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**PUC DOCKET NO. 29801  
SOAH DOCKET NO. 473-04-6558**

**APPLICATION OF SOUTHWESTERN §  
PUBLIC SERVICE COMPANY FOR: § PUBLIC UTILITY COMMISSION  
(1) RECONCILIATION OF ITS FUEL §  
AND PURCHASED POWER COSTS §  
FOR 2002 AND 2003; AND § OF TEXAS  
(2) RELATED RELIEF §**

**DIRECT TESTIMONY IN SUPPORT OF THE NON-UNANIMOUS STIPULATION**

**of  
KAREN ROBERTS  
on behalf of  
SOUTHWESTERN PUBLIC SERVICE COMPANY  
(Filename: 7F8.doc; Total Pages: 14)**

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**Glossary of Acronyms and Defined Terms**

<b>Acronym/Defined Term</b>	<b>Meaning</b>
Commission	Public Utility Commission of Texas
e prime	e prime Inc.
NUS	Non-unanimous Stipulation filed April 25, 2005
OPC	Office of Public Utility Counsel
PFD	Proposal for Decision
Reconciliation Period	January 1, 2002, through December 31, 2003
SO <sub>2</sub>	Sulfur dioxide
SPS	Southwestern Public Service Company
TUCO	TUCO Inc.

1           **DIRECT TESTIMONY IN SUPPORT OF THE NON-UNANIMOUS**  
2                           **STIPULATION OF KAREN ROBERTS**

3                           **I.       INTRODUCTION AND ASSIGNMENT**

4    Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

5    A.    My name is Karen Roberts. My business address is 600 S. Tyler Street, Amarillo,  
6           Texas 79101.

7    Q.    ARE YOU THE SAME KAREN ROBERTS WHO FILED DIRECT  
8           TESTIMONY IN THIS DOCKET?

9    A.    Yes.

10   Q.    HAS YOUR TITLE AND POSITION CHANGED SINCE YOUR DIRECT  
11          TESTIMONY WAS FILED IN THIS PROCEEDING?

12   A.    Yes. In April 2005, I assumed my current position of Regulatory Fuel Consultant.  
13          As Regulatory Fuel Consultant, I am responsible for development and preparation  
14          of regulatory fuel cost recovery projects for SPS. Additionally in this capacity, I  
15          assist other business units in interpreting and applying commissions' fuel-related  
16          rules and procedures in all the jurisdictions that SPS serves.

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**II. ASSIGNMENT**

Q. WHY ARE YOU FILING THIS TESTIMONY?

A. I am filing this testimony to describe portions of the Non-Unanimous Stipulation (NUS) between Southwestern Public Service Company (SPS), the Staff of the Public Utility Commission of Texas (Commission), the City of Amarillo, Canadian River Municipal Water Authority, and West Texas Municipal Power Agency as it relates to SPS's agreement to: (1) treat its coal costs consistent with P.U.C. SUBST. R. 25.236 (a)(1) by placing TUCO Inc.'s (TUCO) costs that would traditionally be non-eligible fuel expenses in base rates in SPS's next base rate case; (2) withdraw its request to raise the target coal inventory levels established in Docket No. 19512; (3) symmetrically account for the litigation expenses and the property tax refund in the reconciliation period at issue in this case; (4) credit to eligible fuel expense 100 percent of the margins and operation and maintenance expense included in the purchase price of natural gas purchased from SPS's affiliate, e prime Inc. (e prime); and, (5) the treatment of SO<sub>2</sub> emission credits.

1                                   **III.     TREATMENT OF COAL COSTS**

2     Q.     PLEASE DESCRIBE SPS'S AGREEMENT TO PLACE TRADITIONALLY  
3             NON-ELIGIBLE COAL COSTS IN BASE RATES.

4     A.     In SPS's next base rate case that it has agreed to file no later than May 31, 2006,  
5             SPS will include in its base rates all components of the cost of coal paid to TUCO  
6             that would traditionally be regarded as non-eligible fuel expense pursuant to  
7             P.U.C. SUBST. R. 25.236(a)(1) if SPS took title to the coal at the mine as is typical  
8             for most utilities purchasing coal. Thereafter, only costs for coal incurred prior to  
9             delivery to the generating plant site will be included in SPS's eligible fuel  
10            expense for coal unless alternative treatment of coal costs is justified by special  
11            circumstances pursuant to P.U.C. SUBST. R. 25.236(a)(6).

