

Rebuttal Testimony and Schedule
David M. Sparby

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of a Commission Investigation into Xcel Energy's Monticello Life
Cycle Management/Extended Power Uprate Project and
Request for Recovery of Cost Overruns

Docket No. E002/CI-13-754
Exhibit ____ (DMS-1)

Monticello Prudence, Oversight, and Policy

August 26, 2014

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1 **I. INTRODUCTION AND BACKGROUND**

2
3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is David M. Sparby. My business address is 414 Nicollet Mall,
5 Minneapolis, Minnesota 55401.

6
7 Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.

8 A. I have over 33 years of experience in the energy industry, working in the legal,
9 operations, financial, and regulatory areas. I am Senior Vice President and
10 Group President, Revenue and President and Chief Executive Officer
11 (“CEO”) of Northern States Power Company, a Minnesota corporation
12 (“NSPM” or the “Company”). NSPM is a wholly-owned public utility
13 operating company subsidiary of Xcel Energy Inc. As CEO of NSPM, I am
14 accountable for the overall operations and performance of the Company, with
15 responsibility for customer, community, regulatory, and legislative areas.

16
17 Q. PLEASE SUMMARIZE YOUR RECENT RESPONSIBILITIES, FOCUSING ON YOUR
18 EXPERIENCES RELEVANT TO THE MONTICELLO NUCLEAR GENERATING
19 PLANT (“MONTICELLO” OR “THE PLANT”).

20 A. I have held positions of increasing responsibility and have had many interfaces
21 with the Company’s nuclear plants and specifically with Monticello.

22
23 From September 2000 to January 2007, I was the Vice President, Government
24 and Regulatory Affairs, of Xcel Energy Services Inc., with responsibility for
25 the regulatory affairs of NSPM. While in that position, in 2003, legislative
26 changes in Minnesota gave the Minnesota Public Utilities Commission
27 (“Commission”) authority to permit the Company to implement an

1 Independent Spent Fuel Storage Installation (“ISFSI”) at Monticello. This law
2 change made it feasible for the Company to seek a 20-year license renewal
3 from the Nuclear Regulatory Commission (“NRC”).
4

5 In 2005, I supervised the ISFSI Certificate of Need application. The
6 Company also submitted a license renewal application with the NRC. And in
7 August 2006, we decided to pursue the integrated Life-Cycle Management
8 (“LCM”) and Extended Power Uprate (“EPU”) program (“LCM/EPU
9 Program” or “Program”).
10

11 I was then the President, Director and CEO of NSPM from January 2007 to
12 August 2009. During that time, the LCM/EPU Program was fully developed
13 and the first implementation outage occurred in the Spring of 2009.
14

15 Subsequently, I was Chief Financial Officer (“CFO”) of Xcel Energy from
16 2009 to 2011, responsible for managing the financial matters of the
17 corporation. As CFO, I was responsible for financial planning and assessing
18 the financial implications of investments being considered by Xcel Energy.
19 While CFO, I was regularly involved with the financial aspects of the
20 LCM/EPU Program.
21

22 I once again became the President of NSPM in 2011. In this position, I have
23 remained involved in executive oversight of our efforts at Monticello.
24

25 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

26 A. No. However, I filed Direct and Rebuttal Policy Testimony on behalf of the
27 Company in its pending rate case in Docket No. E002/GR-13-868.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

2 A. I provide rebuttal to a number of issues raised by the Department of
3 Commerce, Division of Energy Resources' ("Department") Direct Testimony
4 and several key themes. My testimony covers the following specific areas:

5

6 • I respond to Department witness Mr. Christopher J. Shaw's discussion of
7 the applicable standard governing this proceeding and provide the
8 Company's perspective on the appropriate standard by which the
9 Company's actions should be judged;

10

11 • I respond to the Department's criticisms about our overall approach to the
12 LCM/EPU Program, describe the broader context in which the Program
13 was developed and managed, and underscore the benefits of this Program
14 for our customers; and

15

16 • I provide the Company's overall response to the Department's proposed
17 disallowance of incurred Program costs, based on our view of the
18 appropriate standard of review.

19

20 **II. OVERVIEW AND STANDARD OF REVIEW**

21

22 **A. Preliminary Statement**

23 Q. DO YOU HAVE A PRELIMINARY STATEMENT YOU WISH TO MAKE?

24 A. Yes. I have spent most of my 33 years in the energy business focused on
25 matters involving this Commission, and I take the Company's responsibilities
26 to our customers and regulators very seriously. We appreciate the opportunity
27 the Commission gave us to explain the circumstances surrounding the

1 implementation of the LCM/EPU Program at Monticello, the benefits we
2 obtained for our customers as a result of this effort, and the difficulties and
3 costs we incurred in furtherance of this initiative.

4
5 We further appreciate the time and attention the Department has given to this
6 complex matter. While I understand many of their concerns, upon reading
7 this testimony I became concerned that our stakeholders may not fully
8 recognize the Company's commitment to its Nuclear program and how the
9 Monticello LCM/EPU Program benefits our customers.

10
11 Q. PLEASE SUMMARIZE THE BENEFITS THE LCM/EPU PROGRAM HAS BROUGHT
12 TO CUSTOMERS.

13 A. We captured several important benefits for our customers that would have
14 been lost had we not pursued the integrated Program. These include:

- 15
- 16 • *Cost-effective as a whole.* Mr. Shaw's Direct Testimony acknowledges that the
17 initiative was "overwhelmingly cost-effective as whole,"¹ which is the
18 manner in which the Company undertook the LCM/EPU Program.
 - 19 • *Long-term cost-effective baseload generation.* We essentially rebuilt an almost-new
20 power plant around the existing core and reactor for about \$1,000/kW
21 installed for 671 MW of generation. A new coal or nuclear plant could not
22 be permitted in Minnesota and would cost multiples of this amount.
 - 23 • *Twenty-year life extension.* We accomplished a 20-year extension of the life of
24 this important resource for our customers. Depending on a variety of

¹ Shaw Direct at 14:3.

1 factors discussed by Company witness Mr. Timothy J. O'Connor, it may be
2 possible to capture these benefits for a longer period.

3 • *Carbon-free baseload generation.* Retaining carbon-free resources on our
4 system is increasingly important in light of concern over carbon emissions
5 and global warming, both at the federal and state level. It was appropriate
6 for the Company to maximize its nuclear assets while the character of our
7 fossil fleet evolves under these environmental priorities.

8 • *Jobs retention.* Monticello is a source of several hundred high-quality craft
9 labor and other jobs, both for general operations and during our periodic
10 refueling outages. Taking the steps necessary to preserve this asset benefits
11 the local community and local job market.

12
13 Q. YOU NOTED THAT THE DEPARTMENT'S TESTIMONY MAY NOT FULLY REFLECT
14 THESE BENEFITS. WHAT ARE SOME OF THE KEY THEMES FROM THE
15 DEPARTMENT'S TESTIMONY THE COMPANY ADDRESSES IN THIS PROCEEDING?

