 1? You had worked on

25 the KODA 1; is that correct?

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1 **A. I had worked on the KODA 1. The KODA**  
 2 **project was proposed to the company. It was not**  
 3 **part of an RFP process. We did evaluate it for**  
 4 **cost-effectiveness and the judge deemed it to be a**  
 5 **reasonable price.**

6 **Q.** Was this part of an all-source process or  
 7 biomass-only bidding?

8 **A. There was no formal bidding process. It**  
 9 **was -- we frequently receive proposals kind of on a**  
 10 **one-off basis, people -- developers will approach**  
 11 **the company and ask us if we want to review their**  
 12 **proposal.**

13 **Q.** Do you know, does the FibroMinn or  
 14 Laurentian or St. Paul Cogen, how those were --  
 15 were those all-source bidding projects or  
 16 not-at-all bidding projects?

17 **A. I know they weren't part of an all-source**  
 18 **bidding process.**

19 **Q.** So those were potentially biomass-only  
 20 projects?

21 **A. Correct.**

22 **Q.** How was the pricing calculated for these  
 23 contracts, do you know, or if not all of them, the  
 24 KODA 1 in particular?

25 **A. The developer would develop their pricing**

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1 **proposal.**

2 **Q.** I believe it was in your testimony you had  
 3 stated the company was required to procure biomass  
 4 resources as a condition to continue operating its  
 5 nuclear plant; is that correct?

6 **A. Correct. Again, predates my involvement,**  
 7 **but my understanding is that as part of the**  
 8 **agreement for dry cask storage at the Prairie**  
 9 **Island nuclear site, that we were required to also**  
 10 **acquire additional biomass resources.**

11 **Q.** Does that apply only to the Prairie Island  
 12 or both?

13 **A. I don't recall specifically if it was**  
 14 **Prairie Island only or Prairie Island and**  
 15 **Monticello.**

16 **Q.** Does -- is that -- is that requirement, is  
 17 that a statutory obligation? Was that imposed by  
 18 law?

19 **A. Commission order.**

20 **Q.** Commission order. Did the Commission  
 21 require the company to purchase a certain amount of  
 22 output in regards to these biomass projects?

23 **A. My understanding is that it was a capacity**  
 24 **requirement, so so many megawatts, not necessarily**  
 25 **megawatt-hours.**

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1 **Q.** Did the company at any point, do you know,  
 2 express any concern at the pricing of these  
 3 mandatory biomass projects that they had to invest  
 4 in?

5 **A. I do not know.**

6 **Q.** Do you know, is there a witness who might  
 7 be able to testify to that?

8 **A. I doubt it. That reaches back pretty far.**

9 **Q.** Just a second, please. Mr. Wishart, do  
 10 you have any familiarity with the St. Paul Cogen  
 11 PPA?

12 **A. I'm familiar with it.**

13 **Q.** Is that currently pending in the Minnesota  
 14 jurisdiction -- the approval of that?

15 **A. The approval of the St. Paul Cogen?**

16 **Q.** What's the status of that PPA?

17 **A. We're currently recovering the cost of**  
 18 **that through our fuel cost rider in Minnesota.**

19 **Q.** Okay. Could you explain why the company  
 20 doesn't believe the Commission should review the  
 21 PPAs in this case?

22 **A. This is actually my first rate case and**  
 23 **I've been very impressed by the volume of material**  
 24 **that's being covered here. The company requesting**  
 25 **the rate case was to increase our base rates**

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1 **portion of the customer's bill with the fuel clause**  
 2 **being a distinctly separate part of the customer's**  
 3 **bill.**

4 **I think it's important, if we want to**  
 5 **review these contracts, that we do so thoroughly**  
 6 **and thoughtfully, and given the amount of material**  
 7 **being covered here, maybe we could give it more**  
 8 **focus and more time that it deserves in a separate**  
 9 **proceeding.**

10 **Q.** The conversations with advocacy staff over  
 11 here would kind of lean that same direction too.

12 You had mentioned in your opening  
 13 statement that you would be -- you talked about the  
 14 benefits of the integrated system, that have  
 15 benefits to North Dakota ratepayers and that you  
 16 would be open to adjusting any other resource  
 17 planning questions. Would you be open to  
 18 discussing integrated resource planning at all?

19 **A. Absolutely. One of my favorites topics.**

20 **Q.** There was some discussion of this  
 21 yesterday and so we kind of wanted to -- we felt  
 22 that -- we saw your title, I believe is the -- is  
 23 it the director of --

24 **A. Director of resource planning.**

25 **Q.** How long have you been in that position?

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1 **A. A little over a year.**

2 **Q.** Were you here at all yesterday?

3 **A. I was down in the basement listening to**

4 **the audio stream.**

5 **Q.** Okay. There was some talk yesterday about

6 how the company meets peak loads, and so one of the

7 things when we saw the system planner was on the

8 docket, we'd like to address that.

9 **A. Sure.**

10 **Q.** And you've met, I believe -- have you met

11 with staff, not necessarily me -- similar to you,

12 this is my first case. Have you met with staff on

13 various occasions to explain how you do integrated

14 resource planning?

15 **A. Yeah, we had a few meetings where we met**

16 **in our office in Minneapolis and discussed a wide**

17 **variety of resource planning topics, yeah.**

18 **Q.** Could you explain how the company meets

19 its peak demand on whatever day it occurs?

20 **A. Turn everything on.**

21 **Q.** Could you walk us through kind of an, you

22 know, early morning through the late evening, just

23 how does that work?

24 **A. Sure. Operating in the MISO power pool,**

25 **MISO is actually responsible for the dispatch of**

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1 **each individual unit. The process starts the day**

2 **before when we submit our bids in to MISO telling**

3 **them at what price our units would be available to**

4 **run in addition to some operating parameters**

5 **associated with minimum run times and ramp rates.**

6 **MISO receives all that data in addition to load**

7 **forecast for the next day, puts it into a dispatch**

8 **model and then as load goes higher and higher, they**

9 **dispatch the next least-cost unit in merit order**

10 **until total customer demand is met.**

11 **Typically in the morning time we'll have**

12 **all of our baseload resources running in addition**

13 **to our intermediate combined cycle natural gas**

14 **resources, and then as we reach the peak of the**

15 **day, we will start activating our peakers, and then**

16 **at the very maximum part of the day we might also**

17 **exercise load control. We have customers on**

18 **special tariffs that they've agreed to reduce their**

19 **loads in such very peak conditions in exchange for**

20 **a discount.**

21 **Q.** So you've got a fleet of different kinds

22 of generating units that are dispatched in a

23 particular order; is that correct?

24 **A. Correct.**

25 **Q.** And that order would be the least costly

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1 units to run and then supplemented with the higher

2 cost units, is that --

3 **A. Correct. And the order is general. It's**

4 **not necessarily every single exact unit in order,**

5 **but there's several that are very close to each**

6 **other and it's kind of interchangeable.**

7 **Q.** Okay. What do you do with the costly

8 units when the system isn't peaking?

9 **A. Pardon? Could you restate the question?**

10 **Q.** What do you do with those costly units?

11 What's their status? Are they just sitting there

12 turned off when the system isn't peaking?

13 **A. Correct. Our peaking fleet operates on**

14 **average maybe 5 percent of the hours over the**

15 **course of the year, but, on the other hand, they**

16 **are also some of the cheapest units to build, so**

17 **it's a strategy we take.**

18 **Q.** Would it be correct to say that once you

19 have all the assets in place to meet peak demand,

20 they're available for any other month's

21 requirements?

22 **A. No, that's not -- that wouldn't be**

23 **correct.**

24 **Q.** How so?

25 **A. Scheduled maintenance is probably the**

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1 **biggest item. All units, even if they only run 5**

2 **percent of the year, are subject to being taken out**

3 **of service, you know, for general repairs and**

4 **making sure that they're available and reliable to**

5 **meet that summer peak.**

6 **Also we have several resources -- natural**

7 **gas resources that operate on interruptible gas**

8 **contracts, which means that during the winter**

9 **there's many hours, because most of the natural gas**

10 **supply lines are being used for residential heating**

11 **and commercial use, that those units are**

12 **unavailable to run due to inability to access gas.**

13 **We also have some contracts that are for**

14 **summer only -- bilateral contracts with other**

15 **parties that are for summer only and are not**

16 **available in the winter.**

17 **And one particular contract we have with**

18 **Manitoba Hydro, it includes what's called a**

19 **diversity exchange. We send them 350 megawatts of**

20 **power during the winter and they send us 350**

21 **megawatts of power during the summer. So that's**

22 **essentially a 700-megawatt swing. We think that's**

23 **a great deal because we really value the extra**

24 **capacity in the summer, they really value the extra**

25 **capacity in the winter and it's a good exchange.**

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1 **Q.** Would it be appropriate to say that one of  
 2 your goals at NSP is to reduce peak demand?  
 3 **A.** **We do have conservation programs that do**  
 4 **impact customers' consumptions, but we don't**  
 5 **specifically target peak demand.**  
 6 **Q.** You had mentioned there were some clients  
 7 who have contracts -- or customers who have  
 8 contracts where they will pay a lower rate for  
 9 having their power turned off or something; is that  
 10 correct?  
 11 **A.** **Correct. I think the easiest example is**  
 12 **our Saver's Switch program. It's a computer device**  
 13 **that is installed on residential customers'**  
 14 **air-conditioning units, and during periods of very**  
 15 **high peak demand -- we do this, you know, as kind**  
 16 **of the last step in our dispatch -- we send out a**  
 17 **signal that cycles their air conditioner on and off**  
 18 **every 15 minutes. That has the impact of**  
 19 **flattening out that very peak customer demand**  
 20 **and --**  
 21 **Q.** Is that considered demand-side management?  
 22 **A.** **It's generally referred to demand-side**  
 23 **management or demand response.**  
 24 **Q.** Is it fair to say that you put those in  
 25 place to avoid using the expensive peaking units

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1 then?  
 2 **A.** **Not so much to avoid running our peaking**  
 3 **units. It's a way to avoid having to build new**  
 4 **peaking units.**  
 5 **Q.** On a scale of 1 to 10, 10 being most  
 6 likely, 1 being not at all, what are the chances  
 7 that your system as a whole will peak in the  
 8 summer?  
 9 **A.** **10.**  
 10 **Q.** What causes that?  
 11 **A.** **What causes that? Cooling loads, the**  
 12 **prevalence of residential cooling. I think in the**  
 13 **good old days our monthly peaks might have been a**  
 14 **lot closer together, but with -- now that everybody**  
 15 **has an air conditioner at home, I think that's**  
 16 **really a driver.**  
 17 **Q.** Generally speaking, when you run those  
 18 peakers, the most expensive units to run, when are  
 19 you running those? Is that summertime?  
 20 **A.** **It occurs in all months of the year.**  
 21 **They're used more in the summer.**  
 22 **Q.** How do these purchase power agreements fit  
 23 in with meeting peak demand and mesh in with the  
 24 peaking units?  
 25 **A.** **They contribute just like any other**

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1 **resource. Some are around the clock, 24/7, some**  
 2 **are on a schedule. We have a different contract**  
 3 **with Manitoba Hydro where they provide us just**  
 4 **on-peak power.**  
 5 **Q.** You had mentioned MISO earlier, I think.  
 6 Do they establish -- is it true they establish a  
 7 reserve margin that the company must maintain in  
 8 order to meet peaks?  
 9 **A.** **Correct. MISO does establish what's known**  
 10 **as -- it's called module E, and through that**  
 11 **process every spring we submit what are known as**  
 12 **planning reserve credits, and those are based on**  
 13 **how many megawatts of capacity we have, and we have**  
 14 **to submit a sufficient number of those to meet our**  
 15 **expected peak plus a percentage on top of that for**  
 16 **reliability, and they establish that extra percent**  
 17 **on top which is known as the reserve margin.**  
 18 **Q.** What happens if you don't have that  
 19 reserve margin? Penalties?  
 20 **A.** **If we cannot submit enough credits, our**  
 21 **first option would be to try to buy some from**  
 22 **another party. They're exchangeable, you know,**  
 23 **throughout MISO. We could buy some from a**  
 24 **neighbor. Alternately, we are forced -- the**  
 25 **penalty is known as CONE, cost of new entry, and**

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1 **it's essentially based on the cost of a new peaker.**  
 2 **So we kind of end up in a situation where we can**  
 3 **build a new peaker or we could pay the cost of a**  
 4 **new peaker. I think it gives you incentive for us**  
 5 **to go ahead and build the resources that are needed**  
 6 **to meet customer load.**  
 7 **Q.** When establishing that reserve margin,  
 8 does MISO concern itself with shoulder months at  
 9 all, or is it more of --  
 10 **A.** **I believe they do. They run a loss of**  
 11 **load probability study that is a simulation model**  
 12 **that looks at every hour of the year. Obviously,**  
 13 **you know, at 4:00 a.m. in March when load is very**  
 14 **low, that has a small effect on the results, but**  
 15 **every hour is considered.**  
 16 **Q.** Just a second, please. Does the result of  
 17 that load loss probability establish a theoretical  
 18 peak at all?  
 19 **A.** **No. The peak -- the peak demand that MISO**  
 20 **will use is submitted by each individual member of**  
 21 **MISO to MISO and they aggregate into one.**  
 22 **Q.** Does MISO -- do they concern themselves or  
 23 are they worried about when NSP has a scheduled  
 24 outage for maintenance? Does that deviate the  
 25 reserve margin?

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1 **A. They do take into account planned outages,**  
 2 **I believe, in their loss of load probability study,**  
 3 **and that's why some of the other months have an**  
 4 **impact too, because there might be large outages**  
 5 **scheduled for winter when there's a -- winter peak**  
 6 **is not as high as the summer, but there's**  
 7 **definitely a winter peak too.**  
 8 **Q.** Can I ask you a couple questions just  
 9 about transmission in general?  
 10 **A. I'm not a transmission expert. I will do**  
 11 **my best to try to answer the question.**  
 12 **Q.** Okay. Just can you transport more or less  
 13 energy on a hot day?  
 14 **A. I believe during hot summer days the**  
 15 **transmission system is less efficient.**  
 16 **Q.** How about on a cold day, would it be more  
 17 or less efficient?  
 18 **A. As the temperature increases, I think**  
 19 **transmission becomes less efficient, so colder**  
 20 **would be -- would have more transport capability.**  
 21 **Q.** And if North Dakota's NSP operation peaks  
 22 in the winter, on a systemwide peaks in the summer,  
 23 can it be said that North Dakota's proportional use  
 24 of the transmission facility is less than the total  
 25 system requirements?

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1 **A. I don't know that I can say that.**  
 2 **Q.** If NSP's North Dakota operation peaks in  
 3 the winter and the systemwide peak occurs in the  
 4 summer, can it be said that North Dakota's  
 5 proportional use of transmission facilities is less  
 6 than the total system requirements?  
 7 **A. Repeat the last part of that question.**  
 8 **North Dakota's --**  
 9 **Q.** Proportional use of the transmission  
 10 facilities is less than the total system  
 11 requirements.  
 12 **A. I think you would have to look at -- to**  
 13 **assess North Dakota's proportional use of the**  
 14 **transmission system, you would have to look at**  
 15 **every hour of the day, not just the peak. I think**  
 16 **that's important because you're using it off peak**  
 17 **too. Distance, I would suppose, would have to play**  
 18 **into that -- the distance to deliver energy to our**  
 19 **customers. They might use proportionally more**  
 20 **because of the distance associated with the whole**  
 21 **thing.**  
 22 **Q.** Would the distance come into effect  
 23 because there's no generation in North Dakota?  
 24 **A. That would play into it, yes.**  
 25 **MR. NORRELL:** All right. I have no

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1 further questions.  
 2 **JUDGE FETCH:** Ms. Jeffcoat-Sacco?  
 3 **MS. JEFFCOAT-SACCO:** I do, and I have some  
 4 requests for the company, which I thought if Ryan  
 5 took into the noonhour, I was just going to ask  
 6 them of the attorney off the record.  
 7 **JUDGE FETCH:** Well, we are at twelve  
 8 o'clock noon. Let me ask the Commissioner how you  
 9 want to proceed, because we're probably going to go  
 10 a while yet with this witness. Do you want to  
 11 break now for lunch? Do you want to finish with  
 12 this witness, break later?  
 13 **COMMISSIONER KALK:** I'd just as soon as  
 14 stay on our schedule and break from 12 to 1. If  
 15 there's any data requests right now, this would be  
 16 a good time to throw them out there, if there's  
 17 something that one of us wants. I've already  
 18 thought of the Prairie Winds order that we did. I  
 19 would like to have that printed off.  
 20 **MS. JEFFCOAT-SACCO:** Yes, I can get that  
 21 for you.  
 22 **JUDGE FETCH:** All right. Then we will  
 23 take a lunch recess at this time. It is just about  
 24 exactly twelve o'clock noon and we will stand in  
 25 recess until one o'clock.

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1 (Recess taken at 11:59 p.m. to 1:10 p.m.)  
 2 **JUDGE FETCH:** All right. We're back in  
 3 session and, Mr. Wishart, would you take the stand,  
 4 please.  
 5 At this time we'll continue with Ms.  
 6 Valley, your questions for Mr. -- where were we  
 7 when we broke? I believe we were back to you to  
 8 redirect.  
 9 **COMMISSIONER FEDORCHAK:** Illona.  
 10 **MS. VALLEY:** Thank you, Judge Fetch. I  
 11 believe that Mr. Norrell may have completed his  
 12 cross-examination.  
 13 **JUDGE FETCH:** Oh, thank you.  
 14 All right. Ms. Jeffcoat-Sacco, did you  
 15 have further questions for Mr. Wishart?  
 16 **MS. JEFFCOAT-SACCO:** Actually I had  
 17 several questions, but I discussed them with the  
 18 company over the break and I believe they're  
 19 presenting everything, either at this point or at  
 20 some point shortly in the future so I think I'm  
 21 okay.  
 22 **JUDGE FETCH:** Okay. Were there any  
 23 documents that came up that we need to deal with?  
 24 **MS. JEFFCOAT-SACCO:** I handed out the  
 25 order that Commissioner Kalk requested, but I don't

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1 know that we need to mark it. I'll just give the  
 2 case number. It's in the advance determination of  
 3 prudence for what we call Geronimo Wind, but it's  
 4 Prairie Rose, and it's Case PU-12-59, the order  
 5 dated December 21, 2012.

6 JUDGE FETCH: Okay. And that is the  
 7 Commission's order so that need not be introduced  
 8 as an exhibit.

9 Okay. All right. Anything else then, Ms.  
 10 Jeffcoat-Sacco?

11 MS. JEFFCOAT-SACCO: No. Thank you.

12 JUDGE FETCH: All right. We'll go back to  
 13 the Commission then. Commissioner Fedorchak, did  
 14 you have any further questions?

15 COMMISSIONER FEDORCHAK: I do.

**EXAMINATION**

**BY COMMISSIONER FEDORCHAK:**

18 **Q.** Mr. Wishart -- Wishart; right?

19 **A.** Yes, ma'am.

20 **Q.** I sort of like the Wisheart. That is a  
 21 cool name.

22 Walk me through on page 12 of your  
 23 rebuttal testimony, on the top there's a line --  
 24 third line says we need some level of certainty  
 25 that once a resource decision is made, prudently

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1 incurred costs of that resource are recoverable.  
 2 So walk me through -- I realize this is a big  
 3 process -- but kind of a condensed version of how  
 4 you make your resource decisions.

5 **A.** How we make our resource decisions? Our  
 6 resource planning process starts with the forecast  
 7 of customer demand, and using various tools we  
 8 attempt to identify the least-cost resource that  
 9 can meet our customers' needs for reliability while  
 10 complying with all the rules and regulations that  
 11 we're subject to.

12 We start off with a broad plan,  
 13 identifying broad types of resources, peaking or  
 14 intermediate or baseload or renewables, and then we  
 15 proceed to a more focused acquisition process such  
 16 as we're in right now for the peakers that we  
 17 proposed for North Dakota and Minnesota where we  
 18 identify specific plants and projects and evaluate  
 19 that subset to identify the least cost of those to  
 20 serve customers' needs.

21 **Q.** Okay. But the demand comes first?

22 **A.** That's the primal. Resource planning is  
 23 really driven by our forecasts of our customers'  
 24 needs.

25 **Q.** Okay. So is it a constant -- are you

500

1 constantly doing this, or do you have a set process  
 2 where you go through it once a year or once every  
 3 few years and then you stop and then you start up  
 4 again?

5 **A.** Formal filings occur about every two to  
 6 three years. Ideally it's two. Sometimes it  
 7 stretches to three. But in reality we're doing it  
 8 constantly. We're constantly evaluating our  
 9 system, evaluating our latest forecast of  
 10 customers' demand, evaluating new rules and  
 11 regulations that are coming. So the formal filings  
 12 have been on a periodic basis, but in the  
 13 background we're constantly evaluating our future  
 14 needs.

15 **Q.** Okay. Then when you have the resource  
 16 additions, in past rate cases how have these  
 17 resource additions been handled?

18 **A.** In past rate cases?

19 **Q.** Yeah. It sounds to me like the company is  
 20 suggesting that this eliminating or not considering  
 21 these PPAs is a change in precedent, and so I'm  
 22 trying to understand how it used to be handled if  
 23 there's a comparable. Maybe wind is totally  
 24 different and hasn't been done before.

25 **A.** With new resources, if we have a new

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1 **company-built power plant, within the rate case it**  
 2 **would be addressed through the discussions on**  
 3 **depreciation because we would want to add that**  
 4 **resource to rate base and have the depreciation**  
 5 **expense included in our request for an increase.**  
 6 **So that's how it would be handled for a new owned**  
 7 **power plant.**

8 For purchased power, from my  
 9 understanding, it has not previously been addressed  
 10 because it flows through a different part of the  
 11 customers' bill known as the fuel cost rider, and  
 12 that has separate rules that allow for the  
 13 additions of new PPAs to that rider and is subject  
 14 to review at any time, but it just historically  
 15 hasn't been done in the context of a rate case.

