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

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IN THE MATTER OF ADVICE LETTER NO. 1906-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 8-ELECTRIC TARIFF TO REVISE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL ELECTRIC RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE DECEMBER 31, 2022.	**)**	**PROCEEDING NO. 22AL-XXXXE**

**<u>DIRECT TESTIMONY AND ATTACHMENTS OF</u>
<u>RICHARD R. SCHRUBBE</u>**

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

November 30, 2022

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

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DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

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**BEFORE THE PUBLIC UTILITIES COMMISSION
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<u>DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE</u>

I. INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND RECOMMENDATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard R. Schrubbe. My business address is 401 Nicollet Mall, Minneapolis, Minnesota 55401.

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

A. I am employed by Xcel Energy Services Inc. ("XES") as Vice-President of Business Area Finance. XES, which is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel Energy"), provides an array of support services to Public Service Company of Colorado ("Public Service" or the "Company") and the other utility operating company subsidiaries of Xcel Energy.

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. As Vice-President of Business Area Finance, I am responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations, and Corporate Services with respect to budget planning, reporting, and analysis. I oversee the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also responsible for coordinating the benefits operations and maintenance ("O&M") budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. A description of my qualifications, duties, and responsibilities is set forth after the conclusion of my Direct Testimony in my Statement of Qualifications.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My Direct Testimony addresses four topics related to the Company's current employee pension expense and other non-cash employee benefit expense:

1. I support Public Service's request to recover its reasonable and necessary actuarially determined pension and benefit expense, which is composed of:
    - qualified pension expense calculated under Statement of Financial Accounting Standard ("FAS") 87;[1]
    - non-qualified pension expense calculated under FAS 87;

[1] In 2009, FAS 87 was renamed Accounting Standards Codification 715-30, but for the sake of simplicity and continuity with prior cases, I will continue to refer to it in this testimony as "FAS 87." Similarly, I will refer to the other applicable accounting standards by their former FAS designations.

- retiree medical expense calculated under FAS 106; and
- self-insured long-term disability ("LTD") expense calculated under FAS 112;

2. I support the Company's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;
3. I support the Company's request to recover the reasonable and necessary costs incurred for workers' compensation benefits; and
4. I support the Company's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation.

I quantify the amounts of those expenses for the twelve months ending June 30, 2022, which is the Informational Historical Test Year ("IHTY") in this case. I also quantify the amounts for the Test Year, which is calendar year 2023. In addition, I discuss various adjustments for specific items, and I describe the factors that have caused the costs to change since 2021 and since the IHTY.

I also explain that Public Service has accrued a prepaid pension asset, and I describe the Company's request to amortize the prepaid pension asset balance, to include the unamortized balance in rate base, and to earn a return on it at the Company's Weighted Average Cost of Capital ("WACC"). As part of that discussion, I:

- explain what a prepaid pension asset is and how it arises;

- discuss the proposal to amortize the balance of the prepaid pension asset; and
- discuss the rationale for allowing a WACC return on the unamortized prepaid pension asset balance.

Finally, I explain that the Company also has a prepaid retiree medical asset balance, and that the Company seeks to include that asset in rate base and to earn a WACC return on it. The justification for including the prepaid retiree medical asset in rate base and allowing it to earn a WACC return is identical to the justification for allowing the prepaid pension asset to be included in rate base – both assets represent prepayments that are used and useful because they produce earnings that reduce the current benefit expense on a dollar-for-dollar basis. In fact, the earnings on the assets in the Company's Voluntary Employee Beneficiary Association ("VEBA") trust, which includes the prepaid retiree medical asset, currently produce negative retiree medical expense, although Public Service is proposing to set the current retiree medical expense at $0 to avoid increasing the prepaid retiree medical asset. In addition, Public Service is proposing to amortize the balance of the prepaid retiree medical asset over a 15-year period. Under Public Service's proposal, the amortization amount would be approximately $3.1 million per year.

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Commission approve the pension and benefits amounts discussed in my Direct Testimony for inclusion in the cost of service for Public Service. I further recommend that the Commission authorize the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a return on those assets at the Company's WACC. Finally, I recommend that the Commission authorize the Company's proposed amortizations of the prepaid pension asset and prepaid retiree medical asset.

Q. DOES ANY OTHER COMPANY WITNESS ADDRESS ISSUES RELATED TO COMPENSATION AND BENEFITS?

A. Yes. Three other Company witnesses address compensation and benefit issues in their Direct Testimonies:

- Michael P. Deselich supports the Company's request to recover cash and equity compensation paid to employees, including both base pay and incentive compensation, and he explains the plan design changes that the Company has made in recent years to control pension and benefit costs;
- Naomi Koch supports the accumulated deferred income tax ("ADIT") balances associated with the Company's pension and benefit-related balances; and
- Arthur P. Freitas's Cost of Service Study includes the current pension and benefit-related expense, and it reflects the prepaid pension asset and prepaid retiree medical asset amounts that the Company seeks to include in rate base.

Q. ARE YOU SPONSORING ANY ATTACHMENTS AS PART OF YOUR DIRECT TESTIMONY?

A. Yes, I am sponsoring the following attachments:

- Attachment RRS-1, which is a May 2021 Willis Towers Watson ("Willis") actuarial report;
- Attachment RRS-2, which is a May 2022 Willis actuarial report;
- Attachment RRS-3, which contains the requested amount of Electric O&M amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD expense;
- Attachment RRS-4, which includes the requested amount of Electric O&M calculations for active health care;
- Attachment RRS-5, which summarizes the prepaid pension asset calculations;
- Attachment RRS-6, which reflects a 13-month average of the prepaid retiree medical asset balance; and
- Attachment RRS-7, which is a pension tracker schedule.

II. PENSION AND BENEFITS OVERVIEW

Q. PLEASE SUMMARIZE THE PENSION AND OTHER BENEFITS THAT THE COMPANY OFFERS TO ITS ELIGIBLE EMPLOYEES.

A. In addition to the cash and equity compensation discussed by Mr. Deselich, Public Service provides the following non-cash benefits to its employees:

- Pension and other post-employment benefits, which include:
    - a defined-benefit qualified pension plan that provides eligible employees with a defined-benefit amount upon retirement;
    - a non-qualified pension restoration benefit that allows Public Service to attract and retain employees who would otherwise be disadvantaged by the restrictions imposed under the qualified pension plan;
    - a retiree medical plan available to certain employees or former employees; and
    - LTD benefits;
- Active health and welfare benefits, which include medical, dental, pharmaceutical, vision, life insurance, and other miscellaneous benefits;
- Workers' compensation benefits; and
- Other types of benefits, including a 401(k) defined-contribution plan and certain types of deferred compensation.

Q. WHAT ARE THE REQUESTED AMOUNTS OF EXPENSE AMOUNTS FOR EACH OF THE ELEMENTS OF NON-CASH COMPENSATION OFFERED BY THE COMPANY?

A. Table RRS-D-1 (on the next page) sets forth the Electric O&M pension and benefit expense amounts for calendar year 2021; for the twelve-month period ending June 30, 2022, which I refer to as the “IHTY”; and for the Test Year, which is calendar year 2023:

Table RRS-D-1

O&M Categories	2021 Calendar Year	IHTY (12 mos. Ending June 2022)[2]	Adjustments	Test Year
Qualified Pension	15,086,759	$11,839,065	$(6,692,748)	$5,146,317
Nonqualified Pension	705,218	638,821	(399,855)	238,966
FAS 106 Retiree Medical	(1,549,455)	(1,586,349)	797,590	(788,759
Proposed FAS 106 Retiree Medical to Zero	-	1,586,349	(797,590)	788,759
FAS 112 Long-Term Disability (Self-Insured)	54,767	50,788	(43,903)	6,886
Active Health Care[3]	19,279,523	20,729,017	1,182,131	21,911,148
Long-Term Disability (Third-Party-Insured) and Life Insurance	1,128,192	1,130,819	-	1,130,819
Miscellaneous Benefit Programs and Costs	907,360	933,075	-	933,075
401(k) Match	6,812,397	7,135,362	163,415	7,298,777
Miscellaneous Retirement-Related Costs	335,431	331,722	-	331,722
PSCo Share of Joint Venture Costs	520,173	564,756	-	564,756
Workers' Compensation	577,233	831,088	5,285	838,373
Total Pension and Benefits Expense	**$43,857,598**	**$44,184,513**	**$(5,785,675)**	**$38,398,838**

Q. DO THE ELECTRIC O&M AMOUNTS INCLUDE COSTS ATTRIBUTABLE TO BOTH PUBLIC SERVICE AND XES EMPLOYEES?

A. Yes. The Electric O&M amounts include the pension and benefit expense attributable to Public Service employees, and they also include an allocated share of the pension and benefit expense incurred by XES employees.

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[2] The IHTY numbers do not include the Commission-approved regulatory amortizations or tracker balances.

[3] The per book amount for active health care in the cost of service for the twelve months ended June 30, 2022 is $20,101,769. That amount is an estimate, and it must be adjusted to reflect health care claims that were incurred but not reported until after June 30, 2022. After adding the Incurred But Not Reported ("IBNR") amount, which is $627,248, and the known and measurable adjustment that is discussed in Section IV of my Direct Testimony, the requested amount reflects an adjustment of $20,729,017.

Q. DO YOU HAVE ANY OVERARCHING COMMENTS ABOUT THE ELECTRIC O&M EXPENSE THAT PUBLIC SERVICE IS REQUESTING APPROVAL OF IN THIS PROCEEDING?

A. Yes. I believe it is important to recognize that the overall Electric O&M expense for pension and benefits will have declined by approximately $5.6 million between calendar year 2021 and the 2023 Test Year. Most of that decline is due to a forecasted $9.9 million reduction in qualified pension expense, which results from initiatives by the Company to reduce pension and benefit costs and from the extraordinary returns that the Company has earned on its pension assets during the last three years.

III. CURRENT PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. I discuss the actuarially determined amounts requested for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits.

Q. WHAT DO YOU MEAN WHEN YOU REFER TO "ACTUARIALLY DETERMINED AMOUNTS" FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS?

