

RECEIVED
PUBLIC UTILITIES
COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

2008 DEC - 1 P11 4: 38

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-532E

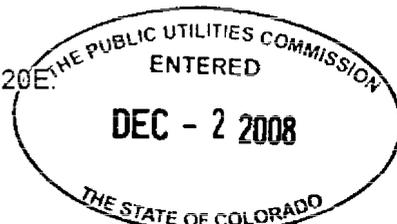
Agenda
1-9-09
C3
CC
Adv
A
ELB

APPLICATION FOR APPROVAL OF PUBLIC SERVICE
2009 RES COMPLIANCE PLAN

~~Public Service Company of Colorado hereby applies to the Commission for approval of its 2009 Renewable Energy Standard Compliance Plan ("Compliance Plan" or "Plan"). This Plan is timely filed in accord with Decision No. C08-1115 granting Public Service an extension of time to file its 2009 RES Compliance Plan.~~

~~In the Plan, Public Service projects the Eligible Energy that the Company is required to obtain to meet the Renewable Energy Standard ("RES") over the RES Planning Period of 2009 through 2020. The Plan uses the Company's October 2008 retail electricity sales forecast with Commission DSM Goals¹ to estimate the Renewable Energy Standard requirements for Solar Renewable Energy Credits ("S-RECs"), On-Site Solar RECs ("SO-RECs"), and Non-Solar RECs ("NS-RECs"). The Plan sets forth the Company's specific plans to acquire sufficient Eligible Energy to meet the requirements of the Renewable Energy Standard for 2009 and the Company's plans to fund additional Eligible Energy Resources for the years 2009 through 2020.~~

¹ Commission Decision No. C08-0560 (June 5, 2008), Docket No. 07A-420E.



~~deferred balance. In 2009 and henceforth, as explained by Mr. Ahrens in his testimony, the Company believes the more appropriate balancing account for trueing up projected costs to actual costs would be the ECA, given the large amount of intermittent Eligible Energy that will be added our system.~~

Second, as described by Mr. Ahrens, the Company proposes to resolve the “time fence” disputes from earlier dockets by locking down the incremental costs that will hit the RESA at the time of the Compliance Report filing or at the time of contracting (for the larger contracts). This will protect the RESA dollars from wide swings due to changes in gas prices over time and will allow for better planning for the acquisition of Eligible Energy Resources.

~~Third, the Plan shows how the Company’s new proposed Windsorce program, pending in Docket No. 08A-260E, would be incorporated into the annual RES Compliance Plan filings; the Plan projects how growth in Windsorce subscriptions will provide more dollars for the acquisition of additional Eligible Energy.~~

~~Finally, Public Service responds to the Commission’s request to address the issue of whether external AC disconnects need to be provided. Public Service is proposing to relieve 10 kW and smaller PV systems of the requirement to have an external AC disconnect switch (“EDS”). Upon reviewing a number of papers, OSHA regulations, and activities that have recently transpired in other states, Public Service believes that there is no longer a need to require an AC EDS for solar systems below 10 kW, so long as the solar system has an Underwriters Laboratory (“UL”) 1741 standard certified inverter. This is further discussed in Section 9 of the Plan~~



2009 Renewable Energy Standard Compliance Plan

Public Service Company of Colorado

Volume 1

December 1, 2008

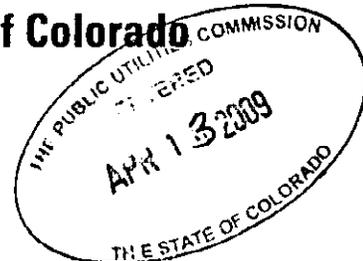


Exhibit	1
Case No	08R-532E
Witness	
Date	4/6/09

~~Resources in the RES Plan to meet the Company's capacity and energy requirements.~~

~~In developing the RES Plan for this 2009 RES Compliance Plan, Public Service included all of the Eligible Energy Resources that were included in the Company's 2007 Colorado Resource Plan. In developing the No RES Plan, the Company removed all of the new Eligible Energy Resources in the RES Plan that the Company will acquire after 2008. 200 MW of Concentrating Solar Power with Storage, with an in-service date of 2013 was assumed to be a Section 123 resource. As such, it was included in both the RES Plan and the No RES Plan, so that its costs would not impact the incremental cost calculation used to determine the retail rate impact.~~

~~The results of our Base Case are set forth on Tables 6-1 and 6-3.~~

In Docket No. 06A-478E, a concept called the "time fence" was brought up by Commission Staff. The time fence concept suggested that the Commission should determine a time after which the costs and benefits of renewable resources would be counted as new resources and before which all the costs and benefits would be considered as sunk resources. Only the costs and benefits of the new non Section 123 resources would factor into the retail rate impact calculation. Public Service agreed with the concept of the time fence so long as the four renewable resources that were winning bids in the 2005 All Source RFP were considered sunk resources. Public Service believes this time fence needs to be established to ensure the benefits of the Eligible Energy Resources at the time the acquisition decision is made are recognized in future years.

Time Fence

To assure that both costs and benefits are included in the RES scenario when they are compared to the No-RES scenario in determining the retail rate impact,

the Company proposes that a “time fence” be set or “locked down” once the net costs and benefits for a particular year have been quantified; those locked down net costs or benefits will be used from that point forward to assure that both the costs and the benefits are included in the RES Modeling.

Each time the RES/No RES modeling is performed there are new sets of assumptions, which if they had been the assumptions used at the time of earlier resource acquisition, could have altered the acquisition decision. It is not appropriate to continue to revisit acquisition decisions based upon later updated assumptions. The Company makes the best acquisitions it can, based upon the assumptions that are used at the time of acquisition. By locking down the costs and benefits of a new Eligible Energy resource at the time the acquisition decision is made, later changes in the modeling assumptions will not cause unintended consequences. When the Commission approves a RES Compliance Plan, acquisitions in accord with that plan are deemed prudent. Therefore, the assumed incremental costs or benefits associated with those acquisitions should remain constant over the life of that facility for purposes of calculating the incremental costs that must be charged against the RESA.

This “locking down” of net costs or net benefits is only performed to determine which Eligible Energy costs are recovered through the RESA and which costs are recovered through the ECA. Public Service will recover, through the combination of these two adjustment clauses, only the *actual* costs incurred. The only issue here is how much of the actual costs are charged against the RESA deferred account – an account that is limited by law to accumulations of no more than two percent annually on each customer’s bill. Public Service suggests that the RESA impacts should be determined at the time of resource acquisition, or at the time of the next compliance plan report, rather than have the RESA impacts revisited every year with each compliance plan.

To implement this new proposal, for the 2009 RES Plan, the ongoing net incremental costs (and net benefits) of the Eligible Energy Resources that have impacted the retail rate impact calculations in earlier RES Compliance Plans, namely the SunE Alamosa central solar facility and the on-site solar facilities were determined separately and "locked down". The incremental costs of these resources will not be recalculated next year. These costs will impact the retail rate impact calculation by being collected through the RESA, but they were not "recalculated" based upon the updated assumptions next year.

~~*Modeling the RES and No RES Plans*~~

~~The modeling output of the RES Plan costs minus the No RES Plan costs provides the incremental cost of the New Eligible Energy Resources. These costs are shown on Tables 6-1, the Company's Base Case and 6-2, the Windsorce Case in the column labeled "Incremental Costs." The avoided costs that matches the costs of the non-renewables is then "estimated" by subtracting the incremental costs from the projected total costs of the new Eligible Energy Resources.~~

~~The 2009 Compliance Plan consists of the resources identified in the 2007 Colorado Resource Plan as the Company's preferred plan which the Commission approved with modification, including the on-site solar facilities projected by Ms. Newell in her rebuttal testimony in Docket No. 07A-447E, updated to reflect the increased small program applications received by Public Service in the fourth quarter of 2008.~~

~~The following tables illustrate the resources in the RES and No RES models.~~



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 AND EXHIBITS
OF
DANIEL S. AHRENS

Exhibit 3
Case No 08A-532E
Witness _____
Date 4/6/09

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF) DOCKET NO. 08A-____E
COLORADO FOR APPROVAL OF ITS 2009)
RENEWABLE ENERGY STANDARD)
COMPLIANCE PLAN)

DIRECT TESTIMONY OF
DANIEL S. AHRENS

1

I. INTRODUCTION

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

3 A. ~~My name is Daniel S. Ahrens. My business address is 1225 Seventeenth~~
4 ~~Street, Suite 1000, Denver, Colorado 80202.~~

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~~
7 ~~of Xcel Energy Inc., the parent company of Public Service Company of~~
8 ~~Colorado. My job title is Pricing Consultant, Pricing and Planning.~~

9 Q. ~~ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?~~

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

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

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

1 ~~Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?~~

2 ~~A. The purpose of my direct testimony is to:~~

3 ~~1) Provide an overview of Public Service's 2009 Renewable Energy~~
4 ~~Standard Compliance Plan ("Compliance Plan" or "Plan") which I am~~
5 ~~sponsoring as Exhibit No. DSA-1;~~

6 ~~2) Introduce the witnesses responsible for certain sections of the~~
7 ~~Compliance Plan;~~

8 ~~3) Support the Company's proposed cost recovery mechanism;~~

9 4) Describe the Company's proposed "time fence", which is how the
10 Company proposes to measure the incremental costs (costs less benefits)
11 of acquiring eligible energy resources for purposes of compliance with the
12 statutory retail rate impact cap; and

13 ~~4) Describe how the Windsource program would affect the Renewable~~
14 ~~Energy Standard Adjustment ("RESA") should the Commission approve~~
15 ~~the Company's pending Windsource proposal in Docket No. 08A-260E.~~

16 **II. PLAN OVERVIEW**

17 ~~Q. COULD YOU PLEASE DESCRIBE THE RENEWABLE ENERGY~~
18 ~~STANDARD ("RES") RULES?~~

19 ~~A. Yes. The Commission enacted the Renewable Energy Standard Rules, 4~~
20 ~~CCR 723-3-3650 et. seq, ("RES Rules") to implement Amendment 37 as~~
21 ~~amended, most recently by House Bill 07 1281 (codified at C.R.S. §40-2-~~
22 ~~124). The Commission issued its current RES Rules on July 23, 2007 in~~
23 ~~Decision No. C07-0622.~~

1 Q. ~~LOOKING AT TABLE 6-4, IT APPEARS IN THE EARLY YEARS THAT~~
2 ~~THE WINDSOURCE COSTS ARE AT TIMES GREATER THAN THE~~
3 ~~PREMIUMS. IS THAT CORRECT?~~

4 A. ~~The Windsorce costs in Column F1 identify the estimated total~~
5 ~~Windsorce revenue requirement for the existing Windsorce portfolio,~~
6 ~~whereas the premiums are based on the incremental renewable costs (on~~
7 ~~a \$/kWh basis) times the projected. It is not an apples-to-apples~~
8 ~~comparison.~~

9 V. TIME FENCE

10 Q. IN THE PAST TWO PLANS, THE ISSUE OF A TIME FENCE HAS BEEN
11 RAISED. PLEASE DESCRIBE THIS TIME FENCE ISSUE.

12 A. The current rules ^{to DSA} do not treat the costs and the benefits symmetrically
13 between RES and No-Res scenarios. Specifically:

14 The last sentence of Rule 3661(h)(i) states:

15 For purposes of this rule, new eligible renewable energy means
16 eligible energy from resources, which are not commercially
17 operational at the time these two modeling scenarios are
18 performed.

19 The last sentence of Rule 3661(h) (ii) provides:

20 in calculating the annual net retail rate impact in each compliance
21 plan of the first compliance year of the RES planning period, the
22 QRU shall take into account the on-going annual costs of all
23 eligible energy that the QRU has contracted to acquire under the
24 standard rebate offer under rule 3658 and all eligible energy from
25 resources that were constructed by the QRU or contracted for by
26 the QRU after the effective date of these rules.
27

1 The Commission recognized this conflict and granted Public Service a
2 permanent waiver to 3661(h)(1) to ensure that both the costs and benefits
3 of new Eligible Energy resources are taken into consideration in the RES
4 Plan/ No RES Plan analyses.

5 Public Service believes further clarification through defining a “time
6 fence” is necessary to ensure the costs and benefits of Eligible Energy
7 resources at the time of acquisition are maintained throughout the life of
8 that resource. While the waiver granted in the 2008 RES Plan docket took
9 care of the concern that the existing rules would count the costs, but not
10 the benefits of the resources that Public Service has acquired to meet the
11 Renewable Energy Standard, the Company now has a new concern that it
12 impacts our ability to acquire renewable resources.

13 **Q. WHAT IS THAT NEW CONCERN?**

14 **A.** We are concerned that we will project at the time of resource acquisition
15 that an Eligible Energy resource has a specific net incremental cost to our
16 system over the cost of a non-renewable resource and allocate RESA
17 dollars based upon that projection. However, it may turn out that the
18 incremental cost of the acquisition is greater than projected (because gas
19 prices turn out to be lower than projected). As we contract for and build
20 more and more Eligible Energy Resources, we are concerned that if
21 forced to continually recalculate incremental costs that are driven by
22 uncertain gas price projections, we could be in a situation where the
23 RESA funds become inadequate to pay for those incremental costs.

1 We believe this issue is similar to the regulatory issue of prudent
2 investment. That principle judges a utility action by reviewing the
3 information reasonably available at the time that the investment decision
4 had to be made. We think that the same principle should apply here,
5 namely, the impact on the RESA from the acquisition of an Eligible Energy
6 Resource should be calculated at the time that the acquisition decision is
7 made (and not continually revisited). In this way, if gas prices decrease
8 from forecasted values, the RESA funds are not impacted. Similarly, if
9 natural gas prices are higher than projected, the RESA funds are not
10 impacted.

11 **Q. HOW DOES THE COMPANY PROPOSE TO ACCOUNT FOR THIS**
12 **“LOCKING DOWN” OF THE INCREMENTAL COST OF A NEW**
13 **ELIGIBLE ENERGY RESOURCE?**

14 A. Each time the RES/No RES modeling is performed, the incremental costs
15 of proposed resource acquisitions will be determined. When the
16 Commission approves a RES Compliance Plan, acquisitions in
17 accordance with that plan are deemed prudent. Therefore, the
18 incremental costs that affect the RESA (the net costs over benefits
19 associated with those acquisitions) should be set for the life of that facility.

20 **Q. WHEN DOES THE COMPANY PROPOSE TO “LOCK DOWN” THE**
21 **BENEFITS?**

22 A. The Company proposes to lock down the Net Costs (or Net Benefits) of
23 each Eligible Energy Resource at either the time we files our Compliance

1 ^{Plan DSA} Report or at the time we sign a contract. The purpose of allowing for
2 these two options is administrative feasibility. For the smaller additions, it
3 does not make sense to continually re-run computer models to identify the
4 net benefits of each small resource addition. For larger projects, the
5 Company may wish to lock the net costs or net benefits at the time we
6 sign a power purchase agreement or contract for the major components of
7 a self-build project. Irrespective of whether the lock-in occurs at the time
8 ^{of DSA} of the annual compliance ^{Plan DSA} report of earlier, the calculations supporting the
9 lock-ins will be provided with the annual compliance ^{Plan DSA} reports.

10 Q. DOES THIS 2009 COMPLIANCE PLAN FILING INCLUDE ANY
11 LOCKED-IN NET COSTS OR NET BENEFITS?

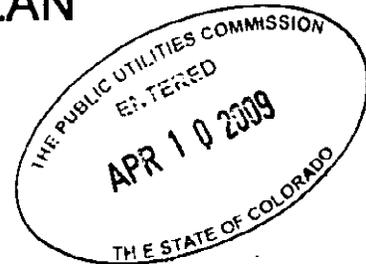
12 A. Yes. As Mr. Art Warren describes, he projected the net costs (costs over
13 benefits) of the SunE Alamosa facility and the on-site solar projects that
14 the Company will acquire through December 31, 2008. These are shown
15 on his Tables 6-1 and 6-2 in the last column of each exhibit. These net
16 costs are then imported into Mr. Walsh's Tables 6-3 and 6-4 and are
17 recovered with RESA dollars.

18 VI. WINDSOURCE

19 Q. ~~IN DOCKET NO. 08A-260E THE COMPANY FILED WITH THE~~
20 ~~COMMISSION AN APPLICATION TO CHANGE THE PRICING AND~~
21 ~~ACCOUNTING OF OUR VOLUNTARY RENEWABLE ENERGY RATE,~~
22 ~~BETTER KNOWN AS WINDSOURCE. COULD YOU PLEASE~~
23 ~~SUMMARIZE THE COMPANY'S PROPOSAL IN THAT DOCKET?~~



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-532E

REBUTTAL TESTIMONY AND EXHIBITS

OF

DANIEL S. AHRENS

A
DOCKET NO. 08A-532E
Witness
4/6/09

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF) DOCKET NO. 08A- 532E
COLORADO FOR APPROVAL OF ITS 2009)
RENEWABLE ENERGY STANDARD)
COMPLIANCE PLAN)

REBUTTAL TESTIMONY AND EXHIBITS OF
DANIEL S. AHRENS

1

~~I. INTRODUCTION~~

2

~~Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.~~

3

~~A. My name is Daniel S. Ahrens. My business address is 1225 Seventeenth
Street, Suite 1000, Denver, Colorado 80202.~~

4

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 Xcel Energy Inc., the parent company of Public Service Company of
Colorado. My job title is Pricing Consultant, Rates and Regulatory Affairs.~~

7

8

9

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

10

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

11

12

~~Q. HAVE YOU FILED DIRECT TESTIMONY IN THIS CASE?~~

13

~~A. Yes.~~

1 ~~or to contact customers about HomeSmart's solar offering. HomeSmart~~
2 ~~has access to CRS only for the following limited purposes:~~

- 3 • ~~To assure customers are paying their HomeSmart Service~~
4 ~~charges or Appliance Repair service portion of a~~
5 ~~HomeSmart customer's bill,~~
- 6 • ~~To issue HomeSmart related credits to customer bills, and~~
- 7 • ~~Cancel HomeSmart charges for customers who cancel~~
8 ~~HomeSmart services.~~
- 9 • ~~To verify a HomeSmart customer's account status prior to~~
10 ~~making a service call.~~

11 **Q. ON PAGE 5, LINE 1, OCC WITNESS MR. SHAFER SUGGESTS THAT**
12 **CARBON COSTS SHOULD BE EXCLUDED FROM THE "LOCK**
13 **DOWN" CALCULATION THAT YOU HAVE PROPOSED. WHAT IS HIS**
14 **REASONING?**

15 **A.** Mr. Shafer is concerned that by adding the carbon to the "lock down"
16 calculation, that the benefits of the renewable resources are over-stated.
17 Since the lockdown calculation is identifying the benefits by comparing the
18 RES and No-RES, including the carbon, Mr. Shafer is concerned that a
19 larger delta between the two scenarios would result. Mr. Shafer
20 acknowledges that the RES Rules require the utility to use the same
21 methodologies and assumption used in the most recent approved
22 resource plan when calculating the retail rate impact (again, the difference

1 between the RES and No-RES), *unless otherwise approved by the*
2 *Commission.* He suggests that the Commission exercise the option to
3 approve something other than the same assumptions that were used in
4 the least-cost plan since customers do not pay for carbon costs.

5 **Q. DO YOU AGREE?**

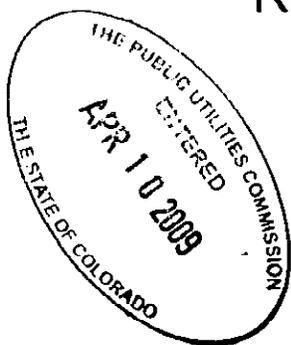
6 A. I believe it is appropriate to incorporate carbon costs in the "lock-down"
7 calculations. Public Service believes that there will be carbon costs in the
8 future and that the Commission approved carbon cost proxy of \$20 per
9 ton starting in 2010 is a reasonable proxy for what that cost is likely to be.
10 I don't believe it would be consistent to include a carbon cost for purposes
11 of determining the retail rate impact, but ignore the same cost for
12 purposes of calculating the "lock down".

13 The Commission has agreed with the Company that we should be
14 making future resource acquisition decisions based upon assumptions of
15 future carbon emission costs, even though the form these costs will take
16 is yet unknown. As such, it is appropriate to use these expected costs in
17 the RES- No RES modeling, which determines the retail rate impact of the
18 acquisition of renewable resources. Further, it is appropriate to use these
19 expected costs in the lock-down of the costs that are charged against the
20 RESA, as the Company proposes. Otherwise, there will be uncertainty as
21 to how many RESA dollars are available for future resource acquisitions,
22 thereby hampering utility resource planning.

23 ~~Q. HAVE YOU INCLUDED A CORRECTED TABLE 4-4?~~



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

13
08A-532E
4/6/09

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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-532E

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 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.

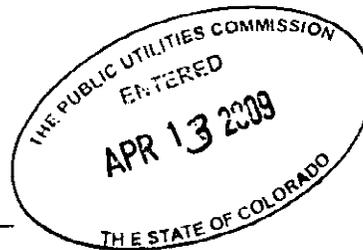
**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

* * *

IN THE MATTER OF THE APPLICATION OF PUBLIC)
SERVICE COMPANY OF COLORADO FOR APPROVAL OF) Docket No. 08A-532E
ITS 2009 RENEWABLE ENERGY STANDARD)
COMPLIANCE PLAN.)

**ANSWER TESTIMONY AND EXHIBITS OF FRANK SHAFER ON BEHALF OF
THE COLORADO OFFICE OF CONSUMER COUNSEL**

EXHIBIT # 15
DOCKET # 08A-532E
WITNESS _____
DATE 4/2/09
REPORTER [Signature]



February 23, 2009

1 ~~Q. HAS THE OCC DEVELOPED A METHOD TO ALLOCATE THE COSTS~~
2 ~~CREATED BY VARIANCES IN PROJECTED GENERATION VERSE ACTUAL~~
3 ~~GENERATION AS YOU HAVE SUGGESTED?~~

4 ~~A. No, but if the Commission agrees with the concept, then it could require Public~~
5 ~~Service to include a method which assigns some of the costs due to variances in Eligible~~
6 ~~Energy production to both the RESA and ECA in its next Compliance Plan filing.~~

7 C. Request to Use Resource Planning Assumptions in the Calculation of the
8 Retail Rate Impact and the “Lock Down” Calculation

9 Q. PLEASE DESCRIBE THE COMPANY’S LOCK DOWN PROPOSAL.

10 A. Starting on page 19, line 9 of his Direct Testimony, Mr. Ahrens describes the concept
11 of a time fence and how it factors into the determination of the costs and benefits of Eligible
12 Energy resources. He explains that at the time of acquisition of an Eligible Energy resource,
13 the Company estimates the associated net incremental cost. However, without a “lock down,”
14 this resource’s net incremental cost will likely change in the future Compliance Plans due to
15 the fluctuations in natural gas prices. Mr. Ahrens contends that if the Company is forced to
16 continually recalculate incremental costs that are driven by unavoidably imprecise gas price
17 forecasts, there could be a situation where the RESA funds will be inadequate to pay for those
18 incremental costs. To avoid the possible changes in the net costs or net benefits, it proposes
19 to lock down for each Eligible Energy resource—at either the time it files its Compliance
20 Report or at the time it signs a contract—that resource’s net cost or net benefit.

Q. WHAT IS THE OCC'S CONCERN WITH THE LOCK DOWN PROPOSAL?

1 **A.** We are concerned that the resource acquisition planning assumption regarding the
2 carbon cost adder should not be included in the lock down calculation until the actual carbon
3 costs become “known and measurable.” To help better explain this concept, I have prepared
4 three diagrams as Exhibit FCS-1. I should first mention that the values shown on pages 2 and
5 3 of these diagrams are not based on actual numbers nor are the relative changes between the
6 two scenarios (with and without a carbon cost adder) intended to be reflective of actual
7 differences between the two. However, I think they reasonably represent how carbon costs
8 factor into the determination of what has been called “headroom,” which is the amount of
9 Eligible Energy resources that can be added before the two percent retail rate cap is reached.

10 However, I would like to start with Page 1 of 3 of Exhibit FCS-1 to provide an
11 overview of how a carbon adder affects the retail rate impact calculation. This bar graph
12 begins with the first green bar on the left-hand-side and it represents the No-RES plan with a
13 carbon adder. It has a height of 100 units. The second green bar is the RES plan with a
14 carbon adder. It has a height of 102 units. Under the retail rate impact cap, the RES plan can
15 be up to two percent greater in cost than the No-RES plan's cost,¹ that is why it has a height
16 of 102 units (100 units X 1.02). The first blue bar is the No-RES plan without a carbon adder.
17 It has a height of 98 units. I arbitrarily picked a value of two units to represent the lower cost
18 of the portfolio when there is no carbon adder. The second blue bar is the RES plan without a
19 carbon adder. It has a height of 99.96 units. Its height is the product of 98 units times the
20 1.02 factor explain previously. The red arrow between the top of the second blue bar (the
21 RES Plan without a carbon adder) and the dashed green line, which represents the top of the

¹ The associated RESA program administrative costs are in both scenarios, but have been ignored for this explanation.

1 second green bar (the RES Plan with a carbon adder) indicates that 2.04 units of headroom is
2 created by including a carbon adder in the determination of the retail rate impact calculation.
3 The practical effect of this additional headroom is that more Eligible Energy resources can be
4 acquired when a carbon adder is included in the retail rate impact calculation.

5 Page 2 of 3 of Exhibit FCS-1 shows the additional headroom concept and the
6 additional Eligible Energy resources available when a carbon adder is included in a line graph
7 format. Beginning on the left-hand-side (in green text) of Page 2 of 3, Exhibit FCS-1 shows
8 that the No-RES costs with a carbon cost adder is 26 on the hypothetical scale. The same
9 starting point on the right-hand-side (in blue text) for the No-RES costs without a carbon cost
10 adder is 24. In both scenarios, the cost of the resource portfolio after some fossil fuel
11 resources are removed results in either a value of 21 under the carbon cost adder scenario or a
12 value of 22 under the without a carbon cost adder scenario. In the final step, Eligible Energy
13 resources are added until the two percent retail rate cap is reached. Again focusing on the
14 hypothetical scale, the RES costs with a carbon cost adder reaches a cost of 29, while the RES
15 costs without a carbon cost adder reaches a cost of 27. Therefore the headroom created by the
16 carbon cost adder is 8 units (29 - 21), while the headroom created without a carbon cost adder
17 is 5 units (27 - 22).

18 On page 3 of 3 of Exhibit FCS-1, I develop the same type of comparative diagram for
19 the development of the lock down. On the left-hand-side, in green text, the No-RES with a
20 carbon cost adder scenario starts at 28, while on the right-hand-side, in blue text, the No-RES
21 without a carbon cost adder scenario starts at 27. Once the equivalent sized fossil fuel
22 resource is removed the cost of the portfolio drops to 24 under the scenario with a carbon cost
23 adder, while the cost of the portfolio without a carbon cost adder drops to 25. Thus the ability

1 for an Eligible Energy resource to achieve net benefits is greater since there is more
2 “distance” when a carbon cost adder is included (4 units or 28 – 24) as compared to the
3 scenario when no carbon cost adder is included (2 units or 27 – 25).

4 **Q. SO WHY DOES IT MATTER THAT MORE HEADROOM IS BEING**
5 **CREATED BY THE CARBON ADDER?**

6 **A.** Because imputing a carbon cost when no actual carbon costs are currently being paid
7 for by the customers on their bills artificially creates headroom that does not exist in the “real
8 world.” The OCC believes that the method used to calculate the retail rate impact and the
9 associated lock down amount should be based on assumptions which are more closely tied to
10 what is actually impacting customer bills and not on resource planning assumptions which are
11 used in the selection process of resources.

12 **Q. MR. SHAFER PLEASE DESCRIBE RES RULE 3661(E).**

13 **A.** This RES Rule² provides that for purposes of calculating the retail rate impact, the
14 utility shall use the same methodologies and assumptions it used in its most recently approved
15 least-cost planning³ case unless otherwise approved by the Commission.

16 **Q. DO YOU KNOW WHAT CARBON COSTS WERE RECENTLY APPROVED**
17 **BY THE COMMISSION IN PUBLIC SERVICE’S MOST RECENT ELECTRIC**
18 **RESOURCE PLANNING PROCESS?**

19 **A.** I believe the Commission approved a carbon tax of \$20 per ton starting in 2010 and
20 escalating at seven percent per year.⁴

² The RES Rules are found at 4 Code of Colorado Regulations 723-3-3650 to 723-3-3665.

³ There is a pending RES Rulemaking case, Docket No. 08R-424E, where the reference to the Commission’s least-cost planning process is changed to the current electric resource planning process.

⁴ See, Decision No. C08-0929, paragraph 270.

1 **Q. IS THE OCC BASING ITS POSITION ON EXCLUDING THE CARBON**
2 **COST ADDER FROM THE RETAIL RATE IMPACT CALCULATION ON THE**
3 **LAST PHRASE IN YOUR EARLIER ANSWER REGARDING ‘UNLESS**
4 **OTHERWISE APPROVED BY THE COMMISSION’?**

5 **A.** Yes and let me explain why. To help put this into context, I want to discuss how the
6 Electric Resource Planning (“ERP”) assumption regarding natural gas prices differ from a
7 carbon cost adder assumption. In the ERP process, the Commission does not approve specific
8 natural gas prices, but instead approves a methodology, which is updated at the time the utility
9 begins its resource selection process after it has received bids. While it is unlikely that the
10 updated natural gas prices will reflect actual prices when the resource comes on-line, it does
11 not matter because customers ultimately pay whatever the actual natural gas prices are
12 through the ECA and not the updated natural gas price that was used in the selection resource
13 process. However, carbon costs are not analogous to updated natural gas prices because, at
14 least as of today, customers do not ultimately pay for the carbon costs that were used in the
15 screening process or pay for the carbon costs included on their bills.

16 I am aware of a similar situation where an imputed value was used in the resource
17 selection process, but when the actual costs of the wind resources were included in the
18 RES/No-RES modeling it had the unintentional consequence of increasing the incremental
19 energy costs recovered through the RESA.⁵ The imputed value was an \$8.75 per MWh
20 Renewable Energy Credit (“REC”) for all renewable resources. Attached as Exhibit FCS- 2 is
21 OCC Discovery Question 2-1 where I asked Public Service to confirm my understanding of
22 this outcome. This exchange is presented in sub-part G of OCC Discovery Question 2-1. In

⁵ Docket No 07A-462E.

1 my opinion, this demonstrates why using imputed value or costs which are not being
2 recovered through actual customer bills can present problems.

3 **Q. WHAT DOES THE OCC PROPOSE THE COMPANY DO FOR ITS 2009 RES**
4 **COMPLIANCE PLAN AS IT RELATES TO THE LOCK DOWN CALCULATION OF**
5 **NET COSTS OR NET BENEFITS OF ELIGIBLE ENERGY RESOURCES?**

6 **A.** Public Service should be allowed to calculate an associated lock down for an Eligible
7 Energy resource's net cost or net benefits as it has proposed with the exception that no carbon
8 cost adder be included in the analysis. We would also suggest that the Company be required
9 to retain the associated data and modeling files used in these net cost or net benefit lock down
10 calculations such that when carbon costs become more known and measurable, the associated
11 lock downs can be recalculated for all prior Eligible Energy resources. Then the updated lock
12 down figures can be factored into future Compliance Plans.

13 **Q. IS THE OCC OPPOSED TO A UTILITY GETTING MORE ELIGIBLE**
14 **ENERGY RESOURCES FOR CUSTOMERS?**

15 **A.** No. We are concerned that the carbon cost adder should remain as a planning
16 assumption for resource modeling purposes and should not be included in a net cost/benefit
17 calculation until it becomes a known and measurable cost which customers pay.

18 **Q. ARE CARBON COSTS INCLUDED IN OTHER ANALYSES WITHIN**
19 **PUBLIC SERVICE 2009 COMPLIANCE PLAN?**

20 **A.** Yes. The use of the carbon cost adder in also factored into the revenue figures Public
21 Service presents in Table 6-3. Exhibit FCS-3 is OCC Discovery Question 1-12. It shows that
22 starting in 2010, the Company has estimated an additional \$2,621,000 of additional RESA

1 revenues attributable to the additional carbon dioxide costs above the 20 percent level and the
2 additional carbon cost related revenues continue through the RES Planning Period of 2020.

3 **Q. IS THE OCC TAKING ISSUE WITH THIS ASPECT OF THE COMPANY'S**
4 **2009 COMPLIANCE PLAN?**

5 **A.** No. Because the effects of this inclusion does not start until 2010, I believe the 2010
6 Compliance Plan docket is the proper venue to discuss this issue.

7 **Q. IN ONE OF YOUR EARLIER ANSWERS YOU MENTIONED THAT**
8 **BECAUSE THE CARBON ADDER IS NOT PART OF THE "REAL WORLD" IN**
9 **TERMS OF CUSTOMERS' BILLS THEN IT SHOULD NOT BE INCLUDED IN THE**
10 **RETAIL RATE IMPACT CALCULATION. DID I ACCURATELY REPRESENT**
11 **YOUR POSITION ON THIS POINT?**

12 **A.** Yes.

13 **Q. MAY I TAKE THIS NEXT PORTION OF OUR DISCUSSION INTO THE**
14 **REAL WORLD, AS YOU USE THAT TERM?**

15 **A.** Fair enough.

16 **Q. ISN'T THE COLLECTION OF ACTUAL RESA FUNDS SIMPLY THE RESA**
17 **RIDER PERCENTAGE TIMES THE TOTAL VALUE OF A CUSTOMER'S**
18 **ELECTRIC BILL?**

19 **A.** Yes.

Q. SO WHY DOES IT MATTER THAT THERE COULD BE MORE HEADROOM AND THUS MORE ELIGIBLE ENERGY RESOURCES DEPLOYED UNDER A SCENARIO WHEN A CARBON ADDER IS INCLUDED IF THE MAXIMUM RESA CHARGE ON A CUSTOMER'S BILL IS FIXED AT TWO PERCENT?

1 A. Described below is my current working theory of the interplay between the RESA
2 modeling headroom and actual RESA collection through customer bills. Using Page 1 of 3 of
3 Exhibit FCS-1 as a way to put this into a visual context, although the differences between
4 both the blue bars (1.96 units) and both the green bars (2 units) is two percent of the
5 respective scenarios the relevant difference is between the two RES scenarios which is 2.04
6 units. For purposes of the retail rate impact calculation with a carbon adder, we are using a
7 larger base upon which to measure two percent from and to acquire more Eligible Energy
8 resources. However, in the real world that larger base does not exist because customers are
9 not paying the associated carbon costs which made the green RES bar higher. My suspicion
10 is that by allowing more Eligible Energy resources to be acquired because carbon costs have
11 been included, that in subsequent RESA Account reconciliations (comparing actual RESA
12 collections from customers to the modeled incremental costs shown in Column H of Table 6-
13 3) it might turn out that actual RESA collections will fall short of the model incremental costs
14 of the Eligible Energy resources. This would mean that the retail rate impact cap has been
15 exceeded. This is visually demonstrated on Page 1 of 3 with the modeling headroom of 2.04
16 units, but with the real world headroom (because carbon costs are not currently being charged
17 to customers) of only 1.96 units.

~~1 We are also concerned that the allocation percentages for the WiP between the Xcel
2 operating companies is being fixed as of the 2008 values. The OCC believes that it would be
3 appropriate to update the allocation percentages at some future point in time during the WiP's
4 useful life. The Company has indicated that the WiP Forecasting Tool has a five-year useful
5 life. The OCC recommends that the allocation percentages to Xcel's operating companies be
6 recomputed in third year of the WiP's useful life based on a more current relative penetration
7 rate of wind on each of the Xcel operating companies' system or based on whichever method
8 the Commission adopts in this proceeding. Under this recommendation years four and five of
9 the WiP's useful life would use updated allocation percentages.~~

10 **E. Concluding Comment**

11 **Q. IS THERE SOMETHING ELSE YOU WANT TO SAY?**

12 **A.** Yes. The common theme through my testimony is that I am challenging proposals
13 that Public Service has made in this Compliance Plan filing which helps the RESA and the
14 retail rate impact cap calculation. I contended that: 1) the variations in generation between
15 forecasts and actual need to be shared between the deferred accounts for the RESA and the
16 ECA instead of being exclusively assigned only to the ECA; and 2) that carbon costs should
17 not be included in the retail rate impact calculation or the lock down calculation until they are
18 known and measurable and being charged to customers, instead of using the estimated carbon
19 costs from Public Service's most recent ERP case;

~~20 The OCC believes that in order for the retail rate cap to have meaning, costs that
21 should appropriately be "charged" to the RESA should not be charged to the ECA and that
22 estimated carbon costs should not be included in the determination of rates until carbon costs~~

Line	Headroom with a Carbon Adder		Scale	Headroom without a Carbon Adder	
1					
2					
3			102.5		
4			102		
5			101.5		
6	2% Headroom	2.00	101.0		Headroom 2.04
7			100.5		
8			100		
9			99.96		
10			99.0		
11			98.5	2% Headroom	1.96
12			98		
13			97.5		
14					
15					
16					
17					
18					
19	No-RES	RES		No-RES	RES
20	(w/ Carbon Adder)	(w/ Carbon Adder)		(w/o Carbon Adder)	(w/o Carbon Adder)

Line	Lock Down With Carbon Adder				Scale	Lock Down Without Carbon Adder			
1									
2									
3									
4									
5					30				
6					29				
7	No-RES (w/ Carbon Adder)			Net Costs	28			Net Costs	
8				Net Benefits	27	No-RES (w/o Carbon Adder)			
9					26			Net Benefits	
10					25			Cost of portfolio	
11				Cost of portfolio	24			after fossil fuel	
12				after removing				resources are	
13				equivalent sized				removed, but before	
				fossil fuel resource				renewables are added	
				with its carbon adder					

**Re: The Application of Public Service Company) Second Set of Discovery Requests
of Colorado for Approval of its 2009 Renewable) Of the Office of Consumer Counsel
Energy Standard Compliance Plan) Served On Public Service Company
Docket No. 08A-532E) February 6, 2009**

DISCOVERY REQUEST NO. OCC2-1:

In this docket, Public Service is proposing to be allowed to “lock down” the incremental costs of a new Eligible Energy Resources.

- a) Under Public Service’s proposal, will this lock down calculation include a value for the “carbon savings” of the Eligible Energy Resource?
- b) Under Public Service’s proposal, will this lock down calculation include a value for the “carbon costs” of the fossil fuel equivalent resource used in the No-RES scenario?
- c) Under Public Service’s proposal, which Eligible Energy Resources will use the carbon prices approved in the Company 2007 Colorado Resource Plan case, Docket No. 07A-447E for the lock down calculation?
- d) Mr. Warren explains on page 5 of his Direct Testimony, lines 3 to 5 that in the last column of Table 6-1 is the on-going costs of the SunE Alamosa and all On-Site solar installed as of the as of the end of 2008. Please break out by year this column into two sets—one attributable to SunE Alamosa and one attributable to all On-Site solar resources. Please provide the spreadsheet, with cell references intact, which performs these lock down calculations.
- e) Please provide the on-going costs shown in the last column of Table 6-1, but without including any carbon costs being included in the analysis. Please break out by year the values into two sets—one attributable to SunE Alamosa and one attributable to all On-Site solar resources. Please provide the spreadsheet, with cell references intact, which performs these lock down calculations.
- f) Should future carbon costs/taxes legislation be approved which establishes known costs for carbon, would Public Service agree to recalculate the prior years’ lock down amounts based on actual carbon costs/taxes and true-up the RESA account for the difference between estimated carbon costs and known costs for carbon?

- g) Does Public Service agree with the following statements. As a result of the settlement reached in its 2003 LCP, it agreed to impute a Renewable Energy Credit value of \$8.75 per MWh in the resource selection process for renewable resources. This imputed REC value was used in the selection process for the 2005 All-Source RFP. The use of the imputed REC value contributed in part to the selection of four wind resources because they were shown to be cost effective, due in part to the \$8.75 per MWh imputed REC value. Contracts were signed for four wind resources and the facilities went into service. However, when their actual costs were included in the RES/No-RES modeling in Docket No. 06A-478E, they had the unintentional consequence of increasing the incremental energy costs recovered through the RESA. If the Public Service disagrees with any of the above statement, please identify which statements the Company disagrees with and why.

RESPONSE:

- a) Yes.
b) Yes.
c) All eligible renewable resources are compared to thermal resources in the No RES model and therefore include the carbon prices when considering the lock down calculation.
d) See Attachment OCC2-1.
e) Unavailable. The RES and No RES modeling, and Ongoing Costs calculations were not performed without Carbon Costs.
f) No. The purpose of the lock-down provision is to lock in expected incremental costs (or incremental savings) at the time that the resource is procured. Therefore, Public Service does not agree that the RESA balance should be changed if carbon costs are different in the future from the Commission-approved carbon estimates that are used at the time of resource procurement. The same is true for all other cost estimates in the STRATEGIST model.
g) Public Service agrees with all of these statements.

