

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION OF
PUBLIC SERVICE COMPANY OF COLORADO FOR)
APPROVAL OF THE POWER PURCHASE)
AGREEMENT FOR 118.8 MW OF NATURAL GAS)
GENERATION, EARLY RETIREMENT OF)
ARAPAHOE UNIT 4, AND A GAS SALES)
AGREEMENT)

DOCKET NO. 12A-XXXE

DIRECT TESTIMONY OF LISA H. PERKETT

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

July 5, 2012

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DIRECT TESTIMONY OF LISA H. PERKETT

1 **I. INTRODUCTION AND PURPOSE**

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

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

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

6 A. I am employed by Xcel Energy Services, Inc., a wholly-owned subsidiary of
7 Xcel Energy Inc., the parent company of Public Service Company of Colorado
8 ("Public Service" or the "Company"). My position is Director, Capital Asset
9 Accounting.

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

11 A. I am testifying on behalf of Public Service.

12 **Q. HAVE YOU INCLUDED A DESCRIPTION OF YOUR QUALIFICATIONS,
13 DUTIES, AND RESPONSIBILITIES?**

1 A. Yes. A description of my qualifications, duties, and responsibilities is included
2 as Attachment A.

3 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

4 A. I will discuss the current life used for book depreciation purposes for
5 Arapahoe Unit 4 (“Arapahoe 4”) and common plant and then will explain the
6 accounting treatment for the remaining unrecovered investment and removal
7 costs associated with the early retirement and decommissioning of Arapahoe
8 4 until the next electric rate case.

9 **Q. ARE YOU PROPOSING TO DECOMMISSION ARAPAHOE UNIT 4 IN THIS**
10 **PROCEEDING?**

11 A. No. In this proceeding, we are only seeking approval to retire Arapahoe 4
12 from operation. If the Commission approves retirement, we will begin to
13 account for the remaining investment differently than the way that we account
14 for the asset today. I will explain that later in my testimony.

15 **II. CURRENT STATUS**

16 **Q. HOW DOES THE COMPANY RECOVER THE COST ASSOCIATED WITH**
17 **AN ASSET SUCH AS ARAPAHOE 4?**

18 A. The Company separately tracks the recovery of the plant investment from the
19 cost of removal of the power plant. When the decision is made to retire a
20 production unit, the two parts continue to be tracked. The two parts are as
21 follows:

- 22 • Unrecovered plant investment costs. This is the original plant
23 investment plus on-going investment less the accumulated

1 depreciation associated with this investment, not including
2 accumulated depreciation for estimated net salvage.

3 • Accumulated depreciation associated with the recovery for cost
4 of removal that was included in the depreciation rate, also
5 known as the net salvage rate (estimated cost of removal less
6 gross salvage as a percent of plant). For financial purposes, the
7 accumulated depreciation for removal is recorded in a
8 regulatory liability that is converted back to accumulated
9 depreciation for regulatory presentation.

10 **Q. HAS THE COMMISSION ADDRESSED THIS MATTER BEFORE RELATIVE**
11 **TO RETIREMENT OF ARAPAHOE UNIT 4?**

12 A. The Commission addressed this issue specifically as it relates to Arapahoe 4
13 in Decision No. C09-1446 ¶ 119. We have included the common assets at
14 Arapahoe Station together with Arapahoe 4 since these assets will follow the
15 accounting treatment of Arapahoe 4 and retire at the same time. The
16 Company is currently using the same accounting methodology for Cameo
17 station, Cherokee Unit 1, and Cherokee Unit 2. As discussed in the
18 Settlement Agreement in Docket No. 09AL-299E, Public Service defined the
19 method for deferred accounting for early retirement of a production facility.
20 Also as discussed Decision No. C10-1328 ¶ 194, Public Service, in its
21 November 15, 2010 supplemental rebuttal testimony in Docket No. 10M-
22 245E, proposed deferred accounting for the accelerated depreciation and
23 removal costs as follows:

- 1 i. Public Service shall create and/or adjust a regulatory asset or liability
2 for each plant by an amount equal to the difference between:
3 1. The level of depreciation expenses using the removal cost and
4 depreciation currently recovered through base rates for each
5 retired plant; and
6 2. The level of depreciation and removal costs estimated to be
7 recognized by the Company in accordance with Generally
8 Accepted Accounting Principles (“GAAP”); and
9 ii. Public Service shall recover a return of and a return on such
10 regulatory asset or refund of any regulatory liability balance through
11 base rates in the next general rate case.

