NOTICE OF CONFIDENTIALITY
A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS HAS/HAVE BEEN FILED UNDER SEAL.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

*** * * * ***

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 TARIFF PROPOSALS EFFECTIVE DECEMBER 23, 2022.	**) PROCEEDING NO. 22AL-XXXXE**

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS HAS/HAVE BEEN FILED UNDER SEAL.

Confidential: Attachment NK-1C
Redactions on Pages 33,37,38,44

November 30, 2022

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

* * * * *

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 TARIFF PROPOSALS EFFECTIVE DECEMBER 31, 2022.	**) PROCEEDING NO. 22AL-XXXXE**

TABLE OF CONTENTS

SECTION **PAGE**

TABLE OF CONTENTS- CONT'D

SECTION **PAGE**

LIST OF ATTACHMENTS

Attachment NK-1C	Confidential Version Public Service Property Tax Calculation used for the 2023 Test Year
Attachment NK-1	Public Version Public Service Property Tax Calculation used for the 2023 Test Year

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

* * * * *

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 TARIFF PROPOSALS EFFECTIVE DECEMBER 31, 2022.	**) PROCEEDING NO. 22AL-XXXXE**

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH

I. INTRODUCTION, QUALIFICATIONS, AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Naomi Koch. 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 Director, Tax Reporting. XES is a wholly-owned subsidiary of Xcel Energy Inc. (“Xcel Energy”), and 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 on a coordinated basis.

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 Director, Tax Reporting, I am responsible for overseeing federal and state income, sales/use, and property tax compliance and accounting for all Xcel Energy group companies, including Public Service. A description of my qualifications, duties, and responsibilities is set forth after the conclusion of my testimony in my Statement of Qualifications.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to address the impacts of income taxes, normalization, and property taxes on the cost of service that is supported by Company Witness Arthur P. Freitas. I also briefly discuss the recently enacted Inflation Reduction Act. I explain how these items are accounted for in the 2023 Test Year being proposed in this case.

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

A. Yes, I am sponsoring the Confidential and Public versions of Attachment NK-1 (Public Service Property Tax Calculation used for the Test Year), which were prepared under my supervision.

II. ACCOUNTING FOR INCOME TAXES

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I discuss the calculation of Public Service's income tax expense included in the cost of service. I also explain how the Accumulated Deferred Income Tax ("ADIT") balance is created.

A. Calculation of Income Taxes and ADIT

Q. DID YOU PARTICIPATE IN THE CALCULATION OF THE INCOME TAX EXPENSE AND ADIT BALANCE INCLUDED IN PUBLIC SERVICE'S COST OF SERVICE?

A. Yes. Company witness Mr. Mark P. Moeller and I provided information to and assisted Mr. Freitas in the calculation of the income tax expense and ADIT balances included in Public Service's cost of service, which is provided as Attachment APF-1 to the Direct Testimony of Mr. Freitas. Along with Mr. Moeller, I ensured that the tax calculations were correct and in compliance with United States Department of the Treasury ("Treasury") normalization rules, which I will discuss in more detail later in my Direct Testimony.

Q. WHAT STANDARDS DID YOU FOLLOW WHEN CALCULATING THE INCOME TAX AND ADIT BALANCES?

A. I followed Generally Accepted Accounting Principles ("GAAP"), the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, the Internal Revenue Code ("IRC"), including associated Treasury Regulations and Internal Revenue Service ("IRS") guidance, and prior decisions from the Colorado Public

Utilities Commission ("Commission") concerning the treatment of taxes in the Company's cost of service.

Q. PLEASE DESCRIBE THE GENERAL PROCESS USED TO CALCULATE PUBLIC SERVICE'S INCOME TAX EXPENSE FOR RATEMAKING PURPOSES.

A. Public Service calculates its income tax expense through a multi-step process:

1. As discussed in greater detail in Mr. Freitas's Direct Testimony, Public Service determines its taxable income by summing its operating expenses, including interest payments and straight-line book depreciation expense, and then subtracting those operating expenses from total revenues to arrive at the net income before income taxes.

2. Public Service next calculates the additions to or deductions from net income that result from temporary and permanent tax differences. These amounts are then added to the net income calculated above to arrive at taxable income. If the taxable income is negative, it indicates a net operating loss ("NOL") that can be carried forward (or backward) to offset future taxable income.

3. Public Service's federal and state income tax rates are then applied to the taxable income calculated above to arrive at current tax expense. Current income tax expense and deferred income tax expense are added together and then adjusted by reductions for the federal research and experimentation ("R&E") credit and the Company's federal investment tax credit ("ITC").

Q. IN THE SECOND STEP OF THAT PROCESS, YOU REFER TO "TEMPORARY DIFFERENCES." PLEASE EXPLAIN HOW TEMPORARY DIFFERENCES ARISE.

