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

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

**MPUC Docket Nos. E-002/GR-12-961; E-002/GR-13-868; E-999/AA-13-599;  
E-999/AA-14-579; E-999/AA-16-523; E-999/AA-17-492; E-999/AA-18-373  
OAH Docket No. 65-2500-38476**

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*In the Matter of Sherco Unit 3 Energy  
Replacement Costs*

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**REBUTTAL TESTIMONY OF THE MINNESOTA OFFICE OF THE  
ATTORNEY GENERAL—RESIDENTIAL UTILITIES DIVISION**

**WITNESS:**

**MS. SHOUA LEE**

**September 22, 2023**

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1 **I. BACKGROUND AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Shoua Lee. My business address is 445 Minnesota Street, Suite 1400, Saint  
4 Paul, Minnesota 55101.

5 **Q. By whom are you employed?**

6 A. I am a Financial Analyst with the Residential Utilities Division in the Office of the  
7 Minnesota Attorney General (“OAG”).

8 **Q. What is your educational and professional background?**

9 A. I have a Master of Business Administration degree and a Bachelor of Science degree in  
10 Finance. I have provided testimony on behalf of the OAG in several general rate cases,  
11 and have also provided analysis in depreciation filings, rider filings, and other financial  
12 dockets.

13 **Q. What is the purpose of your Rebuttal Testimony?**

14 A. I am providing testimony to respond to the Direct Testimony filed by Xcel Energy (“the  
15 Company”) and the Department of Commerce (“DOC”) expert witnesses regarding the  
16 prudence of the replacement energy costs incurred by the Company during the outage  
17 period of the Sherco Unit 3 plant following the catastrophic failure of the unit.

18 I make a recommendation on the treatment of the replacement energy costs that  
19 were passed on to and paid by the Company’s ratepayers during the outage period. I do  
20 not, however, provide an independent opinion on the engineering aspects of the  
21 catastrophic failure, but make my recommendation based on the conclusions of DOC  
22 expert witness Mr. Polich.

1           **A.     PRIOR MINNESOTA PUBLIC UTILITIES COMMISSION ACTION**

2           **Q.     What is the history of the Minnesota Public Utilities Commission (“Commission”)**  
3           **actions for the catastrophic failure of Sherco 3?**

4           A.     DOC Witness Mr. Polich provides an overview of the procedural history of the Company’s  
5           requests for the recovery of costs for the Sherco 3 catastrophic failure.<sup>1</sup>

6           **Q.     What cost recovery issues has the Commission already decided?**

7           A.     There are three types of costs which resulted from the failure and outage of Sherco 3. There  
8           were (1) restoration project costs, (2) excess fuel oil costs, and (3) replacement energy  
9           costs. In its 2013 rate case, the Company requested “to include in rate base the Company’s  
10          share of the capital costs of the Restoration Project not covered by insurance”<sup>2</sup> and the  
11          Commission has already decided the Sherco 3 restoration costs in that proceeding,<sup>3</sup>  
12          including all depreciation issues.<sup>4</sup> Additionally, the excess fuel oil costs have also been  
13          calculated and returned to ratepayers.<sup>5</sup>

14          **Q.     How much money has the Company collected from its ratepayers for these costs?**

15          A.     To date, Xcel has collected over \$50 million (MN jurisdiction) in restoration and fuel costs  
16          due to the catastrophic failure of Sherco 3.<sup>6</sup>

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<sup>1</sup> Polich Direct at 15-19.

<sup>2</sup> *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-002/GR-13-868, Brevig Direct at 3 (November 4, 2013).

<sup>3</sup> Docket No. E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 105, Order Point 51 (May 8, 2015) (hereinafter “2013 Rate Case Order”).

<sup>4</sup> Docket No. E-002/GR-13-868, Lusti Direct at 60-61 (June 5, 2014).

<sup>5</sup> Docket No. E999/AA-13-599, Compliance Filing, Sherco Unit 3 at 5 tbl. 3 (August 24, 2020) (hereinafter “Compliance Filing”); Docket No. E999/AA-13-599, Krug Direct at 20 tbl. 2 (June 16, 2023).

<sup>6</sup> See Docket No. E-002/GR-13-868, Heuer Direct Schedule 7 at 1 and 7 (November 4, 2013); Compliance Filing at 5 tbl. 2.