12 The Colorado Public Utilities Commission (“CPUC”) approved such accounting
13 treatment in Decision Nos. C09-1446 and C10-1328.

14 **Q. WHAT IS COMMON PLANT AND HOW ARE COMMON PLANT COSTS**
15 **RECOVERED?**

16 A. In general, common plant consists of the assets that are related to multiple
17 units at a single generating station. The common plant retires when the last
18 unit at a generating station retires (currently Arapahoe 4 in this case).
19 Accounting for the recovery of remaining common plant will follow the
20 accounting for the last unit retired. Typical common plant are the structures
21 housing the equipment, warehouses, and any systems such as heating and
22 air conditioning that is installed in these structures.

23 **Q. WHAT IS THE CURRENT TERMINAL RETIREMENT DATE USED IN THE**
24 **DEPRECIATION RATE FOR ARAPAHOE 4?**

25 A. The current terminal retirement date in the approved depreciation rate is
26 through the end of 2015.

1 **Q. IS THE CURRENT RATE FOR RECOVERY OF THE REMAINING**
2 **UNDEPRECIATED INVESTMENT SUFFICIENT TO FULLY DEPRECIATE**
3 **THE PLANT BY THE END OF 2013 OR EVEN 2015?**

4 A. No. The Company last updated the depreciation rate for Arapahoe 4 in
5 Docket No. 06S-234EG. Since then, the Company has filed new depreciation
6 rates in Dockets No. 09AL-299E and 11AL-947E, but in settlements approved
7 by the Commission, the Company kept the depreciation amounts recovered in
8 rates unchanged from the rates approved in Docket No. 06S-234EG. The
9 same thing is true for the Cost of Removal (“COR”) in that it has not been
10 updated since 2006. The result is that three things are not up to date:

- 11 1. A book depreciation rate sufficient to recover current investment
12 by the current terminal retirement date (2015)
- 13 2. An updated net salvage rate to recover the cost of removal for
14 the plant; and
- 15 3. Changing the life to be consistent with the Commission’s order
16 in Docket No. 10M-245E.

17 Items one and two are likely to result in a need to increase the
18 depreciation rate and item three would increase the life from 2015 to 2023,
19 allowing more time to recover the costs.

20 **Q. DOES THE COMMISSION NEED TO RESOLVE THESE MATTERS IN THIS**
21 **DOCKET?**

22 A. No. As I will explain in more detail, the Company will continue to collect the
23 amounts currently in rates from customers and we will be able to address any
24 over- or under-collection in the 2014 rate case, which will be filed near the

1 end of the Multi-Year Plan approved in Docket No. 11AL-947E. I provide this
2 summary testimony here so that Parties know that the matter will need to be
3 addressed in that docket consistent with the Commission's approval of the
4 accounting methodology in Docket No. 09AL-299E.

5 **Q. IN PERFORMING HIS ANALYSIS OF WHETHER TO RETIRE ARAPAHOE**
6 **4 AT THE END OF 2013 OR TO CONTINUE TO OPERATE THE UNIT ON**
7 **NATURAL GAS THROUGH THE END OF 2023, MR. HILL ASSUMED**
8 **THAT THE RECOVERY OF COSTS ASSOCIATED WITH EARLIER OR**
9 **LATER RETIREMENT WOULD FOLLOW THE SAME PATH AND**
10 **THEREFORE THE CHOICE WOULD NOT IMPACT THE DECISION. IS**
11 **THAT REASONABLE?**