16 **Q.** All right. So on these projects that  
 17 we're looking at these PPAs, what has been their  
 18 effect on fuel costs? They're recovered through  
 19 the rider; right?

20 **A.** Correct.

21 **Q.** So we're not talking about adding anything  
 22 to base?

23 **A.** Correct.

24 **Q.** So the rider is to recover fuel costs and,  
 25 I guess, the company's argument, I'm assuming, is

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1 that wind is the fuel?

2 **A. Correct. It's an energy resource, whereas**

3 **the issues you deal with in a rate case are**

4 **capacity, the difference being capacity costs are**

5 **the cost to construct a new power plant whereas the**

6 **energy costs are the costs of the fuel or the cost**

7 **of -- other costs to produce the energy after the**

8 **plant has already been built.**

9 **Q. And is it your opinion that wind is just**

10 **fuel? Isn't there some capacity in there?**

11 **A. There is a little capacity associated with**

12 **wind. Based on MISO rules, we give wind a 13.3**

13 **percent capacity credit. However, the contracts**

14 **that we're talking about are paid on a per-**

15 **megawatt-hour basis, so we're only paying for every**

16 **unit of energy that comes out of it. We're not**

17 **paying any capacity payments for them.**

18 **Q. Okay. Would there be capacity charges**

19 **included in what you're being charged -- I mean,**

20 **per megawatt-hour, I mean, they recovered?**

21 **A. You mean embedded within that number?**

22 **Q. Yeah.**

23 **A. From the developer's perspective? I**

24 **suppose it's best for me to --**

25 **Q. They're recovering the cost of their**

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1 investment?

2 **A. They're recovering the cost of their**

3 **initial investment, and their fuel costs are**

4 **essentially zero because wind is free.**

5 **Q. Yeah. So the challenge here, in my**

6 **opinion, is determining whether wind is a power --**

7 **how much are we charging -- how much do we take**

8 **into consideration the plant versus the -- just as**

9 **a -- considering it like a fuel.**

10 **A. Sure. You know, as I mentioned, I think**

11 **it's completely appropriate to address the**

12 **questions of these contracts in whatever situation**

13 **you deem appropriate, but whether or not to include**

14 **consideration of your fuel cost rider in this**

15 **docket I would recommend has more to do with the**

16 **breadth of information you think you can address**

17 **within this docket.**

18 **If we feel that we have enough time to**

19 **fully explore all the issues surrounding these PPAs**

20 **that have been identified, we're more than willing**

21 **to do that, but my perception is that to fully**

22 **understand these contracts in the context under**

23 **which they were signed to determine whether or not**

24 **they were prudently acquired would take**

25 **considerable amount of work. We would have to go**

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1 **back, kind of reconstruct the business information**

2 **that was available at the time on the rules and**

3 **statutes that were in place at the time and it**

4 **would be a lengthy discussion to fully vet these**

5 **PPAs that have been identified.**

6 **Q. Okay. All right. Then tell me how the**

7 **transmission costs incurred to connect these**

8 **projects, how are those recovered? Is that also in**

9 **the fuel clause? Is it somehow tied to the cost**

10 **per megawatt-hour that you're being charged?**

11 **A. No. The transmission goes into these base**

12 **rates. The transmission system is a capital-**

13 **intensive thing. It's part of the base rates that**

14 **are part of this docket.**

15 **Q. So there's already transmission costs for**

16 **these projects in this docket?**

17 **A. Correct. These projects didn't require**

18 **much in the way of incremental transmission.**

19 **They're located fairly close to load or existing**

20 **transmission lines. We didn't have to build**

21 **anything new and big to support these.**

22 **Q. All right. I'd like to ask you some**

23 **additional questions on wind, but I'm going to**

24 **refrain because we can save that for a different**

25 **proceeding perhaps.**

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1 Then I just want to pick your brain for a

2 minute on demand-side management programs. Is that

3 an area that you're involved in?

4 **A. Yes, resource planning is involved with**

5 **demand-side management and my first job with the**

6 **company was in the demand-side management area.**

7 **Q. In your opinion, have we exhausted the**

8 **potential of demand-side management to the point**

9 **where we've done what we can so resource additions**

10 **are the only other alternative, or is there more**

11 **room for work in that area?**

12 **A. No, we continue to work on demand-side**

13 **management. One phrase we like to use commonly is**

14 **that the low-hanging fruit has been picked. With**

15 **federal energy efficiency standards forcing people**

16 **to become more efficient, it reduces our**

17 **opportunities to do supplemental efficiency on top**

18 **of that, but we do have plans in place to continue**

19 **our energy efficiency programs into the future and**

20 **we account for those savings when we do our**

21 **resource planning process.**

22 **Q. And is that something the company does?**

23 **Is that something that happens through a rate case?**

24 **When do we get -- when is the best time to tackle**

25 **those kind of programs?**

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1 **A. Historically North Dakota has not**  
 2 **participated very much in our energy efficiency**  
 3 **programs. In our other jurisdictions there's a**  
 4 **separate proceeding called the conservation**  
 5 **improvement plan where we lay out a three-year plan**  
 6 **and our budget, which type of resources we're going**  
 7 **to target, and the estimated cost and benefits of**  
 8 **those. That's a separate proceeding in our other**  
 9 **jurisdictions.**

10 COMMISSIONER FEDORCHAK: Okay. Thanks,  
 11 Steve. That's all from me.

12 THE WITNESS: Not a problem.

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

15 COMMISSIONER KALK: Thank you, Your Honor.

**EXAMINATION**

17 **BY COMMISSIONER KALK:**

18 **Q.** Thank you, Steve, for your testimony.  
 19 What's your dissertation on? I see you're almost  
 20 done.

21 **A.** **It's not being written at the moment. I**  
 22 **was focusing on --**

23 **Q.** What's your topic?

24 **A.** **-- energy efficiency.**

25 **Q.** Of course.

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1 **A.** **Yeah.**

2 **Q.** All right. Good. So suffice to say  
 3 you're a, quote, expert in this field?

4 **A.** **I like to think so.**

5 COMMISSIONER KALK: All right. Fair  
 6 enough. I want to make sure with Illona too.  
 7 There's 17 renewable PPAs that we're talking about  
 8 here, and so, Illona, you've talked to the company  
 9 and you're going to get a listing of those 17? I  
 10 want to make sure while we have the witness here  
 11 that --

12 MS. JEFFCOAT-SACCO: Commissioner, we do  
 13 have the list.

14 COMMISSIONER KALK: Okay.

15 MS. JEFFCOAT-SACCO: What I had asked for  
 16 in addition was the dates that they came into the  
 17 fuel adjustment, that we first got recovery in a  
 18 fuel adjustment, so that's coming, I believe, and  
 19 then I will have a question about a trade secret --  
 20 some trade secret information related.

21 COMMISSIONER KALK: Will we be getting the  
 22 megawatts of those, back to the 50-megawatt  
 23 threshold from the Commission orders saying you  
 24 have to come in for ADPs?

25 MS. JEFFCOAT-SACCO: Well, that I didn't

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1 -- that was going to be a question for the company  
 2 also. I don't see any connection with the 50. The  
 3 company says it's what they promised. I didn't  
 4 look at it.

5 COMMISSIONER KALK: Okay. Thank you.

6 **Q.** (COMMISSIONER KALK CONTINUING) Steve, do  
 7 you know of those 17 -- or those projects, do you  
 8 know how many of them are above 50 megawatts? We  
 9 know the Prairie Winds one is 200 megawatts.

10 **A.** **Out of the 17 -- the list of 17 does not**  
 11 **include the Prairie Rose.**

12 **Q.** Okay. Fair enough.

13 **A.** **But of the 17 none are over 50 -- oop,**  
 14 **FibroMinn is the one that is listed at 55**  
 15 **megawatts.**

16 **Q.** Okay. So we'll sort through that in a  
 17 work session, but I just want to kind of go  
 18 through -- I'm not sure how this discussion will  
 19 lay out, but it sets the stage, I think, that prior  
 20 to me getting on the Commission, we had a  
 21 Commission order that basically directed Xcel  
 22 Energy to come in front of the Commission before  
 23 they enter into these kind of things and ask for an  
 24 ADP, and so the Prairie Wind, of course, came in  
 25 front of the Commission when I was here and others

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1 that are at the bench right now and basically we  
 2 looked at this case, Case No. PU-12-59, and said it  
 3 was not timely so that kind of set the stage that  
 4 we wanted -- I was here at the time so we -- I  
 5 didn't like the fact that the company came in after  
 6 the fact and asked for this ADP, it wasn't timely,  
 7 so we rejected it, it wasn't timely, but put this  
 8 sentence in there that further proceedings to  
 9 establish a record regarding appropriate ratemaking  
 10 treatment for the cost of purchase power agreement  
 11 with Geronimo Wind, LLC. So that's something that  
 12 we ordered. So how do we reconcile this? Is the  
 13 company going to put something in saying we request  
 14 to pull all of this out of this rate case or is  
 15 that something that during the work sessions you'd  
 16 like us to direct?

17 I'm trying to -- I mean, it could be very  
 18 simple if the company would just say, you know,  
 19 let's pull all these wind farms out right now and  
 20 we'll deal with it later, because, otherwise, we're  
 21 going to put it back -- I mean, do you have any  
 22 thoughts on that, how we should reconcile these,  
 23 because if you leave it to me, I'll just disallow  
 24 everything and we'll be done.

25 **A.** **Let's not do that.**

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1 **Q.** Okay. That would be very easy for me to  
 2 reconcile inside this rate case.  
 3 **A.** **What we propose is for a review process of**  
 4 **these 17 PPAs. First I'd like to point out that**  
 5 **these came in -- you know, they started producing**  
 6 **energy in the 2010 time frame, the PPAs were agreed**  
 7 **to, you know, preceding that, so we are reaching**  
 8 **back quite a distance, and I believe it predates --**  
 9 **Q.** It does.  
 10 **A.** -- the ADP statute that you're talking  
 11 about.  
 12 **Q.** We think it does, but we'll get the record  
 13 to verify that.  
 14 **A.** **We'll get to the bottom of that, yes, sir.**  
 15 **I would recommend a separate proceeding, perhaps a**  
 16 **new docket opened to review the FCR of how it's**  
 17 **calculated and what the rules are associated with**  
 18 **adding new resources to that, because at the time**  
 19 **we were complying with the FCR rule that says when**  
 20 **you have a renewable energy contract, you're**  
 21 **allowed to add that to the FCR.**  
 22 **I think such a docket would -- within such**  
 23 **a docket we could go back and review the**  
 24 **decisionmaking process that was performed at the**  
 25 **time to judge to see if it was prudent. I would**

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1 like to point out that many of these wind contracts  
 2 that are identified in the list of 17 were selected  
 3 through a 2008 RFP process. If you recall in 2008,  
 4 that's when we were hitting our all-time spikes in  
 5 natural gas prices.  
 6 **Q.** But the long and short of it, you're  
 7 recommending we pull these out, do it in a separate  
 8 proceeding?  
 9 **A.** **That is my recommendation. I'm sorry.**  
 10 **Q.** Does the company -- do you speak for the  
 11 company on that? I would presume.  
 12 **A.** **I believe there's a consensus in the**  
 13 **company on that.**  
 14 **Q.** I think that kind of cleans up the rest of  
 15 my questions then. I did have just one since  
 16 you're an expert in the field --  
 17 **A.** **Yes, sir.**  
 18 **Q.** -- knowing you did a good job for  
 19 finishing that. How would you advise commissioners  
 20 like myself when you've got a state like North  
 21 Dakota that's energy rich, you have presumably  
 22 enough energy to meet all that Fargo and Grand  
 23 Forks and Minot would ever need, but an integrated  
 24 system keeps building more generation to meets its  
 25 integrated system needs, but yet North Dakota

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1 ratepayers are going to be paying for that long  
 2 term when maybe don't need more to meet North  
 3 Dakota demand. How do you reconcile that?  
 4 **A.** **I think North Dakota -- if North Dakota**  
 5 **does have excess generation sufficient to meet its**  
 6 **entire demand, that would imply that there are**  
 7 **currently unused generators in the region. Our**  
 8 **most recent resource acquisition process allowed**  
 9 **for additional generations -- existing generation**  
 10 **to participate in that process. To the extent that**  
 11 **there's other utilities with owned generations**  
 12 **within North Dakota, they were more than welcome to**  
 13 **participate in our process and say, hey, we got an**  
 14 **extra hundred megawatts at this generator that**  
 15 **we're not using, we would like to submit that for**  
 16 **consideration in your process to see if it's the**  
 17 **least-cost solution to serve the needs of the**  
 18 **customers.**  
 19 **We have an open process that actively**  
 20 **looks for existing generation, and we got a -- we**  
 21 **did have a short-term capacity offer from Great**  
 22 **River Energy, so they participated in that way. So**  
 23 **when we look at our system, we do see a capacity**  
 24 **need in the 2017 -- starting in the 2017 time**  
 25 **frame. It has to do with the retirement of our**

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1 **Black Dog 3 and 4 coal units. We did that to**  
 2 **comply with the federal emission rules. And then**  
 3 **there is some -- there's load growth in the area**  
 4 **too, so even if we're okay now, load is going to**  
 5 **continue to grow and by 2017 we think we'll have --**  
 6 **there will be more customer demand than we have**  
 7 **resources to meet it.**  
 8 **Q.** So do you actively work with  
 9 Montana-Dakota Utilities as they develop their  
 10 generation needs to how that might tie in to your  
 11 generation needs?  
 12 **A.** **There isn't a lot of cooperation between**  
 13 **utilities when it comes to planning new resources,**  
 14 **no, but we would be open to the discussion.**  
 15 **Q.** So they all bid into MISO, if you will,  
 16 but you're saying at the utility level you don't  
 17 talk to -- we have a history of MDU and Otter Tail  
 18 building coal plants together, so why wouldn't Xcel  
 19 Energy be working with MDU who is building  
 20 generation -- a lot of generation right now in the  
 21 state?  
 22 **A.** **I don't have a good explanation for that.**  
 23 **Traditionally Xcel has been large enough to build**  
 24 **and finance our own power plants. On an integrated**  
 25 **systemwide basis our load can grow by 200 megawatts**

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1 per year and that's sufficient load growth that we  
 2 can build our own power plant to serve our own  
 3 needs.  
 4 Q. But you're buying all these PPAs.  
 5 A. When we look at a new resource, we're  
 6 indifferent to whether it's an owned or PPA  
 7 resource. We want the best -- whatever is best for  
 8 our customer, and that's why we have these  
 9 competitive processes where we put all projects on  
 10 the table and compare them.  
 11 Q. Have you ever seen commissions direct  
 12 utilities to work together on generation?  
 13 A. No, I have not.  
 14 Q. Is that something that would be out of the  
 15 realm perhaps?  
 16 A. I don't think so, no.  
 17 COMMISSIONER KALK: Okay. Thank you.  
 18 JUDGE FETCH: Thank you, Commissioner.  
 19 Commissioner Christmann.  
 20 **EXAMINATION**  
 21 **BY COMMISSIONER CHRISTMANN:**  
 22 Q. Mr. Wishart, just for clarification, I  
 23 look at this list on Exhibit B, I don't think it's  
 24 very important, but just to be clear, it says 17  
 25 PPAs. When I count them, I only come up with 16.

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1 A. Oh, oh.  
 2 Q. But I'm going to refer to 17 here. If  
 3 there's one on here that -- if there's one that  
 4 doesn't show up on here that's in a different  
 5 category, then it's probably going to throw my  
 6 questioning off. What I see these all have in  
 7 common is they're renewable. Can you give me -- I  
 8 know we're looking for dates on these. Would the  
 9 earliest ones be eight, ten, twelve years old?  
 10 A. The earliest one came on line in 2003.  
 11 Q. '03. And how new might the newest  
 12 agreement be?  
 13 A. The newest one was Jan. 1 of this year.  
 14 Q. So '03 through '13?  
 15 A. Yes, sir.  
 16 Q. Okay. Then I want to jump back to your  
 17 testimony of today, on the second page, the very  
 18 top paragraph that's carried forward from the first  
 19 page.  
 20 A. I'm sorry. My direct testimony or  
 21 rebuttal?  
 22 COMMISSIONER FEDORCHAK: Your opening  
 23 statement.  
 24 THE WITNESS: Oh, my opening statement.  
 25 I'm sorry.

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1 Q. (COMMISSIONER CHRISTMANN CONTINUING) Your  
 2 opening statement.  
 3 A. Yes, sir.  
 4 Q. You mentioned criticism of these  
 5 contracts, and I'm assuming you're talking about  
 6 criticism from advocacy staff.  
 7 A. Their consultants, yes, sir.  
 8 Q. Or their consultants, yes. So the  
 9 advocacy staff criticism of these contracts is  
 10 based on 20/20 hindsight and -- this is an  
 11 important part -- does not consider all the factors  
 12 that were in place at the time the decisions were  
 13 made. Later on you say that you make your business  
 14 decisions based on the best information available  
 15 at the time and many of the identified contracts  
 16 were acquired at a time when natural gas was at an  
 17 all-time high and your assessment was that the  
 18 contracts would be a cost-effective way to protect  
 19 your customers from a volatile natural gas market.  
 20 That's the end of the paragraph.  
 21 The next paragraph goes into working more  
 22 in the future, nothing about the decisionmaking  
 23 process for entering into these PPAs. So when I  
 24 read your testimony -- read this testimony and you  
 25 really source the reasoning, the rationale behind

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1 these PPAs as being the volatile natural gas market  
 2 and you don't even acknowledge that in that time  
 3 frame policymakers in the largest jurisdiction were  
 4 increasing the renewable energy mandates that you  
 5 face and all of your PPAs are renewables. You've  
 6 bought no coal power, no natural gas power. Would  
 7 it be unfair for me to conclude that it's really  
 8 you that is not acknowledging all the factors?  
 9 A. Renewable energy policy did play a role in  
 10 acquiring these resources, that's definitely true.  
 11 And I guess to why I believe this should be handled  
 12 through a separate proceeding, to understand each  
 13 one of these renewable energy contracts requires a  
 14 review of the rules that we were facing at the  
 15 time. It's not -- the biomass contracts were not  
 16 associated with what we call our regular renewable  
 17 energy standard. It was from the -- as I mentioned  
 18 before, the relicensing of our Prairie Island  
 19 nuclear facility and the storage of spent fuel on  
 20 site was a source of those biomass contracts. The  
 21 solar contracts were different from the wind  
 22 contracts. The solar contracts were funded through  
 23 our renewable energy development fund that's funded  
 24 solely by Minnesota ratepayers.  
 25 And also another thing that's not

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1 considered in staff consultants' criticism of these  
 2 contracts, they set an arbitrary \$60 cutoff level  
 3 when they identified which contracts were bad and  
 4 which contracts were good.  
 5 To set a single price level for three very  
 6 different types of resources is not consistent with  
 7 best policy. Different types of contracts provide  
 8 different kinds of benefits to customers, and to  
 9 use a single price level for each one is  
 10 inappropriate. So that's why I say that we should  
 11 try to deal with this in a separate docket so we  
 12 can, you know, address all the factors that were in  
 13 play.  
 14 **Q.** Just a comment. I think that whether it's  
 15 a separate docket or in this rate case proceeding,  
 16 the mandates that one jurisdiction comes up with  
 17 and then end up being paid for by ratepayers in  
 18 another jurisdiction are like an elephant in the  
 19 room, and whether it's this case or a separate  
 20 docket, to not even acknowledge those mandates, I  
 21 don't think that is justice.  
 22 **A.** And we've heard the Commission loud and  
 23 clear on this matter, and with the most recent  
 24 Minnesota solar mandate, we worked very hard as  
 25 that was being developed to ensure that the costs

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1 for that would be isolated to the Minnesota  
 2 customers. In 2008 when some of this wind contract  
 3 came on, I don't know if we had heard the  
 4 Commission's message as loud and as clear as we do  
 5 now.  
 6 COMMISSIONER CHRISTMANN: Thank you. No  
 7 further questions.  
 8 JUDGE FETCH: Thank you, Commissioner.  
 9 All right. Now we'll go back to the  
 10 company. Ms. Valley, do you have any redirect?  
 11 MS. VALLEY: Thank you, Your Honor. Just  
 12 a few additional questions.  
 13 **REDIRECT EXAMINATION**  
 14 **BY MS. VALLEY:**  
 15 **Q.** Mr. Wishart, you were previously asked  
 16 about whether the biomass purchases in Minnesota  
 17 were pursuant to statute or Commission order or  
 18 what the authority for those was. Do you agree  
 19 that those were in fact ordered by the Minnesota  
 20 legislature as part of the dry cask storage at  
 21 Prairie Island?  
 22 **A.** Yes, I do understand that to be the case.  
 23 **Q.** And another question. In terms of the  
 24 timing of these resources, have those resources  
 25 been used to provide service to all of our

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1 jurisdictions since they've come on line?  
 2 **A.** That's how the integrated system works,  
 3 yes, all the resources -- all the generation  
 4 resources in our portfolio serve all of our  
 5 customers.  
 6 **Q.** And are those currently included in your  
 7 overall resource planning process?  
 8 **A.** Yes, and our resource planning process  
 9 assumes that they will continue to operate until  
 10 the end of their contract term.  
 11 MS. VALLEY: Thank you, Mr. Wishart.  
 12 JUDGE FETCH: Thank you, Ms. Valley.  
 13 Mr. Norrell, any recross?  
 14 MR. NORRELL: No, Your Honor. Thank you.  
 15 JUDGE FETCH: Ms. Jeffcoat-Sacco?  
 16 MS. JEFFCOAT-SACCO: Yes.  
 17 I wanted the record to indicate that one  
 18 of the other items that we had asked the company  
 19 for over the break was a simple-to-understand list  
 20 in sort of chronological order of the Minnesota  
 21 requirements imposed mostly by the legislature, I  
 22 believe, and the company's, you know, fulfillment  
 23 of that, because that's one of the things we were  
 24 trying to look up yesterday and weren't able to  
 25 print. So that is one of the items that I believe

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1 will be coming in, I'm not sure how quickly.  
 2 There were some questions that came up,  
 3 though, through this round of cross-examination,  
 4 and the first one, the company -- we had some  
 5 questions we talked to the company about over the  
 6 break and they did explain that probably the  
 7 answers were in the trade secret version of the  
 8 pages that were attached to Exhibit B, and they  
 9 are, but I think that we should then ask for the  
 10 trade secret version to also be an exhibit that  
 11 would continue to remain trade secret, but it would  
 12 be in the record.  
 13 If you look at the attachments, there's  
 14 some blank columns. Well, those blank columns are  
 15 filled in in the trade secret version that staff  
 16 and the Commission may need to use and so it should  
 17 be in the record. I don't know that we have to  
 18 physically go get it out of the vault right now  
 19 because it can be easily identified as the trade  
 20 secret version of this exact data response, but it  
 21 would be -- I would ask that it be admitted under  
 22 trade secret protection.  
 23 JUDGE FETCH: And that's an attachment to  
 24 Exhibit 8?  
 25 MS. JEFFCOAT-SACCO: No. Exhibit B.

