BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
St Paul MN 55101-2147

IN THE MATTER OF A COMMISSION INVESTIGATION INTO XCEL ENERGY'S MONTICELLO LIFE CYCLE MANAGEMENT AND EXTENDED POWER UPRATE PROJECT AND REQUEST FOR RECOVERY OF COST OVERRUNS	MPUC Docket No. E002/CI-13-754 OAH Docket No. 48-2500-31139

DIRECT TESTIMONY OF NANCY A. CAMPBELL

ON BEHALF OF

THE MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

JULY 2, 2014

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I. INTRODUCTION

Q. Would you state your name, occupation and business address?

A. My name is Nancy A. Campbell. I am employed as a Public Utilities Financial Analyst by the Minnesota Department of Commerce, Division of Energy Resources (Department). My business address is 85 7th Place East, Suite 500, St. Paul, Minnesota 55101-2198.

Q. What is your educational and professional background?

A. I received a Bachelor of Science degree in Accounting with a minor in Business Administration in 1989 from Mankato State University (renamed Minnesota State University - Mankato). I also maintain an active Certified Public Accountant license in the state of Minnesota.

Q. What is your business experience?

A. My business background includes five years of experience with the Federal Energy Regulatory Commission (FERC) auditing electric and gas utilities. I also have over three years of experience performing accounting analysis and policy work for the FERC (including issues that came before the FERC on its agendas). Currently, I have worked for the Department for over 16 years as a Financial Analyst in the Energy Regulation and Planning Division.

As a Financial Analyst, I work on dockets with significant financial issues, including: rate cases, Minnesota Public Utilities Commission (Commission) and Department investigations, affiliated interest filings, purchase or sale of facilities filings, depreciation filings, and miscellaneous rate filings. I also monitor and participate in FERC issues, particularly issues involving the Midcontinent Independent System Operator, Inc. (MISO) and the Organization of MISO States (OMS) for the Department. For the period 2002 to 2005, I served as a member of the MISO Advisory Committee as a representative of the Public Consumer Group Sector. For the period 2004 to 2006, I chaired the OMS Markets and Tariffs Workgroup. I am currently serving as a member of the MISO Advisory Committee as a representative of the Public Consumer Group Sector, which began in January 2012.

II. PURPOSE

Q. What is the purpose of your testimony?

A. My responsibility is to review and investigate the final cost of Northern States Power Company d/b/a Xcel Energy's (NSP, Xcel or the Company) Monticello Life Cycle Management (LCM) and Extended Power Uprate (EPU) projects. As outlined below, my testimony addresses the financial issues identified by the Department as a concern in this proceeding.

Q. How did you conduct your review in this proceeding?

A. In addition to my review of NSP's petition and pertinent documents, I issued written information requests and discussed with Company personnel various financial information and supporting documentation. The purpose of my testimony is to assist the Commission in evaluating the reasonableness and prudency of NSP's total costs of Monticello LCM and EPU projects for ratemaking purposes.

Q. Please describe NSP, in general.

A. NSP is a wholly owned subsidiary of Xcel Energy Inc. and is a Minnesota corporation. Xcel Energy Services Inc. (XES) is the service company for the Xcel Energy Inc. holding company system, and thus provides services to NSP and other Xcel Energy Inc. subsidiaries. NSP has electric energy operations in Minnesota, Wisconsin, North Dakota and South Dakota.

Q. What is the scope of your Direct Testimony?

A. My Direct Testimony focuses on areas of financial concerns regarding the Monticello LCM and EPU projects. In addition, I intend to use the Department's recommendation in this proceeding regarding those costs of the Monticello EPU that are not shown to be cost-effective to recommend an adjustment to NSP's current rate-case petition (Docket No. E002/GR-13-868) as that case proceeds.

III. BACKGROUND INFORMATION REGARDING CONCERNS ABOUT PERFORMANCE AND MANAGEMENT OF MONTICELLO PLANT

Q. Has the Nuclear Regulatory Commission (NRC) recently raised concerns about degraded performance at the Monticello Plant?

A. Yes, the NRC has assigned the Monticello Plant to the NRC's Column 3 - Degraded Cornerstone category, which results in NRC doing more inspections and review at the Monticello plant for 2014. On March 31, 2014, the NRC held a public meeting to discuss three major areas of concern, including: lack of external flooding response procedures, improper weld test issue on dry cast storage canisters, and general human performance concerns.

Q. Was there a newspaper article that discussed the NRC concerns raised at the Monticello March 31, 2014 public meeting?

A. Yes. I attach a copy of the April 1, 2014 article by the Star Tribune newspaper entitled, "NRC troubled by 'degraded' performance at Monticello nuclear plant" which discussed NRC's concerns and Xcel's responses to those concerns at the Monticello public meeting. DOC Ex. ___ at NAC-1 (Campbell Direct).

Q. Has Xcel provided further information about the NRC's concerns?

A. Yes. In response to an information request issued in the current Xcel rate case in Docket No. E002/GR-13-868, Xcel addressed the concerns raised by the NRC at the Monticello public meeting. Specifically, the Company provided a lengthy response to the Office of Attorney General, Antitrust and Utilities Division (OAG-AUD) information request 116, which asked the Company to explain concerns raised by the NRC regarding deficiencies at the Company's Monticello nuclear plant. The Company noted that, while the NRC believes that Monticello is being operated in a safe manner, the NRC is concerned with certain categories, especially human performance concerns as noted above. The Company also noted that the external flooding procedure was corrected and human performance issues (which are contained on a fairly long list on pages 3 to 5 of the Company's response that appears to include the welding test canister issue) are being corrected with the NRC. DOC Ex. ___ at NAC-2 (Campbell Direct).

