

**Before the Minnesota Public Utilities Commission
State of Minnesota**

**In the Matter of the Application of Northern States Power Company d/b/a/ Xcel
Energy for a Certificate of Need Authorizing and Extended Power Uprate and
Additional Dry Cask Storage at the Prairie Island Nuclear Generating Plant**

**MPUC Docket Nos. E-022/CN-08-509
E-002/CN-08-510
E-002/GS-08-690
OAH Docket No. 7-2500-19797-2**

**Direct Testimony of Marshall Hallock
on behalf of the City of Red Wing, Minnesota**

April 30, 2009



I. Introduction and qualifications

Q: Please state your name, occupation, and business address.

A: My name is Marshall Hallock. I am the Finance Director for the City of Red Wing, Minnesota. My business address is 315 West Fourth Street, Red Wing, Minnesota, 55066.

Q: On whose behalf are you providing this testimony?

A: I provide this testimony on behalf of Red Wing, Minnesota (the "City") in support of its intervention into the proceedings before the Minnesota Public Utilities Commission ("PUC").

Q: Can you please describe your education, training and professional background?

A: I graduated from the University of Minnesota Carlson School of Management in 1996 with a Bachelor of Science Degree in Business. In 1998, I became a Certified Public Accountant. From approximately 1996 through 1999, I worked for the Minnesota Office of State Auditor. In my job with the State Auditor, I was responsible for both municipal and county audits. In 2000, I became the Finance Director for the City of Red Wing.

Q: Can you please describe your duties and responsibilities as the Finance Director?

A: As the Finance Director I am primarily concerned and responsible for directing the financial activities of the City. This includes providing leadership, guidance, technical expertise, and team coordination to support implementation of the City's legislative and strategic fiscal initiatives in the areas of fiscal initiatives in the areas of fiscal management, budget analysis, financial reporting control, and auditing.

1 Q: What is the purpose of your testimony?

2

3 A: The purpose of my testimony is to provide background information and facts related
4 to the City of Red Wing's financial position in regards to the Certificates of Need
5 applied for on behalf of Xcel Energy for the Prairie Island Nuclear Generating Power
6 Plant (PINGP). Specially, as the host community to a dual reactor nuclear power
7 plant, Red Wing has distinct and unique public health, safety, welfare and financial
8 interests and concerns that require consideration by the "PUC" in determining
9 whether any conditions should be imposed on the pending Certificates of Need.
10 These translate, in part, to a responsibility that the City has to its citizens in general
11 and Xcel Energy in particular to maintain and provide effective police, emergency
12 management, ambulance and fire services to respond to any incidents at the plant.
13 As addressed later in this testimony, the City is the first and primary responder to any
14 incident at the Plant under any emergency scenario.

15

16 Q: What are the City of Red Wing's goals in regards to Xcel's Application for the
17 Certificates of Need pending before the PUC?

18

19 A: While the City of Red Wing remains committed to assisting Xcel in maintaining its
20 operation and employment based within the Community, it needs to balance that
21 interest with the interests of the community as a whole. This also needs to balance
22 with the true costs associated with the operation of the PINGP facility. The City's
23 ultimate goal is to ensure that the environmental, social and economic impacts of the
24 proposed Uprate and Additional Dry Cask Storage on the community's residents and
25 Xcel's rate payers be appropriately considered and addressed. Red Wing shares
26 numerous common concerns with Xcel that both parties must continue to work
27 collaboratively on to address and resolve. As the Finance Director, at the forefront
28 on these issues is ensuring that the actual and potential economic costs to the City of
29 Red Wing are considered by the PUC in connection with the pending Applications
30 for Certificates of Need. As is set out, numerous and significant costs are being
31 placed exclusively upon the City instead of the rate payers or others that benefit from

1 PINGP's continued operations. These considerations must also be properly evaluated
2 through the response plan that Xcel Energy has in place to determine if this satisfies
3 its obligations. The City of Red Wing is committed to protecting the environment as
4 well as the social and economic interests of Red Wing's residents, visitors, those who
5 work in the community, and all who benefit from the Plant's continued operations.
6

7 **II. Public safety services provided by the City of Red Wing for the Prairie**
8 **Island Nuclear Plant.**

9
10 Q: Does the City of Red Wing provide public safety services for the Prairie Island
11 Nuclear Plant?