Sponsor: Art Warren (a – e)
Dan Ahrens (f & g)

Response Date: February 12, 2009

Re: The Application of Public Service Company)	First Set of Discovery Requests
of Colorado for Approval of its 2009 Renewable)	Of the Office of Consumer Counsel
Energy Standard Compliance Plan)	Served On Public Service Company
Docket No. 08A-532E)	January 15, 2009

DISCOVERY REQUEST NO. OCC1-12:

On page 7 lines 1 to 12 of Mr. Warren's Direct Testimony, he indicates that Public Service has included the cost of carbon emissions above the 20% reduction for purposes of calculating the RESA beginning in the year 2010. Please identify the yearly amount of carbon costs above the 20% level for the years 2010 to 2020 included in the RESA calculations.

RESPONSE:

See Attachment OCC1-12.

Sponsor: Art Warren

Response Date: February 9, 2009

Year	Wholesale LRS	Retail	CO2 \$000 above 20%	CO2 \$000 added to Retail Revenue Forecast	CO2 RESA \$000 @ 2% RESA
2010	14%	86%	\$152,464	\$131,042	\$2,621
2011	14%	86%	\$158,786	\$136,221	\$2,724
2012	9%	91%	\$133,884	\$122,202	\$2,444
2013	9%	91%	\$126,158	\$114,753	\$2,295
2014	9%	91%	\$133,365	\$121,003	\$2,420
2015	9%	91%	\$154,213	\$139,582	\$2,792
2016	10%	90%	\$154,013	\$139,094	\$2,782
2017	10%	90%	\$145,915	\$131,580	\$2,632
2018	10%	90%	\$166,613	\$150,037	\$3,001
2019	10%	90%	\$179,283	\$161,228	\$3,225
2020	10%	90%	\$189,136	\$169,880	\$3,398

BEFORE THE PUBLIC UTILITIES COMMISSION OF COLORADO

DOCKET NO. 08A-532E

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

**CROSS-ANSWER TESTIMONY OF LOWREY BROWN
ON BEHALF OF WESTERN RESOURCE ADVOCATES**

MARCH 23, 2009

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Lowrey Brown. I am a Senior Policy Analyst in Western Resource
3 Advocates' (WRA) Energy Program. My business address is 2260 Baseline Road,
4 Suite 200, Boulder, CO 80302.

5 **Q. Please describe WRA.**

6 A. WRA is a non-profit conservation organization working to protect and restore the
7 natural environment of the Interior American West. WRA's Energy Program works to
8 develop and implement policies to reduce the environmental impacts of the electric
9 power industry in the Interior West by promoting the expanded use of renewable energy,
10 energy efficiency, and other clean energy resources in an economically sound manner.

11 **Q. Have you prepared an appendix that describes your qualifications?**

12 A. Yes, Appendix A is attached to this testimony and describes my qualifications.

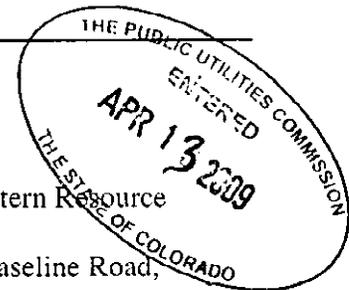


EXHIBIT # 26
DOCKET # 08A-532E
WITNESS _____
DATE 4/7/09
REPORTER AW

1 **Q. Have you previously testified as an expert witness in electric utility proceedings?**

2 A. Yes. I have testified before the Public Utility Commission of Oregon on behalf of the
3 Citizens' Utility Board of Oregon. A summary of my participation before that
4 Commission is included in Appendix A.

5 **Q. Please summarize your testimony in this proceeding.**

6 A. My testimony rebuts the Colorado Office of Consumer Counsel's (OCC) assertion
7 that the carbon adder from the Resource Planning process should not be used in the retail
8 rate impact calculation that is used this year for compliance with Colorado's Renewable
9 Energy Standard (RES) laws and regulations.

10 **Q. Please summarize your argument as to why the carbon adder is appropriately**
11 **included in the retail rate impact calculation.**

12 A. First, it is important to recognize that the RES Compliance Plan is a long-term
13 resource acquisition plan, and is part of a utility's overall long-term resource procurement
14 process. Not including the carbon adder in the retail rate impact calculation, simply
15 because carbon costs are not currently a line item in customer rates today, suggests that a
16 utility should make long-term resource acquisition decisions based only upon costs as
17 they are today, and not upon the utility's best estimate of how costs will change into the
18 future. This would not be a reasonable way to approach long-term resource planning.

19 This highlights a fundamental problem with the, I think false, presumption that an annual
20 reworking of a utility's RES Compliance Plan is necessary to comply with the retail rate
21 impact rule. A utility cannot reasonably be expected to make long-term renewable

1 resource acquisition decisions when the funding available for those acquisitions changes
2 every year. It is an unfair position to put the utility in, and it is unnecessary.

3 In addition, it is important not to lose sight of the fact that the retail rate impact
4 calculation in the RES Compliance Plan is an estimate based on forecasts of two different
5 cost streams for two different future scenarios, one of which – the No-RES plan – the
6 utility will specifically not pursue. By its nature, the retail rate impact calculation cannot
7 have the mathematical certainty of $1+1=2$. To whipsaw a utility's resource procurement
8 plan back-and-forth each year as cost forecasts change based upon a calculation that is
9 both a forecast and an estimate does not make sense.

10 **Q. What is the basis for OCC's argument that the carbon adder should not be**
11 **included in the retail rate impact calculation?**

12 A. OCC argues that there is no carbon charge currently in customer bills, and that to
13 include it in the retail rate impact calculation would inflate the calculation with costs that
14 do not exist in the "real world."¹

15 **Q. Why do you disagree with OCC's argument?**

16 A. The RES Compliance Plan examines both the retail rate impact and the utility's long-
17 term renewable resource acquisition plan for complying with the Renewable Energy
18 Standard. Excluding the carbon adder, because no specific carbon cost is in rates today,
19 would suggest that a utility should plan its resource acquisitions today as if there will be

¹ OCC Testimony of Frank Shafer at 7.

1 no carbon costs in the future.² The same logic would suggest that a utility should plan its
2 resource acquisition as if all costs, from natural gas prices to the cost of raw materials,
3 will remain as they are today. This is not a reasonable way to approach long-term
4 resource acquisition planning. Specifically, exclusion of the carbon adder now would be
5 approaching future resource planning based on a future carbon cost stream of zero,
6 simply because zero is the carbon cost in rates today. While we cannot know exactly
7 what the future cost of carbon regulation might be, the political momentum for carbon
8 emissions regulation strongly suggests a future carbon cost stream greater than zero.

9 **Q. In its argument, did OCC claim that carbon costs should be excluded when**
10 **considering future resource acquisitions?**

11 A. No, OCC specifically distinguishes between the retail rate impact calculation and
12 resource planning assumptions.³ This distinction, however, is part of the fundamental
13 problem with OCC's argument. The retail rate impact calculation is a central part of a
14 utility's renewable resource acquisition planning for RES compliance. The result of the
15 retail rate impact calculation determines the level of funding for renewable resources that
16 can be developed by the utility. It would not make sense to use one set of assumptions in
17 the retail rate impact calculation and another when planning resource acquisitions, when
18 those resource acquisitions are being planned for based upon the results of the retail rate
19 impact calculation.

² In Commission Decision No. C08-0929, where the carbon adder was established, the Commission points to the direction provided by and authority granted in § 40-2-23(1)(b) C.R.S., notes the increasing momentum in the political acceptance of carbon legislation, and agrees with PSCo's perspective that CO₂ costs are likely to rise. The first sentence of § 40-2-23(1)(b) C.R.S. reads: "The commission may give consideration to the likelihood of new environmental regulation and the risk of higher future costs associated with the emission of greenhouse gases such as carbon dioxide when it considers utility proposals to acquire resources."

³ OCC Testimony of Frank Shafer at 7.

1 **Q. Please explain the fundamental problem with an annual reworking of a utility's**
2 **RES Compliance Plan.**

3 A. A utility cannot reasonably be expected to plan for long-term RES resource
4 acquisitions if the amount of money available for those acquisitions changes from year to
5 year. It does not seem fair to expect a utility to plan for and acquire renewable resources,
6 while annually changing the funding available for those acquisitions as gas prices spike
7 or drop, as the cost of materials rises or falls with economic activity, or as the costs of
8 complying with likely future carbon emissions regulation is phased in. A utility could
9 acquire a resource one year, the cost of which was well within that year's forecast for
10 long-term funding, only to be told that this year's forecast for long-term funding indicates
11 that the once-acceptable cost of that resource is now outside of the available funding.

12 **Q. Why do you think this annual reworking of a utility's RES Compliance Plan,**
13 **through the annual retail rate impact calculation, is not necessary?**

14 A. As I read them, neither the Renewable Energy Standard Statute, nor the Rules
15 implementing it, require an annual reworking of a utility's renewable resource
16 procurement plan through an annual redetermination of the retail rate impact. With regard
17 to the retail rate impact specified in the Renewable Energy Standard, § 40-2-124(1)(g)(I)
18 C.R.S. provides that, "for each qualifying utility, the commission shall establish a
19 maximum retail rate impact ... of two percent of the total electric bill annually for each
20 customer. The retail rate impact shall be determined net of new alternative sources of
21 electricity supply from noneligible energy resources that are reasonably available at the
22 time of the determination."

1 While specifying an annual retail rate impact, the Statute does not speak to an annual
2 determination of that impact, and, at the risk of splitting hairs, it says “at *the time of the*
3 determination” (emphasis added). I am making no presumption that use of the definite
4 article limits the Commission to a single determination, but I see nothing that would
5 require multiple determinations.

6 **Q. The Commission’s Rules are far more specific as to the calculation of the retail**
7 **rate impact. How do you read the Rules, in particular 3661(h)(II), as not requiring**
8 **an annual retail rate impact determination by the Commission for compliance**
9 **purposes?**

10 A. First. The Rules governing compliance with the Renewable Energy Standard are
11 lengthy, and Rule 3661(h)(II) should be read within the context of the Rules as a whole.
12 There are a number of provisions in the Rule that either suggest or clearly state a long-
13 term approach to a utility’s renewable resource procurement plan, and specifically an
14 approach that looks past the single compliance year of each filing.
15 Foremost, the Commission’s Rule for a utility’s “estimate of the retail rate impact limit”
16 requires the utility to consider resources “at the beginning of the compliance year and for
17 a minimum of the ten years thereafter,” 3661(h)(I). The Commission’s Rules also address
18 the carrying forward of Renewable Energy Certificates (RECs) from past years and the
19 borrowing of RECs from future years, 3659(a)(VI-VII), the expiration of RECs in five
20 calendar years, 3659(f), the carrying forward of costs incurred in acquiring eligible
21 energy, 3660(c), and investor-owned utility ownership of renewable generation assets,
22 3660(e), which are unlikely to be one-year investments.

1 Though a utility's RES Compliance Plan filing is to include the utility's determination of
2 the retail rate impact, 3657(a)(I)(A), the Commission's ruling is on the Plan, 3657(b).
3 Rule 3661(h)(II), requiring a utility to modify its RES plan so as not to exceed the retail
4 rate impact for the first compliance year of the RES planning period, stands alongside
5 Rule 3659(f) that specifically allows an investor-owned utility to carry forward
6 compliance costs in excess of the retail rate impact. The latter makes sense, as resources
7 are not acquired in a linear fashion, and it is reasonable to expect inter-year variability in
8 renewable resource acquisition expenditures.

9 In summary, the existing rules do not require an annual Commission determination of the
10 retail rate impact, and do contain numerous references and provisions that suggest a long-
11 term approach to a utility's RES Compliance Plan.

12 **Q. Explain the significance of your earlier claim that the retail rate impact**
13 **calculation lacks mathematical certainty.**

14 A. As described earlier, the retail rate impact calculation, by its nature, lacks
15 mathematical certainty. It is an estimate that is based on forecasted cost streams from two
16 different possible future scenarios, one of which – the No-RES scenario – the utility will
17 specifically not pursue. Not only will both of these forecasts almost certainly be wrong,
18 one of the forecasted scenarios is for an alternate reality that will not exist, and so cannot
19 be looked back at to see what its cost stream actually was.

20 This is not to suggest that the retail rate impact calculation serves no purpose, but it is
21 important to keep the results of the calculation in perspective. Recalculating the retail rate

1 impact based on this year's gas cost is not going to provide mathematical certainty that
2 did not exist in the first place.

3 Planning for future resource acquisitions is a process that involves forecasts,
4 assumptions, sometimes placeholders, and always uncertainty. A utility's renewable
5 resource acquisition planning for RES compliance is subject to the same uncertainties,
6 but, as described earlier, if the amount of funding available to the utility for compliance
7 changes every year, it adds an element of futility to the process, as resources planned for
8 one year might be too expensive the next year and then within projected funding levels
9 the year after that. A far more sensible approach to planning for and acquiring renewable
10 resources to comply with the RES would be to design, based on the best forecasts and
11 assumptions available, a renewable resource acquisition plan that meets the retail rate
12 impact cap, and then proceed to acquire the resources without rolling the dice each year –
13 which annually raises or lowers the forecast for available funds for RES compliance, and
14 leaves the utility in limbo as it tries to make long-term renewable resource acquisition
15 decisions.

16 Given that the retail rate impact calculation is an estimate, and one whose forecast cannot
17 even be compared to events as they eventually materialize (as one of the scenarios will
18 not ever materialize), it is especially nonsensical to require a utility to redesign its
19 renewable resource acquisition plan each year around that calculation. It does make
20 sense, however, that in planning for future resource acquisitions, the utility should use the
21 best available information at the time.

1 **Q. Is your opinion consistent with Public Service's proposed lock-down of a**
2 **resource's net cost or benefit?**

3 A. Yes, I believe so. I see no reason that a full-blown Commission retail rate impact
4 determination would be necessary to establish the incremental net cost or benefit of a new
5 resource. It is important to keep in mind that, going forward, changes in the cost of
6 carbon regulation or fluctuations in gas prices will not change the utility's costs of
7 acquired renewable resources. I would note that my understanding of Public Service's
8 proposal is that only the net cost or benefit of resources that have, or will very soon be,
9 acquired would be locked-down.⁴ Circumstances can change quickly, and I would not
10 want to create a situation where, by locking-down a resource's estimated net cost or
11 benefit in advance, a utility might have an incentive to blindly follow a Plan that had
12 been approved under different circumstances.

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

14 A. Yes.

⁴ Public Service Direct Testimony of Daniel Ahrens at 21-22.

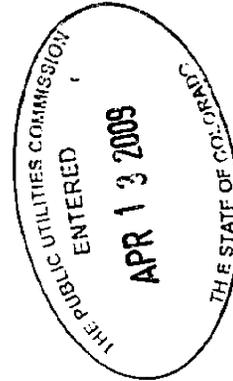
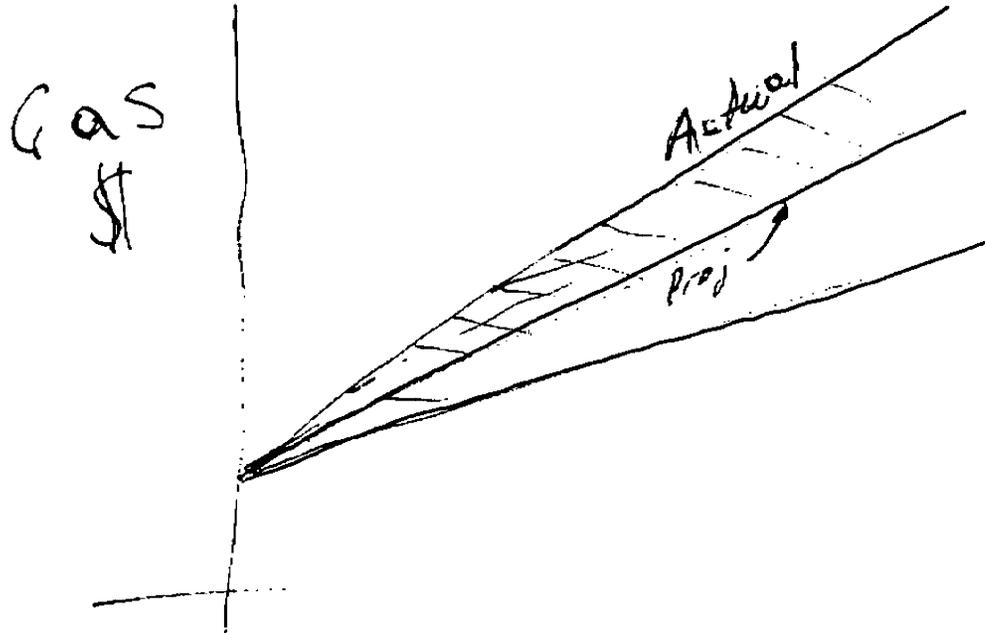


EXHIBIT # 37
DOCKET # 08A-532E
WITNESS Gene Camp
DATE 4-7-09
REPORTER cc

Re: The Application of Public Service Company)	First Set of Discovery Requests
of Colorado for Approval of its 2009 Renewable)	Of the Office of Consumer Counsel
Energy Standard Compliance Plan)	Served On Public Service Company
Docket No. 08A-532E)	January 15, 2009

DISCOVERY REQUEST NO. OCC1-12:

On page 7 lines 1 to 12 of Mr. Warren's Direct Testimony, he indicates that Public Service has included the cost of carbon emissions above the 20% reduction for purposes of calculating the RESA beginning in the year 2010. Please identify the yearly amount of carbon costs above the 20% level for the years 2010 to 2020 included in the RESA calculations.

RESPONSE:

See Attachment OCC1-12.

Sponsor: Art Warren

Response Date: February 9, 2009

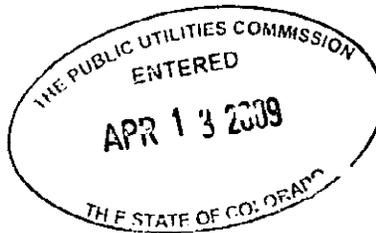


EXHIBIT # 38
DOCKET # 08A-532E
WITNESS Arthur Warren
DATE 4-7-09
REPORTER W

Year	Wholesale LRS	Retail	CO2 \$000 above 20%	CO2 \$000 added to Retail Revenue Forecast	CO2 RESA \$000 @ 2% RESA
2010	14%	86%	\$152,464	\$131,042	\$2,621
2011	14%	86%	\$158,786	\$136,221	\$2,724
2012	9%	91%	\$133,884	\$122,202	\$2,444
2013	9%	91%	\$126,158	\$114,753	\$2,295
2014	9%	91%	\$133,365	\$121,003	\$2,420
2015	9%	91%	\$154,213	\$139,582	\$2,792
2016	10%	90%	\$154,013	\$139,094	\$2,782
2017	10%	90%	\$145,915	\$131,580	\$2,632
2018	10%	90%	\$166,613	\$150,037	\$3,001
2019	10%	90%	\$179,283	\$161,228	\$3,225
2020	10%	90%	\$189,136	\$169,880	\$3,398

Docket No. 08A-532E

Staff Position on "Time Fence" Issue

1. The fundamental principle underlying Staff's recommendation with regard to the Company's proposed "time fence" is that the retail rate impact determination should reflect actual costs and benefits of renewables that are incremental to that which would have been the case if non-renewable resources had been acquired. The RESA balance should not be based on "locked in" savings and costs determined based on previous projections.
2. The four renewable resources that resulted from the 2005 All Source RFP, and any resources that existed prior to the passage of Amendment 37, should not be included in the retail rate impact determination.
3. With each annual Renewable Energy Standard (RES) plan
 - (a) The Company shall rerun the RES and No-RES models for the prior year replacing only the projected costs of fuel and CO₂ with actual costs. This analysis shall be used to determine the incremental costs to be assessed to the RESA.
 - (b) If the determination in (a) demonstrates that incremental costs were less than the maximum rate impact, then the RESA balance shall be credited by that amount.
 - (c) If the determination in (a) demonstrates that incremental costs were greater than the maximum rate impact, then the RESA balance shall be debited by that amount.
 - (d) The plan and models looking forward should be based on the Company's best projection of sales, fuel costs, CO₂ costs, and replacement non-renewable resource costs.
4. If the RESA account is determined to be insufficient to cover the ongoing costs of renewable resources that were already approved by the Commission through previous RES plans, electric resource plans, or specific contract approval applications, then the Company shall be allowed to seek recovery of the shortfall in RESA funds through a rider such as the ECA. The RESA shall be debited by any shortfall recovered through such a rider.
5. In the case of RESA funds determined to be insufficient to cover the ongoing costs of renewables as described in paragraph 4 above, acquisitions of new renewable resources shall cease until such time that it is determined that RESA funds are sufficient to recover costs of the new resources.

EXHIBIT # 44
DOCKET # 08A-532E
WITNESS _____
DATE 4/8/09
REPORTER [Signature]

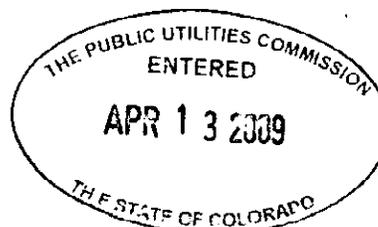


Illustration of gas price impact on RESA costs

A	B	C <i>(A x B) / 1000</i>
Change in Gas Price <u>\$/mmbtu</u>	Average Heat Rate of Avoided Fossil Energy <u>btu/kWh</u>	Change in Cost of Avoided Energy <u>\$/MWh</u>
\$1.00	8,000	\$8.00

	D	E	F <i>D x E x 8760</i>	F x C
<u>Technology</u>	Installed Nameplate <u>MW</u>	Capacity Factor	Annual Energy Produced <u>MWh</u>	Change in Annual Avoided Energy Savings <u>(\$/year)</u>
Wind	1000	38%	3,328,800	\$26,630,400
Solar	400	32%	1,121,280	\$8,970,240
			<u>Total</u>	<u>\$35,600,640</u>

Each \$1.00/mmbtu change in gas price results in a \$35 million swing in costs each year.

EXHIBIT # 2/8
 DOCKET # 08R-532E
 WITNESS _____
 DATE 2/18/09
 REPORTER [Signature]



RES

future Renew
Dec 31 Renew
Pre 1A37 Renew
None RES

PSC

UP Date
lock Down

Staff

UP date
Refun Fuel/CO ₂

Scenario 3

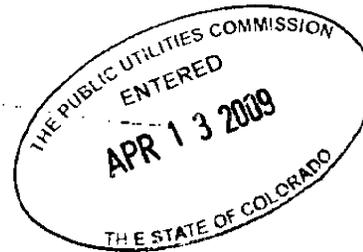


EXHIBIT # 49
DOCKET # 08R-532E
WITNESS _____
DATE 4/13/09
REPORTER HW

2009 APR 17 PM 4:09

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Hear
C-Baker
C-2
CC
ad
1
R

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF) DOCKET NO. 08A-532E
COLORADO FOR APPROVAL OF ITS 2009)
RENEWABLE ENERGY STANDARD)
COMPLIANCE PLAN)

STATEMENT OF POSITION
OF PUBLIC SERVICE COMPANY OF COLORADO

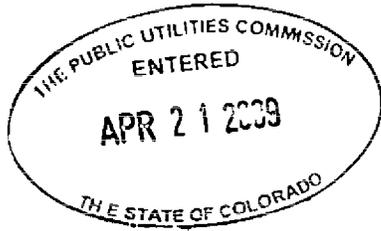
~~Public Service Company of Colorado respectfully requests that the Commission approve Public Service's 2009 Renewable Energy Standard Compliance Plan (the "2009 RES Plan"). The 2009 RES Plan is set forth in Hearing Exhibits 1 and 2 and is further discussed in the testimony provided by Public Service's witnesses. The 2009 RES Plan fully complies with Commission Rule 3657. The 2009 RES Plan meets and exceeds the Renewable Energy Standards.~~

~~In this Statement of Position, Public Service will address the major disputed issues raised in this Docket. To the extent we do not address an issue, Public Service requests that the Commission adopt the position articulated by the Company in our testimony and exhibits.~~

~~Disputed Issues~~

~~I. Determining the Retail Rate Impact~~

~~Commission Rules 3660 and 3661 address the issues of utility cost recovery for Eligible Energy Resources and the determination of the retail rate impact of these resource acquisitions. There were several disputed issues that were raised concerning the Company's proposed calculation of the retail rate impact of our 2009 RES Plan and subsequent plans. We address each of these issues in turn.~~



~~incremental v. actual non-incremental costs than the accounting transfers we used in past years.~~

~~The Staff has argued that this issue should be deferred until the Company's next Phase II rate case when the ECA is discussed. We disagree. There is nothing about the ECA design that will impact this decision. There needs to be one account for truing up estimated to actual costs. We have explained why we want to switch that account from the RESA to the ECA. There is no need to wait for the Phase II to make this decision. Plus, the Company needs to know which dollars are going to hit the RESA deferred balance when we prepare our 2010 RES Plan, due to be filed on July 1, 2009. It is very unlikely that there will be a Phase II rate case decision by that date.~~

~~The OCC argued that we should split the extra wind production between the ECA and the RESA. We believe this proposal is too complicated and unnecessary. Since the bulk of each wind MWh is non-incremental cost, the majority of the cost should hit the ECA anyway. In order to obtain the precision requested by the OCC, Public Service would have to run a RES No RES Plan for each wind resource, each year — which is a large amount of work. This would probably yield only minor variations from what we propose. Public Service respectfully requests that the Commission adopt the Company's proposal.~~

f. The "lock down" proposal.

The difference between the RES Plan and the No RES Plan provides the estimate of the incremental costs of the renewable resources that must be within the retail rate impact cap. This issue involves *which* renewable resources in the utility's RES Plan are displaced by non-renewable resources in the utility's No RES Plan. This

issue has been debated in each of Public Service's three compliance plans (2007 – 2009) because of the ambiguity and/or unintentional consequence of the interplay between Commission Rules 3661(h)(I) and (h)(II). Last year, in Docket No. 07A-462E addressing Public Service's 2008 RES Plan, we pointed out that there was a disconnect between these two rule subsections, such that the costs of certain resources factored into the determination of incremental cost but that the benefits of these resources did not. All parties and the Commission agreed that both the costs and the benefits of the renewable resources that impact the retail rate impact calculation need to be taken into account. The resources that were affected by this "cost-but-not-benefit" problem were the resources that were commercially operational at the time that the RES-No-RES Plans were run. The Commission granted a waiver of the rule to allow both the costs and the benefits of the renewable resources to be taken into account in the RES-No RES modeling.

Last year, Public Service raised another concern with respect to resources already acquired and we asked for a second waiver. That concern involved the application of Rule 3662((a)(XI), which required a recalculation of the RES Plan – No RES Plan with the filing of the annual compliance report, using the "actual compliance year values." We were concerned that rerunning the RES Plan—No RES Plan with actual gas prices could impact resources already purchased and further limit RESA funds if actual gas prices turned out lower than estimated gas prices. This situation adversely impacts the RESA balance because lower gas prices translate into higher *incremental* costs for renewable resources that must be paid from the RESA. The Commission (and the Staff) agreed that the utility should not be required to rerun the

RES Plan—No RES Plan analyses and apply the results retrospectively to the RESA, unless the utility had failed to meet the Renewable Energy Standard due to the retail rate impact limit *and* rerunning the RES Plan-No RES Plan analysis would create more “headroom” in the RESA, i.e., gas prices turned out to be higher than estimated. See Decision No. C08-0559 (June 4, 2008) at pp. 43-45.

This year, Public Service developed a solution to address both of these problems that were identified in the 2008 RES Plan – a solution that protects the RESA funds and that meets the requirements of Rule 3661(h). That solution is the Company’s “lock down” proposal. The lock down proposal works as follows. As Public Service acquires resources, the projected net costs or net benefits of that resource (or if small – the resource is aggregated once a year with other small resources for purposes of this determination) are determined for the life of that resource through a RES Plan – NO RES Plan modeling and then “locked down” and not reconsidered in subsequent RES compliance plan proceedings. In this way, the dollars that will be charged against the RESA balance become known and fixed. They are not retrospectively changed as gas prices fluctuate. As indicated earlier, even though the estimated incremental costs of the acquired resources are “locked down”, ultimately the deferred accounts reflect the actual costs paid. Under the Company’s proposal, the true-up to actual costs occurs in the ECA deferred account.

The Company’s lock down proposal was applied this year to the existing Eligible Energy Resources that impact the RESA at the time the RES – No RES modeling was conducted for the filing of the 2009 RES Plan. Those resources are the SunE Alamosa¹ central solar facility and all of the on-site Solar*Rewards contracts as of

December 31, 2008. Public Service estimated what the incremental costs for these resources will be, given all of the assumptions that the Commission ordered be used for resource acquisition in Docket No. 07A-447E (our most recent Resource Planning docket). The projected incremental costs of these resources are set forth in Column J of Table 6-3 as the “ongoing incremental costs.” Once these ongoing incremental costs are determined, these resources are modeled as part of both the RES Plan and the NO-RES Plan and, therefore, no longer factor into the determination of the incremental costs for new eligible energy resources. The incremental costs for *new* eligible energy resources are shown in Column H of Table 6-3. The costs that hit the RESA account in each year will include both the Modeled Incremental Costs for the new resources in Column H and the Ongoing Incremental Costs for the already acquired resources in Column J.

Public Service views the costs in Column H – the modeled incremental costs of new eligible energy resources – to be the costs discussed in Commission Rule 3661(h)(I). We view the costs in Column J – the ongoing incremental costs – to be the costs discussed in Commission Rule 3661(h)(II). This new modeling approach takes into account both the costs and the benefits of the resources that are in each column, thereby solving the mismatch problem for which we sought a waiver last year. This modeling approach also solves the problem caused by actual gas prices being lower than estimated. Once a resource is acquired and its net costs or benefits are locked down, then future changes in gas price forecasts do not impact that resource. The future changes in gas prices affect only the acquisition of *new* renewable resources, not the existing renewable resources.

Public Service urges the Commission to adopt this approach for determining the retail rate impact of Public Service's RES Plans. This approach provides better budgeting certainty to our Company and to the market as a whole. This approach gives us the ability to continually update our plans based upon known and established charges against the RESA from resources already acquired. All other approaches create uncertainty as to how many RESA dollars must be "reserved" to pay for already acquired resources. When uncertainty is created, and reserves must be established, then the Company has fewer dollars that can be spent on renewable resources and fewer resource acquisitions will be planned.

At the hearing, Trial Staff presented a counterproposal through the testimony of Gene Camp, reduced to writing as Exhibit No. 44. Staff proposed the following changes to the Company's proposal. First, Staff proposed that there would be no locked down incremental costs. Each time the Compliance Plan was prepared, all renewable resources acquired after the passage of Amendment 37 (with the exclusion of the four resources acquired as part of the Company's 2003 Least Cost Plan) would factor into the incremental cost determination in the RES Plan/ No RES Plan modeling. If gas price estimates dropped between plans, then already-acquired resources would show higher incremental costs than assumed at the time of their acquisition. Staff's proposal is that if the recalculation of incremental costs renders the RESA account insufficient to cover the ongoing costs of renewable resources, then the ECA would pick up the difference – but the Company would have to stop acquiring more renewable resources until the RESA funds were built back up again.

Second, not only would the Staff have the RES-No RES modeling apply to all of these resources going forward, the Staff would also look back at the most recent compliance year to retrospectively recalculate the incremental costs of the resource acquired in that year – using actual gas and carbon dioxide costs from the past year. In other words, Staff is now proposing the exact opposite position that Staff proposed last year in Docket No. 07A-462E as to the need to do a retrospective look at gas prices from the just completed compliance year.

Public Service strongly opposes the Staff's plan. We view this plan as creating substantial instability in the Company's ability to budget for the acquisition of renewable resources and to plan for carbon reduction. Each year, the dollars that we thought we would have available for future resource acquisition could be dramatically reduced by a recalculation of the incremental cost impact of "sunk" decisions from resources already acquired. While it is true, as suggested by Staff, that the recalculations could create more headroom if gas prices are higher than estimated at the time of resource acquisition, the opposite is also the case – lower gas prices could create, retrospectively, less headroom. Public Service believes that it is better to create reasonable levels of certainty as to the impact of past decisions, rather than to constantly reprice them. We think it is better to give up the potential for more headroom created by retrospective modeling than to lose assumed headroom going forward.

We also strongly oppose Staff's solution – halting the acquisition of renewable resources until the RESA replenishes, due to a retrospective remodeling of sunk decisions. This could result in boom and bust cycles for our Solar*Rewards program. It

could also delay the acquisition of larger eligible energy resources that we are counting on for capacity and for carbon reduction.

To give the Commission some sense of the “swing” in costs on the Public Service system created by changes in estimated gas prices, Mr. Ahrens sponsored Hearing Exhibit No. 48. This exhibit shows that each \$1.00 per MMBTU in gas price causes an approximate \$35 million swing in the avoided energy costs on the Public Service system. This swing will increase as more renewable resources are added and there are more gas MWHs avoided by renewable resources. While Staff pointed out through cross-examination that Exhibit 48 shows the avoided energy costs and not the change in incremental costs, it must be remembered that the incremental cost determination is closely linked to the determination of avoided energy costs. When the RES Plan/No RES Plan differential is modeled to determine the incremental costs of renewable resources, the benefit provided by the renewable resources is primarily the displacement of fuel cost. So, as the displaced fuel cost increases or decreases, the modeled incremental costs of the renewable portfolio moves in the opposite direction in very close correspondence. If the cost of the fuel displaced drops, the incremental costs of the renewable resource increases – and vice versa. Exhibit 48 shows that even a small change in fuel price estimates each year can have a very large impact on the modeled avoided energy savings for resources already acquired. This is why Public Service finds the Staff’s proposal problematic.

At the hearing Commissioner Baker asked what would happen if the resources that are “repriced” each year were to include *all* of the renewable resources on the Company’s system, including the resources that predated Amendment 37 and the four

resources excluded from the retail rate impact calculation by earlier Commission decisions. The result would be an even wider potential swing than set forth on Exhibit 48 and than suggested by the Staff proposal. The more renewable resources that factor into remodeling the incremental cost, the more impact – up or down – on the RESA as modeling assumptions change over time. It is true that Staff's proposal (or Commissioner Baker's variation on Staff's proposal) could create more headroom – a nice "upside" to fund more renewables. But these proposals also create the risk of a substantial "downside" that could interfere with growing the renewables industry in Colorado.

We understand the quest to create more headroom under the cap established by the General Assembly. Public Service has put two proposals before the Commission that will create more headroom under the retail rate impact cap without creating the "downside" inherent in the Staff proposal. The first Public Service proposal to create more headroom has already been approved by the Commission in Docket No. 08A-260E, where we proposed a new Windsource product. Under Windsource, customers voluntarily pay premiums to Public Service that will be used to acquire more renewable resources. The projected impact of these Windsource premiums is shown by contrasting Table 6-3 with Table 6-4. As can be seen in column R of Table 6-3, by 2020 the RESA deferred account has been reduced to \$324,226. But the same column in Table 6-4 shows a positive deferred balance of \$146,870,248 in 2020. Table 6-4 shows the projected Windsource premiums but not the addition, yet, of the resources that we will buy with those premiums. These projections estimate approximately \$147 million of additional headroom from these voluntary Windsource contributions.

The second mechanism proposed by Public Service to create headroom under the retail rate impact cap is pending before the Commission in Docket No. 08R-424E, the pending rulemaking docket on the Commission's Renewable Energy Standard Rules. In that docket, Public Service has asked for rules that clarify the ratemaking treatment that will be afforded utilities that sell RECs not needed for compliance with the Renewable Energy Standard. We have suggested that the rules state that the margin earned on the REC sales be split, with the utility keeping 20% of the margin as an incentive to get top dollar for the RECs, and then 80% of the margins being placed in the RESA deferred account so that more renewable resources can be acquired. This proposal, again, creates more upside for the RESA, without any downside.

Public Service requests that the Commission adopt the Company's lock down proposal to provide more certainty and stability in our budget for renewable resources. We also request that the Commission look favorably upon the Company's alternative headroom proposals in the rulemaking docket.

g. Whether or not to "lock down" carbon assumptions

The OCC witness Mr. Shafer supported the Company's lockdown proposal, except Mr. Shafer proposed that carbon assumptions be revisited in subsequent model runs. Mr. Shafer argued that since there is no carbon regulation at this time, the carbon assumptions should not be included in any locked down costs.

Public Service opposes the OCC's position. All of the reasons that we set forth above when we discussed the merits of the lockdown proposal apply with equal force to the need to lockdown the carbon assumptions used at the time of resource acquisition. Again, we repeat, by locking down the carbon assumption we are not requiring

customers to actually pay for any costs that Public Service does not incur. If we assume there will be carbon regulation in 2010 and that regulation does not start until 2012, the lockdown will not cause our customers to pay for non-existent carbon regulation.

We see no difference between reopening the incremental cost determination to reflect actual carbon costs (as proposed by the OCC) and reopening the incremental cost determination to reflect actual gas costs (as proposed by Staff). In both cases, if these costs are lower than assumed at the time of resource acquisition, the retrospective modeling will charge more incremental costs to the RESA than were assumed at the time the resource acquisition decision was made – retrospectively reducing headroom and decreasing the Company's ability to acquire more renewable resources. If the carbon costs are higher than assumed, then more headroom would be created, but as we discussed in connection with gas prices earlier, Public Service would prefer to avoid the risk of a retrospective loss of headroom.

Commission Rule 3661(e) requires the utility to use the same methodologies and assumptions approved in the most recent resource planning case for determining the retail rate impact. The Commission recently approved in Docket No. 07A-447E the carbon assumptions that Public Service must use in evaluating the bids and Company proposals submitted in response to the January 2009 All Source RFP. We anticipate that we will be acquiring large amounts of renewable resources based upon these carbon assumptions. When we evaluate these resources, we will be conducting RES Plan/No RES Plan analyses to make sure that we have enough money to pay for the incremental costs of these resources under the retail rate impact cap. We will be

contracting to purchase the output from these renewable resources, or constructing these resources, based upon their passing the retail rate impact cap test. We do not want to have to revisit these decisions and reprice the incremental cost based upon later changes in the costs of either natural gas or carbon, because of the risk of substantial decreases in the funds available in the RESA account.

It is standard regulatory practice to evaluate utility actions based upon what is known or projected at the time that the resource decision is made. This is test that is applied to determine whether a utility acted in a prudent manner. Utility actions are not judged based on hindsight. We believe that this same concept – judging renewable resource acquisition on the basis of the facts and projections at the time the resource acquisition decision is made – should apply to the calculation of the retail rate impact limit. The Commission has been authorized by C.R.S. §40-2-124 to interpret how to apply the retail rate impact cap. We urge the Commission to adopt an interpretation that is workable for the utilities, that avoids booms and busts in the renewables market, and that avoids retrospective loss of RESA funds.

~~2. Allocations of the On-site Solar Funds~~

~~COSEIA and the Interwest Energy Alliance dispute how the on-site solar funds should be allocated among the Company's small, medium and large programs. Public Service respectfully requests that the Company's 2009 plan for allocating these funds, set forth in Section 5 of the 2009 RES Plan and in the testimony of Ms. Newell, be approved. This allocation has been pretty much predetermined by the Company's proposal to honor all of the applications that were submitted in October 2008. As the Commission is aware, when the Company announced that it intended to reduce the Se-~~

RECEIVED
PUBLIC UTILITIES COMMISSION

2009 APR 17 PM 4:46

BEFORE THE PUBLIC UTILITIES COMMISSION

STATE OF COLORADO

Docket No. 08A-532E

TRIAL STAFF'S STATEMENT OF POSITION

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

Hean
C-Baker
C-2
CC
ad
1
F

Trial Staff of the Colorado Public Utilities Commission ("Trial Staff") hereby respectfully submits its Statement of Position in this proceeding.

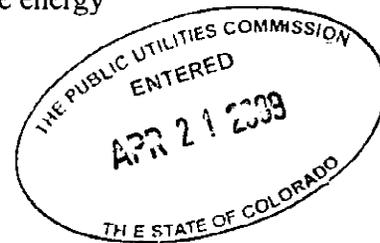
I. ARGUMENT

A. The Commission should reject the Company's proposal concerning the time fence and lockdown and instead accept Trial Staff's recommendation.

It is Trial Staff's position that when drafting § 40-2-124, C.R.S., the renewable energy standard, the legislature intended to accomplish two goals: 1) to mandate a shift in the generation of electricity in the State of Colorado away from conventional fossil generation toward clean renewable generation, and 2) in understanding that renewable energy generates energy at a higher cost today, provide an annual limit to acquisitions of renewable energy and its associated costs in the form of a retail rate impact test.

Section 40-2-124(1)(g)(I), C.R.S., states:

Except as otherwise provided in subparagraph (IV) of this paragraph (g), for each qualifying utility, the commission shall establish a maximum retail rate impact for this section of two percent of the total electric bill annually for each customer. The retail rate impact shall be determined net of new alternative sources of electricity supply from noneligible energy resources that are reasonably available at the time of the determination. If



the retail rate impact does not exceed the maximum impact permitted by this paragraph (g), the qualifying utility may acquire more than the minimum amount of eligible energy resources and renewable energy credits required by this section. (Emphasis added.)