Q. Is there other background information you would like to provide?

A. Yes. Another article by the Star Tribune dated November 14, 2013 and entitled, "Minnesota to hire an expert as it studies Monticello cost overruns" suggested that a lack of strong managers contributed to the cost overruns at Monticello:

> A nuclear expert, David Lochbaum, who reviewed Xcel's response at the request of the Star Tribune said regulators should consider whether the Company had strong managers leading the complex project to replace pumps and other key equipment originally installed during the plan's construction in the 1960's.
>
> Lochbaum noted that in a recent regulatory filing, Xcel said that in December 2011 – about two years into the project – the Company hired a nuclear industry veteran Karen Fili as vice president of nuclear projects to take charge of the Monticello upgrade. Fili implemented "rigorous project management controls" after 2011, but was unable to halt the escalating costs, Xcel Chief Nuclear Officer Timothy O'Connor said in written testimony. Lochbaum said that suggests Xcel's management acted too late. Lochbaum also stated, "I don't think it is unfair in hindsight to suggest that acquiring experienced, skilled managers up front during the planning and before the implementation phase would have been prudent."

DOC Ex. ___ at NAC-3 (Campbell Direct).

Q. Did you ask the Company to address the concerns raised in the November 14, 2013, newspaper article as noted above?

A. Yes. In response to Department information request no. 20, the Company provided a seven page response to the concerns raised by this article. Xcel's response generally indicated that the Company believes it implemented controls and established a team to properly oversee the Monticello LCM/EPU project. The Company noted on page 7 of its response that it is easy to assume, as suggested by the article, that changes in the eight year project meant the original project was deficient. However, the Company indicated that: 1) changes that were made did not materially impact costs and 2) costs incurred were necessary to make the Monticello LCM/EPU project a success. The Company acknowledged on page 3 of its response that Xcel could have done a better job forecasting costs and sharing information about cost increases sooner; but states that, even if they had done better, costs may not have changed. DOC Ex. ___ at NAC-4 (Campbell Direct).

Q. Do the Department nuclear engineering consultants agree with the Company that management issues did not contribute to cost increases for the Monticello LCM and EPU projects?

A. No. The DOC consultants (Mr. Mark Crisp and Dr. William Jacobs) raised significant issues in their Direct Testimonies about lack of upfront planning and Xcel's inadequate understanding as to the true scope of the work as well as insufficient oversight of contractors that likely resulted in higher costs for the Monticello projects.

Q. Did Xcel communicate adequately with Commission, Department, and interested parties about the higher costs of the Monticello LCM/EPU and, particularly the increased costs of the EPU, when Xcel asked for recovery of those costs?

A. No. The first time Xcel requested recovery of the higher costs was in the prior rate case (Docket No. E002/GR-12-961, or 2012 Rate Case),[1] when Xcel asked the Commission to allow Xcel to charge ratepayers for the higher costs of the project,

[1] Xcel reduced its request for recovery of the Monticello LCM/EPU project in the prior rate case, Docket No. E002/GR-10-961.

even before Xcel met its statutory burden of proof to show that the costs were reasonable. As the Department and other parties indicated in that case, Xcel did a poor job making a reasonable case to recover the Monticello cost overruns in that proceeding:

> …the lack of detail and support in Xcel's initial filing hampered the efforts of the Department to evaluate the reasonableness of Xcel's test-year nuclear cost requests, as follows:
>
>> It was necessary to rely on information requests, which was a very slow and piecemeal process in this rate proceeding, as discussed above. Given that nuclear issues are the main driver in this case, it is most disturbing that Xcel provided so little financial information in their initial case.

DOC Initial Brief, page 34.

Clearly, the much higher Monticello EPU project costs should have been revealed at a minimum in Xcel's initial filing in the 2012 Rate Case or in Xcel's 2011 Notice of Changed Circumstances (NOCC) so the EPU project could have been reevaluated to ensure that it continued to be cost effective. Instead, the Company continued to incur significant costs for the project as if the final or total cost level would not matter for purposes of cost recovery from ratepayers. I note that in the Direct Testimony of DOC's consultant Mark Crisp and as I discussed later in my Direct Testimony, the Company clearly knew about the much higher cost levels in 2011.

Further, as Mr. Shaw notes, although Xcel filed a NOCC in 2011 regarding the timing of the EPU being in service, Xcel did not ask for reevaluation that the EPU was still cost-effective. Instead, Xcel's filing merely indicated that the Company was going to need a 3rd plant outage in 2013, because the work was not completed either for the 2009 or 2011 plant outages as initially planned. Clearly, the Company could have and should have identified these cost increases to the Commission, Department and interested parties.

Q. Didn't Xcel provide some updates about cost increases for the Monticello LCM and EPU projects prior to its 2012 Rate Case?

A. Yes; but only in passing. In response to DOC information request no. 94, the Company provided the following information regarding updating on Monticello LCM and EPU project costs in past rate cases:

> In the Company's 2011 test year rate case (E002/GR-10-971), we updated costs for the total LCM/EPU Project of about $361 million, including both uprate and life-cycle management costs, through 2011. (Koehl Direct, p. 31.) In rebuttal testimony, we further updated the estimate at $399.1 Million for the jointly-managed and implemented LCM/EPU Program. (Koehl Rebuttal, p. 15.) In November 2011, our prior Chief Nuclear Officer, Mr. Koehl, testified at hearing that the final cost of the Project was expected to be approximately $550-600 million. In our 2012 rate case (Docket E002/GR-12-961) the Company further updated the estimated cost to $587 million. The Company had spent approximately $494 million on the project as of August 31, 2012. (O'Connor Direct p. 17.) We further updated that estimate in our response to Information Request DOC-160, in the rate case to approximately $640 million. In the current rate case, we provided our latest estimate of the overall LCM/EPU Project costs as $655 million.

DOC Ex. ___ at NAC-5 (Campbell Direct).