12
13 A: Yes.

14
15 Q: Can you please give a general description of the nature of the public services
16 provided by the City of Red Wing?

17
18 A: The City of Red Wing has invested the resources into and developed the necessary
19 public services to respond to the ordinary and routine emergency needs. This
20 includes police, emergency management, fire, ambulance or other emergency
21 services. With Xcel Energy, these public services do not fall into a normal or routine
22 response. Rather, they involve a response capacity necessary for an incident that
23 may include a release from one of the two reactors (or both), the storage systems on-
24 site (pool or dry cask), radiation of the workers on-site and other unique risks
25 associated with a nuclear power generating facility. The City's duties also include
26 securing the site and containing any fire, release or other incident. These critical
27 duties and obligations present unique an entirely different scenarios for our
28 emergency response teams.
29

30 In light on these unique circumstances associated with a nuclear power generating
31 facility, the City has agreed, via a Letter of Agreement dated September 22, 2008

1 (the "Agreement"), to provide certain services at the PINGP in accordance with
2 Northern States Power Company's - Minnesota Emergency Plan. A copy of the
3 Agreement is attached hereto as Exhibit 1 (MH-1). According to the Agreement,
4 City services include ambulances from the fire department so that patients exposed to
5 radiological contamination can be transported to area hospitals. Under the
6 Agreement the City has also agreed to provide fire, rescue and other non-firefighting
7 services in the PINGP's emergency planning zone. This includes such other
8 additional non-firefighting tasks such as spraying radioactive releases and pumping
9 water into the PINGP for refilling and cooling purposes.
10

11 Q: Has the City of Red Wing created a plan to respond to an emergency situation at the
12 Prairie Island Nuclear Generating Plant?
13

14 A: Yes. The City of Red Wing has assisted in the preparation of the City of Red
15 Wing/Goodhue County Emergency Response Plan for the Prairie Island Nuclear
16 Generating Plant (the "Emergency Response Plan"). A copy of the Emergency
17 Response Plan is attached here to as Exhibit 2 (MH-2). According to the Emergency
18 Response Plan, the City of Red Wing has agreed to provide, and is responsible for,
19 "the primary responsibility for meeting the immediate health and safety needs of its
20 citizens in the event of a major emergency/disaster." In all instances, except for the
21 assistance of the Goodhue County Sheriff's Department, the City is primarily
22 responsible for any firefighting or ambulance services that are to be provided -
23 regardless of the severity or nature of the incident.
24

25 Q: How does the Emergency Response Plan fit in with the Agreement or other plans that
26 Xcel Energy has relative to an incident at the Plant?
27

28 A: The Emergency Response Plan is coordinate with Minnesota's Emergency Plan and
29 is coordinate with the NRC's guidelines regarding a response to an incident at that
30 Plant. For each of these plans, it is my understanding that the City is, in all instances,
31 the first responder. As such, the City's firefighters and other public safety personnel

1 are required to provide suppression and support services at the PINGP in the event of
2 an incident. The ambulance crews are required to evacuate any individuals who have
3 been contaminated as a result of any incident. In order to support the Plant, the City
4 will at great expense be required to continue to have the necessary human resources,
5 special equipment and specific training to support an incident at the Plant. As
6 requested by Xcel Energy, this support will have to continue for another twenty years
7 of operations and up to sixty years after that time. Even then, according to the EOS,
8 the spent fuel more than likely will be stored on a temporary long-term basis
9 requiring the City to maintain, at great expense, the necessary human and capital
10 resources, as well as the necessary training for an indeterminate amount of time.
11

12 Q: Can you generally describe some of the training that the City of Red Wing must
13 provide in connection with these services?
14

15 A: The City of Red Wing participates in an annual exercise demonstrating emergency
16 preparedness for responding to potential incidents at the Prairie Island Nuclear
17 Generating Plant. This requires significant ongoing human resources which has
18 resulted in consistently high grades on emergency preparedness evaluations done by
19 the Nuclear Regulatory Agency. These exercises help Red Wing in being prepared
20 for a wide variety of emergencies and is funded, in part, by Xcel Energy.
21