A. Generally speaking, temporary differences arise when Public Service collects tax expense from customers in one period but pays the associated tax expense to the IRS in a different period. The most common example involves depreciation expense, which is typically accelerated for tax purposes but not for ratemaking purposes. The use of accelerated depreciation reduces Public Service's taxable income, which defers taxes until a later time. For purposes of setting rates, however, Public Service calculates its tax expense as though it had used a straight-line book depreciation method. Thus, Public Service recovers income tax expense from customers on a "normalized" basis, which results in Public Service collecting income tax expense that is not paid to the IRS until a later time. That leads to the ADIT balance that I referenced earlier in my Direct Testimony.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE ADIT BALANCE ACCRUES.

A. Suppose a utility had taxable income of $1,000 and a federal income tax rate of 21 percent. In the absence of any other factors, the utility would collect $210 from its customers as federal income tax expense, and it would pay the IRS $210 in federal income taxes.

Now suppose the same facts, except that accelerated depreciation has given the utility enough depreciation expense to offset the entire $1,000 of taxable income. The utility still collects the $210 from its customers because of normalization rules, but the tax laws allow the Company to defer payment of that amount to the IRS until some later date. In effect, the utility is given an interest-free loan from the federal government, but the utility must record that $210 interest-free loan as a deferred income tax liability, or ADIT.

Q. DOES PUBLIC SERVICE EXPERIENCE TEMPORARY DIFFERENCES IN ANY CONTEXT OTHER THAN ACCELERATED DEPRECIATION?

A. Yes. Public Service experiences several non-plant temporary differences, such as costs associated with pension expense, inventory reserves, and many other types of expenses or revenues. Some of these temporary differences result in a deferred tax asset ("DTA"), a prepayment of tax, and some result in a deferred tax liability ("DTL"), a deferred payment of tax. The net cumulative amount represents Public Service's ADIT balance.

Q. HOW IS THE ADIT BALANCE REFLECTED IN RATE BASE?

A. The DTL balance will eventually have to be paid to the IRS and corresponding state agencies because accelerated depreciation creates only a temporary timing difference. That is why the DTL balance is considered to be a deferral of tax liability, not a reduction of tax liability. Until the DTL balance is paid back to the IRS and corresponding state agencies, it is used as a dollar-for-dollar reduction of rate base. As discussed above, in effect, the utility is receiving an interest-free loan from the federal government in the form of the DTL balance; therefore, it does not need a return on an equivalent amount of rate base.

A similar adjustment is made for DTAs. Until Public Service receives the deferred tax benefit from the IRS and corresponding state agencies, the DTA is used as a dollar-for-dollar increase to rate base.

The ADIT reflected in rate base for this proceeding is presented by Mr. Freitas in his Attachment APF-1, Schedule 101.

Q. EARLIER YOU REFERENCED AN NOL – DOES PUBLIC SERVICE HAVE AN NOL IN THIS PROCEEDING?

A. No. Public Service does not have an NOL carrying into this proceeding, nor is it generating an NOL in this proceeding (i.e., the cost of service in this proceeding reflects taxable income).

B. <u>ADIT Related to Pension</u>

Q. IN THE PREVIOUS SECTION YOU PROVIDE PENSION AS AN EXAMPLE OF NON-PLANT ADIT. HOW IS PENSION ADIT CALCULATED?

A. Similar to the process used for calculating regulatory taxable income that was discussed earlier in my Direct Testimony, federal corporate income tax returns start with book net income. Net income is then adjusted by temporary and permanent tax adjustments in order to arrive at taxable income. Included in Public Service's net income is an adjustment for pension which, for book purposes, is expensed over the employee's service life. For tax purposes, pension expense is deducted as cash is paid to the pension trust. This difference in timing of the deduction results in a temporary tax difference, thus a DTA or DTL.

Q. DOES PUBLIC SERVICE HAVE A DTA OR A DTL RELATED TO PENSION?

A. As it relates to pension, Public Service has a net DTL.

Q. HOW DID THIS DTL ARISE?

A. Company witness Mr. Richard R. Schrubbe discusses the timing of pension expense and pension funding in greater detail in his Direct Testimony, but Public Service has been required to fund the pension trust in advance of having to record the related pension expense, resulting in a prepaid pension asset. Due to the timing of the pension deductibility discussed above, Public Service has been allowed a deduction for tax purposes, sooner than what has been recognized for book purposes, resulting in a DTL. Public Service effectuates this tax adjustment by adding back the pension expense reflected in net income and deducting the amount of cash paid to the pension trust. The sum of this add-back and deduction has resulted in a net deduction and DTL, which will reverse as pension expense is recorded for book purposes.