12    Q.     HOW WILL THIS PROVISION BENEFIT SPS'S TEXAS RETAIL  
13             RATEPAYERS?

14    A.     This provision will align SPS's treatment of fuel expenses consistent with the fuel  
15             rule and in harmony with the manner in which the fuel rule is applied to other  
16             utilities in Texas. Further, this provision will avoid future disputes regarding the  
17             proper classification of the various components of the price of coal paid to TUCO  
18             as eligible fuel expense. Under the current treatment of TUCO's coal costs,  
19             customers have a true comparison of coal costs and gas costs (*i.e.*, SPS's gas costs  
20             are costs delivered to the plant header and SPS's coal costs are costs delivered to  
21             the bunker) whereas, under the agreed upon change an apples to apples  
22             comparison of gas costs and coal costs will be difficult for the customers.  
23             However, the enhanced administrative consistency and uniformity in the

1 application of the fuel rule will reduce the potential for controversy and thus  
2 benefit SPS's Texas retail customers.

1                                   **IV.     TREATMENT OF COAL INVENTORY**

2     Q.     PLEASE EXPLAIN THE NUS RELATING TO SPS'S AGREEMENT TO  
3             WITHDRAW ITS REQUEST TO INCREASE COAL INVENTORY LEVELS.

4     A.     SPS has agreed to withdraw its request to increase coal inventory levels by ten  
5             additional burn days and to maintain the target coal inventory levels established in  
6             Docket No. 19512. As a part of this agreement, the NUS provides that if SPS  
7             finds that it is necessary to exceed these target inventory levels, then SPS may  
8             recover the additional coal inventory carrying cost in a future fuel reconciliation  
9             proceeding upon demonstrating that such action was financially beneficial to  
10            customers or was prudent to protect customers.

11    Q.     HOW DOES THIS AGREEMENT BENEFIT SPS'S RETAIL CUSTOMERS?

12    A.     Having the latitude to exceed the 35 burn day target level if the risk of coal supply  
13             or delivery disruption is perceived to be too great, coupled with the ability to  
14             recover the additional coal inventory carrying cost in a future fuel reconciliation  
15             proceeding upon showing that such action was financially beneficial to SPS's  
16             customers or that the action was prudent to protect SPS's customers is in the best  
17             interest of the ratepayers. SPS's ability to apply prudent judgment concerning the  
18             appropriate coal inventory level in light of volatile changes in the coal and coal  
19             transportation markets rather than rigidly adhere to the arbitrarily set 35 burn day  
20             target will enable SPS to provide its customers greater overall fuel cost savings  
21             and reliability of supply.



1                                   **V.     PROPERTY TAX REFUND**

2    Q.    PLEASE EXPLAIN HOW THE NUS ADDRESSES THE TREATMENT OF  
3           THE LITIGATION EXPENSE AND THE ASSOCIATED PROPERTY TAX  
4           REFUND.

5    A.    The NUS provides for symmetrical regulatory treatment for the litigation expense  
6           incurred by TUCO to obtain the property tax refund (including the 25 percent of  
7           the litigation expenses incurred in 2004) and the entirety of the refund amount  
8           (including the amounts refunded in 2004) within the 2002-2003 Reconciliation  
9           Period.

10   Q.    WHAT BENEFIT WILL THIS REGULATORY TREATMENT PROVIDE TO  
11           SPS RETAIL CUSTOMERS?

12   A.    This symmetrical regulatory treatment will result in a “matching” of the costs and  
13           the benefits relating to TUCO’s successful challenge of the property tax  
14           valuations imposed by the taxing entities on the Harrington Station coal-handling  
15           facilities. This regulatory treatment will ensure that the same customers who  
16           receive the benefit of the property tax refund will bear the cost incurred to obtain  
17           the refund.

18   Q.    WILL THIS REGULATORY TREATMENT HAVE ANY OTHER EFFECT ON  
19           SPS’S RETAIL CUSTOMERS?

20   A.    Yes. The refund and costs to obtain the refund occurred in 2004. By moving  
21           both the refund and the costs into the Reconciliation Period, eligible fuel costs for  
22           2004 will also be affected.

1       **VI.     PRICE PAID FOR PURCHASES FROM SPS'S AFFILIATE, E PRIME**

2       Q.     PLEASE DESCRIBE HOW THE NUS DEALS WITH THE PRICE SPS PAID  
3             TO ITS AFFILIATE, E PRIME, FOR NATURAL GAS.

4       A.     SPS has agreed to credit to eligible fuel expense the entirety of the profit and  
5             operation and maintenance expenses included in the price paid to e prime for  
6             natural gas. Except for the profit and operation and maintenance expenses all  
7             expenditures by SPS for natural gas purchased from e prime are eligible fuel  
8             expenses.