22 Q: Can you describe some of the additional training required by the City of Red Wing's
23 public safety services?
24

25 A: As part of the training, we, as a City, are required to mobilize under the Emergency
26 Response Plan as if there was an emergency.
27

28 Q: Can you quantify the cost to the City of Red Wing for training?
29

30 A: The training is, to the extent not covered by the City's budget, covered by Xcel
31 Energy. However, the vast majority of the true costs are not in the training but in the

1 maintenance of the necessary human and capital resources required to respond in the
2 event of an incident at the plant. The City currently faces critical budgetary issues
3 that threaten, by 2010, the loss of significant public safety resources including 5 full-
4 time sworn police officers and 3 firefighter-paramedic positions. These are not the
5 type of costs directly covered by Xcel Energy.
6

7 **III. The City of Red Wing's current budget considerations and issues.**
8

9 Q: Can you please provide a brief overview of the history of the source of funding for
10 the public services provided by Red Wing?
11

12 A: Red Wing, like many Minnesota cities, has relied upon a variety of revenue sources
13 to meet its obligation to provide and maintain public services. For Red Wing in
14 particular it is relied upon property taxes, state-paid local government aids and other
15 fees and miscellaneous revenues.
16

17 However, unlike most Minnesota cities, Red Wing has a wide variety of unique and
18 special obligations, risks and exposures due to the fact that the PINGP, with its two
19 nuclear reactors, are within the city limits. As a result, the public services have been
20 more robust and comprehensive than would normally be expected.
21

22 In the past, Xcel Energy has paid its proportional share of the property taxes.
23 However, and as described in my subsequent testimony, Xcel Energy has
24 implemented and successfully executed actions whereby Xcel has drastically reduced
25 the proportional share of property taxes paid by the PINGP. The result has been a
26 precipitous drop in the property taxes paid by Xcel Energy and received by local
27 taxing jurisdictions. From 1995 to current the property taxes paid on the Prairie
28 Island Nuclear Generating Plant to the local units of government has decrease from
29 approximately \$23.5 million to \$9.9 million. This is a \$13.6 million decrease in the
30 annual property taxes paid on the PINGP facility.
31

1 For Xcel Energy, the ability to reduce property taxes has been a significant and well
2 publicized accomplishment. Xcel Energy has specifically pointed out its success in
3 reducing property taxes and the increased return to its shareholders as a result of the
4 same. While the actions have benefited Xcel's shareholders it has come at the cost of
5 the citizens of Red Wing and the critical public services necessary to support the
6 PINGP's operations. The significant erosion of the tax base and subsequent property
7 taxes paid on the PINGP facility has and will continue have a direct impact on the
8 City's ability to respond to any incident at the Plant and the City's ability to honor its
9 commitments to protecting the environment as well as the social and economic
10 interests of Red Wing's residents, visitors, those who work in the community.
11

12 Q: As a result in this drop of revenue, has Xcel Energy offered any additionally revenue
13 replacement or sources to the City?
14

15 A: Yes. In 2006 the Department of Revenue was amending its Rules governing
16 Valuation and Assessment of the Property of Utility Companies (chapter 8100).
17 These rule changes were estimated by the Department of Revenue to reduce the
18 valuation of electric utilities, including PINGP, by 26.9% and subsequently reduce its
19 property tax contribution to the local taxing jurisdictions. This reduction was
20 estimated by the DOR to result in an 11% decrease in the City's total tax capacity
21 and create another tax shift onto residential properties increasing residential property
22 taxes by 6.7%. It should be noted that these changes, which were implemented in
23 2007, have a three year phase-in. The effect is that the full impact of these will not
24 be felt by the City until 2010. As a result of the proposed rule change and the
25 negative consequences aforementioned Xcel Energy and the City negotiated and
26 entered into an agreement generally referred to as a stabilization agreement (the
27 "Stabilization Agreement") whereby Xcel Energy would provide certain funds to
28 make up for the loss of property tax revenue due to the rule change.
29