A. Instead of being calculated or forecasted by the Company, the forward-looking amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits are calculated by Xcel Energy's outside actuarial firm, Willis, based on the application of well-established accounting and actuarial standards to Public Service's specific circumstances. For example, Willis calculates Public Service's pension costs using the methods prescribed by Generally Accepted Accounting Principles ("GAAP") and the Actuarial Standards of Practice, but Willis applies an expected return on assets that is based upon the assets in Public Service's own investment portfolio, and it incorporates prior-period gains and losses that reflect Public Service's own investment experience. Willis also uses mortality tables and salary increase assumptions that are tailored to the Company's specific employee population.

A. Qualified Pension

Q. PLEASE DESCRIBE THE COMPANY'S QUALIFIED PENSION PLAN AND THE NATURE OF THE COSTS OF THE PLAN.

A. The qualified pension plan is a traditional defined-benefit pension plan that promises bargaining-unit employees monthly pension annuity payments based upon their level of pay and years of service. The pension plan promises non-bargaining employees a choice of either a lump sum payout or a monthly pension annuity based upon their level of pay and years of service. Under a defined-benefit pension plan, the promised pensions are a commitment by Public Service.

Q. DO ACCOUNTING RULES AND LAWS DETERMINE THE COST FOR PUBLIC SERVICE'S PENSION PLAN?

A. Yes. As I testified earlier, Public Service accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP.[4] However, FAS 87 does not dictate how a company must fund the plan. Funding of a qualified pension plan is based upon prudent business practices, with the following constraints imposed by the requirements of the Internal Revenue Code ("IRC") and the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006:

- There are minimum required contributions;

[4] FAS 87 is one of the Generally Accepted Accounting Principles. Because regulatory accounting must follow specific accounting standards unless superseded by regulatory requirements, FAS 87 is used for regulatory accounting by the vast majority of utility companies.

- There are maximum contributions that can be deducted for tax purposes; and
- The Company has a fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under ERISA, the IRC, and the Pension Protection Act use accrual methodologies, but they are different from the methodology used under FAS 87 to determine pension expense. Over the long run, the cumulative employer cash contributions made to a plan and the cumulative annual pension expense amounts should be equal. But in the short and intermediate runs, there can be significant differences.

Q. WHY ARE THE ANNUAL PENSION COST AND THE ANNUAL FUNDING REQUIREMENTS ESTABLISHED IN ACCORDANCE WITH DIFFERENT STANDARDS?

A. The requirements for funding pension plans differ from the requirements for calculating annual pension costs primarily because FAS 87 is designed to present an accurate picture of a company's annual pension expense for financial accounting purposes, whereas the pension funding requirements reflect different (and sometimes conflicting) goals of the United States Congress. On one hand, the members of Congress want to ensure that the pension plans affecting their constituents are adequately funded. On the other hand, Congress wants to limit the level of tax deductions by employers to avoid worsening the national budget deficit. Over the years, Congress has addressed its two conflicting goals at different times to address specific short-term needs, which has resulted in the following effects:

- Employers of adequately funded plans (as defined in Section 430 of the IRC, as amended by the Pension Protection Act of 2006) generally have flexibility in the amount that can be contributed in any one year so long as the cash contribution falls in the range between the minimum amount required and the amount that is deductible for tax purposes.
- For employers who slip below the threshold of funding adequacy in a given year, a large minimum required contribution can be triggered and benefit restrictions may apply.

Given the differences between FAS 87 and the IRC funding rules, the cumulative accounting expenses and the cumulative cash contributions are rarely equal. As I will explain in more detail later in my Direct Testimony, cumulative cash contributions in excess of the cumulative accounting expenses result in a prepaid pension asset.[5] The prepaid pension asset represents the employer's cash contributions that will be recognized under GAAP as annual pension expense at some time in the future, but that have not been recognized to date.

1. <u>Determination of Annual Pension Costs</u>

Q. HOW IS ANNUAL PENSION COST DETERMINED UNDER FAS 87?

A. Under FAS 87, annual pension expense is composed of the following elements of cost:

(1) the present value of pension benefits that employees will earn during the current year (service cost);

[5] If the annual pension expense recognized under FAS 87 exceeds the pension contributions in a given year, the prepaid pension asset will decline; if the annual pension expense is less than the pension contributions in a given year, the prepaid asset will increase.

(2) increases in the present value of the pension benefits that plan participants have earned in previous years (interest cost);

(3) investment earnings on the pension plan assets that are expected to be earned during the year (expected return on assets or "EROA");

(4) recognition of costs (or income) from experience that differs from the assumptions, such as discount rate changes and actual investment earnings that differ from assumptions (amortization of unrecognized gains and losses); and

(5) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of unrecognized prior service cost).

Q. TAKING EACH OF THESE FIVE COMPONENTS IN ORDER, HOW IS THE SERVICE COST COMPONENT CALCULATED?

A. The service cost component recognized in a period is the actuarial present value of benefits attributed by the pension benefit formula to current employees' service during that period. Actuarial assumptions are used to reflect the time value of money (the discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Q. NEXT, HOW IS THE INTEREST COST COMPONENT CALCULATED?

A. The interest cost component recognized in a fiscal year is determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at a rate equal to the assumed discount rate. Essentially, the interest cost identifies the time value of money by recognizing that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. HOW IS THE THIRD COMPONENT, THE EROA, CALCULATED?

A. As I explained earlier, the Company makes periodic cash contributions to its pension plans. The pension plans invest that cash in a portfolio of assets such as stocks, bonds, real estates, and commodities in order to earn a return. Each year, the Company forecasts the expected long-term rate of return on those assets, which is the EROA. As explained in more detail later, the EROA offsets the service cost and interest cost components of the pension expense calculation, so the amount that Public Service expects to earn on the assets in the pension trust reduces the qualified pension expense charged to customers on a dollar-for-dollar basis.

Q. WITH REGARD TO THE FOURTH COMPONENT, WHAT ARE THE UNRECOGNIZED GAINS AND LOSSES?

A. Gains and losses are categorized as asset gains or losses, which result from changes in the value of the plan assets, or as liability gains or losses, which result from changes in the amount of the projected benefit obligation. Both types of changes result from experience that differs from what was assumed in a prior year or from changes in assumptions. FAS 87 does not distinguish between the sources of gains and losses.

Q. PLEASE DESCRIBE IN MORE DETAIL THE DIFFERENCE BETWEEN ASSET GAINS AND LOSSES, ON THE ONE HAND, AND LIABILITY GAINS AND LOSSES, ON THE OTHER.

A. Asset gains and losses are the differences between the actual return on assets during a period and the EROA for that same period. Suppose, for example, that the Company uses an EROA of 6.5 percent as the expected return on the pension trust assets in a particular year, but the actual return during that year is 8.0 percent. Because the actual return exceeded the EROA, the plan has an asset gain of 1.50 percent in this example. In contrast, if the EROA is 6.50 percent but the actual return is 5.0 percent, the plan experiences an actuarial loss.[6]

Similarly, liability gains and losses are the differences between the actual liability of the pension plan at the end of a measurement period and the expected liability at the end of a measurement period. For example, the plan may assume the discount rate will be 4.0 percent at the end of a period, but it is actually 5.0 percent. In that instance, the plan will experience a liability gain because the higher discount rate means less money must be set aside today to pay tomorrow's pension obligations. In contrast, if the discount rate falls, the plan experiences a liability loss because more money must be set aside to pay future pension obligations.

Q. ARE THE ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES RECOGNIZED IMMEDIATELY UNDER FAS 87?

A. No. FAS 87 does not require recognition of the entire amount of gains and losses as a component of net pension cost in the period in which they arise. Instead, they may be phased in and amortized over a period of years. For example, a plan may phase in a gain or loss over a five-year period, and the portion of the gain or loss that is phased in may also be amortized over a period of years.

[6] In this scenario, the plan does not suffer an actual asset loss. It still has a 5.0 percent gain for the year. But because the actual gain is less than the EROA, the difference is recorded as an actuarial loss.

Q. WHY DOES FAS 87 ALLOW THE PHASE-IN OF GAINS AND LOSSES?

A. The gains in one period may be offset by losses in another, or vice versa. Moreover, some of the gains and losses may be attributable to a refinement in estimates, rather than actual economic gains or losses. Trying to capture all of the gains and losses in a single year would create significant volatility in financial reporting. Phasing in the gains and losses over a period of years avoids much of that volatility.

Q. HOW ARE UNRECOGNIZED GAINS AND LOSSES AMORTIZED?

A. At a minimum, amortization of unrecognized net gains or losses must be included as a component of net periodic pension cost for a year if, as of the beginning of the year, the unrecognized net gain or loss exceeds a “corridor” that is 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the amortization amount is equal to the amount of the unrecognized gain or loss in excess of the corridor divided by the average remaining future service of the active participants in the plan.

Q. TURNING NOW TO THE FIFTH COMPONENT OF THE QUALIFIED PENSION EXPENSE CALCULATION, WHAT IS PRIOR SERVICE COST AMORTIZATION?

A. Plan amendments can change benefits based on services rendered in prior periods. FAS 87 does not generally require the cost of providing such retroactive benefits (prior service cost) to be included in net periodic pension cost entirely in the year of the amendment, but instead provides for recognition over the future years.

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

A. Unrecognized prior service cost is amortized in the same manner as unrecognized gains and losses, with the exception of the 10 percent corridor.

Q. PLEASE SUMMARIZE THE CALCULATION THAT IS REQUIRED TO BE USED UNDER FAS 87 TO QUANTIFY ANNUAL PENSION COST.

A. Annual pension cost is quantified using the five elements of cost listed in Table RRS-D-2:

TABLE RRS-D-2

	Current service cost
+	Interest cost
-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+/-	Amortization of prior service cost
=	Annual pension expense

Q. IS THE ANNUAL PENSION COST PRODUCED BY THIS FORMULA ALWAYS A POSITIVE NUMBER?

A. No. In some years, the EROA and the gains resulting from the difference between expected and actual experience from prior periods can be larger than the combination of the service cost and interest cost, which means that the annual pension expense in that year is *negative*. If that occurs in a test year, customers pay no pension expense at all in rates during the time the rates are in effect, and in fact they receive a credit to the overall cost of service equal to the amount of the negative pension expense.