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1 **Q. What cost recovery issue remains to be decided?**

2 A. The cost of replacement energy during the Sherco 3 outage period remains an outstanding  
3 issue.<sup>7</sup> The Commission found that the “causes of the Sherco 3 accident and the adequacy  
4 and prudence of the Company’s response are being examined in the pending fuel-clause  
5 dockets for the nearly two-year period of the Sherco 3 outage . . . and those two proceedings  
6 are a more efficient means for comprehensively examining them.”<sup>8</sup>

7 **Q. Have these replacement energy costs been paid by ratepayers?**

8 A. Yes. Per Minnesota Statutes Chapter 216B.16, subdivision 7, “these costs were passed on  
9 to ratepayers through the fuel clause.”<sup>9</sup> The resulting impact is that “the fuel clause  
10 adjustment mechanism automatically adjusts customer bills to reflect changes in energy-  
11 related costs, [therefore] ratepayers have already borne the cost of this replacement  
12 power.”<sup>10</sup>

13 **Q. What are the replacement energy costs for Sherco 3?**

14 A. “To replace Sherco 3’s output, Xcel bought both replacement power and additional fuel for  
15 Company-owned generators capable of increasing their output to help meet the deficit.”<sup>11</sup>

16 **Q. Was there a state district court lawsuit, separate from the Commission filings,  
17 involving the Company for costs related to the catastrophic failure?**

18 A. Yes. The Company and its insurers filed a lawsuit against the turbine manufacturer,  
19 General Electric (“GE”) for damages from the catastrophic failure on November 15,

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<sup>7</sup> 2013 Rate Case Order at 47.

<sup>8</sup> *Id.*

<sup>9</sup> *Id.*

<sup>10</sup> *In the Matter of the Review of the 2013-2014 Annual Automatic Adjustment Reports for All Electric Utilities*, Docket No. E-999/AA-14-579, ORDER ACTING ON ELECTRIC UTILITIES ANNUAL REPORTS AND REQUIRING ADDITIONAL FILINGS at 5 (June 2, 2016).

<sup>11</sup> 2013 Rate Case Order at 47.

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1 2013.<sup>12</sup> The Commission subsequently “defer[ed] any decision on the recovery of energy  
2 replacement costs until there is a sufficient record to determine if recovery is appropriate,  
3 and clarifies that the Commission may act in the future to remedy any inequities for  
4 ratepayers.<sup>13</sup>

5 **Q. Did the Commission make a decision regarding an issue arising from the state district  
6 court lawsuit?**

7 A. Yes. The Commission was notified by the Company on November 2, 2018, that “[o]n  
8 September 20, 2018, the Company settled the Lawsuit with GE, and on October 9, 2018,  
9 the Company’s claims against GE were dismissed. The settlement of the Lawsuit will  
10 result in a total payment of [TRADE SECRET BEGINS] [TRADE  
11 SECRET ENDS] (the Settlement Amount) to the Company (on a total company basis),  
12 which will be credited in its entirety to customers.”<sup>14</sup> The Company further stated that  
13 “[t]he Minnesota jurisdictional portion of the Settlement Amount is [TRADE SECRET  
14 BEGINS] [TRADE SECRET ENDS].<sup>15</sup> With this information from the state  
15 district court proceedings, the Commission “authorize[d] the refund amount and method  
16 proposed by Xcel for the GE settlement related to the 2011 - 2013 Sherco Unit 3 outage.”<sup>16</sup>

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<sup>12</sup> Polich Direct at 16.

<sup>13</sup> Docket No. E999/AA-14-579, Order point 3, ORDER ACTING ON ELECTRIC UTILITIES’ ANNUAL REPORTS AND REQUIRING ADDITIONAL FILINGS at 11, Order Point 3 (June 2, 2016).

<sup>14</sup> Docket No. E999/AA-14-579, Sherco Litigation Update Letter at 2 (November 2, 2018).

<sup>15</sup> Docket No. E999/AA-14-579, Sherco Settlement Update Letter at 2 (December 3, 2018).

<sup>16</sup> Docket No. E999/AA-13-599, ORDER AUTHORIZING SHERCO UNIT 3 RATEPAYER REFUND AMOUNT AND METHOD AND REQUIRING COMPLIANCE FILING at 4, Order Point 1 (April 11, 2019).

