

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF COLORADO)
FOR APPROVAL OF ITS 2011 ELECTRIC) DOCKET NO. 11A-869E
RESOURCE PLAN)

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF COLORADO)
FOR APPROVAL OF THE ACQUISITION OF)
THE BRUSH 1, 3, AND 4 GENERATION)
FACILITIES AND IN CONNECTION) DOCKET NO. 12A-782E
THEREWITH THE GRANT OF A CERTIFICATE)
OF PUBLIC CONVENIENCE AND NECESSITY)
IF REQUIRED AND THE APPROVAL OF COST)
RECOVERY THROUGH A GENERAL RATE)
SCHEDULE ADJUSTMENT)

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF COLORADO)
FOR APPROVAL OF THE POWER PURCHASE)
AGREEMENT FOR 118.8 MW OF NATURAL) DOCKET NO. 12A-785E
GAS GENERATION, EARLY RETIREMENT OF)
ARAPAHOE UNIT 4, AND A GAS SALES)
AGREEMENT.)

SUPPLEMENTAL REBUTTAL TESTIMONY AND EXHIBITS OF KAREN T.
HYDE

ON BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

October 5, 2012

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LIST OF EXHIBITS

Exhibit No. KTH-4	PSCo Response to CPUC42-13
Exhibit No. KTH-5	Commission Staff Response to PSCo4-16
Exhibit No. KTH-6	Commission Staff Response to PSCo4-13
Exhibit No. KTH-7	Commission Staff Response to PSCo5-6
Exhibit No. KTH-8	Commission Staff Response to PSCo 4-9
Exhibit No. KTH-9	Commission Staff Response to PSCo4-20
Exhibit No. KTH-10	Commission Staff Response to PSCo4-10
Exhibit No. KTH-11	Commission Staff Response to PSCo5-4
Exhibit No. KTH-12	Commission Staff Response to PSCo4-30

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1 I. **INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Karen T. Hyde and my business address is 1800 Larimer
4 Denver, CO 80202.

1 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

2 A. I am employed by Xcel Energy Services Inc., a wholly-owned subsidiary
3 of Xcel Energy Inc., the parent company of Public Service Company of
4 Colorado. My position is Vice President, Rates and Regulatory Affairs –
5 Colorado.

6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

7 A. I am testifying on behalf of the Public Service Company of Colorado
8 (“Public Service”, “PSCo”, or “Company”).

9 **Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS DOCKET?**

10 A. Yes. I provided Direct Testimony in Docket No. 12A-782E.

11 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
12 **TESTIMONY?**

13 A. I will respond to certain parts of the testimony of Staff, OCC, and
14 CEC/CIEA/Thermo Power regarding both the Brush and Arapahoe
15 transactions.

16 **Q. WHAT ARE THE SPECIFIC TOPICS YOU WILL COVER IN THIS**
17 **SUPPLEMENTAL REBUTTAL TESTIMONY?**

18 A. I will address concerns raised by Mr. Camp and Mr. Markell regarding
19 both the condition and expected life of the Brush units and Mr. Camp’s
20 concern that the Company has not been fully aware of the facts of these
21 matters. Relative to the Brush units, I will also address Dr. Schechter’s
22 discussion of future prudence review and the cost recovery advocacy by
23 OCC and CEC/CIEA/Thermo Power.

1 Relative to the Arapahoe transaction, I will address Staff's proposal
2 that O&M savings in 2014 be passed directly to customers through the
3 ECA, which I view to be contrary to the Settlement in the last rate case
4 that Staff supported.

5 **II. THE CONDITION OF THE BRUSH UNITS**

6 **Q. STAFF WITNESS MR. CAMP RAISES CONCERNS ABOUT THE AGE**
7 **AND CONDITION OF THE BRUSH UNITS. BEFORE ADDRESSING**
8 **THAT MATTER CAN YOU ADDRESS HIS CONCERN THAT THE**
9 **COMPANY'S WITNESSES AND THE REGULATORY STAFF MAY**
10 **NOT HAVE KNOWN THE AGE OF THE UNITS?**

11 A. Yes, Mr. Camp raises these concerns starting on page 11 line 13. I can
12 assure the Commission that the witnesses in the case were fully aware
13 that the generating facilities at Brush 1, 3 and 4 were refurbished
14 equipment when they were installed at Brush. Before my time in
15 Regulatory, I was in the Company's purchase power unit on and off
16 since the early 1990s and I am very familiar with the history of the Brush
17 units. Further, since the Brush facilities have been under Power
18 Purchase Agreements (PPAs) to sell their output to the Company since
19 they started operating, we have a good understanding of the operational
20 availability of these units.