Public Service Company of Colorado (“Public Service,” or the “Company”) seeks approval from the Commission to “lock down” the net incremental costs (or benefits) of new eligible energy resources either at the time it files its annual Compliance Plans or at the time it signs a contract for a new renewable energy resource.¹ The Company’s proposal for a time fence requires one to interpret § 40-2-124(1)(g)(I), C.R.S., to require the Company only to *plan* or project to stay within the retail rate impact limit and not *actually* stay within the limit. Under the Company’s proposal, if the actual incremental costs exceed the limit, then those costs will be passed on to rate payers through the Electric Commodity Adjustment (“ECA”). Therefore, the actual incremental cost to rate payers for renewable energy is not reflective of the costs recovered through the Renewable Energy Standard Adjustment (“RESA”). Further, the Company proposes that it be held harmless with respect to projections of the costs to implement the Renewable Energy Standard (“RES”) and be allowed to proceed without regard to changing circumstances, holding rate payers liable for exceeding the RESA retail rate impact by passing costs exceeding the limit through the ECA.

Hearing Exhibit 48, sponsored by Company’s witness Mr. Daniel Ahrens, assists in understanding the Company’s position. Exhibit 48 shows that for a \$1.00/MMBtu change in

¹ Exhibit 3, p. 20, l. 13 through p. 22, l. 17.

the cost of gas, there will be a corresponding \$35,000,000 change in the energy savings provided by 1,000 MW of wind and 400 MW of Solar. Putting that in perspective for the 2009 RES plan, the Company projects that the RESA, which is set at 2% of annual retail sales revenues, will collect approximately \$50,000,000.² The RESA funds are intended to recover both the incremental and ongoing costs of renewables relative to the cost of conventional resources in their place. Under the Company's time fence proposal, the lost benefit of \$35,000,000 would be passed on to rate payers through the ECA.³ Trial Staff believes it is likely that the perception of rate payers would be that they have paid only 2% more for the renewables. However, under the Company's proposal, in actuality rate payers have paid 3.4%: 2% or \$50,000,000 through the RESA and 1.4% or \$35,000,000 through the ECA. Carrying this example even further, if the Company's gas cost projections underestimate the cost of gas by \$1.00/MMBtu over a twenty year life for the resources contained in the example, then in addition to the 2% RESA, customers would pay \$700,000,000 in incremental costs through the ECA.

Trial Staff is troubled by the Company's proposal that appears to intentionally mask or hide the actual costs of renewable generation. Trial Staff cannot recommend that the Commission approve a plan that is not transparent and is intentionally misleading to rate payers with regard to the actual costs of renewable generation.

² Exhibit 2, Tables 6-3 and 6-4, Column M.

³ See also Exhibit 32.

Trial Staff's position regarding the time fence is reflected in Exhibit 44 and was explained in detail by its witness, Mr. Eugene C. Camp.⁴ Trial Staff believes that the Commission should reject having the RESA balance locked in based on previously projected savings and costs. Rather, Trial Staff's proposal is summarized below:

- The four renewable resources that resulted from the 2005 All Source RFP, and any resources that existed prior to the passage of Amendment 37 should not be included in the retail rate impact calculation set forth in Commission Rule 4 *Code of Colorado Regulations* ("CCR") 723-3661(h).
- With each annual RES Compliance Plan, the Company must rerun the RES/No-RES models for the prior year, replacing only the projected costs of fuel and CO₂ with actual costs. This analysis will be used to determine the incremental costs to be assessed to the RESA.
- If the determination immediately above demonstrates that incremental costs were less than the maximum retail rate impact, then the RESA balance shall be credited by that amount.
- If the determination demonstrates that the incremental costs were greater than the maximum retail rate impact, then the RESA balance shall be debited by that amount.
- If the RESA account is determined to be insufficient to recover the ongoing costs of renewable resources that were already approved by the Commission through previous RES plans, electric resource plans, or specific contract approval applications, then the Company shall be allowed to seek recovery of the shortfall in RESA funds through a rider such as the ECA. The RESA shall be debited by any shortfall recovered through such a rider.
- If the RESA account is determined to be insufficient to recover the ongoing costs of renewable resources that were already approved by the Commission through previous RES plans, electric resource plans, or specific contract approval applications, acquisitions of new renewable resources shall cease

⁴ Tr. Vol. II, p. 8, l. 7 through p.51, l. 23; p. 74, l. 6 through p. 78, l. 18; Tr. Vol. III, p. 126, l. 10 through p. 156, l. 23.

until such time that it is determined that RESA funds are sufficient to recover the costs of the new resources.

Trial Staff's proposal will keep the Company whole, regardless of changes in the price of fuel or CO₂ costs. However, the Company may need to adjust plans going forward to assure that rate payers never pay in excess of 2% more than they would have paid for conventional generation. In addition, the Company is currently exceeding and projected to exceed the renewable energy standard for the planning period. This is in contrast to the Company's position that it need only plan or project to limit the impact to customers to 2%, and if it's projections are wrong, then the Company should be held harmless and rate payers pay the difference through the ECA. Trial Staff believes it is more appropriate to use either actual numbers where available or updated, new projections to more accurately reflect the costs associated with the RESA that rate payers are paying.

Public Service voiced its opposition to Trial Staff's proposal through Mr. Ahrens' Rebuttal Testimony on the matter. It appears the other intervenors also oppose Trial Staff's proposal. The reasons for opposition include: the fear that acquisitions of renewable energy would decrease or even cease for periods when the RESA was insufficient to recover ongoing costs⁵; the Company would have less incentive to invest in renewable energy because it may be at risk to recover previous investments in renewables⁶; Trial Staff's proposal would put the Company at risk of being in violation of the retail rate impact due to

⁵ Tr. Vol. II, p. 27, l. 9 through p. 31, l. 24.

⁶ Tr. Vol. II, p. 30, l. 15 through p. 39, l. 23; Tr. Vol. III, p. 135, l. 25 through p. 140, l. 15.

“backcasting”⁷; that Trial Staff’s proposal would lead to wide swings and create uncertainty for Company planning purposes; and that the proposal would create instability for vendors supplying the market – primarily the on-site solar market.⁸

As Mr. Camp made clear, Trial Staff’s proposal is not an attempt to limit development of renewable energy. Mr. Camp explained, in evaluating Trial Staff’s proposal, one must examine what happens both when the price of natural gas is lower than projected as well as when it is higher than projected. There is no dispute that if the price of natural gas is lower than what was projected the previous year, the “headroom” or the funds available in the RESA is smaller, thereby reducing the amount the Company may spend on renewable energy. The converse is also true: if the price of natural gas is higher than projected, then the difference between the RES and No-RES Plans is higher, thus increasing the amount of money available to spend on renewables. It is Trial Staff’s opinion, as well as the environmental community’s opinion in the Company’s resource planning docket (Docket NO. 07A-447E), that the Company’s natural gas price projections are low. Therefore, it is likely that the price of natural gas will increase as demand increases, and this will produce additional amounts that can be spent on renewable energy. The potential for natural gas prices to drop and remain low is unlikely in the extreme.⁹

⁷ Vol. III, p. 135, l. 25 through p. 140, l. 15.

⁸ Tr. Vol. III, p. 162, l. 15 through p. 164, l. 4.

⁹ Tr. Vol. II, p. 15, ll. 4 - 20.

Trial Staff also disputes that Public Service will have less incentive to acquire renewable resources under Trial Staff's proposal. Mr. Camp's testimony made clear that under Trial Staff's proposal, the Company would recover all its expenses for renewable resources and that any previously made expenditures in resources approved by the Commission would not be subject to second-guessing.¹⁰ Further, Public Service is not at risk of being in violation of the 2% retail rate impact because, under Trial's Staff's proposal, the following year's RESA is adjusted to account for any overspending or underspending.¹¹

Public Service also testified that it opposed Trial Staff's proposal because of the uncertainty the proposal would create for planning purposes and also the impact it would have on vendors. With respect to these assertions, Trial Staff notes that the Company is required to file annual RES Compliance Plans that provide the opportunity to identify changes in acquisitions, changes that the Company currently annually implements. Further, while it is true that the pace at which new near term renewables such as on-site solar or small wind projects are able to be deployed may be reduced or curtailed if gas prices remain lower than predicted, conversely, in the case of higher than projected gas prices, the pace of deployment of some small renewable projects may be increased. Unfortunately, volatility in the market for small renewable resources has existed for many years and is caused primarily by changing tax laws and incentive payments from companies such as Public Service, but the

¹⁰ Tr. Vol. II, p. 27, l. 9 through p. 29, l. 16; Vol. III, p. 136, l. 12 through p. 140, l. 16.

¹¹ Tr. Vol. III, p. 138, l. 8 through p. 139, l. 3.

Company's proposal will place the risk of changing gas prices wholly on rate payers for the purpose of providing a stable market for small renewable resource developers.

~~B. The Commission should defer the Company's proposed cost recovery through the Electric Commodity Adjustment ("ECA") to the upcoming docket which will examine all aspects of the mechanism.~~

~~In past Company Compliance Plans, the differences between the projected cost and the actual cost of Eligible Energy have been trued up by adjustments to the RESA deferred account. As part of this proceeding, Public Service seeks approval from the Commission to change the true up mechanism from the RESA to the ECA. As the basis for making this change, the Company argues that there are currently no wind costs recovered through the RESA. However, as wind comes on line, Public Service is concerned that there will be significant variation in the actual output compared to what was projected, which will create a significant impact on the RESA deferred balance. Public Service argues that the variations caused by increases or decreases in wind production should be accomplished through adjustments to the ECA.¹² If the Commission approves the Company's proposal, it will have the effect of permanently moving incremental wind production costs from the RESA to the ECA.~~

~~There is no dispute that pursuant to Commission orders, by the end of this calendar year, Public Service will file an application for a docket in which all aspects of the ECA will be examined. In fact, the Company's witness Mr. Ahrens testified that the Company's new~~

¹² Exhibit 3, p. 12 through p. 14, l. 7.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF COLORADO) DOCKET NO. 08A-532E
FOR APPROVAL OF ITS 2009 RENEWABLE)
ENERGY STANDARD COMPLIANCE PLAN.)

**STATEMENT OF POSITION
OF THE COLORADO OFFICE OF CONSUMER COUNSEL**

~~Pursuant to Decision No. R09-0125-I, Interim Order of Hearing Commissioner Matt Baker Establishing a Procedural Schedule and Addressing Scope of Issues, issued by the Hearing Commissioner on February 6, 2009, the Colorado Office of Consumer Counsel (“OCC”), by and through its counsel, hereby files its Post-Hearing Statement of Position in the above-captioned docket.~~

INTRODUCTION

~~On December 1, 2008, Public Service Company of Colorado (“Public Service”) filed an application with the Colorado Public Utilities Commission (“Commission”) requesting approval of its 2009 Renewable Energy Standard Compliance Plan. This is Public Service’s third compliance plan filing under the Commission’s Renewable Energy Standard (“RES”) Rules.¹ The OCC supports the Commission’s approval of Public Service’s 2009 RES Compliance Plan with the following modifications.~~

¹ ~~The RES Rules are found at 4 Code of Colorado Regulations 723-3-3650 to 723-3-3665.~~

CARBON ADDER USED IN THE LOCKDOWN CALCULATION

The OCC advocated through both its pre-filed and oral testimonies that the resource acquisition planning assumption regarding the carbon cost adder should not be included in the lockdown calculation until the actual carbon costs become “known and measurable.” The imputation of carbon costs when no actual carbon costs are currently being paid by the customers on their bills artificially creates headroom that does not exist in the “real world.”² The OCC believes that the method used to calculate the retail rate impact and the associated lockdown amount should be based on assumptions which are more closely tied to what is actually impacting customer bills and not on resource planning assumptions which are used in the selection process of resources. The OCC contends that its request to use assumptions different than those used for resource planning process is allowed under RES Rule 3611(e)³, which reads:

For purposes of calculating the retail rate impact, the investor owned QRU shall use the same methodologies and assumptions it used in its most recently approved least-cost planning case, *unless otherwise approved by the Commission*. Confidential information may be protected in accordance with rules 1100 through 1102 of the Commission’s Rules of Practice and Procedure. (Emphasis Added)

The OCC maintains that carbon cost assumptions are uniquely different than other assumptions used in the resource planning process. Contrasting carbon assumptions with natural gas prices assumptions shows the distinction. In the Electric Resource Planning process, the Commission does not approve specific natural gas prices, but instead approves a methodology, which is updated at the time the utility begins the resource selection process after it has received bids. While it is unlikely that the updated natural gas prices will reflect actual prices when the resource

² See Hearing Exhibit Number 15, page 7, lines 4-11; and page 10, line 7 through page 11, line 17.

comes on-line, it does not matter because customers ultimately pay whatever the actual natural gas prices are through the Electric Commodity Adjustment (“ECA”) and not the updated natural gas price that was used in the selection resource process. However, carbon costs are not analogous to updated natural gas prices because, at least as of today, customers do not pay for the carbon costs included on their bills nor is there a process to reconcile the projected values for carbon costs with actually incurred carbon costs as is done with natural gas prices through the ECA.⁴

The OCC recommends that Public Service be allowed to calculate an associated lockdown for an Eligible Energy resource’s net cost or net benefits as it has proposed with the exception that no carbon cost adder be included in the analysis. Our recommendation would be a two-step calculation of the lockdown amount. The first step would calculate the net cost or net benefit for the SunE Alamosa project and the 2007 and 2008 On-Site Solar systems as part of this Compliance Plan without including a carbon cost adder. The second step would calculate the additional net benefit associated with the “carbon savings” for the SunE Alamosa project and the 2007 and 2008 On-Site Solar systems once carbon costs are known and measureable and once they are captured in bills which customers pay. These additional net benefits would be incorporated in a future Compliance Plan filing of Public Service. Under our recommendation, the Company would be required to retain the associated data and modeling files used to calculate the net cost or net benefit lockdown for this Compliance Plan. The OCC recommendation is a conservative approach to the calculation of net costs or net benefits since

³ See Hearing Exhibit Number 15, page 7, line 12 through page 9, line 2.

⁴ See Hearing Exhibit Number 15, page 8, lines 7-15.

there is currently uncertainty as to when and the magnitude of carbon costs that will be included in customer bills.

~~CHANGING FROM THE RESA TO THE ECA FOR DEFERRED ACCOUNTING TREATMENT~~

~~Currently the difference between the projected total costs of Eligible Energy and the actual total costs of Eligible Energy are “trued-up” by adjustments to the Renewable Energy Standard Adjustment (“RESA”) deferred account. Public Service seeks Commission approval to change the true-up process of Eligible Energy resources from the RESA’s deferred account to the ECA’s deferred account. Company witness Mr. Ahrens explains that although currently no wind costs are recovered through the RESA, as more wind comes on-line to meet the RES requirements, Public Service is concerned that actual wind output may vary significantly from projected wind output.⁵ He contends that since the RESA is currently the “balancing” rate mechanism, the RESA deferred account will be impacted by the full costs of either the increased (actual greater than projected) or reduced (actual less than projected) production as opposed to only the incremental cost of that generation.⁶ Mr. Ahrens mentions that variations in solar resource generation would also impact the RESA at their full costs and not their incremental costs. He states in his Direct Testimony⁷ that in order to reflect only the incremental costs in the RESA, the variations caused by increases or decreases in Eligible Energy production should be accomplished through adjustments to the ECA and not the RESA.~~

⁵ ~~Hearing Exhibit Number 3, page 13, lines 7-9.~~

⁶ ~~Hearing Exhibit Number 3, page 13, lines 11-15.~~

⁷ ~~Hearing Exhibit Number 3, page 14, lines 1-7.~~

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

DOCKET NO. 08A-532E

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

**STATEMENT OF POSITION
INTERWEST ENERGY ALLIANCE**

~~Interwest Energy Alliance (“Interwest”) proposes more explicit and transparent funding mechanisms be used for compliance with Colorado statutes, rules and energy policy. PSCo has made significant gains and Interwest’s members applaud its leadership towards achieving and in some areas exceeding clean energy goals. However, greater transparency is required due to public interest in the use of RESA funds.~~

I. SUMMARY OF RECOMMENDATIONS

~~A. Solar Program:~~

~~1. Subdivide the budget into budgets for the program categories. Use the residential electric revenue to fund the incentives for the less than 10 kW market segment. Use the remainder to fund incentive for the greater than 10kW segments of the market.~~

~~2. Establish consistent acquisitions of SORECs from the large category. Place caps on the twenty (20) year SOREC payment stream. Take applications four (4) to six (6) times per year. In this way, project development would be spread out throughout the year, reducing costs.~~

- ~~3. Establish an explicit budget for the annual acquisition of SORECs.~~

~~Designate two percent (2%) of retail electric revenue as the funding available.~~

- ~~4. Incorporate market discipline into the small category. Establish MW blocks for the small category, such that when certain installation MW targets are reached for the small category, the UFI would automatically step down.~~

- ~~5. Establish a transition period. The new models for funding and acquisition of SORECs should be fully in place by January 1, 2011, allowing two (2) years to adjust to the new paradigms.~~

~~B. Wind Forecasting Tool:~~

~~Deny cost recovery for the WiP wind forecasting tool because it was acquired in an imprudent manner. There is no evidence that the NCAR tool, based on technologies unrelated to power generation, will provide any benefit to Colorado Consumers. NCAR has never developed a wind forecasting tool. The cost recovery should be strictly limited as set forth herein and PSCo cautioned to use competitive bidding and transparent procedures to acquire this type of modeling in the future.~~

~~C. Time Fence:~~

~~Adopt PSCo's proposed time fence and lock-down of acquired generation costs.~~

~~II. SOLAR PROGRAM ADJUSTMENTS~~

- ~~A. Interwest recommends adjustment and reallocation of the revenues used to fund incentives in the solar program to provide a predictable, transparent program which supports orderly growth of the markets.~~**

~~Interwest's witness Rick Gilliam has more than thirty (30) years of experience guiding energy regulation, including six (6) years at the Federal Energy Regulatory Commission (FERC),~~

~~a wind forecasting tool to be used for energy generation.²⁶ NCAR's ability to model weather has little correlation to power generation. It is absurd that PSCo would ask the Commission to simply trust that NCAR's first attempt will be the best available product for Colorado consumers.~~

~~Second, even if the interviews produced a well founded substantive decision about the available choices in the market, this Commission will never have the benefit of knowing that the tool is cost effective. The same tool could have been made available at a lower cost to consumers as a result of a competitive bidding or more transparent process. Therefore, the cost recovery for the WiP contract should be limited by this Commission. An appropriate limit may be to tie cost recovery to actual savings PSCo can prove relate to the use of the tool.~~

~~This Commission is urged to caution PSCo against acquisition of this type of technology in the manner in the future. In addition, even if the WiP contract is approved and in no way acknowledging its usefulness, the data, modeling and all results should be published and made available for public use and peer review upon completion at the end of the project period (about 18 months, according to Mr. Parks) at minimal cost.~~

IV. TIME FENCE

Interest joins the parties which prefer PSCo's use of a time fence and "lock down" of costs to provide a predictable planning environment.

Investment in and development of new energy facilities, including renewable energy projects, often requires several years' lead time.²⁷ Placing these projects and RESA budgeting at risk from year to year as recommended by Staff would create disincentives. Risk increases costs.

Interwest prefers PSCo's use of the ECA deferred account to true up the projected costs to the actual costs of eligible energy resources.²⁸ Interwest also supports PSCo's time fence

²⁶ Interwest Cross-Examination of Mr. Parks.

²⁷ See Western Resource Advocates witness Lowrey Brown, Cross-Ans. Test., pp.5-9

which avoids recalculation of the incremental costs of renewables after the resource acquisition decisions have been made and implemented.

The Staff proposal incorporates a facially attractive goal – to tie rates to actual costs rather than projected costs, especially costs which we know will be wrong since they are projected years in advance of when the RESA is paid by a consumer. However, this recalculation puts PSCo's investment at risk. In addition, the plan is contrary to many aspects of the Rules and Rule 3660, which allows forward-looking cost recovery mechanisms. The costs may be carried forward if they exceed the retail rate impact in any year. See Rule 3660(c). Interwest supports calculation and publication of figures comparing the projected costs to actual costs. This transparency is consistent with the overall requirements for publication of actual results which Interwest has supported in similar dockets, and supports the overall goals of the Office of Consumer Council and Staff to tie regulation to provable results. However, PSCo's expenditure of the RESA must be capable of certainty once the transaction is closed and consumer dollars spent in any given year.

~~V.~~ **CONCLUSION**

~~In summary, Interwest commends PSCo for its significant renewable energy acquisitions. We have several modifications which Interwest urges the Commission to require as part of the 2009 Compliance Plan. First, Interwest urges the Commission to require that incentive funding be allocated between residential and non-residential markets in the proportions these market segments produce retail rate revenues. Second, we recommend that the Commission direct PSCo to modify its SOREC acquisition process for the large program to spread development out over the course of a year in "rolling reservations". This not only helps smooth fluctuating solar costs as described above, but allows more efficient project development by maintaining a more~~

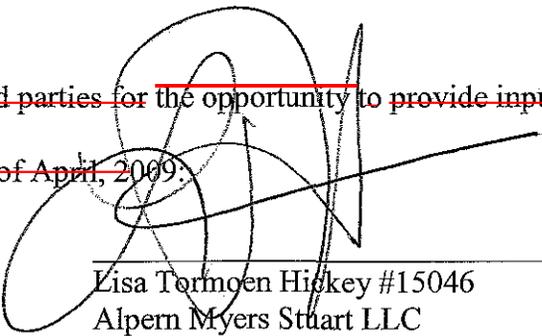
²⁸ See Ahrens, Rebuttal test., p. 3, lines 10-11.

~~consistent level of work for installation crews. The Arizona approach, described in the testimony of witness Gilliam, is designed in this fashion. We recommend that the small program be modified to more systematically reduce rebate levels as appropriate as development occurs. There has been little discussion of the medium program in this docket. Here too, we would recommend that the REC payment (currently 11.5¢ per kWh) be reduced as appropriate amounts of MWhs are developed. Third, we recommend that the funding levels be increased to 2% of the retail rates, which excludes Windsorce and the net savings from all eligible resources. Fourth, we urge the Commission to require that market discipline be imposed by stepping down incentives, as in the California program. Finally, we urge the Commission to transition to these new programs by January 1, 2011. This docket addresses the 2009 Compliance Plan for PSCo. We believe the transition should begin this year, if only in a small way, and that the 2010 Compliance Plan incorporate a significant shift in this direction.~~

~~As to the WiP contract, Interwest requests that the Commission limit cost recovery to what savings PSCo can reasonably prove result from use of the tool on a year to year basis. Finally, Interwest prefers the lock down mechanism suggested by PSCo as to acquired eligible energy generation resources.~~

~~We thank the Commission and parties for the opportunity to provide input.~~

~~Respectfully submitted this 17th day of April, 2009.~~



Lisa Tormoen Hickey #15046
Alpern Myers Stuart LLC
14 North Sierra Madre, Suite A
Colorado Springs, CO 80903
Telephone: 719-471-7955
Telefax: 719-630-1794
E-mail: lisahickey@coloradolawyers.net

On Behalf of Interwest Energy Alliance

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 08A-532E

2009 APR 20 AM 9:26
Faxed 4-17

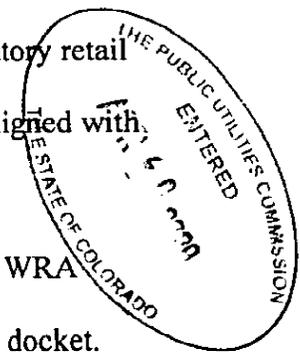
IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF
COLORADO FOR APPROVAL OF ITS 2009 RENEWABLE ENERGY STANDARD
COMPLIANCE PLAN

*Here
C-Baba
C-2
C
ad
1
E*

**STATEMENT OF POSITION OF
WESTERN RESOURCE ADVOCATES**

COMES NOW Western Resource Advocates (WRA), by and through its
attorneys, and for its Statement of Position in this docket, states the following:

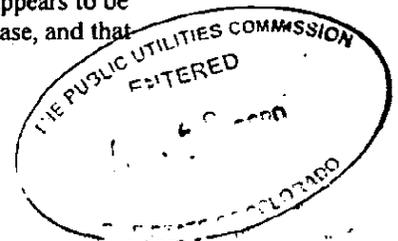
WRA urges the Commission to make policy decisions in this docket that
maximize renewable energy development, while complying with the 2% statutory retail
rate impact constraint. The positions WRA advocates here are more closely aligned with
the intent of Colorado's renewable energy standard, in compliance with the
Commission's rules, and in conformity with previous Commission decisions. WRA
requests that the Commission adopt these positions in the Order issued in this docket.



**I. A Carbon adder should be included in the calculation of the retail rate impact
cap.**

WRA supports the Company's proposal to include the estimated cost of carbon
emissions regulation in the calculation of the retail rate impact limit. Public Service, in
conformity with the Commission's order in its most recent resource planning docket,¹

¹ Decision No. C08-0929, mailed date September 19, 2008, Docket No. 07A-447E. Paragraphs 269 and
270, "However, new legislation enacted under Section 40-2-123(1)(b), C.R.S., explicitly allows the
Commission to consider future carbon cost, and political acceptance of carbon legislation appears to be
gaining momentum. Further, we agree with Public service that CO2 costs are likely to increase, and that



included a carbon adder in its modeling of the No-RES plan. The renewable energy standard compliance docket is a long-term resource acquisition plan, and is part of the Company's long-term resource procurement process. To account for likely future carbon emission regulation in one part of a utility's resource acquisition strategy, the resource planning process, but not in the RES compliance process would be inconsistent. It is practical and realistic that for planning purposes both dockets use conforming modeling inputs.

A. Colorado statutes and rules support the inclusion of the carbon adder.

Inclusion of the carbon adder creates valuable, incremental headroom under the 2% retail rate impact cap and appropriately adheres to legislative intent and Commission policy. First, Colorado law specifically authorizes the Commission to incorporate carbon emission regulatory costs in utility resource planning. The first sentence of Section 40-2- 123(1) C.R.S. reads: "The Commission may give consideration to the likelihood of new environmental regulation and the risk of higher future costs associated with the emission of greenhouse gases such as carbon dioxide when it considers utility proposals to acquire resources." Second, Colorado statutes provide support for bold, advancement of renewable generation investment: "The commission shall give the fullest possible consideration to the cost-effective implementation of new clean energy and energy-efficient technologies in its consideration of generation acquisitions for electric utilities, bearing in mind the beneficial contributions such technologies make to

\$20/ton is a reasonable starting point. Therefore, we adopt Public Service's rebuttal proposal for CO2 costs of \$20/ton plus 7 percent escalation." pp. 83-84.

Colorado's energy security, economic prosperity, environmental protection, and insulation from fuel price increases.”²

Additionally, modeling of the carbon adder is in compliance with the Commission’s rules that the same assumptions be used for modeling resource planning as for RES compliance. Commission Rule 3661(e) acknowledges the nexus between the RES Compliance process and the Resource Planning process; “For purposes of calculating the retail rate impact, the investor owned QRU shall use the same methodologies and assumptions it used in its most recently approved least-cost planning case, unless otherwise approved by the Commission.”³ Furthermore, the Commission’s rules state, “... it is in the best interests of the citizens of the state of Colorado to develop and utilize renewable energy resources to the maximum practicable extent.”⁴

B. The Commission should reject the OCC's recommendation to exclude the carbon adder.

The OCC’s argument is logically inconsistent because removing the carbon adder is an exception to the “lock-down,” which the OCC supports. The OCC recommends a backwards-looking, annual reopening of the modeled, No-RES assumptions for one estimated factor based on actual data (in hindsight), but not for any other estimated commodity, such as gas prices. The OCC’s demarcation that carbon regulation carbon costs should be ignored until there was actual regulation in place was a distinction without a difference. As the OCC acknowledged, there is no financial difference between a scenario without carbon regulation, and a scenario with carbon regulation and zero cost

² Section 40-2-123(10)(a), C.R.S.

³ Commission Rule 3661(e).

⁴ Commission Rule 3651.

(as might be the case in some years if Public Service receives early action credit). The OCC's proposal would significantly reduce many of the regulatory advantages of the "lock-down", such as simplicity, certainty and cost.

Additionally, the OCC concedes that removal of the carbon adder serves to restrict the amount of renewable energy that Public Service is permitted to procure with the 2% rate impact cap now.⁵ It has the effect of delaying investment in renewables, which the OCC admits is especially significant if future federal carbon regulation contains early action credit for carbon emission reductions taken prior to enactment.⁶ With a removal of the carbon adder the Company and its ratepayers will have lost the benefit of receiving early action credit for its early efforts and expenses towards carbon emissions reductions. Early action means that costs PSCo incurs today to reduce carbon will reduce the cost of carbon regulation in the future. So the costs of today's renewables are not incremental because they are reducing future compliance costs. The OCC stipulated that the current discussion draft of the proposed Waxman-Markey federal carbon regulation legislation uses 2005 as the base year for calculation of reduction targets.⁷ If 2005 becomes the base year in federal carbon legislation, then any carbon reduction achievements by Public Service after that year are financially valuable.

The OCC takes the position that the carbon adder should be removed from the No-RES plan because it is not "known and measurable." However, in the context of the RES compliance plan analysis the carbon adder is as "known and measurable" as any other estimated modeling input. As explained below, the retail rate impact is based on estimated, forecasted costs from two different possible future scenarios – the RES and

⁵ Transcript at p. __. Cross-examination of Mr. Frank Shafer by Mr. Steve Michel on April 7, 2009.

⁶ Transcript at p. __. Cross-examination of Mr. Frank Shafer by Mr. Steve Michel on April 7, 2009.

⁷ Transcript at p. __. (At the end of the transcript, at the very end of the day on April 8, 2009.)

No-RES plans. The OCC advises adjusting the two scenarios for one specific, presumably known (early action credit would undermine this presumed certainty), event (zero carbon costs). But this presumed certainty is dwarfed by the overall uncertainty of the fictional No-RES scenario to which the RES scenario is compared. It is similar to estimating the sum of two random numbers and thinking that you can make a precise estimate if you know that one of the numbers is zero. Zero is simply not a better, more practical number, especially when an important objective is to build a portfolio that reduces carbon risk. The OCC acknowledged at the hearing that there is no way to know that the carbon adder forecast the Commission has chosen for use now in the company's long-term electric resource plan is any better than a forecast developed when carbon regulation is initially implemented.⁸

II. The Commission should approve the Company's proposal to "lock down" its actual acquisitions of renewable energy.

The Commission should approve implementation of the "lock-down" of ongoing incremental costs for planning and allocating RESA dollars. On this issue, the Commission again has the opportunity to advance the statutory goals and promote more investment in renewable energy generation. Fundamentally, if there is not a lock-down of the actually invested incremental costs there is not symmetrical treatment of risk to the utility. As a result, the utility has the incentive to be below the 2% rate impact cap, rather than spend up to the 2% cap.

⁸ Transcript at p. ____ Cross-examination of Mr. Frank Shafer by Mr. Steve Michel on April 7, 2009.

A. *Colorado statutes and rules support the concept of a "lock-down" of the costs of purchased renewable generation.*

Several provisions of Section 40-2-124 support the notion that renewable energy resources, once acquired, are "sunk" for financial and statutory compliance purposes. The renewable energy standard statute provides, "The retail rate impact shall be determined net of new alternative sources of electricity supply from noneligible energy resources that are reasonably available at the time of the determination."⁹ The phrase "that are reasonably available at the time of the determination" indicates that the estimated costs of those non-renewable resources should be "locked down" for calculation of the retail rate impact cap. Correspondingly, the actually acquired renewables, the ongoing incremental costs, should be "locked down" as well. Section 124 also provides, "These policies shall provide incentives to qualifying retail utilities to invest in eligible energy resources in the state of Colorado."¹⁰ And, the legislative declaration of intent emphasizes, "...it is in the best interest of the citizens of Colorado to develop and utilize renewable energy resources to the maximum extent possible." Permitting the "lock-down" of ongoing incremental costs, i.e. acquired resources, is the appropriate interpretation of Section 40-2-124.

B. *Locking down the costs of acquired renewable resources is a reasonable way to plan for resource acquisitions.*

If the "lock-down" proposal is not adopted by the Commission, there will be less investment in clean energy because, depending on highly volatile factors such as gas prices. Public Service's investment decisions would be subject to a 20/20 hindsight re-

⁹ Section 40-2-124(1)(g). C.R.S.

¹⁰ Section 40-2-124(1)(f). C.R.S.

analysis, and potentially a violation of the retail rate impact cap. The retail rate impact is calculated using two different Strategist model runs known as the RES and No-RES plans. These two modeling scenarios are then compared and the incremental amount between the RES and the No-RES plans determines the 2% cap. The extent to which the RES/No-RES cost/benefit calculation conforms to the 2% cap directly and significantly impacts the amount of renewable resources that can be acquired. Not “locking down” previous investments in renewables in both the RES and No-RES scenarios in future compliance plans substantially increases the risk of the utility violating the cap. For any risk-averse entity, such as a utility, this unreasonable exposure to a statutory violation will produce a cautious, risk averse approach to investment. Consequently, renewable investment in Colorado would not go up to the 2% retail rate impact ceiling because the Company would err on the side of being conservative.

Instability in the RESA fund would also discourage renewable energy investment. If the available RESA funds are subject to wide, volatile swings, as demonstrated in Ahrens hearing exhibit number 48, and as testified to by Mr. Warren,¹¹ this could produce a situation where the RESA funds are less than the funds necessary to pay for previously acquired resources. Also, this could have a disparate impact on small renewable resources because that is where the Company might find the financial flexibility to compensate for inadequate funds.

¹¹ Transcript at p. ___. Cross-examination of Mr. Warren by Ms. Mandell. Mr. Warren acknowledged that without the lock-down, some of the variables that might be remodeled are volatile and could have a significant effect on the RESA funds. Additionally, Mr. Warren discussed the logistical problems with rerunning of model runs.

C. *The Commission should reject Staff's opposition to the "lock-down."*

WRA believes the "lock-down," as structured by the Company, provides stability and certainty for maximum investment in renewable energy within the constraints of the retail rate impact cap. Staff's articulation of its position on the "lock-down" or "time fence" discounted the idea that as a consequence there might be a disparate, negative impact on investment in renewable generation.

On this issue, Staff presented the live testimony of Mr. Camp twice during the hearing, and provided a one-page exhibit, Exhibit 44, further clarifying its position. Although Mr. Camp acknowledged he had not studied what the company was proposing,¹² Mr. Camp opposed the "lock-down." However, it appears Mr. Camp's rationale was based, at least partially, on a lack of concern with violation of the 2% retail rate impact cap.¹³ He emphasized that the Company had no risk because of its right to recovery of all expenses.¹⁴ Also, Mr. Camp's testimony was somewhat inconsistent with the other Staff witness, Mr. Dalton. Mr. Dalton focused on a restrictive interpretation that the cost of renewable generation acquisitions each year must not exceed the amount collected from customers each year to remain in compliance with the 2% rate cap.¹⁵ These two positions are difficult to reconcile from a practical, implementation standpoint. Mr. Dalton's approach would restrict the Company's ability to procure long-term resources because of the uncertainty of available revenues. Mr. Camp's approach would

¹² Transcript at p. ___. Cross-examination of Mr. Camp by Mr. Steve Michel on April 7, 2009.

¹³ Transcript at p. ___. Cross-examination of Mr. Camp by Ms. Brandt-King, Ms. Mandell and Ms. Connelly on April 8, 2009.

¹⁴ Id.

¹⁵ See Mr. Dalton's Answer testimony p. 32, lines 17-19 and p. 36, lines 11-13, and his Cross-Answer testimony p. 5, lines 1-4.

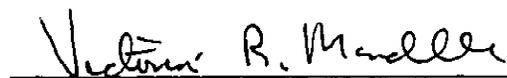
eliminate this restriction by allowing full cost recovery regardless of whether the 2% rate impact cap was violated.

Furthermore, the backwards-looking recalculation of previously estimated inputs recommended by Staff would make the modeling process *more* complex and difficult. The testimony provided at the hearing by the modeling experts, Mr. Warren and Mr. Parks, helped explain the practical challenges in implementing Staff's proposal.

In conclusion, WRA supports the Company's proposal to "lock down" renewable resource acquisitions, and to include the price of carbon emissions regulation in the calculation of the RES modeled scenario. Accordingly, we recommend the Commission approve these two elements of this compliance filing. This allows the Company to maximize the procurement of renewable resources under the 2% retail rate impact cap.

WHEREFORE, for the foregoing reasons, WRA prays for a Commission order in this proceeding consistent with the positions expressed herein, and for such other and further relief as the Commission deems just and proper.

Respectfully submitted this 17th day of April, 2009.



Victoria Mandell, # 17900
Western Resource Advocates
2260 Baseline Rd, Suite 200
Boulder CO 80302
303-444-1188
303-786-8054 (fax)
vmandell@westernresources.org

COPY

1 BEFORE THE PUBLIC UTILITIES COMMISSION

2 OF THE STATE OF COLORADO

3 -----

4 REPORTER'S TRANSCRIPT

5 -----

6 Docket No. 08A-532E

7 -----

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

10 -----

11

12

13

14

15

16

17

18

19

20

21

22

23

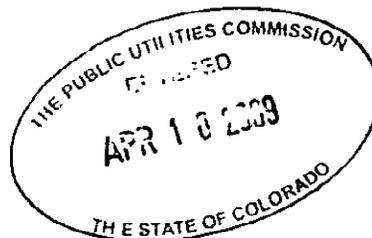
24

25

Pursuant to notice to all parties of interest, the above-entitled matter came on for hearing before Hearing Commissioner Matt D. Baker, commencing at 9:03 a.m., on April 6, 2009, at 1560 Broadway, Denver, Colorado 80203, said proceedings having been reported in shorthand by Vanessa Campbell James Midyett and Harriet Weisenthal.

Whereupon, the following proceedings were had

RECEIVED
PUBLIC UTILITIES COMMISSION
2009 APR 6 PM 6:29



1 COMMISSIONER BAKER: ~~Okay. Are we done~~
2 ~~on the order of the witnesses for now?~~

3 MS. CONNELLY: ~~We are, and I'll inform~~
4 ~~Mr. Pardington he does not need to stay.~~

5 COMMISSIONER BAKER: ~~Thanks for stopping~~
6 ~~by.~~

7 Okay. Let's move on to the motion from
8 staff to strike testimony of Public Service, OCC, and
9 I think that's -- CoSEIA and WRA.

10 MS. BOTTERUD: Just for clarification
11 purposes, Your Honor, I think it was just Public
12 Service, OCC and WRA.

13 COMMISSIONER BAKER: Yes. Okay. And
14 would -- my inclination is not to strike this
15 testimony. I think some of it deals with responses to
16 Public Service's original application. I have some
17 concerns with why it was filed on April 1st, but would
18 you like to respond?

19 MS. BOTTERUD: Beg your pardon. I'm not
20 sure what the concern was.

21 COMMISSIONER BAKER: My concern was
22 that -- well, the testimony in question -- I guess I'm
23 a little -- I'm not inclined to strike testimony that
24 came from Public Service -- that's derived from Public
25 Service's original application, and I'm -- I'm clear on

1 where the time -- you know, the issues around -- the
2 issues that are listed in the scoping document appear
3 to me to be relatively clear.

4 Some of the issues that staff raise --
5 some of the testimony that staff is objecting to
6 seems -- well, I guess let me take a step back.

7 It seems to me that the testimony that
8 triggered the staff's objection was Frank Shafer's
9 answer testimony, and -- and then -- because they went
10 back and referred to Public Service's original
11 application and a couple cases that may have been a
12 little bit beyond the scope of the proceeding, and --
13 but so I'm a little concerned with the fact that this
14 issue came up on April 1st when Mr. Shafer's answer
15 testimony was February 20 -- sometime in February.

16 So I'm wondering why staff waited so long
17 to register this concern.

18 MS. BOTTERUD: May I have a moment?

19 COMMISSIONER BAKER: Sure.

20 MS. BOTTERUD: Well, Your Honor, looking
21 back at the procedural schedule, the last round of
22 rebuttal and cross answer testimony was filed on
23 March 23rd, and staff believed that just the roughly a
24 week in between the filing date and the submission of
25 its motion was appropriate, and typically motions to

1 strike generally aren't submitted until immediately
2 prior to the hearing in question.

3 COMMISSIONER BAKER: Anyone else want to
4 respond?

5 MS. CONNELLY: Thank you, Your Honor.
6 Public Service Company opposes the motion but not for
7 the reason that you articulated in terms of the
8 timeliness of its filing. We believe that motions to
9 strike can be filed as late as the day of hearing, so
10 we're not objecting based on timeliness.

11 However, Public Service does feel that
12 it's very important that the testimony and exhibits
13 that staff wishes to strike remain on this record.

14 The -- for example, staff wishes to
15 strike one column of Table 6-3, 6-4, while the rest of
16 the column makes no sense if you take out a column, the
17 numbers make no sense if you take out a column. The
18 explanation of what's in that column is on the list of
19 what needs to be struck.

20 So we believe that the record would be
21 more complete if you leave the testimony in. Now,
22 there -- and the exhibits in.

23 Now, I think there's a separate question
24 of what you actually decide in this case, and that gets
25 to the confusion over what is in this docket vis-a-vis

1 what's in the RES rule making docket, and the issue
2 involves whether or not Public Service Company's
3 proposal for a lockdown should be decided in this
4 docket as opposed to the rule making, and we would urge
5 you to decide it in this docket.