16 A. We address several fundamental considerations the Company has identified in
17 the Department's Direct Testimony:

18
19 1. *The Program is Overwhelmingly Cost-Effective.* I appreciate Mr. Shaw's
20 acknowledgement that the overall Program is "overwhelmingly cost-effective."
21 We pursued this initiative as an integrated whole and believe our efforts
22 should be judged as a whole, taking into account all of the benefits and all of
23 the costs.

24 • We recognize that this holistic view does not necessarily mean every
25 choice we made resulted in the lowest possible cost.

- 1 • We appreciate Mr. Shaw’s acknowledgment that our actions should be
2 judged on the basis of whether they were reasonable – not perfect –
3 under the circumstances we faced at the time.
- 4 • We urge the Commission to avoid applying hindsight to otherwise
5 reasonable decisions and actions.

6

7 2. *The Company’s Prudence.* Although the Department Consultants’ Direct
8 Testimony discusses cost increases and is critical of our performance in certain
9 respects, they do not draw any conclusions whether such cost increases were
10 ultimately necessary or appropriate. As such, the Consultants do not directly
11 tie any particular action or decision by the Company to a measure of damages.

12

13 3. *Context is Important.* The underlying context is critical to a proper
14 understanding of our decisions and actions in implementing the Program.
15 I am concerned that the Department’s testimony does not discuss this context
16 and, therefore, does not consider the reasons why the Company proceeded in
17 the way we did.

- 18 • In the 2003-06 timeframe, we were at a crossroads that required
19 important decisions about our supply portfolio.
- 20 • Many of the actions the Department criticizes were made in the context
21 of our decision to commit to the ongoing viability of our nuclear
22 program and to address forecasts showing the need for substantial
23 additional baseload generation in the relatively near term.
- 24 • The Department’s testimony does not incorporate the broader
25 circumstances that currently face the United States nuclear fleet and the
26 difficulties other utilities have had with their uprate projects during the
27 same time period.

- 1 • Department witness Dr. William R. Jacobs infers that the industry was
2 unwise for pursuing uprates, but does not reflect on challenges utilities
3 faced such as more stringent application of NRC standards or the labor
4 productivity challenges arising out of difficult working conditions.
5

6 4. *Complexity of the Program.* Department consultant Mr. Mark W. Crisp
7 suggests that “‘complexity issues’ should not have been the cause of such high
8 cost overruns of installation.”² I am concerned that this statement
9 undervalues nuclear safety.³ Monticello is presently safer and more reliable
10 than ever as a result of our successful efforts implementing the LCM/EPU
11 Program.

- 12 • The importance of this principle cannot be overstated, as virtually
13 nothing about nuclear safety, technology, or construction is quick or
14 easy.
- 15 • Mr. Crisp’s criticism is aimed at our inability to estimate initial costs
16 accurately, not the ultimate cost or value of the Program. But a
17 reasonable allocation between LCM and EPU costs showed our
18 Program to be cost-effective in 2008, when we decided to proceed.
- 19 • Mr. Crisp also does not acknowledge that the costs of uprates
20 completed before ours were substantially less expensive, and that the
21 intervening years showed a dramatic increase in cost and complexity.
- 22 • This context is critical to assessing the Company’s prudence.

² Crisp Direct at 19:19-20.

³ Maintaining nuclear safety is the paramount consideration for all matters pertaining to nuclear power plants. In this regard, “nuclear technology is recognized as special and unique.” Institute of Nuclear Power Operations, PRINCIPLES FOR A STRONG SAFETY CULTURE (NOV. 2004), *available online* at http://www.nrc.gov/about-nrc/regulatory/enforcement/INPO_PrinciplesSafetyCulture.pdf, last visited Aug. 14, 2014.

1 5. *Nature of Replacements.* Dr. Jacobs suggests it should have been less costly
2 to replace like-for-like LCM equipment at Monticello plant.⁴ Mr. O'Connor
3 addresses this concept in detail; I note overall that replacing like-for-like is not
4 simple or cheap and in many cases is not possible. We could not replace old
5 1960s equipment with new 1960s equipment. And although I am not an
6 engineer, I understand it is preferable to upgrade manually-operated analog
7 equipment with automated digital equipment and it would have been unwise
8 to try to maintain those outdated manual systems.

9
10 6. *Implementation Challenges.* While Mr. Crisp recognizes that it is challenging
11 to work within the confines of an operating nuclear plant, he assumes that the
12 difficulties we encountered were caused by lack of preparation and
13 coordination rather than the challenges inherent in the working conditions we
14 encountered.

- 15 • All Program work needed to be completed during our periodic refueling
16 outages, which means that our labor force was operating under extreme
17 time pressure. Confined work areas presented significant challenges to
18 our craft labor force.
- 19 • Further, as discussed at length by Mr. O'Connor, we encountered many
20 installation challenges for which no amount of advance preparation
21 could have prepared us.
- 22 • In short, this job was very hard and that fact more than anything drove
23 our costs.

24
25 7. *Accounting for the Program.* Department witness Ms. Nancy A. Campbell
26 suggests, in her Direct Testimony, that “it is not reasonable for Xcel to start

⁴Jacobs Direct at 13:5-6.

1 tracking project costs for purposes of accounting as if they were one project”⁵
2 and that this approach unnecessarily increased the costs of the prudence
3 review. Having been a utility CFO and overseen many projects, I respectfully
4 disagree. The accounting should follow the project – not vice versa.
5 The Program was managed as an integrated initiative to capture the
6 efficiencies and combined equipment needs of extending and expanding the
7 capacity of the facility. It was therefore appropriate for the accounting to
8 reflect this approach.

9
10 Each of these themes is addressed in more detail in the Company’s Rebuttal
11 case. It is important to highlight them at the outset to distill some of the key
12 considerations in this proceeding.

13
14 Q. WHY IS IT NECESSARY FOR THE COMPANY’S REBUTTAL CASE (TESTIMONY AND
15 SCHEDULES) TO BE LENGTHY?

16 A. The key themes noted above are not the only issues raised in Direct
17 Testimony. In addition, we were concerned about the number of open-ended
18 comments and conclusory statements in the Consultants’ presentations.
19 We are mindful that we bear the ultimate burden to prove that our costs were
20 reasonably incurred and will result in just and reasonable rates. As a result, we
21 were concerned that if we left the open-ended remarks unresolved, the record
22 could be perceived as deficient. We have therefore worked to provide
23 sufficient detail to develop a full and complete record.

⁵ Campbell Direct at 19-20.

1 Q. HOW DO YOU WISH TO CONCLUDE THIS INTRODUCTORY SECTION OF YOUR
2 TESTIMONY?

3 A. Once again, we appreciate the Department's time and concern invested in
4 their review of this matter and agree with the Department in several important
5 areas. However, we respectfully differ with the Department in some respects,
6 addressed in our Rebuttal Testimony.