21 While the Company was considering whether we wanted to
22 purchase the Brush units, I specifically made sure that in conducting due
23 diligence, our engineering experts were aware of my understanding of

1 the history of these units as they made their assessment of the condition
2 and likely remaining life of the units and the estimated costs to operate
3 and maintain these units. As Mr. Hess states in response to Staff's
4 discovery request CPUC42-13(b) equipment of this vintage was
5 engineered and constructed to robust standards that suggest the
6 equipment should be appropriate for long-term operation. See Exhibit
7 No. KTH-4 (Public Service Response to CPUC42-13). The robustness
8 of the original equipment, the fact that it was refurbished to new and
9 clean condition when installed at Brush, the good care that has been
10 given the units while at Brush, and the very low starts and operating
11 hours, all gave our engineering experts comfort that these units have a
12 long life ahead of them and will provide reliable service to the Public
13 Service system. As Mr. Hess has testified, the operational
14 characteristics of a peaking facility are more important than the age of
15 the facility in determining the maintenance requirements and assessing
16 the remaining useful life. Mr. Markell on behalf of Commission Staff
17 agrees with this assessment. See Exhibit No. KTH-5 (Commission Staff
18 Response to PSCo4-16).

19 **Q. WAS THE COMPANY FORTHRIGHT IN DESCRIBING THE**
20 **EQUIPMENT?**

21 A. Yes. I assure you that we had no intention of either hiding the history of
22 the units or of misleading the Commission. I note that we made our
23 entire data room available to Staff with the exception of a few items that

1 Seller requested not be provided (predominantly personnel files and
2 information about unrelated businesses owned by the Seller's parent).
3 We also gained access for Staff and their consultant to Seller's facilities
4 and personnel. We did not intend to hide anything about these facilities
5 from the Staff, other parties or the Commission.

6 Nevertheless, upon re-reading our testimony after reading Mr.
7 Camp's Answer Testimony, I recognize that we did not provide a
8 detailed history of how the units came to be located in Brush, Colorado.
9 In focusing on making a concise and compelling filing with the
10 Commission, we left out some "color commentary". We can never know
11 what approach parties will take in Answer Testimony when we write our
12 direct case but it is clear Staff would have preferred that we include more
13 discussion on the history of these units.

14 **Q. HAVE THE UNITS BEEN WELL MAINTAINED?**

15 A. Yes. These are good assets and will be a valuable addition to our fleet
16 at the price we are paying. Even Mr. Markell on behalf of Staff does
17 conclude that the assets have been well maintained and are in good
18 condition. In supporting his conclusion that the "Brush Facilities are in
19 good condition, Mr. Markell stated that:

20 "The general condition of the major equipment can
21 generally be utilized as a sign of the quality of maintenance
22 being performed on site and be directly related to the
23 internal condition of the equipment. For example, if no oil
24 leaks are observed, then it generally indicates that the
25 maintenance staff is diligent in performing preventative
26 maintenance in the repair and/or replacement of seals. "

1 (See Exhibit No. KTH-6 Staff Response to PSCo4-13). In a subsequent
2 information response, Mr. Markell acknowledged that he saw no oil leaks
3 during his visit and that the units were in generally good shape. (See
4 Exhibit No. KTH-7 Staff Response to PSCo5-6).