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1 JUDGE FETCH: Exhibit B.  
 2 MS. JEFFCOAT-SACCO: The public version is  
 3 attached to B that we just got here this morning,  
 4 and it's just the trade secret version of the same,  
 5 exact thing.  
 6 JUDGE FETCH: All right. Is there any  
 7 objection, Ms. Valley?  
 8 MS. VALLEY: No, Your Honor. We'll  
 9 provide that.  
 10 MS. JEFFCOAT-SACCO: Well, and I think we  
 11 have it, but if you want to provide an additional  
 12 one, that's fine, we'll keep it sealed. Now,  
 13 related to that --  
 14 JUDGE FETCH: Just a moment. How about if  
 15 we label that Exhibit B-1?  
 16 MS. JEFFCOAT-SACCO: Okay.  
 17 JUDGE FETCH: Okay. So that will come in  
 18 as Exhibit B-1. All right. Go ahead.  
 19 MS. JEFFCOAT-SACCO: And it will be the  
 20 trade secret version.  
 21 JUDGE FETCH: Right.  
 22 **RE-CROSS-EXAMINATION**  
 23 **BY MS. JEFFCOAT-SACCO:**  
 24 **Q.** Related to that, though, there are a  
 25 couple other questions that, I guess, I'm expecting

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1 the company to answer, but perhaps request that  
 2 they be covered by trade secret protection. One is  
 3 whether -- and so I'm going to ask this, but you  
 4 don't have to answer it publicly. If you want to  
 5 produce a document that's trade secret, I think  
 6 that's acceptable.  
 7 One is whether there are caps on the  
 8 amount of power -- under those contracts caps on  
 9 what you have to purchase or do you have to take it  
 10 all? It's a little more of the detail of the  
 11 purchase contract that I understand was not in the  
 12 trade secret thing we went and looked at. Okay.  
 13 And the second one is whether you're  
 14 making capacity or demand payments under those  
 15 contracts and whether that's in base rates, which  
 16 should be a public answer, I believe.  
 17 And then the third one is what would the  
 18 effect be -- and this may be a public thing that  
 19 you can answer. I don't know, it's up to you to  
 20 tell me. But what would the effect be on the fuel  
 21 adjustment if, instead of recovering the cost under  
 22 the contract, you were limited to recovering MISO  
 23 LMP prices.  
 24 **A.** Okay.  
 25 **Q.** So I don't know if you need time to answer

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1 those and I don't know if you want to file them  
 2 under trade secret. I recognize it if you choose  
 3 to do that.  
 4 **A.** I think I can address a lot of this.  
 5 **Q.** Okay.  
 6 **A.** The first question was do the contracts  
 7 contain caps on the total amount of energy, that  
 8 can be produced. With respect to the wind and  
 9 solar contracts I can specifically say no. With  
 10 respect to the biomass contracts I do not know at  
 11 this time. I would have to research that.  
 12 When it comes to the question of whether  
 13 there are demand payments associated with any of  
 14 these contracts, the answer is no. These are all  
 15 dollars-per-megawatt-hour contracts.  
 16 **Q.** Okay.  
 17 **A.** And when it comes to what would be the  
 18 impact on the FCR if, instead of paying the  
 19 contracts, we paid MISO LMPs, that is a proposal  
 20 that I suggested for recovery of the Prairie Rose  
 21 contract and I think that would be an appropriate  
 22 strategy for that contract. In the near term I  
 23 think the fuel cost rider would go down, but our  
 24 analysis based on forecasted market prices from  
 25 three independent consulting firms is that after a

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1 matter of a few years, that situation would reverse  
 2 and the FCR would actually be higher for the  
 3 Prairie Rose contract.  
 4 For the other contracts I'd have to do an  
 5 analysis, but I would like to note that  
 6 specifically for the biomass and the solar  
 7 contracts, I believe strictly replacing it with  
 8 MISO LMPs would be inappropriate because, although  
 9 there's no capacity payments associated with those  
 10 contracts, there's capacity benefit associated with  
 11 those contracts that are not captured by the MISO  
 12 LMPs. MISO LMPs are energy only. Those biomass  
 13 contracts contribute over 100 megawatts of firm  
 14 capacity that is not captured by the MISO LMPs, and  
 15 I believe that would be an inappropriate strategy.  
 16 The same with the solar resources. They  
 17 will provide a capacity too. And the wind  
 18 contracts have that small 13.3 percent capacity  
 19 benefit that would also need to be accounted for  
 20 that is not covered by the MISO LMP.  
 21 The reason why I suggested it for Prairie  
 22 Rose is Prairie Rose is a special situation, it's  
 23 called the net zero situation or it shares an  
 24 interconnection and, therefore, does not get that  
 25 13.3 percent capacity accreditation. That's why I

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1 **thought MISO LMP would be appropriate for Prairie**  
 2 **Rose, and another good reason to maybe try to**  
 3 **address that in a different docket to try to**  
 4 **identify what those capacity payments should be.**  
 5 **Q.** You just prompted a question. Maybe for  
 6 the record define "net zero" because I was asked  
 7 that question and I couldn't do it by a  
 8 Commissioner.  
 9 **A.** I'll do my best. Net zero is a concept  
 10 where two generation resources share one point of  
 11 interconnection. It tends to work well with  
 12 peakers and wind because the peaker only needs that  
 13 interconnection maybe 5 percent of the year. The  
 14 remaining time that interconnection point would be  
 15 open for energy to flow through from the wind --  
 16 from the wind resource. But because two are  
 17 sharing one, there's no capacity accreditation in  
 18 that situation for the wind resource.  
 19 **Q.** And why -- is it just there's no capacity  
 20 for one of them and not the other or for either?  
 21 **A.** So there's 200 megawatts of capacity  
 22 outlet at that one location, and typically the  
 23 first resource that was there is that 200 megawatts  
 24 of accredited capacity, the second one that comes  
 25 in and shares it --

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1 **Q.** Is the net zero?  
 2 **A.** -- is the net zero. I think it's an  
 3 interesting concept that helps reduce costs by not  
 4 having to build a new substation or interconnection  
 5 point for a new resource if they can share because  
 6 it's only being used 5 percent of the time.  
 7 **Q.** Okay. Now, one final question and I  
 8 should know this if it's in there, but I don't.  
 9 Point us to the portion of the application that  
 10 covers -- or testimony that covers the issue of the  
 11 recovery of Prairie Rose.  
 12 **A.** My supplemental direct testimony does have  
 13 a discussion about, if Prairie Rose is not included  
 14 in the fuel clause, what I thought would be an  
 15 appropriate replacement mechanism.  
 16 **Q.** And I'm sorry for not remembering that off  
 17 the top of my head, but it's getting too --  
 18 **A.** It was a long time ago.  
 19 MS. JEFFCOAT-SACCO: Yes, it's starting to  
 20 be glaze-over time. That's all I have. Thank you.  
 21 JUDGE FETCH: Thank you, Ms.  
 22 Jeffcoat-Sacco.  
 23 Commissioner Fedorchak, do you have  
 24 follow-up questions?  
 25 COMMISSIONER FEDORCHAK: I might, but I

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1 would like to take a couple minutes and talk with  
 2 our staff advisers really quickly before we  
 3 continue.  
 4 JUDGE FETCH: All right. We'll take a  
 5 couple minutes.  
 6 (Recess taken.)  
 7 JUDGE FETCH: Thank you. All right.  
 8 Commissioner Fedorchak, did you have further  
 9 questions?  
 10 COMMISSIONER FEDORCHAK: Actually after  
 11 all that, I don't, Steve.  
 12 JUDGE FETCH: Well, you did have them.  
 13 You just got them answered elsewhere.  
 14 COMMISSIONER FEDORCHAK: Yes.  
 15 JUDGE FETCH: All right. Thank you.  
 16 Commissioner Kalk, any followup?  
 17 **FURTHER EXAMINATION**  
 18 **BY COMMISSIONER KALK:**  
 19 **Q.** For the record, kind of comment thank you  
 20 for your testimony. Do you think we can do  
 21 something different so we don't find ourselves in  
 22 this same situation five years from now?  
 23 **A.** Yes, sir. I think moving forward we're  
 24 going to bring all these projects to you on a  
 25 prospective basis. Our latest set of wind

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1 **contracts they have -- there's a stipulation in the**  
 2 **contract that we need North Dakota Commission**  
 3 **approval before those contracts are final. I think**  
 4 **we'll have a good process, good working**  
 5 **relationship moving forward.**  
 6 COMMISSIONER KALK: All right. Thank you.  
 7 JUDGE FETCH: Thank you. Commissioner  
 8 Christmann.  
 9 COMMISSIONER CHRISTMANN: I have no more  
 10 questions. Thank you.  
 11 JUDGE FETCH: Thank you. Are there any  
 12 further questions for this witness?  
 13 MS. VALLEY: No, Your Honor.  
 14 MR. NORRELL: No, Your Honor.  
 15 MS. JEFFCOAT-SACCO: No.  
 16 JUDGE FETCH: All right. Thank you very  
 17 much, Mr. Wishart. You're excused.  
 18 All right. And now we're back to Mr.  
 19 Johnson, who is going to call the next witness.  
 20 MR. JOHNSON: Yes, Your Honor, but before  
 21 I do call the next witness, I would like to make a  
 22 comment or just describe something for the  
 23 Commission.  
 24 JUDGE FETCH: Go ahead.  
 25 MR. JOHNSON: Earlier today questions

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1 arose with respect to -- that where the request was  
 2 that we have someone from the company who could  
 3 address them, and these are the questions that  
 4 Commissioner Fedorchak had. I indicated I wasn't  
 5 sure I would be able to provide such a witness. I  
 6 am able to provide such a witness, but it would be  
 7 by telephone connection. The witness would be  
 8 George Tyson, who is our treasurer and vice  
 9 president. He is available this afternoon and, I  
 10 believe, tomorrow morning, but we would need to get  
 11 a time so that we didn't call and he not be there  
 12 or vice versa. I have spoken to both Mr. Norrell  
 13 and Ms. --  
 14 JUDGE FETCH: Jeffcoat-Sacco.  
 15 MR. JOHNSON: -- Jeffcoat-Sacco -- I'm  
 16 sorry, I'm losing a little of my edge here -- and  
 17 they're aware of this. So I offer that up not by  
 18 way of delaying Ms. Heuer's appearance, just so  
 19 that we can work that into our planning as  
 20 appropriate.  
 21 JUDGE FETCH: Did you come up with a  
 22 recommended time?  
 23 MR. JOHNSON: We're open to that.  
 24 JUDGE FETCH: Okay.  
 25 MR. JOHNSON: Mr. Tyson just said he was

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1 available. I know that advocacy staff has two  
 2 people, I believe, that have to get on and off  
 3 today, somehow the scheduling has to be  
 4 accommodated -- well, has to be. That's what we're  
 5 trying to accommodate.  
 6 JUDGE FETCH: Okay. Mr. Norrell, do you  
 7 have any suggestion?  
 8 MR. NORRELL: No, Your Honor. I did speak  
 9 with our witnesses -- or one of the witnesses who  
 10 does have travel arrangements that would be  
 11 infringing upon his testimony tonight. He made the  
 12 statement, and I tend to agree, at some point  
 13 you've got to fish or cut bait, and essentially if  
 14 he's not done with testimony by four o'clock  
 15 with -- we've got three witnesses left and  
 16 potentially a fourth, if the Commission would  
 17 entertain that, and we have no objection to it.  
 18 Realistically I don't know that we'll be able to  
 19 get through this witness by four o'clock this  
 20 afternoon, so that all --  
 21 JUDGE FETCH: Mr. Tyson, you mean?  
 22 MR. NORRELL: Our particular witness, the  
 23 advocacy staff witness. So that having been said,  
 24 we're open to whatever time would be amenable to  
 25 the company.

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1 JUDGE FETCH: You said he's available in  
 2 the morning?  
 3 MR. JOHNSON: I believe that's correct.  
 4 Again, we can have someone go and verify that, but  
 5 that was the impression I formed. I know he's  
 6 available all afternoon.  
 7 JUDGE FETCH: You know, my suggestion  
 8 would be if we could put him on first thing in the  
 9 morning. What does that sound like, Commissioners,  
 10 then we have a time certain, even if it's out of  
 11 order?  
 12 MR. NORRELL: That would be advocacy  
 13 staff's objection to that, would be potentially  
 14 breaking up our case.  
 15 COMMISSIONER KALK: Your Honor, I would be  
 16 thinking 4:30. Just pick a time today and let the  
 17 company keep rolling and at 4:20 we take a quick  
 18 break and they dial him up and we get he or she on  
 19 at 4:30 and when they're done, we take our normal  
 20 break and we come back at night. That gives us two  
 21 and a half hours for them to do what they have to  
 22 do, gives plenty of -- can we jockey the witnesses  
 23 a little bit, but I think finishing the company's  
 24 case before we roll on would be --  
 25 JUDGE FETCH: I think probably your

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1 advocacy witness -- you know, it looks doubtful you  
 2 may get them on today so they may need to make  
 3 other arrangements.  
 4 All right. If you can send someone out,  
 5 Mr. Johnson, and we'll say we'll dial him up at  
 6 4:30 and I guess Mr. Sheldon will make the  
 7 arrangements. Okay?  
 8 MR. JOHNSON: Thank you, Your Honor. We  
 9 will do that.  
 10 JUDGE FETCH: Thank you. All right. With  
 11 that in mind, let's proceed, and is the next  
 12 witness Ms. -- is it Heuer? Is that how you  
 13 pronounce the name?  
 14 MR. JOHNSON: Yes, Your Honor.  
 15 JUDGE FETCH: All right. Thank you. Anne  
 16 Heuer. Now, Ms. Heuer, you've been here and heard  
 17 me instruct as to penalties for perjury, have you  
 18 not?  
 19 THE WITNESS: Yes, I have.  
 20 (Witness sworn.)  
 21 JUDGE FETCH: Thank you. All right. And  
 22 I believe Ms. Paulson is handing out a witness  
 23 statement for you which is probably marked 31.  
 24 MS. PAULSON: It is.  
 25 JUDGE FETCH: All right. And by

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1 stipulation that is agreed to and admitted into the  
 2 record as NSP 31.  
 3 Mr. Johnson, proceed, please.  
 4 MR. JOHNSON: Thank you, Your Honor.  
 5 **ANNE E. HEUER,**  
 6 being first duly sworn, was examined and testified  
 7 as follows:  
 8 **DIRECT EXAMINATION**  
 9 **BY MR. JOHNSON:**  
 10 **Q.** Good afternoon, Ms. Heuer. You've got in  
 11 front of you NSP Exhibits 18 and 19, which are your  
 12 direct and rebuttal testimony. I don't know of any  
 13 corrections that need to be made to that, but  
 14 wondered if there were any.  
 15 **A.** No, there are not.  
 16 **Q.** You have prepared a summary of your  
 17 testimony for the Commission this afternoon?  
 18 **A.** Yes, I have.  
 19 **Q.** Please proceed.  
 20 **A.** I am the manager of revenue analysis for  
 21 Xcel Energy Services Inc. My primary role in this  
 22 proceeding is to provide the company's financial  
 23 data in support of its request for a general rate  
 24 increase. Our request for an increase has  
 25 decreased from 16.9 million to 14.9 million. The

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1 decrease reflects the company's request for a lower  
 2 return on equity of 10.25 percent and adjustments  
 3 to individual expenses and revenues. Those  
 4 adjustments, other than the ROE, have been agreed  
 5 to by advocacy staff consultants.  
 6 The remaining proposed adjustments by the  
 7 staff consultants and the ROE remain contested.  
 8 Many of the staff consultants' adjustments are  
 9 addressed by other company witnesses and are then  
 10 reflected by me in the overall revenue requirement  
 11 calculation. Some of the staff consultants'  
 12 adjustments are addressed directly by me. Of  
 13 those, I will provide comments on four contested  
 14 adjustments in this operating statement -- opening  
 15 statement. Excuse me.  
 16 Average three-year historical operating  
 17 expenses.  
 18 I testified against Mr. Dante Mugrace's  
 19 proposal to replace all of the 2013 operating  
 20 expenses with a historical three-year average of  
 21 2010, 2011, and 2012 expense. That proposal is  
 22 inconsistent with fundamental ratemaking in several  
 23 respects:  
 24 Although the company is allowed under  
 25 North Dakota statute to use a 2013 projected test

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1 year, Mr. Mugrace eliminates any consideration of  
 2 2013 operating expenses. He provided no testimony  
 3 challenging the accuracy of our projected 2013  
 4 expenses.  
 5 Instead, Mr. Mugrace uses a three-year  
 6 historical average of operating expenses which is  
 7 inconsistent with his use of a 2013 sales forecast.  
 8 Further, his approach is also inconsistent with the  
 9 ratemaking standard that develops the test year  
 10 using 12 consecutive months of revenues and  
 11 expenses.  
 12 In addition, his recommended three-year  
 13 average expense is lower than the operating  
 14 expenses approved for the 2011 test year used to  
 15 set rates in our last rate case, and the company's  
 16 earnings in 2011 were well below authorized levels.  
 17 Demand allocator.  
 18 Mr. Scott Brockett explained why a 1 CP is  
 19 an inappropriate demand allocator. I testify about  
 20 the additional problems with the manner in which  
 21 Dr. Karl Pavlovic calculated the 1 CP demand  
 22 allocator and the application of the 1 CP allocator  
 23 by Mr. Mugrace. I list five additional errors by  
 24 Dr. Pavlovic -- in Dr. Pavlovic's and Mr. Mugrace's  
 25 analysis, each of which is contrary to fundamental

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1 ratemaking. The two most significant errors are:  
 2 Dr. Pavlovic used 2010, 2011, and 2012  
 3 data to calculate the 1 CP allocator.  
 4 Consequently, he does not capture the changes in  
 5 relative demand for North Dakota occurring in 2013.  
 6 In contrast, Dr. Pavlovic accepted the use of 2013  
 7 data for the calculation of each of the other  
 8 jurisdictional allocators, which is an additional  
 9 inconsistency.  
 10 Mr. Mugrace applied the 1 CP allocator to  
 11 some expenses and not others, and applied the 1 CP  
 12 allocator to the general expense category while  
 13 accepting the full value of the adjustments made by  
 14 the company. This creates yet another mismatch and  
 15 inconsistency.  
 16 Expense amortization.  
 17 The company proposes to amortize several  
 18 test year expenses over three years. However, Mr.  
 19 Mugrace reduces the revenue requirement by  
 20 one-third based on his assumption that we will  
 21 recover one-third of the expense through interim  
 22 rates. This is inconsistent with fundamental  
 23 ratemaking, which uses the final revenue  
 24 requirement for the test year to calculate whether  
 25 to make an interim rate refund. Under Mr.