2. <u>Comparison of Qualified Pension Expense Amounts</u>

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE 2021 CALENDAR YEAR?

A. During 2021, the Company's qualified pension expense was $15,086,759 (Electric O&M).

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE IHTY, WHICH IS THE TWELVE-MONTH PERIOD ENDING JUNE 30, 2022?

A. The qualified pension expense was $11,839,065 million (Electric O&M) during the IHTY. That amount was quantified based on a 2021 actuarial report prepared by Willis and a 2022 actuarial report prepared by Willis. Those documents are Attachments RRS-1 and RRS-2 to my Direct Testimony.

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF FOR THE TEST YEAR?

A. The Company is requesting that the Commission approve $5,146,317 (Electric O&M) of qualified pension expense. That amount is based upon the 2023 qualified pension costs from Willis's June 2022 actuarial report, which is Attachment RRS-2 to my Direct Testimony. Attachment RRS-3 contains the Electric O&M calculations of the qualified pension expense requested amounts.

Q. WHAT FACTORS CONTRIBUTED TO THE CHANGE IN QUALIFIED PENSION EXPENSE BETWEEN 2021 AND THE TEST YEAR?

A. The primary reasons for the change in qualified pension costs from 2021 to the Test Year are:

- favorable asset returns in 2019, 2020, and 2021;
- a decrease in the net gain/loss amortization;
- a reduction in the interest cost arising from lower discount rates;
- plan design changes; and
- contributions to the plans, which increased the asset base upon which the Company earns returns.

These reasons for reduced pension expense are offset to some extent by the loss of prior service credits, reductions to the EROA percentages, and a decrease in discount rates in the requested amount.

Q. PLEASE DESCRIBE THE FAVORABLE ASSET PERFORMANCE THAT LED TO A DECREASE IN QUALIFIED PENSION EXPENSE FROM 2021 TO THE TEST YEAR.

A. Favorable asset performance occurs when actual returns are higher than the EROA for a particular year. That leads to lower pension expense in subsequent years because asset gains are generally phased in over five years. In 2019 and 2020, the Company's actual returns were considerably higher than the EROA. In addition, in 2021 the Company's actual returns were higher than the EROA. Table

RRS-D-3 summarizes the 2020 and 2021 actual returns compared to the EROA for the same time period for the three pension plans that affect Public Service.

TABLE RRS-D-3

Pension Plan	2020/21 Expected Return on Assets	2020 Actual Asset Returns	2021 Actual Asset Returns
Public Service Bargaining	6.50/6.35%	18.25%	8.23%
New Century Energies ("NCE") Non-Bargaining	6.90/6.60%	17.44%	9.36%
Xcel Energy Pension Plan	7.10/6.60%	17.49%	9.32%

Q. PLEASE DESCRIBE THE DECREASE TO THE LOSS AMORTIZATION AND EXPLAIN WHY IT IS LEADING TO REDUCED PENSION EXPENSE FROM THE 2022 HTY TO THE TEST YEAR.

A. The asset and liability gain/loss amortization component has declined due to a number of factors. One reason was the recognition of past losses, including lump sum settlement accounting, which reduced the amortization in the IHTY. Also, the amortization periods, which are the average years of future service for active employees, have continued to increase slightly year over year from 2021 to 2022. The average future service period as of 2022 is used by Willis to calculate the forecasted costs for 2023 and beyond. The amortization periods increased:

- from 11.7 years to 11.9 years for XES employees; and
- from 10.1 years to 10.2 years for Public Service Non-Bargaining employees.

In contrast, the amortization for Public Service Bargaining employees remained consistent at 14.3 years.

Q. HAVE PLAN DESIGN CHANGES CONTRIBUTE TO THE DECREASED PENSION EXPENSE?

A. Yes. There have been two significant changes that have affected bargaining and non-bargaining employees and that have lowered pension cost for Public Service and Xcel Services employees. First, non-bargaining employees hired on or after January 1, 2012 are participants in the 5 percent cash balance plan rather than the Pension Equity Plan.

Second, Public Service bargaining employees hired, rehired or transferred on or after February 21, 2018, into a Public Service bargaining position are participants in the 5 percent cash balance plan rather than the traditional pension formula. As new bargaining employees are hired each year, the Company will continue to see lower costs as new bargaining and non-bargaining employees are enrolled in the lower cost pension benefit plan, resulting in lower service cost each year.

Q. PLEASE DESCRIBE THE INCREASED ASSET BASE RESULTING IN HIGHER ASSET EARNINGS AND EXPLAIN WHY IT DECREASED PENSION EXPENSE.

A. Because of funding requirements mandated by the Pension Protection Act of 2006, the Company has made significant contributions to the pension trust funds in recent years. Those contributions increase assets upon which the Company earns a return, and those returns are an offset to annual pension cost. Thus, the increase in asset base helps to reduce annual pension cost.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO QUANTIFY THE AMOUNT OF QUALIFIED PENSION EXPENSE THE COMPANY IS REQUESTING?

A. Yes. Attachment RRS-3 contains the Electric O&M calculations of the qualified pension expense amounts requested in this case. The source documents for the numbers in Attachment RRS-3 are Attachments RRS-1 and RRS-2.

B. <u>Non-Qualified Pension</u>

Q. WHAT IS THE PURPOSE OF A NON-QUALIFIED PENSION PLAN?

A. A non-qualified pension plan is designed to provide comparable benefits to certain employees whose compensation exceeds the limits provided by tax law for deducting pension-related expense.

Q. HOW DOES A NON-QUALIFIED PENSION PLAN DIFFER FROM A QUALIFIED PENSION PLAN?

A. Qualified plans are those that "qualify" under Section 400 of the IRC, which confers significant tax advantages on both the employer and employee. Those advantages include:

- The employer receives a current tax deduction for contributions to the plan;
- The employee is not taxed on the contributions, but instead is taxed only when he or she receives benefits;
- The plan assets accumulate tax-free until they are distributed; and
- The plan assets are placed in a trust that is beyond the reach of creditors.

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined-benefit plan to $230,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $290,000.

In contrast, there is no statutory restriction on the amount of the benefit that may be offered under a non-qualified pension plan, which is used to restore the amount of retirement benefits that employees lose as a result of the limitations on the qualified plans.

Q. HOW ARE NON-QUALIFIED PENSION COSTS DETERMINED?

A. Non-qualified pension costs are determined under the same standard as qualified pension costs, which is FAS 87. Unlike the qualified pension, however, the non-qualified pension plan does not have trust assets set aside for the payment of the benefit. Therefore, it does not have an EROA. It also does not have prior-period asset gains or losses, although it may have prior-period liability gains and losses.

Q. DOES THE NON-QUALIFIED PENSION BENEFIT REPRESENT AN INCREMENTAL PENSION BENEFIT RELATIVE TO WHAT OTHER EMPLOYEES ARE RECEIVING?

A. No. To the contrary, the non-qualified pension benefit is necessary to ensure that executives and high-level managers receive the same level of pension benefits relative to their cash compensation as other employees. For example, an employee that is not eligible for the non-qualified pension benefit may accrue an annual qualified pension benefit that is equal to 5 percent of his or her cash compensation, but because of the IRC limits on deductibility, a more highly compensated employee may accrue an annual qualified pension benefit that is equal to only 3 percent of his or her cash compensation. The non-qualified pension benefit is necessary to ensure that some employees are not disadvantaged by the IRC limits on deductibility.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING CALENDAR YEAR 2021 FOR NON-QUALIFIED PENSION EXPENSE?

A. The non-qualified pension expense was $705,218 (Electric O&M).

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE IHTY?

A. The non-qualified pension expense during that time period was $638,821 (Electric O&M). Consistent with the qualified pension expense, the Company is asking that incentive compensation be set at target in this case without the 15 percent cap, so the IHTY amount does not include the impact of the cap.

Q. WHAT IS THE REQUESTED AMOUNT OF NON-QUALIFIED PENSION EXPENSE?

A. The Electric O&M non-qualified pension expense that Public Service is requesting for the Test Year is $238,966. That amount is based upon the 2023 costs from Willis's 2022 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHY HAS THE NON-QUALIFIED PENSION EXPENSE CHANGED FROM THE 2021 AMOUNT TO THE TEST YEAR AMOUNT?

A. The primary drivers for the decrease in expense are plan design changes, a decline in the number of employees who are eligible to receive non-qualified pension benefits, and lower loss amortizations. I discussed the non-bargaining plan design changes and lower loss amortizations in connection with the qualified pension discussion.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS NON-QUALIFIED PENSION EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric O&M calculations of the non-qualified pension expense requested amounts. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

C. Retiree Medical

Q. HOW ARE RETIREE MEDICAL COSTS DETERMINED?

A. Retiree medical costs are determined under FAS 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions. The components and calculation of retiree medical expense are identical to the components and calculation of qualified pension expense under FAS 87, with one exception: The qualified pension asset gains and losses are phased into the loss amortization calculation by 20 percent each year, whereas retiree medical asset gains and losses are not.

Q. PLEASE DESCRIBE PUBLIC SERVICE'S RETIREE MEDICAL PLAN AND THE PLAN EXPENSES.

A. The Company's plan consists primarily of retiree medical and pharmacy benefits, but it also includes retiree life and dental insurance. The Company eliminated those benefits for all active non-bargaining employees more than 10 years ago. Moreover, only bargaining employees hired, rehired or transferred to a Public

Service bargaining position prior to July 1, 2003 are eligible for subsidized retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR IN CALENDAR YEAR 2021?

A. During calendar year 2021, the Company's retiree medical expense was $(1,549,455) (Electric O&M).

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING THE IHTY?

A. The Company's retiree medical expense was $(1,586,349) (Electric O&M) for that period. That amount was quantified based on a 2021 actuarial report prepared by Willis and a 2022 actuarial report prepared by Willis. Those documents are being provided as Attachments RRS-1 and RRS-2 to my Direct Testimony.[7]

Q. WHAT IS THE ACTUARIALLY DETERMINED AMOUNT OF RETIREE MEDICAL EXPENSE FOR 2023?

A. The actuarially determined retiree medical expense is $(788,759) for 2023. The Electric O&M amount is reflected in Attachment RRS-3.