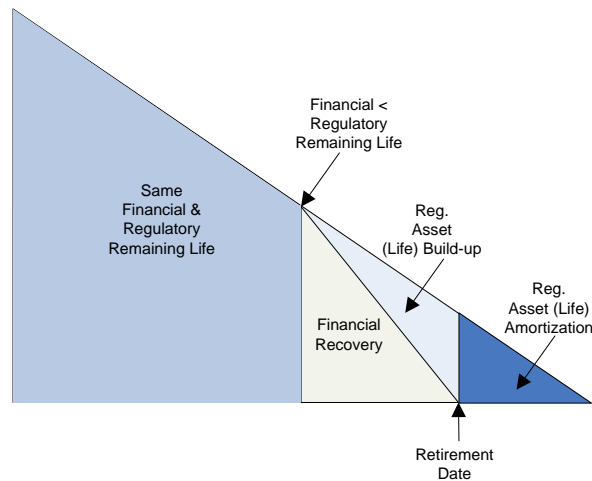
12 A. Yes. In Docket No. 10M-245E, the Commission essentially determined that
13 the appropriate life of Arapahoe 4 was through the end of 2023 – the years
14 through 2013 primarily as a coal-fired power plant and the remaining years
15 exclusively as a gas-fired power plant. The Company has agreed to recover
16 the costs associated with early retirement of impacted power plants over the
17 previously remaining life under the Clean Air Clean Job Act. The Company
18 considers the previously remaining useful life of Arapahoe 4 to be 2023, even
19 if that date was not translated yet into rate recovery. On that basis, Mr. Hill's
20 assumption is reasonable.

1 of final removal with its portion of accumulated depreciation (referred to as the
2 “COR” component). Each component is tracked separately through the
3 remaining recovery period.

4 **Q. PLEASE DESCRIBE THE BASIC ACCOUNTING BEING USED FOR THE**
5 **LIFE COMPONENT.**

6 A. For the Life component, the depreciation expense is recorded in FERC
7 Account 403, Depreciation Expense, using the shorter financial remaining life.
8 The difference in depreciation expense between the amount recognized in
9 FERC Account 403 and the amount based on the regulatory remaining life is
10 recognized in FERC Account 407, Amortization of Unrecovered Plant Costs,
11 thus accumulating the difference in the two depreciation recoveries in FERC
12 Account No. 182.2, Regulatory Assets – Unrecovered Plant Costs. This
13 transaction occurs during the final operating period of the unit and ceases
14 once the plant is retired. After retirement, the regulatory asset (Life) would be
15 amortized over the remaining number of years from retirement until the
16 regulatory remaining life is exhausted. For example, Cameo Unit 1 retired in
17 2010 and had a regulatory remaining life based on a 2017 retirement date.
18 Until a different recovery period is proposed and approved, the Cameo Unit 1
19 regulatory asset (Life) would amortize to zero based on a seven-year period.
20 The original cost of plant, the financial accumulated depreciation, and the
21 regulatory asset are included in rate base in the final years of operation to
22 assure that the asset’s rate base is maintained. Once retirement has
23 occurred, only the regulatory asset remains in rate base. The following graph

1 shows an asset's net plant balance throughout its life with the financial
2 remaining life differentiating from the regulatory remaining life toward the end.



3 **Q. PLEASE DESCRIBE THE BASIC ACCOUNTING BEING USED FOR THE**
4 **COR COMPONENT.**

5 A. For the COR component, while the generating unit is in service, the
6 accumulated reserve associated with this component is tracked as a
7 regulatory liability for financial purposes, but is considered part of FERC
8 Account 108, Accumulated Provision for Depreciation for ratemaking. Thus,
9 this regulatory liability is an offset to rate base, the same as the accumulated
10 reserve. At retirement, the regulatory liability is transferred to a sub account
11 of FERC Account 182.2, Unrecovered Plant Costs, where the effect is a
12 reduction in the regulatory asset account until the actual removal costs are
13 recognized. The amortization for the COR component after retirement is still
14 recognized over the remaining life that was used in the depreciation rate from

1 the last rate case in Docket No. 09AL-947E. Public Service will factor in any
2 actual or estimated removal costs in the next rate proceeding.