30 Q: What is the current status of the Stabilization Agreement?
31

1 A: That Stabilization Agreement was terminated in 2008. Termination of the
2 Stabilization Agreement occurred when the State created the Utility Transition Aid
3 Program to provide funding for cities host to base-load power plants to make up for
4 the loss of property tax revenues stemming from the Department of Revenue's rule
5 change. However, the State currently has a multi-billion dollar deficit. Actions and
6 proposals to address the deficit by both the governor and the legislature eliminate the
7 City's receipt of Utility Transition Aid, Local Government Aid and reduce other
8 state-paid local government aids to the City. With the proposed elimination of the
9 state funding for the Utility Transition Aid, the City will have no means by which to
10 make up the deficit created by Xcel's Energy's ability to successfully reduce its real
11 estate taxes.

12
13 Q: Can you explain the current considerations and issues facing the City of Red Wing in
14 regards to its budget?

15
16 A: Due to the current budget crisis, all aspects of City operations, like all cities
17 throughout the State, are being evaluated for reduction or outright elimination.
18 Public safety services currently provided by the City of Red Wing include police,
19 emergency management fire, ambulance and other ancillary services. These
20 departments work directly with Red Wing's larger manufacturing and industrial
21 companies, such as Xcel Energy, to proactively plan for and respond to emergencies.
22 As previously explained, Xcel Energy's emergency plan and related response are
23 unique and impose special costs to the City. In contrast, Xcel Energy, is the one of
24 the largest employers in the City and owns a plant that has a taxable market value in
25 excess of \$384 million. This value is nowhere near what PINGP would be sold for
26 on the open market or the values attached to it as part of these proceedings. Given
27 the current uncertainty regarding the City's revenue sources due to the state budget
28 issues it's not certain that it can continue to finance the public safety services
29 necessary to adequately respond to an incident at the PINGP.

30
31 Q: Please describe the Prairie Island Nuclear Generating Power Plant's contribution to

1 the tax base for the City of Red Wing?

2
3 A: The Prairie Island Nuclear Generating Power Plant's contribution to the Red Wing's
4 tax base has decreased from over 70 percent of Red Wing's tax capacity in the
5 1990's to 34 percent in 2009.

6
7 Q: Can you explain the history of the tax base decrease?

8
9 A: Decades ago, utility companies came to an agreement with Becker, Granite Falls,
10 Oak Park Heights, Cohasset, Hoyt Lakes, Monticello, and Red Wing. In exchange
11 for giving these investor owned utilities authority to build and operate the power
12 plants in their communities, these Minnesota cities were promised that the property
13 taxes generated by the electric power plants would more than offset the
14 complications and special considerations of hosting the plants. For many years, the
15 arrangement worked well. However, in recent years, the utility companies (including
16 Xcel Energy), have sought to maximize their profits by minimizing their property
17 taxes.

18
19 Q: Can you explain how the utility companies have been able to decrease the tax base?

20
21 A: Over the last decade, the utility companies have aggressively lobbied the state
22 legislature to significantly reduce their property taxes. Since 2001, property tax cuts
23 have totaled more than 82 million dollars annually. This reduction has created a
24 significant shift in the property tax burden from the utility properties to residential
25 and other commercial and industrial properties in the communities that host power
26 plants and other utility properties. Attached hereto as Exhibits 3 (MH-3) and 4
27 (MH-4) are summaries of the shift in property taxes within the City of Red Wing.

28
29 Exhibits 3 and 4 illustrate the significant shift in property taxes from utility
30 properties to the residential, commercial, industrial and other properties in the City.
31 Exhibit 3, illustrates the significant property tax shift from the PINGP to the other

1 property classifications from 1996 to 2009. The exhibit illustrates that while the City
2 levy increased approximately \$3.96 million over that time period the property taxes
3 paid by the PINGP decreased approximately \$1.54 million and the property taxes on
4 the remaining properties increased approximately \$5.5 million. Exhibit 4 illustrates
5 this shift as a percentage of all property taxes paid. While the total city levy increased
6 45.55% over that time period the property taxes paid by the PINGP decreased
7 26.61% and the property taxes on the remaining properties increased a staggering
8 188.37%. Because of the significant shift in property tax burdens from the utility
9 property to the other property classifications, the City's ability to raise revenue has
10 greatly decreased. Coupled with the proposed elimination of the City's Utility
11 Transition Aid and Local Government Aid plus significant reductions to other state-
12 paid local government aids the City is facing significant budget problems that will
13 only continue to grow.