5 **Q. DO YOU AGREE WITH MR. CAMP THAT THE BEST COURSE OF**
6 **ACTION IS TO CONTINUE TO PURCHASE THE CAPACITY AND**
7 **ENERGY ASSOCIATED WITH THESE FACILITIES THROUGH THE**
8 **PURCHASED POWER AGREEMENTS RATHER THAN ACQUIRE**
9 **OWNERSHIP IN THE UNITS?**

10 A. No. As Dr. Schechter correctly points out, the ownership option saves
11 customers over \$11 million over the remaining term of the PPAs and that
12 benefit to customers is lost if the Commission does not approve the
13 asset acquisition. Mr. Hill provides a full analysis regarding the
14 economics of the PPA and the acquisition.

15 **Q. IS MR. MARKELL CORRECT THAT THE UNITS ONLY HAVE ABOUT**
16 **10 – 15 YEARS REMAINING LIFE?**

17 A. No, not under expected operating conditions and circumstances. I rely
18 on Mr. Hess's assessment, which was also informed by his experience
19 and those of his colleagues in our Energy Supply group. Also, as Ms.
20 Perkett testifies in Supplemental Rebuttal, the Commission has never
21 approved a generation facility book life of the 20 – 30 years that Mr.
22 Markell used as his starting point in concluding that the remaining life is
23 more likely 10 – 15 years rather than the 22 – 34 years that the

1 Company determines. I think Mr. Markell's opinion is influenced by his
2 background providing consulting engineering reviews to project lenders
3 and investors.

4 **Q. CAN YOU EXPAND ON THAT LAST POINT?**

5 A. Yes. In my 19 years negotiating with independent power producers and
6 their lenders, the lenders are most interested in an analysis that shows
7 they have a high likelihood of recovery of their investment from the
8 specific asset and if project economics rely on a shorter life, they have
9 more comfort. Mr. Markell provided some of his marketing materials
10 through discovery and I note that he tells prospective clients "IEs are
11 paid to be the pessimists". (See Exhibit No. KTH-8, Staff Attachment
12 PSCo4-9(1) in response to PSCo4-9(1).

13 **Q. CAN YOU CONTRAST THAT WITH THE WAY THIS COMMISSION**
14 **SETS USEFUL LIFE FOR DETERMINING REASONABLE**
15 **DEPRECIATION RATES?**

16 A. Yes. In my experience in the regulated utility world, the Commission
17 prefers to depreciate assets over longer periods, periods closer to their
18 expected operating life of the facility, to keep customer rates lower. The
19 45 year life from when the equipment came in-service in its current
20 configuration is in line with previous commission decisions.

21 In my experience both in the utility industry and in life, if you buy a
22 quality piece of equipment, care for it well, and don't use it very often, it
23 will have a long life. I note that we have hydroelectric generators that

1 are already well over 100 years old and we think they will continue to
2 operate well into the future. For example, our Ames hydro electric
3 facility was placed in service in 1891 and continues to operate well
4 today. I note that a 20 year old turbine would have been in-service in
5 1992 and a 30 year old turbine in 1982.

6 **Q. CAN YOU PROVIDE SOME DISCUSSION ON USEFUL LIFE FROM A**
7 **REGULATORY PERSPECTIVE?**

8 A. Yes. In order to set rates and for the Company to keep its books and
9 records, we need to set a useful life for all assets in order to calculate
10 the book depreciation and revenue requirements. The Company often
11 files a new depreciation study with a Phase 1 rate case in order to re-
12 evaluate the remaining life of assets and to ensure that depreciation
13 rates are sufficient to recover current net book value after consideration
14 of additions to plant. Sometimes this periodic re-evaluation results in a
15 reduction to or an extension to the remaining book life. Occasionally,
16 plants are retired ahead of the end of their current remaining life, usually
17 for public policy reasons, such as the retirements under the Clean Air
18 Clean Jobs Act plan or for carbon dioxide reduction as with Cameo. The
19 Company has assessed that the Brush units have a useful life of 45
20 years from the date they came in-service in their current configuration
21 which gives them a remaining useful life of 22 to 34 years.

22 Mr. Hill testifies that from a present value perspective, the savings
23 customers receive by having the Company own the plant rather than

1 purchase under the PPA is break-even for customers if the plants last
2 between 12 and 17 years from today and customers pay the remaining
3 book depreciation at that time. This means that even if Mr. Markell is
4 correct and the plants will only last 10 – 15 more years, customers are
5 neutral overall and still realize near term savings. If Mr. Hess is correct
6 that the plants have substantially more remaining life (more than 12 – 17
7 years), the continuing service of those plants beyond 12 – 17 years is all
8 a pure benefit to customers.