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1 **Q. When did the Company refund the Settlement Amount to ratepayers?**

2 A. The Company stated it “was returned to Minnesota electric rate payers in the February  
3 2019 Fuel Clause Adjustment”<sup>17</sup> as a one-time credit in full “through the true up factor for  
4 each service category.”<sup>18</sup>

5 **Q. How was the Minnesota jurisdictional portion of that refund amount calculated?**

6 A. The Company calculated the [TRADE SECRET BEGINS] [TRADE  
7 SECRET ENDS] refund “based on monthly sales from November 2011 (when the Sherco  
8 3 outage began) until October 2013 (when Sherco 3 was released for MISO dispatch).”<sup>19</sup>

9 **Q. Has the Commission disallowed costs for this outage?**

10 A. Yes. The Company stated it “incurred a substantial penalty for the outage as a result of the  
11 Commission removing more than \$21 million in Sherco-related costs”<sup>20</sup> from its 2012 rate  
12 case.<sup>21</sup>

13 **Q. Why did the Commission disallow these costs?**

14 A. The Commission appropriately recognized the concept that a utility’s assets should be used  
15 and useful in order for the costs of that asset to be recovered from ratepayers. In the  
16 Company’s 2012 rate case, the Commission balanced its allowance and disallowance cost  
17 decisions regarding Sherco 3 when it recognized that “Xcel’s investment in Sherco 3  
18 provided many years of service before the outage, and the unit is expected to operate for

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<sup>17</sup> Compliance Filing at 7.

<sup>18</sup> Docket No. E002/AA-19-121, Initial Filing—Corrected February 2019 Fuel Clause Adjustment at 9 (February 6, 2019).

<sup>19</sup> Docket No. E002/AA-19-121, Initial Filing—February 2019 Fuel Clause Adjustment (FCA) At 8-9 (January 31, 2019).

<sup>20</sup> Compliance Filing at 2.

<sup>21</sup> Krug Direct at 17.

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1 many more years once it returns to service. On the other hand, Sherco 3 has been  
2 unavailable to ratepayers for nearly 22 months.”<sup>22</sup> The Commission concluded that:

3 the most equitable resolution is to remove all direct Sherco 3 costs, except  
4 property taxes, from the test year. Property taxes are an unavoidable cost  
5 that Xcel incurs regardless of whether the unit is operating, and the  
6 Company should be able to recover this expense while it works to repair the  
7 unit and restore it to service. Additionally, the Commission will allow Xcel  
8 to defer the unit’s 2013 depreciation expense. Allowing the depreciation  
9 expense recognizes the benefit that Xcel’s investment has provided to  
10 ratepayers in the past and will provide again once Sherco 3 is up and  
11 running. And deferring the expense appropriately relieves ratepayers from  
12 bearing the costs of a generating unit during a period when they derived no  
13 benefit from it, and in fact were bearing other costs to replace the power it  
14 had been expected to generate.<sup>23</sup>

15  
16 Contrary to Xcel’s assertions, this disallowance was not a “penalty.” Rather, it was a  
17 recognition that ratepayers should not be required to pay the operating costs of a plant that  
18 had not been operating.

19 **Q. In ordering this disallowance, did the Commission make a finding on who should bear**  
20 **the costs of the replacement energy?**

21 A. No. On the contrary, the Commission specifically stated that it “cannot conclude at this  
22 time who should bear the significant costs the Company has incurred for replacement  
23 power.”<sup>24</sup>

24 **Q. How does the Company claim replacement energy costs should be treated because**  
25 **Sherco 3 costs were disallowed?**

26 A. The Company claims that “there should be no expectation of energy generation from a  
27 plant that is not used and useful. Put differently, had Unit 3 never been built, it would not

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<sup>22</sup> *In the Matter of the Application of Northern States Power Company for Authority to Increase Rates for Electric Service in the State of Minnesota*, Docket No. E-002/GR-12-961, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 22 (September 3, 2013).

<sup>23</sup> *Id.* at 23.