7
8 We never really anticipated this case would turn on our initial decision to
9 pursue upgrading Monticello to operate for an additional 20 years, but rather
10 expected the primary focus to be on our management of the details during
11 implementation. Thus, our Direct Testimony focused primarily on the details
12 of the work we did and provided a robust discussion of the process we used to
13 implement the Program.

14
15 However, the Department's Direct Testimony focuses substantial attention on
16 our initial decision and the cost-effectiveness of the initiative. Thus, our
17 Rebuttal Testimony focuses on the circumstances that existed in that early
18 timeframe to provide the Commission with context to judge the quality of our
19 decisions and actions under the circumstances that were reasonably
20 foreseeable at that time. In light of the strong demand growth, high natural
21 gas prices, and the need to add capacity promptly, preserving and maximizing
22 nuclear power was a smart decision.

23
24 Finally, our commitment remains to develop a robust record that enables the
25 Commission, our stakeholders, and the Company to work toward a reasonable
26 outcome that balances interests and provides overall benefits to our
27 customers. We look forward to further discussion with our stakeholders.

1 **B. Standard of Review**

2 Q. WHAT IS THE DEPARTMENT’S PROPOSAL REGARDING THE STANDARD FOR THE
3 COMMISSION’S DETERMINATION OF PRUDENCE IN THIS PROCEEDING?

4 A. Mr. Shaw provides the Department’s position on the applicable prudence
5 standard to be applied in this case. He states:

6 Prudency asks whether Xcel has shown it acted in a reasonable
7 manner, based on information it knew or reasonably should have
8 known at the time and includes consideration of the information
9 Xcel provided to the Commission in 2008, whether Xcel kept
10 regulators reasonably informed about cost increases, and whether
11 Xcel has shown that it managed its costs appropriately, among other
12 considerations.⁶

13
14 Q. DOES THE COMPANY AGREE WITH THIS PRUDENCE STANDARD?

15 A. We generally agree that Mr. Shaw’s statement captures important elements and
16 that he correctly concludes that the key inquiry must focus on what we knew
17 in 2006 to 2008 when we made critical decisions. Generally, we agree that the
18 focus of this prudence review should be on whether our decisions and actions
19 were reasonable. And we agree that subsequent societal changes such as the
20 Great Recession and hydraulic fracturing were unforeseeable and should not
21 be considered when judging our decisions and actions pursuing the Program.⁷

22
23 However, we respectfully disagree with the way Mr. Shaw and the other
24 Department witnesses apply that standard. In his Direct Testimony, Mr. Shaw
25 recommends: “To determine prudency, the appropriate analysis should be
26 based on assumptions relied on at the time of the 2008 Monticello EPU CN,
27 updated to reflect the actual costs and timing of the Monticello LCM and

⁶ Shaw Direct at 8:15-20.

⁷ Shaw Direct at 17:17-20.

1 EPU.”⁸ (Emphasis added.) We do not agree with the underlined portion of
2 this conclusion because it turns the prudent investment standard into a
3 retroactive look at the impact of actual costs. By adding this proviso, the
4 Department is able to impose an after-the-fact or retroactive measure to the
5 analysis that is inconsistent with the prudent investment standard.

6
7 In addition, the Department recommends an EPU/LCM split of costs based
8 on its Consultant’s after-the-fact review, and then provides modeling of
9 whether the EPU portion of the Program was cost-effective (separate and
10 apart from the rest of the plant) as of the 2008 decision point but using actual
11 2013 costs. The Department then recommends that any portion of the
12 Program attributed to the EPU, but not determined to be cost-effective,
13 should be disallowed. In her Direct Testimony and Recommendations 5, 6,
14 and 7, Department witness Ms. Campbell recommends that the Company be
15 disallowed \$71.42 million (Minnesota jurisdiction) or approximately a
16 \$10.713 million revenue requirement reduction.⁹

17
18 Q. DO YOU AGREE WITH THE DEPARTMENT’S CONCERNS ABOUT LIMITING COST
19 RECOVERY TO THE COST ESTIMATE USED FOR MODELING IN THE CERTIFICATE
20 OF NEED PROCEEDINGS?

21 A. Yes. A cap of costs or of the return on those costs based on Certificate of
22 Need-level information would represent a fundamental shift in the regulatory
23 framework that has guided traditional prudence review under the prudent
24 investment standard. It would ignore what we should have reasonably
25 estimated the costs to be in 2008 and whether our 58/42 percent LCM/EPU

⁸ Shaw Direct at 34:11-14.

⁹ Campbell Direct at 27 and 35.

1 split used in the Certificate of Need was reasonable under those
2 circumstances.

3
4 Q. WHAT IS YOUR RECOMMENDATION FOR HOW THE COMMISSION SHOULD
5 JUDGE THE COMPANY'S ACTIONS?

6 A. We respectfully request that the Commission focus on our decisions and
7 actions in the relevant timeframe and assess the reasonableness of our
8 approach in pursuing the Program, recognizing: (i) the significant need for
9 additional generation shown in our forecast at the time; (ii) the enormous
10 value nuclear upgrade and uprate projects showed at the time based on the
11 reasonable split considered at that time; and (iii) the challenges we faced in
12 completing this work to meet customer needs. In addition, we request that
13 the Commission judge us on whether we acted in good faith and with
14 reasonable information to make the decision to commence and continue with
15 the Program.

16
17 We also think it is important that the Commission apply a standard of
18 "reasonableness under the circumstances" in judging our performance.
19 Reasonableness does not mean perfection, and we are concerned that some of
20 the Department's Consultant's testimony suggests an unattainable standard by
21 assuming that because costs went up, the Company must be responsible.

22
23 Q. WHAT DO YOU MEAN BY "REASONABLENESS UNDER THE CIRCUMSTANCES?"

24 A. "Reasonableness under the circumstances" is the standard of care that a
25 reasonable person would be expected to exercise under the same
26 circumstances at the time a decision had to be made. That standard focuses

1 on the reasonableness of decisions and actions rather than the ultimate
2 outcome of those decisions and actions.

3
4 A determination that one course of conduct is reasonable is not a
5 determination that any other course is unreasonable. Accordingly, if more
6 than one course of action was reasonable at the time of decision-making, it
7 would not be imprudent to choose among them even if the Commission
8 believes (based on hindsight) that another course of action would have been
9 preferable or would have turned out to be more cost-effective in the end.

10
11 Finally, this standard of reasonableness calls for an assessment of the cause of
12 the cost increase. It is not sufficient to suggest that management of the
13 Program could have been stronger and propose a general disallowance.
14 Any disallowance should be limited to those costs actually caused by an
15 imprudent decision or action. If a cost would have to be incurred regardless
16 of the imprudent decision or action, then the Commission should not order a
17 disallowance because the excess cost was not caused by imprudence.

18
19 Q. CAN YOU PROVIDE AN EXAMPLE OF WHAT YOU MEAN?

