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

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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 -----

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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

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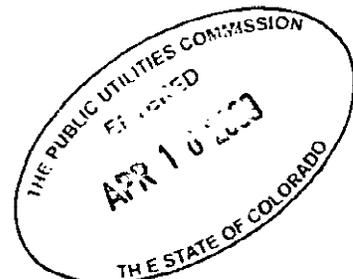
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P R O C E E D I N G S

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~~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 COMMISSIONER BAKER: You raised something
2 that was slightly confusing to me, so I want to clarify
3 one thing.

4 EXAMINATION

5 BY COMMISSIONER BAKER:

6 Q I was looking at this as a -- in your
7 vision, which is a -- in staff's vision this is a --
8 these are snapshots in time, you make decisions on the
9 best available information that you have, that if in
10 the future there becomes a conflict between the
11 prudence and the cost cap, it's your understanding that
12 the protections granted to the company in statute hold
13 them harmless from recovery -- for recovery purposes.

14 But for planning purposes moving forward,
15 you would -- these -- the resources starting after
16 what's -- after the ones that came online in 2005
17 resource planning, you would go back and you would use
18 new gas projections to figure out what the headroom was
19 for those.

20 I don't -- what I didn't understand is
21 you also said you would use, look back and see what the
22 actual gas production cost would be. Can you just help
23 me with that?

24 A Well, you actually -- you need to
25 determine did you have additional headroom in the past.

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~~