Q. WHY HAS THE AMOUNT CHANGED SINCE 2021?

A. The major driver for the increase in expense is due to the expiration of prior service credit amortization bases resulting from benefit changes made to transition retirees to the Medicare exchange. Even with that increase, however, the retiree medical

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[7] For regulatory purposes, Public Service made offsetting adjustments to take the 2022 HTY and Test Year amounts to $0.

expense will still be negative. This increase is offset by the plan design changes I discussed earlier, which reduced the number of employees eligible for retiree medical benefits.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS RETIREE MEDICAL EXPENSE?

A. Yes. Attachment RRS-3 contains the Electric O&M calculations of the retiree medical expense amounts. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF IN THIS CASE?

A. Public Service is requesting approval of $0 of retiree medical expense in this case. That will give rise to a regulatory liability approximately equal to the difference between $0 and the $(788,759) of actual retiree medical expense for the Test Year.

Q. WHY IS PUBLIC SERVICE REQUESTING TO INCLUDE $0 OF RETIREE MEDICAL EXPENSE IN THE COST OF SERVICE THIS CASE?

A. When the annual retiree medical expense is negative in a particular year (i.e., when the EROA and gains from prior periods exceed the other elements of annual retiree medical cost), it reduces the cumulative recognized expense. That increases the difference between the cumulative cash contributions and the cumulative recognized retiree medical expense, which increases the balance of the retiree medical prepaid asset. Public Service acknowledges that prepaid assets have been a contentious issue over the last several years and has worked with the Commission to mitigate the size of the prepaid assets. Recognizing zero retiree medical expense would further this cause and reduce the size of the retiree medical prepaid asset by creating a regulatory liability, which is a reduction to rate base by serving as an offset. The retiree medical prepaid asset is discussed in more detail later in my Direct Testimony.

Q. HAS THE COMMISSION ADDRESSED THE ISSUE OF WHETHER TO INCLUDE $0 OF RETIREE MEDICAL EXPENSE IN RATES, AS OPPOSED TO A NEGATIVE AMOUNT?

A. Yes. In several recent cases, the Commission decided that the amount of retiree medical expense included in rates should be $0, instead of a negative amount.[8]

D. Self-Insured Long-Term Disability

Q. PLEASE DESCRIBE SELF-INSURED LTD IN MORE DETAIL AND EXPLAIN HOW IT IS ACCOUNTED FOR.

A. The LTD costs are attributable to benefits provided by the Company to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment. The Company has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, Public Service provides the benefits to the covered individuals and therefore effectively acts as

[8] Proceeding No. 22AL-0046G, Decision No. C22-0642 at ¶ 95; Proceeding No. 17AL-0363G, Decision No. R18-0318-I at ¶ 230.

the insurer. For the self-insured piece, Public Service is required to accrue for LTD costs under FAS 112, Employers' Accounting for Postemployment Benefits. The FAS 112 accrual represents the forecasted disability benefit payments for employees that are not expected to return to work.

Q. WHICH GROUPS OF EMPLOYEES ARE COVERED UNDER THE SELF-INSURED PLAN AND WHICH GROUPS ARE COVERED UNDER THE THIRD-PARTY-INSURED PLAN?

A. Within the LTD benefit, all employees disabled before January 1, 2008 are covered under the self-insured plan, and all employees disabled on and after January 1, 2008 are covered under a third-party-insured plan.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING THE 2021 CALENDAR YEAR FOR SELF-INSURED LTD BENEFITS?

A. The self-insured LTD benefit cost for the twelve months ending December 31, 2021 was $54,767 (Electric O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COST DID THE COMPANY INCUR IN THE IHTY?

A. The self-insured LTD benefit cost during that time was $50,788 (Electric O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COSTS IS THE COMPANY ASKING THE COMMISSION TO APPROVE IN THIS CASE?

A. The Company is requesting that the Commission approve $6,886 of self-insured benefit costs. That amount is based upon the 2023 costs from Willis's May 2022 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHY HAS THE SELF-INSURED LTD BENEFIT COSTS CHANGED SINCE 2021?

A. The primary cause of the decrease is lower projected liabilities compared to 2021. This is primarily due to favorable experience and fewer participants receiving payments from the plan compared to 2021.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS SELF-INSURED LTD EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric O&M calculations of the self-insured LTD expense amounts requested. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

E. Reasonableness of Public Service's Pension and Other Post-Employment Benefits Expense

Q. ARE THE AMOUNTS OF THE COMPANY'S PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE REASONABLE?

A. Yes. The Company follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other retirement benefits expense amounts. The assumptions and the actuarially calculated total cost amounts are reflected in Attachments RRS-1, RRS-2, and RRS-3, which are the actuarial attachments supporting the requested amounts. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment benefits, is discussed in Mr. Deselich's Direct Testimony.

IV. ACTIVE HEALTH AND WELFARE COSTS

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. I discuss four types of active health and welfare costs: (1) active health care costs; (2) third-party-insured LTD costs; (3) life insurance costs; and (4) miscellaneous benefit costs.

A. Active Health Care

Q. WHAT TYPES OF COSTS ARE INCLUDED IN ACTIVE HEALTH CARE?

A. Active health care costs are all costs associated with providing health care coverage to current employees. The costs include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account contributions, transitional reinsurance fees, trustee fees, and interest income.

Q. WHAT AMOUNT OF ACTIVE HEALTH CARE EXPENSE DID THE COMPANY INCUR DURING CALENDAR YEAR 2021?

A. The active health care expense for the twelve months ending December 31, 2021 was $19,279,523 (Electric O&M).

Q. WHAT AMOUNT OF ACTIVE HEALTH CARE EXPENSE DID THE COMPANY INCUR FOR THE IHTY?

A. The active health care expense incurred during that time was $20,729,017 (Electric O&M).

Q. DOES THE INCURRED AMOUNT MATCH THE PER BOOK AMOUNT OF ACTIVE HEALTH CARE COSTS FOR THAT PERIOD OF TIME?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when Public Service receives a bill for that care.[9] Therefore, the actual amount of active health care expense was not available at the time Public Service recorded its per book amount. Because Public Service needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through the end of the year and estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred but not Reported ("IBNR") reserve. During the following year, Public Service receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO THE PER BOOK AMOUNT?

A. The adjustment to the per book amount is $627,248 (Electric O&M). This adjustment is necessary to reflect the claims costs on an incurred basis. As mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred adjustments to

[9] The difference between the estimated amount and the actual amount is generally not material enough to restate Public Service's GAAP books when the actual amount becomes known.

per book amounts are necessary so that the amount reflects the actual claims incurred and not the estimated claims that were accrued in the period

Q. WHAT AMOUNT IS PUBLIC SERVICE PROPOSING FOR ACTIVE HEALTH CARE COSTS?

A. Public Service is requesting that the Commission approve $21,911,148 for active health care expense. Please refer to Attachment RRS-4.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE ACTIVE HEALTH CARE AMOUNTS REQUESTED IN THIS CASE.

A. The Company first took the adjusted amount as of June 30, 2022 and then applied two known and measurable adjustments to arrive at the requested active health care amount:

1. The Company applied a 5.00 percent increase to the incurred medical amount, which increased costs by $788,763.
2. The Company applied a 10.00 percent increase to the incurred pharmacy amount, which increased costs by $393,369.

These adjustments result in an increase of $1,182,131 to the overall amount.

Q. WHAT IS THE COMPANY'S BASIS FOR USING THE MEDICAL AND PHARMACY HEALTH CARE TREND ASSUMPTIONS DESCRIBED ABOVE?

A. The assumptions reflect Willis's overall expectation of health care cost increases based on survey averages, carrier information, and an analysis of the broad health care market.

B. Third-Party-Insured Long-Term Disability

Q. PLEASE DESCRIBE THE THIRD-PARTY-INSURED LTD COSTS THAT THE COMPANY INCURS.

A. As explained earlier, the Company offers LTD coverage that provides benefits to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment. In a third-party-insured plan, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. The cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year, along with any other miscellaneous costs.

Q. WHAT GROUPS OF EMPLOYEES ARE COVERED UNDER THE THIRD-PARTY-INSURED BENEFIT?

A. As noted earlier, all employees disabled on and after January 1, 2008 are covered under the third-party-insured plan.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING CALENDAR YEAR 2021 FOR THIRD-PARTY-INSURED BENEFITS?

A. The Company incurred $842,240 (Electric O&M) in third-party-insured LTD expense during that time.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING THE IHTY FOR THIRD-PARTY-INSURED BENEFITS?

A. The Company incurred $845,251 (Electric O&M) in third-party-insured LTD expense during that time.

Q. WHY DID THE THIRD-PARTY-INSURED LTD AMOUNT DECREASE FROM 2021 TO THE IHTY?

A. The Company does not know. As explained earlier, the third-party-insured LTD expense is based on the cost of the premium paid to the third-party insurer. The insurer does not disclose its reasons for setting the premium at a particular level.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE EXPENSE FOR THIRD-PARTY-INSURED LTD?

A. No. At this time, Public Service does not have an updated premium for 2023, so it requests that the amount of third-party-insured LTD incurred during the IHTY serve as a reasonable proxy for the Company's third-party insured LTD costs in this case.

C. Life Insurance

Q. PLEASE DESCRIBE THE LIFE INSURANCE COST THAT THE COMPANY INCURS.

A. The life insurance category consists of life insurance premiums and offsetting employee life insurance withholdings. Life insurance is provided to non-bargaining employees at 100 percent of base pay and to Company bargaining unit employees at 50 percent of base pay. Employees also have the option to purchase additional life insurance.

Q. WHAT LIFE INSURANCE BENEFIT EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 2021?

A. During that period, the Company incurred $273,377 (Electric O&M) of life insurance expense.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE IHTY FOR LIFE INSURANCE BENEFITS?

A. During that time period, Public Service incurred $273,080 (Electric O&M) for life insurance benefits.

Q. WHAT FACTORS CONTRIBUTED TO THE DECREASE IN LIFE INSURANCE EXPENSE BETWEEN THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 2021 AND THE IHTY?

A. Life insurance expense decreased slightly between 2021 and the IHTY mainly due to changes in the employee/employer paid portions of the premiums and lower volumes. These decreases were partially offset by increasing wage and salary levels.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE TEST YEAR EXPENSE FOR LIFE INSURANCE?

