

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN)
PUBLIC SERVICE COMPANY'S)
APPLICATION REQUESTING)
APPROVAL TO RETIRE AND)
ABANDON ITS PLANT X)
GENERATING STATION UNIT 1,) CASE NO. 18-00_____-UT
PLANT X GENERATING STATION)
UNIT 2, AND CUNNINGHAM)
GENERATING STATION UNIT 1, AND)
DETERMINATION OF RELATED)
RATEMAKING PRINCIPLES AND)
TREATMENT.)
)
SOUTHWESTERN PUBLIC SERVICE)
COMPANY,)
)
APPLICANT.)
)

DIRECT TESTIMONY

of

MELISSA L. OSTROM

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Commission	New Mexico Public Regulation Commission
Cunningham 1	Cunningham Generating Station Unit 1
O&M	Operation and Maintenance
Plant X 1	Plant X Generating Station Unit 1
Plant X 2	Plant X Generating Station Unit 2
SPS	Southwestern Public Service Company, a New Mexico corporation
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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of
Melissa L. Ostrom

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

3 A. My name is Melissa L. Ostrom. My business address is 401 Nicollet Mall,
4 Minneapolis, Minnesota 55401.

5 **Q. On whose behalf are you testifying in this proceeding?**

6 A. I am filing testimony on behalf of Southwestern Public Service Company, a New
7 Mexico corporation (“SPS”) and wholly-owned electric utility subsidiary of Xcel
8 Energy Inc. (“Xcel Energy”).

9 **Q. By whom are you employed and in what position?**

10 A. I am employed by Xcel Energy Services Inc. (“XES”), a wholly-owned subsidiary
11 of Xcel Energy, as Director of Capital Asset Accounting.

12 **Q. Please briefly outline your responsibilities as Director of Capital Asset**
13 **Accounting.**

14 A. As Director of Capital Asset Accounting, I am responsible for and oversee the
15 overall capital asset accounting policies, the day-to-day maintenance of accounting
16 and tax records for capital assets, and the related reporting and regulatory
17 requirements for Xcel Energy and its subsidiaries. Specifically, my duties include:

- 18 • establishing corporate capitalization policies for the development,
19 enhancement, and maintenance of the Corporate Continuing Property

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1 Record process for all of the plant assets of Xcel Energy and its
2 subsidiaries;

- 3 • managing the capital investment cost recovery process, which includes
4 the development of detailed actuarial analysis, regulatory filings with
5 the various state and federal rate regulatory commissions, and expert
6 testimony to support recovery levels in rate proceedings;
- 7 • directing the nuclear plant decommissioning funding process, which
8 includes the development of detailed engineering cost studies combined
9 with a complete financial and economic analysis to develop detailed
10 regulatory filings to establish the ratepayer funding levels necessary to
11 accumulate the total future decommissioning cost requirement;
- 12 • overseeing the development of corporate income tax deductions related
13 to accelerated income tax depreciation expenses and providing for the
14 computation and support of deferred income taxes, which normalize the
15 impact of these accelerated deductions for ratemaking and book
16 accounting purposes;
- 17 • assisting with the plant asset-related ratemaking process, which
18 supports the rate filings for all of the Xcel Energy Operating
19 Companies' retail and wholesale jurisdictions; and
- 20 • overseeing capital asset reporting and information processing necessary
21 to disseminate capital asset information as required by various
22 regulatory authorities (the Federal Energy Regulatory Commission, the
23 Securities and Exchange Commission, and state commissions) as well
24 as meeting all internal information requirements necessary to sustain
25 efficient and effective business operations.

26 **Q. Please describe your educational background.**

27 A. I obtained a Bachelor of Business Administration degree with an Accounting Major
28 from the University of Wisconsin – Madison in May 2006. In May 2007, I also

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1 received a Master of Accountancy degree from the University of Wisconsin –
2 Madison.

3 **Q. Please describe your professional experience.**

4 A. I began my professional career with Deloitte & Touche, LLP in 2007 as an Audit
5 & Assurance Associate. In 2009, I was promoted to Audit & Assurance Senior. In
6 2010, I began working for XES as a Senior Accounting Analyst in the Sarbanes-
7 Oxley Management Office, Corporate Accounting, and External Reporting
8 departments. I held that position until 2012, when I was promoted to Manager of
9 Budgeting and Forecasting for Energy Supply Finance. In 2013, I began a position
10 as Manager, Capital Asset Accounting. I held that position until 2016, when I
11 assumed my current position.