3 **Q. IS THE COMPANY PROPOSING TO MODIFY THE COST OF REMOVAL**
4 **FOR ANY OF THE ARAPAHOE UNITS AT THIS TIME?**

5 A. No. We will address that in our next electric rate case. At this time we will
6 continue to use the cost of removal that was included in 06S-234EG as a
7 basis for depreciation and then amortization after retirement as reaffirmed in
8 the last three rate cases. As part of the last electric rate case (Docket No.
9 11AL-947E), the Company and Staff agreed to work to find a mutually
10 agreeable methodology for estimating cost of removal and if parties can not
11 reach agreement, the Company would use Staff Witness Brown's
12 methodology for estimating cost of removal. By the time we get to that rate
13 case in 2014, we may have already completed the process to get market
14 information on the cost of removal for this specific asset.

15 **Q. HOW IS THE COMPANY PROPOSING TO TREAT THESE REGULATORY**
16 **ASSETS AND LIABILITIES FOR RATEMAKING PURPOSES UNTIL THAT**
17 **RATE CASE?**

18 A. Public Service requests that the regulatory assets and the regulatory liabilities
19 be included in rate base (netted), and that it be permitted in future rate cases
20 to earn a full rate of return on the net amount. The purpose of this accounting
21 and rate treatment is to preserve the rate base that would be present toward
22 the end of each asset's useful life, given that there is a removal cost factor in
23 the depreciation rate and an under-recovery of the original cost. This is

1 consistent with the Commission approved Settlement treatment for the
2 Arapahoe unit early retirement. Table 1 shows how the various components
3 would contribute to rate base under the proposed accounting:

Table 1

+ Regulatory Asset – Plant
+ Regulatory Asset – COR (negative balance)
= Rate Base

4 **Q. IS THE COMPANY SEEKING COMMISSION APPROVAL OF THE**
5 **ACCOUNTING TREATMENT SET FORTH ABOVE?**

6 A. No. The Commission already approved this accounting treatment in Decision
7 Nos. C09-1446 and C10-1328. I just outlined what we will be doing on the
8 Company's books if the Commission approves this application to retire
9 Arapahoe 4. The Company will separately seek retirement of Arapahoe Unit
10 3 and when approved will use this same methodology for accounting for that
11 plant investment until the next rate case.

12 **Q. IS PUBLIC SERVICE PLANNING TO INCLUDE THE REGULATORY**
13 **ASSETS AND ASSOCIATED AMORTIZATION FOR THIS STATION IN THE**
14 **NEXT RATE BASE AND REVENUE REQUIREMENT CALCULATION?**

15 A. Yes. The Company will include the regulatory assets established for
16 Arapahoe Units 3, 4, and common and the amortization costs associated with
17 these regulatory assets through the same method that Public Service uses to
18 recover plant in-service costs. The regulatory asset is a component of rate

1 base with the amortization expense a component of the revenue requirement.
2 As I also mentioned earlier, assuming the retirement of the remaining assets
3 at Arapahoe occurs at the end of 2013, a regulatory asset associated with the
4 unrecovered plant asset costs and the removal costs for Arapahoe Units 3
5 and 4, and common would be included in the Company's next rate case.

6 **Q. SPECIFICALLY, WHAT AMORTIZATION PERIOD WILL BE USED FOR**
7 **THE REGULATORY ASSETS FOR EARLY RETIREMENT?**

8 A. The Company typically recommends amortizing the regulatory asset over the
9 regulatory remaining life currently approved for the generating station.
10 However that is not what we would recommend in the next rate proceeding as
11 the terminal retirement date used to determine the depreciation rate for
12 Arapahoe Unit 3 in the Docket No. 06S-234EG was 2011 and for Arapahoe 4
13 and common the terminal retirement date was 2015. We would recommend
14 that the terminal retirement date that should be authorized in the next rate
15 proceeding be 2023 for all the Arapahoe station regulatory assets, the date
16 Public Service proposed for Arapahoe 4 in its last rate proceeding, Docket
17 No. 11AL-947E when it was estimated that Arapahoe 4 would run 10 years on
18 gas.