C. <u>Tax Credits</u>

Q. IN THE CALCULATION OF INCOME TAXES AND ADIT SECTION, YOU REFERENCED A FEDERAL R&E CREDIT. WHAT IS THIS CREDIT?

A. The federal R&E credit is a credit available to taxpayers who engage in qualifying R&E activities. Public Service completes an annual study to determine which costs are eligible for the federal R&E credit. These costs include certain wages, supplies, and contract research expenses. The credit is non-refundable, which means that a taxpayer must have a tax liability to use the credit. When there is insufficient tax liability to fully use the credit, the credit may either be carried back one year or carried forward up to twenty years.

Q. DID PUBLIC SERVICE INCLUDE A FEDERAL R&E CREDIT IN ITS TEST YEAR COST OF SERVICE?

A. Yes. The Test Year cost of service includes Total Company $3.8 million of federal R&E credits.

Q. WHAT IS AN EXAMPLE OF PUBLIC SERVICE'S R&E ACTIVITY?

A. A recent example is Public Service's research and experimentation related to transmission engineering.

Q. IS PUBLIC SERVICE CURRENTLY EARNING ANY OTHER FEDERAL CREDITS?

A. Yes. Public Service also earns production tax credits ("PTC") for its Rush Creek and Cheyenne Ridge wind projects.

Q. HOW IS THE PTC CALCULATED?

A. PTCs are an inflation-adjusted per-kilowatt-hour ("kWh") tax credit for electricity generated and sold by the taxpayer during the taxable year. The PTC is available for 10 years after the facility is placed in service. As of 2022, the PTC rate is 2.6 cents per kWh.

Q. ARE ANY PTCS INCLUDED IN THE COST OF SERVICE?

A. No. The PTCs generated by the Rush Creek and Cheyenne Ridge wind projects are shared with customers as part of the Electric Commodity Adjustment ("ECA").

Q. IN THE CALCULATION OF INCOME TAXES AND ADIT SECTION, YOU REFERENCED A FEDERAL ITC. WHAT IS THIS CREDIT?

A. Public Service earned various ITCs decades ago and these credits are continuing to be shared with customers following the normalization method of accounting discussed later in my testimony. Additionally, Public Service earned an ITC related to its Cabin Creek Generating Station in its 2021 federal income tax return,[1] and is forecasted to earn ITCs in 2023, including for additional investment in Cabin Creek Generating Station. These new ITCs will be similarly shared with customers following the normalization method of accounting.

Q. DOES PUBLIC SERVICE EARN ANY STATE TAX CREDITS?

A. Yes. Public Service earned a Colorado Renewable Energy ITC for its Rush Creek Wind Project investment.[2] This credit is refundable (i.e., Public Service need not have a Colorado tax liability in order to utilize), and is limited to $750,000 per year, but may be carried forward until fully refunded. Because this credit is refundable, it is not accounted for as an income tax. Instead, Public Service records the $750,000 annual benefit as a reduction to Taxes Other Than Income Taxes.

D. Federal and State Income Tax Rates

Q. WHAT INCOME TAX RATE IS PUBLIC SERVICE USING IN THIS PROCEEDING?

A. Public Service is using a 21 percent federal corporate income tax rate and a 3.5945 percent net state income tax rate.

---

[1] The Cabin Creek Generating Station provided $42,887,149 of ITC-eligible basis, which was multiplied by the 30 percent federal ITC rate resulting in a $12,866,145 of ITC in 2021. The tax basis of the investment was then reduced by 50 percent of the amount of the ITC.

[2] The Rush Creek Wind Project provided $867,957,113 of ITC-eligible basis, which was multiplied by the 3 percent Colorado Renewable Energy ITC rate, then reduced by 20 percent because Public Service elected to treat the ITC as refundable, resulting in a net $20,830,970 Colorado Renewable Energy ITC.

Q. IS THIS CONSISTENT WITH THE TAX RATES PUBLIC SERVICE USED IN ITS LAST PHASE I ELECTRIC RATE CASE?

A. Yes. Effective January 1, 2020, the state of Colorado corporate income tax rate is 4.55 percent. Because state income taxes are deductible for federal purposes, this state income tax rate is reduced by the associated federal benefit of 0.9555 percent (4.55 percent x 21 percent = 0.9555 percent). The resulting, net, state income tax rate is 3.5945 percent (4.55 percent less 0.9555 percent = 3.5945 percent).

Q. ARE YOU AWARE OF ANY POTENTIAL INCOME TAX RATE CHANGES?

A. Yes. On November 8, 2022, Colorado voters approved Colorado Proposition 121, which will reduce the Colorado corporate income tax rate from 4.55 percent to 4.40 percent, effective January 1, 2022.

Q. HAS THIS RATE BEEN INCORPORATED INTO THE COST OF SERVICE IN THIS PROCEEDING?

A. No. As of the date of this testimony, Colorado's election results have not been certified nor has the Colorado governor proclaimed the act. Therefore, Proposition 121 has not yet been enacted for tax accounting purposes. If or when the rate reduction is enacted, Public Service will update its tax rate in rebuttal or in a future rate case proceeding as appropriate.