Q. How do you respond?

A. First, it is concerning that Xcel appears to assert that fairly casual statements about its expected costs somehow is an acceptable substitute for demonstrating that such significant cost overruns are reasonable to be charged to ratepayers. Nonetheless, I note that the information provided by the Company in its testimony in the 2010 rate case, (MPUC Docket No. E-002/GR-10-971), where Xcel represented its costs for Monticello LCM and EPU projects to be in the $361 million to $399.1 million range, did not cause the Department to be concerned, for two reasons: 1) these costs were not much over CN-estimated costs when inflated and 2) Xcel was not requesting recovery of the cost overruns at that time.

Second, the Monticello LCM project was not put in-service until 2013 and in Xcel's 2012 Rate Case the Monticello EPU was estimated to be in service in 2013; thus the rate case impacts were not material until the 2012 Rate Case.

Third, in 2012 Rate Case, the Department recommended significant disallowance based on Xcel's lack of proof, and the Commission ordered a prudency review which is the basis for this proceeding.

Fourth, the Department notes that only Xcel bears the burden to show that Monticello LCM and EPU projects are reasonable and continue to be cost-effective; the burden of proof does not shift to the Commission, Department or other parties. As a result, if Xcel wished to enhance the likelihood that it would recover all of the costs of either the Monticello LCM or the Monticello EPU, it seems obvious that the Company should have filed updated actual costs of the Monticello LCM and EPU projects in a NOCC as soon as they knew that costs overruns were significant enough that they may be a concern.

Q. When should the Company have known that cost overruns may have been a concern?

A. Costs that exceed CN-approved levels are a concern for rate recovery purposes, especially if those costs result in the project not being cost-effective. The Department notes that in the 2010 Rate Case, Mr. Koehl's post hearing supplemental testimony filed on August 25, 2011 on page 7 indicated that the Company was forecasting at that time that Monticello LCM and EPU projects cost could "exceed $500 million".[2] However, the Company was not requesting recovery of those costs, nor was it clear, how much of the costs Xcel may request to recover from ratepayers in the future. However, the expectation is that utilities monitor costs of projects to ensure that the projects continue to be cost effective and decide when it is necessary to file a NOCC in the associated CN docket if that ongoing assessment indicates that a project may risk being not cost-effective.

Additionally, as noted by the Company in the above response, within two months of Mr. Koehl's post-hearing supplemental testimony, he added another $100 million to the projects costs when he testified in response to cross-examination at the Company's second evidentiary hearing in November 2011. Specifically, he was asked to comment on Xcel's estimate of final costs, and he stated that Monticello LCM and EPU projects were estimated to cost $550 to $600 million.[3] Again, Xcel did not file a NOCC in the CN docket as to a projection of $550 to $600 million in final costs. DOC Ex. ___ at NAC-6 (Campbell Direct).

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[2] Xcel [10-971] Ex. at 7 (Koehl Supplemental).
[3] Tr. at 16 (Koehl) (November 4, 2011).

The Company filed its modified CN in November 2011, but remarkably remained silent as to its then-current cost projections for the projects. Certainly, the Company could have updated its costs estimate in the CN docket proceeding, together with a rigorous evaluation of whether the Monticello LCM and Monticello EPU projects continued to be cost effective.

Overall, Xcel may choose how to present its request for cost-recovery to the Commission, but it remains Xcel's responsibility to show why it is reasonable for ratepayers to pay for cost overruns, as indicated by the Commission's September 3, 2013 *Findings of Fact, Conclusions of Law and Order* in Xcel's 2012 Rate Case, at page 19, which lead to this investigation:

> The Commission shares the Department's concern regarding the project's significant cost overruns. The Commission will open a separate docket to investigate whether the Company's handling of the LCM/EPU project was prudent, and whether the Company's request for recovery of the Monticello LCM/EPU cost overruns is reasonable.

Q. Overall, do you think the Company did a reasonable job, for the Monticello LCM and EPU projects, of informing the Commission and interested parties to the CN docket on a timely basis that Xcel had and expected to continue to have significant cost overruns?

A. No, based on my concerns noted above, the Company clearly did not reveal to the Commission and parties to the *CN docket* that its estimated costs for Monticello LCM and EPU projects that were approved in the CN were greatly exceeded by the actual costs being incurred. Additionally, the Company should have noted in its revised CN for Monticello LCM and EPU projects, filed on November 22, 2011, that its costs were expected to be significantly higher than the amount approved by the Commission in the original CN, and Xcel should have provided an evaluation as to whether one or both the Monticello LCM and Monticello EPU projects continued to be cost effective.

IV. TOTAL CAPITAL COSTS OF MONTICELLO LCM AND EPU PROJECTS

Q. Which Company witnesses discuss and show the total cost of the Monticello LCM and EPU projects costs?

A. Both Company witnesses Scott L. Weatherby, who covered Project Cost and Accounting, and Timothy J. O'Connor, who covered Program Oversight, provided schedules in their Direct Testimonies showing the combined total costs of the Monticello projects, not including allowance for funds used during construction (AFUDC), to be $664.9 million. Mr. Weatherby provided this information in his Schedule 3 Appendix A-1 by years (2004 to 2013), and Mr. O'Connor provided this information in his Schedule 7 by work order.

Q. What is AFUDC?

A. AFUDC is the net cost of financing funds used for construction purposes for the period of construction and a reasonable rate on other funds when so used. The longer it takes for a plant to be constructed and placed in service, the higher total AFUDC becomes.

Q. In November 2013, did you ask the Company to update Mr. Weatherby's Schedule 3 Appendix A-1, to include the AFUDC amounts?

A. Yes. In DOC information request no. 1 dated November 13, 2013, I asked the Company to add a section at the end of Mr. Weatherby's Schedule 3 Appendix A-1 to include all AFUDC amounts assigned to Monticello LCM and EPU for the years 2004 to 2013. The Company included in their response (in Attachment A) the AFUDC amounts of $83.7 million assigned to the Construction Work in Progress (CWIP) amount of $636.7 million, plus the Retirement Work in Progress (RWIP or removal costs) amount of $28.2 million, for a total combined AFUDC cost of $748.6 million on a total company basis for the two projects. DOC Ex. ___ at NAC-7 (Campbell Direct).