9 **Q. MR. CAMP CITES THE EXAMPLE OF NRG AND THE RETIREMENT**
10 **AND REPLACEMENT OF THEIR UNITS IN ASTORIA QUEENS AS**
11 **PROOF THAT EITHER THE BRUSH FACILITIES DO NOT HAVE A**
12 **LONG LIFE AHEAD OR THAT THEY SHOULD BE REPLACED WITH**
13 **NEW EQUIPMENT TO MEET ENVIRONMENTAL GOALS. DO YOU**
14 **HAVE ANY COMMENTS?**

15 A. Yes. First, I note that in the article, the replacement of the Astoria units
16 will be at a cost of \$1.5 billion. On a MW equivalent basis, that would be
17 \$592 million for the Brush units and would upgrade the units to 411 MW¹
18 and change operation from a peaking unit to essentially a baseload
19 combined cycle. The Company is not making a request to repower the
20 Brush units nor have we currently made any proposals to the
21 Commission to repower any of our other gas-fired peaking units. We

¹ The upgrades on the Astoria units will cost \$1.5 billion and will increase unit capacity from 600 MW to 1,040 MW. \$1,500,000,000 divided by 600,000 kWh = \$2500/kW multiple that times 237,000 kW for the capacity of the Brush units (60 + 30 + 147) = \$592,500,000. The ratio of

1 believe that it is economic to continue to maintain and operate these
2 older natural gas-fired peaking units rather than replace them with new
3 equipment. Remember that we plan to operate these units only 1 – 3
4 percent of the time; any environmental improvement from changing out
5 these generators would be so small that the expense of repowering can't
6 be justified. As demonstrated by the bulk of the resource plan, the
7 Public Service system needs peaking capacity at this time, not new
8 combined cycle energy.

9 **Q. DO YOU HAVE ANY CONCERNS ABOUT THE STAFF'S USE OF MR.**
10 **MARKELL AS AN EXPERT WITNESS?**

11 A. Yes, I have a concern because Mr. Markell has not been forthcoming
12 with the bases for his opinions. Mr. Markell's written testimony in this
13 docket was quite general regarding the remaining useful life of the Brush
14 facility and through the testimony of Mr. Camp and Mr. Markell, Staff has
15 placed the expected useful life of the facility as a pivotal issue in the
16 case. We probed that testimony extensively in discovery and in his
17 answers, Mr. Markell continued to give general responses. On the one
18 hand, Mr. Markell stated that a 20 – 30 year useful life for combustion
19 turbines and combined cycle facilities is essentially his "canned"
20 response. See Exhibit No. KTH-9, Staff response to PSCo 4-20 item
21 (d)):

22 Q. Please provide all facts in your possession that you used to
23 form the basis for the opinion that simple cycle and combined

final Astoria output of 1040 MW to 600 MW original is an increase of 1.73. Applying that ratio to the 237 MW at Brush means that after the upgrade, Brush would be about 410.8 MW.

1 cycle facilities “typically” have a useful life of 20 – 30 years
2 depending on the mode of operation.

3 A. The basis for the opinion that simple cycle and combined cycle
4 facilities typically have a useful life of 20 – 30 years is based
5 on professional experience as an independent engineer. Each
6 power plant will have a different profile and a different useful
7 life. Therefore, it is common practice as an independent
8 engineer to opine only to 20 to 30 years without additional
9 information or making excessive assumptions.

10 On the other hand, when asked about his specific experience on
11 equipment similar to Brush, he stated that his experience was
12 “confidential” as shown in Exhibit No. KTH-10 which is Staff’s response
13 to PSCo 4-10.