12 **Q. Do you hold any professional licenses?**

13 A. Yes. I currently hold an inactive license as a Certified Public Accountant in the
14 State of Minnesota.

15 **Q. Are you a member of any professional organizations?**

16 A. Yes. I am a member of the Edison Electric Institute Property Accounting and
17 Valuation Committee.

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1 **Q. Have you filed testimony before any regulatory authority?**

2 A. Yes. I submitted pre-filed testimony on SPS's behalf to the New Mexico Public
3 Regulation Commission ("Commission") regarding capital asset accounting,
4 depreciation, and deferred tax issues in Case Nos. 17-00255-UT and 16-00269-UT.
5 I have also submitted pre-filed testimony to the Public Utility Commission of Texas
6 on SPS's behalf on several occasions on the same issues. Finally, I have submitted
7 pre-filed testimony to the Colorado Public Utilities Commission on behalf of Public
8 Service Company of Colorado.

II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. What is your assignment in this proceeding?

A. My testimony will discuss the following topics:

- the total plant investment in Plant X Generating Station Unit 1 (“Plant X 1”), Plant X Generating Station Unit 2 (“Plant X 2”), and Cunningham Generating Station Unit 1 (“Cunningham 1”);
- the estimated costs to decommission those units and to dismantle parts of them;
- the accumulated reserve collected through September 30, 2018 for each unit;
- the expected accumulated reserve as of the requested retirement date for each unit; and
- SPS’s proposal that the Commission issue an order authorizing SPS to:
 - (1) record and recover the remaining, unrecovered net plant balance and estimated dismantling costs of each unit at the time of retirement and to include that amount in the base rates established in SPS’s next base rate case;
 - (2) record in a deferred account the difference between actual and estimated decommissioning and dismantling costs for each of the three units after completion of actual dismantling activities; and
 - (3) after the three units are fully decommissioned and dismantled, either recover the deferred balance from customers if it is a regulatory asset, or return the balance to customers if it is a regulatory liability.

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1 **Q. Please summarize the conclusions and recommendations in your testimony.**

2 A. As of the requested retirement date of each unit, SPS projects the following
3 unrecovered plant balance for each unit:

4 **Table MLO-1**

	Requested Retirement Date	Total Company Amount	New Mexico Retail Amount¹
Cunningham 1	December 31, 2019	\$ 2,161,580	\$ 477,724
Plant X 1	December 31, 2019	\$ 513,722	\$ 113,536
Plant X 2	December 31, 2020	\$ 5,404	\$ 1,194

5 I recommend that the Commission authorize SPS to record and recover the
6 unrecovered net plant balance of each unit at the time of retirement and to include
7 that amount in the base rates established in the next SPS base rate case. As I will
8 explain, the unrecovered net plant investment is far lower than the incremental
9 capital costs and operation and maintenance (“O&M”) expense that SPS would
10 incur if it were to continue operating those units past the retirement dates requested
11 in SPS’s application.

¹ The New Mexico retail amounts are based on the 12 Coincident Peak-Production jurisdictional allocator approved in Case No. 17-00255-UT.

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1 I also recommend that the Commission allow SPS to record in a deferred
2 account the difference between estimated and actual decommissioning and
3 dismantling costs for Plant X 1, Plant X 2, and Cunningham 1. Finally, after the
4 units have been fully decommissioned and dismantled, I recommend that the
5 Commission allow SPS to recover the deferred balance from customers if it is a
6 regulatory asset, or return the deferred balance to customers if it is a regulatory
7 liability.

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1 **III. REMAINING NET PLANT BALANCES**

2 **Q. What is the purpose of this section of your testimony?**

3 A. In this section of my testimony, I present the net unrecovered balance of
4 Cunningham 1, Plant X 1, and Plant X 2 as of September 30, 2018, as well as the
5 projected remaining balance for each unit at each unit's requested retirement date.

6 **Q. How did you calculate the net unrecovered plant balance as of September 30,**
7 **2018?**

8 A. I present the net unrecovered plant balance as of September 30, 2018, by unit, in
9 Tables MLO-2, MLO-3, and MLO-4 below. Each table presents the total company
10 amount and the New Mexico retail amount for each number presented.