6 We under -- we believe, though, that your
7 scoping order was somewhat less than clear, which is
8 probably what engendered the staff's motion, because
9 they're arguing that, in fact, it should be decided in
10 the rule making docket.

11 COMMISSIONER BAKER: Right.

12 MS. CONNELLY: But let me explain why we
13 would like to have it decided in this docket.

14 What the lockdown principle is -- what
15 we're asking to be decided with the lockdown principle
16 is to have a process whereby the estimated net cost or
17 net savings from renewable energy purchases that are
18 going to hit our RESA budget be determined once and
19 then remain the determination for the life of the
20 contract.

21 This issue came up in the last renewable
22 energy compliance plan in a different form. There we
23 were concerned about can relooking at the RES/No-RES
24 plan by changing the gas prices, and we were facing a
25 situation last year where gas prices were actually

1 lower than expected, thereby -- at the end of the year,
2 thereby making the incremental cost higher than
3 expected, but yet we had already gone forward with a
4 plan to purchase renewable energy assuming there would
5 be a lower incremental cost hit to the RESA.

6 And in that case, in the 2008 compliance
7 plan case, the Commission said we do not have to go
8 back and reprice everything for gas prices. That was
9 the ruling in that case. So in this case, we're trying
10 to extend that principle beyond just gas prices.

11 We're saying we're -- we do our best job
12 of estimating what we think the incremental cost of a
13 resource is going to be and then at the time we acquire
14 it, or at the time of filing a plan, we want to lock it
15 in and then in subsequent plans that's what hits the
16 RESA. So that's the issue.

17 Now, staff didn't file any testimony on
18 the lockdown, but staff also didn't file any testimony
19 in the rule making docket about the lockdown. The only
20 place that the lockdown principle is teed up is here,
21 except that when we got your scoping order we were also
22 confused as to which docket it would be in. So we took
23 all the testimony from this case and we put it in the
24 rule making just for coverage. We didn't want to end
25 up with neither docket deciding this issue.

1 But we think it's better to decide it
2 here. You've got real numbers before you, you've
3 got -- you've got the parties weighing in that wanted
4 to weigh in on this, addressing it in this docket, and
5 it really isn't teed up in the rule making docket
6 because we threw that in after we got your scoping
7 order and that was after the rule making hearing.

8 Also, we believe that the issues that are
9 addressed in the rule making docket are somewhat
10 distinct from the lockdown issue.

11 In the rule making docket, the -- what's
12 teed up there is how do we measure the incremental cost
13 to begin with. Right now the current rule uses a
14 strategist model to determine the RES and the No-RES.

15 What's proposed in the proposed rule in
16 the rule making docket is to use more of a spreadsheet
17 that looks at a resource, a renewable resource and then
18 tries to find a match in a nonrenewable resource and
19 then adds them up.

20 And we've got a debate going on in the
21 rule making as to which is the better way to determine,
22 in the first instance, what is the incremental cost.

23 The lockdown is like a second order
24 issue. After you've decided what the incremental cost
25 is, what do you do with it, and do you revisit it,

1 constantly revisit it.

2 So we think, irrespective of how the rule
3 making determines the incremental cost issue, the
4 second order issue also needs to be decided.

5 Finally, what your order did say on
6 Page 8 was that with respect -- I'm reading from
7 Paragraph 24, "With respect to the retail rate impact
8 calculation, the Hearing Commissioner finds this matter
9 will be addressed in this docket according to the
10 Commission's existing RES rules with a focus on the
11 acquisition of solar resources in 2009 and on the net
12 costs of the SunE Alamosa facility and the on-site
13 solar projects that the company has acquired through
14 December 31st, 2008."

15 Now, we believe that the lockdown
16 principle can be accommodated under the existing rules,
17 and we believe that 3661(h)(II) can be interpreted to
18 allow for the lockdown, and I can either explain that
19 to you now or set it forth in closing statement of
20 position if you'd like further explanation.

21 In other words, we think it can be
22 accommodated under the existing rules.

23 Plus your reference to the net costs of
24 SunE Alamosa, the SunE Alamosa facility net costs are
25 the only costs that we have asked be locked down in

1 this case, so we think that your order can be
2 interpreted as saying that this lockdown is appropriate
3 for this round.

4 But I sympathize with the staff. We were
5 confused, as well, as to whether this principle was in
6 or out, which is why we also filed the testimony in the
7 rule making docket.

8 But bottom line is we'd like it decided
9 here and we'd like the testimony to stay here.

10 MS. BOTTERUD: Just a couple of points,
11 Your Honor. First, I'd like to note that trial staff,
12 as is traditional, is not participating as a party in
13 the RES rule making docket, so I would note that I
14 think Ms. Connelly's comment about trial staff not
15 filing testimony in the rule making docket is a bit
16 misleading. As I said, traditionally trial staff does
17 not participate in rule making dockets.

18 We have a fundamental difference in
19 interpretation in the language of your order. We
20 believe that it was very clear that you were removing
21 the time fence and the lockdown issue from this
22 particular proceeding, and, again, would take it up in
23 the RES rule making docket. That was the fundamental
24 reason why staff did not file testimony on that -- on
25 those issues in this docket.

1 In the rule making docket, as you've seen
2 by the attachments in staff's motion to strike, Public
3 Service has had the opportunity to file its position
4 and comments on the lockdown issue.

5 There have been other parties in that
6 docket who have filed comments and submitted testimony
7 on the issue.

8 That would provide the Commission with an
9 opportunity to fully vet the matter in that proceeding
10 rather than this one, and, again, to belabor the point,
11 that was the basis for staff's not filing testimony in
12 this docket.

13 COMMISSIONER BAKER: Okay. Ms. Botterud,
14 were you done?

15 MS. BOTTERUD: Yes, I was, Your Honor.

16 MS. MANDELL: The staff -- the trial
17 staff motion includes a request to strike limited
18 testimony by Ms. Brown on behalf of Western Resource
19 Advocates, and I'd like to respond.

20 WRA shares the concern that you
21 expressed, Commissioner Baker, about the timing of the
22 motion. It was filed late in the proceeding, after
23 significant investment by other parties on the issue,
24 and it could have been filed much earlier, and I think
25 there's some due process issues with filing it this

1 late once the parties have invested that type of time
2 and energy into looking at it, the analysis.

3 And the only other point was that we
4 would ask that testimony of Ms. Brown be treated
5 consistently with the way that the testimony of the
6 other parties be treated with regard to the striking.

7 Thank you.

8 MR. IRBY: Mr. Commissioner, thank you.
9 The OCC also opposes the motion to strike. We
10 interpreted your order the same way that Public Service
11 interpreted your order, as your discussion of the net
12 cost of the SunE Alamosa facility.

13 Our testimony in the rule making docket
14 is that the OCC believes the lockdown should be
15 determined in the RES compliance dockets, and so we
16 believe that that issue is properly placed in this
17 docket, and we interpreted your order not to exclude
18 that issue and we think for completeness, as
19 Ms. Connelly said, too, it would be better placed in
20 this docket.

21 COMMISSIONER BAKER: Any other comments
22 from other parties?

23 I can tell you that what I was thinking
24 when I wrote the scoping order was that the -- the
25 issues around this compliance plan and the lockdown as

1 it applied to this compliance plan were to be a part of
2 the scope of this proceeding.

3 What we didn't want to do was bring in
4 something that might have an implication for a future
5 compliance plan into this, so I think -- so -- and what
6 I'd like to do is during the break just go back and
7 revisit -- reread for the third time the scoping order
8 and come back with a decision after that time period.

9 But issues around how to treat
10 acquisitions that were made this year and resources
11 that are part of this plan, and I -- and SunE Alamosa
12 would be one of them, or at least part -- and how those
13 costs would be looked at in future years were in my
14 mind a part of the scope of this docket at this time.

15 So I'll come back with a decision after
16 the break on that. I just want to review the scoping
17 order and then relook at some of staff's concerns.

18 So let's --

19 MR. IRBY: Mr. Commissioner, if I may.

20 COMMISSIONER BAKER: Yes.

21 MR. IRBY: I might be wrong, but I
22 think -- maybe not with Mr. Cox, but I know for
23 Mr. Ahrens, some of the other parties I've talked with,
24 that -- whether or not the lockdown issue's included in
25 this docket or not will significantly affect the

1 cross-examination, just so you know.

2 COMMISSIONER BAKER: Okay. Well, maybe
3 we'll take a break early, then, on that issue, just to
4 be clear.

5 ~~The second motion to strike was Public~~
6 ~~Service's motion to strike the testimony of -- the~~
7 ~~cross answer testimony of Beth Hart and Leslie~~
8 ~~Glustrom.~~

9 ~~The -- would the parties like to add~~
10 ~~anything before I discuss my thoughts on it? Public~~
11 ~~Service in particular.~~

12 ~~MS. CONNELLY: We filed the motion, as we~~
13 ~~stated, because we believe that both Ms. Hart and~~
14 ~~Ms. Glustrom filed improper cross answer testimony.~~
15 ~~Cross answer testimony is testimony that needs to be~~
16 ~~directed to the answer testimony of other parties.~~
17 ~~Neither Ms. Glustrom nor Ms. Hart made any attempt to~~
18 ~~address any issues raised by the other parties.~~

19 ~~Ms. Glustrom introduced a whole new issue~~
20 ~~and Ms. Hart basically bolstered her original direct~~
21 ~~case but didn't address any issues in which she was~~
22 ~~opposing the position of any other party, and,~~
23 ~~therefore, we believe procedurally these testimonies~~
24 ~~are improper and should be stricken.~~

25 ~~COMMISSIONER BAKER: Okay. CoSEIA and~~

1 ~~MR. BECKETT: Nothing.~~

2 ~~COMMISSIONER BAKER: I have no questions.~~

3 ~~Thank you very much, Mr. Cox.~~

4 ~~Okay. We will take a break until five~~
5 ~~after 10:00 just to deal with the staff motion. So~~
6 ~~we'll be back.~~

7 ~~(A recess was taken from 9:52 a.m. to~~
8 ~~10:07 a.m.)~~

9 COMMISSIONER BAKER: Okay. We're back.
10 And I have a couple thoughts on staff's motion.

11 One, it was the intention of this hearing
12 officer to allow for discussion around the lockdown for
13 SunE Alamosa and the acquisitions that were going to be
14 made this calendar -- or this -- within this compliance
15 plan.

16 I was also assuming -- so that was
17 assuming that the on-site acquisitions that were
18 occurring this year would also be part of this -- part
19 of this proceeding as it related to the lockdown issue.

20 The -- I apologize, though, for the less
21 than artful way that the scoping order laid this out,
22 and, one, I am wondering if there are -- well, first to
23 Public Service, I believe I just captured what you were
24 proposing to lock down in this proceeding, in the
25 discussion around that. Is that correct or am I

1 missing something? Is it SunE Alamosa and the
2 acquisitions that are being made this year?

3 MS. CONNELLY: That's the lockdown that
4 is set forth on Tables 6-1 through 6-4.

5 If possible, of course, we'd like a more
6 generic ruling on lockdowns, because we have, for
7 example, already proposed this year a new wind facility
8 that the Commission has approved, we've proposed the
9 Microgy biogas project, which has projected savings in
10 there. We will be filing the results of our early
11 solar.

12 So if possible we'd like a broader
13 statement on lockdown, but all that is -- all that is
14 shown in the testimony is a lockdown of SunE Alamosa
15 and the on-site solar as of the end of December 31st,
16 2008.

17 COMMISSIONER BAKER: Yeah. And then
18 Mr. Ahrens on Page 22 of his direct testimony, I
19 believe that is -- that alludes to -- what you're
20 saying is encompassed in what he is also -- what he's
21 requesting there as well?

22 MS. CONNELLY: What he's describing there
23 is what shows up in the Table 6-1 through 6-4 as the
24 ongoing costs of the eligible energy resources that are
25 being recovered through the RESA as of December 31st,

1 2008. It's SunE Alamosa and on-site solar.

2 COMMISSIONER BAKER: Gotcha. Okay. So
3 that was our intention.

4 I'm also interested, though, in hearing
5 staff's position on this issue, and so what I would
6 like to do is I would like to grant them some time to
7 present their position.

8 So deny their motion to strike but as
9 relief allow them to present their position on these
10 issues verbally, allowing rebuttal from the other
11 testimony -- from the other parties who seek to rebut.
12 And ideally this would happen this afternoon while --
13 before a number of witnesses could get on the stand.

14 Staff counsel?

15 MS. BOTTERUD: Your Honor, if I -- I
16 anticipated you might deny staff's motion to strike,
17 and I had -- was going to request if that was the case
18 then to permit Mr. Dalton to address the issues when he
19 gets -- orally when he gets on the stand to enter his
20 testimony into evidence and respond to rebuttal. But
21 we could do it either way.

22 COMMISSIONER BAKER: Do the parties have
23 a preference?

24 MS. CONNELLY: Public Service's only
25 preference is that since we do not know Mr. Dalton's

1 position that we be given the opportunity to present a
2 rebuttal witness if we disagree with his position after
3 he articulates it.

4 COMMISSIONER BAKER: Then that seems
5 reasonable. I was just trying to save time in case
6 there were witnesses --

7 MS. CONNELLY: And we are indifferent
8 whether he does it today or Wednesday so long as there
9 is time for us to present a rebuttal witness on that
10 issue.

11 MS. BOTTERUD: We'd prefer to do it on
12 Wednesday if at all possible.

13 MS. MANDELL: Just concurring with the
14 comment that Public Service counsel made, we would also
15 appreciate that opportunity to be able to do on our --
16 on our issue rebuttal, having just heard -- that would
17 be the first time we would have heard staff's position
18 on that.

19 COMMISSIONER BAKER: Okay. Yes.

20 MS. MANDELL: Just one other point is it
21 would be helpful for her to be able to have heard
22 staff's testimony before she gets on the stand
23 tomorrow. Before Mr. Shafer. Thank you.

24 COMMISSIONER BAKER: So you're requesting
25 that it be done earlier?

1 MS. MANDELL: Yes. Thank you.

2 COMMISSIONER BAKER: Okay. How about we
3 do it first thing tomorrow, just around this testimony,
4 and then we can bring Mr. Dalton back for his entire
5 testimony on -- at his regularly scheduled time.

6 MS. BOTTERUD: That will be fine.

7 COMMISSIONER BAKER: Any objections to
8 that?

9 MS. CONNELLY: No objection.

10 COMMISSIONER BAKER: Okay. All right.
11 So I believe the next witness is Mr. Ahrens.

12 ~~DANIEL AHRENS,~~
13 ~~called as a witness on behalf of Public Service Company~~
14 ~~of Colorado, having been first duly sworn, testified as~~
15 ~~follows:~~

16 ~~COMMISSIONER BAKER: Please be seated.~~
17 ~~Mr. Ahrens' testimony is prenumbered as --~~

18 ~~MS. CONNELLY: I'll walk him through that~~
19 ~~if you'd like.~~

20 ~~COMMISSIONER BAKER: Okay.~~

21 ~~DIRECT EXAMINATION~~

22 ~~BY MS. CONNELLY:~~

23 ~~Q Mr. Ahrens, will you spell your name for~~
24 ~~the reporter, please?~~

25 ~~A Yes. Last name is Ahrens, A h r e n s.~~

1 ~~COMMISSIONER BAKER: Are there any~~
2 ~~objections to this testimony?~~

3 ~~(No response).~~

4 ~~COMMISSIONER BAKER: Okay. The amended~~
5 ~~exhibits are admitted.~~

6 ~~(Whereupon, Exhibit Nos. 1 through 4~~
7 ~~admitted into evidence.)~~

8 ~~MS. CONNELLY: Public Service tenders~~
9 ~~Mr. Ahrens for cross-examination Your Honor.~~

10 ~~COMMISSIONER BAKER: Ms. King, do you~~
11 ~~want to do your questioning there? You can do it~~
12 ~~there, or there it's up to you.~~

13 ~~MS. KING: I'm here now, so ...~~

14 CROSS-EXAMINATION

15 BY MS. KING:

16 Q Good morning Mr. Ahrens.

17 A Good morning, Ms. King.

18 Q I wish I could say that all of those

19 typos took care of all my questions, but unfortunately
20 they did not.

21 I'd like to begin with the discussion of
22 the design of the RESA. It's your testimony that the
23 RESA's designed to recover only the incremental costs
24 of eligible energy plus the program administrative
25 costs; is that right?

1 And I can refer you to your testimony.

2 Your direct testimony at Page 4, Line 20, carrying on
3 to Page 5, Line 1.

4 A That's correct.

5 Q And you described those incremental
6 costs -- and I'm quoting from Lines 22 and 3, "to the
7 costs in excess of what would have been paid to acquire
8 new, nonrenewable resources reasonably available at
9 that time." Do you see that?

10 A I do.

11 Q And those costs are determined by finding
12 the incremental difference of the RES plan over the No-
13 RES plan for each year; is that correct?

14 A That is correct.

15 Q And so just to nail it down, you say that
16 these incremental costs are what are recovered through
17 the RESA, correct?

18 A That is correct.

19 Q And while in theory the RESA may be
20 intended to collect incremental costs, in practice the
21 RESA right of revenues are derived differently, aren't
22 they?

23 A I'm not too sure I can agree with you. I
24 don't know why you would think that the RESA right of
25 revenues are determined differently.

1 Q Okay. So let's -- well, let's walk
2 through it, then.

3 A Okay.

4 Q The formula you give on how the RESA
5 costs will be established for any one year will be the
6 differences between the RES and No-RES scenarios, plus
7 program and administrative costs, less projected
8 credits from wind source sales; is that correct?

9 A That's accurate.

10 Q Okay. So what I'd like to do now is walk
11 through that equation by way of Table 6-4 of Volume II
12 of the compliance plan.

13 COMMISSIONER BAKER: You said 6-4?

14 MS. KING: 6-4.

15 Q (By Ms. King) It might help if you have a
16 calculator handy.

17 A I do.

18 Q Okay. Great. Thanks. So are you at
19 6-4?

20 A I am.

21 Q Okay. So we take the model of
22 incremental costs in Column H, and those would be the
23 differences between the RES and No-RES scenarios; is
24 that right?

25 A That is correct.

1 Q Okay. And that -- the figures in
2 Column H are taken from the calculations in Table 6-1
3 and 6-2; is that right?

4 A Yes.

5 Q Okay. And so then, based on your
6 formula, we add the RESA program and admin costs from
7 Column L, is that correct, and then we would subtract
8 the wind source credits.

9 Now, the problem that I'm having is that
10 we don't get to the figure that's set forth in Column M
11 for the RESA right of revenue; is that right?

12 A That is correct.

13 Q Okay. Mr. Ahrens, as the company witness
14 responsible for presenting all of the cost recovery
15 mechanisms, I trust you have a working -- a good
16 understanding of how the RESA right of revenue figures
17 in Column M in Table 6-3 and 6-4 is actually derived --

18 A Yes.

19 Q -- is that right?

20 MS. KING: Your Honor, may I approach,
21 please?

22 COMMISSIONER BAKER: Yes.

23 (Whereupon, Exhibit No. 29 marked for
24 identification.)

25 Q (By Ms. King) Mr. Ahrens, I've placed

1 before you what has been marked as Exhibit 29, and
2 it is a company response to a discovery request
3 propounded by the Office of Consumer Counsel. It's
4 a five-page document, and what -- I'd like to just
5 walk through page by page and ensure that you can
6 speak to what is contained on each of the pages.

7 So can you please take a moment and look
8 through the exhibit and identify what -- and just
9 identify Page 1 for the record?

10 A Sure. The first page is obviously the
11 request from the OCC, as you mentioned, with a response
12 that says, "Please see the attachments."

13 Q And now, the request seeks the models or
14 spreadsheets used to create Tables 4-1, 2, 3, 4 and
15 6-1, 2, 3 and 4 in Volume II. And I have not included
16 all of the tables because I don't need them, but I
17 want -- but I did include Table 6-3, which is on the
18 second page of this five-page exhibit.

19 And so what -- can you just please take a
20 moment to look over the figures here and verify that
21 the figures contained, that this is an accurate
22 reproduction of the company's response?

23 A Certainly.

24 COMMISSIONER BAKER: I'm sorry, Ms. King.
25 Which table were you referring to?

1 MS. KING: 6-3. It's the second page of
2 the five-page exhibit.

3 COMMISSIONER BAKER: Okay.

4 (Pause.)

5 Q (By Ms. King) And Mr. Ahrens, is that an
6 accurate reproduction of Attachment OCC 1-2.A4?

7 A It does appear from a quick review to be
8 the same information with some additional information
9 that's off to the right that is not on Table 6-3.

10 Q Okay. And so based on the figures that
11 are on the right, under the column "Total Forecasted
12 Electric Retail Sales," would those be the company's
13 production of numbers that form the basis for the
14 information contained in the sales that are on 6-3?

15 A I believe they were hidden sales that
16 were on the spreadsheet, yes.

17 Q Okay. And now turning to the third page
18 of the exhibit, this is a copy of Table 6-3, but
19 because the numbers on Table 6-3 are so small I've
20 taken the liberty to hide certain columns that we would
21 not need for purposes of my questions.

22 So would you just please take a moment
23 and -- and actually, one other thing that I did was
24 that I moved the total forecasted electric retail sales
25 so that they were next to Column M.

1 So can you just take a moment and verify
2 that the numbers are all still the same but for those
3 changes that I just mentioned?

4 A And you gave me the opportunity to do
5 that during break and I did do that. They do match up.

6 Q So the last two pages of the exhibit are
7 basically the same approach but with Table 6-4. So 6-4
8 is a reproduction of the company's table with those
9 hidden sales revealed and then the last page of the
10 exhibit is the modified version of that with certain
11 columns hidden so that we can actually read the numbers
12 that are on there.

13 A Much more legible.

14 Q Okay.

15 MS. KING: At this time I would like to
16 move the admission of Exhibit 29.

17 MS. CONNELLY: Mr. Chairman?

18 COMMISSIONER BAKER: Yes.

19 MS. CONNELLY: I have a question about
20 Exhibit 29. With your indulgence I'd like to ask
21 counsel, because part of Exhibit 29 was actually
22 prepared by her.

23 COMMISSIONER BAKER: Okay.

24 MS. CONNELLY: And that is on Page 3,
25 Ms. King, you have included certain columns from

1 Page 2, and then similarly on Page 5 you've included
2 certain columns from Page 4, but the columns that you
3 have chosen to include are different.

4 So I just wanted to -- for example, on
5 Page 5 you show the wholesale revenue credit but on
6 Page 3 you do not.

7 Now, I don't know if that's going to be
8 important to your cross-examination, but I do point out
9 that there are differences in what you've pulled
10 forward from each of these exhibits.

11 And with that understanding of how
12 Ms. King has chosen to use certain columns and not
13 others, we have no objection to its admission; however,
14 should the exhibit be used to try to draw some bottom
15 line conclusion to which those missing columns would be
16 relevant, we may have some concerns.

17 MS. KING: I appreciate the --
18 Ms. Connelly pointing out my foibles in the world of
19 Excel, and my intention as between my version of Table
20 6-3 and my version of Table 6-4 was merely to leave the
21 wind source portion of 6-4 in, and to the extent I was
22 not wholly accurate in that, those columns are not
23 going to be necessary. The wholesale revenue credit I
24 think is the -- the discrepancy but for the wind
25 source, and I won't be questioning Mr. Ahrens about

1 that.

2 MS. CONNELLY: We have no objection to
3 the admission of this exhibit.

4 COMMISSIONER BAKER: Okay. Exhibit 29 is
5 offered and admitted.

6 (Whereupon, Exhibit No. 29 was admitted
7 into evidence.)

8 Q (By Ms. King) Okay. So Mr. Ahrens, my
9 understanding, we were talking about Column M, which
10 are the modeled incremental costs. I'm sorry, which
11 was the RESA rider revenue.

12 And my understanding of those figures is
13 that they are a flat 2 percent of the projected total
14 electric retail sales for each given year through 2020;
15 is that correct.

16 A That is correct.

17 Q So then -- and so we can see that by
18 comparing Column M with the total forecasted electric
19 retail sales on the Table 6-3, the modified 6-3, 6-4
20 and the modified 6-4, correct?

21 A Yes.

22 Q Okay. And so then if that's the case,
23 then your description that the RESA recovers the
24 incremental costs is not totally accurate, is it?

25 A I could see how there could be some

1 confusion.

2 Q And so, rather, the company, as you said,
3 is proposing now to recover a flat 2 percent of the
4 total retail rate revenues; is that correct?

5 A The RESA rider right now is set at
6 2 percent; that's correct.

7 Q And that 2 percent is of the total
8 electric retail sales.

9 A Revenues, yes.

10 Q Okay. Now, if the RESA rider is
11 2 percent on Table 6-3 and 6-4 of the total forecasted
12 electric retail sales, if the company's plan is
13 approved, will the company recover 2 percent of the
14 total forecast number or 2 percent of the total actual
15 electric retail sales?

16 A We will recover 2 percent of the actual
17 retail sales.

18 Q And the RESA, if allowed to go up to a
19 flat 2 percent, that's not going to be subject to a
20 true up, right?

21 A To the extent that the difference between
22 the actual costs that are incurred and revenues that
23 are collected go into a deferred balance, in effect,
24 they are being trued up. They're being accounted for.
25 Any differences between what is projected and what is

1 actually incurred is accounted for, if you will.

2 Q And so to the extent that there are any
3 unused dollars in the RESA that go into that deferred
4 account for a given year, Public Service Company is
5 seeking approval here to bank them for purposes of
6 prefunding future years' acquisitions, right?

7 A That is correct.

8 Q Okay. So now switching gears to the
9 design of the ECA as it's proposed in this case, the
10 modeled incremental dollars that we were just
11 discussing, so the cost difference between the RES and
12 No-RES plans, that's not really used for purposes of
13 setting the RESA, as we've just established, because
14 that's a flat 2 percent of the total retail electric
15 sales; rather, the modeled incremental costs are used
16 to derive the portion of the nonincremental RESA
17 dollars that will instead flow through the ECA; is that
18 correct?

19 A Yes, that is correct.

20 Q Okay. And so specifically, the ECA is
21 derived from the total renewable energy costs less the
22 modeled incremental costs, right?

23 A That is correct.

24 Q And so based on that formula, we can
25 agree, can't we, that the value of the estimated ECA

1 costs is affected by the amount of modeled incremental
2 costs.

3 A It's an allocation of dollars between two
4 buckets. So if one bucket changes the other bucket
5 changes also.

6 Q Okay. And so there's an inverse
7 correlation between the two, right? And what I mean by
8 that is that the amount -- were the amount of modeled
9 incremental costs to be lower, then when subtracted
10 from the total renewable energy costs we get a higher
11 estimated ECA. And vice versa, if the modeled
12 incremental costs were a larger number when subtracted
13 from the total renewable energy costs, we get a smaller
14 estimated ECA, right?

15 A Assuming the ECA estimated costs are the
16 same in both scenarios, that would be true.

17 Q And included within the modeled
18 incremental costs is an assumption of carbon costs,
19 right?

20 A That is correct.

21 Q And so those costs were included in the
22 RES and No-RES models, and so it follows that they're
23 included in the incremental cost difference between
24 those plans, right?

25 A That is correct.

1 Q And the carbon assumption the company
2 used was \$20 a ton escalating at 7 percent beginning in
3 2010, I believe; is that correct?

4 A I believe that's true.

5 Q And if the company used a different value
6 for the cost of carbon, that would directly affect the
7 modeled incremental costs, right?

8 A I assume it would.

9 Q And we've already established that a
10 change in the modeled incremental cost would impact the
11 value of the ECA. So -- is that correct?

12 A Yes.

13 Q So Mr. Ahrens, would you agree with me
14 that until such time as carbon legislation or
15 regulations are passed and put into effect, that the
16 carbon costs that have been assumed in the model at
17 this point are hypothetical and are not actual costs
18 that are incurred by the company?

19 A They are our best estimate of what the --
20 the carbon tax will be, yes.

21 Q But the carbon tax will be or might be,
22 but they're not actual costs right now, right?

23 A That is correct.

24 Q Okay. And so we can agree, can't we,
25 that until such time as carbon is regulated the company

1 cannot know or measure what those costs of compliance
2 will be, it can only give, as you said, its best
3 estimate; is that correct?

4 A It could be higher or it could be lower,
5 that's correct.

6 Q Okay. Now, unlike the RESA, the ECA will
7 be subject to a true up; is that right?

8 A Could we break that up into how we do it
9 now and how we're proposing to do it? That might be
10 helpful for me to respond to your question.

11 Q Certainly. So how you're proposing to do
12 it, the ECA will be subject to it -- the portion of the
13 EC -- let me back up.

14 How the company is proposing to do it,
15 the ECA will be subject to a true up, correct?

16 A Yes.

17 Q Okay. So how as a practical matter will
18 the commission or Public Service Company's rate payers
19 be able to meaningfully compare the actual ECA against
20 the estimated ECA when part of what has been collected
21 from customers is based on an unknowable, immeasurable
22 value?

23 A Like all assumptions that go into our
24 modeling, they are our best estimates of what the costs
25 are going to be.

1 Any one of those variables could likely
2 change, whether it be gas prices, whether it be
3 generation, whether it be a dispatch in the system or
4 whether it be carbon costs. So what we are doing now
5 is our best estimate of what the costs are going to be.

6 Now, to the extent that when costs are
7 actually incurred to design this cost recovery
8 mechanism such that only the actual costs are actually
9 billed to the customers. So that to the extent that
10 there might be variations, for the example of carbon
11 taxes, if it turns out to be higher or lower, it would
12 change how we would have allocated it, but still just
13 the costs are what we ultimately recover, the actual
14 costs that are incurred.

15 So to the extent that -- if, for example,
16 we assume \$5 gas, it would affect how we allocate the
17 costs between the ECA and the RESA, but yet when all is
18 said and done, we only recover the actual costs that
19 are incurred.

20 Q Now, I want to understand what it is that
21 you said, because the ECA -- through the ECA the
22 company collects -- the company collects from customers
23 the estimated ECA; is that correct?

24 A No.

25 Q So then what -- for what purpose is the

1 estimated ECA -- how -- explain that to me.

2 A I'll try.

3 Q Please.

4 A In our proposal, we are proposing to
5 split cost recovery between the ECA and the RESA, okay?
6 What we propose doing going forward is to collect all
7 the actual costs in the ECA. We also propose to credit
8 to the ECA our projected RESA revenues so that there's
9 an offset.

10 Today the way it works, and it's
11 different than what we're proposing, is that we
12 hardwire the ECA dollars and we build the ECA to
13 collect that amount, then we credit that amount to the
14 RESA.

15 So what we're proposing going forward is
16 just the opposite. We've proposed having the actual
17 costs go through the ECA, incurring the RESA revenues
18 against the ECA.

19 Q Okay. But what you collect through the
20 ECA, the nonincremental dollars, a part of that
21 component, since the nonincremental dollars are derived
22 by subtracting the modeled incremental costs from the
23 total renewable energy costs -- excuse me.

24 Since you're subtracting the modeled
25 incremental costs from the total renewable energy

1 costs, the modeled incremental costs is what has the
2 carbon assumptions contained in it, and so from that
3 number is where the ECA values come from; is that
4 correct?

5 A It's how we divide up our projected costs
6 between the ECA and the RESA.

7 Q Okay.

8 A However, in practicality, we're going to
9 collect all the costs through the ECA and credit to the
10 ECA that modeled number for the RESA.

11 Q And so to the extent that there aren't
12 carbon costs that are actually incurred, will those
13 also be credited to the ECA?

14 A The.

15 MS. CONNELLY: Objection. Can I have
16 that question read back, please?

17 (Last question read.)

18 MS. CONNELLY: I want to object to the
19 form of the question because I don't know how we credit
20 costs that aren't incurred.

21 Q (By Ms. King) So then the question is,
22 and I'll rephrase it, to the extent that there are
23 carbon costs that have been modeled into the modeled
24 incremental costs, and those -- there's no actual
25 carbon costs of compliance that have been incurred

1 by the company, will -- will customers see a credit
2 to the ECA for those modeled numbers?

3 A Since the actual costs are going to be in
4 the ECA, then there's no need to show a credit for the
5 carbon, because it's not being collected.

6 What's happening under that scenario is
7 that perhaps if one variable changes and all else is
8 the same, that there are no carbon taxes, that we
9 probably overestimated what the RESA dollars would be.

10 But since the ECA is the balancing
11 mechanism, it's the difference between the actual costs
12 that are incurred, the RESA revenues that are credited
13 against it, so there's no need to have a credit for
14 costs that were incurred because the costs
15 automatically flow into the ECA.

16 It might have been allocated a little bit
17 off, but that's true of any projection. There's going
18 to be variables that turn out to be different than what
19 we thought they would be.

20 Q So is it your testimony that as between
21 the ECA and the RESA, it all sort of comes out in the
22 wash, that there might be something that's over
23 allocated in one and not collected through the other,
24 and so at the end of the day it's all fair for
25 customers?

1 A I don't think that's what I'm trying to
2 say. I'm trying to say that through the ECA all the
3 costs will be placed in there, the revenues from the
4 RESA will be credited against it, leaving just the
5 remaining actual costs that are incurred.

6 Q So when you say through the ECA all the
7 costs will be put in there and then credited by
8 whatever revenues are collected through the RESA,
9 that -- what's giving me pause is all the costs that
10 are being put in the ECA, and so I'm just trying to
11 understand that better.

12 Will the estimated ECA costs be put in
13 the ECA --

14 A No.

15 Q -- and then credited against -- no?

16 A No, the actual costs. That's our
17 estimate of what the ECA costs will be, and we will put
18 the actual costs that are incurred in the ECA.

19 Q Okay. So the ECA will follow the cost
20 investments that have been made by the company?

21 A That's correct.

22 Q Okay. And so on Page 21 of your direct
23 testimony, which is Exhibit 3, you described the
24 lockdown, and now I want to understand that proposal
25 better.

1 You state at Lines 17 through 19 that the
2 incremental costs that affect the RESA should be set
3 for the life of that facility. Do you have that
4 testimony in mind?

5 A I do.

6 Q Okay. And so as a preliminary matter, we
7 talked about how the RESA is derived and how the RESA
8 isn't really a reflection of the incremental costs,
9 but, rather, is a 2 percent rate increase from the
10 total retail -- total electric retail sales; is that
11 right?

12 A Yes.

13 Q Okay. And so is it your testimony that
14 the modeled incremental costs are what should be locked
15 down for the life of that particular facility?

16 A I think it's better to refer to what we
17 have provided in the table, by Table 6-3, where we have
18 a separate column that quantifies the lockdown that
19 we're proposing; that's Column J.

20 You're right, it is the incremental cost,
21 but it is for facilities or purchases that have already
22 been incurred. So you lock it down, those numbers stay
23 as they are going forward until we add for it.

24 Q So the figures in Column J, are they
25 derived from Column H? Is there a relationship between

1 the two?

2 A I would have to defer that question to
3 Mr. Warren.

4 MS. KING: Okay. That -- those are all
5 the questions I have for you, Mr. Ahrens. Thank you.

6 MR. AHRENS: Thank you, Ms. King.

7 COMMISSIONER BAKER: Thank you, Ms. King
8 CoSEIA?

9 MR. COLCLASURE: Yes, Mr. Commissioner.
10 I'll ask my questions from the table.

11 COMMISSIONER BAKER: Thank you.

12 ~~CROSS-EXAMINATION~~

13 ~~BY MR. COLCLASURE:~~

14 ~~Q Good morning, Mr. Ahrens.~~

15 ~~A Good morning.~~

16 ~~Q First I want to ask you about a statement~~
17 ~~on Page 8 of your direct testimony, Lines 10 through~~
18 ~~12. You state that the company's distributed~~
19 ~~generation investment can be accommodated within the~~
20 ~~retail rate impact limit.~~

21 ~~A What lines were those?~~

22 ~~Q Lines 10 through 12.~~

23 ~~A Thank you.~~

24 ~~Q On Page 8.~~

25 ~~A I have that before me.~~

1 ~~modeled; and since the benefits outweigh the costs, I~~
2 ~~think it would create more headroom under the 2 percent~~
3 ~~cap.~~

4 Q ~~It would create more headroom.~~

5 A ~~I believe so because there are more~~
6 ~~benefits in the costs.~~

7 Q ~~I understand that, but -- I think that's~~
8 ~~the outcome that I think should happen; I'm just~~
9 ~~wondering if that's the outcome that does happen if you~~
10 ~~recover this through the RESA.~~

11 A ~~I believe that's the way it was modeled,~~
12 ~~both the costs and benefits were included; so it does~~
13 ~~increase the headroom.~~

14 Q ~~So could you walk me through -- let's say~~
15 ~~you have got a million dollar WiP cost that gets~~
16 ~~recovered through your RESA adjustment. At the same~~
17 ~~time, let's say you have got \$2 million of energy~~
18 ~~savings associated with that in a year. That's going~~
19 ~~to reduce your ECA by \$2 million.~~

20 A ~~But the difference from the RES and~~
21 ~~no-RES will show a net gain of 2 million. That's where~~
22 ~~the headroom is created.~~

23 Q ~~Or a net gain of 1 million.~~

24 A ~~I'm sorry, yes.~~

25 Q ~~Even with your lockdown proposal?~~

1 A Even with the lockdown proposal.

2 Q And -- all right. And the way I
3 understand your lockdown proposal is, what you are
4 saying is that the No-RES scenario gets locked down
5 when that -- when those costs are forecasted. In other
6 words, when your forecast is approved, that establishes
7 your No-RES scenario costs.

8 A For the portfolio that's -- it's the
9 difference between the RES and No-RES that gets locked
10 down.

11 Q I'm looking at the timing of when those
12 two components get locked down; and I think there is
13 slightly different timing, right?

14 A I -- yes. We have proposed that there be
15 two options of locking it down, whether that lock down
16 occurs for larger projects, we would like it to be at
17 the time of signing the contract.

18 Q Right.

19 A For the smaller projects, we would like
20 it at the time we file our next plan; so.
21 Administratively. It's much easier.

22 Q So that is the RES side of the equation,
23 if you will; that's when those -- that cost gets locked
24 down, right, is one of those two time periods?

25 A Both the RES and No-RES has to be locked

1 down.

2 Q The No-RES is locked down at the time
3 that you completed your Strategis run and that's been
4 approved as your No-RES scenario. That has nothing to
5 do with what you might procure, renewables-wise, and
6 what those actual costs are, right?

7 A Could you repeat that, please.

8 Q I can try.

9 The way I understand it -- and I am just
10 trying to understand what you guys are proposing --
11 your incremental cost is going to be determined by your
12 RES minus your No-RES costs, right? The No-RES costs
13 are determined through a Strategis run that has a
14 forecasted scenario, if you will, of what your system
15 would likely look like if you didn't procure
16 renewables; am I right so far?

17 A I believe you are.

18 Q Okay. And that Strategis run is locked
19 down, that No-RES scenario is locked down; and at
20 that -- at the completion of that run and its approval?

21 A I think it's both the RES and No-RES that
22 is locked down, because the lockdown is the net
23 benefits.

24 Q Right.

25 A So it has to be the difference from the

1 RES and No-RES.

2 Q I understand what you are saying.

3 A So we have to lock them both down.

4 Q But the No-RES part of that doesn't
5 change.

6 A If it's a new resources that's being
7 added, then the No-RES has to change because there will
8 be likely energy savings -- there may not be capacity
9 savings for some time; but at least there is energy
10 savings that results from displacing nonrenewable
11 resources on the system once it goes on line. So I
12 think both the rest and No-RES does change.

13 Q I'm not sure it's worth continuing.

14 COMMISSIONER BAKER: Well, I just want to
15 see if I can understand this.

16 So if you take the 2009 compliance plan
17 that's been filed that we're talking about today; the
18 incremental costs are all locked -- or anything before
19 December 31, 2008 are locked down as soon as we approve
20 this plan; is that accurate?

21 THE WITNESS: That is accurate.

22 COMMISSIONER BAKER: And then if you come
23 forward with another resource in this time period, it
24 gets locked down when you sign the contract; and we
25 know the 2008 one won't change. But for the No-RES

1 side of it, does that change when you relock -- when
2 you lock down a resource, when you sign the contract;
3 or do you use the same lock down that -- you know that
4 we would be approving right now? Is that what your
5 question is?

6 MR. MICHEL: Yes, thanks.

7 THE WITNESS: And perhaps it would best
8 be answered by Mr. --

9 COMMISSIONER BAKER: Warren?

10 THE WITNESS: -- Warren. I think so.

11 MR. MICHEL: All right. I think that's
12 all I have. Thank you, Mr. Ahrens.

13 THE WITNESS: Thank you, Mr. Michel.

14 COMMISSIONER BAKER: Okay, Mr. Irby.

15 CROSS-EXAMINATION

16 BY MR. IRBY:

17 Q Good morning, Mr. Ahrens.

18 A Good morning.

19 Q Could you please turn to your rebuttal
20 testimony at page 4 and reference lines 10 through 15.

21 A I see that.

22 Q When you are making that statement you
23 are emphasizing the cost side of that; is that correct?

24 A I am.

25 Q Isn't it also true when the wind blows

1 more than expected, the company would have more RECs
2 than it expected?