14 The Company sought to understand the basis for the assertion
15 that Mr. Markell’s support for his general assertions were confidential
16 and we were told that the support for this conclusions in Exhibit No.
17 TJM-1 were confidential and proprietary. In fact, Mr. Nocera, counsel for
18 Staff, e-mailed my counsel as follows:

19 “The information requested is the proprietary information of
20 Mr. Markell’s former clients and is governed by his
21 commitments to keep it confidential. Thus, he is not free to
22 disclose that information in this proceeding or otherwise
23 and therefore, the information will not be provided.”

24 Finally on follow up, we asked Staff for the nondisclosure agreements
25 that support their refusal to provide us this important information. Staff
26 provided a supplemental response to PSCo5-4, as late as October 4,
27 2012 stating that Mr. Markell’s associates steadfastly refuse to provide
28 us with the requested information. In responding to Mr. Markell’s
29 request for the contract to support his claim of confidentiality, the vendor

1 states: "We considered your request and we cannot provide
2 Professional Services Agreements and/or associated work products for
3 any of our clients." Exhibit No. KTH-11 (Supplemental Attachment to
4 PSCo5-4). PSCo is very concerned about the dynamic of a witness that
5 renders an opinion but then says he cannot provide the basis for the
6 opinion without permission and then finds that his counterparty refuses
7 to provide access even to the confidentiality agreement governing the
8 relationship. Obviously, Public Service has no ability to respond to this.

9 **Q. WHY DOES THIS CAUSE YOU CONCERN?**

10 A. Without access to the specific analysis or examples from his experience,
11 we are left in a poor position to be able to rebut his assertions. In Exhibit
12 No. KTH-10, you can see that Mr. Markell has had experience with
13 equipment which he considers "of a comparable vintage and type found
14 at Brush" but he would not tell us his opinion of the remaining useful life
15 of that comparable equipment or his assessment of its repair and
16 maintenance history. Mr. Markell has stated that he does not know if
17 "useful life" is the same as "depreciable life" (See Exhibit No. KTH-9 item
18 (c)) and that he is aware of both combustion turbines (simple cycle) and
19 combined cycle equipment that has been in operation for more than 30
20 years (See Exhibit No. KTH-9 item (b)) but we are at a loss to
21 understand how this awareness was factored into his opinion, if at all.

1 **Q. DO YOU HAVE ANOTHER EXAMPLE OF MR. MARKELL STATING**
2 **AN OPINION WHILE DECLINING TO PROVIDE A BASIS FOR THAT**
3 **OPINION?**

4 A. Yes. As Exhibit No. KTH-12 (Commission Staff Response to PSCo4-30)
5 shows, Mr. Markell describes his opinion that expected operations and
6 maintenance expenses for simple and combined cycle facilities should
7 be in the range of \$20-25/MWh. But then when we asked him to provide
8 the basis for that opinion he states “the actual O&M expenses to support
9 our experience is confidential.” It seems unfair that Mr. Markell is able to
10 provide a specific opinion without providing a full explanation of how he
11 got to those numbers and his past experience in reaching that
12 conclusion.

13 **Q. ARE YOU SUGGESTING THAT MR. MARKELL’S TESTIMONY**
14 **SHOULD BE STRICKEN?**

15 A. No. The Company does not ask the Commission to strike Mr. Markell’s
16 testimony because it seemed that the Commission was interested in a
17 second engineering opinion. However, the Company asks the
18 Commission to consider the weight it gives to this testimony because of
19 these concerns.

20 **Q. EVEN WITHOUT A SPECIFIC BASIS FOR THE \$20 - \$25/MWH O&M**
21 **COSTS, CAN YOU GIVE AN EXAMPLE OF HOW IT MAY NOT BE**
22 **RELIABLE?**

1 A. Yes – per MWh estimates are very sensitive to the capacity factor used
2 in the calculation. At a 5% capacity factor, a 100 MW facility would
3 produce 43,800 MWh in a year. At \$25/MWh, that is \$1,095,000 in
4 annual O&M expenses. If the majority of those expenses are fixed, like
5 labor, then if the same facility operates only 1% of the time, the per MWh
6 value would increase to \$125/MWh. Therefore Mr. Markell's comparison
7 raises serious comparability concerns, particularly since he did not
8 provide the complete basis for his comparison.