Q. ARE YOU AWARE OF ANY POTENTIAL OTHER TAX CHANGES?

A. Yes. Voters in the City of Boulder approved Ballot Measure 2A, which implements a new Climate Tax effective January 1, 2023. This Climate Tax repeals Boulder's

Climate Action Plan Excise Tax, which is set to expire March 31, 2023, and the Utility Occupation Tax, which is set to expire December 31, 2025. Revenue from the Climate Tax is to be used to, among other things, maintain and expand climate focused programs and services.

Q. HAS THE NEW CLIMATE TAX BEEN INCORPORATED INTO THIS PROCEEDING?

A. No. As of the date of this testimony, the election results are still preliminary so the tax has not been incorporated into this proceeding. The Company is continuing to work with the City of Boulder to understand and implement this new tax. Once the election results are certified and enacted, Public Service will update for the tax later in this proceeding or in a future rate case proceeding as appropriate.

III. THE ROLE OF NORMALIZATION IN UTILITY RATEMAKING

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I explain the steps that Public Service took as part of its federal income tax calculation to avoid violating tax normalization rules.

A. Normalization and Income Tax Accounting

Q. PLEASE EXPLAIN WHAT "NORMALIZATION" MEANS IN THE CONTEXT OF UTILITY ACCOUNTING.

A. Normalization refers to a method of accounting in which the tax benefits associated with depreciation of utility assets are spread over the same period that the costs of those assets are recovered from customers. For example, if rates are set based on straight-line book depreciation, the federal income tax expense included in those rates must also be calculated as though the utility used straight-line book depreciation. The difference between the federal income tax expense calculated using accelerated depreciation and the federal income tax expense calculated using straight-line book depreciation is recorded as a DTL. The cumulative DTL balance serves as an offset to rate base, and customers are, in essence, paid a return at the Company's weighted average cost of capital for any DTL included in the Company's rate base.

Q. WHAT IS THE SOURCE OF THE TAX NORMALIZATION RULES?

A. Tax normalization rules come from various sources including the IRC, Treasury Regulations, and related guidance provided by the IRS, such as a Private Letter

Ruling ("PLR"). Specifically, Congress set out normalization for public utilities in IRC § 168(i)(9)-(10), which provides that in order to use a normalization method of accounting with respect to public utility property:

> [T]he taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes.

The rule requiring a utility to calculate federal income tax expense on a normalized basis is Section 1.167(l)-1 of the Treasury Regulations.

Q. EARLIER YOU REFERENCED STRAIGHT-LINE DEPRECIATION; WHAT IS STRAIGHT-LINE DEPRECIATION?

A. Straight-line depreciation is a method of depreciation that recovers the cost of an asset in equal amounts each year over the asset's expected productive life. As is the case in most jurisdictions, the Commission uses straight-line book depreciation for the purpose of computing a utility's depreciation expense in Colorado.

Q. WHAT IS YOUR UNDERSTANDING OF WHY CONGRESS ENACTED THE NORMALIZATION REQUIREMENTS?

A. It is my understanding that Congress's primary purpose in allowing accelerated depreciation was to stimulate investment in capital assets, such as electric infrastructure assets. If a utility were required to immediately pass through all tax benefits resulting from accelerated depreciation using flow-through accounting, utilities would have decreased incentives to invest in the capital assets that give rise to accelerated depreciation. Additionally, using flow-through accounting would create intergenerational inequity because current customers would receive a benefit that should be spread over the life of the asset. Accordingly, Congress set out normalization treatment, which requires that federal income tax expense be calculated for ratemaking purposes as though the utility had depreciated its assets on a straight-line book basis.

Q. DID PUBLIC SERVICE RECOGNIZE ACCELERATED DEPRECIATION IN THE CALCULATION OF FEDERAL INCOME TAX EXPENSE INCLUDED IN THE COST OF SERVICE?

A. No. To remain in compliance with the normalization rules, Public Service calculated the federal income tax expense included in its cost of service for this proceeding using straight-line book depreciation.

Q. WHY SHOULD A REGULATORY COMMISSION FOLLOW THE NORMALIZATION RULES FOR RATEMAKING PURPOSES?

A. While Congress does not prohibit regulators from using other methods to set rates, both the utility and its customers would be adversely affected if the utility were to receive a regulatory order that led to a violation of the normalization rules. When a normalization violation occurs, the utility is no longer allowed to use accelerated depreciation. In addition, the taxes that have been deferred as a result of the prior accelerated depreciation must be paid to the federal government more quickly than they would be in the absence of the normalization violation.

Q. HOW WOULD THOSE PENALTIES AFFECT THE UTILITY'S CUSTOMERS?

A. Both of those circumstances would reduce the DTL balance, which would increase the rate base on which customers pay a return. Therefore, a normalization violation would very likely result in higher rates for utility customers. In light of the potential loss of accelerated deductions and for other reasons, Colorado and virtually all other jurisdictions have adopted the normalization method of tax accounting for rate setting purposes.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO HOW THE COMMISSION SHOULD CALCULATE PUBLIC SERVICE'S INCOME TAX EXPENSE?

