BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY DBA XCEL ENERGY FOR AUTHORITY TO INCREASE ITS ELECTRIC RATES
DOCKET EL12-046

TESTIMONY AND EXHIBITS OF PATRICK J. STEFFENSEN
ON BEHALF OF THE COMMISSION STAFF
NOVEMBER 15, 2012

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

Northern States Power Company, dba Xcel Energy
Docket EL12-046

Testimony and Exhibits of Patrick J. Steffensen
On Behalf of Commission Staff

November 15, 2012

**Q. Please state your name, business address, and current position.**

A. My name is Patrick J. Steffensen and my business address is South Dakota Public Utilities Commission, State Capitol Building, 500 East Capitol Ave., Pierre, South Dakota 57501. I am presently employed as a utility analyst with the Public Utilities Commission.

**Q. Please describe your educational background and experience.**

A. I have been with the Public Utilities Commission since February of 2012. I received a Bachelor of Science Degree in Business Economics and Economics from South Dakota State University in May of 1999 and a Master of Business Administration from the University of South Dakota in December of 2010. I have attended a number of seminars and workshops on utility related matters during my employment with the Commission.

**Q. Are you familiar with Northern States Power Company D/B/A Xcel Energy's ("NSP" or "Company") application for an increase in electric rates in South Dakota, Docket No. EL12-046?**

A. Yes. I have reviewed the Company's prefiled testimony, exhibits, working papers, and data responses supplied by NSP as it pertains to the issues that I am addressing.

**Q. What is your role in this docket?**

A. I will present testimony addressing the following revenue requirement issues: 1. Private Fuel Storage Amortization 2. $SO_2$ Emission Amortization 3. Vegetation

Management Expense 4. Claims and Injury Compensation 5. Storm Damage Expense 6. Aviation Expense 7. Employee Expense Reduction 8. Docket EL12-046 Rate Case Expense.

## DOCKET EL09-009 AMORTIZATIONS

**Q. Please explain NSP's ratemaking treatment of the amortizations authorized by the Commission in Docket EL09-009.**

A. In the Settlement Stipulation approved in Docket EL09-009, the Commission authorized a six year amortization period for the Private Spent Fuel Storage Facility and a five year amortization period for $SO_2$ emission allowance sales. These costs have not been fully amortized, and the Company requests to retain the existing amortization period and include the annual amortization expense as stipulated.

**Q. Do you agree with NSP's ratemaking treatment of the amortizations?**

A. Yes. I agree with the expenses included in the cost of service and the amounts included as a component of other rate base. The Company has made adjustments to include the average unamortized balance as a component of other rate base as indicated in the Settlement Stipulation approved in Docket EL09-009.

## VEGETATION MANAGEMENT EXPENSE

**Q. Do you agree with NSP's ratemaking treatment for the vegetation management adjustment?**

A. The Company proposes to normalize vegetation management expense using a five year average of actual expenses from 2007 through 2011, because these expenses fluctuate widely from year to year. Five year normalization periods are consistent with the methods approved in Dockets EL09-009 and EL11-019 for these expenses. Staff agrees with this method and accepts the revised adjustment provided in response to data request 2-14, updating the jurisdictional allocation factor from 2010 to 2011. The details for this adjustment can be found on page 5 of Staff Exhibit__(PJS-1), Schedule 2.

## CLAIMS AND INJURY COMPENSATION

**Q. Do you agree with NSP's ratemaking treatment for the claims and injury compensation adjustment?**

A. The Company proposed to normalize claims and injury compensation expense using a five year average of actual expenses from 2007 through 2011, because these expenses fluctuate widely from year to year. However, an error in accounting practices was found during the discovery process.

**Q. Please explain.**

A. The Company's insurance premium expense is recorded in FERC accounts 924, 925, and 926 and reflected in the 2011 test year expenses. The claims for these types of damages are paid in full by NSP's insurance carrier with zero associated deductibles or out-of-pocket costs. Since these expenses are paid by the insurer and are not included in the test year cost of service, no adjustment should be made for claims and injury compensation.

## STORM DAMAGE EXPENSE

**Q. Do you agree with NSP's ratemaking treatment for the storm damage adjustment?**

A. The Company proposes to normalize storm damage expense using a five year average of actual expenses from 2007 through 2011, because these expenses fluctuate widely from year to year. A five year normalization period is consistent with the methods approved in Dockets EL09-009 and EL11-019 for these expenses. Staff agrees with this method and the associated adjustment.

## AVIATION EXPENSE

**Q. What does NSP propose for an aviation expense adjustment in this case?**

A. NSP proposes to an adjustment to decrease test year aviation expenses by 50%. This adjustment is consistent with the aviation expense adjustment approved in Docket EL11-019.

**Q. Did you review the ratemaking treatment of NSP's aviation expense in other jurisdictions?**

A. Yes. The North Dakota PSC and Minnesota PUC approved similar 50% disallowances in the most recent NSP rate cases. The 50% disallowance essentially removed the cost of one of the two aircraft, and Company witnesses provided testimony in those jurisdictions that claimed the adjustment resulted in "a conservative cost in relation to the benefits obtained".