3 A That's correct.

4 Q Could you please turn to page 5, lines 8
5 through 9. Now, in the -- you read Mr. Shafer's
6 proposal of the allocating of costs between the ECA and
7 the RESA. Do you believe him to -- this proposal to be
8 based on Public Service Company's customers paying less
9 or getting a fair allocation of costs between the ECA
10 and RESA?

11 A The latter.

12 Q Could you please turn to the RES
13 Compliance Plan, Volume 2, Table 6-1.

14 On this table, in what year does Public
15 Service begin incorporating its locking down of net
16 costs for certain solar resources?

17 A I believe 2009.

18 Q Do you agree that the RES/No-RES
19 comparison which is used in the retail rate impact
20 calculation for 2009 does not include a carbon adder
21 for the year 2009?

22 A I would have to defer that to Mr. Warren.

23 Q Am I correct in saying that the
24 Commission has approved the use of a carbon adder to
25 ERP purposes, beginning in 2010?

1 A I believe that's true.

2 Q Referencing your page 27 of your rebuttal
3 testimony again, lines 16 through 18, do you understand
4 Mr. Shafer's position to be that the debate regarding
5 the addition of the carbon adder to become part of the
6 RES/No-RES modeling should not take place until the
7 2010 compliance plan?

8 A Could you repeat that, please.

9 Q Sure. Do you understand Mr. Shafer's
10 position to be that the debate regarding the addition
11 of the carbon adder to become part of the RES/No-RES
12 modeling should not take place until the 2010
13 compliance plan?

14 A I didn't understand that to be his
15 position but it may be.

16 MR. IRBY: May I approach, Your Honor?

17 COMMISSIONER BAKER: Yes.

18 (Exhibit Nos. 15 and 16 marked for
19 identification.)

20 BY MR. IRBY:

21 Q With what has been premarked as Exhibit
22 15, could you please turn to page 10, lines 3 through
23 6?

24 COMMISSIONER BAKER: Did I get a copy of
25 that? Could I get a copy of that?

1 MR. IRBY: Of his answer testimony?

2 COMMISSIONER BAKER: Oh, never mind.

3 MR. IRBY: That's all right.

4 COMMISSIONER BAKER: What were the pages
5 again?

6 MR. IRBY: Page 10, lines 3 through 6.

7 THE WITNESS: I now have a better
8 understanding of Mr. Shafer's position.

9 BY MR. IRBY:

10 Q What is your understanding?

11 A That he believes that the 2010 compliance
12 plan docket is the proper venue for this issue.

13 Q Thank you. Am I correct in saying that
14 the lockdown determination will be used in the
15 calculation of the headroom provided between the
16 RES/No-RES scenarios?

17 A Yes.

18 Q Is one of the purposes of the lockdown to
19 determine whether renewable resource is either a net
20 cost or net benefit in the calculation of the headroom?

21 A Yes.

22 Q Is one of the purposes of the lockdown to
23 mitigate the possible change in the net benefit or net
24 costs on a going-forward basis for eligible energy
25 resources as input assumptions, such as the price of

1 natural gas, change over time?

2 A Yes.

3 Q Would you agree that the additional
4 headroom created by the carbon adder allows for new
5 renewable -- I'm sorry, allows for more renewable
6 projects to fit within the 2 percent retail rate-impact
7 cap?

8 A Yes.

9 Q Are customers currently paying for carbon
10 costs?

11 A No, they are not.

12 Q Isn't Public Service's 2009 compliance
13 plan proposal to include carbon adders at this time,
14 artificially creating headroom by including costs which
15 are not being currently recovered in customers' bills?

16 A Well, it's true they are not being
17 recovered in customers' bills.

18 We believe that's an appropriate
19 estimation of what carbon taxes are likely to be; and
20 much like other variables like natural gas prices or
21 coal prices or system dispatch, we believe it's a
22 reasonable estimate to be placing in the calculation of
23 the RES and No-RES.

24 Q Are you aware of the American Clean
25 Energy and Security Act of 2009 discussion draft, which

1 was submitted last week by U.S. Representatives Harry
2 Waxman and Edward Markey, does not propose to implement
3 a cap and trade system until the year 2012?

4 A I'm not aware of that.

5 Q Would you agree with me that the
6 Commission requires natural gas price forecasts to be
7 updated annually because natural gas prices are
8 volatile and the costs for natural gas -- the costs for
9 natural gas are recovered on customers' bills through
10 the ECA?

11 A I apologize, could you re --

12 Q That's all right, I rambled.

13 Would you agree with me that the reason
14 the Commission requires natural gas price forecasts to
15 be updated annually is both because natural gas prices
16 are volatile and the costs for natural gas are
17 recovered on customers' bills through the ECA?

18 A When you say, the Commission requires
19 natural gas forecasts to be updated annually, are you
20 referring to RES compliance plans?

21 Q Yes.

22 A Okay, because obviously we update
23 projected gas prices more often than annually.

24 Q Yes, yes.

25 A Oh, yes. Okay, I can agree with that.

1 Q Okay, would you agree with me that a
2 reason the Commission requires retail sales forecasts
3 to be updated annually is because these forecasts are
4 used to determine how much money can be recovered by
5 the 2 percent RESA which is then applied to the total
6 retail sales of the company collected via customer
7 bills -- a reason?

8 A A reason, yes.

9 Q Following the logic of the last few
10 questions, why does it make sense to the Commission to
11 create a carbon cost adder until there is both known
12 and measurable and carbon costs actually impacting
13 customer bills?

14 A Because I believe it's the best estimate
15 of what the carbon taxes are likely going to be, going
16 forward. It might be higher, might be lower, but it's
17 the best estimate at this time.

18 Q Would Public Service Company be willing
19 to agree to recalculating the lockdown once the carbon
20 adder has become known and measurable?

21 A No.

22 Q Would Public Service be willing to delay
23 the use of a carbon adder until the appropriate
24 legislation is enacted?

25 A No.

1 ~~to exist in writing?~~

2 ~~A I am aware of an E mail that has this~~
3 ~~statement in it. I presume that it's in writing.~~

4 ~~Q If such practices and policies are in~~
5 ~~writing, would Public Service be willing to file them~~
6 ~~with the Commission?~~

7 ~~A Yes.~~

8 ~~Q Do you know, Mr. Ahrens, whether those~~
9 ~~policies and procedures would withstand the scrutiny of~~
10 ~~either an internal or external audit?~~

11 ~~A I assume they would.~~

12 ~~Q But you don't know for sure?~~

13 ~~A I think the only way to know is if there~~
14 ~~was an internal or external audit.~~

15 ~~Q Is there a company witness who is part of~~
16 ~~this proceeding who may know more about the Home Smart~~
17 ~~policies and procedures?~~

18 ~~A Not that I'm aware of.~~

19 Q I would like to turn your attention back
20 to your direct testimony on page 20, where you begin
21 talking about the company's lockdown proposal.
22 Actually, your discussion begins on page 19, line 9;
23 but if I could, I'll direct your attention to the
24 bottom portion of page 20, beginning on line 13. Would
25 you describe what your lockdown concept is?

1 A Sure. Once the company has either signed
2 a contract -- or for the smaller on-site solar
3 programs, once we file a compliance plan, we identify
4 the difference between the RES and No-RES and quantify
5 what those net benefits are. We propose to lock down
6 those net benefits going forward. Granted, we project
7 what those savings are each year through time, we
8 propose having that locked down. So, for example, if
9 you look at Table 6-3, under Column J, there is an
10 ongoing incremental cost. That is the lock down. Once
11 we have locked down those numbers, we put the contracts
12 or the assets that are related to that in both the RES
13 and No-RES plan when we do the modeling, so it has no
14 incremental impact going forward. We lock down that
15 number. And then every year, going forward, that
16 number doesn't change, it is what we model. We don't
17 change the gas price forecasts or anything like that.

18 The idea is that it is showing what the
19 benefits are of that contract at the time that we made
20 the decision and we propose locking that down.

21 Q Okay. And you did say you never -- from
22 that point in time, you never look back to those cost
23 assumptions or estimates that are used in that
24 modeling; is that a fair statement?

25 A That's a fair statement.

1 Q Has PSCo had to break any eligible energy
2 contracts based on a look back or actual incremental
3 costs?

4 A We haven't had to do a look back because
5 we have always been in compliance with the RES
6 standard. So there has never been a need to do a
7 recalculation.

8 Q And have they -- has the company ever
9 broken any contracts?

10 A Not that I'm aware of.

11 Q If actual natural gas prices are lower
12 than those used in the No-RES/RES modeling comparison,
13 is it Public Service's position that the actual
14 benefits of those eligible energy resources are lower
15 than expected?

16 A The benefits of a contract are always
17 there; the question is whether or not the information
18 that was made available, based on the time that that
19 decision was made -- obviously there are variables that
20 change. Our concern is that we don't want to be
21 second-guessed; if we had the best information that was
22 available at the time of the decision, based on a 20/20
23 hindsight look at it, whether or not it turned out to
24 be different. Our concern is that if, after the fact,
25 it's shown that we were -- we had expenditures that

1 exceeded the 2 percent cap, that we would be in a bind
2 and have to do something or be penalized. So our
3 concern is that we think it is appropriate to be
4 looking at the information at the time the decision is
5 made and not revisiting that decision.

6 Q Okay. Does the actual cost of the
7 eligible energy resource change with natural gas
8 prices?

9 A No.

10 Q If natural gas prices end up being higher
11 than the assumptions used in the modeling, does Public
12 Service still maintain that it won't seek a
13 reexamination of incremental costs?

14 A Yes. Yes, we would not seek -- higher or
15 lower, we don't want to revisit the decisions that were
16 made during the decision-making process.

17 Q So would it be fair to state that you are
18 seeking, I guess, symmetrical treatment?

19 A That would be fair to say.

20 MS. BOTTERUD: May I have a moment, Your
21 Honor?

22 COMMISSIONER BAKER: Sure.

23 MS. BOTTERUD: That's all I have for you,
24 Mr. Ahrens, thank you.

25 THE WITNESS: Thank you.

1 (Pause.)

2 Q Can a locked down incremental cost be
3 negative in this -- can the benefits outweigh the
4 costs? And if this is the case, does that mean the ECA
5 would collect more than the cost of the resources?

6 A The answer to your first question is,
7 yes, it could be negative; if there are more benefits
8 than the cost, it would be a negative number. Under
9 that scenario, that's what would happen is that you
10 would build in to the ECA what you project to be the
11 estimated ECA costs. Then you would credit to that ECA
12 the RESA revenues or the modeled incremental costs and
13 the ongoing incremental costs, the lockdown. So that's
14 how that would work.

15 Q Okay.

16 COMMISSIONER BAKER: I have no further
17 questions.

18 Redirect?

19 MS. CONNELLY: I have redirect.

20 REDIRECT EXAMINATION

21 BY MS. CONNELLY:

22 Q Mr. Ahrens, I want to start with that
23 last question, first: If we have a resource such as
24 the Northern Colorado Wind resource, where we projected
25 net savings and therefore we projected creating

1 additional headroom in the RESA; where we projected net
2 savings, so we had negative incremental costs. Take
3 that as the assumption. Okay?

4 I think you were just asked by
5 Commissioner Baker what would happen. And my question
6 for you is, do we ever believe that we will have an
7 entire portfolio of renewable costs that are negative?

8 A No. With the creation of benefits which
9 would create more headroom, we would go out and procure
10 more renewable energy.

11 Q So we would always have some -- when we
12 look at the portfolio, some positive incremental costs?

13 A I believe that is true.

14 Q Those positive incremental costs may be a
15 little bit lower if we have a resource that's creating
16 savings from the renewable energy portfolio as a whole
17 and it has positive incremental costs; do we always
18 anticipate therefore that there will be some transfer
19 of RESA dollars to the ECA?

20 A Yes.

21 Q And we wouldn't have the situation
22 posited by Commissioner Baker of the ECA having too
23 much cost or something to that effect?

24 A Theoretically it could be negative, but
25 the reaction of the company would be such that we would

1 go out and procure more, such that it would be not be a
2 negative number.

3 Q All right. Right before the lunch break
4 we had a lot of intervenors come up, still having a lot
5 of confusion about exactly how everything works. So I
6 think it might be helpful to the record if we walked
7 through how everything works. And this is based on the
8 questions of Ms. King, Mr. Michel, and some of
9 Commissioner Baker's.

10 And I want to talk about three different
11 things: How we set the rates when we set rates; how
12 between track costs and therefore determine the
13 deferred balances; and then finally, how we actually
14 transfer dollars. Okay?

15 A Okay.

16 Q Okay. Let's start with the first, how we
17 set the rates; and let's use -- I think it's a little
18 easier to use Table 6-3 because it's less complicated
19 by the Windsource and we will explain how Windsource
20 factors in.

21 A Okay.

22 MS. CONNELLY: Are we able to use the
23 board up there, Commissioner Baker; do you know?

24 COMMISSIONER BAKER: Sure. It might be
25 helpful.

~~1 with the proposed and the Commission has accepted
2 2% -- it allows us to maximize the amount of renewable
3 energy that we can acquire. It's not -- I am not
4 recommending that we go out and securitize future RESA
5 revenues to be spent today. That's not what I'm
6 proposing.~~

7 Q If the company were to borrow money and
8 securitize the loan with RESA revenues, it's true, is
9 it not that, then, the RESA revenues would not be
10 available to spend on any additional resources? They
11 would be pledged to buying back the loan?

12 A We would have to change this plan.

13 Q Now, there's been a lot of discussion
14 about the lockdown, what it does or does not entail.
15 And, again, let's look at Table 6.3, if you will.

16 A I have it.

17 Q Okay. Now, I believe you testified --
18 either you testified or I stated, when we were arguing
19 about the motion to strike earlier -- that what the
20 company has quantified as a lockdown, so far, was the
21 SunE Alamosa costs and the on-site solar as of the end
22 of December 31st. Do you recall that?

23 A Yes.

24 Q Let's look at Column J, and the numbers
25 that are in Column J. Do you see that the numbers in

1 Column J start at about 5.2 million and then they
2 decline over time?

3 A That's correct.

4 Q Is there any resources depicted in Column
5 J, other than the ones that we just stated, SunE
6 Alamosa and the on-site solar facilities as of December
7 31st, 2008?

8 A No.

9 Q So, these are the stream of incremental
10 costs that with -- through our RES/No-RES model, we
11 believe are associated with those resources.

12 A Correct.

13 Q Okay. So, when we ran the RES/No-RES
14 model, for this plan, to determine the modeled
15 incremental costs in Column H, how did we treat Alamosa
16 and those existing on-site solar costs?

17 A They were included in both the RES and
18 the No-RES, resulting in no incremental costs for those
19 facilities, because we already captured them in this
20 column.

21 Q Okay. Now, next year, when we do this
22 again, if the company's methodology is accepted, what
23 happens?

24 A Well, we start with the same numbers that
25 are in Column J, but to the extent that we have new

1 resources that are then not locked down, we would then
2 add that to Column J. And we would take those
3 resources out of the RES/No-RES, so there's no
4 double-counting there. And then, for those new
5 resources that are included, we would again identify
6 the stream of ongoing incremental costs through time
7 and lock that number down.

8 Q Let's take, for example -- okay, let's
9 say we take the new resources -- we're going to file
10 our next plan July 1. So, what new resources,
11 realistically, are we talking about between now and
12 July 1?

13 A Certainly, it's the wind contract that I
14 was discussing earlier. There potentially could be the
15 25-megawatt on-site solar, if we get that filed in
16 time. And then, new on-site solar that has been
17 installed.

18 Q Okay. And, I think, you said you take it
19 out of the RES/No-RES, these new resources. Would you
20 mean, as you said earlier, that those resources would
21 appear in both the RES and the No-RES plans so that
22 there is no difference between those two plans with
23 respect to those resources?

24 A Yeah. If we had an out-of-pocket impact
25 by doing that, we would include in it both the

1 RES/No-RES, so there's no incremental difference
2 between the two.

3 Q And why is it important that we create
4 this lockdown that we're talking about for resources,
5 once we've acquired them?

6 A The concept is that that's information
7 that we have available when we make the decision, upon
8 purchasing the contract or signing the contract.
9 That's what we use to assist in our banking
10 going-forward. That's what we include in our long-term
11 plan. We don't want to be revisiting those numbers or
12 have it changed.

13 It's much like a prudency determination.
14 It's what's known at the time the decision was made.
15 And, in this case, the assumptions that are known are
16 the best assumptions that are known at the time.

17 Q And there was some questioning by
18 Ms. Botterud, and maybe by Commissioner Baker, about
19 falling gas prices. What happens in a situation if we
20 don't lock down the assumed incremental costs that are
21 going to hit the RESA, and gas prices are -- turn out
22 to be lower than we projected at the time we made the
23 decision to buy the renewable energy resource.

24 A In that case, we could very well be
25 expending more dollars than we have headroom for, and

1 we would have to stop procuring new renewable energy
2 resources.

3 Q I think I want to make sure that the
4 logic is clear. Why would we have to spend more
5 dollars than -- if gas prices drop, why would we end up
6 spending more dollars against the RESA than we thought
7 we were going to have to spend?

8 A If gas prices went down, that would mean
9 that energy that's being displaced by the renewable
10 energy would create lower avoided costs; therefore, the
11 incremental costs turn out to be higher, because
12 there's less net benefit, which means we have spent
13 more of the 2% than what we originally projected we
14 were going to spend.

15 Q Now, let's turn to the dispute with the
16 OCC about the carbon.

17 I believe Mr. Irby asked you about
18 whether we could wait until 2010 to resolve this issue
19 about the carbon costs. Do you recall those questions?

20 A I do.

21 Q Okay. Does the company agree that we
22 should wait until 2010 to decide whether or not we
23 include the carbon costs in any proposed lockdown of
24 incremental costs?

25 A No.

1 Q And why is that?

2 A Because we have to make decisions now,
3 and we are making those decisions based on the best
4 estimate of what those carbon taxes are going to be.
5 It could be higher and it could be lower. But this is
6 what we project them to be, and we're making those
7 decisions based on that variable now.

8 Q Is it similar to what you just described
9 with the gas costs? For example, if the carbon could
10 turn out to be lower than projected, what does that
11 mean if we have to then recalculate the incremental
12 costs of a resource that we have already purchased?

13 A Again, it would affect what we have
14 calculated as the incremental costs, meaning we could
15 very well have exceeded or, you know, conversely gone
16 well below the 2%. But it impacts what the retail rate
17 impact is, and whether or not we have gone above or
18 below it.

19 And by not including it now, it hogties
20 us. We can't -- it would be very difficult to make
21 decisions today, by excluding costs that we think are
22 going to be incurred, although they are not being
23 collected today.

24 Q Now, Mr. Ahrens, the contracts that we're
25 entering into, whether for on-site solar, central solar

1 or wind, what is the general term of those contracts
2 that we're facing?

3 A I believe they are 20-year contracts.

4 Q So, even if there is no carbon in 2009 or
5 even 2010, we do expect that there will be carbon
6 during the period of those contracts, carbon costs?

7 A Absolutely.

8 Q Mr. Irby also went through a series of
9 questions about why, he says, doesn't Public Service
10 Company update its gas prices annually? Doesn't Public
11 Service Company update its load forecasts annually?
12 What about carbon costs? Would we be updating those
13 when we filed our renewable energy compliance plans?

14 A Like every other variable, we would
15 update with the most recent information that we have
16 available.

17 Q And we would use the updated information
18 for future purchase decisions, correct?

19 A That's correct.

20 Q I think you were asked by Ms. Botterud
21 about the northern Colorado wind project that has been
22 approved by the Commission. And she referred to Table
23 6-3, and why there were no new wind energy costs in
24 2009.

25 A Yes.

1 Q Would you accept, subject to check,
2 Mr. Ahrens, that the in-service date of that project is
3 towards the very end of 2009?

4 A Sure.

5 Q And if that were the case, where would
6 you expect the wind energy costs from that project to
7 first hit this table?

8 A 2010.

9 Q Okay. You were asked a question by
10 Commissioner Baker as to how much of the lockdown that
11 we show for 2009, in Column J, under "Ongoing
12 Incremental Costs," was associated with Alamosa, the
13 Alamosa plant, and how much was on-site solar. Do you
14 recall that?

15 A I do.

16 Q I think you said about 5%?

17 A I said I thought it would be less than
18 5%.

19 Q I want to draw your attention to an entry
20 that's in Column C for 2008, where it said: New
21 Central Solar Costs and On-Site Solar Costs"; do you
22 see those?

23 A I do.

24 Q And after looking at those, and the new
25 central solar costs. That was in 2007, that's Alamosa?

1 A That's Alamosa, correct.

2 Q Now that you see those relative amounts,
3 29 million for on-site solar and 2.4 million for
4 central solar, is it still your opinion that a majority
5 of the lockdown would be SunE Alamosa?

6 A Looks like it would be about half and
7 half.

8 Q 29 to 2. Look at 2008.

9 A Yeah. 2008, you have got new central
10 solar systems at 2.4.

11 Q And you got on-site solar costs at 29
12 million.

13 A Correct.

14 Q And modeled incremental costs of 30
15 million?

16 A Correct.

17 Q So, wouldn't that suggest the vast
18 majority of the costs that are being locked down are
19 related to on-site solar, as opposed to the SunE
20 Alamosa? And if you don't know, would this be
21 something you would defer to Mr. Warren?

22 A Let's defer to Mr. Warren.

23 Q Since he did the numbers?

24 A Since he did the numbers.

25 Q Okay.

COPY

1 BEFORE THE PUBLIC UTILITIES COMMISSION
2 OF THE STATE OF COLORADO

3 -----

4 REPORTER'S TRANSCRIPT Volume II

5 -----

6 Docket No. 08A-532E

7 -----

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

10 -----

11

12 Pursuant to notice to all parties of
13 interest, the above-entitled matter came on for
14 hearing before Commissioner Matt D. Baker, commencing
15 at 9:01 a.m., on April 7, 2009, at 1560 Broadway,
16 Denver, Colorado 80203, said proceedings having
17 been reported in shorthand by Vanessa Campbell,
18 James Midyett and Harriet Weisenthal.

19 Whereupon, the following proceedings were had

20

21

22

23

24

25

2009 APR - 8 PM 6: 28

RECEIVED
OFFICE OF
PUBLIC UTILITIES

THE PUBLIC UTILITIES COMMISSION
FILED
APR 10 2009
THE STATE OF COLORADO

P R O C E E D I N G S

1

~~2 COMMISSIONER BAKER: Welcome to Day 2 of
3 Commission Docket No. 08A-532E, Public Service's
4 application for the approval of its 2009 Renewable
5 Energy Standard Compliance plan.~~

~~6 And I believe we were going to start
7 today off with staff. Is that okay?~~

~~8 MS. CONNELLY: That was our
9 understanding, as well, Commissioner Baker.~~

~~10 I did want to alert you that Ms. Newell,
11 who committed to provide some additional information
12 today, apparently one of the folks who she needs to
13 contact to get some of the information is not available
14 until this afternoon, so we will not be able to provide
15 that information until later in the day.~~

~~16 COMMISSIONER BAKER: Okay. All right.
17 So let's start with staff witness -- Staff Part 1.~~

~~18 MS. BOTTERUD: Thank you, Commissioner
19 Baker. After discussing the status with my client
20 later yesterday afternoon, staff would like to request
21 the opportunity of calling Mr. Gene Camp to address the
22 lockdown and time fence issues, if that is acceptable
23 to the parties and yourself.~~

~~24 COMMISSIONER BAKER: I believe I was --
25 yes, it's fine for me. I believe I was implying that~~

1 staff could bring whatever witness they felt could best
2 answer their specific questions on this issue.

3 Is there any problems from anybody else
4 on that?

5 MS. CONNELLY: Depending upon what
6 Mr. Camp says, since we do not yet know what staff's
7 position is on this issue, we may or may not be able to
8 cross-examine him immediately on his position, so,
9 again, depending on what he says, we would potentially
10 like the opportunity to have the day to consider our
11 cross-examination and our rebuttal and then ask that he
12 be recalled tomorrow afternoon for cross-examination
13 purposes.

14 If he agrees with our position or if it's
15 just minor variation we may be able to handle it
16 directly.

17 COMMISSIONER BAKER: Okay. Does that
18 work for staff?

19 MS. BOTTERUD: It does, Your Honor.
20 Thank you.

21 COMMISSIONER BAKER: So Mr. Camp would be
22 available today or tomorrow should it prove necessary.

23 Good morning, Mr. Camp.

24

25

1 major issues. I can't say that I'm familiar with every
2 issue in this docket. The reason I'm here today is
3 just to address specifically the time fence issues.

4 Q And could you generally give an overview
5 of the purpose of your testimony?

6 A Yes. Purpose of my testimony really is
7 to provide staff's position on the time fence issue for
8 the Commission's consideration.

9 Q Could you explain why trial staff didn't
10 provide testimony on the issues as part of its prefiled
11 answer testimony in this docket?

12 A Sure. When we first looked at the orders
13 coming out of -- from you, Commissioner Baker, we had
14 thought that actually the issue of the time fence had
15 been removed from consideration in this docket. We
16 actually had had some people preparing some testimony
17 along that line until that order came out and then we
18 decided to, you know, actually not provide that
19 testimony in the docket itself.

20 Q And, now, could you describe what your
21 understanding is of what Public Service is proposing
22 with regard to the time fence?

23 A Sure. My understanding is what Public
24 Service wants to do is perform their initial estimate
25 of the cost and the benefits that are associated with

1 particular resources that they're wanting to acquire
2 and then take those estimates and basically lock them
3 in once they've contracted for them and then consider
4 that in their -- really the calculation of the
5 available funds for the RESA moving forward out in
6 future years.

7 Q And what's your understanding of what the
8 term locked in or lockdown means?

9 A Well, basically my understanding is they
10 want to basically lock in benefits or cost, or actually
11 really the combination of the two based on their
12 projections, not based on, you know, actual numbers in
13 the future. I think that's probably simple enough at
14 this point.

15 Q What is your understanding of the
16 company's concern with determining the impact on the
17 RESA using actual cost for transactions that occurred
18 in the past?

19 A Well, one thing I noted is I guess in the
20 company's witness Ahrens, he had expressed that the
21 company was concerned that if forced to continually
22 recalculate incremental costs that are driven by
23 uncertain gas price projections they could be in a
24 situation where RESA funds become inadequate to pay for
25 those incremental costs.

1 So that was the main concern that I saw
2 in their testimony. I think they were just concerned
3 that going into the future if they made a decision
4 based on gas projections they may be limited on what
5 they could do in the future under the RESA.

6 Q On Page 21 of Mr. Ahrens' direct
7 testimony, he states that the issue is similar to the
8 regulatory issue of prudent investment. Do you agree?

9 A No. To me this is quite a different
10 issue than prudence here.

11 This is not unlike resource planning in
12 general. We make decisions for resource planning based
13 on projections. We look out into the future, we do our
14 best guess or best estimate of what gas prices are,
15 coal prices, what the -- in the case of carbon, what we
16 believe carbon costs may be looking into the future,
17 and then we make a decision. And at that point is --
18 based on the knowledge we have we make a decision on
19 what's a good choice, and I think that's the case here
20 on renewables.

21 We -- we're not suggesting that without a
22 time fence that some resource that the company would
23 pick would be judged imprudent in the future. That
24 decision's been made in this proceeding. What is being
25 asked here is that they never go back and look at the

1 way those are treated in the future.

2 This does get moved into future RES
3 plans, depending on what's decided here with this time
4 fence. For example, if the price of gas increases in
5 the future over what is projected, there probably is
6 actually more -- not probably, there will be more
7 headroom out there for additional resources. This is
8 likely to cause, you know, more headroom as less.

9 So it's -- the issue of prudence has to
10 do with whether they're going to get recovery. The
11 company's going to get recovery of their investments
12 and what they choose here regardless.

13 This has to do with looking at that
14 2 percent RESA and making decisions in 2010, 2011, out
15 into the future into how do you look at the choices you
16 make today on how it could affect what you can do in
17 the future.

18 So it's -- to me that's -- the question
19 is not on prudence of the resource, that's why I don't
20 quite agree with the analogy they used that it's
21 similar to the prudence on a resource selection.

22 Q In your opinion, does Section 40-2-124
23 allow the company to recover projected costs?

24 A Now, I can give you a layman's opinion
25 here because I'm not an attorney, but I've never seen

1 anything in the statute that talks about recovery on --
2 on projected costs out there.

3 In my opinion, it's kind of a stretch to
4 believe that it was intended that the maximum impact to
5 the customers' bill is -- should be based on what the
6 company has even described has uncertain gas price
7 projections. I mean, that seems like it's -- it would
8 be surprising to -- it would surprise me if the
9 legislature intended that that's the basis of doing an
10 impact test.

11 Many of the resources that the company's
12 putting into place have a number of years of life out
13 there and the projected savings are likely to be wrong.

14 I mean, I think one thing we know is
15 projections are going to be high or low, it's unlikely
16 they're going to hit right on, and I believe that
17 actually we should be adjusting in the future based on
18 what we know in the future, not based on what we know
19 today.

20 Q Are you aware of some examples of
21 Colorado regulation that might inform the Commission
22 when making its decision about the time fence and
23 lockdown?

24 A Well, kind of back up to the same
25 discussion I was having just a minute ago on resource

1 planning in general.

2 Again, we pick resources for resource
3 planning purposes based on projections. We will pick
4 what we believe is a good gas projection to use, we
5 will pick what is a reasonable carbon cost in the
6 future, we look at what we think is a reasonable coal
7 cost in the future.

8 Once we've made those decisions, and the
9 Commission affirms that, those are usually considered
10 prudent going into the future.

11 Now, the actual cost of gas, though,
12 that's charged back to customers is based on actual
13 costs. The company doesn't expect to get reimbursed
14 gas based on their projection that they made when they
15 picked these resources.

16 In fact, at one time they did -- were
17 structured that way and slowly they've moved away from
18 that because, again, projections usually don't match
19 actuals, and there's too much risk there.

20 So, again, I think it seems like there's
21 kind of a disconnect here on what the company's
22 proposing on looking at this narrow issue of the RESA
23 account and wanting to just do that based on
24 projections that they make today versus using the best
25 available information they have each year as they look

1 forward.

2 Q Will staff's position likely result in
3 less renewable resources being acquired?

4 A Actually, I don't think we have any idea
5 of the impact. I think it's as likely that more
6 renewables could be dispatched based on not using a
7 time fence as less renewables.

8 I think the environmental community,
9 especially in the resource planning docket had -- I
10 think with one voice indicated that they thought that
11 the gas projections were low looking into the future.

12 If those gas projections are indeed low
13 then the amount of renewables that could be acquired in
14 the future is actually higher.

15 Now, the converse is true, too, though.
16 I mean, if the projections of the company are actually
17 high relative to actual, it may be that they may need
18 to back off on future acquisitions for a period of time
19 during that period when gas prices are lower than they
20 expect.

21 So, again, that -- I don't think that
22 what we're suggesting here is intended to reduce the
23 amount of renewables or to increase it, either one,
24 it's just that it should be proportional to the actual
25 numbers out there that are reflective of the gas

1 prices, carbon prices, those kind of things looking
2 into the future.

3 Q And Mr. Camp, could you provide a visual
4 example of what a lockdown would look like over the
5 long-term?

6 A Sure. I can try. If you don't mind,
7 I'll kind of draw something on the board that's real
8 simple.

9 COMMISSIONER BAKER: Is that on?

10 Q (By Ms. Botterud) Is it plugged in?

11 A It is. I'm going to just take a guess --
12 I mean, I'm not sure how many years Alamosa's been in
13 place, but I think Alamosa is a resource that the
14 company has suggested in here that they do treat with a
15 lockdown. I think we're roughly two years into
16 Alamosa. It may be one year, three years, something in
17 that time frame, but it's about a 20-year resource.

18 So the company has looked at that
19 resource let's say over a 20-year period, and we'll put
20 their gas price projection that the company is using
21 out there.

22 Let's say -- it's probably steeper than
23 that curve, but just to indicate this is what the
24 company has projected. They want to actually use this
25 curve to determine what is being put into the RESA as

1 far as savings or costs, those kind of things. If the
2 actual price of gas in reality is here -- let's say
3 this is actual. This is projected.

4 What you've told consumers is that
5 they're getting the maximum amount of resources under
6 2 percent. Actually what they're getting is what was
7 projected. It's possible for the price of gas, if it
8 was higher, there was actually more headroom available
9 during that period.

10 They could have as each year passed
11 ratcheted up a little bit, even if their projection was
12 the same. But, likewise, if the gas prices in
13 actuality are lower, it's going to reduce the headroom.
14 So they may have to reduce for a period --

15 Q I'm sorry, Mr. Camp, it's hard to hear
16 you.

17 A I'm sorry. If the price of gas in
18 actuality was lower than the projection, then the
19 company would need to actually back off on their
20 acquisitions for a period of time and then continue to
21 ramp up based on the curve out there.

22 But I think that's what was intended in
23 the legislation out there, that there be a 2 percent
24 impact.

25 Q Thank you, Mr. Camp.

1 MS. BOTTERUD: And when we have a chance,
2 I'd like the opportunity to enter Mr. Camp's drawing
3 into evidence as an exhibit.

4 COMMISSIONER BAKER: Okay.

5 Q (By Ms. Botterud) Mr. Camp, is the
6 company's claim that they must continually
7 recalculate incremental costs a reasonable argument
8 for not doing so each year?

9 A I don't think so, because that's kind of
10 puzzling, that argument, to me anyway because it seems
11 like the company's going to be remodeling every year
12 regardless.

13 They're going to have to take the
14 resources that they contracted that year, fix them in
15 the models, which would take some special modeling.
16 They'll be looking into the future in 2010 for their
17 RES plan, they'll be modeling the new gas projections
18 that they have at that time, and to say that they're
19 continually remodeling and this is a burden just seems
20 like kind of an empty argument to me because I think
21 they're doing the same amount of activity here
22 regardless.

23 Q What's your understanding of what's being
24 decided on the time fence and the lockdown as it
25 pertains to this docket?

1 what the outcome of this docket is, what you will
2 decide, and it's not clear to me what even Public
3 Service is seeking in this. So it's -- I'm not sure
4 that I have any clarity on that.

5 Q Could you summarize staff's position on
6 the time fence and lockdown?

7 A Yes. Staff believes that the rate impact
8 or the -- like other costs charged to customers should
9 be based on actual costs where at all possible.

10 For example, in 2009, if the company,
11 just as an example, projected that they could put 100
12 turbines into place under the existing RESA and gas
13 costs were actually lower as a result, I mean, in
14 actuality, and basically the numbers show that really
15 95 are all that were justified under the 2 percent
16 plan, then the future resource plan should be adjusted
17 downward accordingly.

18 But likewise, if gas prices are higher
19 than the company projected, let's say that the numbers
20 show that, say, 105 turbines could have been put in
21 under the RESA, then the company would have the option
22 to actually put more resources in plan -- in their plan
23 or into the -- to actually acquire them.

24 So it seems like there's -- instead of --
25 you know, it's -- it seems unreasonable to base future

1 decisions, which that's what we're actually deciding in
2 this case, we're going to decide whether it makes sense
3 to how many -- how many dollars we're going to spend
4 in, say, 2015 based on the projection that the company
5 has made today for SunE Alamosa.

6 In fact, I'm not even clear, for example
7 on the SunE Alamosa if they're seeking that they lock
8 it in at the gas price they projected two years ago
9 when they contracted for it, which is what they've
10 indicated they won't lock in that contract, are they
11 going to lock it in today based on 2009 projections?
12 And then, again, we live with that projection all the
13 way into the future until that resource is no longer
14 viable out there to be used.

15 The one thing that I think Commissioner
16 Tarpey has brought up many times, and I think it's a
17 good saying, is the only thing that you can be sure of
18 with regard to projections is that they're going to be
19 wrong, and we know that's going to be the case.
20 They're either going to be high or low.

21 And it seems that we should be adjusting
22 our plans as we move into the future based on our best
23 estimate and projections of what we believe the
24 future's going to look like, not based on what we knew
25 several years ago.

1 MS. BOTTERUD: Thank you, Mr. Camp. I --
2 a moment, please.

3 (Pause.)

4 MS. BOTTERUD: Could we go off the record
5 for a minute?

6 COMMISSIONER BAKER: Sure.

7 (Discussion off the record.)

8 (Whereupon, Exhibit No. 37 marked for
9 identification.)

10 COMMISSIONER BAKER: Back on the record.

11 Okay. Proceed.

12 Q (By Ms. Botterud) Mr. Camp, you should
13 have in front of you an exhibit that's been marked
14 for identification as Exhibit No. 37. Would you
15 give a brief description of what that represents?

16 A Yes. This was what I drew on the board
17 here to kind of describe the difference between how the
18 RESA would be affected for using projected or these
19 locked in costs and benefits versus the actual that
20 would be reflected by actual gas prices, those kind of
21 things.

22 Q And does the exhibit accurately reflect
23 what you drew on the white board?

24 A It does.

25 Q And did you enhance by making darker the

1 exhibit so that it would copy more clearly?

2 A I did.

3 Q Thank you.

4 MS. BOTTERUD: I'd move for admission of
5 what's been marked for identification as Exhibit
6 No. 37.

7 COMMISSIONER BAKER: Any objections?

8 MS. CONNELLY: No objection.

9 MS. HICKEY: No objection.

10 COMMISSIONER BAKER: It is admitted. 37
11 is admitted.

12 (Whereupon, Exhibit No. 37 admitted into
13 evidence.)

14 MS. BOTTERUD: We have no further
15 questions for Mr. Camp.

16 COMMISSIONER BAKER: Okay. Would Public
17 Service or anyone else like to delay cross or --

18 MS. CONNELLY: Public Service Company
19 would like to ask a few clarifying questions so that we
20 fully understand Mr. Camp's proposal, and then we would
21 like to defer our cross and/or rebuttal until tomorrow.

22 COMMISSIONER BAKER: Okay.

23 MS. CONNELLY: Because I need to check
24 with my client as to exactly what we want to say. But
25 I do have some questions to fully understand his

1 proposal.

2 COMMISSIONER BAKER: Is that fine with
3 everybody?

4 MR. MICHEL: We have some cross or
5 explanation -- you know, as Ms. Connelly said,
6 clarification. Where you draw the line, I'm not sure,
7 but we'd like to ask those now.

8 COMMISSIONER BAKER: Okay. So we'll take
9 clarifying questions now. I think Mr. Michel wants to
10 stray into stray cross. I don't have a problem with
11 that if everyone's okay with that.

12 MS. CONNELLY: I'd be happy to go first
13 with my clarifying questions. If I may ask them from
14 here.

15 CROSS-EXAMINATION

16 BY MS. CONNELLY:

17 Q As I understand your proposal, Mr. Camp,
18 you would like to have the incremental cost of the
19 renewable portfolio continually updated.

20 A Well, you say continually. It should be
21 updated annually.

22 Q Updated annually. Okay. Now, when you
23 update the incremental cost of the renewable portfolio
24 annually, which renewable resources are you including
25 in the update? And by that I mean which renewable

1 resources are you -- that are in the RES plan are you
2 displacing when you put together your No-RES plan?

3 A One, I'm not sure what the company was
4 planning on doing here. That's unclear to me. But I
5 think it's -- it's actually closer to the status quo of
6 what we've been doing in the past.

7 I know there are certain resources that
8 were already, I guess, not considered in the RESA
9 altogether. I mean, that were put in place under the
10 old LCP process. So it would actually be the resources
11 that have been put in place since then that, again, you
12 would look into the future each year and apply what the
13 company believes is the best projection of gas prices,
14 carbon costs, even coal costs. I'm guessing there may
15 be at times where wind might displace something other
16 than gas, like -- that's something that the company
17 would have to look at into the future. I think
18 generally what you're looking at is gas right now.

19 Q Just so I, again, have clarification on
20 the mechanics, we have had four resources that resulted
21 from the 2005 Allsource IRP which have never been
22 included in our retail rate impact calculations. So as
23 I understand, you're in agreement that those remain
24 out.

25 A That's a decided issue to me.

1 Q Okay. And all of the resources that
2 existed at the time that Amendment 37 was passed, those
3 are all out?

4 A I agree.

5 Q But then I would take it your position
6 is, from what you've said, is everything that we have
7 acquired since then gets reevaluated -- everything else
8 that we've acquired since then gets reevaluated
9 annually in the RES/No-RES calculation.

10 A Correct.

11 MS. CONNELLY: I think we understand
12 Mr. Camp's proposal now and we'll be prepared to
13 address it through cross and/or through a rebuttal
14 witness tomorrow.

15 COMMISSIONER BAKER: Okay.

16 CROSS-EXAMINATION

17 BY MR. MICHEL:

18 Q Good morning, Mr. Camp.

19 A Good morning.

20 Q So if I understand your testimony,
21 staff's position is that there should be, I guess, a
22 moving time fence with respect to resources that the
23 company would procure in this -- in this compliance
24 period; is that --

25 A Yes. I mean, basically that you would

1 use your best projections looking into the future to
2 decide what future resources you would acquire.

3 It was never put into question the
4 resources you've already selected in the past.

5 Q Okay. But it would affect the amount of
6 RESA dollars that are available to pay for those
7 resources?

8 A Absolutely.

9 Q Okay. And you indicate that that would
10 affect the company's future actions. Would it not also
11 put the company at additional risk that it could
12 actually recover enough dollars for long-term, major
13 resources that it might procure today?

