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 RESOURCE PLAN	))))	DOCKET NO. 11A-869E
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 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	))))))))))	DOCKET NO. 12A-782E
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 GAS GENERATION, EARLY RETIREMENT OF ARAPAHOE UNIT 4, AND A GAS SALES AGREEMENT.	)))))))	DOCKET NO. 12A-785E

SUPPLEMENTAL REBUTTAL TESTIMONY AND EXHIBIT OF LISA H. PERKETT

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

October 5, 2012

List of Exhibit

Exhibit No. LHP-6	Estimated Whole Life Based on Current Depreciable Remaining Lives

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<u>SUPPLEMENTAL REBUTTAL TESTIMONY AND EXHIBIT OF LISA H. PERKETT</u>

I. <u>INTRODUCTION AND PURPOSE</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Lisa H. Perkett. My business address is 414 Nicollet Mall, Minneapolis, MN 55401-1993.

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

A. I am employed by Xcel Energy Services, Inc., a wholly-owned subsidiary of Xcel Energy Inc., the parent company of Public Service Company of Colorado. My position is Director, Capital Asset Accounting.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?

A. I am testifying on behalf of Public Service Company of Colorado ("Public Service" or the "Company").

Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS DOCKET?

A. Yes, I did provide direct testimony in Docket No. 12A-782E and 12A-785E.

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

A. I will address issues raised in the Supplemental Answer Testimony of Eugene L. Camp and Trent Markell on behalf of Staff. Specifically, I will address the concept of useful life and the remaining useful life used to determine proposed depreciation rates. I will also address Mr. Camp's concern about the State of Colorado, Annual Statement of Property, 2011 Declaration for the Brush units.

II. REMAINING LIFE USED FOR PROPOSED DEPRECIATION RATES

Q. IS THE TERM "USEFUL LIFE" THAT MR. MARKEL USES A COMMON TERM IN ACCOUNTING?

A. Yes, it is. Useful Life is the period over which an asset, in this case generating plants, is expected to be usable, with normal repairs and maintenance, for the purpose it was acquired – in this case to generate electricity. Useful life can be expressed as a whole life or a remaining life in years and is the period over which the asset's depreciation is charged. Since actual useful life is not known until the asset is completely retired, the useful life in depreciation calculation is an estimate. Estimated useful life can be a factor of economic life, average life of like units, operating life, technological life, or a combination of any one of these lives. Depreciation systematically distributes the cost of assets, less net salvage, over the estimated useful life of an asset or group of assets. Public Service uses the remaining life method that spreads the net remaining investment (plant adjusted for expected final net salvage less accumulated depreciation) over the estimated remaining useful life.

Q. HOW IS ESTIMATED REMAINING USEFUL LIFE TYPICALLY DETERMINED?

A. Typically, for utility-owned property, the utility will propose an estimated useful whole life for the purposes of determining a depreciation rate when an asset is first placed into service. The utility will periodically review the estimated remaining useful life for the asset based on the current characteristics of the asset and propose depreciation rate changes through a depreciation study. We filed a depreciation study in our last rate case, Docket No. 11AL-947E within the testimony of Dane Watson, if the Commission wanted to look at an example. The study is voluminous, so I have not attached it to my testimony here. Once depreciation rates are approved, the Company will use those rates in both setting general rates and for our financials until such depreciation rates are subsequently changed by a future Commission order.

Q. IS ESTIMATED USEFUL LIFE, WHOLE OR REMAINING, GENERALLY TIED TO ANY SPECIFIC FINANCING VEHICLE USED TO PAY FOR THE PARTICULAR ASSET?

A. Not for purposes of public utility accounting. I am familiar with the concept of "project financing" where a particular facility or group of assets is financed based upon a non-recourse or limited recourse financial structure where project debt and equity used to finance the project are paid back from the cash flow generated by the project. This structure tends to result in conservative assumptions on the value and operational characteristics of the project since cash flow from the asset itself is the sole revenue source to repay the debt. Utilities do not use the project financing structure for assets that are held in rate base for the benefit of their utility customers.

Q. **IN YOUR DIRECT TESTIMONY, YOU SOUGHT COMMISSION APPROVAL OF A USEFUL LIFE OF THE BRUSH UNITS OF 45 YEARS. WHAT WAS THE BASIS FOR YOUR RECOMMENDATION REGARDING DEPRECIATION RATES?**

A. As discussed in my direct testimony in Docket No. 12A-782E, I considered similar facilities in Public Service's fleet and the assessment by the Company's engineering experts. The 45 years remaining life was based on the assets configuration in 1990, 1999, and 2002 for Units 1, 3, and 4. Thus at purchase, the remaining estimated useful life that the Company is proposing is 23, 32, and 35 years. Brush Power was using a 25 year remaining life as of 2007, which equates to a remaining life of 42, 33, and 30 years in 1990, 1999, and 2002.

Q. **IN HIS TESTIMONY, DID MR. MARKELL MAKE A RECOMMENDATION ON USEFUL LIFE?**

A. Yes. On page 8 of Exhibit No. TJM-1, he said "that a typical Useful Life for a simple cycle or combined cycle facility is approximately 20 to 30 years depending on the mode of operation." He then concludes that with that base assumption, the Brush units (which are a combination of simple cycle and combined cycle facilities) have a remaining Useful Life of 10 to 15 years.

