



IN THE MATTER OF THE APPLICATION
OF PUBLIC SERVICE COMPANY OF
COLORADO FOR APPROVAL OF ITS 2009
RENEWABLE ENERGY STANDARD
COMPLIANCE PLAN

DOCKET NO. 08A-____E

DIRECT TESTIMONY

OF

KENNAN J. WALSH

**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 ITS 2009) RENEWABLE ENERGY STANDARD) COMPLIANCE PLAN)	DOCKET NO. 08A-____E
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**DIRECT TESTIMONY OF
KENNAN J. WALSH**

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

2 A. My name is Kennan J. Walsh. My business address is 1225 17th Street,
3 Denver, Colorado 80202.

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

5 A. I am employed by Xcel Energy Services, Inc., a wholly-owned subsidiary
6 of Xcel Energy Inc., the parent company of Public Service Company of
7 Colorado. My job title is Senior Rate Analyst.

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

9 A. I am testifying on behalf of Public Service Company of Colorado ("Public
10 Service" or the "Company").

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

13 A. Yes. A description of my qualifications, duties, and responsibilities is
14 included as Attachment A.

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

1 A. The purpose of my testimony is to support the projected net retail rate
2 impacts and total budget of the Company's 2009 Renewable Energy
3 Standard ("RES") Compliance Plan ("Compliance Plan" or "Plan").

4 **Q. WHAT SECTIONS OF THE PUBLIC SERVICE 2009 RENEWABLE**
5 **ENERGY STANDARD COMPLIANCE PLAN DO YOU SUPPORT?**

6 A. I am supporting Volume 1, Section 6, Retail Rate Impact and Budget and
7 Tables 6-3 and 6-4 in Volume 2.

8 **Q. IS THIS SECTION IN COMPLIANCE WITH THE COMMISSION RULE?**

9 A. Yes, this section is in compliance with Commission Rule 3661.
10 Specifically, Rule 3661(a) requires the net rate impact of Public Service's
11 actions to comply with the RES not exceed two percent of the annual total
12 electric bill for each retail customer. In addition, Rule 3661(f) requires the
13 Company to estimate the retail rate impact of its RES compliance over the
14 upcoming compliance year (2009) and identify the funds needed to
15 comply with the RES and retail rate impact rules, which Section 6
16 presents.

17 **Q. PLEASE SUMMARIZE THE RETAIL RATE IMPACTS FOR PUBLIC**
18 **SERVICE'S CUSTOMERS.**

19 A. As required by both Commission Rule 3661 and C.R.S. §40-2-124(1)(g)(I),
20 Public Service has completed a retail rate impact analysis. Public Service
21 has proposed, by separate advice letter, to raise the RESA to 2%
22 beginning January 1, 2009.¹ When this new tariff goes into effect, the
23 retail rate impact will be two percent. The revenues collected by the

1 RESA will be used to cover the incremental costs of Eligible Energy and
2 program administration. Public Service purposely designed the RESA to
3 collect only the *incremental* costs of new Eligible Energy, so that the
4 RESA would readily demonstrate the level of the retail rate impact
5 contemplated by law.

6 **Q. WHAT COSTS ARE ESTIMATED TO BE CHARGED AGAINST THE**
7 **RESA REVENUE?**

8 A. The costs charged against the RESA revenue are the costs that factor
9 into the calculation of the retail rate impact. Under C.R.S.§40-2-
10 124(1)(g)(l), these are the costs that are “net of new alternative sources of
11 electricity supply from non-eligible energy resources that are reasonably
12 available at the time of the determination.” The costs to be recovered
13 through the RESA include the Incremental Costs of the new Eligible
14 Energy, purchased RECs, and program and administrative costs (less the
15 wholesale revenue credit). Pursuant to Commission Decision No. C08-
16 0559 (June 4, 2008) in Docket No.07A-462E addressing Public Service’s
17 2008 Renewable Energy Standard Compliance Plan, Eligible Energy from
18 Section 123 Resources does not impact the retail rate impact limit.

19 Tables 6-3 and 6-4, in Volume 2 of the Company’s RES Plan
20 present the projected annual costs of the Eligible Energy over the RES
21 Planning Period, from the analyses presented by Mr. Warren in Tables 6-
22 1 and 6-2. The difference between Tables 6-3 and 6-4 are the differences
23 in Windsorce resources being modeled as described in the testimony of

¹ Currently, the RESA is set at 1.46% per Commission Decision C08 –0203.