14 A I don't believe so, because I believe the
15 statute's pretty clear, especially on contracts or the
16 resources they put into place that the company should
17 be able to recover the cost.

18 Q And what if there are simply not enough
19 dollars in the -- within the retail rate impact that
20 gets calculated based on future projections to ever pay
21 off resources that the company has already procured?

22 A I think that's very unlikely for one. I
23 think you may have periods of time. I think the
24 worst-case I could imagine is you may have a year where
25 you couldn't do any acquisitions or you may have to,

1 you know, forestall it for a period of time.

2 If gas prices got to the point where they
3 were so low such that that happened, it may require
4 something to be taken up with the legislature across
5 the street on how do you address that considering that
6 you can't put renewables in with a 2 percent limit
7 because gas prices are so low.

8 I don't think -- I think there's very few
9 of us that believe that gas prices are going to stay as
10 low as they are over the next few years, though. I
11 think we're in a very temporary period where gas is
12 low.

13 Q But you'd agree there is more risk with
14 the company procuring a large resource and a costly
15 resource, that there may not be enough dollars to
16 recover that resource --

17 A Well, you --

18 Q -- in the future?

19 A -- say risk, but I still believe the
20 statute requires that they be compensated for that. I
21 think it's possible that you couldn't acquire future or
22 additional resources looking into the future if the gas
23 prices were to get so low.

24 Q If the company's recovery guarantee that
25 you've expressed conflicts with the rate -- the retail

1 rate impact that gets calculated based on your future
2 projections, which would control?

3 A Well, I think the rate impact is --
4 again, it's -- that's not as defined language as the
5 company's right to recovery. I think there's specific
6 pieces of the statute that talks about the company's
7 right to recovery of renewable resources, so I think
8 the company will get those -- that recovery no matter
9 what.

10 It may be that we may be in a period of
11 time where we're exceeding the rate impact, and I think
12 the Commission would have to acknowledge that, but not
13 I'm sure, again, that there's anything that we can do
14 about it other than, you know, charge those costs to
15 rate payers for a period of time until we're not
16 upside-down again.

17 Q So it's your opinion that the retail rate
18 impact cap can be violated if it conflicts with the
19 company's recovery of approved resources?

20 A I think there is the potential that could
21 happen, and I'm not sure if there's any way around
22 that, I mean, in the situation where gas prices were to
23 go through the floor. But, again, I think that's very
24 unlikely. You're talking about a scenario, I think,
25 that is unlikely to happen.

1 Q What -- you'd agree that if the company
2 goes into a deferred balance for a resource, there are
3 carrying charges associated with that, those dollars
4 that are deferred for later recovery.

5 A You know, I'm going to probably defer
6 that question to our witness Dalton, because I have not
7 looked in detail -- I listened a little bit during the
8 hearing yesterday but I have not really studied what
9 the company is proposing as far as treatment of the
10 deferred balance.

11 Q Okay. But carrying charges on
12 unrecovered balances could affect the company's ability
13 to recover within the retail rate impact cap?

14 A I suppose it could.

15 Q Okay. And I'd like you to assume with me
16 that the company perceives that your recommendation may
17 put it at risk for actually recovering the dollars that
18 it expends on a large resource, okay?

19 A Okay. I would disagree that that's
20 within the law, but I guess we can make that
21 assumption.

22 Q Okay. Would you agree, then, that that
23 would cause the company to be biased toward
24 underprocuring renewables if they perceive that there
25 was a risk of actually recovering the dollars

1 associated with those facilities?

2 A Yes, I guess if that's their
3 interpretation of the law that they may be at risk of
4 not recovering it, but I don't believe that's the case.

5 Q And would that, then, also be
6 inconsistent with statutory language saying that we
7 should be developing and using renewable resources to a
8 maximum practical extent, creating a situation that
9 would cause the company to underprocure?

10 A Well, to me they don't underprocure. The
11 legislature has put in a 2 percent cap or limit, and to
12 say that they're underprocuring because you're running
13 into the cap, they have met the statute. You can't
14 procure more than is allowed by statute. I mean,
15 there's --

16 Q You can procure less.

17 A You can, yes. That's not the case here.
18 We have a utility that is exceeding as far as the
19 amount of renewables they're putting go into place,
20 because, you know, they're trying to move towards the
21 governor's executive order asking for carbon reduction.

22 So I think, again, this is a -- we're
23 kind of chasing down a rabbit trail here that's kind of
24 meaningless to me.

25 Q Let me understand what it is you are

1 proposing when you suggest that we relook
2 retrospectively at the rate impact cap associated with
3 the resource procurement.

4 As I understood from your answer to
5 Ms. Connelly, you would annually rerun the RES/No-RES
6 scenario to see what the rate impact cap is for a
7 particular year based on the most current information
8 about several variables; is that right?

9 A That's right.

10 Q And those variables that you would
11 suggest updating are, as I understand, gas prices --

12 A I would say --

13 Q Go ahead.

14 A Fuel costs, carbon costs, I think even
15 sales projections, if you have new sales projections.
16 I think it depends on what the company has available at
17 the time. We know that they project gas costs on -- I
18 mean, right now in their LDC business on a monthly
19 basis.

20 Q Uh-huh.

21 A They project ECA costs on a quarterly
22 basis. So there's -- it's not that we're asking them
23 to come up with a projection they're not already doing
24 out there either.

25 Q I understand. So fuel costs and carbon

1 costs, those are the things that you would update
2 within the RES/No-RES scenario?

3 A Yes.

4 Q Okay. Now, would you agree that as those
5 fuel prices change, that affects a whole spectrum of
6 company decisions in terms of purchasing power, buying
7 RECs, building gas plants, not building gas plants?

8 A Yes. And, in fact, I think that's
9 consistent with our argument here. It affects even the
10 way they dispatch units on a daily basis.

11 Q Right. Okay. Now, let's say in 2010 we
12 do your updated RES/No-RES scenario. Gas prices have
13 dropped significantly and that RES/No-RES scenario
14 would show that what the company would do is go out and
15 build a gas plant, okay?

16 Now, in 2011, gas prices have escalated,
17 and when you do the RES/No-RES plan that would show
18 that there should not have been a gas plant built.
19 Which of those two scenarios is going to control in
20 2011?

21 A One, like all resource planning, you make
22 a decision based on the best knowledge you have at the
23 time. If you are deciding in 2010 on resources that
24 you're going to put in place, you're going to make a
25 decision. You're not going to rethink in 2011 did it

1 make sense that I started building a plant in 2010.

2 That's the way we have done business here
3 for a lot of years at the Commission. I mean, it's --
4 once we've decided to approve a particular resource
5 that we're going to put into place and, one, if it goes
6 through a competitive acquisition it has a presumption
7 of prudence or if it's a contract for a renewable
8 resource, again, that the company brings to the
9 Commission, they can get that presumption of prudence
10 by bringing it to -- for approval.

11 You don't go back and look later to say,
12 My forecast was wrong, therefore, I'm going to back off
13 of what I decided a year or two ago.

14 Q Okay. So the gas plant that was
15 indicated in 2010 would be locked into the RES/No-RES
16 scenarios that you run and every year beyond that.

17 A If you actually had decided to build a
18 gas plant, yes.

19 Q Okay. And what if midstream, between --
20 in July of 2009 the company would have decided to build
21 a gas plant but by the time your scenario comes along,
22 by the time of the projection, gas prices have changed
23 dramatically and that decision would have changed, how
24 will you -- how do you know -- aren't you hardwiring
25 decision making dates for the company that may, in

1 reality, not exist?

2 A Well, I think you -- what you would
3 suggest we can't do a resource planning. We do
4 resource planning right now. For example, we're
5 looking at a period of time several years out into the
6 future. It's not in the next two or three years, but
7 we -- because many resources take years to several
8 years to actually develop and put into place, you have
9 to make decisions today based on the best knowledge you
10 have on what you're going to put in place several years
11 down the road.

12 If you have the opportunity to change
13 your mind going down the road, I'm not sure -- it seems
14 like the company would bring that back to the
15 Commission. It probably depends on how much investment
16 they have in a particular resource.

17 Q So in 2011 the RES/No-RES scenario could
18 show that maybe the company should have halted
19 construction and abandoned the plant that it had
20 started?

21 A I think that's -- that's an extreme
22 example. I mean, even right now we're not looking at
23 resources in that period of time; we're even farther
24 out than that. Gas plants even take typically a year
25 or two to develop, at the low end. I mean, you saw

1 that with the Fort St. Vrain turbines up there, which
2 is a very simple addition.

3 Go ahead.

4 Q But is that -- if that were the case, is
5 that what you would do? Is that what you would create
6 in this hypothetical system that presumably is going to
7 extend for 20, 30, 40 years or however long the
8 compliance acquired resource exists?

9 A I think you're going to revisit what
10 you're going to do into the future every year.

11 Q Okay.

12 A That's what the statute actually says.
13 It says we're going to plan annually. Why -- I'm not
14 sure what purpose the legislature would have had if --
15 to think that they're going to require you to plan
16 annually and say, Well, five years from now I'm going
17 to take the assumptions I used from five years ago and
18 project what I'm going to do over the next 15 years. I
19 think you use the best information you have looking
20 into the future.

21 Q And --

22 A We don't second-guess what we've decided
23 in the past, and I think that's where -- to me it seems
24 like we're raising an issue here that doesn't exist.

25 We're not suggesting that the prudence of

1 the investments that they make today, in 2009, should
2 change.

3 Q Okay. Now, if the RES/No-RES projection
4 in 2010 or 2011 shows a gas plant should be built, what
5 would that gas plant cost and how would you determine
6 that? Because there won't be an actual RFP that gets
7 issued to build a plant.

8 A I guess you need to give me a little more
9 detail here. What is the process we're going through
10 to -- is this in a resource planning docket?

11 Q No, this is in your annual
12 retrospective --

13 A We don't --

14 Q -- RES --

15 A We don't procure nonrenewable assets in a
16 RES plan. We do that through the resource planning
17 docket several years into the future. That's where I'm
18 having trouble with your --

19 Q Well --

20 A -- your, I guess, hypothetical here,
21 because it seems like so far from reality that it's --

22 Q Well, I agree.

23 A I'm not --

24 Q That's the concern I'm having.

25 So in 2010 PSCo goes out and procures a

1 resource today, a renewable resource.

2 A Okay.

3 Q And what you are saying is that in future
4 periods the company should rerun the RES/No-RES
5 scenarios to determine how much of the RESA dollars are
6 available to pay for that resource, right?

7 A I am suggesting that you brought -- rerun
8 the RES/No-RES scenario to determine how many RESA
9 dollars are available to invest in the future.

10 Q Invest in the future, but not available
11 to fund a long-term resource that the company has
12 procured today? In other words --

13 A That -- I guess where I'm having
14 difficulty with your scenario is once a decision is
15 made for a particular resource, for example, a SunE
16 Alamosa, to me it's -- it's analogous to a sunk asset
17 that the company has on any other resource that they
18 may have company owned. We don't question in the
19 future should we have built that.

20 Q I understand. What I'm -- what I'm
21 trying to get at is the impact of what you're
22 suggesting, and what I'm -- what I'm saying is -- or
23 what I'm asking you is when you rerun that RES/No-RES
24 scenario, that's going to determine how many of those
25 RESA dollars that got collected are within the retail

1 rate impact -- let me back up a minute.

2 Let's say gas prices go up. That is
3 going to -- from what was projected today when PSCo
4 went out and procured their resource. That is going to
5 suggest that there is less headroom.

6 A I think the opposite is true. If gas
7 prices went up from what PSCo projected, your actual
8 savings associated with that on a renewable resource
9 would actually increase, which would produce additional
10 headroom, which would allow the company to
11 potentially -- I mean, it's, again, their choice to
12 procure more RES or more renewable resources, which I
13 think is what we want them to do.

14 Q And the opposite, if gas prices go down,
15 the incremental cost of that resource is higher and
16 that would require --

17 A It may be a reduction in what you're
18 planning on doing in the future, yes.

19 Q I'm going to stop there.

20 MS. CONNELLY: Commissioner Baker, I have
21 two more clarifying questions, again to understand
22 staff's proposal based on their cross, if I might ask
23 them.

24 COMMISSIONER BAKER: Sure.

25 MS. CONNELLY: Let's see if I can

1 remember what they are.

2 CROSS-EXAMINATION

3 BY MS. CONNELLY:

4 Q Okay. The first deals with your
5 statement that because cost recovery is allowed to
6 utilities when they buy eligible energy resources we
7 shouldn't worry if there are insufficient RESA dollars
8 created by the recalculation.

9 What is your -- what is staff's position
10 on how the company would recover that remaining cost?

11 A I would suggest they probably should pass
12 back through the ECA if that were the case. Because,
13 again, I think once a decision is made on a resource it
14 shouldn't be any different than a nonrenewable
15 resource. The company should have the right to recover
16 the cost of that and the cost of any energy associated
17 with that into the future.

18 Because, again, that decision was made in
19 this particular -- or in a particular RES proceeding
20 that it was the right decision to make. We're not
21 going to rethink that decision in the future.

22 Q Okay. And then the final question I have
23 is you were talking about the recalculation of the
24 incremental cost affecting future decisions but not
25 affecting past decisions, and I want to make sure I

1 understand how what you're testifying to now relates to
2 issues that we've had in past cases.

3 In past cases we were talking about doing
4 a look back in a compliance report and rerunning the
5 RES plan to look at what happened in the past year and
6 we got a ruling from the Commission saying, Well, we
7 don't have to do that unless we fail to meet the
8 renewable energy standard and then we rerun it to see
9 if there's more headroom and we can ... Okay. That's
10 not what you're talking about here, I take it.

11 A No.

12 Q What you're talking about here is doing
13 the recalculation only for future plans. Am I correct
14 in my understanding?

15 A You are correct. I mean, to me what you
16 would do is actually put in actual gas costs for what
17 happened in the past, see if that created some
18 additional headroom or reduced your headroom, one of
19 the two, looking into the future but then put in actual
20 projections. But it shouldn't change what you decided
21 to do in this plan.

22 COMMISSIONER BAKER: All right. I think,
23 Commissioner Baker, we understand staff's proposal and,
24 again, we'll be prepared to address either through
25 cross or through our own rebuttal witness tomorrow.

1 In other words, did you --

2 Q How useful would that be for the look
3 forward part? I mean, you're looking at it just from
4 an acquisition point of view, because you don't do that
5 with resource planning, I don't think.

6 A No, but you also need to somehow fix what
7 did you produce in the past and what did it cost.

8 COMMISSIONER BAKER: Okay. I'll save the
9 rest of my questions for --

10 A Okay.

11 Q -- tomorrow, but ...

12 MR. MICHEL: Commissioner Baker, I
13 actually -- as a result of this I wanted to ask a
14 couple of clarifying questions.

15 I'm sorry, I understand this is not the
16 usual routine, but we're sort of in a situation where
17 we haven't had the benefit of seeing this testimony
18 until just this morning.

19 COMMISSIONER BAKER: That's totally fine.
20 I'll just say it's -- if we're short at the end of the
21 day you're the one that has problems.

22 MR. MICHEL: I understand.

23 CROSS-EXAMINATION

24 BY MR. MICHEL:

25 Q So Mr. Camp, let me just before we get to

1 this question, I -- is it fair to assume that when you
2 eval -- when you suggested that if there was a conflict
3 between the company's ability to recover costs and the
4 rate impact test that the company cost recovery would
5 supersede that, were you venturing that as a legal
6 opinion or as a regulatory expert?

7 A One, I'm not an attorney.

8 Q Okay.

9 A So ... But my -- I guess the layman's
10 reading of the statute basically indicates that the
11 company has the right to recover the cost associated
12 with renewables under 40-2-124, so --

13 Q Okay.

14 A -- I believe they have that right, but
15 again, I'm not representing myself as an attorney.

16 Q I understand. Okay. When you run your
17 future projection, your future RES/No-RES scenarios,
18 that will impact the amount of -- let me back up.

19 The company today goes out and procures a
20 renewable resource, SunE Alamosa, for example. Your
21 future projections will determine how much of that
22 resource gets paid from ECA dollars versus how much
23 gets paid from RESA dollars; is that right?

24 A I'm not sure. I think it -- I believe
25 you're correct in saying that.

1 Q Okay. It establishes how much -- the
2 RESA dollars will pay for the incremental costs of that
3 unit.

4 A Are you talking about the scenario where
5 there's insufficient funds to cover it within the RESA?
6 Maybe I'm not quite clear.

7 Q No, I'm not. I'm just -- the company
8 collects a certain amount of RESA funds. Those funds
9 are used to pay the incremental costs of renewable
10 resources. Am I right so far?

11 A That's right.

12 Q Okay. And what you were doing in your
13 ongoing RES/No-RES scenarios is you're determining on
14 an ongoing basis how much of that resource cost is
15 actually incremental?

16 A I believe that is true.

17 Q Okay.

18 A Yes.

19 Q So that what your future scenarios will
20 determine is how much of the RESA funds go to pay for
21 that resource versus how much of them get paid through
22 the normal rate making process?

23 A Correct. For example, the example I gave
24 where, let's say, gas prices are higher than what the
25 company projected, you would have used less than your

1 2 percent RESA funds and which actually would free up
2 additional dollars into the future for additional
3 procurements.

4 Q Okay. And so when you run those
5 RES/No-RES scenarios, the No-RES scenario does need --
6 is my understanding what you're suggesting is that
7 needs to reflect the most current information available
8 to the company at that time with respect to fuel and
9 CO2?

10 A Yes. And, you know, the one that occurs
11 to me, too, as we speak here that I would even add to
12 that list is the cost of the replacement facility, too.

13 I mean, if it's a gas unit, that gas unit
14 may be more expensive in the future. So you wouldn't
15 use the value -- or the cost of a gas turbine from five
16 years ago, you would use your best estimate of what
17 that gas turbine cost at the time you're doing your --

18 Q So you would update the No-RES scenario
19 to reflect the current price of new resources as well?

20 A Yeah. The replacement resources, because
21 the others seem like they would wash through the
22 analysis.

23 Q Okay. And you agree that the estimate
24 for those resource costs is not going to be verified by
25 any kind of RFP process?

1 A I agree. Neither is the -- I mean,
2 again, we can debate that, I guess, in a RES plan if
3 necessary, but, again, the company's going to use a gas
4 projection.

5 That's not necessarily -- I mean, all of
6 these are projections and I think parties have the
7 right in a proceeding to object to certain values that
8 are put in front of them for consideration in that
9 docket.

10 Q And once a -- let's say in 2011 a gas
11 plant was determined should be built in the No-RES
12 scenario, that gas plant would then continue to exist
13 in all future RES/No-RES scenarios that you would
14 perform to determine that incremental headroom?

15 A I guess that's what still confuses me a
16 little. I would say no.

17 Q You would say no?

18 A Because, again, you would look -- when we
19 do this analysis, say, in 2010, you're going to look
20 into the future, decide what you can -- replace
21 everything that's renewable with some, I guess in this
22 case, gas units out there and then compare that with
23 how much renewables you can put in under the 2 percent
24 limit. It's not locking in that you're going to build
25 a gas unit.

1 Q But --

2 A If you decide in 2012 that the gas unit
3 isn't what's appropriate at that point, you would put
4 what would be appropriate.

5 Again, I think a strategist selects
6 resources based on load projections of the system out
7 there, not -- we don't lock in future resources.

8 Q Well, let me ask you, because now we're
9 both confused.

10 A I'd agree.

11 Q So what you -- what you -- we're in 2011,
12 gas prices have dropped to such an extent that the
13 No-RES scenario when it's run through the strategists
14 shows companies should go out and build a new gas
15 plant, okay?

16 A In what year?

17 Q Well, in 2011 they should immediately
18 start construction to be completed within two years
19 let's say. All right?

20 A Okay.

21 Q Is there something -- I'm judging from
22 your facial expression that you -- that's an
23 unrealistic scenario?

24 A Well, one, we don't -- we don't acquire
25 nonrenewable resources through the RES plan.

1 Q Okay.

2 A I mean, that's why I -- I guess --

3 Q I understand what you're saying.

4 A -- that's why I'm struggling here.

5 Q You would agree, though, that the idea
6 behind the RES/No-RES scenario is to look at what the
7 company would have done if it didn't have renewables
8 available to it versus what it is doing with
9 renewables?

10 A Yes.

11 Q Okay. And that if there are low gas
12 prices, one of the things the company might do in those
13 scenarios is build a gas plant?

14 A If their analysis indicated that at the
15 time they were doing resource planning, yes, I would
16 agree.

17 Q Or they might, you know, bump up their
18 gas -- their purchase power?

19 A They might. They may actually forestall
20 doing some renewables for a period of time until they
21 knew --

22 Q Okay.

23 A -- whether it was justifiable under the
24 2 percent rate cap.

25 Q And so what I'm suggesting is that when

1 you update your fuel, CO2, you're also -- that's going
2 to affect a lot of decisions the company makes besides
3 just what the cost is of fuel for their power plants or
4 what their energy costs are. It can have a lot of
5 repercussions beyond just fuel costs. Plant decisions,
6 for example.

7 A Well, yes. I mean, that's the whole
8 idea. To me these are both resource planning
9 proceedings.

10 I mean, this is a resource planning
11 proceeding for renewables and when you decide
12 something, yes, it affects what you do into the future.
13 Because you're going to make a decision and start
14 implementing a plan. Once the Commission approves it,
15 I would expect the company's actually going to go
16 acquire those resources.

17 Q And I guess the bottom line I'm getting
18 to is that there are a whole lot of variables that
19 we're not going to know, and that going into the future
20 and locking down these few components is not going to
21 give us a high degree of certainty as to what that
22 No-RES scenario would really look like if the
23 company -- if we'd actually had the company go out and
24 not procure renewables and take alternate actions over
25 time.

1 I remind you you are still under oath.

2 EUGENE CAMP,

3 having been called as a witness, being previously duly
4 sworn, testified as follows:

5 DIRECT EXAMINATION

6 BY MS. BOTTERUD:

7 Q Mr. Camp, when you were previously on the
8 stand in response to some questions Ms. Connelly posed
9 to you, a portion of your response was that staff would
10 agree to support a rule in, I guess, the resource
11 planning section of the Commission's rules that would
12 in essence make the company whole. Would you clarify
13 your response, please.

14 A Sure. I'll try.

15 I believe the scenario that we're talking
16 about and -- in the case, for example, I'll use the
17 SunE Alamosa, since it seems like that was one that's
18 applicable to this particular docket. In the case that
19 gas prices in actuality reduced -- to the extent that
20 the RESA would be insufficient to cover the cost, I
21 would suggest that the company could seek -- and I
22 guess what we were talking about is a possible
23 rulemaking that would allow recovery through, for
24 example, some other mechanism, possibly the ECA or
25 something like that.

1 I think, at the same time, that would
2 also have an impact again, into the future, if you look
3 into the future, in that, again, you have over-spent
4 the RESA; I think the company has to be made whole,
5 regardless. But again, you are in a situation where
6 you have over-spent the RESA; and I think it would
7 cause curtailing of future acquisitions for a period of
8 time until that point when the RESA was positive again.

9 Does that clarify the question that was
10 raised?

11 MS. BOTTERUD: It does for me, but
12 perhaps Public Service and --

13 MS. CONNELLY: I do have a question, if I
14 might.

15 MS. BOTTERUD: -- may have a question.

16 CROSS-EXAMINATION

17 BY MS. CONNELLY:

18 Q When you are talking about curtailing
19 future acquisitions, are you talking about
20 curtailing -- it's the phrase "curtailing" that I'm
21 concerned about -- delaying acquiring additional
22 resources or are you talking about curtailing the
23 energy that we buy from the resources that we've
24 already contracted?

25 A I think I chose the wrong word there.

1 Curtailing isn't the right word. I think it would
2 cause you to be limited on what you could acquire in
3 the future as far as new resources, either contract
4 resources -- but again, you wouldn't limit at all
5 energy on a project that you have already signed or on
6 projects that you have already got approved by this
7 Commission.

8 Q Okay. And the question I asked you
9 earlier -- and I just want to make sure that what you
10 have said now is not a change in your answer. And I
11 asked if staff would support clarifying by Commission
12 rule this proposal, that for resources that have been
13 acquired, the company is still entitled to full cost
14 recovery even if there are insufficient funds in the
15 RESA to pay the incremental costs as they are now
16 recalculated. Did you intend to change your answer on
17 that?

18 A No. And I think the company is still
19 entitled, by statute, but to recover the total cost out
20 there for any resources that have been approved by this
21 Commission.

22 MS. CONNELLY: Thank you.

23 MS. KING: Can I just nail that down so
24 I'm clear to what staff is -- so that I'm clear on what
25 staff is agreeing to?

CROSS-EXAMINATION

1

2 BY MS. KING:

3 Q Staff is agreeing, were the company to
4 seek a rule change that would -- that would clarify
5 that it would be entitled to full cost recovery in the
6 event that later recalculations to the forecasts that
7 were -- to assumptions that were used would mean that
8 the RESA funds would be exhausted by that resource and
9 they would get full cost recovery through a different
10 mechanism. Is it staff's position then that future
11 decisions -- that there would need to be some
12 forestalling of acquiring more renewable energy
13 resources until that -- until the RESA were -- had a
14 positive balance in it; is that accurate?

15 A That's correct. Because, again, you have
16 dollars flowing into the RESA every year; so it
17 wouldn't be the situation -- or I can't envision a
18 situation where you would never recover enough at some
19 point where you wouldn't be in a position where you
20 couldn't acquire resources in the future; but it may be
21 a period of time -- again, I think we're talking about
22 a situation that's unlikely.

23 I think it would -- the only condition
24 that would cause this would be a very severe change in
25 the price of gas for a number of years; because --

1 again, I think SunE Alamosa, we're using that example,
2 it doesn't eat up the entire RESA; there are a lot of
3 projects that are a part of that. A lot of your
4 projects are based on, I guess -- I guess the savings
5 are based on the price of gas. So the portfolio
6 could -- I lost my thought here -- it's possible the
7 portfolio may be in a position where the RESA is
8 insufficient to recover the cost associated with it for
9 some period of time; which, again, would cause you to
10 stop acquiring new resources for a period of time in
11 that condition.

12 But I think the other situation, again,
13 is just as likely, that if prices are higher for gas,
14 it could allow some headroom for more. So, again, I
15 think we keep dwelling on the negative side that we're
16 not going to get resources out there; and I don't think
17 that's necessarily the case.

18 MS. KING: Thank you.

19 COMMISSIONER BAKER: Okay, you may step
20 down. We'll see you tomorrow.

~~21 MS. CONNELLY: But don't go far.~~

~~22 (Discussion off the record.)~~

~~23 COMMISSIONER BAKER: My apologies~~

~~24 Mr. Warren.~~

~~25 ARTHUR R. WARREN,~~

~~1 having been called as a witness, being previously duly
2 sworn, testified as follows:~~

~~3 COMMISSIONER BAKER: We were at either
4 WRA -- let's let WRA go and then staff; is that okay?~~

~~5 MS. MANDELL: Thank you.~~

6 CROSS-EXAMINATION

7 BY MS. MANDELL:

8 Q Mr. Warren, I'm Victoria Mandell,
9 attorney for Western Resource Advocates.

10 A Welcome.

11 Q Mr. Warren, I think you have been here in
12 the room this morning and this afternoon -- well, this
13 morning when Mr. Camp testified twice concerning the
14 trial staff's position on the lockdown of incremental
15 costs and resources going forward; is that right, you
16 were here?

17 A Physically, yes.

18 Q I'm not sure what that means.

19 COMMISSIONER BAKER: He's running models
20 in his head.

21 MS. MANDELL: I think we're all trying to
22 work through what that meant.

23 BY MS. MANDELL:

24 Q So I wanted to ask you a couple of
25 questions about your understanding of how Mr. Camp's

1 proposal would actually be implemented in the modeling
2 and the impact of that, if that's okay.

3 A Well, we'll see where it takes us.

4 Q Okay. So if -- let me know if you have
5 the same understanding that I do of his proposal. And
6 as I understand it, he is suggesting that annually
7 there would be a remodeling or recalculation of both
8 the RES and No-RES scenarios with regard to -- for
9 purposes -- okay, I'm trying -- I'm not sure exactly
10 what he was saying. So what is your understanding of
11 what he was saying as far as going back and
12 recalculating the variables for past decisions? Do you
13 understand how that would be done with the modeling?

14 A I don't believe past decisions are what
15 he was trying to get at. I think what his position is
16 is that in the -- in the current RES and No-RES
17 modeling, existing RES units, SunE Alamosa, the '07 and
18 '08 on-site solar remain in the No-RES, as well as in
19 the RES. And so they wash because they are already
20 existing and that decision to put those on the system
21 has been made.

22 I believe Gene's position is that those
23 RES units would be removed from the No-RES -- maybe
24 not. That's one way to do it. They would be removed
25 from the No-RES in a remodeling of the RES/No-RES

1 incremental cost, that would occur such that all the
2 RES units would be in the RES plan, but not in the
3 No-RES plan. So you would get a different incremental
4 cost than you would the way it's currently done.
5 That -- that could be one way to look at Gene's method.

6 The other -- I'm not really sure. The
7 other method that came to light is he just wants this
8 ongoing incremental cost, which was the way I've done
9 it in this scenario, the current RES plan, to be reran
10 just SunE and the E-'07, '08 on-site units to remodel
11 just that incremental cost, based on new information.
12 So it's a little bit -- I'm a little unsure as to
13 exactly how we would implement that.

14 Q Okay. And for clarification for now,
15 what the company has proposed is that the incremental
16 costs that were calculated annually are set and not
17 recalculated going forward.

18 A The ongoing incremental cost.

19 Q The ongoing incremental cost with regard
20 to investments that have already been made; is that
21 right?

22 A That is correct.

23 Q Okay. And it's also clear -- it's also
24 clear that the investment decisions, both large and
25 small renewable resources, are based on that -- you

1 know, the current calculation of incremental costs.
2 But the company has to rely on the calculation that's
3 made that year of incremental costs for its investment
4 decisions going forward; isn't that right?

5 A That is correct. You have to make
6 decisions on information you know today.

7 Q Okay. So with the trial staff's
8 proposal -- let's look at some of the variables that
9 he's proposing be recalculated in both the RES and
10 No-RES scenarios. As I understand that, the variables
11 that he's proposing be recalculated for purposes of
12 looking at incremental cost every year would be fuel
13 costs and carbon costs and the avoided costs of the --
14 of the resource that would have been purchased; is that
15 what you understood as well?

16 A Not of the resources that would have been
17 purchased. I think it's just the company's gas cost
18 forecast, the company's sales forecasts or fuel costs;
19 it's not unit-specific costs. It would be the system
20 fuel costs that he was referring to, if I remember
21 correctly.

22 Q That's -- we might have heard different
23 things or I might have miss heard because, with regard
24 to those variables, the specific ones that would be
25 backcast and recalculated, I understood he was talking

1 about gas turbines and also the assets that would have
2 been purchased in the -- in the calculation of the
3 No-RES scenario; but you heard something different, is
4 that right?

5 A I don't believe -- I don't believe that
6 there is actually a recalculation of a gas cost for a
7 specific unit. We do have a gas cost forecast that
8 applies to the entire system. And there are transport
9 fees to various areas on the system and various units
10 on the system; but I don't believe you would
11 recalculate based on just updating a specific gas cost
12 for a unit. It would be a system-wide gas forecast
13 update, a system-wide coal cost update, a system-wide
14 sales forecast update.

15 Q I'm talking about the resources not the
16 fuel for the resource.

17 A Okay.

18 Q I understand that's what he was saying,
19 but I'm not sure.

20 A Maybe ask the question one more time and
21 I'll try -- maybe I'll hear it differently.

22 Q I'm just trying to understand basically,
23 in terms of remodeling the RES and No-RES scenarios,
24 all the variables that would be remodeled; and I
25 understood it to be a pretty wide net of variables that

1 would be recalculated. And I thought one of those
2 factors was in fact the resource that would be used for
3 calculation of the hypothetical No-RES scenario world.

4 A I would agree with that. If we did see
5 significant cost changes in projected CT installations
6 or CC installations, for those No-RES units, those
7 nonrenewable units which offset the RES units in the
8 No-RES plan; if those costs have changed, I think it
9 would be prudent for the company to update those costs.

10 Q So one question I had was with regard to
11 the variability of some of those estimated factors. So
12 in your experience, would you agree that gas prices can
13 be volatile and that that could really impact the
14 No-RES/RES scenario, if you looked back three or four
15 years later to recalculate incremental cost?

16 A I do agree that gas costs are -- is a
17 volatile commodity. Looking back two or three years, I
18 don't think is practical. I don't know what you would
19 do if you looked back three years from now and said,
20 Oh, well, three years ago we had more headroom. I
21 don't know what you would do with that.

22 It is -- it's an unknown thing for me
23 to -- if you considered a twenty-year project and you
24 were ten years into the project, I don't believe it's
25 practical from a modeling standpoint to put in ten

1 years of actual data and then ten years of forecasted
2 data. It's just not the way these models are set up.
3 They are not designed to do this and it would be very
4 painstaking.

5 Now, if you look one year -- one year is
6 not so bad, but the inputs just multiply tremendously
7 if you try to backcast the actual values. You can
8 reset your forecast going forward, annually; but that's
9 not a backcast.

10 Q So in terms of the volatility of some of
11 these variables, would it be fair to say that, in terms
12 of carbon emissions costs, we really don't have a sense
13 of how variable that could be?

14 A We do not until -- until we have some
15 guidance on that, it's really our single best guess at
16 this point.

17 Q And with regard to the avoided costs, the
18 resource that's placed in the No-RES plan to determine
19 nonincremental costs, could there be variability -- and
20 volatility with regard to those costs, as well, over,
21 say, a two or three or four-year period?

22 A I believe there is some volatility in the
23 turbine market. As the economy changes, steel prices
24 can go up and down and turbines can -- there can be a
25 shortage, there can be -- you know, it's all a supply

1 and demand kind of thing. So there is some volatility
2 in nonrenewable generation.

3 Q Let's take a hypothetical for just a
4 moment. If there is -- with these resources -- these
5 estimations that, as you have acknowledged, can be
6 relatively volatile, let's say, hypothetical --
7 hypothetically that a lot of these -- this volatility
8 in price or cost happens simultaneously in such a way
9 that it impacted the amount available for the RESA
10 fund, let's say, by 20, 30 percent. Do you believe
11 that that could happen, that enough of those could go
12 in the same direction to impact the RESA amount
13 relatively significantly? Can you see that from your
14 perspective in the modeling?

15 A I am unsure what the level of impact
16 would be, but there definitely would be an impact. And
17 I would say it would be deemed significant.

18 Q But at this time, you are not -- you
19 can't really give a percentage of any kind that would
20 be --

21 A No, I don't know if you would -- if
22 things turned sour, if you would run short in ten years
23 instead of twenty. I don't have a feel for that.

24 Q Okay.

25 A It's really a tough science and that's

1 why we have these huge models to kind of figure this
2 out for us.

3 Q But you are saying it could be
4 significant, but the model is complex.

5 A Yes.

6 Q So my question, just looking at this a
7 little more granularly, today, as I understood your
8 earlier testimony, the SunE Alamosa facility, which I
9 would -- I think we would agree would be categorized in
10 the large investment area, occupies approximately 64
11 percent of the RESA pot of money available going
12 forward; is that what you said?

13 A That's incorrect.

14 Q Okay, please explain.

15 A It is about 64 percent of, I believe,
16 Column J, the ongoing incremental cost only.

17 Q Okay. So then it's 64 percent -- 64
18 percent of the amount that would be -- of the funds
19 that would be most impacted by this recalculation that
20 staff is proposing; is that right?

21 A Well, recalculation would change that --
22 could possibly change that percentage. It's --

23 Q I'm not talking about the percentage for
24 SunE Alamosa. My last question just had to do with the
25 recalculation of the RES/No-RES scenarios that trial

1 staff is proposing; that would have the most impact on
2 the incremental cost part of -- like Table 6-3 or Table
3 6-4?

4 A The recalculation would change the -- I
5 believe would change the ongoing incremental cost,
6 Column J, if I understand Mr. Camp's position.

7 Q So in terms of the impact of that
8 recalculation of Column J every year, and the -- you
9 know, the impact based on the variable factors, I'm
10 trying to understand how it would impact Public
11 Service's investment in renewable energy on a
12 going-forward basis every year. So, right now, as I
13 understand it, SunE Alamosa is approximately 64 percent
14 of that Column J pot; is that right?

15 A That's correct.

16 Q And smaller generation -- renewable
17 generation resources compose approximately 36 percent
18 of that pot.

19 A That would be the '07, '08 on-site solar
20 program, right.

21 Q So I'm just exploring this with you for a
22 moment. If there was a significant change in that
23 Column J, based on the recalculation of these
24 variables, these estimated variables, Public Service
25 wouldn't really be able to get out of the investment in

1 the large SunE Alamosa facilities; they can't stop
2 that; is that right?

3 A That is correct. I believe that's
4 Mr. Camp's position that those investments that we have
5 made, those contracts that we have signed would
6 virtually be unaffected. It would be just be how those
7 costs would be recovered.

8 Q And with regard to the smaller program,
9 if there was a significant impact on Column J
10 incremental costs, where Public Service might have room
11 to change its investment decisions that would be in the
12 smaller program -- does that make sense to you?

13 A Not necessarily. The ongoing cost
14 column, Column J, is the '07 -- when you talk about the
15 smaller program, the '07 on-site solar program, those
16 investments have already been made and these ongoing
17 costs are the non-rebate costs, the non-one-year costs.
18 And we have contracts with those homeowners and those
19 companies to pay them X amount for those RECs. And I
20 don't believe the company would be in a position to go
21 back and say, We want to cancel those contracts now.

22 Q Okay. So the impact of the trial staff's
23 proposal would -- if there were changes that lowered
24 the amount of -- the recalculation lowered the amount
25 that was available to pay for these resources that

1 Public Service Company has already invested in, the
2 company -- the only way for the company to reduce its
3 exposure is just through future purchases; is that
4 right?

5 A That is correct. I believe that's
6 Mr. Camp's position, that current resources, contracted
7 for and in place, would remain in place; and we would
8 only scale back our future decisions on what was made
9 available -- what would be available through the
10 supposedly reduced RESA balance.

11 Q So under the trial staff's proposal, the
12 company -- unless they are really sure of recovery of
13 costs for investments that they have already made, it's
14 going to be more exposed to the ability to not be able
15 to recover funds if this Column J is subject to
16 reanalysis every year.

17 A I don't believe that was Mr. Camp's
18 position. I believe his position was that the company
19 would be held whole for purchases and RES units, so to
20 speak, that we've already contracted for. And whether
21 that -- and if there were no funds available in the
22 RESA, that they would support recovery of those costs
23 through another mechanism such as potentially the ECA
24 or a different mechanism. So it would not effect that.
25 It would only effect what we would look at in the

1 future if the balance of a recalculation changed from a
2 positive to a negative, so to speak.

3 Q Hold on.

4 MS. MANDELL: Could I just have one
5 second, please.

6 (Pause.)

7 MS. MANDELL: I have just one more
8 question. Thank you for the time there.

9 Q Do you have that Column J -- that chart
10 6-3 -- 6-3 in front of you? It's in Volume 2 of the
11 plan.

12 A Yes, I do.

13 Q Thank you, sir.

14 Just another clarification question,
15 under the company's proposal, Column J in 6-3 are the
16 locked down ongoing incremental costs; is that right?

17 A That's correct.

18 Q Okay. So under the trial staff's
19 proposal that J -- that column would actually not
20 exist, it would all be exposed to recalculation; is
21 that right?

22 A It is a question of mechanics. As I sort
23 of described earlier, I think there's two possible
24 methods to consider Mr. Camp's position, a remodeling
25 of all the RES units under RES/No-RES. As such, then

1 everything becomes kind of a big portfolio of costs and
2 everything flows into one incremental cost. Or you
3 could retain the ongoing incremental costs as they are;
4 and as new units became commercially operational, you
5 would reanalyze just those current or those existing
6 units as in its own incremental cost analysis with
7 updated information, which, you know, in total, in
8 Column R, the rolling balance of RESA funds, it is
9 reduced by the incremental cost of all the renewables;
10 plus it's reduced by the incremental cost of the
11 ongoing incremental costs.

12 So staff's position could be, I think,
13 handled in maybe two possible methods. You could
14 eliminate this column and just do a complete
15 RES/No-RES; or you could just recalculate this column
16 itself.

17 Q Okay, thank you very much. I appreciate
18 it.

19 A Okay.

20 ~~COMMISSIONER BAKER: Staff?~~

21 ~~CROSS-EXAMINATION~~

22 ~~BY MS. BOTTERUD:~~

23 ~~Q Good morning, Mr. Warren.~~

24 ~~A Good morning.~~

25 ~~Q Were you in the hearing room yesterday~~

1 BY MR. MICHEL:

2 Q Good afternoon, Mr. Shafer

3 A Good afternoon, Mr. Michel.

4 Q We're going to talk a little bit about
5 your recommendations related to CO₂ costs

6 going-forward, and I know it's a difficult topic to try
7 and do at 5 o'clock, but let's see how we do.