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1 **Mugrace's proposal one-third of the revenues**  
 2 **collected under interim rates would be refunded and**  
 3 **final rates would not recover the unrecovered**  
 4 **costs. The net result is that we would only**  
 5 **recover two-thirds of these legitimate expenses.**  
 6 **Net plant in service.**  
 7 **The last item I wish to address is the**  
 8 **calculation of net plant in service. For a 2013**  
 9 **test year, ratemaking fundamentals require the use**  
 10 **of the end-of-year 2012 net plant balances as the**  
 11 **starting point. Contrary to this principle, Mr.**  
 12 **Mugrace uses as his starting point the average 2012**  
 13 **net plant balances. In addition, Mr. Mugrace uses**  
 14 **a number of inconsistent approaches to arrive at**  
 15 **his recommended 2013 net plant.**  
 16 **In conclusion, based on consistent**  
 17 **application of fundamental ratemaking principles,**  
 18 **the company has appropriately determined the 2013**  
 19 **test year revenues, expenses, and rate base**  
 20 **necessary to provide service to customers in North**  
 21 **Dakota.**  
 22 **I also would like to say that I do have**  
 23 **some information available that was requested**  
 24 **yesterday for two items. The first was the pension**  
 25 **smoothing proposal that we had made. I have an**

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1 **information request response that calculates the**  
 2 **reduction to the North Dakota revenue requirements**  
 3 **that that proposal would apply.**  
 4 **And then also I have the charitable**  
 5 **contributions. I believe you were looking for some**  
 6 **historical information about the charitable**  
 7 **contributions that were assigned to the North**  
 8 **Dakota jurisdiction, and I know you asked for 20**  
 9 **years and overnight we were able to gather the**  
 10 **contributions from 2006 to 2013, and then also for**  
 11 **2012 I have a schedule that outlines exactly which**  
 12 **charities, charitable -- charity organizations make**  
 13 **up the amount for 2012 and then the amounts that**  
 14 **were assigned to North Dakota electric of those.**  
 15 **So if you would like that information, I**  
 16 **can provide it.**  
 17 **JUDGE FETCH: Does that chart also include**  
 18 **contributions for economic development?**  
 19 **THE WITNESS: No. That would just be the**  
 20 **-- no. That's just the contributions for the**  
 21 **general organization.**  
 22 **JUDGE FETCH: I believe that would be what**  
 23 **was requested as part of late-filed Exhibit C.**  
 24 **MR. JOHNSON: Yes, Your Honor. We were**  
 25 **simply trying to make available as much information**

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1 as we could get on an overnight basis.  
 2 **JUDGE FETCH: So that would be part of**  
 3 **it --**  
 4 **MR. JOHNSON: Correct.**  
 5 **JUDGE FETCH: -- but the late-filed**  
 6 **exhibit would still include the other part of that,**  
 7 **which would be the economic development**  
 8 **contributions. Okay. So do you have copies of**  
 9 **that for the Commission?**  
 10 **MR. JOHNSON: We can certainly make them.**  
 11 **We just wanted to indicate that --**  
 12 **JUDGE FETCH: That it's available.**  
 13 **MR. JOHNSON: -- that it is available and**  
 14 **if people want to do a current inquiry on it, Ms.**  
 15 **Heuer can respond.**  
 16 **JUDGE FETCH: All right. Very good. All**  
 17 **right. At this time then, Mr. Johnson.**  
 18 **MR. JOHNSON: Ms. Heuer is available for**  
 19 **cross-examination.**  
 20 **JUDGE FETCH: Thank you. Mr. Norrell.**  
 21 **MR. NORRELL: Thank you, Your Honor.**  
 22 **CROSS-EXAMINATION**  
 23 **BY MR. NORRELL:**  
 24 **Q. Ms. Heuer, good afternoon.**  
 25 **A. Good afternoon.**

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1 **Q. I would like to draw your attention to**  
 2 **page 11 of your rebuttal testimony, lines 5 -- or,**  
 3 **I'm sorry, 7 -- 6 and 7. You discuss the loss of**  
 4 **the company's two largest customers. Why would the**  
 5 **loss of these two large customers in Minnesota have**  
 6 **an effect on operations in North Dakota?**  
 7 **A. What the effect is is that it affects the**  
 8 **percent of North Dakota as it relates to the total**  
 9 **NSP-Minnesota company cost. So it affects the**  
 10 **percent of the total.**  
 11 **MR. NORRELL: Your Honor, may I please**  
 12 **approach the stand -- the witness with a proposed**  
 13 **exhibit?**  
 14 **JUDGE FETCH: You may.**  
 15 **MR. NORRELL: Your Honor, this is a**  
 16 **response received by advocacy staff in response to**  
 17 **a data request, data request NDPSC 5-014, and we**  
 18 **would move that this be admitted as Exhibit 14 --**  
 19 **PSC 14.**  
 20 **JUDGE FETCH: Any objections, Mr. Johnson?**  
 21 **MR. JOHNSON: No objections, Your Honor.**  
 22 **JUDGE FETCH: Thank you. PSC Exhibit 14**  
 23 **is admitted.**  
 24 **MR. NORRELL: Thank you, Your Honor.**  
 25 **Q. (MR. NORRELL CONTINUING) Ms. Heuer, could**

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1 you please read what the question is from PSC  
 2 staff?  
 3 **A. "Witness: Anne E. Heuer-revenue**  
 4 **requirement (Exhibit AEH-1).**  
 5 **"Provide monthly balances beginning in**  
 6 **January 2013 of NSP-NDO balance sheets and income**  
 7 **statements; continue to update throughout the rate**  
 8 **proceeding."**  
 9 **Q.** Could you please read the response -- the  
 10 first paragraph?  
 11 **A. "The company respectfully objects to this**  
 12 **request as unduly burdensome as the company does**  
 13 **not prepare monthly balance sheets and income**  
 14 **statements for individual jurisdictions such as**  
 15 **North Dakota. Preparation of such information on a**  
 16 **monthly basis is unduly burdensome."**  
 17 **Q.** So is it accurate to say the company  
 18 cannot provide a snapshot at a point in time of the  
 19 company's financial data as it relates to North  
 20 Dakota?  
 21 **A. Every month?**  
 22 **Q.** Yeah.  
 23 **A. That is not -- we do not have that**  
 24 **information.**  
 25 **Q.** Is the most recent historical or actual

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1 financial data that you have on the company's  
 2 operations in North Dakota from year-end 2012?  
 3 **A. That is correct.**  
 4 **Q.** Has the company submitted or updated any  
 5 financial data for 2013? Do you have anything on  
 6 hand as regards to your operations in North Dakota?  
 7 **A. We do not have a complete 2013 forecast**  
 8 **for North Dakota.**  
 9 **Q.** You won't have that until after the year  
 10 is done; is that correct?  
 11 **A. We won't have that until after we process**  
 12 **the budget for 2014, and then as a part of that**  
 13 **process we update our forecast for 2013.**  
 14 **Q.** Would you go to page 15 of your rebuttal  
 15 testimony?  
 16 **A. Page 13.**  
 17 **Q.** This is discussing the net plant in  
 18 service, your answer between 10 and 14. Do you  
 19 have a --  
 20 **A. Which page was that?**  
 21 **Q.** I'm sorry. Page 15.  
 22 **A. Okay.**  
 23 **Q.** You state that the average balance -- you  
 24 used -- just a second here. I may be misreading.  
 25 My notes aren't comporting to the actual testimony.

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1 I apologize. I had a question about it, but now  
 2 that I re-read it, it's been clarified so I  
 3 apologize.  
 4 JUDGE FETCH: It's nice to be able to  
 5 clarify your own questions.  
 6 **Q.** (MR. NORRELL CONTINUING) Do you know  
 7 where we could find the actual number for the  
 8 ending balance of the utility plant in service?  
 9 **A. Actual number for North Dakota --**  
 10 **Q.** Ending balance as of December 31st, 2012.  
 11 **A. For the actual year?**  
 12 **Q.** Yes. Yes. End of year.  
 13 **A. Not that we used to develop this test**  
 14 **year. The ending balance that would have been used**  
 15 **to create our 2012 annual reports?**  
 16 **Q.** Yes.  
 17 **A. In the North Dakota annual reports I**  
 18 **believe we report average balances and I don't know**  
 19 **-- I don't have that information with me today.**  
 20 **Q.** Could that be submitted?  
 21 **A. Certainly we could provide that**  
 22 **information, yes.**  
 23 MR. NORRELL: We would propose that that  
 24 be a late-filed exhibit.  
 25 JUDGE FETCH: Okay. We are up to H --

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1 Exhibit H, and end-of-year -- what do you want to  
 2 call this?  
 3 MR. NORRELL: End-of-year 2012 utility  
 4 plant in service.  
 5 JUDGE FETCH: Utility plant in service?  
 6 MR. NORRELL: Yes.  
 7 JUDGE FETCH: Is there any objection, Mr.  
 8 Johnson?  
 9 MR. JOHNSON: No, Your Honor. Point of  
 10 clarification. Is this North Dakota  
 11 jurisdictional?  
 12 MR. NORRELL: Yes.  
 13 MR. JOHNSON: Thank you.  
 14 JUDGE FETCH: All right. Thank you. That  
 15 will be a late-filed Exhibit H and that is  
 16 admitted.  
 17 All right. Continue, Mr. Norrell.  
 18 **Q.** (MR. NORRELL CONTINUING) Thank you. We  
 19 were just wondering because it was noted in the  
 20 opening statement that that was what was the  
 21 starting point for this test year and we were just  
 22 wondering if we could get those numbers.  
 23 **A. Can I clarify, that is the starting point**  
 24 **on a forecast basis. When we filed our rate case**  
 25 **in December, I believe it was, of 2012, we had a**

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1 **forecast of what we had expected the ending balance**  
 2 **of 2012 to be, to be the beginning point of -- the**  
 3 **beginning balance of our 2013 test year.**  
 4 **Q.** That was a forecast?  
 5 **A.** Yeah.  
 6 **Q.** Do you have the actual numbers?  
 7 **A.** Well, we have actual numbers through March  
 8 **of 2012 and then we build to our ending balance of**  
 9 **2012 based on all of the plant additions and**  
 10 **retirements and transfers that are forecast in the**  
 11 **capital budgeting process that is managed by Lisa**  
 12 **Perkett in our capital asset accounting area. So**  
 13 **we build that balance based on all of our forecast**  
 14 **additions during 2012 to get to our beginning**  
 15 **balance for 2013.**  
 16 **Q.** When do you actually -- when do you have  
 17 the actual number for December 31st, 2012?  
 18 **A.** We provided that information, I believe,  
 19 **around May 1st of 2013.**  
 20 **Q.** Could you please look at page 24 of your  
 21 rebuttal testimony, approximately line 19. It  
 22 states that the company completed a sales forecast  
 23 update in July of 2013. Has that information been  
 24 provided to the parties here, in particular  
 25 advocacy staff?

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1 **A.** I do not know.  
 2 **Q.** Do you know if that information can be  
 3 located and if it hasn't been -- we don't show that  
 4 it's been reported. That's why we're asking -- if  
 5 that could be submitted as a late-filed exhibit?  
 6 **A.** So exactly what would you want?  
 7 **Q.** It looks like the company completed a  
 8 sales forecast update in 2013. We would just like  
 9 to see some sort of numbers as to what that updated  
 10 forecast --  
 11 **A.** Total sales by customer class by month for  
 12 the year 2013 or --  
 13 **Q.** Yes.  
 14 **A.** Okay.  
 15 JUDGE FETCH: So you're requesting another  
 16 late-filed exhibit?  
 17 MR. NORRELL: Yes, Your Honor.  
 18 JUDGE FETCH: This would be Exhibit I, and  
 19 could you repeat what you --  
 20 THE WITNESS: Total sales by customer  
 21 class for North Dakota State by month for 2013.  
 22 JUDGE FETCH: Thank you. And, Mr.  
 23 Johnson, would there be any objection?  
 24 MR. JOHNSON: No objection, Your Honor.  
 25 JUDGE FETCH: All right. Exhibit I, late-

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1 filed, will be admitted.  
 2 MR. NORRELL: Thank you, Your Honor. May  
 3 I approach the stand with another proposed -- the  
 4 witness with another proposed exhibit?  
 5 JUDGE FETCH: You may.  
 6 MR. NORRELL: Your Honor, I've handed out  
 7 another data request. This is a response from NSPM  
 8 to North Dakota Public Service Commission data  
 9 request number 5-065. We would move that this be  
 10 admitted as Exhibit --  
 11 JUDGE FETCH: 15.  
 12 MR. NORRELL: -- 15, yes.  
 13 JUDGE FETCH: Mr. Johnson, do you have a  
 14 copy?  
 15 MR. JOHNSON: I do, Your Honor. We do not  
 16 have any objection.  
 17 JUDGE FETCH: All right. Thank you. The  
 18 document is admitted as Exhibit 15.  
 19 MR. NORRELL: Thank you, Your Honor.  
 20 **Q.** (MR. NORRELL CONTINUING) Ms. Heuer, could  
 21 you please read the question in this one as well?  
 22 **A.** "Witness Anne E. Heuer-revenue requirement  
 23 (Exhibit AEH-1).  
 24 "Please refer to the interim rate increase  
 25 approved by the NDPS&C on January 30th, 2013, in the

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1 **amount of 14,704,000 (8.05 percent), and provide**  
 2 **the monthly incremental sales revenue collected**  
 3 **from customers beginning on February 16, 2013, and**  
 4 **continuing throughout the rate proceeding. Please**  
 5 **also provide the breakdown of the incremental sales**  
 6 **revenue by customer class and by fixed cost/usage,**  
 7 **and any other approved charges."**  
 8 **Q.** Thank you. Our records show that we did  
 9 receive the monthly billed, net unbilled, and  
 10 calendar interim rate revenues in February 2013 and  
 11 March 2013. Do you know if the company has  
 12 responded, if it's given anything for the months of  
 13 April, May, June, or July as of yet?  
 14 **A.** I don't know. I am not -- I don't know.  
 15 **Q.** Would the company be willing to update  
 16 that or to provide that?  
 17 **A.** I believe so.  
 18 MR. NORRELL: Your Honor, the staff would  
 19 move that that would be admitted as another  
 20 late-filed exhibit, updated billed, net unbilled,  
 21 and calendar interim rate revenues pursuant to the  
 22 request -- the data request.  
 23 JUDGE FETCH: Say that again. Updated --  
 24 MR. NORRELL: Billed, net -- I guess it  
 25 would be updated monthly billed, net unbilled, and

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1 calendar interim rate revenues for April, May.  
 2 JUDGE FETCH: Well, you don't need to  
 3 describe the entire thing. I just need a  
 4 description to put in the exhibit list so we can  
 5 locate what it is.  
 6 MR. NORRELL: Understand.  
 7 JUDGE FETCH: So updated monthly billed,  
 8 net unbilled --  
 9 MR. NORRELL: Unbilled, and calendar  
 10 interim rate revenues.  
 11 JUDGE FETCH: And calendar interim rate  
 12 revenues. All right. Does that explain well  
 13 enough for you, Mr. Johnson, what's needed?  
 14 MR. JOHNSON: Yes, Your Honor, it does.  
 15 The only reservation I would have is I don't know  
 16 whether July data would be available. Common sense  
 17 would indicate it is, but sometimes common sense  
 18 doesn't prevail. I do know that we have  
 19 supplemented some of these responses already and we  
 20 will provide those as part of the late-filed  
 21 exhibits.  
 22 JUDGE FETCH: Okay. Thank you.  
 23 MR. JOHNSON: I do not know the full  
 24 extent of the supplementation as I sit here.  
 25 JUDGE FETCH: All right. Well, I'll label

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1 this one Exhibit J and it will be admitted as late  
 2 filed.  
 3 All right. Mr. Norrell, proceed.  
 4 MR. NORRELL: Thank you.  
 5 **Q.** (MR. NORRELL CONTINUING) I'm gathering my  
 6 bearings with the technology here. If you could go  
 7 to page 33 of your rebuttal testimony, lines 17 and  
 8 18. You take issue with Mr. Mugrace's use of a  
 9 three-year historical; is that correct?  
 10 **A. Can you restate that question?**  
 11 **Q.** You state that Mr. Mugrace provides no  
 12 evidence that the company's proposed expense for  
 13 2013 is not reasonable; is that correct?  
 14 **A. Yes.**  
 15 **Q.** Has the company provided any updated  
 16 numbers to staff to rebut Mr. Mugrace's proposal of  
 17 the three-year historical with regards to  
 18 transmission expense?  
 19 **A. I -- I don't think so, but I don't know**  
 20 **all of the data requests that we've answered on**  
 21 **exact -- on transmission expenses, so --**  
 22 MR. NORRELL: I have no further questions,  
 23 Your Honor.  
 24 JUDGE FETCH: Thank you, Mr. Norrell.  
 25 Ms. Jeffcoat-Sacco, do you have any

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1 questions?  
 2 **CROSS-EXAMINATION**  
 3 **BY MS. JEFFCOAT-SACCO:**  
 4 **Q.** Can you just simplify for me why exactly  
 5 the three-year average -- you consider the  
 6 three-year average inappropriate?  
 7 **A. Well, the purpose of filing a future test**  
 8 **year or a projected test year as allowed by North**  
 9 **Dakota statute is to provide for the costs that the**  
 10 **company expects to incur during the period that**  
 11 **rates are to be in effect. And in the 2013 test**  
 12 **year we do expect rates to be in effect for 2013**  
 13 **and costs that we expect to incur in 2013 would be**  
 14 **appropriate to recover as a part of the test year.**  
 15 **When you're looking at costs that are made up of a**  
 16 **three-year historical average, in general you have**  
 17 **your three-year historical average using '10 --**  
 18 **2010, 2011, and 2012, you're not taking into**  
 19 **consideration any of the cost changes that happened**  
 20 **during your 2013 year.**  
 21 **For instance, as explained by Mr. Foss and**  
 22 **Ms. McCarten, we go through an extensive**  
 23 **development process for our operating budgets and,**  
 24 **for instance, when we calculate what we believe the**  
 25 **appropriate labor levels are, we start out with**

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1 **actual labor costs as of February 2012 and project,**  
 2 **you know, our existing employees, what we expect to**  
 3 **be paying those employees during the year -- the**  
 4 **projected year so our costs reflect what we truly**  
 5 **believe they will be during that year.**  
 6 **Q.** You have to be basing that on something.  
 7 You're not pulling that out of the air. You have  
 8 to base it on something, just like I do at home, I  
 9 guess what my electric bill is going to be based on  
 10 what it was.  
 11 **A. Absolutely. It's based on actual wage**  
 12 **levels that we experienced as of a certain period**  
 13 **of time, and in the case of our '13 test year, they**  
 14 **were based on February 2012, and then we looked at**  
 15 **the wage increases that we gave in '12 and the ones**  
 16 **that we are expecting to give in '13, so they're**  
 17 **based on what we really truly expect to happen in**  
 18 **2013.**  
 19 **Q.** Okay. So was everything in your projected  
 20 test year based on February 2012 data or is that  
 21 just wages?  
 22 **A. That was wages. What we -- I believe the**  
 23 **budgets were developed in the spring of 2012 so**  
 24 **they would have had the actual data that they had**  
 25 **at that time, and then we used economic indicators**

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1 **for things like materials, chemicals, other, you**  
 2 **know, costs that are included in our operating**  
 3 **costs.**

4 **Q.** I guess I'm still curious why using an  
 5 average is not -- why you considered that a less  
 6 accurate or a less good way of making that  
 7 projection. You had said in the very beginning  
 8 answer to my question that the three-year average  
 9 didn't take into account what really happens in  
 10 2013. Your projected test year in December can't  
 11 take into account what really happens in 2013  
 12 either because you're projecting it in December or  
 13 earlier when you prepared your rate case.

14 **A. Mm-hmm.**

15 **Q.** So we all know that that's part B. Okay.  
 16 But when we're sitting there preparing a rate case  
 17 and having a projected test year, why -- picking  
 18 February 2012, why is that better than a three-year  
 19 average, or whatever other month you picked for any  
 20 other expense, why is the three-year average  
 21 somehow wrong as far as a place to start?

22 **A. Okay. Well, I think, you know, just**  
 23 **looking at labor is illustrative of just costs in**  
 24 **general. If you're using labor costs as part of**  
 25 **your average that are incurred in 2010, you're not**

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1 **taking into consideration -- so that's sort of**  
 2 **one-third of the weighting of what your average**  
 3 **would be, you're not taking into consideration wage**  
 4 **increases that occurred in 2011 and 2012 and those**  
 5 **you expect to happen in 2013. So, you know, that**  
 6 **would -- that necessarily understates what you**  
 7 **think your true expenses are going to be in 2013.**

8 **Q.** Well, if you take a three-year average,  
 9 you're going to have those actuals for those three  
 10 years. I understand that you may be adding then  
 11 something for an expectation, but the three-year --  
 12 I'm still trying to get at why the three-year  
 13 average is somehow an inaccurate place to start,  
 14 which you've said like a lot, and there's a lot of  
 15 pages of testimony about why you use it and a lot  
 16 of pages about why not to use it, but I just need  
 17 that simple fourth-grade I keep asking for  
 18 understanding.

19 **A. Okay. I guess if it was just a place to**  
 20 **start and then you made changes from there, that**  
 21 **might be one thing. But what Mr. Mgrace did is he**  
 22 **took -- looked at all of our expenses and he did a**  
 23 **three-year average of them without any other**  
 24 **consideration about changes in wages and cost**  
 25 **increases for, you know, materials and other**

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1 **expenses that, you know, will occur -- that have**  
 2 **occurred since that three-year average period --**  
 3 **since that three-year average occurred.**

4 **Q.** That three-year average, though, is '10,  
 5 '11 and '12; correct?

6 **A. Yeah.**

7 **Q.** And you didn't have any of those known  
 8 numbers at the end of '12 when you were doing your  
 9 projected test year, either?

10 **A. Well, we would have known 2010, 2011, and**  
 11 **part of 2012.**

12 **Q.** And most of '12?

13 **A. Yeah.**

14 **Q.** But not '13? Nobody knew '13 at that  
 15 point in time?

16 **A. No, but we can certainly predict. Just**  
 17 **like we do our own income when we're doing our own**  
 18 **budgets for ourselves, I don't look at what**  
 19 **happened for the last three years. I look at what**  
 20 **I expect to be doing when I'm setting my budget.**

21 **Q.** See, the trick is to just not set a  
 22 budget. It's much easier.

23 **A. I found that to be very effective.**

24 **Q.** That reminds me of a question from  
 25 yesterday and I think you're the person it was

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1 deflected to.

2 **A. Yes.**

3 **Q.** Why is the forecast for North Dakota's  
 4 peak for 2013 winter again?

5 **A. Okay. Yes, that was directed to me, but**  
 6 **I'm not the appropriate person to ask.**

7 **Q.** So who is? So there's nobody --

8 **A. Mr. Peppin will be able to answer your**  
 9 **question.**

10 MS. JEFFCOAT-SACCO: Okay. I think that's  
 11 it at least for now. Thank you.

12 JUDGE FETCH: Thank you. We'll go to the  
 13 Commission next. Commissioner Fedorchak.

#### EXAMINATION

15 **BY COMMISSIONER FEDORCHAK:**

16 **Q.** Can you do some summary for me?

17 **A. I'll try.**

18 **Q.** I'm hoping. What is the difference  
 19 between what you guys are asking for in terms of  
 20 revenue requirement and what Mr. Mgrace is asking  
 21 for?

22 JUDGE FETCH: Very good.

23 THE WITNESS: Is that right?

24 COMMISSIONER FEDORCHAK: I don't know.

25 THE WITNESS: Am I saying it wrong every

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1 time I say your name?

2 MR. MUGRACE: That's all right.

3 THE WITNESS: Yes, but it's okay.

4 COMMISSIONER FEDORCHAK: I just like to do

5 the roll of r's.

6 THE WITNESS: I can do that too. Okay.

7 As I just had previously said, the purpose

8 behind our proposed test year is to set rates for

9 the period that we -- to set rates that are based

10 on costs we expect to incur during the period that

11 rates will be in effect. So we are using a

12 projected year 2013. That is based on our

13 projected current revenues, the other revenues that

14 we receive and have forecast to receive for other

15 revenues as well as our operating expenses and

16 depreciation expense, taxes, other items on the

17 income statement.