9 **III. PRUDENCE AND COST RECOVERY FOR BRUSH TRANSACTION**

10 **Q. DR. SCHECHTER INDICATED THAT APPROVAL OF THE BRUSH**
11 **APPLICATION WOULD NOT PRECLUDE FINDINGS LATER OF**
12 **IMPRUDENCE ON THE PART OF THE COMPANY. DO YOU**
13 **AGREE?**

14 A. In part, but I need to clarify what I believe the appropriate regulatory test
15 to be. When and if the Commission approves this application, the
16 Commission would be determining that it is prudent for the Company to
17 acquire the Brush units. That prudence determination may not be
18 revisited. In reliance on that approval, Public Service would close on the
19 acquisition of the Brush units and we would be entitled to place the
20 revenue requirements associated with these units in customer rates. In
21 future rate cases, the Company presumably would continue to reflect the
22 revenue requirements associated with the Brush units in rates. If Public
23 Service fails to prudently manage and operate these units, then a party

1 to a future rate case could challenge the recovery of costs related to an
2 imprudent activity on the part of the Company. The challenging party
3 would have the burden of going forward to make a prima facie case that
4 Public Service may have been imprudent in its management or operation
5 of the Brush units.

6 **Q. HOW DID THE COMPANY PROPOSE TO RECOVER THE COST OF**
7 **OWNING AND OPERATING BRUSH AFTER THE ACQUISITION?**

8 A. Consistent with our Settlement in the last electric rate case, we proposed
9 that we recover the fixed costs associated with ownership through a
10 GRSA, that we would remove the costs of the terminated Brush PPAs
11 from the PCCA at the same time, and that we would recover the costs of
12 fuel (as they are now recovered) through the ECA.

13 **Q. DID THE COMPANY PROPOSE ANY ALTERNATIVES?**

14 A. No. However, I did point out that if the Commission was concerned
15 about the temporary slight increase in residential customers rates due to
16 the allocation differences between the PCCA and the GRSA, the
17 Commission could determine that the revenue requirements of the Brush
18 units could be recovered through the PCCA until the next Phase 1 rate
19 case.

20 **Q. DID ANY PARTY URGE THE COMMISSION TO ADOPT THAT**
21 **ALTERNATE TREATMENT – CONTINUED RECOVERY THROUGH**
22 **THE PCCA?**

1 A. Yes. Dr. Schechter on behalf of the OCC urged the Commission to
2 adopt that alternative so that residential customers would see an
3 immediate rate reduction as a result of the transaction.

4 **Q. DID ANY PARTY URGE THE COMMISSION TO SPECIFICALLY**
5 **REJECT THAT ALTERNATIVE AND TO APPROVE THE COMPANY'S**
6 **PRIMARY PROPOSED TREATMENT?**

7 A. Yes, Mr. Monsen on behalf of CEC, CIEA, and Thermo Power
8 recommended that the Commission deny the Brush application, but that
9 if it was approved recovery of the costs should be consistent with the
10 rate case Settlement, which would be through the GRSA.

11 **Q. IS EITHER TREATMENT ACCEPTABLE TO THE COMPANY?**

12 A. The Company continues to propose treatment consistent with the
13 settlement but would accept the alternative.

14 **Q. MR. MONSEN ASKS THAT THE COMMISSION IGNORE THE**
15 **BENEFITS PROVIDED TO OUR CUSTOMERS BY COMPANY**
16 **OWNERSHIP OF THE BRUSH UNITS. DO YOU AGREE?**

17 A. No. The Commission should not ignore these qualitative factors.
18 Independent Power Producers continually argue that there are benefits
19 to our customers from the risks that they claim they assume under
20 PPAs. By the same token, the Commission should take into account the
21 benefits of utility ownership that I outlined in my Direct Testimony.

22 It is important to emphasize, however, that Public Service has
23 made no attempt to quantify these "optionality benefits." It was not

1 necessary that we do so, because as the testimony of Jim Hill explains,
2 the acquisition of the Brush units creates clear savings for our
3 customers, without taking into consideration these additional benefits.

