



**LISA H. PERKETT**  
**NUCLEAR DECOMMISSIONING AND DEPRECIATION**  
**EVIDENTIARY HEARING OPENING STATEMENT**  
Case No. PU-12-813

I am the Director of Capital Asset Accounting for Xcel Energy Services. I have over 32 years of experience in utility accounting. I am responsible for managing our capital asset accounting, including accounting and tax records, reporting and regulatory requirements, and the capital investment cost recovery process.

In my Direct Testimony I discuss two topics. First, I sponsor our North Dakota Specific depreciation study. This is the first study we have filed that is specific to North Dakota assets, and reflects direction we received from Staff in our last rate case to prepare a North Dakota specific study. It is appended to my Direct Testimony as Schedule 7. While Mr. Majoros questions the results of the removal costs included in our Depreciation Study, Mr. Majoros has not identified any facts relied upon in the Depreciation Study that are incorrect; and the Advisory Staff proposed adjustments to the revenue requirement that are inconsistent with long-standing regulatory and accounting practices. If adopted, Mr. Majoros' recommendations would cause future ratepayers to pay the removal costs of assets after retirement when the assets would no longer be providing any benefits. Depreciation is expressly designed to recover the investment and net removal costs over the lives of the assets so that the customers who benefit from the asset pay those costs.

Second, I sponsor our nuclear decommissioning expense included in the 2013 test year, and our proposal to use Department of Energy payments related to nuclear fuel storage cost damages to help fund the decommissioning. Currently, the decommissioning fund accrual is set to zero, and no funds are being collected from North Dakota customers. We propose using a 60-year decommissioning period and

propose to maintain the accrual at zero by placing all of the 2012 and 2013 DOE settlement payments into the external escrow fund to cover the increase in accrual that would otherwise need to be collected from North Dakota customers beginning in 2013. Under our proposal, there is no impact to North Dakota customers for the test year. Advisory Staff consultant Mr. Michael Majoros recommends approval of our decommissioning proposal.

My Rebuttal Testimony responds to Mr. Majoros' recommendations concerning depreciation expense. Mr. Majoros lists three recommendations on page 3 of his Testimony

First, he recommends that the Company refund the difference between the actual depreciation reserve and the theoretical depreciation reserve for our Transmission, Distribution and General Assets. There is, on a total Company basis, a surplus of \$176.6 million. In my Direct Testimony, I explain how the surplus has been generated (essentially as a result of increased service lives and changes in the cost of removal). I also explain our proposal to use the surplus to lower depreciation rates over the remaining lives of the assets. This proposal is consistent with the use of straight line depreciation. This proposal results in an approximately \$4.2 million annual reduction in depreciation expense at the Total Company level.

Mr. Majoros' other two recommendations, on page 3 of his Direct, would limit recovery of removal cost to those items that qualify as legal AROs. My Rebuttal testimony explains that the distinction between legal AROs and non-legal AROs is based on financial reporting requirements and not based on operating, accounting or regulatory requirements. In my Rebuttal Testimony, at page 13, I presented a table that lists all of the types of legal AROs that apply to the Company.

## **Production**

- Asbestos
- Wells
- Ash ponds and landfills (including evaporation ponds)
- Underground and aboveground storage tanks
- Mercury in old control panels
- Lead paint
- Coal yard at certain facilities on rivers

## **Transmission and Distribution**

- Asbestos
- Pole top or pad mounted transformers with PCB oil (expected to be less than 5% of equipment)
- Substation transformers and capacitors with PCB oil and the carcass that held the oil (expected to be a very small percentage of equipment)
- Underground and aboveground storage tanks
- Meters with lithium batteries
- Paper-insulated, lead-covered underground cable (mostly in the State of Minnesota)

## **General Plant**

- Asbestos
- Lead paint
- Lithium batteries in equipment

There are many expected removal activities and components that are not legal AROs, including buildings, transmission lines and poles, distribution lines and poles, which are only examples of a few major categories of assets that are not legal AROs and which cannot be retired in place.

For example, there is no legal ARO to remove retired distribution lines and poles or retired transmission lines and poles; but we could not abandon those dead poles and wires in place. Since we need to remove those poles and wires, we should recover

those costs and those costs should be recovered from the customers who benefit from the use of those assets to provide electric service.

Similarly, when we retire a plant or other building, only a small portion of the removal is covered as a legal ARO (for example, removal of asbestos). But we need to remove the entire building and plant, not just the asbestos component. If we don't recover the cost of removal during the life of an asset we would need to recover the costs after the asset is retired. Removal costs should be paid for by the customers who benefit from using the asset.

Mr. Majoros' assertion that there is no requirement to remove non-legal AROs is not true. In Case No PU-07-776, we expressly agreed to the creation of a regulatory liability. More specifically, the Commission approved Settlement states: "Both parties agree that, unless directed otherwise by the Commission, rate recovery – past, present, and future – for the removal and retirement of Company utility property will be used solely for the retirement of the Company's utility property and recognized as a regulatory liability."

Mr. Majoros states that we have not reported the accumulated non-legal ARO in our financial statements, in FERC Form 1, or in our North Dakota annual earnings reports. We have reported the financial information we are required to report by the SEC, FERC and the Commission. We have reported the total amounts recovered for retirement and removal of both legal and non-legal AROs in our 10K, in our FERC Form 1, and in our North Dakota earnings reports. Non-legal AROs shown as a liability for financial reporting is included as part of accumulated depreciation for rate making. Furthermore, accumulated depreciation, including the amount recovered for cost of removal, is used to reduce rate base and cost of service. If the Commission

wants more financial reporting information we can provide it, but that is not a current requirement and additional reporting would have no impact on the cost of service.

Finally, Mr. Majoros asserts that the Company uses an inappropriate methodology for determining removal costs. The Company uses its historical removal costs to determine the current cost of removal. Prior to his Supplemental Direct, Mr. Majoros argued that we should use a five-year historical average to determine the current cost of removal. He has abandoned that approach because, as I indicated in my Rebuttal Testimony, using a five year average would increase the cost of removal. In an effort to respond to our specific removal cost study, he makes broad general arguments based on mistaken assumptions without identifying any facts relied upon in the Depreciation Study that are incorrect.

For these reasons, Mr. Majoros' recommendations concerning nuclear decommissioning and depreciation expenses should not be accepted.