11 At a high level, the net unrecovered plant balance for each plant (Line No. 7
12 of each table) is the total original plant investment (Line No. 3 of each table) plus
13 an estimated dismantling cost (Line No. 4 of each table) minus the amount that SPS
14 has recovered through depreciation expense (Line No. 6 of each table).

15 **Q. Has SPS fully recovered the original investments of Cunningham 1, Plant X 1,**
16 **or Plant X 2?**

17 A. No. As indicated in Line No. 7 of Tables MLO-2, MLO-3, and MLO-4, as of
18 September 30, 2018, SPS has a net unrecovered investment for each plant.

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1 **Q. Will SPS have fully recovered its investment in each unit at the requested**
2 **retirement date?**

3 **A.** No. As shown in Line No. 8 of Tables MLO-2, MLO-3, and MLO-4, additional
4 depreciation expense will increase the Accumulated Depreciation Reserve Balance
5 prior to actual plant retirement. This normal depreciation activity will reduce the
6 unrecovered investment in each plant at its retirement, but as shown in Line No. 9
7 in each of the tables below, SPS anticipates that even after normal depreciation
8 accruals, there will still be an unrecovered balance for each of the plants.

Table MLO-2

1.	Cunningham 1		
2.		Total Company	New Mexico Retail
3.	Plant Investment	\$ 17,979,213	\$ 3,973,532
4.	Dismantling Cost Estimate	\$ 1,969,527	\$ 435,279
5.	Total to be Recovered	\$ 19,948,740	\$ 4,408,811
6.	Accumulated Depreciation Reserve Balance as of September 30, 2018	\$ 17,012,244	\$ 3,759,825
7.	Net Unrecovered Plant Balance as of September 30, 2018	\$ 2,936,496	\$ 648,986
8.	Estimated Incremental Accumulated Depreciation Reserve Balance through December 31, 2019	\$ 774,916	\$ 171,262
9.	Expected Net Unrecovered Plant Balance at December 31, 2019	\$ 2,161,580	\$ 477,724

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Table MLO-3

1.	Plant X 1		
2.		Total Company	New Mexico Retail
3.	Plant Investment	\$ 12,945,486	\$ 2,861,043
4.	Dismantling Cost Estimate	\$ 2,253,238	\$ 497,981
5.	Total to be Recovered	\$ 15,198,724	\$ 3,359,024
6.	Accumulated Depreciation Reserve Balance as of September 30, 2018	\$ 14,560,045	\$ 3,217,872
7.	Net Unrecovered Plant Balance as of September 30, 2018	\$ 638,679	\$ 141,153
8.	Estimated Incremental Accumulated Depreciation Reserve Balance through December 31, 2019	\$ 124,957	\$ 27,616
9.	Expected Net Unrecovered Plant Balance at December 31, 2019	\$ 513,722	\$ 113,536

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Table MLO-4

1.	Plant X 2		
2.		Total Company	New Mexico Retail
3.	Plant Investment	\$ 24,620,939	\$ 5,441,400
4.	Dismantling Cost Estimate	\$ 4,412,026	\$ 975,089
5.	Total to be Recovered	\$ 29,032,965	\$ 6,416,488
6.	Accumulated Depreciation Reserve Balance as of September 30, 2018	\$ 28,187,285	\$ 6,229,587
7.	Net Unrecovered Plant Balance as of September 30, 2018	\$ 845,680	\$ 186,901
8.	Estimated Incremental Accumulated Depreciation Reserve Balance through December 31, 2020	\$ 840,276	\$ 185,707
9.	Expected Net Unrecovered Plant Balance at December 31, 2020	\$ 5,404	\$ 1,194

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1 **Q. Why does SPS collect depreciation expense?**

2 A. Depreciation rates are established to recover the original cost of an investment as
3 well as eventual dismantling costs over an investment's estimated useful life. The
4 objective of computing depreciation is to help ensure that those customers who
5 benefit from the use of the asset while it is in service pay their pro rata share for the
6 investment, including dismantling costs.

7 **Q. In what case did the Commission approve SPS's current depreciation rates**
8 **and dismantling estimates?**

9 A. SPS's current depreciation rates, including dismantling estimates incorporated into
10 the net salvage percentages used in the currently approved depreciation rates, were
11 presented and accepted by the Commission in Case No. 12-00350-UT.² The parties
12 agreed to maintain those depreciation rates as part of the settlement of Case No.
13 15-00296-UT, which the Commission approved.³ Those same depreciation rates

² *In the Matter of Southwestern Public Service Company's Application for Revision of Its Retail Electric Rates Under Advice Notice No. 245*, Case No. 12-00350-UT, Recommended Decision at 185 (Jan. 23, 2014) (approving service lives proposed by SPS) and Final Order Partially Adopting Recommended Decision (Mar. 26, 2014).