14
15 In addition, the utility companies have also been working at the legislature, in courts
16 and at the Minnesota Department of Revenue, to exempt plants and major equipment
17 from property taxes and reduce their property valuations. Through the successful
18 reduction of their property values, the utility companies have received 34 million
19 dollars in property tax relief annually when the Department of Revenue approved
20 new utility valuation rules. The utility's success at reducing their property taxes has
21 resulted in a significant property tax shift onto the host cities other property
22 classifications including commercial and residential properties.

23
24 State wide from 2002 through 2008, residential property taxes have increased 82.4%,
25 commercial property taxes have increased 32.3% while utility property taxes have
26 decreased by 2.8%. More specifically, in Red Wing, from 2002 through 2009, the
27 City's property tax levy has increased 16.17% (2.31% on an annualized basis).
28 However, due to the property tax shifts, non-utility property taxes have increased
29 38.34% while property taxes for utility companies have decreased 11.87%. These
30 shifts have had an impact on a number of entities who rely on property taxes as a
31 primary revenue source not just the City of Red Wing. Attached hereto as Exhibits 5

1 (MH-5), 6 (MH-6), 7 (MH-7), and 8 (MH-8), are summaries that I prepared of the
2 property taxes paid by Prairie Island Nuclear Generating Plant to Goodhue County,
3 the City of Red Wing and the school district for years 1994 through 2008.
4

5 Q: Are there any ramifications facing the City of Red Wing as a result of the decrease in
6 tax base and revenues?
7

8 A: As I mentioned earlier, given the decrease in tax base and revenues, the City of Red
9 Wing is facing a reduction in all public services including public safety services. The
10 proposed reductions include the elimination of 5 police officers, 3 fire fighters-
11 paramedics and other personnel. These reductions are the direct result of a loss of
12 revenue to the City. These reductions are proposed to be effective in 2010 as they
13 can not be sustained given proposed revenue reductions.
14

15 Recently, the City commissioned a study to examine the delivery of its public
16 services and particular, its fire and ambulance services. The study recommended the
17 construction of two new fire stations, including one that is much closer to the PINGP
18 located at the junction of State Highway 19 and Federal Highway 61. The purpose
19 behind this new firehouse, in particular, was to provide a shorter response time to to
20 incidents that may occur in the western portion of the City, including but not limited
21 to, the PINGP. Instead, the City currently has only half of the recommended number
22 of firemen needed to address the study recommendations and, within the next three
23 years, is looking at a reduction in the full time fire department personnel. It should
24 be noted that these personnel, together with paid-on-call firefighters (volunteers) are
25 the same individuals who operate the ambulance services in the City of Red Wing.
26

27 Q: How does this impact the ability of the City to honor its obligations to provide public
28 services to its citizens?
29

30 A: It greatly compromises the ability of the City to offer adequate critical public safety
31 services to its citizens. The police, ambulance and fire departments will all be