A. Based on the normalization requirements and the adverse consequences that would result if those requirements are not followed, I recommend that the Commission calculate Public Service's income tax expense as though Public Service had depreciated its assets on a straight-line book basis. This is the basis on which income tax expense is included in Mr. Freitas's cost of service.

B. Normalization Requirements with Future Test Years

Q. ARE THERE NORMALIZATION RULES REGARDING HOW ADIT MUST BE CALCULATED WHEN USING FUTURE TEST YEARS?

A. Yes. When a utility that is subject to normalization rules uses a future test year to determine its cost of service, Treasury Regulations require that the increase or decrease to the ADIT balance be prorated.

Q. DO THE PRORATION RULES APPLY TO ALL ADIT BALANCES INCLUDED IN RATE BASE?

A. No, they do not. The proration rules only apply to adjustments protected by normalization, for example, depreciation-related ADIT. Other ADIT balances are not required to be prorated.

Q. WHAT SECTION OF THE TAX NORMALIZATION RULES MANDATES THE USE OF THE PRORATION METHOD?

A. Section 1.167(l)-1(h)(6)(ii) of the Treasury Regulations mandates the use of a very specific proration procedure in measuring the amount of future test period ADIT. This regulation requires that if solely a historical period is used to determine the ADIT balance to be subtracted from rate base, the full amount of the ADIT reserve account at the end of the historical period is the amount by which rate base is reduced. If, on the other hand, a future period is used to determine the ADIT balance, "the amount of the reserve account for the period is the amount of the reserve at the beginning of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during such period."

Q. WHY MUST THE ADIT BALANCE BE PRORATED?

A. Proration is required to ensure that the tax benefits of accelerated depreciation will not be flowed through to customers faster than they will be recognized by the utility. The IRS assumes that such benefits are received on the last day of the period over which the deferred amount is recognized. For instance, if the forecasted increase to Public Service's ADIT balance during the future test year was $1.2 million, the proration adjustment would reflect that that ADIT balance was accumulated incrementally over the course of the entire Future Test Year ($100,000 per month). Accordingly, the tax benefit is flowed through to customers as it is accrued over time.

Q. HOW HAS THE IRS INTERPRETED THE TERMS "HISTORICAL PERIOD" AND "FUTURE PERIOD" FOR PURPOSES OF ADIT PRORATION?

A. According to several PLRs, "the historical period is that portion of the test period before rates go into effect," and the future period is "the portion of the test period after the effective date of the rate order…."[3] These definitions are consistent with the purpose of normalization, which is to preserve the benefits of accelerated depreciation by prohibiting flow-through accounting for regulated utilities. Under these definitions, if rates go into effect before the end of the future period, and the rate base reduction is not prorated, then flow-through occurs because current rates are reduced to reflect the capital cost savings of accelerated depreciation deductions not yet claimed or accrued by the utility. If rates go into effect after the

---

[3] *E.g.,* PLR 201531010.

end of the future test year, the opportunity to flow through the benefits of future accelerated depreciation to current customers is gone, and so too is the need to apply the proration formula.

Q. WHAT IS THE "HISTORICAL PERIOD" AND "FUTURE PERIOD," UNDER THE TREASURY'S DEFINITION OF THOSE TERMS, IN THIS PROCEEDING?

A. In this proceeding, the Test Year is from January 1, 2023 to December 31, 2023. Assuming the Commission suspends the tariffs in this case for a standard nine-month period, the effective date of the rates in this proceeding would be approximately September 1, 2023. As a result, January through August 2023 are the "historical period," and the corresponding ADIT projections are not prorated. The months from September 2023 through December 2023 make up the "future period," and those corresponding ADIT projections must reflect the required proration method.[4]

Q. HAS PRORATION BEEN INCORPORATED INTO THE COST OF SERVICE IN THIS PROCEEDING?

Yes. As Mr. Moeller states, Public Service has presented the proration in this proceeding assuming that the new rates set in this case are effective as of September 1, 2023. If the actual effective date is different from September 1, 2023, then the proration will have to be recalculated accordingly. Please see Mr. Moeller's testimony for additional discussion.

---

[4] These periods reflect the Treasury's proration formula requirements and are not correlated with the "Informational Historical Test Year" or the "Test Year," as those terms are used in this proceeding.

IV. INFLATION REDUCTION ACT

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. In this section of my testimony, I briefly describe the recently enacted IRA, which is federal climate and healthcare legislation that was enacted on August 16, 2022.[5]

Q. WHAT ARE SOME OF THE KEY ENERGY TAX PROVISIONS OF THE IRA?

A. Insofar as Public Service is concerned, the key energy provisions of the IRA are as follows:

- Extension and expansion of PTCs and ITCs;
- Transferability of energy tax credits;
- Implementation of a book minimum tax; and
- Expansion of electric vehicle and electric vehicle charging infrastructure credits.