18 In addition to that, we've also developed

19 our rate base based on what we expect to -- our

20 plant investment -- our plant investment and other

21 rate base items for the year 2013, taking into

22 consideration all of our plant additions that we

23 forecast to happen during the end of 2012 and all

24 through 2013. In this way we are -- we believe

25 that we put forward a fair estimate of what our

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1 costs will be in 2013 and that is what we're asking

2 to recover in this case.

3 Q. (COMMISSIONER FEDORCHAK CONTINUING) And

4 the revenue requirement that you guys are asking

5 for is what, 14?

6 A. Well, that's our revenue deficiency, so

7 that's our rate increase request, is 14.9 million,

8 yes.

9 Q. And what did Mr. Mugrace say?

10 A. What did he think it was?

11 Q. Yeah.

12 A. I believe based on his revised

13 supplemented position with a couple of corrections

14 and changes, he believes that we actually had a \$10

15 million deficiency --

16 Q. Okay.

17 A. Or sufficiency. Sorry. Sufficiency.

18 Q. What are the biggest components

19 contributing to the difference between what you

20 guys think it is and what he believes is

21 reasonable?

22 A. Okay. The biggest components -- the

23 biggest one is the change from the 12 CP allocator

24 to the 1 CP allocator. We've calculated the

25 difference to be approximately 21 and a half

560

1 million dollars.

2 Q. What are the other big ones?

3 A. The difference in return on equity is

4 about \$4 million. There's many inconsistencies in

5 the way they've developed rate base, just various

6 other adjustments that are smaller. The three-year

7 average is -- when you look at the net of the way

8 they three-year averaged revenues and the way they

9 three-year averaged expenses, about \$1.3 million

10 increase actually. They've excluded incentive

11 compensation and the nuclear retention programs.

12 They've recommended exclusion of charitable

13 contributions, nuclear fees, some payroll taxes

14 related to incentive compensation. You know,

15 that's a summary. There's quite a few differences.

16 Q. Okay. So he's going to be up here today

17 or tomorrow at some point outlining all of the

18 reasons why his approach makes sense. Have you

19 covered everything you want us to know in terms of

20 what doesn't make sense about him? I mean, is

21 there anything more you want to explain because

22 there's a lot of --

23 A. Well, I guess -- I guess there's just so

24 much.

25 Q. Believe me, I know.

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1 A. I tried to put it all in my rebuttal

2 testimony.

3 Q. The big stuff. Focus on the big stuff.

4 A. Okay. Although Mr. Mugrace recommends a

5 change from a 1 CP -- from a 12 CP to a 1 CP

6 allocator, he also not only does that, he

7 three-year averages the 1 CP allocator, and then he

8 does not apply that 1 CP change to everything. He

9 only applies it to certain things, for instance, in

10 the beginning balance for rate base, but then in

11 developing rate base -- each one of the items in

12 rate base, but then there's adjustments to rate

13 base that we've proposed and to our base data as

14 well as on some of the adjustments that we've

15 agreed to. He doesn't apply the impact of that

16 change to those adjustments too so that the

17 adjustments are creating larger adjustments than

18 they otherwise would have been because it's not

19 consistently applied. That's one of the

20 differences.

21 Another thing is that there's that

22 three-year average for the demand allocator based

23 on historical information, but all of the other

24 allocators in the case are based on the projected

25 year. Like sales there's an energy allocator.

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1 That's based on the '13 test year sales. If you  
 2 were going to consistently do that, you might use a  
 3 three-year average historical sales allocator too  
 4 that would be consistent. Your demand allocator is  
 5 based on your sales levels, so that would be  
 6 inconsistent also. You know, there's that.

7 Q. Okay. That's good. I'll dig more as I  
 8 hear from him and read more into your specific  
 9 rebuttal testimony.

10 A. Okay.

11 Q. What did you -- how did you demonstrate  
 12 the reliability accuracy and test your test year  
 13 projections? What did you look back upon to check  
 14 what you guys came up with? I know you used some  
 15 of the things as baseline, but did you go back then  
 16 and do any sort of test to demonstrate that this is  
 17 accurate?

18 A. Well, what we do is we base all of our  
 19 test year on what the corporate budgets were, so we  
 20 tie all of our data and information back to what  
 21 the corporation is budgeting for NSP-Minnesota. So  
 22 we tie back in total and then that total ties --  
 23 North Dakota ties to the total.

24 There's considerable governance over the  
 25 projected cost and revenues for each one of the

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1 operating companies in Xcel Energy in total, so we  
 2 rely on that overall governance from our, you know,  
 3 senior management to -- that the cost projections  
 4 for the coming year are -- accurately and  
 5 appropriately reflect the costs we expect to incur  
 6 during that year.

7 Q. Okay. And then the last rate case there  
 8 was test year projections; correct?

9 A. That's true.

10 Q. How accurate have those proven to be?

11 A. Okay. The last test year was 2011 and  
 12 then we had a 2012 step. So the rates would have  
 13 last changed in 2012, and I believe our 2012 earned  
 14 returns in North Dakota, I believe it was 8. -- our  
 15 weather normalized return was 8.92 percent in 2012.  
 16 In 2011, which was our base year, the weather  
 17 normalized returns were -- return was 9.05. So  
 18 that takes into consideration all of your revenues  
 19 and expenses and we were not allowed -- able to  
 20 earn our allowed return in 2011. And that was also  
 21 based on a projected year.

22 Q. So you probably under --

23 A. We underestimated.

24 Q. -- estimated?

25 A. Mm-hmm.

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1 COMMISSIONER FEDORCHAK: That's all for  
 2 me.

3 JUDGE FETCH: Thank you, Commissioner.  
 4 Commissioner Kalk.

5 COMMISSIONER KALK: Thank you, Your Honor.

**EXAMINATION**

7 **BY COMMISSIONER KALK:**

8 Q. Thank you, Anne, for your testimony.  
 9 Before I go down a separate line of  
 10 questioning, so you're talking revenue requirement,  
 11 so salary is certainly revenue requirement;  
 12 correct?

13 A. It's part of it, yes.

14 Q. Okay. So I can't remember which witness  
 15 it was yesterday, but I was trying to go down a  
 16 road that I didn't have any success.

17 A. I'll try.

18 Q. Okay. So let's start at the top. Mr.  
 19 Fowke, he's the CEO. How much -- or let me  
 20 rephrase it. Does any of his salary come from  
 21 ratepayer dollars in North Dakota?

22 A. Yes.

23 Q. Okay.

24 A. A portion of it.

25 Q. So how would I determine what that portion

565

1 is?

2 A. Okay. His salary -- he is paid or he is  
 3 an employee of Xcel Energy Services. His costs are  
 4 assigned to a cost pool that in general is  
 5 allocated based on a factor that represents the  
 6 relative support that he gives to all of the  
 7 affiliates of Xcel Energy Inc.

8 Q. So when he comes up here to visit me once  
 9 in the last five years -- throw that dig out there  
 10 -- that is doing business for the regulated  
 11 company, that would be why he would get some money  
 12 from the ratepayers?

13 A. Well, he provides overall guidance for the  
 14 company in general.

15 Q. Okay. So what's the quality control --  
 16 and I'm picking the top boss, but according to the  
 17 reports filed with the U.S. Security & Exchange  
 18 Commission, his pay went up 34 percent this year  
 19 and he makes \$11 million. How do I figure out how  
 20 much of that is paid by ratepayers? That's a lot  
 21 of money and he's the head of a major company so I  
 22 don't begrudge him that, but a 34 percent pay  
 23 raise -- and I don't know how much of that is  
 24 ratepayer dollars, and I've got a lineman for Xcel  
 25 Energy in Minot that maybe doesn't get any pay

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1 raise, how do I figure out -- because I'm not  
 2 against paying people money, but how do you figure  
 3 -- I don't think the linemen in Grand Forks or  
 4 Minot got a 34 percent pay increase. So how would  
 5 I begin to even reconcile that to make sure what I  
 6 think is fair? And this is my chance to do it in a  
 7 rate case.

8 **A. Okay. Yeah, it is. Okay. First of all,**  
 9 **he gets base pay. He has other forms of**  
 10 **compensation like long-term incentive and**  
 11 **restricted stock units and those types of costs as**  
 12 **well as an annual incentive cost. And then his**  
 13 **costs are assigned from Xcel Energy Services to the**  
 14 **operating companies. Approximately, I think it's**  
 15 **around 30 percent of the Xcel Energy Services costs**  
 16 **are assigned to NSP-Minnesota, and then those costs**  
 17 **are assigned out to electric and gas utilities in**  
 18 **general, and the electric utility portion is then**  
 19 **assigned to the North Dakota jurisdiction. Of**  
 20 **those types of costs, approximately 5 -- or let me**  
 21 **see --**

22 **Q.** Maybe I should bring in -- I appreciate  
 23 where you're going with this.

24 **A. It gets narrowed down so it's smaller.**

25 **Q.** I'm trying to get to something that we

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1 could actually do something with.

2 **A. Okay.**

3 **Q.** And so could we figure out the amount of  
 4 pay -- payroll dollars that are assigned to people  
 5 that work for the regulated portion? I'm trying to  
 6 walk this through. I think that -- I want to make  
 7 sure that we have employees getting paid the right  
 8 amount, but I also want to make sure that the  
 9 regulated company, if you will, the dollars that go  
 10 into there are not unfairly flowing to management,  
 11 let's say, than to the people that are in the  
 12 working class. How would you -- can you give me  
 13 some way to shape -- is there something you can  
 14 provide that shows employee classes, that this  
 15 class of employee gets 2 percent regulated income,  
 16 this class of employee gets 80 percent, to maybe  
 17 show that there's a -- that the people who spend  
 18 most of their time doing the day-to-day work get  
 19 the appropriate dollars from the regulated company.  
 20 Or is that just too hard to unravel that?

21 **A. Well, I can -- I can provide labor that's**  
 22 **charged from service company by business area. I**  
 23 **can -- of that labor that's charged to the**  
 24 **operating company, that I can also provide the**  
 25 **portion that's actually included in North Dakota**

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1 **electric utility rates, same thing for the labor**  
 2 **costs that are incurred actually in NSP-Minnesota**  
 3 **that are assigned to the North Dakota jurisdiction.**  
 4 **You know, we have not asked for recovery of**  
 5 **anything like long-term incentives or restricted**  
 6 **stock units, other types of compensation, other**  
 7 **than AIP and we did ask for long-term incentives**  
 8 **for the nuclear employees only.**

9 **Q.** Sure.

10 **A. But we did not -- you know, we are just**  
 11 **talking about base wages and then a limited amount**  
 12 **of the annual incentive.**

13 **Q.** Let's go with this, Anne. I'll just table  
 14 that for now and when we're all said and done, I  
 15 may ask the last witness -- I'll talk to staff  
 16 tonight and I just want to make that point and then  
 17 we'll see if we can do something with it.

18 **A. Okay.**

19 **Q.** To follow on just one more. In your -- I  
 20 believe it's your direct testimony, page 58, if my  
 21 iPad notes are correct, that no lobbying costs are  
 22 included in what you're asking for.

23 **A. That's true.**

24 **Q.** Okay. So how do you define a lobbying  
 25 cost? And I'll get right back to the boss again.

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1 March 5th of this year Mr. Fowke went out and  
 2 testified in front of the House Committee on Energy  
 3 and Commerce that basically his goal was to reduce  
 4 CO2 by 20 percent, to continue to expand wind  
 5 growth for the company. I consider that lobbying.  
 6 Would you consider that lobbying?

7 **A. I think that would be considered lobbying.**

8 **Q.** Okay.

9 **A. I do not know how he charged his time. If**  
 10 **he charged it to lobbying --**

11 **Q.** I pointed. I shouldn't have pointed.

12 **A. If that was lobbying, he would have**  
 13 **charged a lobbying cost pool that is not a part of**  
 14 **the costs that we would assign to North Dakota as**  
 15 **regulated costs --**

16 **Q.** Okay.

17 **A. -- so they are excluded.**

18 **Q.** So when Mr. Nisbet, which I consider a  
 19 very good ally many times downstairs helping us,  
 20 when he says something in support of the PSC  
 21 Commission, that would be lobbying and he gets  
 22 paid. So I'm just trying to clarify what this  
 23 really means. I think it's a glitch somewhere  
 24 because I would consider that lobbying.

25 **A. All employees that engage in lobbying**

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1 **activities are required to report their time as**  
 2 **lobbying, which is charged to a FERC account or to**  
 3 **a cost pool that is not included in regulated**  
 4 **reports.**  
 5 **Q.** Because I understand I probably can't have  
 6 my cake and eat it too where I only support  
 7 lobbying that supports my position.  
 8 **A. It's difficult to do that.**  
 9 **Q.** Understood. But I think it's something  
 10 that perhaps we need to clean up the definition of  
 11 what is considered lobbying and how we might track  
 12 those costs going forward. I don't have a solution  
 13 there, but I'm aware of the potential to have many  
 14 different scenarios develop where I don't want  
 15 ratepayer dollars necessarily going in to lobbying  
 16 for one thing or another, and that's what I think  
 17 you're saying here.  
 18 **A. Yeah.**  
 19 **Q.** But I believe that lobbying is taking  
 20 place even if it isn't supported. I don't know if  
 21 some of Mr. Nisbet's salary -- I would assume all  
 22 of his salary is from the regulated side, so that  
 23 means --  
 24 **A. I wouldn't say that. I would ask Ms. --**  
 25 **we could provide additional information.**

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1 **Q.** Okay.  
 2 **A. He actually probably does charge by --**  
 3 **Q.** Maybe could you -- okay.  
 4 COMMISSIONER KALK: Go ahead, Illona.  
 5 MS. JEFFCOAT-SACCO: Let's get it. I'm  
 6 just going to say let's get this list of management  
 7 and the salary allocation. I don't know that that  
 8 would hurt. We would have it once and for all.  
 9 COMMISSIONER KALK: Is that an undue  
 10 request with our general counsel to ask for --  
 11 MS. JEFFCOAT-SACCO: It is part of what is  
 12 and isn't in rates -- what is or isn't being asked  
 13 for in rates. It's not irrelevant to this case.  
 14 MR. JOHNSON: Your Honor.  
 15 JUDGE FETCH: Yes.  
 16 MR. JOHNSON: I believe a portion -- not  
 17 all, but a portion of the information that you're  
 18 asking for, Chairman Kalk, has been provided by way  
 19 of a response to an information request and we can  
 20 certainly make that part of the record and we can  
 21 make it part of the record now so Ms. Heuer can  
 22 speak to it to the extent she's able. She was not  
 23 the author of the answer, but it may help her in  
 24 responding to your questions.  
 25 COMMISSIONER KALK: Okay.

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1 MR. JOHNSON: We can also provide you  
 2 supplemental information that shows how lobbying  
 3 expenses are tracked and excluded from the revenue  
 4 requirement. It is not done on a by-employee  
 5 basis. It's done much more granularly than that.  
 6 COMMISSIONER KALK: If you could provide  
 7 that, I think that would be perfect for this line  
 8 of discussion and call it good.  
 9 MR. JOHNSON: Okay.  
 10 JUDGE FETCH: Okay. Is that something  
 11 that has been provided before in one of the  
 12 exhibits or in some of the testimony?  
 13 MR. JOHNSON: I doubt it's been provided  
 14 in the exhibits and, if anything, it's been only  
 15 referred to generally as Ms. Heuer was describing.  
 16 It is the response to PSC 1-021. We can have  
 17 copies made and have it put into the record just  
 18 contemporaneously here, if that's the desire.  
 19 JUDGE FETCH: That would be great if you  
 20 could do that.  
 21 MR. JOHNSON: That's the executive piece.  
 22 That's not the other piece and it does not class  
 23 stratify the wages, but just speaks to the top  
 24 executives.  
 25 COMMISSIONER KALK: I think that's the

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1 piece I was concerned with the most, and if you  
 2 could provide the lobbying breakout, that would be  
 3 excellent.  
 4 MR. JOHNSON: Thank you.  
 5 JUDGE FETCH: All right. Why don't we  
 6 label that document that you have there as Exhibit  
 7 J -- I mean -- K -- Exhibit K, and that is  
 8 admitted. And you can get copies of that. That's  
 9 Exhibit K.  
 10 And then, Chairman, you wanted another  
 11 document about the lobbying expenses?  
 12 COMMISSIONER KALK: That will be great.  
 13 JUDGE FETCH: And that will need to be  
 14 late filed.  
 15 MR. JOHNSON: I'm quite sure it will be.  
 16 JUDGE FETCH: Okay. That will be Exhibit  
 17 L, and that's late filed. And I assume there's no  
 18 objection to either of those, Mr. Norrell?  
 19 MR. NORRELL: Correct, Your Honor. No  
 20 objection.  
 21 JUDGE FETCH: Thank you. Exhibits K and L  
 22 then will be admitted.  
 23 All right. Thank you. Did you have  
 24 further questions, Commissioner Kalk?  
 25 COMMISSIONER KALK: Your Honor, no more

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1 questions. Just to comment, I guess, to kind of  
 2 close my thought process for the company and the  
 3 witnesses that, you know, I encourage the companies  
 4 to lobby their positions, but also encourage the  
 5 dialogue back with this Commission that if  
 6 leadership of the company is going to take  
 7 positions in certain venues, at least tell us what  
 8 your position is. When Mr. Nisbet and I talk  
 9 through the utilities shareholders, we don't always  
 10 agree on everything, and that's fine, but at least  
 11 we're aware of the dialogue. And I think that's my  
 12 point here, is that it's very frustrating as the  
 13 chair of the Commission to find out that a major  
 14 company is taking a position contrary to what  
 15 you're doing in the state at the federal level and  
 16 reading about it in the front page of the  
 17 Washington Post. It would be nice to know those  
 18 things ahead of time so then if we could then  
 19 respond accordingly and have the discussion that  
 20 would ensue. Thank you.

21 JUDGE FETCH: No response necessary.  
 22 All right. We'll move on to Commissioner  
 23 Christmann.  
 24  
 25

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1 **EXAMINATION**  
 2 **BY COMMISSIONER CHRISTMANN:**  
 3 **Q.** Ms. Heuer, were you here yesterday when we  
 4 talked about the pension fund and the losses that  
 5 were sustained around the 2008 time frame and the  
 6 need to make that up and possibly spread that out  
 7 over a period of time?  
 8 **A. Yes, I was.**  
 9 **Q.** Okay. So on this pension fund -- I'm  
 10 still trying to get it -- are we talking about a  
 11 defined benefit pension fund?  
 12 **A. Yes.**  
 13 **Q.** And is that something that only certain  
 14 employees qualify for, or do all NSP employees who  
 15 are in positions that they receive benefits qualify  
 16 for the defined benefit pension?  
 17 **A. Well, this is not my area of expertise.**  
 18 **However, I believe most employees are covered under**  
 19 **a form of the defined benefit plan.**  
 20 **Q.** And my familiarity with the defined  
 21 benefit plan is here, the State one, and there's an  
 22 expected rate of return that's used and that's how  
 23 the benefit is defined. So much going in, they  
 24 expect over a long period of time it's going to get  
 25 this rate of return, and so we define the benefit

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1 as whatever the number is. What is that expected  
 2 rate of return that you use?  
 3 **A. I don't know the answer to that question.**  
 4 **Q.** Can you find out and get back to me on it?  
 5 **A. We can find out and get that information**  
 6 **to you, yes.**  
 7 **Q.** Okay. And then how well is the pension  
 8 funded right now? I'm always familiar with them  
 9 being listed as a percentage, that it's 90 percent  
 10 funded or 60 percent funded or seldom a hundred  
 11 percent, but --  
 12 **A. I don't know the answer to that question.**  
 13 **Q.** But you can find out?  
 14 **A. We can get that information to you too,**  
 15 **yes.**  
 16 COMMISSIONER CHRISTMANN: Okay. Thank  
 17 you. I have no more questions.  
 18 JUDGE FETCH: Thank you. Mr. Johnson, any  
 19 further questions for this witness?  
 20 MR. JOHNSON: Just a couple, Your Honor.  
 21 JUDGE FETCH: Thank you. Go ahead.  
 22 **REDIRECT EXAMINATION**  
 23 **BY MR. JOHNSON:**  
 24 **Q.** Ms. Heuer, you had some dialogue with Ms.  
 25 Jeffcoat-Sacco regarding your concerns with using a

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1 three-year average and I would like to do a little  
 2 followup on that.  
 3 **A. Okay.**  
 4 **Q.** Is there a regulatory principle of  
 5 matching that applies to ratemaking?  
 6 **A. Yes.**  
 7 **Q.** Can you describe that for me, please?  
 8 **A. A principle of matching your revenues and**  
 9 **expenses with the period under which you expect**  
 10 **rates to be in effect.**  
 11 **Q.** And why is it important that the period  
 12 for the revenues and the expenses be the same?  
 13 **A. To give you a fair opportunity to earn**  
 14 **your allowed rate of return.**  
 15 **Q.** In the context of your 2013 rate case,  
 16 what was the period of revenues that was reflected  
 17 in the revenue requirement?  
 18 **A. 2013.**  
 19 **Q.** And under the recommendation by the  
 20 advocacy staff, what was the period of expenses?  
 21 **A. An average of 2010, 2011, and 2012.**  
 22 **Q.** And was the period of time of 2010 through  
 23 2012 a period of rising costs?  
 24 **A. Yes.**  
 25 **Q.** And did that have the effect of having the

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1 expenses categorically lag the revenues?

2 **A. Yes.**

3 **Q.** And was that your concern?

4 **A. Yes. That's part of it, yeah.**

5 MR. JOHNSON: I have no other questions.

6 JUDGE FETCH: Thank you. Mr. Norrell, do

7 you have any questions?

8 MR. NORRELL: Yes, Your Honor, just a

9 couple.

10 **REXCROSS-EXAMINATION**

11 **BY MR. NORRELL:**

12 **Q.** Ms. Heuer, when you were speaking with Ms.

13 Jeffcoat-Sacco, you talked about the extensive

14 process that goes into forecasting the test year,

15 talked about developing budgets based off of

16 certain numbers in 2012, economic indicators, but

17 at the end of the day aren't these all hypothetical

18 numbers for the 2013 test year?