<sup>24</sup> *Id.*



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1 have been included in rate base and there would be no expectation that market energy  
2 purchases made without offsetting production from the non-existent plant would be  
3 “replacement power” subject to disallowance.”<sup>25</sup>

4 **Q. Did the Commission’s disallowance of Sherco 3 costs resolve the issue of the**  
5 **replacement energy costs?**

6 A. No. The Commission’s order disallowing Sherco 3 costs was based on the fact that  
7 ratepayers were paying for a non-operable Sherco 3 in base rates for the previous 22  
8 months, and did not specifically address the replacement energy costs. In fact, the  
9 Commission’s separate order item contemplating which party should bear the costs of  
10 replacement energy costs is evidence that this is a separate issue that was deferred.

11 The Company’s claim now—that the Commission’s finding of no operable plant  
12 for inclusion in rate base should automatically preclude any replacement energy cost from  
13 being disallowed—is flawed and should be rejected because it avoids the real question and  
14 the explicit intent of the Commission. The Commission specifically excluded the issue of  
15 replacement energy costs from the Company’s 2013 rate case<sup>26</sup> and opened the instant  
16 proceeding to investigate this issue. Furthermore, the Company’s flawed argument that  
17 the absence of a generating plant would result in an absence of replacement energy costs  
18 subject to disallowance fails to recognize that any non-replacement power market energy  
19 purchases made by the Company would still be subject to a purchased power agreement.  
20 Such an agreement would still be reviewed for reasonableness and prudence and require  
21 Commission approval prior to recovery from ratepayers. In other words, whether the

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<sup>25</sup> Krug Direct at 19.

<sup>26</sup> 2013 Rate Case Order at 47.

1 energy purchased was replacement energy or not, the costs must still be reasonable and  
2 prudent, and the Company's argument attempts to circumvent this fact rather than  
3 address it.

4 **B. ENGINEERING ANALYSIS**

5 **Q. What information does the DOC expert witness Mr. Polich provide in his Direct**  
6 **Testimony?**

7 A. Mr. Polich discusses the mechanics and engineering aspects of generation by Sherco Unit  
8 3 and details the turbine and boiler components of Unit 3 in his review. Mr. Polich also  
9 reviews the sequence of events<sup>27</sup> and causes<sup>28</sup> of the steam turbine failure on November  
10 19, 2011 leading to the catastrophic failure of Unit 3, and the subsequent actions that the  
11 Company took to recover costs.<sup>29</sup>

12 **Q. What is Mr. Polich's conclusion and recommendation?**

13 A. Mr. Polich states that the catastrophic failure was preventable because "all of the  
14 information available to Xcel should have raised a red flag and compelled Xcel to follow  
15 good utility practice". . . . [and the] "accident of the Sherco 3 LP turbine was a direct result  
16 of Xcel not employing good utility practice."<sup>30</sup> Mr. Polich concludes that "the replacement  
17 power costs were not reasonably and prudently incurred because Xcel failed to operate and  
18 maintain Sherco 3 in a manner that was consistent with good utility practice."<sup>31</sup>

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<sup>27</sup> Polich Direct at 13-15.

<sup>28</sup> *Id.* 19-31.

<sup>29</sup> *Id.* at 15-19.

<sup>30</sup> *Id.* at 56.

<sup>31</sup> *Id.* at 5.

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1 **Q. What are Mr. Polich’s background and work experience?**

2 A. Mr. Polich is a registered Professional Engineer in the State of Michigan and he has “over  
3 40 years of experience in the utility industry and energy sector.”<sup>32</sup>

4 **Q. Do you agree with Mr. Polich’s findings?**

5 A. I do not offer an independent opinion on Mr. Polich’s findings. Rather, I am recommending  
6 the appropriate rate treatment of the replacement energy costs in the event that the  
7 Commission is persuaded by Mr. Polich’s arguments with respect to the prudence of Xcel’s  
8 actions. That said, Mr. Polich’s determination that the Company’s actions prior to the  
9 catastrophic failure were imprudent and that these imprudent actions led to the failure of  
10 Sherco 3, is consistent with the OAG’s recommendations in prior Commission filings.<sup>33</sup>

11 **Q. Does the Company attempt to present the Sherco 3 catastrophe as a benefit to its  
12 customers?**

13 A. Yes. In Direct Testimony, the Company appears to make the argument that not only were  
14 its actions prior to the catastrophic failure prudent, but that Xcel’s actions during the  
15 restoration of Sherco 3 were also prudent and beneficial to ratepayers, and therefore all  
16 costs relating to this failure that is not covered by insurance should be recovered from  
17 ratepayers.<sup>34</sup>

18 **Q. Is this the appropriate way to consider this issue?**

19 A. No. If the Commission determines that the Company’s actions leading to the catastrophic  
20 failure were imprudent, then costs incurred as a result of the failure (e.g. the replacement  
21 energy costs at issue in this proceeding) should be disallowed from ratepayer recovery.