9       Q.     HOW DOES THIS PROVISION BENEFIT SPS'S RETAIL CUSTOMERS?

10      A.     P.U.C. SUBST. R. 25.236(a)(1) prohibits the recovery of an equity return or profit  
11             for fuel purchases from an affiliate. The Office of Public Utility Counsel (OPC)  
12             disputed both the profit and operation and maintenance expenses included in the  
13             price that SPS paid to its affiliate, e prime, for purchases of natural gas. SPS  
14             agreed to credit the profit component included in the price paid to comply with  
15             the Commission's rules concerning affiliate transactions, but contended that the  
16             operation and maintenance expenses were reasonable and necessary and not  
17             precluded by the affiliate transaction rules. Through negotiation and compromise  
18             SPS agreed in the NUS to credit to eligible fuel expense both the profit and  
19             operation and maintenance expense components of the price paid to e prime.

1 Q. DOES THE NUS ADDRESS THE REDUCTION FROM ELIGIBLE FUEL  
2 EXPENSE THAT RESULTS FROM THE APPLICATION OF THIS  
3 COMPROMISE POSITION TO THE RECONCILIATION PERIOD?

4 A. Yes. The reduction in eligible fuel expense is included in the "black box"  
5 settlement amount in Section 1 of the NUS.

1 **VII. SO<sub>2</sub> EMISSION CREDITS**

2 Q. DOES THE NUS ADDRESS SO<sub>2</sub> EMISSION ALLOWANCES?

3 A. Yes. OPC had contended in this proceeding that SPS should reduce eligible fuel  
4 expense by the proceeds from its sale of SO<sub>2</sub> emission allowances. SPS  
5 contended that SO<sub>2</sub> emission allowances were not fuel, and the PFD held in SPS's  
6 favor. The NUS adopts OPC's position and provides that SPS will credit the  
7 Texas-jurisdictional portion of proceeds from sales of SO<sub>2</sub> credits to eligible fuel  
8 expense. Carrying forward the symmetry argument advanced by OPC, the NUS  
9 further provides that in the future SPS may recover as eligible fuel expense the  
10 reasonable and necessary cost it incurs to purchase in the open market any SO<sub>2</sub>  
11 credits needed by SPS to satisfy SO<sub>2</sub> allowance obligations.

12 Q. DOES THE NUS ADDRESS THE REDUCTION IN ELIGIBLE FUEL  
13 EXPENSE THAT RESULTS FROM THE APPLICATION OF THIS  
14 COMPROMISE POSITION TO THE RECONCILIATION PERIOD?

15 A. Yes. The reduction in eligible fuel expense is included in the "black box"  
16 settlement amount in Section 1 of the NUS.

17 Q. PLEASE EXPLAIN HOW THIS TREATMENT OF SO<sub>2</sub> EMISSION CREDITS  
18 WILL BENEFIT SPS'S RATEPAYERS.

19 A. The treatment of SO<sub>2</sub> emission credits as set forth in the NUS will benefit SPS's  
20 ratepayers by providing for a timelier accounting for sales and purchases of SO<sub>2</sub>  
21 emission credits.

**VIII. CONCLUSION**

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2 Q. ARE THE PROVISIONS IN THE NUS ADDRESSED IN YOUR TESTIMONY  
3 FAIR, JUST AND REASONABLE AND IN THE PUBLIC INTEREST?

4 A. Yes. The provisions in the NUS that I have described are fair, just, and  
5 reasonable and in the public interest.

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7 A. Yes.

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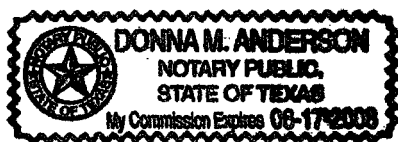
**Affidavit**

STATE OF TEXAS       )  
                                  )  
COUNTY OF POTTER    )

KAREN ROBERTS, being first duly sworn, deposes and states that she is the witness identified in the foregoing prepared testimony, that she has read the testimony and is familiar with its contents, and that the facts set forth are true.

Karen Roberts  
KAREN ROBERTS

Subscribed and sworn to before me this 8 day of June 2005 by KAREN ROBERTS.

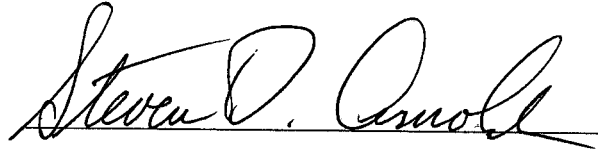


Donna M. Anderson  
Notary Public, State of Texas

My Commission Expires: 6/17/2008

### **CERTIFICATE OF SERVICE**

I certify that on the 9<sup>th</sup> day of June 2005, a true and correct copy of the foregoing instrument was served on all parties of record by hand delivery, Federal Express, certified mail, or facsimile transmission.

A handwritten signature in black ink, reading "Steven D. Arnold". The signature is written in a cursive style with a horizontal line underneath the name.