**Q. Are you familiar with the Company's proceeding in Colorado where 100 percent of aviation expenses were disallowed?**

A. Yes. Staff answer testimony from Abel Moreno indicated Colorado PUC staff performed a prudence review which uncovered some troubling aircraft usage. In one instance, a Company employee flew roundtrip from St. Paul to Denver to "manage conference rooms". Colorado PUC staff also discovered two executives who routinely use corporate jets to "commute" to work in St. Paul. One executive resides in Boulder, Colorado and flew roundtrip from Denver to St. Paul 49 out of 52 weeks in 2011. The other executive resides in Denver and flew roundtrip from Denver to St. Paul 40 out of 52 weeks in 2011.

**Q. Would you classify these executives' flights as "commuting" in nature?**

A. Not necessarily. Mr. Moreno's testimony goes on to state that the typical trip departed on Monday and returned on Wednesday. An email from Debra Paulson on November 12, 2012 provided in Staff Exhibit___(PJS-1), Schedule 3, page 1 indicates these two executives spent the remainder of these weeks in 2011 working in the Denver office. Thus, with the need for these two employees to be at both locations during the work week, it is unfair to classify these trips as purely "commuting". The Company operates in eight states with substantial business operations in Minneapolis and Denver, and executive travel between the two locations is necessary to facilitate management of staff and operations throughout their jurisdictions.

Furthermore, these airline miles logged between the cities of Denver and St. Paul represent a small percentage of total test year airline miles. According to a flight log received from Debra Paulson in an email on November 14, 2012 provided in Staff Exhibit___(PJS-1), Schedule 4, page 4, total airline miles logged in the 2011 test year equaled 445,261, and a trip between Denver and St. Paul is 614 miles. Even if this trip was made all 52 weeks of the year, these "commuting" trips would only result in 63,856 miles (614x2x52) or 14.3% (63,856/445,261) of the total test year miles flown.

**Q. What percentage of the total Company aviation expenses get paid by South Dakota ratepayers?**

A. Total Company aviation expenses for the test year totaled $5,629,710, containing $2,174,258 or 39% allocated to NSP-MN. This can be broken out even further to obtain $1,994,950, or 35.4% of the total, allocated to NSP-MN Electric, and $116,599, or 2.1%, allocated to the South Dakota jurisdiction. Thus, after the 50% adjustment, South Dakota ratepayers are paying for roughly one percent of the total Company aviation expense. See Staff Exhibit___(PJS-1), Schedule 3, page 3 for a full breakdown of these allocations.

**Q. Assuming air travel is a necessity, has the Company analyzed the comparative costs of commercial travel against its current practice of leasing private jets?**

A. Yes, the Company has performed an analysis of the comparative costs of commercial air travel, and its study can be found in Staff Exhibit___(PJS-1), Schedule 5. Page 18 of this schedule indicates that when you include the opportunity cost of lost labor while traveling, the costs of private jets exceeded the cost of commercial air travel by $2,261,252 for the test year. According to the matrix provided in Staff Exhibit___(PJS-1), Schedule 4, page 3, this excess cost represents 32.3% (2,261,252/7,001,623) of the total test year costs for leased corporate jet travel. While this analysis includes arbitrary costs of labor in the calculations, it is noted that the Value per Man-Hour (VMH) factor used in the calculations is believed by the Company to be conservative. Even though page 7 of this schedule depicts appropriate VMH factors in the 3.8 to 5.7 range, depending on salary level, the Company uses a VMH factor of 2.0 in their calculations.

**Q. Do you agree with NSP's aviation expense adjustment?**

A. Yes. The adjustment to remove 50% of actual expenses from the cost of service is consistent with the decision approved in Docket EL11-019 and is sufficient to: 1) assure personal aircraft travel has been removed from rates, and 2) account for the excess dollars the Company is spending on leased private jets over and above what would be spent on commercial air travel.

## EMPLOYEE EXPENSE REDUCTION

**Q. Do you agree with NSP's adjustment to reduce employee expenses?**

A. Yes. The Company has an acceptable methodology to uncover employee expenses which are social in nature and should be recorded below the line but were not.

## DOCKET EL12-046 RATE CASE EXPENSE

**Q. Please explain the Company's adjustment for rate case expenses associated with EL12-046.**

A. NSP is requesting allowance of projected rate case expenses of $408,000 amortized over three years with half the expenses included in rate base.

**Q. Do you agree with NSP's proposal?**

A. Staff agrees with the inclusion of half the expenses in rate base; however, disagrees with the allowance of projected expenses and the three year amortization period. Staff recommends a two year amortization period and inclusion of actual known and measureable expenses which include Commission costs accrued through October 31, 2012 and other actual costs accrued through August 31, 2012 provided in Attachment A to Data Request 4-2. NSP may update these costs during the proceeding. The details for this adjustment can be found on Staff Exhibit___(PJS-1), Schedule 1.

**Q. Why does Staff recommend a two year amortization period opposed to the three year period proposed by NSP?**

A. NSP has filed for rate increases in three of the past four years and has stated in their application that they intend to file again in 2013. Thus, a two year amortization is more appropriate when based on actual time between rate cases. This shorter amortization period should do a better job of matching expenses across time periods. I would further recommend that the Docket EL12-046 rate case costs be included in the tracking mechanism established in Docket EL11-019. The tracking mechanism ensures the Company neither over recovers nor under recovers these costs.

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

A. Yes.