19 **A. They're all forecasted, yes.**

20 **Q.** What do you use to ground or to discipline

21 the spending of the company then if you've just got

22 these forecasted numbers?

23 **A. During 2013?**

24 **Q.** Yes.

25 **A. There's extensive review of your budget**

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1 **versus actual costs, and the rate case is based on**

2 **the budget and there's significant management**

3 **oversight of those costs and you're encouraged to**

4 **manage within your budget clearly, yes.**

5 **Q.** One of the Commissioners -- I can't

6 remember which one, I apologize -- had briefly

7 mentioned AIP, the incentive program. Do you know,

8 are all of the employees of NSP subject or eligible

9 for that or just some of them?

10 **A. I believe it's the exempt employees are**

11 **eligible for that program.**

12 **Q.** Do you know if that factor was a

13 consideration in Wisconsin denying the incentive

14 pay?

15 **A. I don't know why the Wisconsin Commission**

16 **ruled as they did.**

17 **Q.** Do you know at all -- it was mentioned

18 yesterday -- I apologize, some of these questions

19 are just carrying forward from yesterday. It was

20 stated that the AIP decision in regards to the

21 Wisconsin Commission was under review. Do you know

22 anything about that at all? Could you testify to

23 that?

24 **A. I don't have firsthand knowledge.**

25 MR. NORRELL: Okay. That's fine. Thank

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1 you. No further questions.

2 JUDGE FETCH: Thank you. Ms.

3 Jeffcoat-Sacco, any followup?

4 MS. JEFFCOAT-SACCO: Yes.

5 **REXCROSS-EXAMINATION**

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

7 **Q.** The statute that permits the utility to

8 choose the future test year, that's 49-05-04.1, and

9 it's -- what I'm going to be reading is paragraph

10 2(a), but it requires the company to file, if

11 they're using a future test year, a comparison of

12 forecast data to historical period data to

13 demonstrate reliability and accuracy of the

14 utility's forecast, including a comparison of the

15 prior years' forecast, and that's s apostrophe, so

16 it's not talking about one prior year, it's talking

17 about more than one prior year, or budgeted data to

18 actual data for these periods. Did the company

19 file that information? Can you point me to it in

20 the app or in your original testimony or something,

21 the comparison -- in order to demonstrate

22 reliability and accuracy, the comparison of prior

23 years' -- s apostrophe -- forecast or budgeted data

24 to actual?

25 **A. I believe that the witnesses provided**

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1 **within their individual testimony comparison to**

2 **historical information. We provided our 2011**

3 **actual cost of service study in my direct**

4 **testimony. I believe we filed as exhibits -- or as**

5 **response to data requests our annual reports from**

6 **2012 and various -- I have an analysis of the cost**

7 **drivers in this case compared to the last rate**

8 **case, which, you know, talk about why we are asking**

9 **for a rate increase. That information is included**

10 **in my testimony -- my direct testimony. There's,**

11 **you know, various different places within testimony**

12 **that that information is provided.**

13 **Q.** Is there a summary of the forecast and

14 the -- the actual and the budgeted, and I guess

15 budgeted standing in for the word forecast at the

16 time, in the testimony? Because Commissioner

17 Fedorchak had asked you that same question. Your

18 response to the -- that's what made me go read the

19 law, unfortunately.

20 **A. Mm-hmm.**

21 **Q.** Your response to the question talked about

22 the fact that you didn't earn your allowed return.

23 **A. We did not.**

24 **Q.** Which I don't know if that's the answer to

25 that question or not because the question is, how

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1 well did your forecast, your budget, reflect  
 2 actuals. Now, if everything was perfect, maybe  
 3 that actual earned return would be the perfect  
 4 answer to that question --  
 5 **A. Mm-hmm.**  
 6 **Q.** -- but there could be a hundred reasons  
 7 why that didn't happen unrelated to how well you  
 8 forecast.  
 9 **A. Mm-hmm.**  
 10 **Q.** So what I was wondering is, can you point  
 11 me to -- and you might need a minute or two at the  
 12 next break to find the pages to point me to, but  
 13 where you have made that comparison so that we can  
 14 look at it and see how accurate it was, and was it  
 15 only to the one year, 2011? I mean, I think that's  
 16 why staff was asking for some of those.  
 17 **A. 2011 test year, we do have that**  
 18 **information in my direct testimony.**  
 19 **Q.** Okay. So you compared one, but I'm  
 20 thinking the statute requires more than one.  
 21 **A. Well, I don't -- I provided our 2011**  
 22 **actual revenue requirement. It's not really**  
 23 **compared to the forecast test year, but that**  
 24 **information is provided in my direct.**  
 25 **Q.** Okay. But it does say that you shall --

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1 you shall present this comparison in order for the  
 2 Commission to determine how good your forecasts  
 3 are. So take a look at that and maybe over the  
 4 break you can --  
 5 **A. We will.**  
 6 **Q.** -- figure out if it's already here or if  
 7 you need more.  
 8 **A. Okay. Thank you.**  
 9 MS. JEFFCOAT-SACCO: That's all I have.  
 10 Thanks.  
 11 JUDGE FETCH: All right. Thank you.  
 12 Commissioner Fedorchak?  
 13 COMMISSIONER FEDORCHAK: I have no  
 14 questions.  
 15 JUDGE FETCH: Thank you. Commissioner  
 16 Kalk?  
 17 COMMISSIONER KALK: No, ma'am.  
 18 JUDGE FETCH: Commissioner Christmann?  
 19 COMMISSIONER CHRISTMANN: No questions.  
 20 JUDGE FETCH: Any further questions, Mr.  
 21 Johnson?  
 22 MR. JOHNSON: No, Your Honor.  
 23 JUDGE FETCH: Mr. Norrell?  
 24 MR. NORRELL: No, Your Honor.  
 25 JUDGE FETCH: All right. Thank you. This

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1 witness is excused.  
 2 It's 3:15. We are going to take a  
 3 15-minute recess and then come back, and the  
 4 company has two witnesses remaining, Michael Peppin  
 5 and Steven Huso, and it looks like they're both  
 6 going to be fairly quick, and the 4:30 phone call.  
 7 (Recess taken.)  
 8 JUDGE FETCH: Let's come back to order.  
 9 The time is almost 3:40 p.m., Central Time, and we  
 10 are back on the record.  
 11 A couple of housekeeping tasks before we  
 12 move forward. Ms. Jeffcoat-Sacco during the break  
 13 brought to my attention that Commissioner  
 14 Christmann asked for a couple of documents and that  
 15 should be entered into the record and identified  
 16 for late-filed exhibits. And, Ms. Jeffcoat-Sacco,  
 17 would you please say again what those are.  
 18 MS. JEFFCOAT-SACCO: I think -- I'm not  
 19 sure if the company -- one was the return on the  
 20 pension -- the return and supply to the pension or  
 21 assumed -- expected return on the pension; correct?  
 22 COMMISSIONER CHRISTMANN: Right.  
 23 MS. JEFFCOAT-SACCO: And then the second  
 24 portion is what I don't recall.  
 25 COMMISSIONER CHRISTMANN: As well as how

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1 well the pension is funded.  
 2 MS. JEFFCOAT-SACCO: Is funded. Okay.  
 3 And I don't know if that's going to be one document  
 4 or two.  
 5 JUDGE FETCH: Mr. Johnson.  
 6 MR. JOHNSON: I suspect it will be all  
 7 part of one document. To get that information we  
 8 will be going to more than one source, but I do not  
 9 perceive any difficulty in putting that together.  
 10 I know what you're talking about -- or we know what  
 11 you're talking about with respect to the level of  
 12 funding that has been achieved. The EROA, which is  
 13 what you were referring to, is a single number. We  
 14 just can't remember exactly what it is right now.  
 15 COMMISSIONER CHRISTMANN: Thank you.  
 16 JUDGE FETCH: All right. Thank you. And,  
 17 Mr. Norrell, I assume there is no objection.  
 18 MR. NORRELL: No objection.  
 19 JUDGE FETCH: All right. That will be  
 20 admitted into the record as late-filed Exhibit M.  
 21 All right. And one other quick  
 22 housekeeping task. We have two more witnesses for  
 23 the company and then one by telephone, so three.  
 24 They're all expected to be relatively short. We  
 25 are going to take those three witnesses and then we

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1 are going to adjourn for the day at the conclusion  
 2 of the company's case and then reconvene tomorrow  
 3 and take the case for the PSC advocacy staff  
 4 tomorrow.  
 5 COMMISSIONER KALK: What time, Your Honor,  
 6 are we going to reconvene tomorrow? Regular nine  
 7 o'clock?  
 8 JUDGE FETCH: Yes, it appears that nine  
 9 o'clock.  
 10 COMMISSIONER KALK: I would throw out  
 11 there 8:30 if there's consensus in the group, just  
 12 an extra half-hour.  
 13 MR. NORRELL: No objection from advocacy  
 14 staff, Your Honor.  
 15 MR. JOHNSON: That's fine with us.  
 16 JUDGE FETCH: All right. Everyone seems  
 17 in agreement. We will reconvene at 8:30 tomorrow  
 18 morning.  
 19 COMMISSIONER KALK: Thank you, Your Honor.  
 20 JUDGE FETCH: All right. And hopefully  
 21 that will get us through the day to complete  
 22 testimony on this case and see where we go from  
 23 there.  
 24 All right. At this time then, I believe,  
 25 is it -- Ms. Valley, you are going to be calling

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1 this next witness, Mr. Peppin?  
 2 MS. VALLEY: Yes. Thank you, Your Honor.  
 3 We will call Michael Peppin.  
 4 JUDGE FETCH: Mr. Peppin, I'm not sure you  
 5 were here earlier when I instructed as to penalties  
 6 for perjury.  
 7 THE WITNESS: I heard from the room  
 8 downstairs.  
 9 JUDGE FETCH: All right. Very good. Then  
 10 please raise your right hand.  
 11 (Witness sworn.)  
 12 JUDGE FETCH: Thank you. I believe we  
 13 have the witness statement, which is stipulated and  
 14 agreed to for admission as Exhibit NSP 32. That is  
 15 admitted. And now please proceed, Ms. Valley.  
 16 MS. VALLEY: Thank you.  
 17 **MICHAEL PEPPIN,**  
 18 being first duly sworn, was examined and testified  
 19 as follows:  
 20 **DIRECT EXAMINATION**  
 21 **BY MS. VALLEY:**  
 22 **Q.** Mr. Peppin, your prefiled direct testimony  
 23 has been admitted into the record as Exhibit 20 in  
 24 this proceeding. Do you have any corrections to  
 25 your testimony today?

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1 **A. No, I do not.**  
 2 **Q.** Please proceed with your opening  
 3 statement.  
 4 **A. My name is Michael Peppin. I'm employed**  
 5 **by Xcel Energy as a principal pricing analyst in**  
 6 **the regulatory analysis department.**  
 7 **The reason for my appearance today is that**  
 8 **I am responsible for conducting the class cost of**  
 9 **service studies for the company's rate cases. In**  
 10 **general, the purpose of a class cost of service**  
 11 **study is to take detailed costs that have been**  
 12 **allocated to a given jurisdiction, in this case**  
 13 **North Dakota, and then allocate those costs to each**  
 14 **customer class using class allocation factors. The**  
 15 **ultimate goal that we strive for in our class cost**  
 16 **of service study is to identify and develop class**  
 17 **cost allocation factors that most accurately**  
 18 **reflect what caused each cost to occur. For**  
 19 **example, the cost of electric meters is directly**  
 20 **driven by the number of customers in each customer**  
 21 **class along with the average cost of meters for**  
 22 **each customer class.**  
 23 **In general, the methods we used in our**  
 24 **class cost of service study were the same methods**  
 25 **that we've used over the last 20 years with some**

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1 **minor revisions. Those revisions are detailed on**  
 2 **pages 2 through 4 of my direct testimony.**  
 3 **The final results of the class cost of**  
 4 **service study are then used by Mr. Huso as a guide**  
 5 **in designing retail rates.**  
 6 **We believe our class cost of service study**  
 7 **is an appropriate ratemaking tool because it's**  
 8 **theoretically sound in that it properly recognizes**  
 9 **our investments and baseload generation provides**  
 10 **benefits to all customers, particularly our energy-**  
 11 **intensive customers and, therefore, it allocates**  
 12 **production costs as partially capacity and**  
 13 **partially energy driven. It also accurately**  
 14 **reflects the value of our peaking capacity,**  
 15 **transmission and distribution facilities, and**  
 16 **recognizes the differing impacts that time usage**  
 17 **patterns can have on the cost of service.**  
 18 **In addition to the class cost of service**  
 19 **study, my testimony supports a rate design change**  
 20 **to our voltage discounts to better reflect cost and**  
 21 **a minor wording change to one of our tariffs.**  
 22 **Thank you.**  
 23 JUDGE FETCH: Thank you, Mr. Peppin.  
 24 MS. VALLEY: Thank you, Your Honor. The  
 25 witness is available for cross.

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1 JUDGE FETCH: Thank you. Mr. Norrell.

2 MR. NORRELL: Thank you, Your Honor.

3 **CROSS-EXAMINATION**

4 **BY MR. NORRELL:**

5 **Q.** Good afternoon, Mr. Peppin.

6 **A.** Good afternoon.

7 **Q.** I just have one question, and if you've  
8 been following, it's the question that we've been  
9 asking for about 24 hours and followed it down the  
10 line and I guess the buck stops with you and the  
11 question would be, why is North Dakota projected to  
12 be a winter-peaking state -- or jurisdiction this  
13 year?

14 **A.** Well, I spoke to the folks in our load  
15 research area, who are the experts in this area,  
16 and they did tell me that North Dakota system  
17 coincident -- peak that's coincident with the  
18 system peak has been narrowing between winter and  
19 summer, with winter still edging out the summer  
20 peak. However, in the last 20 years there's only  
21 been, I think, four years they said that summer  
22 peak has surpassed the winter peak, one was in the  
23 early '90s and then in 2010 through '12, those  
24 other three years.

25 **Their explanation for those last three**

1 the customer?

2 **A.** I wouldn't say it inflates the cost, but  
3 it accurately assigns the cost to the customer  
4 component as opposed to the demand component.

5 **Q.** As opposed to what? I didn't hear you.

6 **A.** The demand component.

7 **Q.** But in your mind doesn't assign too many  
8 costs to the customer?

9 **A.** It does classify the customer portion as  
10 being customer related, if that's your question.

11 **Q.** Well, my question is whether that  
12 unreasonably inflates what is assigned to that  
13 customer class. And you're saying in your mind it  
14 doesn't?

15 **A.** Yeah. The theory behind the minimum  
16 system study is that there are certain costs that  
17 are incurred just to hook up the customer to the  
18 distribution system, a minimum-sized facility, and  
19 that's what we're trying to identify with that  
20 minimum system study and, therefore, classify those  
21 costs as customer related.

22 **Q.** Now, could you use a different -- could  
23 you allocate to like a 12 CP method allocator to  
24 assign costs?

25 **A.** You could. I don't think you would want

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1 years was that due to higher temperature and  
2 humidity levels which caused the summer peak to  
3 surpass the winter peak.

4 In the 2013 forecast, which was shown in  
5 Mr. Brockett's testimony, the winter peak was -- is  
6 expected to exceed the summer peak under normal  
7 weather, I think, by 20 megawatts.

8 MR. NORRELL: No further questions, Your  
9 Honor.

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

12 MS. JEFFCOAT-SACCO: Yes, Jerry gave me a  
13 bunch of questions.

14 **CROSS-EXAMINATION**

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

16 **Q.** Does your class cost of service -- your  
17 cost of service study incorporate a minimum  
18 distribution system methodology?

19 **A.** Yes, it does.

20 **Q.** And that assigns a portion of distribution  
21 to some costs to the customer --

22 **A.** Yep.

23 **Q.** -- component; correct?

24 **A.** Yes.

25 **Q.** Doesn't that inflate the cost assigned to

1 to do that with the customer component, though.

2 **Q.** Why?

3 **A.** Because those costs are driven by a number  
4 of customers, not demand.

5 **Q.** Explain that a little more.

6 **A.** Going back to my earlier explanation,  
7 we're assuming that there's a certain amount of  
8 cost involved just to hook up a customer. You  
9 know, you need to get a wire in the ground with  
10 service, you know, a minimum-sized wire just to  
11 hook up that customer, and we're attempting to  
12 split out that minimum cost that's required just to  
13 hook up the customer and classify that as being  
14 customer related.

15 **Q.** If you used --

16 **A.** If I could clarify that, that's caused  
17 just by adding customers, that minimum cost.

18 **Q.** Okay. If you used 12 CP, wouldn't it  
19 increase the allocation of the C&I class and reduce  
20 it to residential?

21 **A.** Well, the load factor at residential is  
22 actually lower than C&I so it would also shift  
23 costs to residential as well.

24 **Q.** I don't understand how that would happen.  
25 Can you explain?

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1 **A. Well, residential customers place a demand**  
 2 **on the system as well, so they would bear part of**  
 3 **those costs too and, in fact, since their demand --**  
 4 **their load factor is lower than residential,**  
 5 **meaning their energy use in relation to their**  
 6 **demand is low, they would bear a significant share**  
 7 **of those costs.**  
 8 **Q.** Okay. I was thinking the opposite result  
 9 so I'm having trouble following. Can you tell me  
 10 why it's not opposite because -- you just said  
 11 because their demand is -- what did you say --  
 12 their load is low in relation to demand or the  
 13 other way around?  
 14 **A. Yeah, their energy use in relation to the**  
 15 **load they place on the system is low -- I'm sorry**  
 16 **-- high.**  
 17 **Q.** Okay. And, therefore, using that demand  
 18 allocator --  
 19 **A. They would also bear those demand costs**  
 20 **using a 12 CP allocator.**  
 21 MS. JEFFCOAT-SACCO: I'll let it go at  
 22 that. I'm still not sure I follow, but I'm going  
 23 to let it go at that. Thanks.  
 24 JUDGE FETCH: All right. Commissioner  
 25 Fedorchak?

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1 COMMISSIONER FEDORCHAK: I have no  
 2 questions.  
 3 JUDGE FETCH: Thank you. Commissioner  
 4 Kalk?  
 5 COMMISSIONER KALK: No, ma'am.  
 6 JUDGE FETCH: Commissioner Christmann?  
 7 COMMISSIONER CHRISTMANN: No, Your Honor.  
 8 JUDGE FETCH: Any redirect, Ms. Valley?  
 9 MS. VALLEY: No, Your Honor.  
 10 JUDGE FETCH: Mr. Norrell?  
 11 MR. NORRELL: No, Your Honor.  
 12 JUDGE FETCH: All right. Thank you.  
 13 THE WITNESS: Thank you.  
 14 JUDGE FETCH: And, Ms. Valley, I believe  
 15 you are also examining the next witness, Steven  
 16 Huso.  
 17 MS. VALLEY: Yes. Thank you, Your Honor.  
 18 We will call Steve Huso to the stand.  
 19 JUDGE FETCH: This is the third Steven.  
 20 All right. Do you have a witness statement for Mr.  
 21 Huso?  
 22 MS. PAULSON: I do.  
 23 JUDGE FETCH: All right. While that's  
 24 being passed out, Mr. Huso, have you heard me  
 25 instruct as to penalties for perjury?

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1 THE WITNESS: Yes, I have.  
 2 JUDGE FETCH: Thank you. Please raise  
 3 your right hand.  
 4 (Witness sworn.)  
 5 JUDGE FETCH: All right. Thank you. And  
 6 I believe this witness statement is NSP Exhibit 33  
 7 and, as previously stipulated to, it is admitted  
 8 into the record. Thank you.  
 9 Ms. Valley, please proceed.  
 10 MS. VALLEY: Thank you.  
 11 **STEVEN HUSO,**  
 12 being first duly sworn, was examined and testified  
 13 as follows:  
 14 **DIRECT EXAMINATION**  
 15 **BY MS. VALLEY:**  
 16 **Q.** Mr. Huso, your prefiled direct and  
 17 rebuttal testimony has been entered into the record  
 18 as Exhibits 21 and 22 in this proceeding. Do you  
 19 have any corrections to your written testimony  
 20 today?  
 21 **A. No, I don't.**  
 22 **Q.** Please proceed with your opening  
 23 statement.  
 24 **A. Thank you. I'm a pricing consultant for**  
 25 **the company. My direct testimony supports the**

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1 **current revenue forecast based on test year sales**  
 2 **and customers under the current rate schedules. I**  
 3 **also recommended customer class revenue**  
 4 **responsibility and a proposed rate design to**  
 5 **recover the test year revenue requirement. I also**  
 6 **sponsor the company's proposed rate schedules and**  
 7 **tariffs, including the rate design structure for a**  
 8 **proposed new transmission cost rider.**  
 9 **Proposed class revenues were based on the**  
 10 **results of our jurisdictional cost study allocated**  
 11 **to rate classes using our class cost of service**  
 12 **study. Individual rates for the rate schedules**  
 13 **were based on cost as developed by the class cost**  
 14 **study, moderated where appropriate for rate**  
 15 **moderation and other pricing considerations. My**  
 16 **customer class revenue recommendation, along with**  
 17 **the cost-based rate design proposals in my direct**  
 18 **testimony, were supported by advocacy staff**  
 19 **consultant Dr. Pavlovic, who recognized the value**  
 20 **of giving our customers reasonable and accurate**  
 21 **price signals.**  
 22 **My rebuttal testimony responds to Dr.**  
 23 **Pavlovic's recommendations to eliminate certain**  
 24 **time of day rate schedules, to establish a single**  
 25 **customer charge for residential customers, and to**

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1 **simplify our rate schedules and the language used**  
2 **to describe our rates.**

3 **I do not support eliminating those rate**  
4 **options that currently have no customers, but**  
5 **instead recommend closing those rates to new**  
6 **customers. Closing the rates without eliminating**  
7 **them at this time would provide us with an**  
8 **opportunity to evaluate whether those rate options**  
9 **should be permanently closed or whether the rates**  
10 **should instead be maintained or modified. I do not**  
11 **agree that the residential time of day rates should**  
12 **be eliminated, but would like to work with**  
13 **Commission staff to identify and address their**  
14 **concerns about this rate option. The company does**  
15 **not object to having a single residential customer**  
16 **charge if it is set at an appropriate level, and I**  
17 **offer two alternative rates that would be**  
18 **reasonable. I propose working with Commission**  
19 **staff to identify more specifically the concerns**  
20 **with our current rate structure and descriptions**  
21 **and to making improvements as appropriate.**

22 **Thank you and I look forward to answering**  
23 **your questions.**

24 MS. VALLEY: The witness is available for  
25 cross-examination.

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1 JUDGE FETCH: Thank you, Ms. Valley. Mr.  
2 Norrell.

