



ANNE E. HEUER
REVENUE REQUIREMENTS
EVIDENTIARY HEARING OPENING STATEMENT
Case No. PU-12-813

I am Manager of Revenue Analysis for Xcel Energy Services Inc. My primary role in this proceeding is to provide the Company's financial data in support of its request for a general rate increase. Our request for an increase has decreased from \$16.9 million to \$14.9 million. The decrease reflects the Company's request for a lower return on equity of 10.25 percent and adjustments to individual expenses and revenues. Those adjustments, other than the ROE, have been agreed to by Advocacy Staff Consultants.

The remaining proposed adjustments by the Staff Consultants' and the ROE remain contested. Many of the Staff Consultants' adjustments are addressed by other Company witnesses and are then reflected by me in the overall revenue requirement calculation. Some of the Staff Consultants' adjustments are addressed directly by me. Of those, I will provide comments on four contested adjustments in this Opening Statement.

Average Three-Year Historical Operating Expenses

I testified against Mr. Dante Mugrace's proposal to replace all of the 2013 Operating Expenses with a historical three year average of 2010, 2011 and 2012 expense. That proposal is inconsistent with fundamental ratemaking in several respects:

- Although the Company is allowed under North Dakota statute to use a 2013 projected test year, Mr. Mugrace eliminates any consideration of 2013 operating expenses. He provided no testimony challenging the accuracy of our projected 2013 expenses.

- Instead, Mr. Mugrace uses a three-year historical average of operating expenses which is inconsistent with his use of a 2013 sales forecast. Further, his approach is also inconsistent with the ratemaking standard that develops the test year using 12 consecutive months of revenues and expenses.
- In addition, his recommended three year average expense is lower than the operating expenses approved for the 2011 test year used to set rates in our last rate case, and the Company's earnings in 2011 were well below authorized levels.

Demand Allocator

Mr. Scott Brockett explains why a 1CP is an inappropriate demand allocator. I testify about the additional problems with the manner in which Dr. Karl Pavlovic calculated the 1CP demand allocator and the application of the 1CP allocator by Mr. Mugrace. I list five additional errors in Dr. Pavlovic's and Mr. Mugrace's analysis, each of which is contrary to fundamental ratemaking. The two most significant errors are:

- Dr. Pavlovic used 2010, 2011, and 2012 data to calculate the 1CP allocator. Consequently he does not capture the changes in relative demand for North Dakota occurring in 2013. In contrast, Dr. Pavlovic accepted the use of 2013 data for the calculation of each of our other jurisdictional allocators, which is an additional inconsistency.
- Mr. Mugrace applied the 1CP allocator to some expenses and not others, and applied the 1 CP allocator to the general expense category while accepting the full value of adjustments made by the Company. This creates yet another mismatch and inconsistency.

Expense Amortization

The Company proposes to amortize several test year expenses over three years. However, Mr. Mugrace reduces the revenue requirement by one-third based on his assumption that we will recover one-third of the expense through interim rates. This is inconsistent with fundamental ratemaking, which uses the final revenue requirement for the test year to calculate whether to make an interim rate refund. Under Mr. Mugrace's proposal one-third of the revenues collected under interim rates would be refunded and final rates would not recover the unrecovered costs. The net result is that we would only recover two-thirds of these legitimate expenses.

Net Plant In Service

The last item I wish to address is the calculation of net plant in service. For a 2013 test year, ratemaking fundamentals require the use of the *end of year* 2012 net plant balances as the starting point. Contrary to this principle, Mr. Mugrace uses as his starting point the *average* 2012 net plant balances. In addition, Mr. Mugrace uses a number of inconsistent approaches to arrive at his recommended 2013 net plant.

In conclusion, based on consistent application of fundamental ratemaking principles, the Company has appropriately determined the 2013 test year revenues, expenses and rate base necessary to provide service to customers in North Dakota.