20 A. Yes. One key decision was the timing of the implementation outages.
21 The Company initially elected to pursue implementation in the 2009 and 2011
22 outages, while Mr. Crisp suggests that the 2011-2013 schedule evaluated but
23 not chosen by the Company was more supportable. Mr. Crisp concludes that
24 it would have been preferable to stay with later dates in large part because “the
25 expedited approach caused delays and budget increases that could have been
26 avoided....”¹⁰ However, the Company made a good-faith decision between

¹⁰ Crisp Direct at 29:14-16.

1 the two timeframes based on what we reasonably knew at the time. It was
2 reasonable for us to choose the earlier timeframe in our effort to harness the
3 projected benefits of additional capacity for our customers earlier.

4 We recognize the timeframe we chose was aggressive, but the forward price
5 curves for natural gas at the time led us to recognize the need for prompt
6 action and our early project evaluations supported that decision. Proceeding
7 on parallel tracks and pursuing a 2009/11 implementation was one of several
8 reasonable alternatives. Mr. Crisp's opinion that the other path was preferable
9 does not render the Company's decision imprudent or wrong.

10
11 Q. WHAT ARE THE FACTORS UNDERLYING THE PRUDENCE STANDARD THAT YOU
12 RECOMMEND THE COMMISSION APPLY IN THIS PROCEEDING?

13 A. We urge the Commission to keep the following factors in mind when judging
14 the prudence of our actions. A determination of the reasonableness of a
15 decision or action should:

- 16 • focus on the decision or action itself, not on the after-the-fact outcome
17 of that decision or action;
- 18 • focus on the information known or that reasonably should have been
19 known at the time the decision was made or the action taken, rather
20 than relying upon after-discovered facts or hindsight;
- 21 • recognize that the utility must make business judgments and decisions
22 that plan for future business and customer needs;
- 23 • not require perfection; and
- 24 • not focus on "cost overruns" as a primary factor because, without
25 more, increased costs alone do not establish imprudence.

1 An assessment of the reasonableness of the Company's actions in this case
2 calls for development of a factual record that will allow the Commission to
3 assess specific facts and costs that are judged to be imprudent.

4
5 Q. WHAT ARE THE UNDERLYING QUESTIONS THE COMMISSION SHOULD ASSESS IN
6 DETERMINING WHETHER THE COMPANY ACTED REASONABLY WITH RESPECT
7 TO THE MONTICELLO PROGRAM?

8 A. I recommend that the Commission consider the following questions in making
9 its decision:

- 10
11 • Was our decision in 2006-08 to pursue the Program as an integrated
12 initiative, based on high-level conceptual designs and then-available
13 benchmarking data, reasonable under the circumstances at the time given
14 that our resource plan showed a need to preserve existing capacity as well
15 as an incremental capacity deficit?
16
17 • Was the Company's decision to multi-track the effort, including
18 concurrent licensing, regulatory, scoping, and design, reasonable?
19
20 • Was our initial overall estimate that was used for modeling alternatives in
21 the Certificate of Need reasonable under the circumstances, and if not,
22 what was the reasonably foreseeable starting-point estimate?
23
24 • Was the Company's implementation of the LCM/EPU Program during
25 the 2009, 2011, and 2013 implementation outages reasonable in terms of:
26 (i) overall project management; (ii) vendor oversight; (iii) adapting to
27 changing circumstances; and (iv) addressing unforeseen events?

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If the Commission answers “yes” to these questions, then the Company’s actions were prudent and no disallowance should be imposed even if the final costs were higher than projected. If the Commission answers “no” to any of these questions, then it should ask: Did the Company’s imprudent decision or action cause costs the Company would otherwise not have incurred, and, if yes, what is the appropriate remedy for harm caused by imprudent action or decision?

Q. HOW SHOULD THE COMMISSION ULTIMATELY APPLY THE PRUDENCE STANDARD TO THE RECORD IN THIS PROCEEDING?

A. We recommend that the Commission apply the standard described above to assess the quality of our decisions and actions in commencing and implementing the integrated LCM/EPU Program. While we do not claim our performance was perfect, the record will not show material imprudent decisions or actions and should not lead to any disallowance.

If the Commission disagrees, we request a careful approach in structuring the appropriate remedy that is proportionate to the harm caused by the imprudent decisions or actions and does not impose a substantial disallowance based on a hindsight review of cost effectiveness. If the Commission determines specific decisions or actions were imprudent, there are several approaches to a remedy that the Commission might consider. In structuring any remedy, it is important from both an analytical and a policy perspective not to overcorrect. The Commission should review the history of our implementation and take this into account in fashioning a remedy.

1 **III. PROGRAM IMPLEMENTATION AND MANAGEMENT**

2
3 Q. WHAT IMPLEMENTATION CONCERNS DID THE DEPARTMENT IDENTIFY IN
4 DIRECT TESTIMONY?

5 A. The Department identified several issues that I address in my Rebuttal
6 Testimony. First, the Department criticizes the Company’s decision to
7 proceed with the initiative on an expedited basis, and suggests we moved
8 forward without adequate planning and preparations for the complexity of the
9 Program. These criticisms are related to each other and I discuss them
10 together, with additional detail provided by Company witnesses
11 Mr. O’Connor, Mr. James R. Alders, Mr. Richard J. Sieracki, and Mr. J.A. Stall.

12
13 Second, Department witness Mr. Crisp questions the degree of oversight of
14 the Program prior to and during its implementation. I discuss our oversight of
15 the Program and the reasonableness of Company management decisions.

16
17 Third, Department witness Ms. Campbell raises questions about the
18 operations of Monticello. In my Rebuttal Testimony, I confirm our safe
19 operations at Monticello and the importance of meeting evolving NRC
20 standards. Mr. O’Connor addresses these matters in greater detail.

21
22 Fourth, it is clear that we did not meet the Department’s expectations of
23 keeping stakeholders informed about the challenges and increasing costs of
24 the Program. We acknowledge that we could have provided more
25 information, but we do not believe a communications disagreement was a
26 decision or action that caused imprudent costs to be incurred. Mr. Alders and
27 I provide the basis for our communication decisions.

1 Finally, Ms. Campbell suggests that the Company's joint cost accounting for
2 the Program was unreasonable and complicated these proceedings.
3 I respectfully disagree with that assessment, as explained in further detail
4 below.

5
6 **A. Approach to Implementation**

7 Q. WHAT ARE THE DEPARTMENT'S CONCERNS WITH RESPECT TO THE COMPANY'S
8 INITIAL IMPLEMENTATION OF THE PROGRAM?

9 A. The Department contends that if we had taken more time to prepare and
10 perhaps awaited regulatory approvals, we would have had a better
11 understanding of the costs we faced and the ultimate scope of the Program.

12
13 Q. WHY DID THE COMPANY CHOOSE THE IMPLEMENTATION APPROACH IT
14 FOLLOWED?

15 A. In the circumstances we faced at the time we initiated the Program, we
16 believed a multi-track approach was both reasonable and necessary to achieve
17 timely results. However, the Department's testimony does not describe the
18 context in which our early decisions and actions occurred. That context is
19 important to understand the Company's approach, and Mr. Alders provides
20 significant detail regarding this context in his Rebuttal Testimony.