3 MR. NORRELL: Thank you, Your Honor.

4 **CROSS-EXAMINATION**

5 **BY MR. NORRELL:**

6 **Q.** Good afternoon, Mr. Huso.

7 **A.** Good afternoon.

8 **Q.** I have just a couple quick questions. One  
9 of them you had highlighted about was helping to  
10 make descriptions more clear. Could you pull your  
11 proposed tariff? I'm looking at -- this would be  
12 section number 5, the second revised sheet number  
13 12.

14 **A.** Could I ask someone to bring the proposed  
15 tariffs up? I think that's a separate notebook.  
16 But it was section 5, sheet number 12?

17 **Q.** Yeah, second revised sheet number 12,  
18 that's correct.

19 **A.** Okay. I have that.

20 **Q.** It says rules for application of  
21 residential rates at the top; is that correct?

22 **A.** Yes.

23 **Q.** Item number 9, could you tell me how I  
24 would know if I was a farm service customer or a  
25 residential service customer under this language?

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1 **A.** This particular example, I think, is an  
2 excellent example of a good point made by Dr.  
3 Pavlovic. It really is a reference to a rate  
4 schedule that we had eliminated perhaps well over  
5 ten years ago, a separate farm service rate, and it  
6 was included to make that transition more clear  
7 where those customers would be placed in terms of  
8 the different rate options, and I think by now it's  
9 time that we could clean that up and perhaps  
10 eliminate that particular section number.

11 **Q.** My last question would just be, you  
12 expressed a willingness to work with Commission on  
13 cleaning up this language. Is that common for the  
14 commissions to get involved in the cleaning up  
15 tariff language, or is there a reason why the  
16 company couldn't handle this on its own?

17 **A.** I cannot answer the first part of your  
18 question. We really have not had much experience  
19 in having this issue brought forward by regulatory  
20 staff or consultants. There are several instances  
21 in our overall tariffs where the language could be  
22 improved and clarified, but, as I stated in my  
23 rebuttal testimony, there are still several arcane  
24 terms and instances where it's really necessary to  
25 retain the precision and the clarity that is

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1 provided by that language, so on a careful, close  
2 review of our entire set of tariff pages, it is  
3 possible to identify instances like these which  
4 really, I think, don't get the attention they  
5 probably deserve except at times where I think  
6 about ten years ago we did a complete revision of  
7 our tariffs or at least a reformatting of our  
8 tariffs. And so there are a number of instances  
9 clearly that could -- there could be eliminations,  
10 improvements, clarifications. At the same time  
11 there are some limitations on how much and how  
12 feasible it is to make changes from the standpoint  
13 of simplicity. There's a certain need for  
14 technical specifications.

15 MR. NORRELL: Thank you. I have no  
16 further questions.

17 JUDGE FETCH: Thank you, Mr. Norrell. Ms.  
18 Jeffcoat-Sacco.

19 **CROSS-EXAMINATION**

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

21 **Q.** I just wondered why the company would  
22 prefer closing the tariff as opposed to  
23 eliminating. What's the difference? If you decide  
24 you need it back, just file it again.

25 **A.** That's a good question, and it is a

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1 somewhat subtle distinction in that closing a  
 2 tariff is typically a transitional step towards  
 3 canceling it, so it is principally a matter of  
 4 timing. And in this case we really did not have  
 5 enough time, we felt, to fully explore and consider  
 6 the pros and cons of the suggestions to cancel the  
 7 filings, and so to allow ourselves the opportunity  
 8 to evaluate the potential for a tariff, thought it  
 9 would be a more practical approach to go slow to  
 10 close a rate schedule and, of course, once it's  
 11 closed, then no further customers can take that  
 12 option, and if there are already no customers  
 13 unless, for example, between the time a Commission  
 14 order comes out and the rate sheets actually go  
 15 into effect a couple months later, then it's an  
 16 easier transition to cancel it, but just, again,  
 17 the principal reason was simply to give the matter  
 18 greater consideration, and then there is also a  
 19 second factor, is that establishing a tariff  
 20 requires a lot more procedural and administrative  
 21 steps than unclosing a tariff, for example.

22 Q. You could just let it go too. I mean, if  
 23 you actually had a customer that wanted it, then  
 24 maybe it should stay, and you don't, so you could  
 25 just let it go while you're thinking about it --

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1 while you're thinking about it; correct? I'm just  
 2 curious as to why we would do anything with it  
 3 until you decided whether to continue it or not.

4 A. By letting it go, do you mean just not  
 5 even close it?

6 Q. Right. But be thinking about doing what  
 7 you said you were going to be doing, assessing  
 8 whether it's something that should stay or go.  
 9 Just a question.

10 A. That is another reasonable option. Our  
 11 response to close the tariffs really was intended  
 12 to show what we thought was some agreement with the  
 13 consultants' approach that we really should  
 14 evaluate some of these tariffs and seriously  
 15 consider whether they should be canceled.

16 MS. JEFFCOAT-SACCO: I have no idea how  
 17 you go about closing a tariff so that was why I had  
 18 the question. That's all I have. Thank you.

19 JUDGE FETCH: All right. Thank you. At  
 20 this time we'll go to the Commission. Commissioner  
 21 Fedorchak.

22 COMMISSIONER FEDORCHAK: I have no  
 23 questions. Thank you.

24 JUDGE FETCH: Thank you. Commissioner  
 25 Kalk.

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1 COMMISSIONER KALK: Thank you, Your Honor.  
 2 We couldn't go two in a row.

3 JUDGE FETCH: We could, but --

4 EXAMINATION

5 BY COMMISSIONER KALK:

6 Q. Steve, thank you for your testimony. I  
 7 just had one line of questions dealing with the  
 8 transmission cost recovery rider. I don't know if  
 9 it's a good idea or not so I need to be convinced  
 10 one way or the other, so what was the idea behind  
 11 starting this rider from your perspective? What  
 12 was the benefit the company was hoping to gain?

13 A. Well, the purpose really was to establish  
 14 a rate design and a rate structure and a rate  
 15 schedule that would be available should we  
 16 subsequently make a filing to include costs for  
 17 recovery under a transmission cost recovery rider  
 18 and establish a unit rate for that rider. My role  
 19 was really limited to the rate design of the rider  
 20 and the structure and the terms and conditions that  
 21 we felt would be helpful to have established so  
 22 that if subsequently we did make a filing for a  
 23 rider, that, I believe, could be considered  
 24 separately, but at least the mechanism for  
 25 recovering the cost would be established.

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1 Q. In your testimony, I think it's 15, you  
 2 talked about later in 2013 we will separately seek  
 3 approval to recover these transmission costs  
 4 beginning January 2014. So does that mean you have  
 5 another rate case coming, or what do you mean by  
 6 that?

7 A. Ms. Heuer could address that, but since  
 8 I'm the last witness and I already have the  
 9 understanding of the potential timing, I understand  
 10 our plan, if we do make a filing for costs to be  
 11 recovered through a transmission cost rider, it  
 12 would be later this year.

13 Q. Okay. So if we approve the rider, per se,  
 14 you maybe then would request recovery later in the  
 15 year. Okay.

16 We have riders that we use -- the  
 17 Commission does with other investor-owned for  
 18 things like wind and there's some real benefits to  
 19 them, but there's some drawbacks too. When you  
 20 talk transmission, you're talking 115 kV and higher  
 21 for the line size? I think --

22 A. That's outside my expertise.

23 Q. Okay. As far as MISO and potential  
 24 changes in the cost allocation for transmission,  
 25 would that be yours to answer or would that be

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1 Anne's?

2 **A. No. My role in this is really very**

3 **limited to just establishing a mechanism and a**

4 **structure.**

5 COMMISSIONER KALK: All right. Thank you.

6 JUDGE FETCH: All right. Thank you.

7 Commissioner Christmann.

8 **EXAMINATION**

9 **BY COMMISSIONER CHRISTMANN:**

10 **Q.** Sir, what did you say about an agriculture

11 rate or a farm rate? Tell me that again.

12 **A. We at one time did have a separate farm**

13 **service rate which was very similar to the**

14 **residential service rate and it has been canceled,**

15 **I think, for over 20 years, but, if I recall, the**

16 **only distinction was a higher customer charge that**

17 **reflected the longer -- the higher cost level for**

18 **farm customers.**

19 **Q.** So it was discontinued 20 years or more

20 ago?

21 **A. That's correct.**

22 **Q.** So why are we talking about it?

23 **A. There's a reference to it that was**

24 **established, I believe, at the time it was canceled**

25 **to direct and clarify where customers that were --**

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1 farm customers that were formerly served on a

2 separate farm service rate, what rate they would be

3 served on once the rate was canceled, just simply

4 to clarify the default rate would go to residential

5 service rather than some other rate such as a

6 commercial and industrial tariff.

7 **Q.** So those customers -- I presume they're

8 farms that happen to be right along one of your

9 lines, and so those rare customers are currently

10 paying a residential rate? Eliminating that is not

11 going to up their individual rates or lower their

12 individual rates, they're not even going to notice;

13 right?

14 **A. That's correct. And even when it was in**

15 **effect, the distinction or the rate differentials**

16 **were very subtle. If I recall, it was to their**

17 **advantage to transfer to residential service. I**

18 **think the energy charges were the same and the**

19 **residential customer charge was slightly less than**

20 **that for farm service.**

21 COMMISSIONER CHRISTMANN: I have no other

22 questions. Thank you.

23 JUDGE FETCH: Thank you, Commissioner.

24 Any redirect, Ms. Valley?

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

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1 JUDGE FETCH: Thank you. Mr. Norrell, any

2 followup?

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

4 JUDGE FETCH: And Ms. Jeffcoat-Sacco?

5 MS. JEFFCOAT-SACCO: Nothing. Thank you.

6 JUDGE FETCH: Once more to the

7 Commissioners, any followup?

8 COMMISSIONER KALK: Your Honor, no

9 followup, but we may have to have Ms. Anne Heuer --

10 I'm sorry -- come back up and talk about the

11 transmission rate rider.

12 JUDGE FETCH: Anne Heuer?

13 COMMISSIONER KALK: Anne Heuer. There we

14 go.

15 JUDGE FETCH: All right. Mr. Huso, you're

16 excused.

17 THE WITNESS: Thank you.

18 JUDGE FETCH: All right. Shall we do that

19 before we go to the telephone witness?

20 COMMISSIONER KALK: It will be very short,

21 Your Honor.

22 JUDGE FETCH: All right. Ms. Heuer, since

23 you're here and available, let's recall you for

24 some questions. I will ask you to go ahead,

25 Commissioner Kalk.

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1 COMMISSIONER KALK: Thank you, Your Honor.

2 **ANNE HEUER,**

3 having been previously duly sworn, was examined and

4 testified as follows:

5 **FURTHER EXAMINATION**

6 **BY COMMISSIONER KALK:**

7 **Q.** Anne, thank you for coming back up here.

8 Sorry I didn't ask this before anyway.

9 You heard my question about cost

10 allocation changes with MISO. When you envision

11 this rider -- like I said, I'm still trying to see

12 if it's a good idea or not. I can see how you can

13 save some time and resources for all of us, you

14 flow through the costs based on how much energy

15 people use. But how would we -- does the rider

16 address changes inside MISO cost allocation we

17 would disagree with as a Commission and all of a

18 sudden get passed if we could be in the arguing

19 phase with MISO? It's been a significant point of

20 discussion, cost allocation with this Commission

21 and MISO. I don't want to have a tariff -- a rider

22 in place that all of a sudden something happens

23 inside of MISO that changed cost allocation that

24 immediately gets passed through to our customers

25 while we're fighting that in, let's say, a court

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1 situation. That's the real set-up question.  
 2 How would you envision something like that  
 3 playing out so we would not have that flowing  
 4 through to the customer if we were litigating that  
 5 cost allocation change?  
 6 **A. Okay. Included in the 2013 test year are**  
 7 **costs for transmission expense as well as**  
 8 **transmission revenues billed or recovered from MISO**  
 9 **as well as transmission expenses that are billed to**  
 10 **us from MISO. A part of those transmission**  
 11 **revenues and expenses are those related to**  
 12 **regionally shared and cost allocated transmission**  
 13 **projects, and those are commonly referred to as**  
 14 **RECB, or regional expansion criteria and benefits.**  
 15 **That's what RECB stands for.**  
 16 **Q. Right.**  
 17 **A. Those costs and net revenues -- or net**  
 18 **expense, I think it is, is included in the test**  
 19 **year. So what we would do, and it's consistent**  
 20 **with the North Dakota Century Code statute, is ask**  
 21 **for sort of a true-up of those costs in this TCR**  
 22 **rider, but we would submit a request to the**  
 23 **Commission to recover transmission projects as well**  
 24 **as -- that are above and beyond costs included in**  
 25 **base rates as well as these transmission revenues**

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1 and expenses, so -- and we would do that annually  
 2 and as a part of your review of that, our request,  
 3 you would have the ability, if you were having a  
 4 disagreement with MISO, to review these costs in  
 5 that context annually, whereas if they were in base  
 6 rates -- you know, whatever was included in base  
 7 rates would, you know, be there and recovered from  
 8 customers. So if there was anything that you  
 9 disagreed with, I think you would have the ability  
 10 to question those costs every year.  
 11 **Q. So it wouldn't be a monthly true-up where**  
 12 **you would --**  
 13 **A. No. No. We would ask for a --**  
 14 **Q. Maybe it's not even a rider then. It may**  
 15 **be different terminology. Annually you would look**  
 16 **at it during that time?**  
 17 **A. Yeah.**  
 18 **Q. What is the benefit of this if we're doing**  
 19 **a rate case with Xcel Energy every year?**  
 20 **A. Well, I guess our goal wouldn't be to file**  
 21 **a rate case every year.**  
 22 **Q. I would agree with that goal, but that's**  
 23 **not what's happened.**  
 24 **A. It has been happening recently because**  
 25 **we've had rising costs recently, but over the**

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1 **longer term what it would do is it would provide**  
 2 **current recovery of costs that we consider -- that**  
 3 **are -- I don't know -- beneficial to all of our**  
 4 **customers in that they're necessary to support**  
 5 **our -- a reliable transmission system.**  
 6 **Q. Okay. Would you agree that if we approve**  
 7 **the transmission rider, you would not file a rate**  
 8 **case for three years?**  
 9 **A. You know, there could be, you know, some**  
 10 **rate mitigation discussions as a part of this case.**  
 11 **We can -- you know, that's maybe one of the**  
 12 **options.**  
 13 COMMISSIONER KALK: All right. Thank you.  
 14 Thank you, Your Honor.  
 15 THE WITNESS: You're welcome.  
 16 JUDGE FETCH: Commissioner Fedorchak.  
 17 **FURTHER EXAMINATION**  
 18 **BY COMMISSIONER FEDORCHAK:**  
 19 **Q. Since we brought this up, can you talk a**  
 20 **little bit about, from a customer's standpoint, the**  
 21 **rider -- or from the company's standpoint, do these**  
 22 **riders take away your incentive to hold down costs?**  
 23 **A. No, I don't think so. I mean, we still**  
 24 **have -- well, I think we still have within the**  
 25 **company the oversight and management and desire to**

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1 provide, you know, these important investments in  
 2 our system at the least cost for customers, but  
 3 they're important to providing reliable service, so  
 4 because we're making such significant investment in  
 5 our transmission system, you know, we believe it's  
 6 important to recover those costs as we go along.  
 7 **Q. What sort of mechanisms do we have as a**  
 8 **Commission with riders, and this being another**  
 9 **major rider in addition to the fuel cost rider, to**  
 10 **kind of review what's being committed to and what's**  
 11 **being spent and kind of hold the line on the**  
 12 **expenses?**  
 13 **A. So what we would do is propose to recover**  
 14 **individual transmission projects in the rider. So**  
 15 **you would have a chance annually to look at, you**  
 16 **know, new projects that we're requesting as well as**  
 17 **review the costs that we've incurred for projects**  
 18 **that we've asked for previously, and the rider**  
 19 **would include a true-up, so although, you know, we**  
 20 **would ask for -- to set the rate on a prospective**  
 21 **basis, every year we would true-up our costs in the**  
 22 **previous year and set a new rate for the new year**  
 23 **and either return any over- or under-recovered**  
 24 **costs to customers in -- for that prospective year.**  
 25 **So, you know, there would be constant review of,**

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1 **you know, what our plans are, what our costs are,**  
 2 **what we previously requested, and what we actually**  
 3 **did spend.**  
 4 **Q.** And is the company concerned at all that  
 5 you'll come to us and we'll say after the fact,  
 6 after you've already made the investments, no, we  
 7 don't think you should be recovering that and then  
 8 you've got stranded costs?  
 9 **A. Well, you know, I would -- all of our**  
 10 **costs are subject to prudence. We don't -- we**  
 11 **believe that what we're doing is prudent, so we**  
 12 **would hope that the Commission would find our**  
 13 **projects to be constructed in a prudent manner, but**  
 14 **it's our burden to prove that the costs were**  
 15 **incurred prudently and to the benefit of customers.**  
 16 COMMISSIONER FEDORCHAK: Thank you.  
 17 THE WITNESS: You're welcome.  
 18 JUDGE FETCH: Commissioner Christmann, do  
 19 you have any questions?  
 20 COMMISSIONER CHRISTMANN: No other  
 21 questions.  
 22 COMMISSIONER KALK: Your Honor, I have a  
 23 followup to the followup.  
 24 JUDGE FETCH: Okay. Commissioner Kalk.  
 25

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1 **FURTHER EXAMINATION**  
 2 **BY COMMISSIONER KALK:**  
 3 **Q.** Anne, to follow what Commissioner  
 4 Fedorchak was talking about, I think it was a great  
 5 line of discussion, but I'll tell you what I would  
 6 envision this working. You tell me how you see it  
 7 definitely.  
 8 I would still envision the company coming  
 9 in for an ADP on something, we would make a  
 10 decision, and then instead of coming back for a  
 11 rate case, you can file the tariffs. You probably  
 12 would already have an ADP in hand before you filed  
 13 the rider, is what I would envision it. You  
 14 wouldn't change your procedures you have so far on  
 15 ADPs?  
 16 **A. No, I wouldn't expect that we would do**  
 17 **that. However, I think the statute is --**  
 18 **Q.** You don't have to do that.  
 19 **A. All projects that we would ask for**  
 20 **recovery of wouldn't necessarily fall under the ADP**  
 21 **statute.**  
 22 **Q.** Because they're below jurisdiction  
 23 threshold?  
 24 **A. They may be, yeah.**  
 25 COMMISSIONER KALK: Okay. Thank you.

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1 Which is to your point.  
 2 JUDGE FETCH: Let me ask if there are any  
 3 other questions from Mr. Johnson.  
 4 MR. JOHNSON: No, Your Honor.  
 5 JUDGE FETCH: Mr. Norrell.  
 6 MR. NORRELL: No, Your Honor.  
 7 JUDGE FETCH: Ms. Jeffcoat-Sacco.  
 8 MS. JEFFCOAT-SACCO: Yes. I'm sorry. I  
 9 am sorry, but this did open up a couple questions.  
 10 **RE-CROSS-EXAMINATION**  
 11 **BY MS. JEFFCOAT-SACCO:**  
 12 **Q.** Pat just showed me the tariff here on the  
 13 iPad. We don't see a definition of transmission.  
 14 That was one of the questions the Commissioner  
 15 brought up. What are we talking about? At a  
 16 minimum, I think we need a definition in the tariff  
 17 subject to Commission approval.  
 18 **A. I believe that the tariff does say 69 kV**  
 19 **or higher.**  
 20 **Q.** Okay. Well, I'm not going to muck with  
 21 it.  
 22 **A. From talking to Mr. Huso, maybe Mr.**  
 23 **Peppin. I can't remember who.**  
 24 **Q.** The company can double-check that?  
 25 **A. Some other. Yeah, we can just**

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1 **double-check and make sure that's in the tariff.**  
 2 **Q.** I did not see in the statute any provision  
 3 for revenues going through the tracker. Where do  
 4 the MISO revenues that you might get back now for  
 5 NSP transmission, where is that money going? To  
 6 the fuel adjustment or where?  
 7 **A. No. The transmission revenues are**  
 8 **accredited to base rates.**  
 9 **Q.** Okay. So you're proposing that new ones  
 10 would be run through the tracker, all would be run  
 11 through the tracker? Like when you get revenue  
 12 from the Brookings line, we're talking the tracker  
 13 for that or base rates or what?  
 14 **A. Okay. Because there's an amount included**  
 15 **in the 2013 test year, assuming that the Commission**  
 16 **approves recovery of that. Because there's already**  
 17 **an amount in the test year, we wouldn't ask for --**  
 18 **we wouldn't ask for any change to that amount in**  
 19 **the rider, and that is only related to those RECB**  
 20 **revenues. There are other transmission revenues**  
 21 **that are accredited to base rates. This is just a**  
 22 **subset of that transmission revenue.**  
 23 **Q.** Why treat them differently?  
 24 **A. I believe they're specifically identified**  
 25 **in -- the expenses are specifically identified in**

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1 **the statute.**

2 **Q.** Expenses, but why treat revenues

3 differently? This is what I'm trying to get at.

4 **A. Well, I mean --**

5 **Q.** I don't think the statute mentions

6 revenues. That's why I'm asking.