1 stretched to meet the needs of the citizens of the City of Red Wing.
2
3 Q: How does this impact the City's ability to meet its obligations under the Agreement,
4 attached as Exhibit 1, and the Emergency Response Plan, attached as Exhibit 2?
5
6 A: Under the current Certificate of Need Application before the Minnesota Public
7 Utilities Commission and the NRC, Xcel Energy is seeking to relicense the plant for
8 an additional twenty years of operation. In addition, it is seeking to uprate the power
9 production from the plant thereby putting additional pressures on an already aged
10 system. While the City has no doubt that Xcel Energy will do its best to operate the
11 plant effectively, efficiently and safely, the risk of incidents happening will increase
12 and the City will be obligated to respond.
13
14 Given the current revenue projections of the City and, assuming that Xcel Energy's
15 Certificates and licensing requests are granted, the City will not be able to provide
16 public safety services at the level expected or required for the operation of a nuclear
17 power plant. For the City, it is not a matter of having Xcel's subsidize the special
18 training or providing the special equipment necessary to respond as is required under
19 the Agreement or the Emergency Response Plan. Rather, it is a matter of simple
20 maintenance: the City will not have sufficient funds to pay for either the basic capital
21 equipment (e.g. fire truck, ambulance) or requisite personnel to support the continued
22 operations of the plant.
23
24 It appears that Xcel is willing to simply shift the responsibility to the other taxpayers
25 of the City. The City, despite its best efforts, can simply no longer support the
26 necessary personnel and equipment to respond to an incident at the PINGP.
27
28 Q: If the City is unable to respond, what do you envision the result to be?
29
30 A: Under the Agreement and the Emergency Response Plan, there are other entities that
31 have an obligation to provide support. However, it is the City's obligation to provide

1 primary support and so any other entity would be required to step in and provide the
2 same. While the Emergency Response Plan is in conjunction with Goodhue County,
3 Goodhue County does not maintain a separate fire or ambulance service. To my
4 knowledge, there are no other cities, other than perhaps Monticello, that train for the
5 type of incidents the City's ambulance crews and firefighters train for. As a result,
6 the secondary support will be provided through the state and federal government.
7 However, that support will take time and effort to muster and there will not be an
8 immediate response to any incident. As a result, any incidents, whether that impact
9 the plant workers or the environment around the plant, will be one in which there will
10 be no immediate timely or appropriate response and the risk to those individuals and
11 environment will be greatly enhanced. The result will be that any event or incident
12 will have a greater chance in spreading and causing socioeconomical and
13 environmental damage.

14
15 Q: How should this be addressed in these proceedings?

16
17 A: As a condition of the Certificate of Need, Xcel Energy should be required to provide
18 adequate funding to the City to provide for the level of public safety services
19 necessary for the continued operations of the PINGP and the storage of the spent
20 nuclear fuel, including the duration of time the spent nuclear fuel remains on-site
21 after the PINGP's closure. This would, at a minimum, be equal to the amounts Xcel
22 Energy currently pays subject to its Settlement with Mdewakanton Dakota Tribal
23 Council at Prairie Island, to the Prairie Island Indian Community.

24
25 Q: Does this conclude your testimony?

26
27 A: Yes
28
29
30
31



9/10/2008

Northern States Power Company-Minnesota
1717 Wakonade Drive East
Welch, MN 55089
Attn: Amy Hass

Letter of Agreement

The Red Wing Fire Department and Northern States Power Company-Minnesota reconfirm the ongoing understanding of the Department's services provided at the Prairie Island Nuclear Generating Plant located within the City of Red Wing's corporate limits. These services are in accordance with Northern States Power Company-Minnesota's emergency plan.

Ambulances from the Fire Department can transport radiological contaminated patients within the service's Minnesota and Wisconsin response areas to Fairview-Red Wing Medical Center. Also, the Department can transport such patients to Regions Hospital in Saint Paul or to other medical facilities as directed by a physician.

In addition, the Department can provide fire, rescue and other non-fire fighting services in the Prairie Island Nuclear Generating Plant's emergency planning zone. The Red Wing Fire Department has various firefighting apparatus including pumpers and an aerial platform. All apparatus can perform both fighting, rescue and less traditional tasks.

Non-fire fighting tasks may include spraying radioactive releases and pumping water into the plant for refilling and cooling purposes. In all cases, such operations can begin once the radiological and security threats are mitigated to insure the safety of both plant personnel and fire fighters.

City of Red Wing

By: *Bonnie Dunning* Date: 9/22/08
Mayor
By: *Kay Kuchelmann* Date: 7/23/08
City Council Administrator
By: *Carol McDuff* Date: 9/22/08
City Council President

Northern States Power Company-Minnesota

By: *John Callahan* Date: 10/2/08
John Callahan, Emergency Planning Manager
Prairie Island Nuclear Generating Plant

EXHIBIT MH - 1