4 **IV. UPDATE ON CONDITIONS PRECEDENT**

5 **Q. WHAT SPECIFIC APPROVALS ARE NEEDED IN CONNECTION**
6 **WITH THIS TRANSACTION?**

7 A. As I testified in Direct, we need approvals from the Federal Trade
8 Commission under the Hart-Scott-Rodino (“HSR”) Act and from the
9 Federal Energy Regulatory Commission (“FERC”) under section 203 of
10 the Federal Power Act. The Company received the HSR approval on
11 August 3, 2012. The Company received the section 203 approval from
12 FERC on September 25, 2012. The remaining substantive approval is
13 from the CPUC as part of this case.

14 **V. RATE TREATMENT OF THE ARAPAHOE TRANSACTION**

15 **Q. DID ANY PARTY CHALLENGE THE REGULATORY TREATMENT OF**
16 **THE ARAPAHOE TRANSACTION PROPOSED BY THE COMPANY?**

17 A. Yes. Through the testimony of Ms. Sharon Podein, Staff opposed one
18 aspect of the treatment – how the O&M savings, if any, in 2014 would be
19 reflected in rates and the earnings test. The Company outlined that the
20 O&M savings, if any, would be reflected as reduced O&M costs in
21 calculating the earnings test in 2014. New rates would be in effect in

1 2015 and any savings in 2015 would be reflected in new rates. This
2 treatment is consistent with the Settlement in the last electric rate case.

3 In contrast, Staff proposed that the O&M savings should be
4 provided directly to customers through the ECA. It appears that Staff
5 would like to flow the estimated O&M savings to customers and not any
6 actual savings, although that is not completely clear,

7 **Q. DOES THE COMPANY AGREE WITH STAFF'S PROPOSAL?**

8 A. No. One advantage of the Multi-Year Plan is that it gives the Company a
9 longer term time horizon (mid 2012 through the end of 2014) to consider
10 long term changes to its O&M expenses as a way to achieve our
11 financial goals through the period when base rates are set. This Multi-
12 Year Plan also gives us an opportunity to change the long-term
13 trajectory of O&M outside of an annual rate case structure. The Staff's
14 proposal amounts to cherry-picking reductions to pass directly to
15 customers without the ability for the Company to pass through O&M
16 increases to customers. The Company must manage both expense
17 reductions and increases within the set revenues associated with the
18 Settlement. The Company is concerned that Staff is trying to unwind
19 that careful construction in the Settlement by passing reduction in O&M
20 directly to customers rather than using the mechanism established by
21 the settlement – the earnings test.

22 **Q. DID THE COMMISSION CONSIDER THIS TRADE-OFF IN APPROVING**
23 **THE SETTLEMENT?**

1 A. Yes. In reviewing the “stay-out” provision the Commission specifically
2 enumerated the exceptions in paragraph 53 of Decision No. C12-0494:

3 There are two exceptions to the “stay-out” provision for
4 Public Service, reflecting certain unanticipated exogenous
5 changes in expenses and/or revenue changes. For
6 expenses, Public Service may adjust the prospective
7 GRSA if expenses are changed through such events as
8 changes in Generally Accepted Accounting Practices;
9 changes in laws by federal, state, or local jurisdictions;
10 orders or acts of military authority, natural disasters, or
11 catastrophic events beyond insurance coverage; or a
12 Commission approved asset acquisition or divestiture in
13 excess of \$50 million.

14 The Commission specifically states in paragraph 77 that “[t]he
15 “stay-out” provision should also provide incentive for Public Service to
16 strive for efficiency.” Because the Arapahoe 4 retirement does not flow
17 to customers through exercise of the exceptions to the “stay-out”
18 provision, I think it is clear that the Arapahoe 4 retirement is the type of
19 efficiency that the Commission envisioned. I also want to stress that the
20 economics presented by Mr. Brockett all recognize that the O&M savings
21 would be reflected through the earnings test as I described in my direct
22 Testimony and not through any specific refund mechanism proposed by
23 Ms. Podein. Therefore, even with the O&M savings, if any, in 2014
24 being retained by the Company and refunded if appropriate through the
25 earnings test, customers are better off than not doing the transaction.

26 **Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL REBUTTAL**
27 **TESTIMONY?**

28 A. Yes.