21
22 As a general matter, it is critical to keep in mind that when we initially
23 developed the LCM/EPU Program starting in the 2004 timeframe, we were in
24 a different world with respect to energy economics. During that period, we
25 projected high forecast demand and high natural gas prices with limited time
26 to meet those needs and mitigate gas price volatility through additional
27 baseload resources. This is vastly different than today's world, in which the

1 Company's system has been long on capacity and is projected to be long on
2 resources for some time to come. Prices for natural gas came off record highs
3 in 2005 and 2008. There was no reason to think that a life extension and
4 uprate at Monticello would not be worth pursuing at that time, and Mr. Shaw's
5 analysis of total combined Program benefits confirms this view. In addition,
6 the debate over coal plant emissions was intensifying and concerns over global
7 warming and carbon emissions were becoming a sizeable factor in the viability
8 of new coal as a resource.

9
10 This combination of circumstances in the last decade made it clear that we
11 needed to retain and maximize the use of existing resources, especially
12 baseload and carbon-free resources. Thus, through the resource planning
13 process described by Mr. Alders, we proposed and developed the idea of
14 obtaining a 20-year license renewal while concurrently increasing capacity at
15 Monticello (as well as at two other plants).

16
17 Q. THE DEPARTMENT CRITICIZES THE COMPANY'S PLANNING FOR THE PROGRAM
18 DURING ITS EARLIEST STAGES. HOW DO YOU RESPOND GENERALLY TO THAT
19 CRITICISM?

20 A. Other witnesses will provide detail on this subject. From my perspective,
21 most of the Department's criticisms about our early implementation efforts
22 misunderstand the nature and complexity of the work we did. Far from taking
23 a "start/stop" approach or lack of preparation, our actions show we adapted
24 our processes and procedures to address evolving circumstances. And, in the
25 main, the cost increases we experienced arose from the nature of the work, the
26 age of the plant, and the need to modernize it.

1 Our failure to predict the total level of costs was largely a result of looking to
2 history and not anticipating emerging challenges that came to the fore during
3 our multi-year implementation effort. It was also a result of some external
4 circumstances that we could not have predicted, such as the Great Recession
5 and its longer-term impacts. While Mr. O'Connor discusses how we may have
6 been able to improve on our initial estimate to some extent, there is no reason
7 to believe this would have changed our decision to pursue the integrated
8 initiative.

9
10 Q. HOW DO YOU RESPOND TO THE DEPARTMENT'S CRITICISM THAT THE
11 COMPANY "SHOULD HAVE HAD BETTER INFORMATION ABOUT THE COSTS OF
12 THE PROJECT"¹¹?

13 A. This criticism goes to the heart of the Company's inability to obtain and
14 provide accurate estimates of the ultimate magnitude of the work. However,
15 our inability to provide accurate estimates does not translate into the initiative
16 costing more than necessary to capture the important benefits of 20 additional
17 years of carbon-free baseload generation and 71 MW of increased capacity.
18 Moreover, it is not clear that different decisions would have enabled us to
19 meet our obligations to our customers we faced at the time. Again, other
20 Company witnesses will provide detail on our project management and the
21 associated costs.

22
23 Q. DID THE COMPANY HAVE AMPLE TIME TO PURSUE AND IMPLEMENT THE
24 MONTICELLO INITIATIVE?

25 A. No. Legislation in Minnesota from 1994 precluded the Company from
26 constructing additional on-site spent fuel storage at our nuclear facilities and

¹¹ Shaw Direct at 11:9-10.

1 therefore from pursuing a life extension license with the NRC.
2 That legislation was amended, creating a path for license renewal in 2003 only
3 seven years before the expiration of Monticello's operating license.
4 The Company sought legislation to avoid a Certificate of Need for additional
5 casks at both Prairie Island and Monticello, but the enacted statute required a
6 State review process that further reduced the amount of time we had to take
7 the multiple steps necessary to preserve Monticello as a long-term viable asset.
8 While seven years may sound like a long time in some circumstances, this
9 schedule left us substantially behind in terms of all the work we needed to do
10 to support a renewed operating license for our nuclear facility.

11
12 Once extending the life of Monticello became a realistic option, we needed
13 both a Certificate of Need from the Commission and a license extension from
14 the NRC. We also needed to put key vendor contracts in place and determine
15 the initial scope of work necessary to undertake the initiative. And we would
16 need additional, subsequent, approvals to pursue an increase of Monticello's
17 capacity. All of these things had to be accomplished in quite a short span of
18 time given the critical safety considerations and complexities of a nuclear
19 power plant.

20
21 Q. MR. CRISP SUGGESTS THAT THE COMPANY REJECTED THE ADVICE OF
22 PROGRAM TEAM MEMBERS ON THE TIMING OF THE OUTAGES. HOW DO YOU
23 RESPOND?

24 A. The Company did analyze implementing the Program in 2011/13. However,
25 at the time, we were facing the potential for a significant capacity deficit in a
26 high-priced energy market and had just received the Commission's 2004
27 Resource Plan Order directing us to take swift action.

1 At the same time, the Nuclear business unit had conducted an analysis of the
2 proposed work and the projected benefits, and reasonably believed that the
3 work could be accomplished in two consecutive refueling outages in 2009 and
4 2011. This conclusion was supported by past experience in the industry and
5 was consistent with the scope of work identified in the initial nuclear project
6 authorization. Management recognized that it would be necessary to move on
7 parallel paths to complete all of the work, and reasonably concluded that the
8 need for additional capacity and the potential benefits to our customers fully
9 supported proceeding on multiple tracks to complete the installations
10 promptly.

11
12 Q. HOW DID THE COMPANY MOVE FORWARD TO BALANCE REGULATORY
13 REQUIREMENTS WITH UNDERTAKING CONSTRUCTION IN A TIMELY MANNER TO
14 MEET THE COMPANY'S RESOURCE NEEDS?

15 A. As Mr. Alders discusses in Direct Testimony, we recognized that meeting the
16 identified forecast demand in the 2004 to 2009 timeframe required us to multi-
17 track our implementation efforts.¹² We spent approximately \$97 million from
18 2006-08¹³ (prior to and during the EPU Certificate of Need stage) in order to
19 meet the schedule, which allowed us to commence construction a mere two
20 months after obtaining the permit. By the end of 2009 (and after the first
21 successful implementation outage), we had spent over \$210 million in
22 furtherance of this initiative and implementing the Commission's Certificate of
23 Need. In this way, we were able to proceed both thoughtfully and
24 expeditiously to balance the need for advance planning with moving promptly
25 to meet our customers' capacity needs.

¹² Alders Direct at 18-20.

1 Q. IS IT UNUSUAL FOR THE COMPANY TO COMMIT SIGNIFICANT CAPITAL TO A
2 PROJECT BEFORE RECEIVING A CERTIFICATE OF NEED?

3 A. Yes. Because the Commission may conclude a project plan is not consistent
4 with the State's energy policy, we generally try to obtain the Commission's
5 concurrence before we spend significant money.