1 Company witness Ahrens, where Table 6-3 reflects the Company's
2 modeled plan without factoring in the Company's pending Windsource
3 proposal and Table 6-4 reflects the modeling of plan assuming the
4 Commission approves the Company's Windsource proposal. These
5 tables reflect how the RESA revenues collected annually contribute to the
6 RESA deferred balance, the balance that is available to the Company
7 each year to fund the incremental cost of new Eligible Energy Resources.

8 **Q. PLEASE DESCRIBE SOME OF THE ASSUMPTIONS USED TO MODEL**
9 **TABLES 6-3 AND 6-4.**

10 A. As I discussed earlier, Tables 6-3 and 6-4 import the analyses provided by
11 Mr. Warren on Tables 6-1 and 6-2. I calculated the level of RESA
12 revenues projected for this period, based upon the Company's forecasted
13 electric retail revenues and an assumption that the RESA will be set at 2%
14 beginning January 1, 2009.

15 Tables 6-3 and 6-4 show the actual RESA deferred balance of
16 (\$5,286,547) as of December 31, 2007 that is recorded in the Company's
17 general ledger. The negative balance reflects the fact that the level of
18 RESA revenues collected by that date were not sufficient to recover the
19 incremental renewable energy costs and program and administrative
20 costs incurred through 2007. This shortfall in RESA revenue was
21 anticipated when the Company set the RESA at 1.46% on March 1, 2008.
22 The 1.46% RESA was set only to recover the funds needed for the
23 Alamosa facility and the then-estimated minimum on-site solar program
24 needed for compliance in the years 2008 through 2009. The Company

1 indicated at the time that the 1.46% RESA was proposed that the ultimate
2 level of the RESA would need to be determined after the conclusion of
3 Phase 1 of the 2007 Colorado Resource Plan Docket, Docket No. 07A-
4 447E.

5 Tables 6-3 and 6-4 contain the actual costs incurred and revenues
6 collected for the period January 2008 through and including October
7 2008. Forecasted RESA program costs and revenues are included for the
8 months of November and December 2008. For the remaining period of
9 the RES Planning Period, I included cost projections based upon
10 forecasted levels of participation and resulting REC procurement as
11 discussed in more detail under Sections 4 and 5 of the Plan. To the
12 extent that any of these assumptions change, the costs and revenues set
13 forth on my tables will also change.

14 **Q. PLEASE EXPLAIN WHAT IS DEPICTED IN EACH OF THE COLUMNS**
15 **ON TABLE 6-3.**

16 **A.** Tables 6-3 and 6-4 present the retail rate impact calculations using the
17 same presentation style that was approved by the Commission in Docket
18 No. 06A-478E, and presented in the Company's 2008 Renewable
19 Compliance Plan for the Company's Primary Case. The difference
20 between the two is that Table 6-4 includes Windsource costs and credits.

21 These Tables are set up as follows: Column A sets forth the
22 calendar year. Column B, "On-site Solar Costs," includes the estimated
23 cost of the Company's on-site solar programs. Column C, "Central Solar
24 Costs," sets forth the projected costs of the Central Solar resources

1 including the Solar Thermal with gas backup. Column D, "Wind Energy
2 Costs," sets forth the projected costs of wind energy resources. Column
3 E, "Other Renewable Costs," includes the costs of the non-solar, non wind
4 "new" Renewable Resources, in this case the expected 4 MW biomass, 3
5 MW Erie Landfill and 20 MW Geothermal facility. Column F reflects the
6 costs for the Company owned PV described in Section 5. Column F1 on
7 Table 6-4 represents Windsorce costs.

8 Column G, "Total Renewable Energy Costs," is the summation of
9 the costs included in Columns B, C, D, E and F. The costs shown in
10 Column G represent the total costs to the Company of the "new" Eligible
11 Energy Resources that are in the RES Plan, and not in the No RES Plan.

12 Column H, "Modeled Incremental Costs " are the cost differences
13 in each year between the RES Plan and the No RES Plan, as determined
14 by the Strategist modeling and as set forth on Tables 6-1 and 6-2.

15 Column I, "Estimated ECA Costs " are the differences between the
16 Total Renewable Energy Costs in the RES Plan found in Column G and
17 the "Modeled Incremental Costs" from Column H. They are the avoided
18 costs of the non-renewable resources that are in the No RES Plan that
19 are displaced by renewable resources in the RES Plan.