Q. Did you ask the Company to again update the final costs for the Monticello LCM and EPU projects as initially provided in response to DOC information request no. 1?

A. Yes. On April 25, 2014, I asked the Company in information request no. 88 to updated Attachment A to show all actual costs of these projects through March 31, 2014 for CWIP, AFUDC and RWIP/removal costs. Plus, I asked the Company to provide a separate column for any remaining estimated costs after March 31, 2014 with an explanation of what remaining costs there are, if any.

Q. What information did the Company provided in response to DOC information request no. 88?

A. First, on Attachment A to the Company's response to DOC information request no. 88, the Company provided the actual costs as of March 31, 2014 of $752.6 million on a total company basis for Monticello LCM & EPU (which includes CWIP, AFUDC and RWIP/removal costs). The Company also provided additional estimated costs after March 31, 2014 of $4.1 million and estimated vendor settlement credits of ($8.6 million) for a net reduction to costs of ($4.5 million).

I note that using the $752.6 million actual costs through March 31, 2014 less the net reduction of costs of ($4.5 million) results in an estimated final combined cost for Monticello LCM and EPU projects of $748.1 million on a total company basis. The $748.1 million on a total company basis is comprised of $635.3 million for CWIP, $28.0 million for RWIP/removal costs, and $84.8 million for AFUDC. DOC Ex. ___ at NAC-8 (Campbell Direct).

Q. Do you know which costs Department witness Mr. Shaw used in the models he used to evaluate whether the Monticello LCM and EPU projects are cost effective?

A. Yes, he used the CWIP and RWIP/removal costs of $664.9 million noted in Mr. Weatherby's Schedule 3 Appendix A-1 and Mr. O'Connor's Schedule 7. He also included AFUDC costs in the models he used.

Q. Did you ask the Company if it agrees that Xcel's response to DOC information request no. 88 represents the final total costs combined for Monticello LCM and EPU and that the Company agrees that CWIP, AFUDC and RWIP/removal costs make-up the total final costs?

A. Yes. In response to DOC information request no. 89, the Company provided the following response:

> We assume that by "Above DOC information request" the DOC is referring to the immediately preceding DOC Information Request No. 88. The Company agrees that

> Attachment A to DOC Information Request No. 88 captures an estimate of final total cost of the Monticello LCM/EPU Project, including CWIP, AFUDC and RWIP. We note that the final total cost will include actual costs incurred after March 31, 2014, while DOC-88 Attachment A includes an estimate of those amounts.

DOC Ex. ___ at NAC-9 (Campbell Direct).

Q. Since the $748.1 million still includes estimated costs and estimated vendor credits after March 31, 2014, which the Company plans to update to final costs of Monticello LCM and EPU projects, what do you recommend to address any final true-up of costs?

A. I recommend that the Company file a compliance filing in this proceeding showing its final cost of the Monticello LCM and EPU, including all journal entries, as soon possible after the Company has incurred and recorded its final costs. I recommend that the Company explain any differences in such final costs from its estimated final costs as stated in response to DOC information 88, discussed above, which resulted in an estimated final cost of $748.1 million, on a total company basis.

I also recommend that the Company file this information no later than surrebuttal testimony, even if Xcel does not have a final number at that time so the Commission could consider its options such as whether to choose to take administrative notice of that information.

Q. Did you review the Company's CWIP, AFUDC, and RWIP/removal costs for Monticello LCM and EPU projects?

A. Yes. I conducted the following investigation:

- selected invoices for testing the accuracy of Xcel's calculation of CWIP costs,
- reviewed AFUDC calculations and their application to CWIP balances, and
- reviewed RWIP and removal costs.

Q. What did you conclude from your investigation?

A, Based on my review, I did not identify concerns with the accuracy of cost calculations included in the Monticello LCM and EPU projects that caused me to propose any adjustments.[4] Initially, I had some concerns with the Company's actual RWIP/removal costs of $28.3 million, since I was aware of the Company proposing to recover in its 2011 test year an $85.8 million estimate for RWIP/removal costs. I have included the Company's response to my concern with RWIP/removal costs as provided in response to DOC information request no 85; however, I did not pursue this issue because on a total recovery basis the Company appears to have under-recovered its Monticello total costs in prior years as discussed in the next section of my Direct Testimony. DOC Ex. ___ at NAC-10 (Campbell Direct).

Q. Did you review the Company's rate recovery in past rate cases for the Monticello LCM and EPU projects?

[4] Additionally, I did not attach to my Direct Testimony all DOC information requests and Company responses due to the number of responses, the size of some responses, and because some responses, such as invoice testing, were provided via disk. In case there is a desire for this information to be included in the record, for reference I note that DOC information request nos. 2 to 9 address AFUDC testing, DOC information request nos. 32-34 and 93 addresses invoice testing, and DOC information request nos. 29-30 and 84-87 address RWIP/removal costs.

A. Yes. I asked the Company in DOC information request nos. 84 to 87 about rate recovery of Monticello LCM and EPU projects compared to actual costs. In response to DOC information request no. 87, the Company provided a summary which shows that the Company likely under-recovered its Monticello LCM and EPU actual costs in comparison to the amount of costs that were included in rates in past rate cases, as follows:

Year	Test Year MN Jurisdiction Revenue Requirement ($ in 000s)	Actual MN Jurisdiction Revenue Requirement ($ in 000s)	Difference
2009	309	1,909	1,600
2011	17,374	19,361	1,987
2013	45,170	51,684	6,514
2014	79,615		

DOC Ex. ___ at NAC-11 (Campbell Direct).

Q. Based on your review of the Company's response above comparing test year recovery to actual costs on a revenue requirements basis for Monticello LCM and EPU projects, what do you note?