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<sup>32</sup> *Id.* at 2.

<sup>33</sup> *See e.g.*, Docket No. E999/AA-13-599, OAG Comments (February 18, 2021).

<sup>34</sup> Krug Direct at 8.



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1 Sherco 3. . . [and used] MISO market pricing at the MISO CP node for [its] entire load,  
2 NSP.NSP.”<sup>39</sup>

3 In comparison, the calculation in the GE lawsuit uses “different modeling  
4 assumptions to reflect the long-term nature of the outage at Sherco 3. This damages  
5 calculation methodology differs from the way [the Company calculated its] outage costs  
6 for [its] AAA filing in four key ways. . . [it used] the CP node NSP.Sherc3 to reflect the  
7 revenues [it] would have collected had the plant been dispatched into the market at its node  
8 price instead of at [its] load node, NSP.NSP. . . [modeled] other, shorter, unplanned outages  
9 that would likely have occurred over the period the plant was on extended outage. . . [and  
10 took] into account both the day-ahead LMP and real-time LMP pricing and the impact that  
11 has on plant dispatch. . . [and used] the expected heat rate improvement NSP expected to  
12 gain as a result of the work of the outage.”<sup>40</sup>

13 **Q. How does DOC witness Mr. King calculate Xcel’s replacement energy costs?**

14 A. Mr. King’s first amount is based on the Company’s AAA filings that showed [TRADE  
15 SECRET BEGINS] [TRADE SECRET ENDS] for the  
16 amount of replacement energy costs from November 2011 through October 2013.<sup>41</sup> Mr.  
17 King then jurisdictionalized that amount to determine the costs that Minnesota ratepayers  
18 paid using an “allocator that is based on the portion of Xcel sales in Minnesota over all  
19 Xcel sales during the Outage Period.”<sup>42</sup> Finally Mr. King applies a historical prime interest  
20 rate to this amount “to represent the costs in terms of dollars that are relevant today.”<sup>43</sup>

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39 Docket No. E999/AA-13-599, Reply Comments of Xcel Energy at Attachment I, Page 1-2 of 49 (November 10, 2014).

<sup>40</sup> *Id.* at 4-5.

<sup>41</sup> *Id.* at 7 (November 10, 2014).

<sup>42</sup> King Direct at 16.

<sup>43</sup> *Id.* at 17.

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1 Using this methodology results in the amount of the replacement energy costs of  
2 \$71,548,388 (MN jurisdiction), which is the sum of the MN jurisdictionalized \$41,327,637  
3 replacement energy cost and \$30,220,751 (MN jurisdiction) of interest.<sup>44</sup>

4 Mr. King's second amount is based on the Company's "GE Litigation loss of use"<sup>45</sup>  
5 that showed [TRADE SECRET BEGINS] [TRADE  
6 SECRET ENDS] for the amount of replacement energy costs from November 2011  
7 through October 2013.<sup>46</sup> Similar to the first AAA costs, Mr. King jurisdictionalizes this  
8 amount to \$33,681,734 (MN jurisdiction) and adds interest of \$24,521,895 (MN  
9 jurisdiction) to get the replacement energy cost of \$58,203,629 (MN jurisdiction).<sup>47</sup>

10 **Q. Does Mr. King conclude which number is a more accurate representation of the costs**  
11 **recovered from customers in the FCA?**

12 A. No. Mr. King stated, "Xcel provided very little information related to its AAA outage cost  
13 reporting figure and did not explain why the two methods resulted in amounts that vary as  
14 significantly as they do."<sup>48</sup>

15 **Q. What is the legal standard for treating costs that are not fully supported by the**  
16 **Company?**

17 A. The Commission is given statutory guidance that the Company bears the burden to prove  
18 that its Sherco 3 replacement energy costs are not just prudently incurred, but reasonably  
19 calculated.<sup>49</sup> The burden is not on the intervenors to "figure out" how the Company is

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<sup>44</sup> See King Direct at 18.