A. Changes to PTCs and ITCs

Q. HOW IS THE IRA EXPECTED TO CHANGE PTCS AND ITCS?

A. In general, the IRA provides a 10-year extension of PTCs and ITCs at full value[6] and expands the list of qualifying property for both credits. These tax credits are generally available to project owners after qualifying projects are placed in service. The IRA also includes new opportunities to enhance the level of credit if certain domestic content requirements are met and/or if the project is located in an "energy

---

[5] Inflation Reduction Act of 2022, Public Law No. 117-169 (Aug. 16, 2022).

[6] The 10-year extension of PTCs and ITCs under the IRA is no longer subject to the phasedowns and phase-outs of the credit rate that were required under prior law. These phasedowns and phase-outs reduced the value of the credits, depending on when the project began construction, but were not applicable to Public Service's Rush Creek and Cheyenne Ridge Wind Projects.

community," such as near a former coal plant. In order to claim the full value of the PTCs or ITCs, companies must now meet certain prevailing wage and apprenticeship requirements during the construction, operation, and maintenance of such projects.

PTCs are expanded to include solar, nuclear, and clean hydrogen. ITCs are expanded to include stand-alone energy storage with an ability to opt out of normalization requirements.

B. <u>Transferability of Energy Tax Credits</u>

Q. PLEASE DESCRIBE THE TRANSFERABILITY OF ENERGY TAX CREDITS.

A. Beginning in 2023, an eligible taxpayer can elect to sell any amount of its eligible tax credits to an unrelated party for cash. Eligible credits generally include clean energy PTCs and ITCs. Once made, the election is irrevocable and the credits may not be further transferred.

Q. DOES THE ELECTION APPLY TO THE WHOLE COMPANY?

A. No. Elections must be made separately for each applicable facility and for each tax year during the credit period.

Q. HOW WILL THESE TRANSFERS BE FACILITATED?

A. We anticipate that the tax credit sales will occur through bilateral contracts with the transferees.

Q. FROM A TAX PERSPECTIVE, HOW WILL PUBLIC SERVICE CUSTOMERS BENEFIT FROM TRANSFERRING ITS CREDITS?

A. By monetizing the credits, Public Service will be able to utilize those credits currently rather than deferring them for future use as a deferred tax asset. This benefits customers because the PTC deferred tax asset, which is included in rate base and earns a return as part of a utility's revenue requirement calculation included in the Electric Commodity Adjustment, will decrease. All else equal, this has the result of reducing the revenue requirement from what it otherwise would be.

Q. ARE THERE COSTS ASSOCIATED WITH THESE SALES?

A. Yes. We anticipate two main forms of transaction costs. One will be the difference between the nominal value of the PTCs and the market price received for the PTCs. The second will be administrative costs to negotiate and execute sales. However, even after considering transaction costs, the ability to monetize tax credits more efficiently will benefit customers.

Q. HOW DOES THE IRA AFFECT PUBLIC SERVICE'S RUSH CREEK AND CHEYENNE RIDGE WIND PROJECTS?

A. The Rush Creek and Cheyenne Ridge Wind Projects were placed in service prior to January 1, 2022; therefore, they continue to earn credits under prior tax law. However, any tax credits earned by these two projects after 2022 can be sold to other taxpayers under the transferability provisions. As noted earlier in my testimony, Public Service is continuing to earn its PTCs at the inflation-adjusted PTC rate, currently 2.6 cents per kWh.

C. Book Minimum Tax

Q. PLEASE DESCRIBE THE BOOK MINIMUM TAX.

A. The IRA imposes a 15 percent minimum tax on corporations with adjusted book income in excess of $1 billion. This book minimum tax would be due to the extent it exceeds regular tax, and may be carried forward to offset regular corporate tax in future years.

Q. HAS PUBLIC SERVICE INCLUDED A BOOK MINIMUM TAX IN THIS PROCEEDING?

A. No. Public Service is still working to gather direction on how this tax will be calculated and assessed. Therefore, it has not included a book minimum tax in the cost of service in this proceeding.

D. Electric Vehicle Credits

Q. ARE THERE ANY OTHER PROVISIONS RELEVANT TO THE COMPANY OR ITS CUSTOMERS?

A. Yes. The IRA also provides several types of electric vehicle credits.

Q. PLEASE DESCRIBE THE ELECTRIC VEHICLE CREDITS.

A. For new vehicles, the IRA provides for an electric vehicle credit of up to $7,500, subject to income limitations. For previously owned vehicles that are at least two years old, the IRA provides for a credit up to the lesser of $4,000 or 30 percent of the vehicle sale price, subject to income limitations. For commercial vehicles, the

IRA provides for a credit up to $7,500 for vehicles less than 14,000 pounds or a credit up to $40,000 for vehicles heavier than 14,000 pounds. Additionally, the IRA provides for an electric vehicle charging infrastructure credit of up to 30 percent of the qualified property.