A. First, I note that the Company's under-recovery for 2009 and 2011 was minor, only $1.6 million in 2009 and slightly less than $2 million 2011. Second, although the Company under-recovered costs by $6.5 million in the 2013 rate case, a portion of that cost was the result of the Monticello EPU not being in service, not only in 2011 as originally proposed but also not in 2013 (the EPU project was not used and useful and thus remained in CWIP rather than moving to base rates). Thus, the Company accrued an additional $6.4 million in AFUDC costs in 2013 as a result of the

Monticello EPU project remaining in CWIP. Third, the main reason for under recovery in the 2013 rate case was likely due to cost overruns.

Q. Is it appropriate for Xcel to recover the higher AFUDC costs in 2013?

A. I conclude that these costs need to be part of the overall assessment of the cost overruns. As noted above, the level of AFUDC increases over time so the level of AFUDC costs were higher in part because Xcel did a poor job in its 2012 Rate Case in meeting its responsibility to develop its budget cost recovery adequately to show that the rates they proposed to charge their customers were just and reasonable. Thus, the much higher costs for Monticello LCM and EPU projects (more than double its CN estimate (NSP Ex. ___ at 21 (Perkett Direct)) and Xcel's failings in its 2012 Rate Case should not be rewarded and should be considered in assessing the total costs of the cost overruns. As noted above, Mr. Shaw's analysis includes these costs; as a result, the Department's analysis incorporates the effects of the higher AFUDC costs.

V. LACK OF COST CONTROLS AND TRACKING

Q. Did you ask the Company about the costs Xcel estimated in its petitions for certificates of need (CN)?

A. Yes. In response to DOC information request no. 94, the Company provided the following information (as summarized by the Department) regarding its CN estimated for Monticello LCM/EPU Docket No. E002/CN-08-185:

- Monticello LCM was estimated at $135 million (in 2004 $);
- Monticello EPU was estimated at $104, which increased $29 million to $133 million (in 2004 $) when the steam dryer was included;

- Monticello LCM/EPU total estimated cost is $320 to $346 million when escalated to current (2014) dollars. DOC Ex. ___ at NAC-5 (Campbell Direct).

Q. How does the Commission's CN-approved cost for Monticello LCM and EPU compare to the estimated final costs of these projects as discussed above?

A. The Commission's CN-approved costs of $346 million (escalated to current 2014 dollars and including the steam dryer) is a 116 percent cost overrun, or more than double compared to the total estimated final cost of $748.1 million.

Q. Did the Company demonstrate that the manner in which it tracked its costs initially for the Monticello LCM and EPU made sense?

A. No. The Company estimated the costs in the CN for Monticello in two separate components, the LCM and the EPU, which makes sense. However, for purposes of accounting the Company then (initially) tracked all costs in only one work order; this approach does not make sense, as I discuss below. Mr. Weatherby on page 8 of his Direct Testimony indicated that all of the Monticello LCM and EPU costs were accounted for in a single common work order, since the Company viewed the initiative as a single initiative. NSP Ex. ___ at 8 (Weatherby Direct).

Q. Why doesn't it make sense for Xcel to have tracked the LCM and EPU in one work order?

A First, Xcel treated the Monticello LCM and EPU projects as two separate projects for purposes of review and approval of the projects in CN proceedings before the Commission. Thus, it is not reasonable for Xcel to start tracking these costs for purposes of accounting as if they were one project. Xcel could have continued to track project costs separately and as combined, but Xcel eliminated any separate accounting of such costs. Xcel certainly knew or should have known that it would be subject to cost disallowance by the Commission at a later date as to cost overruns (costs in excess of the cost levels approved for the two projects in the CN) absent the Company's demonstration of the reasonableness of such costs, yet Xcel's practices assured that it would be very difficult to separately review the separate actual costs of the projects.

Second, Xcel's decision to include all of the costs of the Monticello LCM and EPU projects estimated at $346 million in a single work order is not reasonable since doing so guarantees that the costs of the two different projects are not transparent. When projects are significant even *before* cost overruns are incurred, it is important for tracking to be transparent to allow for better management of costs as the projects move forward. For this reason, when tracking costs in a work order it is common practice to break out the projects into in-service components rather than to just track $346 million as one large component for purposes of calculating AFUDC and for purposes of placing components in-service when work is completed. NSP Ex. ___ at 8 (Weatherby Direct).

Finally, I note that Xcel's choice in tracking these costs resulted in needlessly higher costs for this prudence review since it was necessary for the Department to hire a consultant to split apart what Xcel never should have put together.

Q. Did the Company change its work order accounting process for Monticello LCM and EPU projects?

A. Yes. According to Mr. Weatherby on pages 8 and 9 of his Direct Testimony, the Company began to create "child" work orders for certain modifications.[5] He noted that in preparation for and during the 2009 Monticello outage, the Company created a number of child work orders for various sub-projects. He also noted the child work orders were structured to roll up the individual sub-project costs to the overall parent work order. NSP Ex. ___ at 8-9 (Weatherby Direct).

Q. Could the Commission rely on the child work orders to determine the cost of the Monticello LCM and EPU projects?

A. Apparently not, due to the Company's contradictions in its positions in this proceeding. Mr. O'Connor's Schedule 7, which provides the Monticello LCM and EPU projects by child work orders and by year, states the title of that schedule as "EPU", as does almost every child work order. NSP Ex. ___ at Schedule 7 (O'Connor Direct). However, the Company's contradictory position in this proceeding is that most of the costs are LCM rather than EPU costs, based on the allocators provided by James R. Alders on pages 55 to 58 of his Direct Testimony. NSP Ex. ___ at 55-58 (Alders Direct).

Overall, the Company's tracking process for Monticello LCM and EPU projects does not make sense to me as an accountant.

Q. What do you conclude about Xcel's tracking process for the Monticello LCM and EPU?

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[5] In general, "child" work orders allow costs subcomponents of a project to be rolled up to the "parent" work order. Here, Xcel used child work orders for modifications to the project.