A. No. As with third-party insured LTD benefits, Public Service does not have an updated premium for 2023. Therefore, the Company asks the Commission to accept the amount incurred for life insurance during the IHTY as a reasonable proxy for costs going forward.

D. <u>Miscellaneous Benefits</u>

Q. WHAT TYPES OF MISCELLANEOUS BENEFIT PROGRAMS DOES PUBLIC SERVICE OFFER TO ITS EMPLOYEES?

A. The types of costs included in the miscellaneous benefit programs and costs category are:

- Tuition reimbursement;

- Employee Assistance Program costs;
- Wellness program costs;
- Costs incurred by the Human Resources Service Center to answer employee retirement or benefit questions;
- Health and welfare plan actuarial and audit fees;
- Administrative fees for short-term and long-term disability plans; and
- Administrative fees for employee flexible spending and health savings accounts.

Q. WHAT AMOUNT DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 2021 FOR MISCELLANEOUS BENEFITS?

A. During that period, the Company incurred $907,360 (Electric O&M) in miscellaneous benefit costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE IHTY FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $933,075 (Electric O&M) for miscellaneous benefits during that time.

Q. WHAT FACTORS CAUSED THE COST TO INCREASE BETWEEN DECEMBER 31, 2021 AND THE IHTY?

A. The miscellaneous benefit costs increased because employees increased their usage of the miscellaneous benefits during the period, which is in line with the increased usage of active health care mentioned above.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE MISCELLANEOUS BENEFITS EXPENSE?

A. No. Public Service is requesting that the Commission approve the amount of miscellaneous benefits incurred during the IHTY. That represents a reasonable proxy of the miscellaneous benefit costs going forward.

E. <u>Reasonableness of Health and Welfare Costs</u>

Q. ARE THE AMOUNTS OF PUBLIC SERVICE'S HEALTH AND WELFARE EXPENSE REASONABLE?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. As Mr. Deselich explains in more detail, Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

V. WORKERS' COMPENSATION EXPENSE

Q. IS PUBLIC SERVICE SEEKING RECOVERY OF THE COSTS ASSOCIATED WITH WORKERS' COMPENSATION BENEFITS?

A. Yes. Public Service is seeking recovery of expense associated with workers' compensation benefits.

Q. PLEASE BRIEFLY DESCRIBE PUBLIC SERVICE'S THIRD-PARTY-INSURED WORKERS' COMPENSATION PROGRAM.

A. For employees who are injured on or after August 1, 2001, all workers' compensation benefits are covered under an insured program. The cost to Xcel Energy for this benefit cost is the insurance premium. In a third-party-insured plan, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year, along with any other miscellaneous costs.

Q. HOW MUCH DID THE COMPANY INCUR DURING CALENDAR YEAR 2021 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During that time, the Company incurred $577,233 (Electric O&M) in third-party-insured workers' compensation benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE IHTY FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During that period Public Service incurred $831,088 (Electric O&M) for third-party-insured workers' compensation benefits.

Q. WHY HAS THE REQUESTED AMOUNT DECREASED SINCE THE END OF CALENDAR YEAR 2021?

A. When the premiums are being calculated, the insurer's actuaries look at three years of loss history. The most recent premium renewal received at the end of 2021 reflected an increase in the three-year loss history, thus resulting in higher premiums. This most recent premium renewal is the basis for the test year level of costs.

Q. DOES PUBLIC SERVICE SELF-INSURE FOR ANY WORKERS' COMPENSATION LIABILITY?

A. Yes. Public Service self-insures for a small portion of its workers' compensation liability. The amount of that liability is actuarially calculated by Willis.

Q. WHAT AMOUNT OF EXPENSE IS PUBLIC SERVICE REQUESTING FOR WORKERS' COMPENSATION BENEFITS?

A. Public Service is requesting recovery of $838,373 of workers' compensation expense.

Q. HOW DID PUBLIC SERVICE ARRIVE AT THE REQUESTED AMOUNT OF WORKERS' COMPENSATION EXPENSE?

A. The Company started with the IHTY workers' compensation expense as a reasonable proxy for its going-forward workers' compensation costs, but the Company increased that amount by $5,285 to reflect higher expected expense attributable to the self-insured portion of the workers' compensation benefit.

Q. IS IT REASONABLE FOR THE COST OF SERVICE TO INCLUDE THE THIRD-PARTY-INSURED WORKERS' COMPENSATION COSTS INCURRED BY PUBLIC SERVICE?

A. Yes. It is appropriate for the cost of service to include these benefits in the cost of service because they reflect a reasonable and necessary level of expense. Xcel Energy's workers' compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

VI. OTHER BENEFIT COSTS

Q. IS PUBLIC SERVICE SEEKING RECOVERY OF ANY RETIREMENT BENEFITS IN ADDITION TO THE ONES DISCUSSED EARLIER?

A. Yes. Public Service is also seeking recovery of 401(k) match costs and miscellaneous retirement-related costs.

A. 401(k) Match

Q. PLEASE BRIEFLY DESCRIBE PUBLIC SERVICE'S 401(K) MATCH PLAN.

A. Public Service's retirement income plan is based on a combination of a defined-benefit pension plan and a 401(k) plan, which is a defined-contribution plan. Unlike some defined-benefit pension plans, Public Service's defined-benefit pension plan is not intended to provide an employee's total retirement income. Rather, the defined-benefit pension plan and 401(k) plan are designed so that the two plans in combination provide retirement income to Public Service and XES employees.

Q. HOW ARE THE 401(K) MATCH COSTS DETERMINED?

A. The 401(k) plan is a defined-contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary, with a maximum match of four percent. For the majority of Public Service's workforce, the employee must contribute eight percent of eligible income for Public Service to contribute the maximum match of four percent of eligible income. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. HOW MUCH DID PUBLIC SERVICE INCUR FOR 401(K) MATCH COSTS DURING THE TWELVE MONTHS ENDING DECEMBER 31, 2021?

A. During that period, the Company incurred $6,812,397 (Electric O&M) in 401(k) match costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE IHTY FOR 401(K) MATCH BENEFITS?

A. During that time period, Public Service incurred $7,135,362 (Electric O&M) for 401(k) benefits.

Q. WHY DID THE 401(K) MATCH COSTS INCREASE BETWEEN THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 2021 AND THE IHTY?

A. The costs increased primarily because 401(k) costs are based on amounts that employees contribute as a percentage of salary. Because salaries increased between 2021 and 2022, the 401(k) match amounts increased as well.

Q. WHAT AMOUNT OF 401(K) EXPENSE IS PUBLIC SERVICE SEEKING TO RECOVER IN THIS CASE?

A. Public Service is seeking recovery of $7,155,534.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE 401(K) AMOUNT REQUESTED IN THIS CASE.

A. The Company first took the 2022 forecasted 401(k) accrual and then applied escalation factors of 6.1 percent and 4.0 percent to the non-bargaining and bargaining employee costs, respectively. This resulted in a known and measurable adjustment of $163,415 to arrive at the proposed amount of $7,298,777. For justification of the merit increase, please refer to Mr. Deselich’s Direct Testimony.

B. <u>Miscellaneous Retirement-Related Costs</u>

Q. WHAT COSTS ARE INCLUDED IN MISCELLANEOUS RETIREMENT-RELATED COSTS?

A. This category includes costs such as 401(k) plan administration fees, compensation consulting and survey costs, retirement plan actuarial and audit fees, and a small amount for the deferred compensation plan.

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING DECEMBER 31, 2021?

A. During that period, the Company incurred $335,431 (Electric O&M) in miscellaneous retirement-related benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE IHTY FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $331,722 (Electric O&M) during the IHTY.

Q. WHY DID THE AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DECREASE BETWEEN DECEMBER 31, 2021 AND THE IHTY?

A. The miscellaneous retirement-related benefits decreased because the Company's use of third-party consultants declined in the IHTY as compared to 2021.

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS IS PUBLIC SERVICE ASKING THE COMMISSION TO APPROVE?

A. The Company requests that the Commission approve recovery of $331,722 for miscellaneous retirement-related benefits. That amount, which was the per book cost during the IHTY, represents a reasonable proxy of miscellaneous retirement-related benefit costs going forward.

C. Reasonableness of Other Benefit Costs

Q. IS IT REASONABLE FOR THE COST OF SERVICE TO INCLUDE THE 401(K) MATCH AND MISCELLANEOUS RETIREMENT-RELATED COSTS INCURRED BY PUBLIC SERVICE?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate the employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

VII. PREPAID PENSION ASSET

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. I describe how a prepaid pension asset is established, and I explain the Company's request in this case to include the prepaid pension asset in rate base and to earn a return at the Company's WACC.

A. Creation of a Prepaid Pension Asset

Q. WHAT IS A PREPAID PENSION ASSET?

A. A prepaid pension asset represents the difference between: (1) the cumulative actuarially determined annual pension expense calculated in accordance with FAS 87 since the plan's inception, and (2) the cumulative cash amounts contributed by the Company to the pension trust fund since the plan's inception.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE DIFFERENCE ARISES?