<sup>45</sup> *Id.*

<sup>46</sup> King Direct Schedule 2, page 28.

<sup>47</sup> King Direct at 18.

<sup>48</sup> *Id.* at 15.

<sup>49</sup> See Minn. Stat. § 216B.03; see also Minn. Stat. §216B.16 subd. 4.

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1 calculating its costs. If the Company cannot provide sufficient explanation and support of  
2 its costs, and that it is just and reasonable to recover those costs from ratepayers, then the  
3 Commission should resolve any doubt in favor of the ratepayers.<sup>50</sup>

4 **Q. What is your recommendation?**

5 A. I recommend that the Commission order a return of the calculated replacement energy costs  
6 with interest to ratepayers. I agree with DOC witness Mr. King that this amount needs to  
7 be representative of the amount that ratepayers paid and should be returned to ratepayers  
8 through the 2024 FCA true-up filing.<sup>51</sup> My recommendation for the disallowance of the  
9 replacement energy cost is based on DOC witness Mr. Polich’s finding that the Company’s  
10 imprudent actions lead to the catastrophic failure of Sherco 3.<sup>52</sup>

11 **Q. Is one of DOC witness Mr. King’s calculated replacement energy costs more**  
12 **appropriate for the disallowance?**

13 A. Yes. Mr. King explained that “[w]hereas] Xcel provided extensive data and explanation  
14 of its GE Litigation modeling, Xcel provided very little information related to its AAA  
15 outage cost reporting figure,” and that the Company’s calculations in its AAA reporting  
16 appeared “to be a more limited and simplified approach than Xcel’s approach in the GE  
17 litigation.”<sup>53</sup> Mr. King’s explanation that the Company’s GE litigation modeling  
18 incorporated “the lost margin or energy profits from Sherco 3. . . [t]he increased cost Xcel  
19 incurred for its load due to the Sherco 3 outage. . . [and] the increased margin or energy  
20 profits that Xcel received from its other, non-Sherco 3 resources”<sup>54</sup> suggests that this

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<sup>50</sup> Minn. Stat. §216B.03.

<sup>51</sup> King Direct at 20.

<sup>52</sup> See Polich Direct at 5.

<sup>53</sup> King Direct at 15.

<sup>54</sup> King Direct at 11-12.

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1 calculation of the replacement energy costs used more granular data to calculate what the  
2 representative cost to ratepayers were. Accordingly, I recommend the Commission find  
3 that Mr. King’s calculated replacement energy cost, based on the Company’s GE litigation  
4 modeling as shown in the Expert Report of Kenneth P. Metcalfe, is representative of the  
5 costs to ratepayers.<sup>55</sup>

6 **D. CLAIMED RATEPAYER BENEFITS**

7 **Q. Is the Company claiming that there are ratepayer benefits due to the outage?**

8 A. Yes. The Company describes its actions during the restoration period as reasonable and  
9 suggests that ratepayer benefits from the outage included “(1) the avoidance of direct cost  
10 of future planned work that was instead performed as part of the necessary restoration  
11 work, (2) the reduction of future outage time; (3) improved performance and efficiency of  
12 the unit; and (4) reduction of the future risk of significant failure events.”<sup>56</sup>

13 **Q. What are your concerns about the Company’s claim?**

14 A. The Company’s claim is one-sided in focusing on the positives and appears to suggest that  
15 because some parts of the unit were fully replaced during the restoration phase, this allowed  
16 ratepayers to avoid future costs and outage time for future replacement work that would  
17 need to be done.

18 **Q. Are ratepayers truly avoiding all future costs?**

19 A. No.

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<sup>55</sup> *Id.* at 13.

<sup>56</sup> Schottler Direct at 11.



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1 **Q. Why not?**

2 A. The Company's claim that "avoided costs"<sup>57</sup> and savings from "Opportunity Projects"<sup>58</sup>  
3 resulted in benefits to ratepayers because they were completed during the extended outage  
4 is a distortion of many projects and costs that were in effect accelerated from unknown or  
5 uncertain future periods, and fails to discuss or take into consideration the harm to  
6 ratepayers. In other words, while the Company may have reduced some of the costs by  
7 completing projects during the outage period and ahead of its established schedule, these  
8 are still costs that the Company would have eventually incurred even if the catastrophic  
9 failure had not occurred.