E. Implementation of IRA Provisions

Q. ARE THE RULES FOR IMPLEMENTING THE IRA FINAL?

A. No. Because this legislation includes many new benefits and requirements, the rules for implementing the IRA provisions are still under development by the federal agencies administering those programs. As a result, the anticipated impacts of the IRA to Public Service are subject to change. As new information emerges, Public Service will update its assumptions in rebuttal or in a future rate proceeding as appropriate. As the benefits and requirements are better understood, Public Service will continue to evaluate how to best use the provisions of the IRA to benefit its customers.

V. PROPERTY TAXES

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. The purpose of this section of my Direct Testimony is to support the property tax expense included in the Company's cost of service in this proceeding. Company witness Ms. Marci McKoane discusses how the Company proposes to continue to track and defer property tax expense consistent with prior Commission orders.

Q. WHAT AMOUNT OF PROPERTY TAXES IS THE COMPANY INCLUDING IN THE TEST YEAR COST OF SERVICE?

A. I arrive at the level of property tax in the cost of service by utilizing the forecast for property tax expense for calendar year 2023 (i.e., plant-in-service as of January 1, 2023). The total Company property tax expense for calendar year 2023 is forecasted to be approximately $255.5 million, which is allocated by Company witness Mr. Freitas, as described briefly below, and included in the cost of service.

A. Property Tax Overview

Q. PLEASE PROVIDE AN OVERVIEW OF HOW PROPERTY TAXES ARE DETERMINED FOR THE COMPANY.

A. As explained in greater detail below, Public Service's property tax liability is determined based on Total Company assessed values set by the Colorado Division of Property Taxation ("DPT") and the levy rates set by the various local jurisdictions within Colorado, such as counties, school districts, fire protection districts, metropolitan districts, and conservation districts. To calculate tax, the county treasurers apply a tax rate to the assessed value of Company plant. Tax rates are set annually by the individual taxing entities, so the Company does not control the level of these tax rates, which may increase or decrease. Additionally, because the Company's plant balance represents the property that is subject to property tax, the tax can be expected to increase as the plant balance increases.

Q. HOW DOES THE COMPANY'S PAYMENT OF PROPERTY TAXES BENEFIT COLORADO COMMUNITIES AND RATEPAYERS?

A. All of the revenue generated by the property taxes paid by Public Service remain at the local level to help fund many valuable public services within these communities. Property taxes are a significant source of local government revenue, and the majority of property tax revenue is used to fund K-12 public school districts. The remainder supports local services provided by counties, special districts, and, to a lesser degree, cities and towns, including county road maintenance, fire protection, police, water and sewer infrastructure, libraries, and other local services.

Q. CAN YOU PROVIDE ADDITIONAL DETAIL REGARDING WHO BENEFITS FROM THE PROPERTY TAX THE COMPANY PAYS?

A. Yes. Colorado school districts and counties are the largest recipients of the Company's property tax dollars, with school districts receiving approximately 50.8 percent of all dollars and counties receiving approximately 26.1 percent. A list of the top five school districts and counties by percentage of total property tax paid by Public Service in 2022 is as follows:

TABLE NK-D-1:

School Districts & Counties by Percentage of Total Property Taxes Paid

School District	Percentage
Denver School District	7.6%
Jefferson School District	6.0%
Pueblo School District	4.5%
Brush School District	2.9%
Mapleton School District	2.8%

County	Percentage
Adams County	4.0%
Denver County	3.9%
Jefferson County	3.4%
Pueblo County	3.3%
Weld County	1.9%

Q. WHY IS THIS RELEVANT TO THE COMPANY'S PROPERTY TAX DISCUSSION IN THIS RATE CASE?

A. Property taxes are a significant component of Public Service's cost of service in any given year. It is helpful to keep in mind that the taxes are not only mandated by various governmental units; they also provide benefits to and support services to Colorado residents, including individuals and families in the areas served by Public Service.

Q. HOW DOES PUBLIC SERVICE ALLOCATE A PORTION OF THE TOTAL COMPANY PROPERTY TAX EXPENSE TO THE ELECTRIC DEPARTMENT?

A. Once the appropriate level of property tax expense is determined, Mr. Freitas allocates the property tax expense to each utility department (i.e., electric, gas, and steam) and to non-utility activities during the process of developing the cost of service study. After the tax is allocated to the Electric Department, a certain amount of those property taxes is further allocated to the retail jurisdiction.

Q. WHAT IS THE LATEST YEAR FOR WHICH PUBLIC SERVICE HAS ACTUAL PROPERTY TAX BILLS?

A. The latest year for which the Company has actual property tax bills is 2021. These payments were made at the end of April 2022.