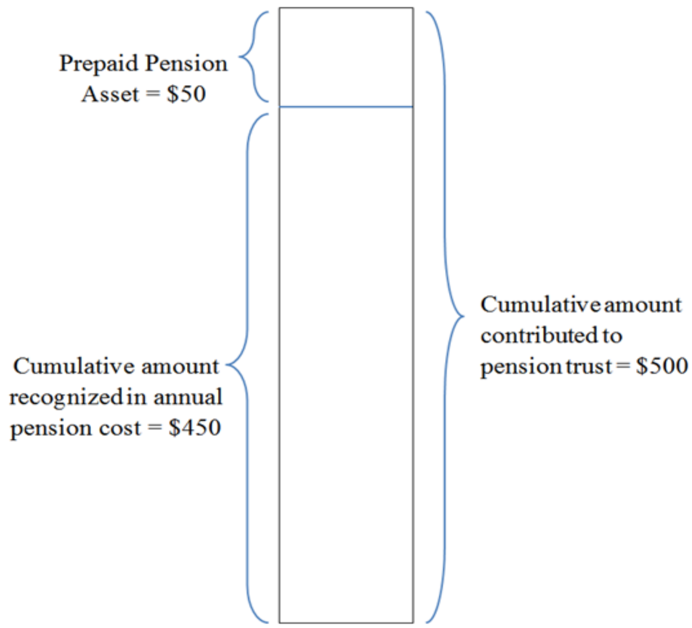
A. Yes. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of the five years has been $100 million, whereas the annual pension expense calculated in accordance with FAS 87 has been $90 million in each of those five years. Table RRS-D-5 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

TABLE RRS-D-5 (amounts in millions)

Year	Pension Contribution	Annual Pension Expense	Cumulative Prepaid Pension Asset
1	$100	$90	$10
2	$100	$90	$20
3	$100	$90	$30
4	$100	$90	$40
5	$100	$90	$50
Total	**$500**	**$450**	**$50**

At the end of the five-year period, the utility has made cumulative cash contributions of $500 million and has recognized cumulative annual pension expense of $450 million under GAAP, which produces a prepaid pension asset of $50 million, as shown in Figure RRS-D-6 below:

FIGURE RRS-D-1[10]



Q. CAN A UTILITY WITHDRAW THE PREPAID PENSION ASSET AND USE IT TO FUND CAPITAL REQUIREMENTS OR TO PAY FOR O&M EXPENSE?

A. No. Federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. After the contributions are made, they are essentially locked away**.**

[10] The amounts in this figure and the other figures in my Direct Testimony are illustrative only. They do not represent Public Service's actual pension trust fund balances or its prepaid pension asset balance.

Q. IS IT ALSO POSSIBLE FOR THE CUMULATIVE RECOGNIZED ANNUAL PENSION EXPENSE TO BE HIGHER THAN THE CUMULATIVE CONTRIBUTIONS?

A. Yes. That leads to an accrued pension liability, which would be subtracted from rate base. In fact, Public Service currently has an accrued liability for its non-qualified pension plan and FAS 112 obligation, and that liability is used to reduce rate base.

B. <u>Rationale for Allowing WACC Return on Prepaid Pension Asset</u>

Q. PLEASE EXPLAIN PUBLIC SERVICE'S REQUEST REGARDING ITS PREPAID PENSION ASSET.

A. Public Service is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on that portion of the rate base at the 7.45 percent WACC that Public Service is asking the Commission to approve in this case.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF THE PREPAID PENSION ASSET IT SEEKS TO INCLUDE IN RATE BASE?

A. Yes. Attachment RRS-5 provides a detailed calculation of the year-end balances of the Legacy Prepaid Pension Asset and New Prepaid Pension Asset for the Public Service electric utility. Attachment RRS-5 also shows a summary of the Legacy and New Prepaid Pension Asset balances that the Company is seeking to include in rate base. The amount the Company is seeking to include in rate base is the net of the Legacy Prepaid Pension Asset, which has an asset balance, and the New Prepaid Pension Asset, which has an accrued liability balance.

Q. DO YOU RECOMMEND THAT THE COMMISSION INCLUDE THE PREPAID PENSION ASSET IN RATE BASE?

A. Yes. The standard ratemaking practice is for prepayments to be included in rate base and to earn a return at the utility's WACC. For example, ADIT balances, which reflect customer prepayments of taxes before they must be paid to the Internal Revenue Service, are subtracted from rate base, effectively earning a WACC return for customers.

Moreover, the prepaid pension asset is a used and useful utility asset because the pension plan earns a return on the prepaid pension asset, and that return reduces the pension expense included in rates on a dollar-for-dollar basis. There is no reason to treat the used and useful prepaid pension asset any differently than other used and useful assets, such as transmission and distribution lines.

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU STATE THAT THE RETURN ON THE PREPAID PENSION ASSET REDUCES THE PENSION EXPENSE INCLUDED IN RATES ON A DOLLAR-FOR-DOLLAR BASIS.

A. As I explained in a prior section of my Direct Testimony, the assets in the pension trust are invested in stocks, bonds, and other asset classes. Under FAS 87, the total amount of the assets in the trust is multiplied by the expected return on those assets (i.e., the EROA), and the resulting amount *reduces* the annual pension expense on a dollar-for-dollar basis.[11] Suppose, for example, that a pension trust has assets of $500 million and is expected to earn a return of 7% in the current year, for an annual return of $35 million. Under those assumptions, $35 million would be included in the annual pension cost calculation as a reduction to pension expense.

Q. DOES THE PENSION TRUST ASSET BALANCE THAT IS MULTIPLIED BY THE EROA INCLUDE THE PREPAID PENSION ASSET?

A. Yes. As shown in Figure RRS-D-2 below, customers receive the benefit of the expected return on the entire amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost.

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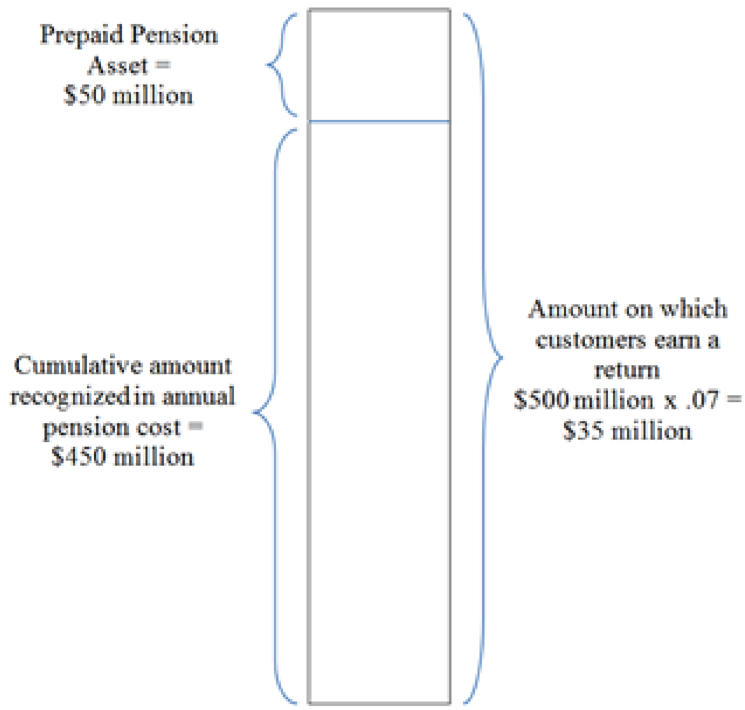
[11] I explained earlier in my Direct Testimony that annual pension expense is calculated in accordance with the following formula:

	Current service cost
+	Interest cost
-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+/-	Amortization of unfunded prior service cost
=	Annual pension cost

FIGURE RRS-D-2[12]



That means all of the assets in the pension trust, including the assets that comprise the prepaid pension asset, are used and useful to Public Service's customers.

Q. PLEASE TURN NOW FROM THE HYPOTHETICAL EXAMPLES YOU HAVE BEEN DISCUSSING TO PUBLIC SERVICE'S ACTUAL PREPAID PENSION ASSET. HOW MUCH ARE PUBLIC SERVICE'S CUSTOMERS SAVING IN ANNUAL PENSION COST AS A RESULT OF THE PREPAID PENSION ASSET?

A. As Table RRS-D-6 below shows, the Company's customers are saving $2,566,478 in annual pension costs because of the return on the prepaid pension asset.

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[12] The amounts in this figure are just examples that have been simplified for ease of understanding.

TABLE RRS-D-6

	Total Company Qualified Prepaid Pension Asset 13-Month Average	Weighted Average EROA	Total Company Cost Reduction from Prepaid Pension Asset
Prepaid Pension for Regulatory Purposes	$40,226,932	6.38%	$2,566,478

Q. PLEASE EXPLAIN THE COMPANY'S REQUEST REGARDING ITS PREPAID PENSION ASSET.

A. Public Service is requesting that the prepaid pension asset, which is $40.2 million, be included in rate base to provide a corresponding return. The calculation to support the prepaid pension asset 13-month average can be found in my Attachment RRS-5.

Q. IF PUBLIC SERVICE HAD AN UNFUNDED ACCRUED COST INSTEAD OF A PREPAID PENSION ASSET, WOULD YOU BE RECOMMENDING THAT AMOUNT BE SUBTRACTED FROM RATE BASE?

A. Yes. In fact, that is the situation with the Company's FAS 112 LTD balance. For that element of cost, the cumulative amount of expense recognized for GAAP purposes is larger than the amount set aside to pay for it. Thus, Public Service has reduced its rate base to reflect the accrued liability.

Q. IS PUBLIC SERVICE'S REQUESTED WACC RETURN ON THE PREPAID PENSION ASSET HIGHER THAN THE EROA RETURN THAT CUSTOMERS EARN ON THE PREPAID PENSION ASSET?

A. Yes. In this case, Public Service's requested WACC is 7.45 percent and the weighted average of the EROA for the Public Service Bargaining Plan and the NCE Non-Bargaining Plan is 6.38 percent.[13]

Q. GIVEN THAT THE WACC IS HIGHER THAN THE EROA, IS IT FAIR TO CUSTOMERS TO USE THE WACC AS THE RETURN ON THE PREPAID PENSION ASSET?

A. Yes. It is fair and reasonable for customers to pay the WACC return for three separate reasons:

1. The Public Service pension plan balance on which customers earn an EROA return is much larger than the balance on which they pay a WACC return.
2. Customers earn a return on the XES prepaid pension asset, but they do not pay any return on that asset because it is not included in rate base for ratemaking purposes.
3. The prepaid pension asset allows the Company to avoid paying incremental Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be added to the pension expense paid by customers.

[13] The EROA for the Public Service Bargaining Plan is 6.35%, and the EROA for the NCE Non-Bargaining Plan is 6.60%. The weighted average of those amounts is 6.38%.

Q. PLEASE EXPLAIN THE FIRST REASON, WHICH IS THAT THE PREPAID PENSION ASSET BALANCE ON WHICH CUSTOMERS EARN AN EROA RETURN IS MUCH LARGER THAN THE BALANCE ON WHICH THEY PAY A WACC RETURN.