6

7 Q. OVERALL, HOW DO YOU RESPOND TO THE DEPARTMENT'S CRITICISM ABOUT
8 THE COMPANY'S EXPEDITED APPROACH?

9 A. There are several reasons why I believe proceeding as we did was both
10 prudent and essential to accomplish important energy policy priorities.

11

12 First, the Commission's July 2006 Order in our 2004 Resource Plan, which
13 specifically discussed the Monticello Program, made clear our resource needs
14 as well as our obligations to bring forward a Certificate of Need application
15 expeditiously, meet customer requirements, and make unilateral decisions
16 necessary to meet those needs.¹⁴

17

18 Second, the Company viewed the Program as an integrated initiative to
19 preserve Monticello as a resource, and the substantial majority of the
20 modifications we planned were primarily for life cycle management. Because
21 we did not need a Certificate of Need for spending money in furtherance of
22 appropriate LCM work, we were not taking on a substantial risk by proceeding
23 with a joint initiative.

¹³ O'Connor Direct at 27, Table 4.

¹⁴ *2004 Resource Plan*, Docket No. E002/RP-04-1752, ORDER APPROVING RESOURCE PLAN AS MODIFIED, FINDING COMPLIANCE WITH RENEWABLE ENERGY OBJECTIVES STATUTE, AND SETTING REPORTING REQUIREMENTS at 9 (July 28, 2006).

1 Finally, the amount we spent in anticipation of the Certificate of Need
2 specifically advanced our ability to pursue the Program in a timely manner.
3 We commenced implementation in March 2009, only two months after the
4 Commission granted our Certificate of Need. We believe that the
5 Commission should not ignore these sunk costs when it considers whether the
6 Company proceeded appropriately at each juncture. Mr. Alders' Rebuttal
7 Testimony provides additional discussion of the treatment of these early costs.

8
9 **B. Corporate Approvals**

10 Q. WHAT TESTIMONY DO YOU WISH TO ADDRESS IN THIS SECTION OF YOUR
11 REBUTTAL TESTIMONY?

12 A. Mr. Crisp's Direct Testimony makes a number of references to the decision of
13 the Xcel Energy Board of Directors to pursue the LCM/EPU Program.¹⁵ My
14 testimony provides context for the actions of senior management and the
15 information provided to the Board when making the decision to proceed with
16 the LCM/EPU Program.

17
18 Q. DID THE BOARD OF DIRECTORS OR MANAGEMENT APPROVE AND REVIEW
19 THE MONTICELLO LCM/EPU PROGRAM IN ISOLATION?

20 A. No. Xcel Energy views its nuclear program as a single fleet, and our corporate
21 strategy is to develop decisions about our three nuclear units as a package. In
22 addition, decisions about our nuclear plants are taken with reference to the
23 Company's overall supply mix. By way of example, the original \$274 million
24 LCM/EPU Program authorization occurred within the Company's over \$2
25 billion capital authorization in 2006. Over the six-year period of time at issue,
26 the Company had over \$5 billion of capital expenditures and over \$10 billion

¹⁵ Crisp Direct at 23-25.

1 in operation and maintenance expenses. I believe this is an important
2 perspective on the context in which decisions are made about individual
3 capital projects.

4
5 Q. HOW DO YOU RESPOND TO MR. CRISP'S ASSERTIONS THAT MANAGEMENT MAY
6 NOT HAVE ADEQUATELY BRIEFED THE BOARD AND COSTS WERE NOT
7 ADEQUATELY CONSIDERED?

8 A. I respectfully disagree with Mr. Crisp. The LCM/EPU Program was the
9 subject of significant investigation and multiple key decision points noted
10 below:

- 11 • Prior to 2003, the Company investigated the potential of a life
12 extension, subject to a change in law authorizing license renewal.
- 13 • During 2003, the Company decided to pursue relicensing and launched
14 the State and Federal regulatory initiative to extend the Plant's life.
- 15 • During 2004-05, the Company investigated the feasibility of pursuing an
16 EPU concurrently with the life extension work.
- 17 • By 2006, we recognized that pursuing an EPU would be best if we
18 combined the effort with our ongoing LCM activities.
- 19 • On August 22, 2006, executive management brought the LCM/EPU
20 Program forward for Board action. The Board authorized \$274 million
21 (which is equivalent to the \$320-346 million estimate including the
22 steam dryer, the 13.8 kV project, and inflation).

23
24 Mr. O'Connor and Mr. Alders present additional information about Company
25 planning in their Direct and Rebuttal Testimonies.

1 Q. MR. CRISP OBSERVES THAT THE BOARD DID NOT ADOPT THE \$362.5 MILLION
2 ESTIMATE DESCRIBED IN THE 2011 COST HISTORY DOCUMENT. WHY WAS
3 THAT?

4 A. Mr. Crisp makes it seem that the recommendations by one employee
5 contained in the 2011 Cost History document should have dictated the
6 Company's actions in 2006. This is not the case.

7

8 First, in the Company's corporate structure, capital projects are generally
9 developed by the affected business unit, which is responsible to assess options,
10 vet differing opinions, and provide its recommendations to corporate
11 decision-makers for consideration. Management presented and the Board
12 approved the initial LCM/EPU Program authorization and scope based on
13 the overall Program team's recommendation, which in 2006 was \$274 million.
14 The cash flows presented showed the Program being implemented in 2009
15 and 2011, management's preferred schedule.

16

17 Second, the estimate that went to the Board was based on the work we had
18 commissioned with General Electric and the Company's knowledge of the
19 types of upgrades that would be necessary to support both the LCM and EPU
20 goals. We believed at the time that was the best indicator of the overall cost of
21 the Program. While we were wrong about final costs, it was a reasonable basis
22 from which to begin the initiative.

23

24 Third, the \$362.5 million figure cited in the 2011 Cost History document was
25 the high-end of the \$299-362.5 million range that was also developed in 2006
26 to include additional contingency in the estimate. Recognizing that the study
27 work supporting the initial rollout of the Program was preliminary,

1 management requested funding at the lower level because there was not
2 substantial cost support at that time for other estimates.

3
4 Q. IF THE BOARD HAD ADOPTED A HIGHER INITIAL COST ESTIMATE, IS IT LIKELY
5 THAT ESTIMATE WOULD HAVE CHANGED THE BOARD'S DECISION TO PROCEED
6 WITH THE PROGRAM?

7 A. No, not at all. The benefits of the Program were so significant at the time that
8 it is highly unlikely even a modified overall cost estimate would have changed
9 our course of action. As Mr. Alders and Mr. O'Connor discuss in their
10 Rebuttal Testimonies, regardless of whether the Board had adopted the \$362.5
11 million estimate in the 2011 Cost History document or the approximately \$420
12 million estimate that would represent the \$362.5 million plus the steam dryer
13 and inflation, the costs of the Program were still significantly outweighed by its
14 benefits.