A. Overall, the Company's tracking process for Monticello LCM and EPU projects does not make sense to me as an accountant for at least the following reasons. First, the Company combined significant work orders that never should have been combined, indicating that the Company did not think it was important to track the costs approved by the Commission in the CN process for Monticello LCM and EPU projects, or to report to the Commission and interested parties on a timely basis that they expected to have costs overruns that could make these projects not cost effective. Second, all of the Company's child work orders for modifications are labeled as being for the EPU, yet the Company claims in this proceeding the most of the costs are for the LCM. The point is that ratepayers are entitled to the benefit of any doubt as to Xcel's proposed showing of reasonableness and, thus, it is important to note that Xcel's selection of a non-transparent method of tracking costs appears to create significant doubt as to Xcel's claims regarding the attributable to one project rather than the other.

VI. COST RECOVERY CHALLENGES IN MINNESOTA

Q. Has the Department challenged a utility's cost recovery of generation costs based on the Commission's CN-approved amounts or competitive bids, compared to final costs of a project?

A. Yes. There have been several wind projects in various rate cases where the Department has challenged the reasonableness of the utility's final cost recovery of costs exceeding the CN and competitive bids, including Xcel's Grand Meadow and Nobles projects (discussed below) and Interstate Power and Light's Whispering Willow – East (WWE), beginning in E001/GR-10-276. Additionally, the Department has challenged utilities' proposed automatic recovery through riders of cost overruns, which I discussed in more detail below.

Q. Please discuss the Department's challenge of the recovery of the Grand Meadow wind farm costs that exceeded above the Commission's approved CN amount in Xcel's 2008 Rate Case.

A. In Xcel's 2008 Rate Case, the Department challenged the cost overruns and recommended an adjustment for the Grand Meadow wind farm costs that exceeded the CN-approved amount. Specifically, I discussed this adjustment for the Company's costs of Grand Meadow that exceeded the CN approved amount on pages 45 to 51 of my direct testimony in the 2008 Rate Case. I also note as discussed in my surrebuttal testimony in the 2008 Rate Case on page 16 to 21, that the Company determined in response to my recommendation that it had overstated its Grand Meadow costs and reduced the cost to below the CN approved amount, which resolved this issue. Thus, it should have been clear to Xcel that costs exceeding the levels approved in a CN proceeding would be subject to careful scrutiny.

Q. Did the Department challenge Xcel's proposed rate recovery of Nobles Wind above the Company's competitive bid amount in the 2010 and 2012 Xcel Rate Cases?

A. Yes. The Department challenged the costs of Nobles Wind that exceeded the Company's competitive bid amount in both the 2010 (Docket No. E002/GR-10-971) and 2012 Rate Cases. In the 2010 rate case I discussed the Department's concerns regarding allowing the Company rate recovery of $10.2 million above their competitive bid (which entities other than the Company would not have been able to recover) on pages 91 to 101 of my direct testimony and pages 79-90 of my surrebuttal testimony in the 2010 rate case.

Q. Did the Administrative Law Judges (ALJs) agree with your recommendations in both the 2010 rate case and the 2012 Rate Case?

A. Yes. Both ALJs agreed with the Department that the Company should not be allowed to recover costs for Nobles Wind that exceeded the competitive bid. In the 2010 rate case the ALJ Report dated February 22, 2012 Finding no. 405 and in the 2012 Rate Case the ALJ Report dated July 5, 2013 Finding no. 444.

Q. Did the Commission agree with the Department's recommendation and ALJ's findings in the 2010 and 2012 Rate Cases?

A. Unfortunately, no. The Commission decided to allow the Company recovery of the costs above the competitive bid amount, but did not allow the Company a return on these costs in either the 2010 or 2012 Rate Cases. In the present case, the Department discusses below why Xcel's failure of proof in this proceeding should result in the Commission denying a portion of the significant cost overrun of Monticello EPU since that portion or level of cost overrun rendered the project not to be cost effective.

Q. Did the Department challenge rate recovery of the WWE wind farm of Interstate Power and Light (IPL)?

A. Yes. WWE was located in Iowa and therefore did not require a CN in Minnesota. Nor did IPL seek approval from the Commission prior to the plant being placed in service that the project was reasonable. As a result, to estimate reasonable costs of the project, the Department used the average cost of three other MN wind farms that went into service around the same time as WWE to determine a reasonable cost level. Based on the Department's review the Department determined a $51 per MWh levelized costs level, compared to IPL's $62.50 per MWh (at a minimum) levelized cost level.

Q. Did the Commission and ALJ approve a lower levelized cost amount for WWE?

A. Yes. After numerous rounds of review, the ALJ recommended in her October 16, 2013 Report in Docket No. E001/GR-10-312 that the Commission approve the levelized cost of $56.40 MWh for WWE that was developed in that proceeding, based on the utility's agreement with the Department. The Commission accepted the ALJ report in its December 26, 2013 Order.

Q. What are some of the riders where the Department has challenged recovery of capital costs and the Commission has approved Department adjustments by capping costs in the riders?

A. The following are some of the orders that address cost caps (not an exhaustive list):

- The Commission's February 7, 2014 Order in Docket No. E002/M-12-50 for the capped costs of the Bemidji transmission project to $74 million for Xcel.

- The Commission's March 10, 2014 Order in Docket No. E017/M-13-103 for the capped costs of the Bemidji transmission project to $74 million for Otter Tail Power.
- The Commission's April 22, 2010 Order in Docket No. E002/M-09-1083 for the capped costs of the Nobles Wind and Wind2Battery projects.
- The Commission's January 23, 2014 Order in Docket No. E002/M-00-1583, requiring Xcel to return to the Renewable Development Fund (RDF) cost overruns for an RDF contract that the Commission previously approved but was "improperly amended and imprudently administered" in 2004.

Q. What was the Commission's language in its April 22, 2010 Order regarding why the Commission decided to cap costs that exceeded approved CN amounts or Commission approved amounts?