A. The 6.38 percent EROA is applied to the full amount of the Public Service prepaid pension asset, which totals approximately $40.2 million on an Electric O&M basis. As shown in Table RRS-D-6, that reduces the pension expense included in rates by approximately $2.6 million per year. In contrast, Public Service's customers are being asked to pay a return on approximately $29.6 million because the net prepaid pension asset included in rate base is reduced by offsets for ADIT and for the unfunded liability associated with FAS 112. Because the balance on which customers earn a return is far larger than the balance on which they pay a return, customers realize a net benefit even when the WACC exceeds the EROA.

Q. THE SECOND REASON YOU LISTED EARLIER IS THAT CUSTOMERS EARN A RETURN ON THE XES PREPAID PENSION ASSET BUT DO NOT PAY A RETURN ON IT. WHAT IS THE BALANCE OF THE XES PLAN PREPAID PENSION ASSET?

A. The 13-month average balance of the XES Plan net prepaid pension asset is approximately $22.4 million. With an EROA of 6.60 percent for the XES Plan, Public Service's customers receive the benefit of $1.5 million of return, and that amount reduces the pension expense included in rates on a dollar-for-dollar basis. Public Service's customers, however, do not pay any return on the XES Plan prepaid pension asset.

Q. THE THIRD REASON YOU LISTED FOR WHY IT IS REASONABLE FOR CUSTOMERS TO PAY A WACC RETURN ON THE PREPAID PENSION ASSET IS THAT THE ASSET ALLOWS PUBLIC SERVICE TO AVOID INCURRING PBGC PREMIUMS THAT WOULD OTHERWISE BE INCLUDED WITHIN THE ANNUAL PENSION COST CHARGED TO CUSTOMERS. PLEASE DESCRIBE THE PBGC.

A. The PBGC is a federal agency established by Congress as part of ERISA to insure pension benefits under private sector defined benefit pension plans. If a pension plan is terminated without sufficient money to pay all benefits, PBGC's insurance program will pay employees the benefits promised under the pension plan, up to the limits set by law. The funding for the PBGC comes partly from premiums charged to pension sponsors and partly from returns on assets held by the PBGC.

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

A. The PBGC charges two types of premiums: (1) a per capita premium that is charged to all single-employer defined benefit plans; and (2) a variable premium charged to underfunded plans. The amounts of the premiums are set by Congress and must be paid by sponsors of the defined benefit plans, such as Public Service.

Q. ARE THE VARIABLE PREMIUMS APPLICABLE TO UNDERFUNDED PLANS INCREASING?

A. Yes. For 2022, the variable-rate premium for a single-employer plan such as that of Public Service is $48 per $1,000 of unfunded vested benefits.

Q. ARE PUBLIC SERVICE'S PENSION PLANS CURRENTLY UNDERFUNDED?

A. Yes. And absent the prepaid pension asset, the plan would be further underfunded.[14]

Q. BY HOW MUCH WOULD THE PENSION PLANS BE UNDERFUNDED IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. In the absence of the prepaid pension asset, the Public Service pension plans would be further underfunded by $40.2 million.

Q. BY HOW MUCH WOULD THE PBGC PREMIUMS INCREASE IN 2022 IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. The PBGC premiums would be approximately $1.6 million higher in 2022 without the prepaid pension asset.

Q. ARE PBGC PREMIUMS INCLUDED IN THE ANNUAL PENSION COST?

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, the existence of the prepaid pension asset avoids the need for Public Service's customers to pay an additional $1.6 million of annual pension expense in 2022.

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[14] As I explained earlier, a plan can be underfunded at the same time it has a prepaid pension asset because they measure different things. The prepaid pension asset is the amount by which cumulative contributions exceed cumulative recognized pension expense. A pension plan is underfunded when its pension benefit obligations exceed the value of its assets.

Q. CAN YOU DEMONSTRATE MATHEMATICALLY THAT, BECAUSE OF THE THREE FACTORS YOU HAVE DISCUSSED, THE COMPANY'S CUSTOMERS ARE BETTER OFF PAYING A WACC RETURN ON THE PREPAID PENSION ASSET THAN THEY WOULD BE IF THE PREPAID PENSION ASSET WERE DISREGARDED ALTOGETHER FOR RATEMAKING PURPOSES.

A. Yes. Table RRS-D-7 shows that the Company's customers receive approximately $2.6 million of benefit as a result of EROA that is applied to the Public Service's prepaid pension asset. In addition, they receive $1.5 million of return on the XES prepaid pension asset, even though they pay no return on that asset. Because of the prepaid pension asset, customers also avoid $2.8 million in PBGC premiums that would otherwise be included in rates. Together, those amounts save customers approximately $6.9 million in annual pension expense that would otherwise be included in base rates.

In contrast, after offsetting the pension-related ADIT and unfunded FAS 112 liability, the net prepaid pension asset included in rate base is $29.6 million. Multiplying that amount by the 7.45 percent WACC requested by Public Service results in a return of approximately $2.2 million. Even when that amount is grossed up for taxes, the total amount paid by customers is which is approximately $3.9 million less than the savings that Public Service's customers realize from the prepaid pension asset.[15]

[15] If the Commission were to approve a WACC lower than 7.45 percent, the disparity between the benefit to customers and the return to Public Service would be even larger.

1 **TABLE RRS-D-7**

Prepaid pension asset balance (excluding the XES prepaid pension asset)	$40,226,932	a
Weighted average EROA for Public Service Bargaining and NCE Non-Bargaining Plans	6.38%	b
Initial return benefit to customers	$2,566,478	a * b = c
Balance of XES prepaid pension asset	$22,403,701	d
EROA for XES prepaid pension asset	6.60%	e
Return on XES prepaid pension asset	$1,478,644	d * e = f
Avoided PBGC premiums	$2,809,404	g
Total annual reduction in rates attributable to prepaid pension assets	$6,854,527	c + f + g = h
Prepaid pension asset net of ADIT and after unfunded liability offsets	$29,575,246	i
Requested WACC	7.45%	j
Requested return on prepaid pension asset	$2,203,356	i * j = k
Tax gross-up factor	1.32612292	l
Total return paid by customers	$2,921,921	k * l = m
Net benefit to customers from prepaid pension asset	$3,932,606	h – m = n

Q. WOULD ALLOWING A WACC RETURN ON THE PREPAID PENSION ASSET BE CONSISTENT WITH COMMISSION PRECEDENT?

A. Yes. In Proceeding No. 22AL-0046G, the Commission allowed the Company to include the Public Service Gas department's prepaid pension asset in rate base and to earn a WACC return on that asset. In addition, the Denver County District Court has found that Public Service's prepaid pension asset is a service-producing asset that is entitled to a return.[16]

[16] *Public Serv. Co. of Colorado v. Public Utilities Comm'n of Colorado*, Case No. 19CV31427, Order (Mar. 12, 2020).

VIII. PENSION-RELATED TRACKING AND REPORTING

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my Direct Testimony, I describe the regulatory tracker created in Proceeding No. 14AL-0660E for qualified pension expense and non-qualified pension expense. I quantify the tracker balance as of the end of the IHTY, and I explain that the Company proposes to continue using the tracker for the rates set in this proceeding. In addition, I describe the reporting requirements approved by the Commission in Proceeding No. 14AL-0660E, and I explain that the Company has complied with those reporting requirements.

A. Pension Tracker

Q. DID THE COMMISSION APPROVE A PENSION EXPENSE TRACKING MECHANISM IN PROCEEDING NO. 14AL-0660E?

A. Yes. The Commission approved a tracker in that proceeding to "ensure that parties pay no more and no less than the costs of the pension."[17]

Q. DID THE COMMISSION CONTINUE THE PENSION TRACKER MECHANISM IN A LATER CASE?

A. Yes. In Proceeding No. 21AL-0317E, the Commission ordered that the pension tracker remain in place.[18]

Q. HAS THE COMPANY COMPLIED WITH THE PENSION TRACKER REQUIREMENT IN THE SETTLEMENT AGREEMENT?

A. Yes. As shown in Attachment RRS-7, the Company has been tracking its qualified

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[17] Proceeding No. 14AL-0660E, Settlement Agreement at 11.
[18] Proceeding No. 21A-0317E, Settlement Agreement at 53.

and non-qualified pension costs against the $15,087,266 baseline established in the 2021 Electric Rate Case.[19]

Q. WHAT IS THE CUMULATIVE BALANCE OF THE PENSION TRACKER?

A. As shown in Attachment RRS-7, the cumulative balance of the tracker is a $(4,771,374) regulatory liability that is owed to the customers. This cumulative balance is made up of $(4,530,599) related to qualified pension expense and $(240,776) related to non-qualified pension expense. The Company proposes to amortize this balance over 24 months. This proposed amortization is further explained in Mr. Berman's Direct Testimony. As shown in Attachment RRS-7, the cumulative balance of $(4.8) million is made up of the following two pieces:

- New tracker activity from January 1, 2021 to June 30, 2022: $(2,088,585)
- Unamortized balance as of August 31, 2023: $(2,682,789)[20]

Attachment RRS-7 shows a breakout of these two pieces between qualified and non-qualified pension.

Q. DOES THE COMPANY PROPOSE TO CONTINUE THE PENSION TRACKER AFTER THE RATES ESTABLISHED IN THIS CASE TAKE EFFECT?

A. Yes. The Company is proposing to continue the tracker going forward for both qualified and non-qualified pension expense. The baselines that Public Service proposes are $5,146,317 for qualified pension expense and $238,966 for non-

[19] The baselines established in proceeding No. 21AL-0317E were $14,410,329 for qualified pension expense and $676,937 for non-qualified pension expense.
[20] The unamortized balance is calculated by taking the amount approved in the proceeding No. 21AL-0317E less 17 months of amortization (4/1/2022 – 8/31/2023). ($(5,083,180) + $2,400,391 = $2,682,789)

qualified pension expense, which are the requested amounts in this case based on the 2023 Test Year.

B. Pension-Related Reporting Requirements

Q. DID THE COMMISSION APPROVE PENSION REPORTING REQUIREMENTS FOR THE COMPANY IN PROCEEDING NO. 14AL-0660E?

A. Yes. The Commission directed Public Service to file annual reports providing actual and forecasted information for the three qualified pension plans that affect Public Service employees.