15
16 Q. DID THE COMPANY CONSIDER ABANDONING THE INITIATIVE AS COSTS
17 INCREASED?

18 A. Yes. At the executive management level we assessed our options and whether
19 we should make any recommendations along these lines. We concluded there
20 was no reasonable basis to terminate the initiative based on the overall benefits
21 and the inability to segregate required LCM work from the EPU installations.

22 23 **C. Concerns About Monticello Operations**

24 Q. HOW IS THE MONTICELLO FACILITY CURRENTLY OPERATING?

25 A. The Plant is operating very well at this time. As Mr. O'Connor describes in
26 his Direct and Rebuttal Testimony, the plant is well-situated to provide safe,
27 reliable baseload power through 2030 and potentially beyond.

1 Q. HOW DO YOU RESPOND TO MS. CAMPBELL'S STATEMENT THAT "THE
2 MONTICELLO PLANT HAS ISSUES"?¹⁶

3 A. I appreciate that Ms. Campbell acknowledges in her Direct Testimony the
4 Company's report that "the NRC believes that Monticello is being operated in
5 a safe manner."¹⁷ Of course, Ms. Campbell also recognizes that the NRC has
6 noted specific issues at the facility.¹⁸ We take any NRC concern very seriously
7 and the safety of our plant is our top priority. However, Mr. O'Connor
8 explains that these NRC activities do not reflect poor performance or safety at
9 the plant. Rather, we are continually working to rectify NRC concerns as well
10 as meet new and evolving NRC requirements. Overall, the plant is in a
11 healthy condition and the modifications made during the LCM/EPU Program
12 have positioned us well to provide an additional 20 years of service from this
13 plant.

14

15 **D. Regulatory Communications and Accounting**

16 Q. HOW DO YOU RESPOND TO MS. CAMPBELL'S TESTIMONY THAT THE COMPANY
17 DID NOT "COMMUNICATE ADEQUATELY WITH [THE] COMMISSION,
18 DEPARTMENT, AND INTERESTED PARTIES ABOUT THE HIGHER COSTS OF THE
19 MONTICELLO LCM/EPU AND, PARTICULARLY THE INCREASED COSTS OF THE
20 EPU"?¹⁹

21 A. While we believed we were providing the appropriate level of information at
22 the time, we regret that we did not meet the Department's expectations. More
23 generally, in some respects, the criticism is fair – it is always better to err on
24 the side of over-disclosure – but in some respects I believe it is a bit unfair.
25 As Mr. Alders discusses in more detail, our cost increases and Program

¹⁶ Campbell Direct at 34:5.

¹⁷ Campbell Direct at 4:15.

¹⁸ Campbell Direct at 3-6.

1 implementation difficulties were not an unknown fact between 2011 and the
2 present. Our 2011 rate case (Docket No. E002/GR-10-971) prominently
3 featured discussion of this point, even affecting the procedural schedule after
4 the evidentiary proceeding. We provided additional rate case updates in 2012
5 and 2013. In our 2012 rate case, we also committed to the current prudence
6 review and we thought that made it clear that we intended to be transparent
7 about the costs and difficulties we were facing.

8
9 Finally, I do not believe that this criticism impacts whether our costs were
10 appropriate, as I am not aware of any precedent that would justify translating
11 this issue into a material asset impairment.

12
13 Q. WHAT COMMENT DOES THE DEPARTMENT OFFER REGARDING ACCOUNTING
14 FOR THE PROGRAM?

15 A. Ms. Campbell suggests that the Company's "decision to include all of the costs
16 of the Monticello LCM/EPU Program estimated at \$346 million in a single
17 work order is not reasonable because doing so guarantees that the costs of the
18 two different projects are not transparent."²⁰ She says that because the
19 Company presented a separate EPU Certificate of Need, it should have treated
20 the LCM and EPU projects separately rather than accounting for them jointly
21 and overly complicating these proceedings.²¹

22
23 Q. DOES THE COMPANY AGREE WITH THIS COMMENT?

24 A. No, we respectfully disagree with Ms. Campbell on this point. First, we
25 accounted for the Program as an integrated initiative based on our conscious

¹⁹ Campbell Direct at 6:17-20.

²⁰ Campbell Direct at 20:9-11.

1 decision to implement the Program in that same manner. The premise of an
2 integrated Program was to replace old equipment that needed to be replaced
3 with newer equipment necessary to support the 20-year license extension as
4 well as the uprate. Thus, our modeling for the Certificate of Need included
5 the total cost with a portion assigned to the EPU. I do not see how we could
6 have implemented the Program otherwise without substantially expanding the
7 cost of the Program. In light of those important considerations, I do not
8 believe it would have been prudent to undertake LCM and EPU activities
9 separately on the grounds that the Commission required initial resource
10 modeling and a Certificate of Need for EPU but not LCM activities. Likewise,
11 it would not be appropriate to implement EPU and LCM projects separately
12 solely to make the accounting for the incurred costs separate or easier.

13
14 **IV. COST RECOVERY CONSIDERATIONS**

15
16 Q. PLEASE DESCRIBE THE DEPARTMENT'S PROPOSED OUTCOME FOR THIS
17 PROCEEDING.

18 A. Ms. Campbell's Direct Testimony and Recommendations 5, 6, 7 recommends
19 that the Company be disallowed \$71.42 million (Minnesota jurisdiction), or
20 approximately a \$10.713 million revenue requirement reduction based on
21 Mr. Shaw's economic conclusion that the EPU megawatts were not cost-
22 effective.²² Further, Ms. Campbell recommends that the disallowance be
23 reflected in 2015, and each year thereafter in reduced amounts due to
24 accumulating depreciation.²³ While Ms. Campbell notes that the Department
25 may support capping recovery of some Project costs at the total cost estimates

²¹ Campbell Direct at 19-20.
²² Campbell Direct at 27 and 35.

1 included in a Certificate of Need proceeding, she recommends against
2 imposing such a cap in this proceeding.²⁴

3
4 Q. PLEASE SUMMARIZE THE COMPANY'S POSITION WITH RESPECT TO THE
5 DEPARTMENT'S PROPOSED OUTCOME.

6 A. As noted earlier, I do not believe it is appropriate to assess the prudence of the
7 Company's actions based primarily on a retroactive view of the cost-
8 effectiveness of the final outcome. Although the Department agrees the
9 Program was cost-effective on a combined basis, the Department's proposed
10 disallowance depends upon an LCM/EPU split that does not recognize the
11 manner in which the Program was implemented or the combined nature of
12 Program benefits for our customers. Nor does it reflect the Company's
13 contemporaneous good faith estimate of a reasonable LCM/EPU split, but
14 instead applies after-the-fact hindsight to attempt to re-characterize the split.