8 Are you aware of Commission Docket 447,
9 PSCo's ERP docket?

10 A Generally familiar with it, sir.

11 Q Okay. And are you aware that the
12 Commission accepted certain forecasts related to the
13 carbon prices in that docket?

14 A Yes, sir.

15 Q Okay. And are those forecasts generally
16 consistent with the forecasts that are part of this
17 compliance plan?

18 A It's my understanding, yes.

19 Q Did OCC take a position on that forecast
20 in case 447?

21 A No, we did not.

22 Q Okay. You did not contest that forecast?

23 A No, we did not.

24 Q Okay. Now, as I understand your
25 testimony, you are saying that until there is a carbon

1 regulation, or greenhouse gas regulation, you would
2 make an exception to the lockdown that PSCo has
3 proposed that -- that Public Service has proposed, and
4 impute a carbon cost of zero in the RES/No-RES
5 calculation of rate impact; is that a fair statement of
6 your recommendation?

7 A I would say, yes, but the known and
8 measurable would also be tied to the idea that it's
9 being passed through in customer bills.

10 Q That what is being passed through?

11 A Carbon costs, besides being known and
12 measurable, are being included in customer bills.

13 Q And the logic that you're using to
14 conclude that, is that carbon costs are being
15 considered as nonincremental costs in the procurement
16 of the renewable resources?

17 A No. That I was taking the perspective
18 that because the retail rate impact calculation is
19 supposed to mirror customer rates, by including a cost
20 that is, of yet, not part of the customer's bill, it's
21 inappropriate to include it in the calculation of a
22 retail rate impact determination.

23 Q Okay. Well, Public Service has
24 anticipated, as part of its forecast, or as part of the
25 Commission's adopted forecast, that carbon costs are

1 going to be a certain amount in the year 2010; is that
2 right?

3 A Yes.

4 Q And you are suggesting -- and what is
5 that amount, roughly?

6 A I believe it starts at \$20 a ton, and
7 escalates at 7% per year.

8 Q And do you know the accumulated amount?
9 Is it \$100 million? Less? Let me ask it this way:
10 That \$20 per ton, is that being -- is it your testimony
11 that there is a component of the company's revenue
12 requirements that is collecting \$20 a ton for each ton
13 of carbon?

14 A Currently?

15 Q Above 80% of their carbon emissions.

16 A Excuse me, currently, no.

17 Q Okay. And it's your testimony that there
18 would be, if the Commission accepted Public Service's
19 position in this case?

20 A What I'm saying is, that if the carbon
21 costs are included in the retail rate impact, there
22 will be imputed costs that do not exist on the customer
23 bill.

24 Q So, over and above recovery for the
25 renewable resources that are part of this plan, there

1 is going to be an additional recovery for carbon costs;
2 is that what you are testifying to?

3 A Well, the carbon costs get factored into
4 the analysis through the comparison of RES to the
5 No-RES. And you can see, in my exhibits to my
6 testimony, the colored chart, what I believe to be an
7 illustrative example of what that carbon cost inclusion
8 does to the retail rate impact and the lockdown.

9 Q All right. Well, let's move ahead one
10 second. All right.

11 Now, in your testimony, you discuss the
12 reality of greenhouse gas regulation from a commodity
13 price fluctuation, such as gas prices. And that is why
14 you would make an exception to a lockdown proposal for
15 carbon regulation -- for carbon costs and not for gas
16 price fluctuations; is that ---

17 A That's a fair characterization.

18 Q Okay. All right. And the basis for
19 that, is that there is a -- because there is no carbon
20 regulation, that is to distinguish it from price
21 fluctuation?

22 A For a commodity such as natural gas?

23 Q All right.

24 A Because of -- the natural gas is
25 eventually collected, the cost of that natural gas is

1 eventually collected from customers through the ECA on
2 the electric side.

3 Q Is there a financial difference between
4 there being no carbon regulation and there being carbon
5 regulation in which Public Service's carbon costs are
6 zero?

7 A Could you rephrase that question?

8 Q Is there any financial difference, in
9 your mind, between a situation where there is no carbon
10 regulation and a situation where there is carbon
11 regulation but the price to Public Service is zero?

12 A I think the financial difference comes in
13 the calculation of the lockdown, as it relates to this
14 case.

15 Q Well, I am asking you, is there a
16 financial difference between, from Public Service's
17 perspective, between those two scenarios that I just
18 described?

19 A Currently, since carbon is not a cost to
20 the company, there would be no cost difference between
21 what's happening today and a price of zero.

22 Q All right. But in the situation where
23 there is no carbon regulation, you would create an
24 exception to the lockdown, but in the case where there
25 was a carbon regulation, if the cost to Public Service

1 was zero, you would not create an exception to the
2 lockdown?

3 A Is the premise in your question that the
4 zero cost is a known cost?

5 Q Yes.

6 A Then I would not make an exception. I
7 would say they should include the carbon cost, if it is
8 zero, due to, let's say, Federal legislation has
9 declared that actual cost to customers -- excuse me --
10 the Federal legislation has declared that, under a cap
11 and trade, currently, Public Service would have no
12 costs for the carbon.

13 Q Okay. So, that, in the event there was
14 carbon regulation in 2010, but the impact of that
15 regulation on Public Service was zero, then you would
16 maintain -- you would not breach the lockdown, and you
17 would maintain the \$20 per ton forecast?

18 A Your question is confusing me, because
19 you say they use zero, but you have a forecast that
20 would show 20.

21 Q That's right.

22 A But if the actual dollar value is zero, I
23 don't think the forecast should include 20.

24 Q So then, basically, what you are saying
25 is each year, regardless of whether there's a

1 regulation or not, you're going to look at the carbon
2 cost and the updated rate impact test for that, then,
3 current carbon cost?

4 A Yes.

5 Q Okay. But you will not do that for other
6 commodities?

7 A Well, there would be a natural gas price
8 forecast that would be updated in each client's plan.

9 Q Would you then breach the lockdown for
10 the changes between the forecast of gas and the actual
11 gas in any compliance year, in each compliance plan?

12 A Let me answer by phrasing a little more
13 facts around this. In the question -- let's say we're
14 looking at the SunE Alamosa today, as it relates to
15 this docket. What the OCC is advocating is the
16 lockdown of, for lockdown purposes, go ahead and lock
17 down all of the costs that are associated with that
18 contract, except for the carbon. And then once the
19 carbon costs become known and measurable, through
20 legislation, rerun those numbers and that will create
21 more headroom.

22 If we assume a zero value, that's a very
23 conservative approach. If we assume -- to rerun the
24 numbers, once we receive the utility's known costs,
25 that will create the additional headroom, that is true,

1 so to speak, that is actually created by the resource.
2 That recalculation might likely occur beyond today's --
3 or the value that we would lockdown today.

4 Q All right. Well, that really wasn't --
5 my question was, as I understood your testimony, you
6 are going to rework the compliance plan every year,
7 based on actual experience with carbon regulation; is
8 that correct? That's what I understood you were
9 saying.

10 A Let me make it clear. There's two
11 components that you need to keep in context, it's the
12 retail rate impact, and it's the lockdown.

13 As it relates to lockdown, we would say
14 that the lockdown should happen similar to what Public
15 Service proposes, either at the time of the signing the
16 contract, or in the aggregated annual values for the
17 on-site solar. And in determining that lockdown, there
18 would be no carbon in today's 2009 plan. But in 2010,
19 if carbon came into the equation, we would have the
20 company rerun the numbers to calculate what -- the
21 additional headroom that has been created by carbon
22 savings for that.

23 Q But you are talking about locking down
24 the RES scenario as it relates to the rate impact test.
25 Isn't part of Public Service's proposal to also lock

1 down the variables in the No-RES scenario and lock in
2 the rate impact?

3 A Yes, it is.

4 Q Okay. And as I understand what you are
5 saying, is you reopen that No-RES lockdown assumption
6 related to carbon, based on actual experience with
7 carbon?

8 A Sometime in the future.

9 Q Right. But you will not do that for any
10 other commodity?

11 A That's correct.

12 Q And so, if in 2010, there is carbon
13 regulation, at zero cost, you will then not unlock, if
14 you will, the carbon costs in the No-RES part of the
15 scenario?

16 A For the 2010, no, we would not, because,
17 under your example, you say the carbon costs were zero.

18 Q Okay. And in 2012, if the carbon costs
19 go up to \$20, will you then -- or let's say they go up
20 to \$40, will you then recalculate the rate impact test,
21 based on the changes in that price?

22 A For the lockdown, we would recommend the
23 Commission, yes, recompute the, what I will call again,
24 "the headroom," created by the resources that were
25 acquired prior to that, again, SunE Alamosa, for

1 example.

2 Q Okay. So, just to be clear, you're
3 saying that you will recalculate the rate impact every
4 year, for the life of that SunE Alamosa plant, based
5 upon actual experience with carbon fluctuations, but
6 you will not do that for gas price fluctuations?

7 A Sorry. Mr. Michel, in your example, you
8 said, for instance, in 2012, we would have carbon costs
9 of \$40 a ton. I would also assume, at that point, we
10 would have a forecast for what we think carbon will be
11 continuing on in 12, 13 and so forth.

12 Q Okay.

13 A I would think that, at that one point in
14 time, in that compliance year, 2011, we would reexamine
15 the, for instance, SunE Alamosa, and we would relock it
16 down on a permanent basis, going forward, just to pick
17 up what I call equivalent layer or additional slice to
18 the carbon that's attributed to the SunE Alamosa. I do
19 not envision, each year, the lockdown will be
20 continually recomputed for the SunE Alamosa.

21 I would say its like a two-step process.
22 We'll lock down everything today, based on all
23 forecasted costs, except for carbon. Then once carbon
24 becomes a known and measurable quality, we will have
25 some forecast for the future. We'll have a better

1 starting point, that will be -- for the second
2 lockdown, which gives us an additional wedge or slice
3 of that benefit, that can be used in the retail rate
4 impact.

5 Q Okay. I understand, now, what you are
6 saying; is that once there's carbon regulation, you
7 will make another forecast and that that will be
8 permanently locked in?

9 A The Commission would make the forecast
10 and we would lock it in.

11 Q And you would lock it in, and that would
12 establish the rate impact associated with that resource
13 for the life of that resource?

14 A There would actually be what I consider
15 two components to that resource, one initially with no
16 carbon, then there would be the incremental proposals
17 piece for the carbon only.

18 Q Okay.

19 A So, yes, then, they're locked down
20 permanently in line with the contract.

21 Q And the distinction you are going to get
22 is the fact there's no carbon regulation right now as
23 opposed to there being carbon regulation with a very
24 low or zero price?

25 A Correct. OCC has advocated to the

1 conservative approach, of putting it in at zero today,
2 and when it becomes known and measurable, you can get
3 the additional headroom, because you'll have a better
4 starting point on which to measure from.

5 Q And your assumption is that you are going
6 to know better what the carbon prices will be at the
7 time carbon regulation is implemented than you would
8 know today?

9 A That's correct.

10 Q Okay. Now, is it true that you will have
11 the ability to be able to better forecast other
12 commodity prices in a future year, in that future year,
13 than you can today?

14 A Are you thinking of natural gas?

15 Q As an example.

16 A I don't know. I don't know if the
17 forecasting method would become better over time.

18 Q If you knew gas prices in -- I would say,
19 at the beginning of 2013, were \$8, would you think you
20 could better forecast those gas prices in that year
21 than you could without that information? It gives you
22 a starting point, right?

23 A The difference between natural gas prices
24 is if the forecast is wrong, it doesn't matter so much,
25 but the ECA is going to true it up, because the

1 forecast could go in, customers would only pay what's
2 actually incurred.

3 Q Get back to my question, if you would,
4 which is, if you have information about what the price
5 will be at the beginning of 2013, is that going to give
6 you a better opportunity to forecast gas prices in 2013
7 than you could today?

8 A So, you are asking me to answer the
9 question from today's standpoint as opposed to
10 compliance plan in 2013?

11 Q Yes.

12 A I don't know how I could have better
13 information about a price that's four years out from
14 today than I would today.

15 Q Well, then, if you know what the price of
16 carbon is four years out from today, is that giving you
17 any better information as to what the carbon price will
18 be in the future than it would today? What's
19 different?

20 A It's to take a conservative approach to
21 carbon.

22 Q Okay.

23 A Because we don't know the starting point.

24 Q All right. So, I think I understand what
25 you are suggesting now. Would you agree that an

1 underrealization of carbon costs in 2010, for example,
2 we have a forecast that says it will be \$20 per ton in
3 2010, that that could be offset by an underestimation
4 of carbon costs in later years?

5 A Correct. And it would impact the
6 headroom either positively or negatively, depending on
7 how it varies from, let's say, the \$20 benchmark.

8 Q So, even though it's your testimony, I
9 believe, that because there is no carbon regulation,
10 there's no carbon cost, the fact that there's no carbon
11 cost in those earlier, or first years, could be offset
12 by underestimations in our forecast in later years?

13 A It could be, but I think taking our
14 approach of setting it at zero, provides only upside
15 for the Commission, when carbon actually takes effect,
16 in the sense of creating more headroom in the future.

17 Q When you say, "creates only upside for
18 the Commission," what do you mean by that?

19 A Because if we use a value of zero, and in
20 your example, if it comes in at \$40 a ton in 2012,
21 we'll know that the headroom created by the SunE
22 Alamosa case is \$40 a ton, times whatever the
23 equivalent value of the offset of carbon tonnage was.

24 If we chose \$20 a ton, let's say, and it
25 turns out to be 40, there would be a \$20 shortfall, so

1 to speak, in the headroom that's been accumulated
2 during that time. Conversely, if carbon comes in lower
3 than 20, then there would be a overcollection, because
4 you would have had more headroom than really did exist.

5 Q Well --

6 A So, any zero starting point is just to
7 say there is only upside to move from zero to a
8 positive value, gives you more headroom than having to
9 worry about whether you're plus or minus, over or above
10 a forecasted starting point of 20.

11 Q If you got a carbon price of zero, that
12 diminishes the headroom; isn't that right?

13 A Currently, but I would say that the
14 headroom created by the carbon doesn't really exist,
15 because customers aren't paying for carbon currently.
16 The OCC premise was that the RESA retail rate impact
17 should mirror reality, in terms of the costs that are
18 factored into retail rate determination.

19 Q Okay. Now, you would agree that what you
20 are proposing affects the rate impact, correct?

21 A Well, for this year we're only dealing
22 with the lockdown.

23 Q But the financial implication of your
24 proposal to not impute a carbon cost, until there is
25 actual carbon regulation, the financial impact of that

1 is to change the rate impact amount and the amount of
2 the RES that gets allocated between the ECA and the
3 renewable resource?

4 A Thank you, Mr. Michel. The light bulb
5 has gone on and I will answer, yes, because it changes
6 that call on J, that we spoke of on Table 6-4, ongoing
7 costs.

8 Q Right.

9 A I don't know the values, but would happen
10 likely is that the -- I believe it's the \$ 5,200,000
11 figure for 2009. Let me double-check that.

12 COMMISSIONER BAKER: Yes. While you are
13 doing that, I did not ask Harriet how long she could
14 stay.

15 MR. MICHEL: I don't have a whole lot
16 more.

17 COMMISSIONER BAKER: I am not rushing
18 you. I just thought I would --

19 THE WITNESS: Mr. Michel, I am looking at
20 Table 6-3, Column J, in the row labeled, "2009." And
21 you'll see a figure of 5,259,570. I suspect that if
22 the carbon adder was not used in the calculation for
23 that figure, that the incremental ongoing cost would be
24 higher, and that would have the effect of reducing the
25 amount of money that could be used to acquire other

1 eligible energy resources.

2 BY MR. MICHEL:

3 Q Okay.

4 A My caveat would be that the carbon adder
5 benefit would come in the latter years for SunE
6 Alamosa, and these other facilities, in 2007, 2008
7 on-site, once the carbon is known and that headroom
8 that we anticipated today, would be captured in the
9 future.

10 Q Okay. But you don't know whether the
11 forecast that we make on the date the carbon regulation
12 is implemented is going to be better than the forecast
13 that's in place now on a life-cycle basis?

14 A No, I don't.

15 Q Okay. Could you turn to page 7 of your
16 testimony?

17 A Of my Answer Testimony?

18 Q Yes. All of this will be your Answer
19 Testimony.

20 A I'm there.

21 Q I don't have a copy of your Rebuttal
22 Testimony in front of me, so. . .

23 All right. I think we heard all of that.
24 Let me -- okay. Let me follow-up with one final line
25 of questions. We talked about the distinction -- we

1 talk about distinction between there being no carbon
2 regulation and there being carbon regulation that was
3 very inexpensive or zero. Do you recall -- excuse me
4 one second. Are you aware that in a number of climate
5 change regulation proposals at the Federal level, there
6 is a thing -- there is a feature that I call, "early
7 action credit?"

8 A No, I am not.

9 Q If I were to represent to you that that
10 is an issue in front -- or let me represent to you that
11 that is a -- or ask you to assume that that is an
12 issue, before Federal policy makers right now.

13 A Okay.

14 Q Do you understand what I mean when I say,
15 "early action credit?"

16 A No. Could you explain that a little
17 better?

18 Q I would like you to assume that early
19 action credit refers to Congress creating a law that
20 rewards companies that have taken early action to
21 reduce CO₂ emissions.

22 A Something like prior to the enactment of
23 the legislation?

24 Q Exactly.

25 A Okay.

1 Q Okay. Now, if that was a part of
2 proposed CO₂ regulation, let's say, a bill is enacted
3 in 2012, and because of actions that Public Service
4 took in this Compliance Plan, in 2009, the company was
5 able to reduce its compliance costs in the years 2012
6 and out, because of early actions that it took, okay?
7 I would like you to assume that that's the case.

8 A Can I ask a clarifying question?

9 Q Certainly.

10 A Those, the values of that early action,
11 can be monetized?

12 Q I will represent to you that it will, one
13 form of early action credit, would be to allow the
14 company to have allowances for emissions represented by
15 reductions that it has taken in the early years, or
16 offsets to carbon emissions in later years.

17 A Okay.

18 Q In that case, isn't it true that you
19 would want to recognize the carbon benefits today that
20 the company and its customers had paid for, as
21 nonincremental costs associated with that resource? In
22 other words, let's say that, because of early action
23 credit, the company's cost of compliance in 2012 went
24 from \$50 a ton to \$30 a ton. You would agree that
25 that's a benefit that would not be there, but for the

1 early action the company took?

2 A And early actions are because of the
3 deployment of renewable resources or eligible
4 resources?

5 Q As an example.

6 A Okay.

7 Q Or other carbon reduction mechanisms the
8 company may have taken. And would you agree that those
9 are costs incurred today that are avoiding costs that
10 would be incurred later, and that there is actually a
11 benefit from a carbon standpoint, to doing that today,
12 even though the regulation may not occur until 2012?

13 A I would think that you could come before
14 the Commission, in a compliance plan, in that 2012 time
15 frame, and they have that estimation, that because of
16 the early actions taken in primary years, instead of
17 paying \$50 a ton for the carbon, they now only have to
18 pay 30; therefore, there was some savings. There would
19 be presumably some sort of allocation of what was for
20 eligible energy resources and what would be maybe
21 acquired due to advancements in their fossil fuel
22 fleet, such that that savings of the difference between
23 \$50 and \$20 can be allocated between the RESA and the
24 ECA, and ratepayers would receive that benefit
25 monetized.

1 Q But they would have lost the benefit
2 between now and 2012, under what you're suggesting,
3 because no adjustment would be made until that law is
4 actually in effect, or you -- no lockdown would occur
5 until that law is actually in effect?

6 A Well, as you portrayed it, the one aspect
7 to carbon legislation, we don't know if that will make
8 the final bill.

9 Q Right. I agree. But if it does, does it
10 indicate that the company today is actually, by its
11 actions today, in advance of carbon regulation, are
12 actually avoiding nonincremental costs in the future?

13 A I might characterize it as the utility
14 acting in a prudent manner for the future.

15 MR. MICHEL: Okay. I think that's all of
16 the questions I have. Thank you, Mr. Shafer.

17 THE WITNESS: Thank you Mr. Michael.

18 ~~COMMISSIONER BAKER: I think we're going~~
19 ~~to end today, and we will come back -- Public Service,~~
20 ~~I think, is up.~~

21 ~~MS. CONNELLY: Yes, we have cross for~~
22 ~~Mr. Shafer.~~

23 ~~COMMISSIONER BAKER: Yes. And staff has~~
24 ~~no cross. Okay.~~

25 ~~MR. MICHEL: Mr. Baker, if I could just~~

COPY

1

1 BEFORE THE PUBLIC UTILITIES COMMISSION

2 OF THE STATE OF COLORADO

3 -----

4 REPORTER'S TRANSCRIPT

Volume III

5 -----

6 Docket No. 08A-532E

7 -----

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

10 -----

11

12 Pursuant to notice to all parties of
13 interest, the above-entitled matter came on for
14 hearing before Commissioner Matt D. Baker, commencing
15 at 1:30 p.m., on April 8, 2009, at 1560 Broadway,
16 Denver, Colorado 80203, said proceedings having
17 been reported in shorthand by James L. Midyett and
18 Harriet Weisenthal, Certified Shorthand Reporters.

19 Whereupon, the following proceedings were had

20

21

22

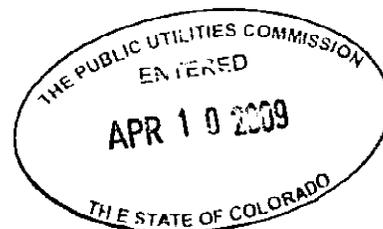
23

24

25

2009 APR 10 PM 1:57

RECEIVED
OFFICE OF
PUBLIC UTILITIES



1 BY MR. IRBY:

2 Q How would you summarize the trade-offs
3 between Public Service's lockdown proposal and what
4 staff is proposing?

5 A My understanding is that the trade-offs
6 would be between trying to make a more accurate
7 prediction or actual -- try to make a more accurate
8 calculation of ongoing net benefit or net costs versus
9 the trade-off of having more certainty in the spending
10 levels over time.

11 Q And, Mr. Shafer, does the OCC have
12 concerns with this associated trade-off; and if so,
13 could you explain those concerns?

14 A Yes. We do have concerns with that. Our
15 concerns center upon a couple concepts. First, I think
16 the result, if the Commission were to adopt the staff
17 proposal, is that it would magnify the impact the price
18 of natural gas would have on the future selection of
19 renewable resources. We think this could create a
20 situation where Public Service would actually spend
21 money in excess of what they could collect through the
22 RESA.

23 Staff also floated the concept that there
24 could be a new rider, or through the ECA, for the
25 collection of this excess collection. And we view that

1 as a way to effectively circumvent the retail rate cap.
2 And as I read the staff proposal in Exhibit 44, staff
3 acknowledges that under its proposal we could actually
4 have a situation where the company is in a shortfall
5 position and no acquisition could occur in a given
6 compliance year.

7 In contrast, if the Commission were to
8 adopt a lockdown proposal with a fixed time fence as
9 opposed to a moving time fence as I've categorized the
10 staff position, I don't think you would have that
11 magnitude -- you wouldn't have the natural gas driving
12 the acquisition process for renewable resources.

13 If I may give an example of Public
14 Service acquiring five different wind projects over
15 five different years, it's been my understanding that
16 Public Service intends to acquire approximately 8
17 megawatts of wind and that they want to do that in a
18 staggered approach. So I'm assuming for a simple
19 example, five wind farms at a hundred megawatts each
20 over five years.

21 In a lockdown proposal, where we would
22 lock in the natural gas prices instead of having them
23 fluctuate as staff would have, what I think you will
24 get is a trending of gas price forecasts that's
25 forecast -- forecasted prices for year one, year two,

1 year three, year four, and year five of each of those
2 respective wind farms. I think what that has -- the
3 outcome of that would smooth the natural gas price
4 forecasting so that it's not so volatile in the
5 acquisition process.

6 Q Thank you, Mr. Shafer.

7 Do you have any further oral cross-answer
8 testimony you would like to provide?

9 A If I may, this is working from Exhibit
10 44, item 3-A, I was not under the impression, based on
11 the oral testimony yesterday, that there would be this
12 rerunning of the RES/No-RES models. And what staff
13 outlines in 3-A is that the company shall rerun the RES
14 and No-RES models for the prior year, replacing only
15 the projected cost of fuel and CO-2 with actual costs.
16 This analysis shall be used to determine the
17 incremental cost to be assessed to the RESA.

18 I think this rerunning was an issue that
19 we attempted to -- that we addressed in the 2008
20 compliance plan with Public Service. My recollection
21 of the Commission ruling was the rerunning is only
22 necessary if the utility is not able to achieve
23 compliance with the standard due to the retail rate
24 impact.

25 I would consider what staff is proposing

1 in this process through 3-A to circumvent that rule and
2 puts a little risk into the process of the collection
3 versus the spending. And I don't view that to be a
4 positive outcome.

5 Q Thank you, Mr. Shafer.

6 MR. IRBY: That's all.

7 COMMISSIONER BAKER: Okay, Public Service
8 is up?

9 MS. CONNELLY: Commissioner Baker, I
10 wonder if staff wants to revisit whether they want to
11 cross Mr. Shafer and they go up before we do.

12 COMMISSIONER BAKER: I was going to ask
13 after you --

14 MS. BOTTERUD: I would like to check with
15 my client; and unfortunately Mr. Camp is not in the
16 hearing room. If we could take a brief break --

17 COMMISSIONER BAKER: Could we do Public
18 Service's cross first or is that not quite --

19 MS. CONNELLY: Well, we can.

20 We'll go.

21 CROSS-EXAMINATION

22 BY MS. CONNELLY:

23 Q Good afternoon, Mr. Shafer.

24 A Good afternoon, Ms. Connelly.

25 Q As I understand your additional -- your

1 additional testimony that you just gave, you favor
2 Public Service Company's lockdown proposal over
3 Mr. Camp's proposal.

4 A With the caveat that the OCC has
5 advocated regarding carbon costs, correct.

6 Q And I want to -- I want to get to the
7 differences between the OCC and us on that, but I have
8 some other issues I want to discuss with you first.

~~9 A Certainly.~~

~~10 Q Okay, the first was in your cross-answer
11 testimony --~~

~~12 A I have it.~~

~~13 Q -- where you believe -- let's see if I
14 can find a page here. Page 5, where I believe you were
15 suggesting that we should afford a preference to
16 schools, libraries, public buildings.~~

~~17 A Yes, that starts at the bottom of this
18 page 5 and rolls over to the top of page 6.~~

~~19 Q Okay. And were you suggesting that that
20 preference be given to folks who apply for the standard
21 offer dollars.~~

~~22 A That's correct, the Solar Rewards
23 Program.~~

~~24 Q The Solar Rewards Program.~~

~~25 Now, Mr. Shafer, are you asking the~~

1 ~~that one~~, I guess, and we'll move on to your next issue
2 with us. And I believe that is the carbon lockdown.

3 A Okay.

4 Q Okay, so you are agreeing -- and I think
5 you went through this at length with WRA's counsel
6 yesterday, you are agreeing that we should be locking
7 down the projected incremental costs of the resources
8 we've already acquired as set forth in Column J on
9 Table 6-3, except for whatever portion of that
10 incremental cost is reflecting carbon cost avoidance,
11 correct?

12 A Correct, because at this time carbon
13 costs are not included on customers' bills.

14 Q Okay. And I believe when you discussed
15 this yesterday with Mr. Michel, you were suggesting
16 that there is really no-harm-no-foul in doing this
17 because all that will happen once we know carbon
18 regulation is that we will be adding additional
19 headroom to the RESA.

20 A I believe I said something to the effect
21 if we set the carbon cost at zero, today, that when we
22 know carbon costs in the future that value will create
23 additional headroom so we will of have positive
24 headroom to work with -- or additional.

25 Q In your view, adopting the OCC's

1 position, we won't be taking dollars away from the
2 RESA, we'll be adding dollars to the RESA if we wait --
3 if we adopt your wait-and-see attitude.

4 A Correct.

5 Q Okay, can you turn to 6-3?

6 A May I amend what I just agreed to?

7 Q Sure.

8 A I'm not taking away dollars from the
9 RESA. They are not dollars that are actually being
10 collected through customer rates.

11 Q Say that again, please.

12 A The OCC position is not taking away
13 dollars from the RESA that are not dollars -- excuse
14 me. We're not taking away dollars from the RESA
15 through putting a carbon cost at zero because those
16 carbon costs aren't costs that are factored into rates
17 today.

18 Q Okay, I understand your position.

19 Now, again, if you could turn to Table
20 6-3.

21 A I have it in front of me.

22 Q Now, when you had your discussion
23 yesterday with Mr. Michel, you are talking about the
24 costs that are in Column J, the SunE Alamosa and the
25 on-site solar contracts that we've already -- that are

1 already in service.

2 A For 2007 and 2008.

3 Q And -- '8, correct.

4 A Yes.

5 Q Now, you are aware, are you not,

6 Mr. Shafer, that on Friday of this week Public Service

7 hopes we're going to get a lot of bids to build

8 additional resources in Colorado to serve our resource

9 needs?

10 A I understand that's the bid deadline for
11 the company's ERP proposal.

12 Q And we're hoping to add an additional --
13 total 850 megawatts of wind, but 700 megawatts through
14 that bid and a lot of additional solar.

15 A I believe the soft targets were up to 600
16 megawatts of solar, with 200 being set aside as
17 concentrating solar with thermal storage.

18 Q And you are also aware that the company
19 has projected out what those costs might be of
20 acquiring the targets that are in the Resource Plan and
21 that those are the costs that show up on Table 6-3?

22 A I believe so.

23 Q Now, when we evaluate those resources, we
24 have been directed by the Commission to assume in the
25 evaluation the carbon costs that you are suggesting not

1 be locked down, correct?

2 A For retail rate purposes.

3 Q Correct. But we have been asked -- but
4 we will be evaluating those resources assuming that
5 they are avoiding a cost of carbon from a nonrenewable
6 of \$20 per ton, escalating at 7 percent.

7 A Correct, for bid evaluation purposes.

8 Q So when we select those resources, we
9 also are going to be selecting resources and subjecting
10 them to a RES/No-RES analysis to make sure we stay
11 within the 2 percent, correct?

12 A I believe that's one of the analyses that
13 the Commission has requested.

14 Q And so through 2015, as shown on this --
15 on this chart, we are expecting to acquire resources in
16 which the carbon costs avoidance is assumed, correct;
17 we're acquiring resources through 2015?

18 A For ERP purposes?

19 Q Yes.

20 A Thank you.

21 Q And those are the resources that show up
22 in this chart. That's the new wind, the new central
23 solar, et cetera?

24 A Thank you, yes.

25 Q Now, let's say we go and acquire those

1 resources and we don't lock down the carbon as you are
2 saying and carbon regulation is delayed. We have
3 assumed that we had money under the retail rate-impact
4 cap when we acquired them -- a lot of these resources;
5 but now if the Commission were to follow the OCC
6 proposal, we can -- when he run the RES/No-RES plan, we
7 would have to assume that those resources were not
8 avoiding carbon, correct, because you are not including
9 the carbon in the lockdown.

10 A Okay, in the ERP process --

11 Q No, I'm talking about subsequent -- let
12 me do the hypothetical a little more clearly. Okay?

13 Let's suppose that what you are concerned
14 about with the legislation happens and that we don't
15 have carbon regulation until 2012. Okay. Although we
16 don't know if that will occur, but let's assume,
17 hypothetically, that occurs. Under your proposal, you
18 are saying the company can lockdown the cost of the
19 resources when we acquire them, but we can't lockdown
20 the carbon price, the carbon avoidance. That's your
21 proposal, right?

22 A Until carbon is known, correct.

23 Q Until it's known, okay. So let's say we
24 run this bid and we evaluate the resources in 2009 and
25 we enter into contracts in the first or second quarter

1 of 2010 and we still have no carbon legislation. We're
2 going to be signing all of these contracts assuming
3 they are avoiding carbon; but under your proposal, when
4 we do the lockdown, we have to assume they are not
5 avoiding carbon, correct?

6 A Correct.

7 Q So couldn't we run into a very bad
8 situation where we've contracted for resources and then
9 when we file the next renewable energy standard plan
10 we're way out, either over the 2 percent or we've used
11 up significant headroom in the 2 percent, and we just
12 have to shut down all of our additional acquisitions?

13 A I don't think so. And if I may explain,
14 in the resource selection process, you would run
15 modeling as it relates to the RESA to determine whether
16 there's -- how much could be accommodated under the 2
17 percent cap. And if carbon is going in that at zero
18 value, then what that says is that you would be able to
19 acquire probably less renewable resources -- less --
20 correct, you would be able to acquire fewer renewable
21 resources at that point in time, because the carbon
22 savings which gives you the headroom is not there.

23 Then in subsequent years, when the carbon
24 appears -- because now it's known and measurable, the
25 headroom gives you that extra spending that's enabled

1 by the carbon savings.

2 Q My point here, Mr. Shafer, is we're going
3 to be, in the next 18 months, contracting for a boat-
4 load of renewables; and the Commission has been -- has
5 ordered us to assume carbon avoidance when we make that
6 resource selection. So since those are the factors
7 that we have to assume when we make the resource
8 selection, should not those also be the factors that we
9 lockdown for purposes of future RES/No-RES analyses;
10 and then the corollary to what I just said, if we
11 don't, couldn't we end up with a significant
12 diminishment in the dollars that we have available for
13 additional renewable resources, including the on-site
14 program, including everything else, because we've
15 used -- we've used up everything in acquiring the
16 resources in the all-source RFP?

17 A I don't believe so. I believe the
18 carbon -- by not including the carbon today, because
19 it's not being billed to customers, you are taking a
20 conservative approach as to which resources you could
21 acquire under a 2 percent cap.

22 Q When we run the original cap, the
23 Commission has ordered us in the ERP docket to assume
24 the carbon is being avoided.

25 A Correct.

1 Q We're not assuming zero carbon.

2 A Correct.

3 Q So we're assuming the carbon is being
4 avoided and therefore creating the headroom to acquire
5 the resources that we're going to acquire under the
6 ERP, correct?

7 A Correct.

8 Q But then you are saying for future
9 RES/No-RES plans, if there has been no carbon
10 legislation, we have to in effect remove that headroom,
11 thereby affecting our ability for future acquisitions;
12 isn't that correct?

13 A I would have to say yes, that's correct.

14 Q Okay. With respect to the wind
15 forecasting tool, are you okay with us putting it in
16 base rates? You had a quibble as to whether it should
17 go in RESA or ECA. Are you okay with us putting it in
18 base rates?

19 A Yes, because I think we can address our
20 issues that we had in terms of the allocation through
21 the base rate process or rate case process?

~~22 Q Okay. Okay, and then I had a question, I
23 think, on your final comment on page 16.~~

~~24 COMMISSIONER BAKER: Still the answer
25 testimony?~~

1 (Whereupon Eugene Camp was sworn.)

2 MS. BOTTERUD: Mr. Camp is available for
3 cross examination.

4 COMMISSIONER BAKER: Since we didn't have
5 Mr. Camp down, I don't have a list for Mr. Camp, and I
6 think we'll just go across the top. CF&I?

7 MS. KING: Thank you.

8 CROSS EXAMINATION

9 BY MS. KING:

10 Q Mr. Camp, do you have a copy of what has
11 been marked Exhibit 44 before you?

12 A I do.

13 Q I would like to draw your attention to
14 No. 4 there, where you suggest that if the RESA account
15 is determined to be insufficient to cover the ongoing
16 costs of renewable resources, that were already
17 approved by Commission through previous RES plans,
18 electric resource plans or specific contract approval
19 applications, then the company shall be allowed to seek
20 recovery of the shortfall in other cost mechanisms such
21 as the ECA. Do you have that in mind?

22 A I do.

23 Q And so, what -- is it staff's proposal
24 that the company, for resources that have already been
25 approved, in those manners that you suggested, that the

1 company should be able to borrow RESA funds or borrow
2 ECA funds in this example against the RESA?

3 A I guess it could be characterized that
4 way. You are basically borrowing from the ECA and
5 pretty much putting a debit on the RESA, until those
6 funds are recovered back again from ratepayers.

7 Q And is it staff's position that that
8 would require a rule change? Let me back up and ask
9 you a question.

10 A Yeah.

11 Q You're not rendering a legal opinion here
12 as to whether that proposal, that you're offering here,
13 comports or would violate 40-2-124?

14 A No, I am not.

15 Q Okay. And so it's staff's position that,
16 in order for the Commission to adopt your proposal set
17 forth in No. 4, that a rule change would be necessary?

18 A You know, I probably have to look closely
19 at the rule. I'm not even sure that the rule is real
20 clear when it talks about RES/No-RES, and how you
21 evaluate the rate impact, and what you do in the case
22 where you have overspent. It talks about the case
23 where you have underspent, and haven't acquired enough
24 resources.

25 So it's almost, I think, maybe silent but

1 I probably would need to stare at the rule a little bit
2 to see whether that would require a rule change.
3 Actually, I would probably recommend, if we could, to
4 actually do rule changes, though, to make sure there is
5 some certainty for all parties out there.

6 Q Can you just repeat that last part?

7 A I think it would probably still be
8 suggested, just because the rules are unclear, for some
9 of these circumstances, that we do try to move these
10 into the rules at some point.

11 Q Okay. And, so, recognizing that this is
12 not a rulemaking docket, do you agree that a rule of
13 general application cannot be set forth in this as a
14 result of this proceeding?

15 A I agree. But a lot of decisions that
16 have been made on the RES, and how we comply, are
17 really been done by Commission decisions, and in the
18 individual dockets. They may inform rulemaking in the
19 future, though.

20 MS. KING: Fair enough. I have nothing
21 further. Thank you.

22 COMMISSIONER BAKER: Okay. Thank you,
23 CoSEIA.

24 MR. COLCLASURE: CoSEIA has no questions.

25 COMMISSIONER BAKER: Interwest.

1 MS. HICKEY: None, thank you.

2 COMMISSIONER BAKER: WRA?

3 CROSS EXAMINATION

4 BY MS. MANDELL:

5 Q Thank you. Good afternoon, Mr. Camp.

6 A Good afternoon.

7 Q A couple of clarifying questions on
8 staff's proposal as set forth in Exhibit 44. So,
9 first, is it correct that staff is proposing that, with
10 a RES compliance filing by the company, there would be
11 two separate Strategist run calculations, the first one
12 to true-up incremental costs of past years
13 acquisitions, and the second one to estimate future
14 incremental costs going-forward?

15 A Not being a Strategist expert, but that's
16 my understanding, is how we would do it. It would
17 actually require a run or reevaluation of the prior
18 year, only to see what the actuals were coming out of
19 that, as far as cost and benefits. And then roll that
20 differential of the RESA into consideration for what
21 you do in the future.

22 Q I didn't hear the last part.

23 A And take that difference that you
24 determine -- I shouldn't say, "the difference." Take
25 the, either the, I guess, any available unused RESA

1 type of dollars that you have identified, or overused,
2 and basically account for those in your RESA balance
3 going-forward.

4 Q In paragraph 1, the last sentence, it
5 states, "The RESA balance should not be based on,
6 quote, unquote, locked-in savings and costs determined
7 based on previous projections." Is it your
8 understanding that what becomes -- that incremental
9 costs are only locked in at the time of the resource
10 acquisition, based on actual costs for the -- I'm
11 sorry -- for large resources?

12 A Well, I think, for your small resources,
13 like your on-site solar, those are paid on the front
14 end anyway. There is no uncertainty about what those
15 costs and benefits are. Well, I should say the costs.
16 Maybe I'll -- slightly different equation or question.

17 What I'm trying to describe here is that
18 the RESA balance shouldn't be based -- and I am going
19 to back up to an example that you -- someone brought
20 up -- for large resources in particular. If you are
21 looking at an Alamosa, that has a 20-year life, and you
22 are trying to determine what the benefit of that
23 resource is, and in this case, it may be up in the year
24 2018, based on today's projections, I think that's not
25 what we want to see done. We actually would like to

1 really back into that each year, and see what -- the
2 actual benefit that was derived, and then provide new
3 projections as the company provides the plan, looking
4 forward each year. The idea is what -- almost the --
5 treat it like there's a deferred -- treat this like a
6 deferred account, in that you are really truing up for
7 ratepayers, what's the RESA, that they are actually
8 getting what they are paying for.

9 Q Okay. So, you're recommending now, as I
10 understand it, that the benefits would be reevaluated
11 every year for large resource acquisitions; is that
12 right?

13 A Well, I think you just do it on a
14 portfolio basis. You are going to fix what you did in
15 the past. And what we're suggesting is to rerun the
16 RES/No-RES. Can I use -- what I would suggest, let's
17 use 2010 as an example, looking back into 2009, because
18 that's the only one that would affect in the near
19 future.

20 You would take the 2009 RES/no-RES plan,
21 that was run this year, and then 2010, rerun that,
22 putting in actual gas costs, and I would say carbon
23 costs, but there's no carbon costs in this particular
24 year, and -- let me make one correction. What we're
25 suggesting is that, input actual fuel costs, because I

1 think there may even be some displaced coal, or there's
2 that possibility, and see what the actual, really,
3 funds or dollars that should be associated with the
4 RESA were, and then carry that forward into your plan
5 into the future.