Q. HAS THE COMPANY COMPLIED WITH THE ANNUAL PENSION REPORTING REQUIREMENTS THAT WERE APPROVED IN PROCEEDING NO. 14AL-0660E?

A. Yes. The Company has filed annual pension reports, including the most recent one filed in April 2022.

Q. IN THE COMPANY'S LAST ELECTRIC PHASE I CASE, THE PARTIES REACHED A SETTLEMENT, AND ONE PROVISION OF THE SETTLEMENT AGREEMENT STATED THAT PUBLIC SERVICE WOULD "MEET WITH STAFF AND OTHER INTERESTED PARTIES AT LEAST TWICE BEFORE FILING ITS NEXT PHASE I ELECTRIC RATE CASE TO DISCUSS METHODS FOR ELIMINATING GROWTH IN THE PREPAID PENSION ASSET AND PREPAID RETIREE MEDICAL ASSET, AND TO DISCUSS THE LONG-TERM PLAN FOR ELIMINATION OF THE OFFSETTING REGULATORY LIABILITIES."[21] HAS THE COMPANY COMPLIED WITH THAT PROVISION OF THE SETTLEMENT?

A. Yes. Public Service met twice with Staff in 2022 to discuss those topics.

C. <u>Prepaid Pension Asset Amortization</u>

Q. IS THE COMPANY REQUESTING THAT THE COMMISSION APPROVE AN AMORTIZATION OF THE PREPAID PENSION ASSET?

A. Yes. The Company requests that the Commission continue the amortization of the prepaid pension asset. Public Service has included approximately $3.6 million of the prepaid pension asset balance in the cost of service as an annual amortization.

[21] Proceeding No. 21AL-317E, Decision No. C22-0178 at 14, ¶ 46 (Mailed Mar. 16, 2022).

IX. PREPAID RETIREE MEDICAL ASSET

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. I address the Company's request to include its prepaid retiree medical asset in rate base and to earn a WACC return on that asset.[22]

Q. WHAT IS A PREPAID RETIREE MEDICAL ASSET?

A. A prepaid retiree medical asset is similar to a prepaid pension asset, except that it represents the difference between: (1) the cumulative annual retiree medical expense calculated under FAS 106 since the inception of FAS 106 accounting requirements starting in 1993;[23] and (2) the cumulative cash outlays to fund benefits under the plan, either through contributions made to the FAS 106 trust by the Company or direct payment of plan benefits over the same period of time.[24] The Company has accrued a retiree medical asset because its direct payments of benefits and its cumulative cash contributions to the VEBA trust collectively exceed the cumulative retiree medical expense recognized under FAS 106 since the inception of the retiree medical plan.

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[22] Retiree medical expense calculated under FAS 106 is sometimes referred as Other Post-Employment Benefits, or "OPEB." To minimize the acronyms in my testimony, I will use the phrase "retiree medical" rather than "OPEB."

[23] Prior to 1992, retiree medical plans were accounted as a "pay-as-you-go" expense, where the annual expense was equal to the cash outlay for the benefits.

[24] The assets of a retiree medical plan are typically held in a VEBA trust, although benefits are not required to be funded exclusively through a trust.

Q. WHAT IS THE FORECASTED PREPAID RETIREE MEDICAL ASSET BALANCE AT DECEMBER 31, 2023?

A. The thirteen-month prepaid retiree medical asset balance is forecasted to be $46,652,986 on a Public Service Electric O&M basis.[25] That is the amount the Company seeks to include in rate base. Please refer to Attachment RRS-6.

Q. DO CUSTOMERS BENEFIT FROM THE RETIREE MEDICAL ASSET?

A. Yes. The return on the assets in the VEBA trust reduces the retiree medical expense included in the cost of service. In fact, as I testified earlier, the retiree medical expense was negative during the twelve-month period ending June 30, 2022, and it is expected to be negative going forward. Therefore, it is reasonable to include the retiree medical asset in rate base and for the Company to earn a WACC return on it.

Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT THE PREPAID RETIREE MEDICAL ASSET RESULTS FROM NEGATIVE RETIREE MEDICAL EXPENSE. PLEASE EXPLAIN WHAT NEGATIVE RETIREE MEDICAL EXPENSE IS.

A. Similar to pension expense, the annual retiree medical expense is the net of five cost components:

1. Current service cost;
2. Interest cost;
3. EROA;
4. Amortization of loss/(gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods; and

[25] Public Service uses a thirteen-month average because the balance of the prepaid retiree medical asset varies from month to month.

5. Amortization of prior service cost/(credit).

Negative retiree medical expense refers to the circumstance in which the combination of the EROA, the prior-period gains (if any) and the amortization of prior service credit is greater than the combination of the current service cost, the interest cost, and the prior-period losses (if any). In the Company's case, the amortization of prior service cost/(credit) is an offset to expense due to changes the Company has made to reduce benefit levels.

Q. HAS THE COMPANY HAD NEGATIVE RETIREE MEDICAL EXPENSE IN RECENT YEARS?

A. Yes. Public Service has had negative retiree medical expense since 2014. Prior to that, Public Service had positive retiree medical expense.

Q. WHAT HAS CAUSED THE RETIREE MEDICAL EXPENSE TO BE NEGATIVE?

A. The negative retiree medical expense for Public Service is primarily due to two reasons:

1. The Company has reduced the retiree medical benefit levels over time, resulting in reduced liabilities and lower retiree medical expense. However, the Company continued to fund the benefits as required under a 1991 rate order. In that order, the Company was required to fund the amounts recovered in rates into the trust. Contributions to the trust have been $0 since the retiree medical expense became negative; and
2. Due to the funding of the plan, the expected return on the retiree medical assets has been greater than the sum of the other components of retiree medical cost. Stated simply, the combination of the amortization of prior

service credit due to the reduced benefits and the assumed investment return on the plan assets was greater than the cost elements in the plan's expense.

Q. FOR RATEMAKING PURPOSES, DOES IT MAKE A DIFFERENCE WHETHER THE PREPAID RETIREE MEDICAL ASSET IS DERIVED FROM PUBLIC SERVICE CONTRIBUTIONS OR FROM NEGATIVE RETIREE MEDICAL EXPENSE?

A. No. Similar to a prepaid pension asset, there is no question that customers reap the benefit of that prepaid retiree medical asset because it remains in the trust and customers earn a market return on it. That market return is used to lower annual retiree medical expense, reducing the retiree medical expense included in the cost of service.

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S REQUEST TO INCLUDE THE PREPAID RETIREE MEDICAL ASSET IN RATE BASE?

A. Yes. The reasons that I discussed in connection with the prepaid pension asset also apply to the retiree medical asset:

- The retiree medical asset is a prepayment by the Company, and it should be treated consistently with other prepayments, such as cash working capital and ADIT; and
- Customers effectively earn a market return on the retiree medical asset because the EROA reduces current annual retiree medical expense, and therefore the prepaid retiree medical asset is a used and useful utility asset.

Q. IS PUBLIC SERVICE PROPOSING A MECHANISM TO REDUCE THE SIZE OF THE PREPAID RETIREE MEDICAL ASSET?

A. Yes. In the Company's most recent gas rate case, which was Proceeding No. 22AL-0046G, the Commissioners indicated during deliberations that they would welcome a mechanism to reduce the size of the prepaid retiree medical asset. Public Service is offering the amortization proposal in response to that invitation from the Commissioners. Accordingly, Public Service is proposing to create a new 15-year amortization of the prepaid retiree medical asset. The Company is requesting to amortize the forecasted 13-month average balance as of December 31, 2023, which is $46,652,986, over 15 years. That would result in a $3,110,199 annual prepaid retiree medical asset amortization expense.

X. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS REGARDING THE PENSION AND BENEFIT COSTS THAT YOU SUPPORT IN THIS CASE?

A. Yes. The pension and benefit requested amounts that I am supporting are reasonable and necessary costs of providing service to Public Service's customers, and therefore they should be included in the Company's revenue requirement. As I explained earlier in my Direct Testimony, the Company's overall pension and benefit expense has declined significantly since 2021, in large part because of the steps the Company has taken to modify its pension and benefit programs and because of very high returns on pension assets.

The Commission should also allow the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a regulatory return on those assets at the Company's WACC. Prepayments are routinely added to or subtracted from rate base, and there is no valid reason to treat the prepaid pension asset and prepaid retiree medical asset differently. In addition, customers realize a benefit from the assets in the form of earned market returns that reduce pension and retiree medical expense, and it would be inequitable to allow them to retain that benefit without paying any return on the asset.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Richard R. Schrubbe

I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996.

From 2000 to 2005, I was employed by the Do ALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst.

In 2007, I joined Xcel Energy as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. In 2017, I was promoted to the Area Vice President responsible for oversight of the Business Area Finance groups. My current role includes overseeing the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also familiar with the applicable laws, regulatory rules, and ratemaking practices regarding Xcel Energy's recovery of pension and benefits costs and assets in its many jurisdictions.

I have testified in the Company's last three Electric base rate cases before the Colorado Public Utilities Commission, which were Proceeding Nos. 20AL-0049G, 17AL-0363G and 15AL-0135G, on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. I have also submitted pre-filed direct and rebuttal testimony in the Company's last three Phase I electric rate cases in Colorado, Proceeding Nos. 21AL-0317E, 19AL-0268E, and 14AL-0660E, on those same issues. In addition, I have testified before the Minnesota

Public Utilities Commission, the Public Utility Commission of Texas, and the New Mexico Public Regulation Commission on pension and benefit issues.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF ADVICE LETTER NO. 190X-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 8-ELECTRIC TARIFF TO REVISE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL ELECTRIC RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE DECEMBER 31, 2022	)	**PROCEEDING NO. 22AL-XXXXE**

AFFIDAVIT OF RICHARD R. SCHRUBBE
ON BEHALF OF PUBLIC SERVICE COMPANY OF COLORADO

I, Richard R. Schrubbe, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony orally and would present the same attachments if asked under oath.

Dated at Coon Rapids, Minnesota, this 22nd day of November, 2022.

Richard R. Schrubbe
Vice President, Business Area Finance

Subscribed and sworn to before me this 22 day of Nov., 2022.

Notary Public

ANDREW D BENIK
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan 31 2025

My Commission expires 01/31/2025