A. The Commission's April 22, 2010 Order stated the following on page 5:

> The Commission will allow Xcel to recover, through its RES rider, only the costs up to the amounts of the initial estimates at the time the projects are approved as eligible projects. No amounts above what Xcel initially indicated the projects would cost will be allowed to flow through the RES rider. Nor will additional cost overruns be eligible for deferred accounting.
>
> However, Xcel will be allowed to seek recovery, on a prospective basis, of additional costs at the time of its next rate case, upon a showing that it is reasonable to require ratepayers to pay for any such additional costs. **This approach allows Xcel to recover the majority of the costs for projects eligible for RES rider recovery promptly, while providing at least some incentive for Xcel to minimize costs and help protect ratepayers. [Emphasis added]**

Q. Most cases cited above focused on no return on costs over the CN level or other Commission approved amounts, and some cases did not allow recovery over caps until the Company's next rate case. Do you see the Monticello cost overruns as being different from these cases?

A. I would have a concern about denying Xcel a rate of return on the amount of the Monticello LCM and EPU projects costs over the CN-approved levels since these amounts, $402.1 million costs, are significantly higher than any cost overrun the Department has ever reviewed and, to my knowledge, is higher than any Minnesota public utility has ever incurred. As discussed above, the CN-approved costs of $346 million (escalated to current 2014 dollars and including the steam dryer) is more than double, or a 116 percent costs overrun, compared to Xcel's total estimated final cost of $748.1 million. While such a high cost overrun seems to suggest that it would make sense not to allow the Company to earn a return on any costs above the CN-approved levels, I would have a concern about whether Xcel could continue to operate the plant safely with such a significant disallowance. Instead, the Department proposes a different approach.

VII. RESULTING DEPARTMENT ADJUSTMENT

Q. What does the Department recommend to hold the Company accountable for its significant cost overruns?

A. Instead of focusing on the $402.1 million costs cost increase above the CN-approved levels, the Department recommends an adjustment based on the amount of the cost overrun that made the EPU not cost-effective, compared to other alternatives that were available in 2008, as discussed in Mr. Shaw's testimony. I discuss further below the specific adjustment resulting from this approach.

Q. Why do you believe this approach is reasonable?

A. This approach balances Xcel's needs with the need to protect ratepayers. As noted above, setting the level of disallowance at the amount above the CN-approved levels could be considered excessive. However, as noted by Mr. Shaw in his Direct Testimony, the Company's costs are so high that it has resulted in part of the Monticello EPU not being cost effective. From the Department's perspective, it would be unreasonable to conclude that the Company should be able to recover all of its significant cost overruns from ratepayers; including those costs that are not cost effective. Instead, the Department recommends that the Commission use an appropriate balance and deny cost recovery only of the amount of the EPU costs that made the EPU no longer cost-effective, as discussed in Mr. Shaw's testimony.

Q. According to DOC Witness Mr. Shaw, what is the amount he determined to be not cost effective for Monticello EPU?

A. Mr. Shaw calculated $84.445 million without AFUDC on a total company basis, adjusted for reductions for vendor credits resulting in an $82.906 million total company basis without AFUDC, as the amount that is not cost effective for the Monticello EPU project.

Q. So far you have been discussing the information on a total company basis; however, what is the Minnesota jurisdictional amount?

A. The Company provided in response to DOC information request 88 part (b) the interchange demand allocators and Minnesota jurisdictional demand allocators for 2004 to 2013, the years in which the Company incurred costs for Monticello. The Company provided the following Minnesota electric jurisdictional allocators:

	Interchange Demand Allocator	Jurisdictional Demand Allocator
2004	84.7975%	88.1144%
2005	84.2527%	87.7581%
2006	84.0611%	87.6279%
2007	84.2864%	86.6512%
2008	84.4224%	86.7317%
2009	83.8829%	87.0761%
2010	83.6422%	87.9815%
2011	83.8019%	88.3621%
2012	83.9899%	88.1030%
2013	84.8812%	87.7158%

DOC Ex. ___ at NAC-8 (Campbell Direct).

Q. Using the above allocators what is the approximate allocator to translate the total company into a Minnesota jurisdictional amount?

A. The Minnesota jurisdictional amount is determined by multiplying together the two allocators above (Interchange Demand Allocator and Jurisdictional Demand Allocator) for each year. This calculation results in approximately 73 percent up to 74.8

percent of the total company amount assigned to the Minnesota jurisdiction depending on the year.

Using the total company amounts that Mr. Shaw calculates as not being cost effective, with the application of these allocators results in an adjustment of $63.378 million without AFUDC on Minnesota Jurisdictional basis. I have provided the detailed calculation by year and in total on my adjustment for Monticello EPU spreadsheet that I have attached to my testimony. DOC Ex. ___ at NAC-12 (Campbell Direct).

Q. Should the Department's adjustment include an adjustment for AFUDC?

A. Yes, since AFUDC is a part of the total capitalized cost of the plant. To calculate this amount, I note that AFUDC's percentage is applied to the CWIP balance; for example a 5 percent AFUDC rate times a $100,000 CWIP balance results in $5,000 in AFUDC costs assigned to the project for the year. Ratepayers should not pay interest on capital costs that Xcel failed to demonstrate were reasonable and cost-effective. Therefore, a reduction to the CWIP balance would reduce the associated capitalized AFUDC amount.

Q. How did you calculate the related AFUDC adjustment?

A. I simply used the 14.82 percent disallowed costs on a total company basis for purposes of calculating the portion of the Monticello EPU that is not cost effective and applied this percentage to the total Company AFUDC amount assigned to the Monticello EPU of $72.632 million. This calculation results in disallowed AFUDC capital costs of $10.763 million on a total company basis, and $8.042 million on a

Minnesota jurisdictional basis, or an approximate $1.206 revenue requirement reduction due to the translation from capital costs to revenue requirement.

Q. What is the total adjustment recommended by the Department for Monticello EPU portion of the plant that is not cost effective?