6 Q Okay. And, so, I think, my last question
7 wasn't very clear, but I appreciate your response.

8 What I am trying to see is whether your
9 plan, or this -- the sentence that I just asked you to
10 look at, whether -- to what extent that conflicts with
11 the company proposal that incremental costs are only
12 locked in at the time of the large resource
13 acquisition, based on the projections of those costs.

14 And it appears, based on the sentence at
15 the end of paragraph one, that you're talking about --
16 that the concept of locking in your understanding of
17 that is different than what the company is actually
18 proposing. Do you understand what I am saying?

19 A I understand what you are saying. I
20 don't believe I'm misunderstanding the company, though.
21 I believe the company wants to take a resource like
22 Alamosa, use a projection of what they believe fuel
23 costs are over the next 18 years, the life of that
24 facility, project what they believe the effect that has
25 on both the RESA and ECA, and then lock that in.

1 I'm suggesting that that's not what I
2 would recommend to the Commission. Instead, look at
3 this -- each year, based on one -- two things. First,
4 look backwards a year, to see what the actual benefit
5 was of that resource, adjust your RESA account
6 going-forward, accordingly, and then use your best
7 projections of gas costs, coal costs, and your -- if
8 you have new retail sales projections for the upcoming
9 years, use those as well. And then use that, from a
10 planning standpoint, to decide what you are going to
11 do, as far as RES compliance.

12 Q So, a clarifying question with regard to
13 this proposal. Can we go to Table 6-3 in Exhibit --
14 the company plan, Part 2, Volume 2. Do you have that
15 in front of you?

16 COMMISSIONER BAKER: Before you answer
17 that --

18 (Discussion off the record.)

19 COMMISSIONER BAKER: Go ahead.

20 BY MS. MANDELL:

21 Q Are you there, Mr. Camp?

22 A I am there, but I will acknowledge too, I
23 am not as familiar with all of these tables in the
24 back, because I was just addressing this issue, but if
25 we can -- I will try to answer your question how it

1 relates to what I propose, though.

2 Q Okay. Okay. Do you understand the
3 relationship between Column H and Column J?

4 A Actually, no, I don't. I'm not sure what
5 they are referring to as, "ongoing incremental costs,"
6 in this case.

7 Q So, you don't -- you don't -- okay. Let
8 me represent to you, that it's my understanding that
9 Column J represents what would be locked in, the costs
10 that would be locked in. So, my question is, Mr. Camp,
11 that as time goes on, the amount, this Column J, would
12 grow, according to the company's proposals, would grow
13 with resource acquisitions, because they are proposing
14 to lock in incremental costs of actual acquisitions.
15 Do you understand -- I guess, if you don't --

16 A Okay. Go ahead with your question.

17 Q I guess my question is, do you understand
18 that the modeled incremental costs, in Column L, would
19 be transferred over to Column J, over time, and that
20 Column J would become significantly larger, and would
21 actually start to, you know, that the costs in Column L
22 would go over to Column J, over time, as resources were
23 acquired?

24 A Actually, I don't understand where you're
25 going with that.

1 Q Okay. I'm just trying to sort of lay
2 foundation for some such -- the impact of your
3 proposal, but --

4 A Can I suggest, though, that the statute
5 allows the company to, you know, basically charge
6 customers 2%, you know, up to 2% of their retail bill.
7 I think what we're talking about is what really belongs
8 in the RESA account, that should be charged to the RESA
9 account, versus what should belong -- or what belongs
10 in the ECA account.

11 And my understanding of what the company
12 has proposed is what's going to be billed to the RESA
13 account, really, in the case of these large resources,
14 is going to be based on a projection that's been made
15 several years in advance, doesn't necessarily reflect
16 the reality of what ratepayers got out of it. And if
17 you push funds one way or the other, I don't know
18 whether ratepayers are getting the incremental benefit
19 of their 2%, because I think -- I am not saying that
20 the company would game this. It seems like it could be
21 subject to gaming, but I'm not sure if we know what
22 freezing these, based on today's projections, will
23 really do in the future. I'm just suggesting we should
24 base things on actual, where we know actual.

25 Q Yes, I understand, Mr. Camp. I am trying

1 to ask you about sort of a more narrow issue here. Can
2 you agree with me that, with the recalculation of these
3 estimated costs and benefits, that you are proposing,
4 that that increases the company risk of overspending
5 in -- compared to the company proposal?

6 A Well, I guess you could characterize that.
7 from a company perspective. But, I think you could
8 also characterize it, that would put customers and
9 ratepayers at risk that the company is going to
10 overspend for renewables, over and above what was
11 mandated by statute.

12 Q And your focus on -- okay. So, if the
13 company is more at-risk, from the company's
14 perspective, with the proposal that you have here in
15 Exhibit 44, in comparison with the company proposal,
16 would you agree that that would tend to make the
17 company more conservative or cautious about their
18 spending, when they get up close to the 2% rate cap?

19 A Well, first I take exception to the
20 company really is at risk. I think what I have
21 indicated here, even -- this is staff's position -- is
22 that I believe the company has the right of recovery of
23 all their expenses. I think, what we're talking about
24 is how you account for the dollars you are spending for
25 renewables. Do they belong in the RESA account such

1 that they are limited or do you push these things over
2 to the ECA, which in some ways loses a little bit of
3 transparency to the customer out there. In either
4 case, the company is going to recover 100% of their
5 spending that they have for renewable resources. So, I
6 don't think they are at risk at all.

7 In fact, what we have suggested here,
8 which is, you know, somewhat, it would require a
9 decision of the Commission to go this direction. But
10 to be able to carry forward, you know, overspending of the
11 RESA, or underspending, even from an actual standpoint,
12 and then basically reconcile that on an annual basis,
13 to make sure, in the long run, that customers are
14 paying 2% for the actual incremental costs.

15 Q So, according to staff proposal, that
16 risk of overspending is --

17 A Uh-huh.

18 Q I think you're acknowledging that it's
19 increased, with staff's proposal, but you're just
20 saying that it would be recovered anyway?

21 A Let me try one more time. To me, risk
22 gets defined -- I am assuming what you were talking
23 about, is there a risk that the company won't be able
24 to recover their costs, and I would say no. There is
25 no risk. The company will recover their costs, either

1 through RESA or through the ECA. Or in the case that
2 we have suggested, I mean, it may be temporary, by
3 borrowing from the ECA. But I am not suggesting that
4 the company not recover cost associated with RES type
5 of resources. So, maybe you could explain what other
6 risk we're talking about, because it's not a risk of
7 recovery.

8 Q The risk of being in violation of the 2%
9 retail rate impact cap, because the calculation is so
10 much more uncertain and less stable, because of this
11 backcasting of the estimates.

12 A Well, could the company possibly be --
13 and I won't even say that you are in violation of RESA.
14 I think, I mean, that's what -- because what we have
15 suggested here is you adjust the following years RESA,
16 to account for any overspending or underspending.
17 That's why I say the Commission would have to make that
18 interpretation of its own rules and statutes to do
19 that.

20 Again, this isn't something that's
21 detailed in the rules as we're looking at them
22 currently. So, I'm still a little puzzled on your
23 question there. I believe that the statute and the
24 retail rate impact was really intended as some type of
25 governor, or, you know, regulation to make sure that we

1 don't overspend. And when you do overspend, it
2 corrects the following year, and that's what we're
3 suggesting.

4 Q Does your explanation of staff's
5 proposal, in Exhibit 44, and the explanation you are
6 giving right now, do you believe that that conflicts
7 with the interpretation that Mr. Dalton is providing
8 with regard to the year by year limitation?

9 A Okay. I think we have to look at this
10 from two different perspectives. Mr. Dalton has looked
11 at it from the perspective of the rule and the
12 decisions we have to date. I am suggesting -- I won't
13 say it's a compromise, but a different way of
14 approaching RESA, that's not authorized today by this
15 Commission.

16 And we're trying to come up with a
17 solution that still would provide some true-up for
18 customers out there, to make sure, again, that they are
19 receiving, you know, costs of no higher than
20 incremental -- the actual incremental costs of these
21 resources.

22 And I am modifying previous, you know,
23 interpretations of the Commission. And I think the
24 Commission has that authority to do that. I think what
25 Mr. Dalton has done is looked at the specific rules, as

1 they are stated today, and looked at, you know, whether
2 the company is planning to overspend. I mean, that's a
3 little different issue than what I am suggesting here.
4 That's a completely different topic. We still expect
5 the company to manage their portfolio, such that they,
6 at least, try to stay within their -- the limits of
7 their plan, not under or overspend it.

8 Q Assuming that this compliance plan will
9 be filed according to the rules that are in existence
10 today, do you think that the staff proposal, as
11 outlined in Exhibit 44, provides less incentive or any
12 more incentive for the company to invest in renewables?

13 A Actually, I believe, since the company
14 should be confident that they are going to get rate
15 recovery, it should be indifferent.

16 Q Okay.

17 MS. MANDELL: Okay. No further
18 questions. Thank you.

19 COMMISSIONER BAKER: Office of Consumer
20 Counsel.

21 MR. IRBY: No questions. Thank you.

22 COMMISSIONER BAKER: Public Service.

23 CROSS EXAMINATION

24 BY MS. CONNELLY:

25 Q Good afternoon, Mr. Camp.

1 A Good afternoon.

2 Q With respect to that very last question
3 that Ms. Mandell asked you, of whether the company
4 might want to avoid overspending or going over a limit
5 set by the General Assembly. I think you are
6 suggesting we are indifferent if we get cost recovery.
7 And I want to suggest to you that the company certainly
8 doesn't want to see headlines in the Denver Post, that
9 we're violating a law or that we've overspent money.

10 Would you agree that the company would
11 have a public relations concern about any
12 characterization of spending more than allowed by law?

13 A Well, I would hope that the company
14 doesn't intentionally overspend. I think there's
15 things beyond your control, like the price of gas, that
16 may result in you overspending the RESA, just based on
17 things beyond your control, price of gas. And as a
18 result, you may be in a situation where you have
19 overspent relative to the RESA. And it could be true
20 that even sales forecasts could even do that to you
21 somewhat. I don't know -- I think it's a explanation
22 that can be provided. But have you ever overspent it?
23 I believe you have. I think that's a fact.

24 Q Well, again, that all goes to Commission
25 interpretation of the existing Commission rules as to

1 the leeway we have to incur costs in advance of
2 recovering the money through the RESA.

3 A I would agree. But you have proposed
4 changes here as well, as far as the time fence and how
5 you want that treated. So, I mean, we're looking at
6 alternatives, and I guess maybe things that haven't
7 specifically been addressed in the Commission rules
8 that you are asking for.

9 Q Okay. And you would agree with me that
10 the statute does give the Commission the leeway to
11 establish, by rule and by order, how to interpret the
12 retail rate impact limit?

13 A I would agree. That's why we're -- I
14 mean, the company has provided a recommendation to the
15 Commission as well as staff.

16 Q Okay. And you would also agree with me
17 that it's important for the Commission to make a policy
18 call on this issue, sooner rather than later, so that
19 we all know what the rules are when we're planning to
20 acquire renewable resources?

21 A I would say sooner rather than later. I
22 am a little concerned whether we're going to run into a
23 conflict, really, with -- I'm not sure what the timing
24 of the decisions are going to be here. I mean, that is
25 a concern to me. We have this proceeding going on

1 right now, where we may decide certain ways that, for
2 example, this time fence issue may be handled, at the
3 same time, with a concurrent rulemaking, where this
4 same issue has been raised.

5 I would hope that they come to the same
6 conclusion. I'm not sure there's a guaranty of that.
7 And that's -- it does concern me. And I'm not sure how
8 we resolve that. I think it's something we're going to
9 have to address in the near future, once we have both
10 decisions.

11 Q And so if Commissioner Baker and Judge
12 Kirkpatrick have a disagreement, they, ultimately, they
13 all end up at the full Commission?

14 A They do.

15 Q And the full Commission decides?

16 A Absolutely.

17 Q Okay. Okay. Now, yesterday, I thought
18 you told me -- we weren't requesting to do any
19 retrospective look at the RES/No-RES, and that we were
20 only going to be looking forward with the RES/No-RES.
21 Did you not tell me that yesterday?

22 A You know what, in fact, when you raised
23 the question, you thought I was presenting something
24 different. I went back and read the transcript, and in
25 my office. And I think I gave a partial answer that

1 could be interpreted that way. If you read the full
2 answer, then I don't believe that's true. I actually
3 have the transcript here in front of me.

4 Q Irrespective of what you said yesterday,
5 or today, we don't have to get into that. Is it your
6 position that we're going to do, every year, a
7 retrospective look of the prior year?

8 A Yes, that's what we are recommending.

9 Q And didn't staff take the exact opposite
10 position last year, and didn't we have this whole
11 debate last year, when the company sought a waiver of
12 Rule 3662(a)(11).

13 A You know, I'm not sure. I was not
14 responsible, and chief of the staff at the time, when
15 that docket was before the Commission. So, I actually
16 am in a position, now, to help shape what policies we
17 want to put forward to the Commission. So, could it be
18 different? Yes.

19 Q Okay. Now, last year, in Decision No.
20 C08-0559, in Docket No. 07A-462E, we asked the
21 Commission for a waiver of the rule that would require,
22 every year, with the compliance plan, that we
23 recalculate the RES/No-RES plan with the actual fuel
24 costs, because you were concerned, if the fuel costs
25 went down, then the resources that we would have

1 acquired actually had a greater incremental cost than
2 we thought they were going to have at the time we
3 acquired it. The staff recommended that the rule be
4 interrupted only to apply in a situation where the
5 utility had not complied with the Renewable Energy
6 Standard. So, it would only apply in a situation where
7 the retrospective look could create more potential of
8 more headroom instead of less under RESA.

9 A Uh-hum.

10 Q Is that jogging your recollection at all?

11 A Oh, yes.

12 Q And the staff said, no, Commission you
13 should interpret it to only apply in the situation
14 where it might create more headroom and the utility has
15 not complied with their renewable standard?

16 A I agree. And I'm not sure -- I am not
17 even sure -- this is an absolutely different issue than
18 what we're addressing right here. What we are really
19 addressing is your proposal of using a time fence,
20 locking in for the, basically, the life of a
21 resource -- and I'm going to keep using in as an
22 example, because it's a good example -- SunE Alamosa.
23 You are wanting to lock in the costs and benefits of
24 that, and charge that to the RESA, based on today's
25 projections. That was not a part of what the

1 Commission decided back then.

2 Q Well, that's correct. There was no --

3 A These are, to me, these interplay with
4 each other, so we have actually tried to come up with a
5 different way of approaching this, such that we believe
6 that the RESA is closer -- that the dollars that are in
7 the RESA, or the way you spend the RESA, is closer to
8 the actual benefit that the customers are getting.

9 Q As I understand your proposal, you are,
10 in effect, asking the company, after it does this
11 relook --

12 A Uh-hum.

13 Q -- every year, repricing everything, to
14 drain down the RESA funds, and then potentially borrow
15 money from the ECA. Is that what you are proposing?

16 A No.

17 Q If there's not enough money in the RESA
18 to pay for the renewable energy?

19 A Okay. With that clarifying comment,
20 yeah. If you spend more than the RESA fund -- than is
21 in the RESA fund, yes, there has to be some way of
22 accounting for that, but, at the same time, that's
23 why -- and part of this, I think, are some things we
24 thought about last night, as far as just how to account
25 for, since you were overspending the RESA fund, and you

1 are going to put it this ECA till you need to make the
2 RESA fund good in the long-run, which I guess I
3 mentioned in an answer yesterday, without specifically
4 saying you would put a debit on the RESA. We actually
5 said, if the RESA, as long as it's negative, you
6 cannot -- you would have to cease acquiring the new
7 resources, which is the same thing, so. . .

8 Q So, all right. Now, when we have had
9 this debit to the RESA, because we in effect borrowed
10 monies from the ECA, do we have to pay the ECA back?
11 Do we have to commit future RESA funds to make up that
12 shortfall?

13 A Yes.

14 Q I mean that's --

15 A To me, that's why I said it. As long as
16 you are in a negative position, yes, and until you go
17 positive, but --

18 Q I mean, let's just say, for example, so
19 my question is clear, let's say, in 2010, we didn't
20 have enough money in the RESA, so, we have to debit the
21 RESA with monies from the ECA, for resources that have
22 already all been approved?

23 A Okay.

24 Q Correct? So now we're in 2011, and we're
25 acquiring more RESA money, but we still have those same

1 resources.

2 A Yes.

3 Q So, those resources still -- there's an
4 ongoing cost.

5 A Okay.

6 Q Right. So, do we have to not only pay
7 for the incremental cost of those ongoing resources,
8 plus pay back the funds for the ECA that we borrowed in
9 2009?

10 A Well, you are asking someone that's not
11 an accountant, so I'm trying to think through what the
12 transaction would look like, so I'm not sure.

13 Q Thereby committing even more RESA funds
14 to pay for that shortfall?

15 A You only pay for it once.

16 Q Okay.

17 A But that's where I think the
18 accounting -- I need an accountant to tell me what's on
19 the debit side versus what's on the credit side, to
20 understand how you balance between those accounts.

21 Q Okay. How does what you are proposing
22 relate to what Mr. Dalton is proposing? Are you saying
23 that in any -- in addition to the limits that would be
24 put on by this remodeling, such that we might have to
25 stop acquiring renewable resources until we build up

1 the kitty again, are you also endorsing this idea that
2 we can never acquire more than the RESA funds that we
3 get in any one year?

4 A I don't think you should plan to acquire
5 more than your RESA funds would permit in a year, from
6 a planning standpoint. I think that's what Mr. Dalton
7 was explaining. You shouldn't put something in a
8 plan -- and I think the example we're coming back to is
9 your on-site solar. Should you curtail taking the
10 orders? I'm not sure, but, to me, it makes sense to
11 budget that. I mean to say, you are going to do so
12 much a year, because you budget for everything else
13 that -- on all of the rest of the spending you do for
14 RESA funds. You budget for large projects, you budget
15 for the intermediate size solars, why you don't budget
16 for on-site solar, I'm not sure.

17 And but, again, you are the ones that do
18 the plan. And I think you should be planning for
19 something that's reasonable, looking forward.

20 Q Yes. That's what we're trying to do,
21 we're trying to plan. Okay.

22 A No --

23 Q Okay. If we have a year in which we
24 can't -- we don't have enough money, because the
25 incremental costs have been recalculated after the

1 fact, after we already contracted for all of the
2 resources, would you agree with me that most of these
3 resources that we acquired have contractual payments
4 that are either the same each year or potentially
5 escalate each year?

6 A For your large resources, yes.

7 Q Okay. If we get in a situation where we
8 believe we have enough money in the RESA to pay,
9 because we used one calculation of incremental cost,
10 and, then, it's recalculated. Gas prices go lower and
11 now we've recalculated, now they all have larger
12 incremental costs, and we're over, wouldn't you think
13 we would stay over for quite a substantial period of
14 time?

15 A No.

16 Q Because we have these same payments or
17 even more payments each year?

18 A I guess the only situation I can envision
19 that would cause that is, for example, like we're
20 thinking that gas prices are around \$8 a BTU right now,
21 and they drop to 4 and stay there for the next 10
22 years.

23 Q What --

24 A I think the other case is more likely to
25 occur. I think there's going to be much higher and

1 higher demand on gas, as a lot of utilities and others
2 move away from coal. And the price of gas, if
3 anything, we may be understating, and this may create
4 additional headroom. It seems like we keep dealing
5 with the side of the equation that is going to limit
6 renewable resources being put into effect. I think
7 this could quite likely produce additional dollars that
8 could be spent for renewable resources.

9 So, I think, again, we just keep looking
10 at one side. And, I think you're wanting to present
11 this as staff is trying to stop renewable development.
12 That's not the case.

13 Q You do understand that the company is
14 taking the position that we should use updated
15 forecasts for future acquisition, if there were an
16 increase in the gas price, that would be taken into
17 account in how we acquire future resources, correct?

18 A Oh, I would hope so, yes.

19 Q Now, you have indicated that you agree
20 that the company has the right to recover, through --
21 under the ECA, if we don't get it through the RESA, and
22 any dollars for the contracts that we've already --
23 have already signed. But what you say in Exhibit 44
24 is, then, the company shall be allowed to seek recovery
25 of the shortfall. Did you mean to suggest that we

1 would have to file an application and that that
2 application could be subject to debate?

3 A No. That's not what I was intending. In
4 fact maybe, "seek," is not the proper word. I think
5 you would actually, again, if the Commission rules that
6 this is an acceptable plan going-forward, I think it
7 would be correct to just say that company has the right
8 to recover it through the ECA. I mean, if that's the
9 mechanism that we decide on.

10 Q Okay. Thanks.

11 MS. CONNELLY: That's all I have for this
12 witness, but we would reserve, again, the opportunity
13 to present our rebuttal from Mr. Ahrens.

14 COMMISSIONER BAKER: Okay.

15 MR. BECKETT: Nothing.

16 COMMISSIONER BAKER: Nothing from the
17 advisory staff.

18 EXAMINATION

19 BY COMMISSIONER BAKER:

20 Q I just have one question, and I think you
21 answered this with Ms. Connelly. And, yesterday, or
22 was it this morning, yesterday, it must have been, you
23 presented this proposal or, you know, the staff's
24 position on the lockdown. And you made the distinction
25 between resources that the Commission had previously

1 ruled sunk, and ones that the company are proposing to
2 rule sunk. And you said, policywise, it's a -- I
3 understand the matter, so, we don't need to go there.

4 But why wouldn't it be good policy, if
5 you were following your logic, to try to get the most
6 accurate set of benefits, to use all of the resources
7 that were -- that are counted toward compliance of
8 Section 124?

9 A This may be why I am afraid to answer,
10 because, I think, you are starting to move into
11 another -- that may be a legal question, because my
12 understanding is, we can't necessarily back away from a
13 decision that was already made in the past, by this
14 Commission. That's why I wouldn't necessarily
15 recommend that we treat those differently.

16 Again, I think that's more of a legal
17 issue that I'm not probably qualified to answer, but
18 that's the reason I didn't suggest we change anything
19 the Commission has already ruled on.

20 Q I understand that. I was just asking.
21 It seems to me, that if you separate the issue of
22 recovery, which your proposal has done, from the issue
23 of how much headroom you are going to have, in the 2%,
24 it doesn't seem like there is necessarily any harm to
25 anyone in that, and that that does give, just following

1 the logic of your proposal, a more accurate picture of
2 what the costs and benefits of Section 124 are for
3 ratepayers?

4 A Okay. And that may be the case. I'm not
5 sure what the reasoning was initially when they froze
6 those, and didn't include them in the RES, whether
7 there was a concern that these were very early models
8 of wind turbines, in some cases, that aren't as
9 efficient. They didn't really want to kind of dampen
10 out what they are trying to do with the RES. If they
11 produce benefit -- I'm not sure why they wouldn't,
12 especially like a wind resource which shows that there
13 is a benefit to the program, but --

14 Q So, there is --

15 A I think that's a decision from the
16 Commission that could be -- that's an option to look
17 at.

18 Q So, is it the advice of the staff --
19 trial staff to the Commission, that if you could unsink
20 them, and do them all, that that would be more in
21 keeping with the logic of your proposal or is it really
22 our proposal stands on its own, because it really has
23 to do with there wasn't a RESA then.

24 A I don't think it's -- actually, I think
25 it's actually worth looking at. I just don't know

1 whether that impacts -- whether that has a negative
2 impact on moving forward or positive impact. I'm not
3 sure if even a Public Service witness could answer
4 that. I'm not sure what all of those resources are
5 that are in that group.

6 Q Public Service presented a witness that
7 explained how complicated it would be to model that,
8 et cetera. I was just asking from a --

9 A All right.

10 Q And, as such, does it disturb you at all
11 that there would be kind of two standards in your
12 proposal, you know, old standard and new standard?

13 A No, really, because these resources were
14 put in under the LCP. I mean, these were really prior
15 to Amendment 37. So, I mean they were treated like any
16 resource that out there. I don't see it necessarily as
17 being, you know, a problem or a conflict with what
18 we're doing there.

19 COMMISSIONER BAKER: Okay. I have no
20 further questions. Any cross examination or
21 re-redirect, whatever that word is?

22 MS. BOTTERUD: Just actually one.

23 REDIRECT EXAMINATION

24 BY MS. BOTTERUD:

25 Q Mr. Camp, Ms. Connelly was talking to you

1 about the proposal, that if the RESA account is
2 overspent, then the company should be permitted to
3 recover the excess, I guess through the ECA. Isn't --
4 it's staff's position, though, that even while that
5 recovery for the ECA is going on, the company still
6 needs to be within the 2% retail rate impact in the
7 RESA account?

8 A The question is a little confusing,
9 because I think the RESA account -- the situation she's
10 describing actually would go in a position where it's
11 negative, or they have determined that it's going
12 negative, and in a particular year. So, I am not -- I
13 mean, it's acquiring funds as we move forward. I think
14 they should be planning -- maybe that's what you are
15 asking -- regardless, into the future, to stay within
16 that 2% window, accounting for that overspending issue
17 they may have in the prior year.

18 Q Yes. Thank you.

19 A Okay.

20 MS. BOTTERUD: Nothing further.

21 COMMISSIONER BAKER: You are dismissed.
22 Have a great evening. We have a witness from Public
23 Service?

24 MR. BECKETT: I know. I suggest perhaps,
25 before we proceed with the Public Service witness, we

1 would deal with the last bit of Answer Testimony of
2 Ms. Leslie Glustrom, which I don't believe, given that
3 she's not returned, I don't know. Did the parties have
4 a position on what to do with her prefiled testimony?
5 It was not stricken. So, I think we should determine,
6 on the record, whether or not we're going to admit that
7 as evidence or not.

8 COMMISSIONER BAKER: Any objections?

9 MS. CONNELLY: Yes, Public Service
10 objects. It's the obligation of the witness who wants
11 to support testimony to actually show up, and be ready
12 to stand cross examination on her testimony. We do not
13 agree to stipulate it into the record.

14 COMMISSIONER BAKER: Okay. Any other
15 opinions? Okay. We are not going to stipulate that
16 into the record. Now, Public Service, would you like
17 to --

18 MS. CONNELLY: Yes, Public Service
19 recalls Mr. Ahrens.

20 COMMISSIONER BAKER: Mr. Ahrens, I would
21 remind you, you are still under oath.

22 THE WITNESS: Thank you.

23 (Discussion off the record.)

24 DIRECT EXAMINATION

25 BY MS. CONNELLY:

1 Q Mr. Ahrens, I would like you to go to the
2 board, and draw a picture, so that we can have a good
3 visual idea of the differences between the company's
4 position, and the staff's position, and some of the
5 suggestions being made by Commissioner Baker, if you
6 would.

7 A Certainly.

8 Q And while you are drawing that, I have an
9 exhibit that I am going to have marked and pass out.

10 (Whereupon Exhibit No. 48 was marked
11 for identification.)

12 BY MS. CONNELLY:

13 Q All right. Mr. Ahrens.

14 A Let me walk through this first and --

15 Q Okay.

16 A And first it's probably important to
17 point out, this is not intended to be to scale. But
18 what I have done is I have tried to draw the stack of
19 what goes under the RES plan. It starts off with the
20 nonRES, the traditional jibberish, nonrenewables.

21 Q These are the nonrenewables that are
22 currently on the company's system?

23 A That's correct. The next one would be
24 those renewables that were put in place prior to
25 Amendment 37. Above that is the renewables that would

1 be put in place prior to December 31st of any one year.
2 Those are essentially what the company is proposing be
3 the lockdown. And going-forward every year, we're
4 going to add to that, so that that number goes up and
5 future renewables would go down. And then, above that
6 is the future renewable amount.

7 Q I think there's one more category there.
8 And that is the resources that were acquired after
9 Amendment 37, but were part of the All Source RFP, so,
10 I think, for purposes of our discussion, we could
11 consider them in the preAmendment 37 renewables box.

12 A That would work well.

13 Q As currently they are treated the same;
14 is that correct?

15 A That's correct.

16 Q Okay. Now, Mr. Ahrens, would you please
17 just demonstrate what the company is proposing -- well,
18 what the company is proposing to replace in the nonRES
19 plan with nonrenewable resources? Which of those
20 resources get taken out, that are in the RES plan, get
21 taken out, when we do the No-RES plan, under the
22 company proposal? Did I ask that in the way you
23 understand it?

24 A No.

25 Q Okay. Why don't you go on. You go

1 forward, then.

2 A I think it would be helpful to explain
3 that under the company proposal, we would look at that,
4 if it's renewables, we would rerun those renewables, to
5 update it for all variables, fuel, sales forecast,
6 et cetera. But those renewables that were either
7 contracted, or for the smaller ones, actually put in
8 place prior to December 31st, we would lock down those
9 net benefits, the cost and benefits, for purposes of
10 doing future RES and No-RES. This number would be in
11 both scenarios, the RES and the No-RES. So there would
12 be no incremental impact, and we would essentially lock
13 down what that benefit is, and carry it in what is
14 called, "J," of Table 6-3.

15 Q Okay. That's the company proposal. And
16 staff's proposal, as we understand it?

17 A As I understand it, they would
18 essentially update the same amount. However, instead
19 of locking down these benefits, we would go back and
20 rerun it and update it for the actual fuel and CO₂, to
21 the extent there's no CO₂ in 2009, but, going-forward,
22 that's what I understand to be their proposal.

23 Q Okay. And the suggestions that have been
24 made by Commissioner Baker in questioning witnesses.
25 What do we understand of his proposal or I don't know

1 if it's a proposal.

2 COMMISSIONER BAKER: Right. It's a
3 proposal.

4 BY MS. CONNELLY:

5 Q I wouldn't describe it as a proposal, but
6 suggestion he was making.

7 A If I understand correctly, then, as part
8 of looking at the RES, we would include not only those
9 future renewables but also those renewables that were
10 put in place prior to Amendment 37.

11 Q And I think you need to draw your line a
12 little bit lower for that to --

13 A I'm not sure if we include all of that.

14 Q For purposes of this discussion, let's
15 take it all of the way out.

16 A Let's do that.

17 Q And, now, to indicate that. Now, the way
18 we determine the incremental costs, that we run a RES
19 plan that has all of the proposed build-out for the
20 renewables.

21 A Correct.

22 Q And then a No-RES plan, where we take out
23 some of the renewables and replace them with
24 nonrenewables, correct?

25 A That's correct.

1 Q Okay. So, in each of these scenarios
2 when we run the No-RES plan, do you agree with me that
3 we're taking out all of the renewable resources that
4 fall in your update column, and we're putting in
5 nonrenewables?

6 A Correct.

7 Q Okay. So, that we're basically getting
8 the incremental costs between two different portfolios?

9 A That's correct.

10 Q Okay. Now, you can take a seat. Thank
11 you.

12 Which of these proposals, now that we
13 have heard them all, does the company ask the
14 Commission to adopt?

15 A The company prefers to recommend its
16 original proposal; that we have the lockdown.

17 Q And will you explain why?

18 A The other provides uncertainty for the
19 company for planning purposes. What would happen with
20 the running of the lockdown, is it could be higher or
21 it could be lower. That would cause us to have to
22 change our plan to accommodate whatever variables cause
23 that to change.

24 That causes us uncertainty from the
25 planning perspective, and I think that uncertainty

1 would trickle down to vendors, because if we have -- if
2 we don't have certainty on our plans, they can't have
3 certainty on what the build-out is.

4 Q Now, Mr. Ahrens, is the company trying to
5 plan, in the long-run, to reduce our carbon footprint
6 and to meet the governor's carbon reduction goals?

7 A Absolutely.

8 Q And how does the uncertainty you are
9 talking about in the other plans affect that?

10 A It makes it much more difficult for us to
11 achieve those carbon reductions, because, again, we
12 have difficulty with our plan, we have uncertainty with
13 our plan because of this.

14 Q Because we never know how much money we
15 have left to spend on new additions?

16 A It will change every year.

17 Q Now, you talked about the market being
18 adversely affected by this uncertainty. Which is the
19 market that would be most affected if we got into a
20 situation where an update of the incremental costs
21 available to us show we had fewer dollars left than we
22 thought?

23 A I suspect it would be the on-site solar.

24 Q And why is that?

25 A Because most of the other resources are

1 acquired through a resource planning process. And
2 right now, I think the on-site solar would be the swing
3 source that we would use to either back down or
4 increase our planning.

5 Q Okay. Now, to give some indication of
6 how large this swing could be, we've marked for
7 identification, as Exhibit No. 48, a document, okay?
8 Please identify this document.

9 A Yes. What we're trying to do is provide
10 a ballpark illustration of what a change in \$1 per
11 million BTU gas price would have, as far as changing
12 what the avoided costs are. I can walk through --

13 Q Yes, if you would, please.

14 A Certainly. Under Column A, that's the \$1
15 change. We then multiply that times our average heat
16 rate for fossil fuel. That is essentially the
17 conversion factor of the input fuel to electricity.
18 And then we end up with a \$1 change per million BTU for
19 gas, equates to an \$8 change in dollars per
20 megawatt-hour generated.

21 Under Column D, we provided an installed
22 nameplate ratings of wind and solar. We multiply that
23 times an expected capacity factor for those resources,
24 to identify how much energy we're really talking about
25 as being avoided. Multiplying that times the \$8

1 difference, we get between a 35 and \$36 million impact
2 of a \$1 per million BTU change in gas price.

3 Q Now, Mr. Ahrens, is \$1 change in the
4 forecasted gas price a usual or an unusual change from
5 forecast to forecast?

6 A Oh, certainly. In recent times, that's
7 not been uncommon.

8 Q So, given this example, the company could
9 potentially think that we had headroom under the RESA,
10 to buy the resources that we're buying, and in the All
11 Source RFP, and if the gas prices were to drop by \$1,
12 we're talking about something in the range of 35
13 million, or even greater, swing in the funds available
14 for the RESA; is that correct?

15 A That's correct.

16 Q Okay. Now, could you turn to 6-3, Table
17 6-3.

18 A I have that before me.

19 Q And could you look at the Column H model
20 incremental costs?

21 A I have that.

22 Q How does a swing in the range of \$35
23 million compare with what we're projecting as the
24 modeled incremental costs for each -- for a lot of the
25 years in this plan?

1 A As an example, in 2010, the modeled
2 incremental costs represent about \$32 million, so this
3 swing is greater than the amount of modeled incremental
4 costs.

5 In some of the outer years, it's not near
6 so much, but it's still a very significant change in
7 what funds are available to procure renewable energy.

8 Q Okay. Let's suppose, as staff has been
9 arguing, that gas prices actually go up in a future
10 forecast. They go up a \$1, they don't go down, thereby
11 creating additional headroom of about \$36 million.
12 Isn't that a good thing?

13 A It could lead to boom and bust, in which
14 one year you have a very large increase in the funds
15 that are available, and then the next year, very large
16 decrease. So again, that causes some instability in
17 our ability to plan and presumably instability for the
18 vendors supplying the renewables.

19 Q What's been the company's experience to
20 date? We've -- this is our third renewable energy
21 compliance plan that we filed. Have the gas prices
22 turned out to be higher or lower than what has been
23 projected at this time that we filed the plan?

24 A I believe that the gas prices that we
25 have used have turned out to be higher than what would

1 be projected later on.

2 Q Than the actuals that have occurred?

3 A Yes.

4 Q So, at least our experience today, we've
5 suffered the downside and haven't seen the upside?

6 A That's correct.

7 Q Does the company believe that the --
8 well, why is the company comfortable in potentially
9 giving up the upside in order to avoid the downside?

10 A Again, the uncertainty for planning
11 purposes. It makes it very difficult.

12 Q And market stability?

13 A And market stability, correct.

14 Q Now, what steps has the company taken --
15 all of this we're talking about here, staff's proposal,
16 the scenario that was being discussed by Commissioner
17 Baker, are really all attempts to try to increase the
18 headroom under the RESA. What steps has the company
19 taken to try to increase the headroom of the RESA?

20 A I can think of two examples. And the
21 first one is by changing the way we have done
22 resource -- or we've done WindSource. Sorry about
23 that. If you look at Table 6-4, it demonstrates that
24 by crediting the premiums that we give for the resource
25 program --

1 MS. BOTTERUD: Commissioner Baker, I am
2 going to object because I think the question is
3 eliciting a response from the witness that is beyond
4 the scope of what Mr. Camp was testifying to.

5 MS. CONNELLY: We would like the
6 opportunity to explain that there are alternative ways
7 to create headroom in the RESA other than what we view
8 to be the risky proposal that staff has set forth.

9 MS. BOTTERUD: But Public Service has
10 already presented its own recommended plan as part of
11 this docket.

12 MS. MANDELL: If I might, looking at my
13 notes, I think Mr. Camp did address the question of
14 headroom.

15 MS. CONNELLY: I think it's clear that he
16 was talking about his program as being beneficial,
17 because it could create headroom.

18 (Discussion off the record.)

19 COMMISSIONER BAKER: I am going to allow
20 the question but please try to keep it tight.

21 MS. CONNELLY: Okay.

22 BY MS. CONNELLY:

23 Q What has the company done to -- what
24 proposal has the company made to create more headroom?

25 A Again, I think WindSource is one example.

1 And I think that's demonstrated in Table 6-4, where you
2 can see that the rolling deferred balance has got much
3 more headroom to allow us to procure additional
4 eligible renewable energy.

5 The second thing that I can think of that
6 the company has proposed, is in the RES rulemaking, in
7 which we have asked to have the ability to market
8 excess RECs. And there is a margin-sharing proposal
9 that would generate additional revenues, that would be
10 credited to the RESA, that would allow us to go out and
11 procure even more renewables. Under both of those
12 scenarios, there's only upside with no downside of
13 risk.

14 Q And by that you mean both of those
15 proposals can only increase the headroom, but neither
16 would decrease the headroom?

17 A That's correct.

18 Q Okay.

19 MS. CONNELLY: I think that's all I have.
20 And Mr. Ahrens is available for cross examination.

21 COMMISSIONER BAKER: CF&I?

22 MS. KING: I just have three questions,
23 that you identified -- you know, I am going to strike
24 that, and I am going to refrain. Thank you.

25 MS. CONNELLY: Excuse me. Commissioner

1 Baker, I probably should have asked for that
2 illustration to be marked, as an exhibit, so that the
3 record will make some sense.

4 COMMISSIONER BAKER: Okay.

5 MS. CONNELLY: So we could reserve the
6 next number for that.

7 COMMISSIONER BAKER: Which, I think, is
8 49.

9 MS. CONNELLY: We need to give that one
10 to the reporter to be marked.

11 THE WITNESS: I am going to draw in some
12 lines a little bit better.

13 MS. CONNELLY: Okay.

14 COMMISSIONER BAKER: Did we formally move
15 48?

16 MS. CONNELLY: I think Mr. Beckett just
17 reminded me that I hadn't, so I would move that at this
18 time.

19 COMMISSIONER BAKER: Any objections to
20 Exhibit 48? It's okay if we move 49, yeah 49?

21 MS. CONNELLY: And Public Service moves
22 the admission of Exhibit 49, the blackboard exhibit.

23 COMMISSIONER BAKER: Any objections to
24 49?

25 MS. HICKEY: No. I just had some

1 question --

2 COMMISSIONER BAKER: Okay. Can we wait
3 until it will come to you?

4 MS. HICKEY: Absolutely.

5 COMMISSIONER BAKER: 49 is admitted.

6 (Whereupon Exhibit No. 49 was admitted.)

7 COMMISSIONER BAKER: Okay. And we did

8 CF&I. CoSEIA.

9 MR. COLCLASURE: No questions for CoSEIA.

10 COMMISSIONER BAKER: Interwest?

11 CROSS EXAMINATION

12 BY MS. HICKEY:

13 Q I just -- does the PSCo and staff and
14 Scenario 3, include pre1937 renewables? Is that --

15 A PreAmendment 37 renewables.

16 Q It does.

17 COMMISSIONER BAKER: Scenario 3 did.

18 THE WITNESS: Yes.

19 MS. HICKEY: All right. I think that's
20 fine.

21 COMMISSIONER BAKER: Okay. WRA.

22 MS. MANDELL: No questions. Thank you.

23 COMMISSIONER BAKER: OCC.

24 MR. IRBY: No questions. Thank you.

25 COMMISSIONER BAKER: Staff of the

1 Commission.

2 MS. BOTTERUD: A couple, several.

3 CROSS EXAMINATION

4 BY MS. BOTTERUD:

5 Q Mr. Ahrens, would you take a look at what
6 I believe has been entered as Exhibit 48, the
7 illustration of gas price impact on RESA costs.

8 A Yes.

9 Q And the column marked, "F times C."

10 A Yes.

11 Q Does that column reflect the incremental
12 costs as charged to RESA?

13 A No. That is intended to reflect the
14 total dollars that may be impacted. I'm not sure I
15 would know how to break down how much of that \$35
16 million would be split between ECA and the RESA.

17 MS. BOTTERUD: Okay. Thank you. We're
18 done.

19 COMMISSIONER BAKER: Okay. Commission
20 staff.

21 MR. BECKETT: No.

22 COMMISSIONER BAKER: Any redirect?

23 MS. CONNELLY: You don't have any
24 questions?

25 COMMISSIONER BAKER: No questions.