10 The Company stated that its "restoration strategy was to restore the Unit to its pre-  
11 event condition. This approach was supported by our insurance coverage which obviously  
12 would not reimburse the Company for a final product that was better than what we started  
13 with."<sup>59</sup> This suggest that, had the Company prevented the explosion and collected rates  
14 based on the established maintenance schedule, those rates would have reflected lower  
15 costs of operating older equipment and assets that were nearing the end of their useful life  
16 and thus cheaper than the costs associated with restoration. The Company's own  
17 restoration strategy, limited by Xcel's possible insurance recovery, weighs heavily against  
18 any contention that ratepayers ended up with any net benefits, let alone a better Sherco 3,  
19 following the catastrophic failure. Xcel's claim of ratepayer benefits stemming from the  
20 Sherco 3 explosion is akin to arguing that a house burning down in a fire is a good thing  
21 because when it is rebuilt, the homeowner gets a new kitchen floor.

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<sup>57</sup> See Krug Direct at 16-20; *see also* Schottler Direct Schedule 4.

<sup>58</sup> See Schottler Direct at 10-17 and Schedule 3.

<sup>59</sup> Docket No. E-002/GR-13-868, Brevig Direct at 46.

1 **Q. What are your concerns about the Company’s “avoided cost” and “Opportunity**  
2 **Projects” lists?**

3 A. The Company claims that the benefits for some projects on the “avoided cost” list are from  
4 the reduction in future outage time. And for both lists, there are many repair or replacement  
5 projects that the Company accelerated from future periods to the outage period. But the  
6 Company does not explain how these avoided costs/savings to ratepayers were calculated.  
7 It is not clear if these amounts present an accurate valuation of the net benefits to ratepayers  
8 because the Company does not show what the value of the benefits are under a long-term  
9 horizon that thoroughly compares the actual projects completed during the outage period  
10 to the originally-planned plant repairs and replacement schedule.

11 Most of the projects listed pertain to “older” less expensive parts/equipment/assets  
12 that would have continued to be in service, allowing ratepayers to pay for an operable  
13 generating plant that had a lower rate base, when compared to newer parts and higher  
14 restoration costs. Since the Company’s plan was to return Sherco 3 to its pre-event  
15 condition, with only minimal improvement to its life span,<sup>60</sup> then it is plausible that even  
16 if *most* of the restoration costs were covered by insurance and removed from rate base,  
17 there could still be a rate base balance for the remaining restoration costs comparable in  
18 value to the rate base balance of the existing plant that was replaced. This net difference,  
19 and whether it actually yields a ratepayer benefit or not, cannot be determined because the  
20 Company’s calculation of the benefits does not include a sufficiently granular level of  
21 supporting data.

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<sup>60</sup> *See id.*

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1           Furthermore, just because these benefits are calculated for the outage period, it does  
2 not mean that these benefits would not eventually all accrue to ratepayers at some time in  
3 the future. For example, the improved performance benefits<sup>61</sup> would eventually be realized  
4 by ratepayers anyway, when the appropriate time came for repair or replacement not  
5 accelerated by the catastrophic failure. Xcel’s analysis fails to take into account all benefits  
6 that ratepayers would receive under a long-term horizon under both scenarios.

7 **Q. Does the Company calculate “Other labor and materials savings” as a ratepayer**  
8 **benefit?**

9 A. Yes. The Company states that during the outage period, “some plant operators and  
10 maintenance staff were not required” . . . “[and] the Sherco plant on whole had a reduction  
11 in overtime expenses,”<sup>62</sup> and that it also “did not incur the costs of materials typically used  
12 to operate the unit.”<sup>63</sup> The Company calculated savings of \$525,000 (MN jurisdiction) for  
13 labor costs and \$735,000 (MN jurisdiction) for materials cost.<sup>64</sup>

14 **Q. What is your concern about the Company’s “Other labor and materials savings”**  
15 **benefits?**

16 A. I am concerned with how the Company calculated these claimed savings. For the “other  
17 labor” savings, the Company took “the amounts spent on overtime at the Sherco plant in  
18 total (Units 1, 2, and 3)” and “compared [it] to the most recent nonimpacted year in  
19 2010.”<sup>65</sup> Similarly, for the “materials” savings, the Company took “expenditures in 2012

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<sup>61</sup> Schottler Direct at 20 tbl. 1.