7 **A. I know, but -- well, I believe that that's**

8 **in the best interest of customers for both revenues**

9 **and expenses related to regionally shared projects.**

10 **Q.** So you're kind of saying just have an

11 offset before you run the expense through --

12 **A. Yeah.**

13 **Q.** -- is that basically what you're saying?

14 **A. Yes.**

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

16 Thanks.

17 JUDGE FETCH: Does anyone have any more

18 questions for this witness?

19 All right. Thank you.

20 And, Mr. Johnson or Ms. Valley, who is

21 going to be examining -- is it George Tyson?

22 MR. JOHNSON: Yes.

23 JUDGE FETCH: T-y-s-o-n?

24 MR. JOHNSON: Right.

25 JUDGE FETCH: All right. And we're going

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1 to need a couple of moments to hook him up. Is it

2 going to be you, Mr. Johnson?

3 MR. JOHNSON: To?

4 JUDGE FETCH: To handle the questioning.

5 MR. JOHNSON: Yes. Thank you.

6 JUDGE FETCH: Okay. We're going to take

7 just two or three minutes to let Mr. Sheldon get us

8 hooked up, but please don't wander off.

9 MR. JOHNSON: Your Honor, as soon as he

10 does that, I will call Mr. Tyson and tell him to

11 call in to the bridge.

12 (Recess taken.)

13 JUDGE FETCH: We're back on the record and

14 it is about 4:25 p.m., Central Time, and at this

15 time, Mr. Johnson, please identify your witness and

16 where he's calling from.

17 MR. JOHNSON: Thank you, Your Honor.

18 NSP's next witness will be George Tyson, and he's

19 calling in from Minneapolis, the company's office

20 headquarters building.

21 JUDGE FETCH: Thank you very much. Mr.

22 Tyson, can you hear me okay?

23 THE WITNESS: Yes, I can.

24 JUDGE FETCH: All right. My name is Bonny

25 Fetch. I'm an administrative law judge conducting

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1 this hearing, and for your information all three

2 Commissioners are present at this hearing,

3 Commissioner Julie Fedorchak, who holds the

4 portfolio; Commission Chair Brian Kalk, and

5 Commissioner Randy Christmann. And there are a

6 number of people in the room, I'm not going to

7 identify everyone, but Mr. Johnson will be handling

8 the direct examination; Ryan Norrell, who is

9 employed as an attorney by the Public Service

10 Commission and is the counsel representing advocacy

11 staff, is present and will be asking questions; and

12 Illona Jeffcoat-Sacco, who is counsel advising the

13 Commission, is also present.

14 Let's proceed with you -- first of all,

15 you have not been present and heard me give a

16 couple of instructions. All witness testimony at

17 this hearing is taken under oath and is subject to

18 penalties for perjury. And by law I am required to

19 inform you that perjury in the State of North

20 Dakota is a Class C felony. It is punishable by a

21 maximum \$5,000, maximum five years imprisonment, or

22 both.

23 (Witness sworn.)

24 JUDGE FETCH: Thank you. And at this

25 time, Mr. Johnson.

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1 MR. JOHNSON: Thank you, Your Honor. What

2 I would propose to do is simply ask a few

3 introductory questions and then just make Mr. Tyson

4 available for questions parties may have.

5 JUDGE FETCH: That's fine. Thank you.

6 MR. JOHNSON: Thank you.

7 **GEORGE E. TYSON II,**

8 being first duly sworn, was examined and testified

9 as follows:

10 **DIRECT EXAMINATION**

11 **BY MR. JOHNSON:**

12 **Q.** Mr. Tyson, could you state and spell your

13 name for the record, please.

14 **A. Yes. My name is George E. Tyson II.**

15 **First name is spelled G-e-o-r-g-e, middle initial**

16 **E, my last name is T-y-s-o-n.**

17 **Q.** And could you provide your business

18 address, please?

19 **A. Yes. It's 414 Nicollet Mall, Fourth**

20 **Floor, Minneapolis, Minnesota 55401.**

21 **Q.** And by whom are you employed?

22 **A. I'm employed by Xcel Energy Services**

23 **Incorporated.**

24 **Q.** And what is your position with Xcel Energy

25 Services?

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1 **A. I'm the vice president and treasurer.**  
 2 **Q.** And could you describe briefly your  
 3 experience with the company?  
 4 **A. Yes. I've been the treasurer of Xcel**  
 5 **Energy and each of its subsidiary companies since**  
 6 **May of 2004.**  
 7 **Q.** And could you describe briefly your  
 8 responsibilities as treasurer?  
 9 **A. Yes. I'm responsible for corporate cash**  
 10 **management, our short- and long-term financing,**  
 11 **which includes both debt and equity financing,**  
 12 **pension and nuclear decommissioning trust**  
 13 **investments, and hazard risk insurance.**  
 14 MR. JOHNSON: Your Honor, at this point  
 15 Mr. Tyson is available for cross-examination.  
 16 JUDGE FETCH: Thank you. Mr. Norrell.  
 17 MR. NORRELL: Your Honor, advocacy staff  
 18 waives any questions for this witness at this time.  
 19 JUDGE FETCH: Thank you. Ms.  
 20 Jeffcoat-Sacco.  
 21 MS. JEFFCOAT-SACCO: I have no questions.  
 22 JUDGE FETCH: All right. Then we're going  
 23 to go to the Commissioners, and we'll begin with  
 24 Commissioner Fedorchak.  
 25 COMMISSIONER FEDORCHAK: Yes.

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1 **EXAMINATION**  
 2 **BY COMMISSIONER FEDORCHAK:**  
 3 **Q.** Mr. Tyson, thanks for joining us.  
 4 Appreciate you doing that on short notice.  
 5 The question I have is, a significant part  
 6 of your company's case for its return on equity  
 7 rests on the claim that the ROE is a significant  
 8 component -- a high ROE or reasonable ROE is a  
 9 significant component to attracting capital, and so  
 10 I asked one of your other employees if the 9.25  
 11 percent ROE that South Dakota authorized recently  
 12 for your company has had any measurable impact or  
 13 followed with investors, and if you could speak to  
 14 that, I'd appreciate it.  
 15 **A. Yes. And I think there are a couple of**  
 16 **factors that are relevant in this particular case.**  
 17 **The South Dakota decision did result in a negative**  
 18 **equity analyst report, it was effectively a longer**  
 19 **term downgrade on the equity rating of the company**  
 20 **and that was relevant to Xcel overall.**  
 21 However, with that in mind, we did not see  
 22 a short-term change in our access to debt financing  
 23 or necessarily a cost impact, and I think some of  
 24 that was attributable to the fact that historically  
 25 South Dakota has been perceived by the investment

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1 **community as being a generally more challenging**  
 2 **regulatory environment with respect to returns, and**  
 3 **it is general that we've generally had lower**  
 4 **authorized returns in that jurisdiction, so I think**  
 5 **the decision was ultimately not an unexpected**  
 6 **outcome for that case.**  
 7 I think when we look at this jurisdiction,  
 8 you know, the North Dakota jurisdiction, I think  
 9 the perception has been that it has been a  
 10 historically moderate return state, we've had  
 11 traditionally pretty supportive allowed ROEs in  
 12 this jurisdiction, and so the outcome of this  
 13 decision will likely, I think, have a little bit  
 14 more significance to the investment community in  
 15 terms of how they perceive the trends in  
 16 NSP-Minnesota, and I'm speaking of the overall  
 17 operating company, and it will have more weight, I  
 18 think, in terms of the trends that they take away  
 19 with respect to an overall perspective of the  
 20 regulatory environment impacting the operating  
 21 company.  
 22 **Q.** Okay. So you haven't seen any -- you  
 23 haven't had trouble getting financing access?  
 24 **A. That's correct, I have not had trouble**  
 25 **accessing either short-term debt or long-term debt**

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1 **at the operating company -- at the operating**  
 2 **company level. I think the implications -- and**  
 3 **we've had a series of decisions coming out over the**  
 4 **course of this year. I think the trend has been --**  
 5 **there's some concern among our investors that our**  
 6 **regulatory climate in the NSP-Minnesota operating**  
 7 **company is changing, but that to date I can't point**  
 8 **to anything that has specifically raised our**  
 9 **ability to raise capital, but I am concerned about**  
 10 **longer-term changes in the perception of the**  
 11 **operating company's overall regulatory risk.**  
 12 **Q.** Okay. And since we have you on the line,  
 13 if I could get you to speak a bit about how the  
 14 investors view your authorized ROE as compared to  
 15 your earned ROE, and how do they weight those two  
 16 considerations in determining whether to invest in  
 17 your company?  
 18 **A. Let me speak to the -- let me first speak**  
 19 **to the authorized and then I'll comment on our**  
 20 **earnings relative to the authorized. I think the**  
 21 **investors look to the authorized as -- really it's**  
 22 **an expectation of what the company should be able**  
 23 **to earn. It's really, in their view, this is the**  
 24 **opportunity that has been afforded to the company**  
 25 **and it's up -- it becomes generally perceived that**

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1 the company should be able to operate its business  
 2 or effect results that get close to being able to  
 3 achieve that allowed ROE.  
 4 I can tell you that for us, and it's not  
 5 unique to our Minnesota jurisdiction, but it's  
 6 unique to Xcel in multiple jurisdictions, we have  
 7 often not been able to get to our authorized ROE  
 8 and that has resulted because through the process  
 9 as we work through, we have certain costs that are  
 10 disallowed and there's some inherent lags that come  
 11 into the business as a result of either the timing  
 12 of investments that are going into service or other  
 13 costs that get incurred throughout the process. So  
 14 we have, what I would say, which is probably a  
 15 little bit more of a gap that has persisted over  
 16 some period of time. We've been working very hard  
 17 and it's a stated goal of ours to try to close  
 18 that -- to try to close that gap more, but it is --  
 19 both pieces are ultimately taken into consideration  
 20 by investors.  
 21 In terms of how they relatively weight  
 22 them, I would say that the authorized is pretty  
 23 important because ultimately that is going to  
 24 effectively be the best that we could expect to do,  
 25 and they recognize that, given our history, it

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1 unlikely will generate results that will even get  
 2 to that level, so we get discounted a little bit  
 3 further from, you know, what the authorized returns  
 4 tend to be.  
 5 COMMISSIONER FEDORCHAK: Okay. Thank you.  
 6 I could ask you a lot more questions, but everybody  
 7 here is ready to wrap up, so I'll pass it to my  
 8 fellow Commissioners.  
 9 JUDGE FETCH: Thank you, Commissioner.  
 10 Commissioner Kalk.  
 11 COMMISSIONER KALK: Thank you, Your Honor.  
 12 **EXAMINATION**  
 13 **BY COMMISSIONER KALK:**  
 14 **Q.** Mr. Tyson, thanks for taking time to visit  
 15 with us today.  
 16 **A.** Thank you.  
 17 **Q.** I just have one question. We talked about  
 18 how the increased ROE would benefit potential  
 19 investors, but how would you tell the guy or gal in  
 20 the coffee shop how an increased ROE is going to  
 21 benefit the consumers, whether it's short term or  
 22 long term?  
 23 **A.** I think the way I look at it, and I think  
 24 the way the investors look at it, is the ROE really  
 25 becomes important when you take into context the

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1 long-term nature of the investments that the  
 2 company makes. They certainly expect that there's  
 3 some variability in returns as market conditions  
 4 change, but they expect that movement to be what I  
 5 could characterize as somewhat more moderate in  
 6 terms of how the ROE moves through time, and that's  
 7 because a lot of the investments we undertake have,  
 8 you know, 20- to 30-year lives. So most of our  
 9 investors tend to have a very long-time horizon,  
 10 and these investments that we're making are  
 11 intended to provide long-term benefits to  
 12 customers, so I think it's important to have a  
 13 long-term perspective in thinking about these  
 14 decisions.  
 15 It's hard given -- you know, really when  
 16 we look at our investment plan, it's planned out  
 17 over a very long period of time and there are very  
 18 few projects that we can undertake that we can  
 19 complete in any given year, so most of the projects  
 20 we initiate will have in some form of process for  
 21 multiple years and then they go into service, and  
 22 if the ROE becomes very variable around the timing  
 23 the investments are going in or basically have  
 24 other uncertainty associated with it, it makes the  
 25 longer-term planning just difficult because we

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1 can't really turn these investments on and off very  
 2 quickly, so we're trying to plan with a forward  
 3 look that, you know, says that, well, the allowed  
 4 return is going to cycle somewhat as market  
 5 conditions change, but it's going to have some  
 6 gradual movement to it and it won't be erratic.  
 7 And when you look at the nature of the  
 8 investors in utilities that are -- you know, they  
 9 have a high preference for relatively stable income  
 10 -- an income-oriented investment, that really kind  
 11 of forms the basis for the type of method -- I  
 12 mean, that really forms the basis for how we think  
 13 about the business because that's how the investors  
 14 are looking at the business and making investment  
 15 decisions.  
 16 **Q.** All right. Thank you, Mr. Tyson. I'm  
 17 looking for just a short answer to the guy in the  
 18 coffee shop, how does a higher ROE benefit the  
 19 consumer? Give me an example. You said it  
 20 benefits the consumer, but just give me a short  
 21 answer of how it would benefit the guy on the  
 22 street.  
 23 **A.** Well, I think it provides the basis for a  
 24 continued investment through volatile capital  
 25 market cycles, and, you know, a relatively stable

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1 **ROE enables us to continue with our -- the**  
 2 **investment plans that support reliability,**  
 3 **conservation efforts.**  
 4 COMMISSIONER KALK: Okay. So that's  
 5 something specific. You say that a higher ROE  
 6 gives long-term investment stability to help  
 7 reliability in the grid. Okay. Thank you.  
 8 THE WITNESS: Okay. Thanks.  
 9 COMMISSIONER KALK: Thank you, Your Honor.  
 10 JUDGE FETCH: You read my thoughts,  
 11 Commissioner.  
 12 All right. Commissioner Christmann.  
 13 **EXAMINATION**  
 14 **BY COMMISSIONER CHRISTMANN:**  
 15 **Q.** Mr. Tyson, I want to talk about the  
 16 downgrades in the ratings in the other  
 17 jurisdictions.  
 18 **A. Yes.**  
 19 **Q.** Is the assertion that those were  
 20 specifically because of the lower ROEs or primarily  
 21 because of the lower ROEs, or is that just one of  
 22 many factors, or how would you evaluate that?  
 23 **A. You know, I think there's a lot of --**  
 24 **there's a lot of focus on the ROE decisions. The**  
 25 **other significant piece is the capital structure,**

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1 **but equity investors tend to react very quickly to**  
 2 **the ROE because the equity -- I mean, the equity**  
 3 **investors are most sensitive to that variable and**  
 4 **it has -- what it tends to do is it sets an**  
 5 **expectation that the future trajectory of the**  
 6 **company is changing, and generally for us with ROEs**  
 7 **coming down, it's a forward indicator that the**  
 8 **results are coming -- the net income of the company**  
 9 **is going to come down, there's going to be more**  
 10 **pressure on the stock. So I think the ROE**  
 11 **decisions tend to attract the most rapid response**  
 12 **from the equity market. I'd say the debt market is**  
 13 **a little more resilient to it because they're**  
 14 **higher in the capital structure, they're not quite**  
 15 **as susceptible to ROE changes, although obviously**  
 16 **they have an impact over the longer term, but I**  
 17 **think the equity investors react rather quickly.**  
 18 **Q.** When those downgrades are announced, do  
 19 they come with some type of a statement of  
 20 explanation or something that could be filed with  
 21 us so that we could read it and make our own  
 22 decisions about how much the analysts who did the  
 23 downgrade emphasized the ROE as opposed to other  
 24 factors?  
 25 **A. Yes, they're public -- they're public**

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1 **documents.**  
 2 COMMISSIONER CHRISTMANN: If we could have  
 3 those, that would be helpful. And I have no other  
 4 questions. Thank you.  
 5 JUDGE FETCH: Thank you. I'm going to  
 6 open it up. Mr. Johnson, do you have any questions  
 7 for Mr. Tyson?  
 8 MR. JOHNSON: I do not, Your Honor. Thank  
 9 you.  
 10 JUDGE FETCH: Thank you. Any followup,  
 11 Mr. Norrell?  
 12 MR. NORRELL: Yes, Your Honor, I do.  
 13 **CROSS-EXAMINATION**  
 14 **BY MR. NORRELL:**  
 15 **Q.** Thank you, Mr. Tyson. I was just  
 16 wondering, who are the investors you're talking  
 17 about here? Going to Commissioner Kalk's kind of  
 18 analogy, are these the people in the coffee shop,  
 19 or who are the investors?  
 20 **A. We have a mix. We're about two-thirds**  
 21 **institutional investors, which would include -- we**  
 22 **have a lot of equity, mutual fund-type holders, so**  
 23 **companies like Vanguard, like Fidelity, large**  
 24 **stakeholders like -- number one is Capital Research**  
 25 **and Management. So there's the institutional**

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1 **class, although there's a lot of individuals**  
 2 **indirectly investing through those larger**  
 3 **institutions. And then about a third of the stock**  
 4 **is actually held in retail accounts, which are**  
 5 **basically individuals with brokerage accounts who**  
 6 **buy the stock directly.**  
 7 **Q.** Okay. Thank you. And how do investors  
 8 weigh the company's cash flow in their evaluation  
 9 of the company when looking to invest?  
 10 **A. It's definitely a factor that comes into**  
 11 **play, and it's important because that assessment**  
 12 **gets to really what the quality of the company's**  
 13 **earnings are, and the more cash generation the**  
 14 **company has, the less external financing, the less**  
 15 **equity financing it has to do, which means there's**  
 16 **less future dilution for equity investors in the**  
 17 **company. So the good quality of earnings, meaning**  
 18 **that there's good cash flow associated with the**  
 19 **earnings that are recognized, is an important**  
 20 **variable.**  
 21 **Xcel overall -- this is one of the weakest**  
 22 **areas -- and this comes into play in our credit**  
 23 **ratings assessments as well. This has been an area**  
 24 **where the company has generally struggled. It's**  
 25 **one of our weaker metrics, and relative to our peer**

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1 **group it's a little bit -- it's a little bit weaker**  
 2 **as well.**  
 3 **Q.** So there are other factors that investors  
 4 look at; is that correct?  
 5 **A.** Yeah, there's multiple factors clearly.  
 6 You know, there's assessments of what the long-term  
 7 general volatility of earnings could be, what the  
 8 level of capital investment is, how risky is the  
 9 company's access to capital. So there are multiple  
 10 things that come into play.  
 11 A good cash flow, though, mitigates a lot  
 12 of the other risks. So it's one of the variables  
 13 among several. I would say for companies that have  
 14 large capital expenditure programs like us, there  
 15 is a fair amount of focus on how much of those CapX  
 16 plans can the company internally fund through its  
 17 operating cash flow relative to the amount it has  
 18 to access internally. And if you can get a balance  
 19 where, you know, you're able to fund a majority of  
 20 that or significant portion with internally  
 21 generated cash flows so that your external  
 22 financing is manageable, that's really the balance  
 23 you want to try to get to.  
 24 **Q.** Where does the operating cash flow that  
 25 you mentioned come from?

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1 **A.** It comes from the revenue that the company  
 2 is collecting through its normal operating revenues  
 3 that come in less our operating expenses, and it's  
 4 really -- it is the cash that's being generated  
 5 through the normal operations of the business.  
 6 MR. NORRELL: Thank you. No further  
 7 questions at this time.  
 8 JUDGE FETCH: Thank you, Mr. Norrell. Ms.  
 9 Jeffcoat-Sacco?  
 10 MS. JEFFCOAT-SACCO: I have no questions.  
 11 Thank you.  
 12 JUDGE FETCH: Commissioners, any  
 13 questions?  
 14 Mr. Johnson, anything?  
 15 MR. JOHNSON: No, Your Honor.  
 16 JUDGE FETCH: All right. Thank you, Mr.  
 17 Tyson. You may hang up the telephone.  
 18 THE WITNESS: Okay. Thank you very much,  
 19 Commissioners.  
 20 COMMISSIONER FEDORCHAK: Thank you.  
 21 JUDGE FETCH: And I need to ask Mr.  
 22 Sheldon, have we done all we need to do technically  
 23 now and we can proceed?  
 24 MR. SHELDON: Correct.  
 25 JUDGE FETCH: Thank you.

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1 All right. For the record, Ms. Valley and  
 2 Mr. Johnson, any further witnesses for the company?  
 3 MS. VALLEY: Thank you, Your Honor. No,  
 4 we do not intend to present any additional  
 5 witnesses at this time.  
 6 JUDGE FETCH: All right. The exhibits,  
 7 there were a number of corrections to some of the  
 8 exhibits. I presume the exhibits that you're going  
 9 to present for the record will have all those  
 10 corrections made and replacement page put in where  
 11 it needed to be and that sort of thing.  
 12 MR. JOHNSON: Your Honor, we will  
 13 certainly comply with whatever your preference is.  
 14 Some of the changes are pretty simple, it might be  
 15 as apparent to the reader to just have lines  
 16 through, but obviously we will do exactly what you  
 17 want us to do.  
 18 JUDGE FETCH: Okay. Because you have the  
 19 exhibits.  
 20 MR. JOHNSON: Yes.  
 21 JUDGE FETCH: All right. I think I would  
 22 prefer that you have those be corrected when they  
 23 are presented.  
 24 MR. JOHNSON: Should we red-line the  
 25 changes so people are reminded of where the change

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1 occurred? We can certainly do that.  
 2 JUDGE FETCH: That would be a good idea.  
 3 Thank you.  
 4 All right. Do we need to take care of any  
 5 further business this evening before we adjourn?  
 6 The plan is to adjourn for this evening since the  
 7 company has concluded its case and we will  
 8 reconvene tomorrow morning promptly at 8:30 a.m.,  
 9 Central Time. Anything further for today?  
 10 All right. Seeing nothing, I am going to  
 11 close the hearing for today and we will reconvene  
 12 in the morning. Thank you.  
 13 (Recessed at 4:55 p.m., August 28, 2013.)  
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