³ *See In the Matter of Southwestern Public Service Company's Application for Revision of Its Retail Electric Rates Under Advice Notice No. 256*, Case No. 15-00296-UT, Certification of Stipulation at 24 (Jul. 22, 2016) and Final Order Adopting Certification of Stipulation with Modification (Aug. 10, 2016).

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1 were maintained by the final order issued in Case No. 17-00255-UT, SPS's most
2 recently completed base rate case.⁴

3 **Q. Why will there be unrecovered balances at a plant's expected retirement?**

4 A. In general, it is typical to have some amount of unrecovered plant balance at a
5 plant's expected retirement date due to the way depreciation rates are calculated.
6 The depreciation rate is calculated based on a net plant value divided by the
7 remaining life at a point in time. Any plant additions that occur after the
8 depreciation rate is set will increase the net plant value remaining to be recovered
9 and therefore the established rate will no longer be sufficient to ensure full recovery
10 by the end of the expected remaining life. Accordingly, there will likely be some
11 unrecovered plant amount at the time of retirement because the depreciation rates
12 were not calculated to include that additional investment. Similarly, any change to
13 the expected remaining life from that used to establish the depreciation rates will
14 also result in either an under- or over-recovery of the plant amount if the retirement
15 date is earlier or later than previously expected.

⁴ See *In the Matter of Southwester Public Service Company's Application for Revision of Its Retail Rates Under Advice Notice No. 272*, Case No. 17-00255-UT, Recommended Decision at 146 (Jun. 29, 2018) and Final Order Adopting Recommended Decision with Modification at 2 (Sep. 5, 2018).

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1 **IV. RECOVERY OF REMAINING NET PLANT BALANCES**

2 **Q. In this filing, is SPS requesting recovery of the remaining unrecovered**
3 **investment relating to Plant X 1, Plant X 2, or Cunningham 1?**

4 A. Yes. In this case, SPS seeks a Commission order authorizing recovery of the
5 remaining net plant balance of each unit as of the date of that unit's retirement.
6 Then, in the New Mexico base rate case that SPS plans to file in 2019, SPS will
7 seek Commission approval to include in base rates the amount of unrecovered net
8 plant investment approved in this case for those three units.

9 **Q. How does the unrecovered net plant balance for each unit compare to the**
10 **incremental capital and O&M costs that SPS would incur if the plants were to**
11 **remain in operation past the retirement dates proposed by SPS?**

12 A. SPS witness Randy J. Larson's direct testimony quantifies the incremental capital
13 and O&M costs that would be necessary to continue operating the three units
14 beyond the dates proposed by SPS for retirement of those units. My Table MLO-
15 5 compares the difference between the capital and O&M costs quantified by Mr.
16 Larson and the unrecovered net plant balance of each unit.

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Table MLO-5

Unit	Unrecovered Net Plant Investment at Retirement Date (New Mexico Retail)	Incremental Capital and O&M Costs (New Mexico Retail)
Cunningham 1	\$477,724	\$3,436,658 ⁵
Plant X 1	\$113,536	\$855,000 ⁶
Plant X 2	\$1,194	\$1,323,000 ⁷

As Table MLO-5 demonstrates, the unrecovered net plant investment is far lower than the incremental capital and O&M costs that would be necessary to continue operating Cunningham 1, Plant X 1, and Plant X 2 through 2022.

⁵ This amount is composed of \$166,000 that would be incurred for ordinary-course-of-business O&M costs, the \$2,875,058 of capital costs identified in Mr. Larson's Table RJJ-3 for the overhaul of Cunningham 1, and the \$395,600 of incremental O&M costs identified in his Table RJJ-2 for the overhaul of Cunningham 1.

⁶ This amount is composed of \$99,000 of ordinary-course-of-business O&M, \$619,000 of capital costs for the 2020 overhaul, and \$137,000 of O&M costs associated with the 2020 overhaul. This amount is conservative because it does not include the additional capital expenditures for cooling tower drift eliminators and pressure relief valves, nor does it include amounts for subsequent maintenance overhauls. Please refer to pages 18-19 of Mr. Larson's testimony.