<sup>62</sup> *Id.* at 19.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> Detmer Direct Schedule 5 at 31.

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1 and 2013” and “[c]ompared [it] to 2010 material expenditures.”<sup>66</sup> This approach of  
2 comparing a couple years (e.g. 2012 and 2013) of actual overtime labor and materials cost  
3 to one year (e.g. 2010) fails to consider that operating and maintenance costs usually  
4 fluctuate from year to year and are typically normalized for ratemaking purposes, so a  
5 snapshot comparing actual costs to any one year would likely not reflect what any net  
6 benefits actually are. Additionally, Unit 3 would still be returning to service at the end of  
7 2013 and beyond, and the Company’s inclusion of only two operating and maintenance  
8 cost doesn’t consider that other operating and maintenance expenses, specifically  
9 depreciation expense associated with the plant renovation costs, could be higher in future  
10 years as compared to 2010.

11 **Q. Does the Company state that the cost of ratepayer benefits provided by restoration**  
12 **projects was mostly covered by insurance proceeds?**

13 A. Yes.<sup>67</sup>

14 **Q. What concerns you about this viewpoint?**

15 A. In making this claim, the Company does not discuss or quantify the long-term impact of  
16 this huge insurance claim on the cost of its future insurance premiums. Any claimed  
17 ratepayer benefit from this large insurance claim that was used to cover the immediate  
18 restoration costs may actually have been offset by increased insurance premiums that could  
19 have been more than what was planned had the claim not been made. Ratepayers might  
20 still be paying for the catastrophic failure through increased insurance premiums to this  
21 day.

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<sup>66</sup> *Id.*

<sup>67</sup> Schottler Direct at 10; *see also* Krug Direct at 12-13.

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1 **Q. Who pays for the cost of insurance?**

2 A. Ratepayers pay the costs of a utility's insurance through base rates. As a result,  
3 ratepayers—not the utility—should receive the benefits provided by insurance. The  
4 Company should not be able to use ratepayer benefits to offset replacement energy costs  
5 and deprive ratepayers of a refund of those costs.

6 **Q. What is your concern about the Company's claim that there are ratepayer benefits**  
7 **from the restoration work and "opportunity projects" that were completed during**  
8 **the outage?**

9 A. I am concerned that the Company has not supported or provided sufficient information on  
10 how they are calculating the avoided costs and ratepayer benefits, and that they have not  
11 appropriately quantified the net benefit value to ratepayers.

12 **Q. What do you conclude?**

13 A. The Company's calculations of avoided costs/cost benefits are not clear and should not be  
14 relied on by the Commission. The Company has not presented a convincing argument that  
15 ratepayers experienced a net benefit after having to endure a 22-month outage period. In  
16 the regulatory compact, ratepayers pay the reasonable and necessary costs to ensure that  
17 their utility can safely maintain its equipment and provide reliable service. If the  
18 Commission is persuaded that Xcel failed to uphold its end of this foundational agreement,  
19 and finds that the Company's actions leading to the catastrophic failure of Sherco 3 were  
20 imprudent and unreasonable, then the Commission should find that replacement energy  
21 costs should be refunded to ratepayers, because the imposition of replacement energy costs  
22 on ratepayers who did not cause the catastrophic and preventable failure of Sherco 3 would  
23 be unjust and unreasonable.

1 **II. CONCLUSION**

2 **Q. Provide a summary your recommendations.**

3 A. I recommend the Commission:

- 4 • Find that the replacement energy costs necessitated by the catastrophic failure of  
5 Sherco 3 are best represented by the Company’s GE litigation modeling as shown in  
6 the Expert Report of Kenneth P. Metcalfe;
- 7 • Find that the amount of disallowance be immediately returned to ratepayers through  
8 the 2024 FCA true-up filing;
- 9 • Find that the Company has not fully supported the calculations it has provided in the  
10 record as “ratepayer benefits” totaling between \$16,260,000 and \$16,760,000 (MN  
11 jurisdiction).<sup>68</sup>

12 **Q. Does this conclude your Rebuttal testimony?**

13 A. Yes.

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<sup>68</sup> Schottler Direct Table 1.