Q. **IN YOUR EXPERIENCE, IS HIS BASE ASSUMPTION OF A 20 – 30 YEAR USEFUL LIFE CONSISTENT WITH COMMISSION PRACTICE?**

A. It is not. The Company does not have any simple cycle or combined cycle unit with an approved useful life of less than 40 years, except for one facility in Minnesota. Xcel Energy has four units at Blue Lake that have an approved life of 38 years. Although the remaining life for the Blue Lake Units will expire for depreciation this year, the assets will continue to operate and under appropriate circumstances NSPM will request an extension of the remaining life for the units at that time. A summary of the average whole life for smaller MW units based on the current approved or proposed remaining lives are provided in my Exhibit No. LHP-6.

IV. ORIGINAL COST ESTIMATE

Q. WHAT ITEM WILL YOU BE ADDRESSING IN THIS SECTION OF YOUR TESTIMONY?

A. In his testimony on page 14, Mr. Camp raises a concern regarding a "State of Colorado, Annual Statement of Property, 2011 Declaration dated March 28, 2011". I will explain the review of this statement made during our attempts to determine the original asset costs.

Q. WAS PUBLIC SERVICE AWARE OF THE DOCUMENT ATTACHED AS EXHIBIT NO. ELC-3?

A. Yes. I reviewed it as part of my due diligence of this transaction. The document tied back to information provided by MDU Resources, an intermediate owner of the facility, which I addressed on page 3 of my Direct Testimony.

Q. HOW IS PUBLIC SERVICE REQUIRED TO RECORD AN ASSET PURCHASE?

A. As I discuss in my direct testimony in Docket No. 12A-782E, as a regulated utility, Public Service is required to recognize on its books the plant balance and accumulated depreciation as of the date the facilities were first placed in utility service, adjusted for subsequent additions at cost and depreciation using utility rates. The Federal Energy Regulatory Commission ("FERC") requires that Public Service recognize the original plant balance when first placed in utility service and the accumulated depreciation on that original plant balance at the purchase date.

The Code of Federal Regulations, Subchapter C – Accounts, Federal Power Act, Part 101 – Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act, Electric Plant Instruction 5, Electric Plant Purchased or Sold, subpart B instructs:

> "The accounting for the acquisition shall then be completed as follows: (1)The original cost of plant, *estimated if not known*, shall be credited to account 102, Electric Plant Purchased or Sold,…." (emphasis added)

Further, the Code of Federal Regulations defines:

> "Original cost, as applied to electric plant, means the cost of such property to the person first devoting it to public service."

Q. WERE YOU ABLE TO IDENTIFY THE ORIGINAL COST AS DEFINED BY FERC?

A. No. As I discussed in my direct testimony in Docket No. 12A-782E, because the ownership of these facilities has changed hands at least three times since they began operating in their current configuration at Brush, we have not been able to identify the original cost or subsequent additions and therefore are using an informed estimate of what original cost would have been to a utility. I will not repeat the whole history as it is fully laid out in my direct testimony. In short, the cost information that we found was limited and did not provide sufficient detail to allow us to determine the original cost plus additions as FERC would define it. Even when the information we reviewed referenced book value, we could not determine whether the book value referenced was the original cost, the value of the asset determined based on the purchase price, or fair value. As I indicated in my direct testimony, the Seller was holding the assets on its books based on the price that they paid for the asset, not for the amounts reflected in highly confidential Exhibit No. ELC-3.

Q. IN YOUR ATTEMPTS AT DETERMINING THE ORIGINAL COST PLUS SUBEQUENT ADDITIONS, DID YOU REVIEW THE "STATE OF COLORADO, ANNUAL STATEMENT OF PROPERTY, 2011 DECLARATION DATED MARCH 28, 2011?

A. Yes. As discussed in Public Service's response to Discovery Request No. CPUC 44-5, the Annual Statement of Property, 2011 Declaration ("Property Tax Statement") filed by Brush Power, LLC was available prior to the filing and was reviewed as to its applicability to the original cost calculation. The Company could not confirm that the value was in fact comparable to the original cost, as FERC defines it, because we had no documentation that the FERC Uniform System of Accounts were followed when determining this cost. We did confirm that the value related to a cost value from MDU Resources, however we do not know if this value was increased or decreased due to transactions with the prior owners.

Although the value on the Property Tax Statement can be traced back to a document provided by MDU Resources to the current owner in 2007, we could not determine the methodology used to derive the costs represented on the 2007 document. For this reason, neither document was used to determine the original cost as defined by FERC. This was appropriate for accounting purposes.

Q. WHAT VALUE DID THE SELLER HAVE ON THEIR BOOKS FOR THE ASSETS?

A. They had an original value of $141,607,711 and accumulated depreciation of $24,965,791 for a net book value of $116,641,920, which is substantially in excess of the amounts reported in the Annual Statement of Property.

Q. WHAT CONCLUSION DO YOU REACH RELATIVE TO THE PROPERTY TAX STATEMENT?

A. Because that statement is based on the MDU Resources information and there is no way to tie that back to "original cost" as defined by FERC, I think it needs to be discounted and not used to establish original cost. I note that the Commission requires the Company to keep its books and records consistent with FERC requirements.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.