⁷ This amount is composed of \$66,000 of ordinary-course-of-business O&M, \$1,100,000 of capital costs for the 2020 overhaul, and \$157,000 of O&M costs associated with the 2020 overhaul. This amount is conservative because it does not include the additional capital expenditures for cooling tower drift eliminators and pressure relief valves, nor does it include amounts for subsequent maintenance overhauls. Please refer to pages 18-19 of Mr. Larson's testimony.

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1 **V. RECOVERY OF DECOMMISSIONING AND DISMANTLING COSTS**

2 **Q. What do you discuss in this section of your testimony?**

3 A. In this section, I describe SPS's request with respect to the recovery of
4 decommissioning and dismantling costs associated with Plant X 1, Plant X 2, and
5 Cunningham 1.

6 **Q. Do SPS's current depreciation rates include any amounts that are intended to**
7 **recover decommissioning and dismantling costs?**

8 A. Yes. The depreciation rates established by the Commission in prior cases have
9 included a provision for estimated decommissioning and dismantling costs.
10 However, the actual decommissioning and dismantling costs may be higher or
11 lower than the estimated costs.

12 **Q. Is SPS proposing to completely dismantle Plant X 1, Plant X 2, and**
13 **Cunningham 1 as soon as they are decommissioned?**

14 A. No. As Mr. Larson explains in his testimony, even if the Commission authorizes
15 those three units to be retired on the dates requested in the application, the
16 remaining units at the Plant X Generating Station and Cunningham Generating
17 Station will continue to operate for several more years. Because it is more efficient
18 to dismantle all of the units at one time than to dismantle them piecemeal, Plant X 1,
19 Plant X 2, and Cunningham 1 will not be dismantled for several years.

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1 **Q. What is SPS requesting in this case with respect to the decommissioning and**
2 **dismantling costs?**

3 A. SPS requests that the Commission allow SPS to record in a deferred account the
4 difference between the estimated decommissioning and dismantling costs and the
5 actual decommissioning and dismantling costs. In a proceeding that occurs after
6 all of the Plant X Generating Station and Cunningham Station units are dismantled,
7 SPS will ask for recovery of the amount from customers if it is a regulatory asset
8 or will ask for permission to credit the amount to customers if it is a regulatory
9 liability.

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1 **VI. CONCLUSION**

2 **Q. Please summarize the relief that SPS seeks in this case with respect to the**
3 **remaining plant investment and the decommissioning and dismantling costs.**

4 A. SPS requests that the Commission issue a final order authorizing SPS to:

5 (1) record and recover the remaining, unrecovered net plant balance of each
6 unit at the time of retirement and to include that amount in the base rates
7 established in SPS's next base rate case;

8 (2) record in a deferred account the difference between actual and estimated
9 decommissioning and dismantling costs for each of the three units; and

10 (3) after the three units are fully decommissioned and dismantled, either
11 recover the deferred balance from customers if it is a regulatory asset, or
12 return the balance to customers if it is a regulatory liability.

13 **Q. Is SPS asking the Commission to issue a final order in this case by any**
14 **particular time?**

15 A. Yes. SPS respectfully requests that the Commission issue a final order in this case
16 no later than April 15, 2019. SPS is planning to file a base rate case in New Mexico
17 in summer 2019, and as part of that rate case SPS will present a new depreciation
18 study. If Plant X 1 and Cunningham 1 remain in service beyond the end of 2019,
19 and Plant X 2 remains in service beyond 2020, SPS will need to request
20 depreciation rates for them as part of the depreciation study. On the other hand, if
21 Plant X 1 and Cunningham 1 are to be retired at the end of 2019 and Plant X 2 at

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1 the end of 2020, new rates need not be requested in the depreciation study, and the
2 Commission need not address the issue of proper depreciation rates for them.

3 **Q. Does this conclude your pre-filed direct testimony?**

4 A. Yes.

VERIFICATION

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

MELISSA L. OSTROM, first being sworn on her oath, states:

I am the witness identified in the preceding testimony. I have read the direct testimony and am familiar with its contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.



MELISSA L. OSTROM

SUBSCRIBED AND SWORN TO before me this 23 day of October, 2018.



Notary Public of the State of Minnesota
My Commission Expires: 1/31/2023