A. Based on the development of issues in this proceeding, the Department recommends a total adjustment for the portion of the Monticello EPU portion of the plant that is not cost effective, including related AFUDC, of $71.42 million on a Minnesota jurisdictional basis and estimated to be less than a $10.713 million annual revenue requirement on a Minnesota jurisdictional basis for 2015, as shown on my adjustment spreadsheet.

I note this adjustment would be for the remaining life of the Monticello EPU, stepping down each year for accumulated depreciation. Because it appears that the Monticello EPU is unlikely to be in service in 2014, the Department recommends that the Monticello EPU prudency disallowance recommended by the Department in this proceeding of $71.42 million be reflected in 2015, to avoid overlap and unnecessary complications that would be caused by recommending both this adjustment and the separate 2014 rate-case adjustment (to reflect that the EPU is not expected to be in-service in 2014). Additionally, the in-service date of the Monticello EPU is likely to be closer to the beginning of 2015, rather than 2014, so making the adjustment in 2015 would tie better to when the EPU is expected to be used and useful. DOC Ex. ___ at NAC-12 (Campbell Direct).

Q. How does this adjustment compare to other Company numbers in the Monticello proceeding and in the current rate case?

A. I note the following comparisons:

- The estimated $10.713 million revenue requirement reduction for Monticello EPU based on 2014 data (which would be lower for 2015 due to accumulated depreciation) is 5.6 percent of the Company's total 2014 revenue requirement deficiency of $192.71 million or only 3.7 percent of the 2014 and 2015 step revenue requirement deficiency of $291.243 million, all reflected on a Minnesota Jurisdictional basis. NSP Ex. ___ at 1 (Heuer Direct) in Docket No. E002/GR-13-868.
- The $10.713 million revenue requirement reduction for Monticello EPU based on 2014 data is only slightly more than 0.36 percent of the Company's total revenue requirement of $2.982 billion for 2014 or only 0.34 percent of the Company's total revenue requirement of $3.081 billion for 2014 and 2015 step combined, all reflected on a Minnesota Jurisdictional basis. NSP Ex. ___ at 1 (Heuer Direct) in Docket No. E002/GR-13-868.
- On a capital cost basis, the $71.42 million Department adjustment for the Monticello EPU that is not cost effective is only 12.9 percent of the Monticello total plant cost, which had a 116 percent cost overrun.

Q. What if the Company has a higher or lower amount for the final cost of Monticello LCM and EPU than the $748.1 million on a total company basis?

A. Since Monticello is not yet in service, the final costs are not known and may not be known by the time the Commission decides this case and Xcel's concurrent rate case. However, it is my expectation that the method I propose above for the disallowance in this proceeding could be applied to any further costs or offsets to costs. If, for example, the Company were to incur an additional $10 million in costs above the $748.1 million, then 85.7 percent (DOC consultants recommended allocator for EPU costs) of that $10 million or $8.57 million on total company basis would be not be cost-effective on top of the DOC's recommended adjustment for costs that are not shown to be cost-effective of $748.1 million at this time.[6]

Q. Have you attached your Direct Testimony and related attachments regarding the Monticello EPU in-service date issue that you raised in Xcel's rate case, Docket 13-868?

A. Yes. For ease of reference, I have attached my Direct Testimony and related attachments regarding the Monticello EPU in-service date issue that I raised in Xcel's concurrent rate case. However, I note that it is the Department's intention to address the Monticello EPU prudency in this proceeding (ultimately rolling the Commission decision into the rate case revenue requirement) and to address the Monticello EPU in-service date concern in the current rate case. DOC Ex. ___ at NAC-13 (Campbell Direct).

[6] In this example, if the $10 million is all attributable to the EPU, then the full $10 million would not be cost effective and not recoverable in rates.

VIII. SUMMARY OF RECOMMENDATIONS

Q. Please summarize your conclusions and recommendations for Monticello LCM and EPU Projects.

A. My recommendations for Monticello LCM and EPU projects are as follows:

- The Monticello plant has issues, including the NRC status of degraded cornerstone, along inadequate planning and management for the Monticello LCM and EPU projects.
- The DOC consultants (Mark Crisp and William Jacobs) raised significant issues in their Direct Testimony about inadequate upfront planning and insufficient understanding about the true scope of the work, along with inadequate oversight of contractors that likely resulted in higher costs of Monticello LCM and EPU projects.
- Based on my concerns noted above regarding transparency, I conclude that the Company did not monitor its costs for Monticello LCM and EPU projects approved in the CN compared to actual costs being incurred. I have concerns with inconsistencies in how the Company tracked costs for accounting purposes compared to CN/IRP purposes that did not tie together or make sense. Additionally, I conclude that the Company should have filed a NOCC as soon as they were aware that the Monticello LCM and EPU project costs were expected to be significantly higher than the amount approved by the Commission in the original CNs, with an evaluation as to whether the Monticello LCM and Monticello EPU projects continued to be cost effective.

- Based on my review, I conclude that estimated final costs for Monticello LCM and EPU projects are $748.1 million on a total company basis, using actual information through March 31, 2014 and estimated vendor credits. The $748.1 million on a total company basis is comprised of $635.3 million for CWIP, $28.0 million for RWIP/removal costs, and $84.8 million for AFUDC. DOC Ex. ___ at NAC-8 (Campbell Direct).
- As noted above, the Department has challenged rate recovery of amounts that have exceeded CN approved amounts, competitive bids, and other amount approved by the Commission. However, the Department has limited its recommended adjustment in this proceeding to the amount of the Monticello EPU that is not cost effective.
- The Department recommends that the Commission disallow $71.42 million on a Minnesota jurisdictional basis with AFUDC costs, for the portion of the Monticello EPU that was not cost-effective due to cost overruns, which is approximately a $10.713 million revenue requirement reduction. This disallowance would continue for the remaining life of the plant, stepping down each year due to accumulated depreciation. DOC Ex. ___ at NAC-12 (Campbell Direct).
- The Department recommends that this adjustment be made in 2015.

Q. Does this conclude your Direct Testimony?

A. Yes.