19 Until the next rate proceeding, the Company plans on continuing to use
20 the approved depreciation expense amount for the amortization. In the next
21 rate case, the Company will propose to change the amortization period to
22 recover the regulatory assets for Arapahoe Units 3, 4, and common over nine
23 (9) years, 2015 through 2023.

1 **Q. WHAT IS THE AMOUNT THAT HAS BEEN ESTABLISHED IN THE**
2 **CURRENT REGULATORY ASSET FOR ARAPAHOE UNITS 3, 4, AND**
3 **COMMON?**

4 A. The amount established in the regulatory asset for Arapahoe Units 3, 4, and
5 common is \$0 (as of this filing). The regulatory life is assumed to be in sync
6 with the GAAP life as these units were not currently marked for early
7 retirement in filings subsequent to the 2009 rate case, Docket No. 09AL-
8 299E, until this filing.

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10 A. Yes, it does.

**ATTACHMENT A
STATEMENT OF QUALIFICATIONS
LISA H. PERKETT**

PROFESSIONAL EXPERIENCE

DIRECTOR CAPITAL ASSET ACCOUNTING

1994-Present

- Establish corporate capitalization policies and include the development, enhancement, and maintenance of the Corporate Continuing Property Record process for all of the plant assets of the Corporation.
- Manage capital investment cost recovery process, which includes the development of detailed actuarial analysis, regulatory filings with the various state and federal rate regulatory commissions, and expert testimony to support recovery levels in rate proceedings.
- Direct nuclear plant decommissioning funding process which includes the development of detailed engineering cost studies combined with a complete financial and economic analysis to develop detailed regulatory filings which establish the rate payer funding levels necessary to accumulate to the total future decommissioning cost requirement.
- Maximize corporate income tax deductions from the computation and support of accelerated income tax depreciation expenses and provide for the computation and support of deferred income taxes, which normalize the impact of these accelerated deductions for ratemaking and book accounting purposes.
- Maintain the plant asset related ratemaking forecast process, which supports the Company's rate filings for all retail and wholesale jurisdictions. This process provides the information which supports the vast majority of rate base (plant investment net of depreciation reserve and deferred taxes) as well as all capital investment related cost of service information (book depreciation, tax depreciation deductions, deferred taxes and deferred investment tax credits).
- Oversee capital asset reporting and information process necessary to disseminate capital asset information as required by various regulatory authorities (FERC, SEC, state commissions) as well as meeting all internal information requirements necessary to sustain efficient and effective business operations.

Lisa H. Perkett

MANAGER CAPITAL RECOVERY

1990-1994

- Coordinate preparation and filing of remaining life study for production facilities, average service life study, and general amortization study. Coordinate Minnesota Public Utilities Commission review process within Company including data requests.
- Review and assist in the calculation of tax depreciation and deferred income taxes for the IRS filing and year end close.
- Work with Rate Department and jurisdictional personnel within NSP to provide capital recovery information scenarios, answer data requests, review necessary rate schedules, and provide expert testimony.
- Oversee the gathering of information from plants and work with outside consultant to determine cost estimate, review escalation analysis, work with finance for fund earnings analysis, and compile all of above into filing with Minnesota Public Utilities Commission.

PRINCIPAL CAPITAL RECOVERY ANALYST

1987-1990

SENIOR DEPRECIATION ANALYST

1985-1987

DEPRECIATION ANALYST

1982-1985

ASSOCIATE DEPRECIATION ANALYST

1981-1982

ASSISTANT OPERATIONS ANALYST

1980-1981

EDUCATION/PROFESSIONAL LICENSES

University of Minnesota - B.S. Degree, Major-Business
Certificate in Management Information Systems
Certified Management Accountant

BUSINESS/INDUSTRY ACTIVITIES:

Society of Depreciation Professionals
American Gas Association Accounting Services Committee
Edison Electric Institute Property Accounting and Valuation Committee
Institute of Certified Management Accountants