15
16 In addition, it was our understanding that this prudence investigation would
17 assess our decisions and actions in the development, oversight and
18 implementation of the Program. I continue to believe that this is the correct
19 focus of this proceeding, and that the Company's decisions and actions do not
20 warrant a disallowance or impairment. Finally, the Company has concerns
21 over the magnitude of the proposed disallowance.

²³ Campbell Direct at 31:12-22.

²⁴ Campbell Direct at 22-27.

1 Q. WHAT ARE YOUR CONCERNS WITH THE MAGNITUDE OF THE DEPARTMENT'S
2 PROPOSED DISALLOWANCE?

3 A. I am concerned about the impact of the Department's proposal on the
4 financial health of the utility, particularly in light of the current record.
5 A significant disallowance without specific facts supporting imprudence or
6 harm could send a signal to our investors that our nuclear programs do not
7 have strong regulatory support in Minnesota. I am also concerned that the
8 Department's proposal signals a lack of full appreciation for the complexity of
9 these programs, and for the degree of resources necessary to ensure the
10 integrity and safety of nuclear facilities. The Department makes no mention
11 of the issues faced by other utilities and the fact that other regulatory
12 commissions, such as the Florida commission, allowed 100 percent recovery
13 of substantially similar cost increases.

14

15 Q. HOW WILL A DISALLOWANCE OF THE TYPE THE DEPARTMENT SUGGESTS
16 APPLY TO THE COMPANY?

17 A. I am concerned that a direct disallowance may have a compounding effect on
18 the Company. The Company has not included in rate base in prior cases all of
19 its investments that have gone in-service at Monticello. The current rate
20 proceeding includes the remaining investment in rate base as forecasted when
21 the current rate case was filed, but the regulatory treatment of the Monticello
22 asset in final rates will not be known until early 2015. If the Company is
23 ultimately not allowed to recover this amount in rates, we will not be kept
24 whole from this Program. A straight disallowance in this proceeding will
25 exacerbate that circumstance.

1 There are a number of interrelated reasons for that under-recovery, including
2 the timing of various modifications going in-service, the Commission’s ruling
3 on the “used and useful” issue in our last rate case, and the potential outcome
4 of the EPU issue in our current rate case. In addition, ultimate recovery may
5 be influenced by the Commission’s rate case orders. The Company has
6 assessed that it is possible we could under-recover for these investments
7 depending upon how the Commission treats our Monticello costs in future
8 rate cases.

9
10 I have attached as Exhibit ____ (DMS-1), Schedule 1, a spreadsheet prepared
11 by our revenue requirements area that provides our estimate of the level of
12 potential under-recovery. Regardless of the reasons, I believe it is important
13 for the Commission to take that fact into account when deciding whether to
14 impose a significant disallowance and impair an asset that is valuable to our
15 customers and the State.

16
17 Q. HOW DO YOU BELIEVE THE COMMISSION SHOULD MAKE A FINAL
18 DETERMINATION OF THE EXTENT TO WHICH ANY MANAGEMENT IMPRUDENCE
19 WOULD RESULT IN REDUCED COST RECOVERY?

20 A. Because we believe management prudence should be the focus of this
21 investigation, and because we do not believe that any unreasonable decision or
22 action by the Company contributed to a material avoidable cost increase, we
23 believe no material disallowance is warranted. As noted throughout the
24 Company’s Rebuttal Testimony, we continue to be uncomfortable with the
25 degree of hindsight embedded in the Department’s Direct Testimony.
26 We, therefore, encourage the Commission to assess whether our decisions and
27 actions were reasonable based on the facts and information known or

1 reasonably foreseeable at the time, rather than whether in hindsight other
2 alternatives might have had different results. Applying the appropriate
3 prudence standard, I support the reasonableness of our overall approach and
4 the conclusion that no material disallowance is warranted.

5 6 **V. CONCLUSION**

7
8 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

9 A. The Company remains aware of the importance of this investigation to our
10 customers and the Commission, as well as the potential impact on the
11 Company. We have taken great care to examine our decisions and actions
12 with respect to the Monticello LCM/EPU Program, understanding that there
13 are lessons to be learned from the undertaking, implementation, and
14 management of the Program. While we do not claim our performance was
15 perfect, our decisions and actions were reasonable under the circumstances we
16 faced at the time and resulted in little or no avoidable costs.

17
18 In addition, the Monticello facility has been brought into the modern age in a
19 safe manner, enabling us to provide the Plant's substantial reliable baseload
20 capacity to our customers until at least 2030. As the Department
21 acknowledges, the Program was overwhelmingly cost-effective on the
22 combined basis in which we implemented it. We therefore respectfully
23 request an outcome of this proceeding affirming our ultimate costs consistent
24 with our prudent course of action.

25
26 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

27 A. Yes.

Northern States Power Company
Monticello LCM/EPU Project
2009 through 2014

Page 1 of 1

Dollars in Thousands

<u>Year</u>	<u>Source</u>		<u>Annual Base Rate Recovery</u>	<u>Annual Rev. Req. Through 2014 (4)</u>	<u>Difference</u>
2009	No material additions included in case		\$ -	\$ 1,121	\$ 1,121
2010	No material additions included in case		\$ -	\$ 6,829	\$ 6,829
2011	2012 Monti-Excludes Property Tax	(3)	\$ 10,549		
	2010 Rev. Req. Not in 2011 Rainbow		\$ 6,829		
			\$ 17,378	\$ 18,378	\$ 999
2012					
	2012 Step Adjustment for Monti Property Taxes	(1)	\$ 14,945		
			\$ (1,460)		
	2012 Step without Property Taxes		\$ 13,485	\$ 34,542	\$ 3,679
2013		(2)	\$ 32,969	\$ 51,328	\$ 18,359
2014		(2)	\$ 75,040	\$ 78,470	\$ 3,430
Totals			\$ 156,250	\$ 190,667	\$ 34,417
	EPU Project Excluded from 2014 Test Year	(5)	\$ (31,284)	\$ -	\$ 31,284
Total Excluding EPU Project from 2014 Test Year			\$ 124,966	\$ 190,667	\$ 65,701

Source:

(1) Docket No. E002/GR-10-971 Final Rates Compliance Filing

(2) Includes the main Monticello project as quantified in Docket No. E002/GR-13-868, Exhibit ___ (AEH-1), Schedule 7, page 4 of 7 and the Oct. 2009 addition (page 3) not a part of the main project.

(3) S:\General-Offices-GO-01\RATE\Revenue Analysis\Annual\11BudYr1-3\Mn Elec Rate Case\Monti EPU\RAO Late Filed Testimony-Aug 2011May Only Rainbow CAA w CWIPV2 (new RWIP 50 percent bonus).xls recalculated at 10.37% ROE

(4) Includes actuals through July 2013 including both the main Monticello project (page 2) and the Oct. 2009 addition (page 3) not a part of the main project. These amounts reflect base data from the CAA JUR file before any MN State Regulatory Adjustments

(5) Docket No. E002/GR-13-868, Exhibit ___ (AEH-2), Schedule 12. This adjustment includes the Oct. 2009 addition.