20 Column J, "Ongoing Incremental Costs," shows the net costs and
21 benefits of the New Eligible Energy Resources that is locked down under
22 the "time fence" process. Column J reflects the accumulation of time
23 fence net costs and benefits each annual Eligible Energy Resource
24 portfolio from year to year.

1 Column K "Purchased RECs," shows the amount of money the
2 Company has contracted to spend for S-RECs needed to meet the solar
3 requirement in early years of the Renewable Energy Standard.

4 Column L is the RESA program and Administrative costs. Column
5 L1 on Table 6-4 identifies the Windsource program and administrative
6 costs.

7 Column M, "RESA Rider Revenue," is an estimate of the annual
8 revenue that the Company will recover from retail customers, using the
9 percentage Renewable Energy Standard Adjustment assumed for each
10 year. In this plan, Public Service has applied a 2% rider to expected retail
11 rate revenue to determine the RESA Rider Revenue.

12 Column N, "Wholesale Revenue Credit," credits against retail
13 revenue requirements the projected revenue for this Eligible Energy that
14 the Company expects to collect from its wholesale customers under its
15 existing wholesale rates and the load ratio share agreements discussed
16 earlier. Column N1 on Table 6-4 identifies the Windsource premium
17 credits.

18 Column O, "Annual Excess/Deficiency," shows the calculated
19 difference between the Revenue collected and the costs

20 Column P, "Interest," shows the amount of interest accrued on the
21 balance in the RESA-funding account.

22 Column Q, Represent the sum of the Annual Excess and the
23 interest

1 Column R "Rolling Balance (Deferred)," shows the running accrual
2 of surpluses or deficits in the RESA account from year to year over the
3 entire RES Planning Period.

4 **Q. WHAT CONCLUSIONS CAN BE DRAWN FROM THESE TABLES?**

5 A. Both Tables 6-3 and 6-4 show in Column R that the proposed 2% level of
6 RESA revenues collected through the RES period of 2020 are sufficient to
7 recover the projected incremental renewable energy costs and program
8 and administrative costs. However, as can be seen by the annual
9 revenue deficiency trend beginning in 2015 on Table 6-3 (Column 0), the
10 two percent RESA is anticipated to become insufficient after 2020. With
11 the additional Windsource revenues as depicted on Table 6-4, the annual
12 revenue deficiency does not begin until 2019, thus allowing a significant
13 positive rolling deferred balance to accommodate the acquisition of
14 additional Eligible Energy Resources.

15 **Q. HAS THE COMPANY PROPOSED TO INCREASE THE RESA TO THE**
16 **2.0% MAXIMUM ALLOWED BY LAW?**

17 A. Yes. As demonstrated in Tables 6-3 and 6-4 it is imperative that we start
18 collecting the maximum allowed by law to meet the increased percentage
19 under the RES. The Company has filed an advice letter requesting to
20 increase the RESA to two percent beginning January 1, 2009.

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

22 A. Yes, it does.

Statement of Qualifications

Kennan J. Walsh

I graduated from Manchester College in 1982 with a Bachelor of Science degree in Accounting. In 1986, I graduated from Indiana University with a Master of Science Business Administration degree. I hold the designation of Certified Rate of Return Analyst, conferred by the Society of Utility Regulatory and Financial Analysts.

I began my career in 1982 at Northern Indiana Public Service Company (NIPSCO), a combination electric and natural gas utility, leaving in 1996 after obtaining several promotions within the Accounting and Rate organizations. In 1996, I went to work for Enron Energy Services as a Manager of State Regulatory Affairs and in 1999 AES NewEnergy employed me in a similar capacity. In 2001, I accepted a position as a Senior Consultant with Energy & Resource Consulting Group, LLC, a consulting firm specializing in services to regulatory agencies and municipal entities. In 2003, Platts Research & Consulting hired me as a Senior Consultant. In 2004, I was employed by Iroquois Pipeline as its Manager of Rates. In 2005, I accepted a position of Consultant in the Regulatory Accounting Research department of Xcel Energy Services, Inc. In 2007, I accepted my current position of Senior Rate Analyst, Revenue Analysis in the Governmental and Regulatory Affairs department of Xcel Energy Services, Inc. In this capacity, my primary responsibility is the preparation of retail and wholesale revenue requirements for Xcel companies.