Q. WHAT WAS THE ACTUAL PROPERTY TAX EXPENSE FOR THE COMPANY FOR 2021?

A. The Total Company tax liability for 2021 was $233.6 million based on the property tax bills from the various taxing jurisdictions, such as counties, school districts, fire protection districts, metropolitan districts, and conservation districts.

Q. WHAT IS PUBLIC SERVICE'S ANTICIPATED PROPERTY TAX EXPENSE FOR 2022 AND 2023?

A. Public Service is forecasting $233.5 million of property tax expense for 2022 and $255.5 million of (Total Company) property tax expense for 2023, a $22.0 million increase since 2021, the latest year of actual tax expense amounts.

Q. WHAT IS DRIVING THE $22.0 MILLION INCREASE IN PROPERTY TAX EXPENSE?

A. The $22.0 million increase is largely due to increases in Company plant and the weighted average net operating income ("NOI"). Public Service's NOI and other property tax concepts are discussed in greater detail below. This projected property tax increase does not, however, incorporate any changes in the effective tax rate, which we also expect to increase as discussed below.

Q. WHAT IS THE COMPANY'S FORECAST FOR NOI?

A. Public Service has forecasted total Company NOI to capitalize (the three-year weighted average used to calculate property tax liability as discussed below) to increase by [redacted] or [redacted], from 2021 to 2023.

Q. PLEASE DISCUSS THE UPCOMING CHANGES IN TOTAL COMPANY NET PLANT LEVELS.

A. The Company's forecast considers that additions to total Company plant, since the latest year of actual tax expense, in 2021 and 2022, will be $2.0 billion and will impact the 2023 property tax expense.

In the next section of my Direct Testimony, I discuss in more detail how these property tax expense levels, including Colorado deductions, were calculated.

B. <u>Property Valuation</u>

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my Direct Testimony, I present how the DPT values the Company's property and how property tax is calculated by the various taxing jurisdictions throughout Colorado.

Q. WHAT ARE THE METHODS USED BY THE DPT IN DETERMINING THE ASSESSED VALUE TO BE USED TO CALCULATE COMPANY PROPERTY TAX?

A. In Colorado, the DPT is generally responsible for determining the assessed value of the operating property of utility companies for property tax purposes. However, a few of the Company's real estate parcels and some non-operating personal property are valued by county assessors. The operating property is considered to include all real[7] and personal[8] property used in the Company's utility business. The two approaches the DPT uses to assess utility property are referred to as the "cost approach" and the "income approach," which I describe below.

Q. CAN YOU SUMMARIZE THE DPT'S FORMULA FOR VALUING THE PROPERTY OF THE TOTAL COMPANY?

A. Yes. The following equation summarizes the DPT's formula to value the property of the Total Company:

[7] Real property includes real estate, land, and buildings.
[8] Personal property excludes real property, and generally includes machinery and equipment.

FIGURE NK-D-1
Property Tax Formula

(DPT Determined Cost Indicator x 40% + DPT Determined Income Indicator x 60%)
= System Unit Value - Deductions to Market Value
= Colorado Current Value x Equalization Factor
= Colorado Actual Value x Statutory Assessment Ratio
= Colorado Assessed Value x Statewide Effective Tax Rate
= State-Assessed Property Tax + Tax on Locally & Separately Assessed Property
= TOTAL COMPANY PROPERTY TAX

Once the assessed valuation is determined by the DPT, it is then allocated to the taxing jurisdictions in Colorado and each jurisdiction's tax rate is applied to determine the property tax that is due.

Q. WHAT IS THE DPT'S STARTING POINT FOR AN APPRAISAL OF COMPANY PROPERTY?

A. The DPT staff bases its calculation on the Company's financial data found in the Company's FERC Form 1 filing from the end of the prior year. In other words, the Company's 2023 property tax assessment will be based on the Company's financial data from year-end 2022.

Q. PLEASE DISCUSS HOW THE VALUE OF THE COMPANY'S ASSETS ARE ASSESSED USING THE DPT'S COST APPROACH.

A. Public and Confidential Attachment NK-1 show how the amount of Total Company property tax is calculated. To arrive at the cost indicator of value at line 4 of Public

Attachment NK-1, the Company follows the DPT's methodology of using the depreciated value of the Company's operating property, which includes all of the property that is needed to conduct the Company's business (i.e., property, plant, equipment, and materials and supplies) and excludes non-utility property. As shown on line 4 of Public Attachment NK-1, the cost indicator of value based on the depreciated value used by the DPT was $11.3 billion for 2021. The cost indicator of value is forecasted to be $12.4 billion for 2023.

Q. USING THE DPT'S METHODOLOGY, PLEASE DISCUSS HOW THE COST INDICATOR OF VALUE IS CALCULATED USING THE INCOME APPROACH.

A. In the income approach, the DPT typically uses a weighted average of the previous three years' NOI from the Company's FERC Form 1; it includes operating revenue less operating and maintenance expense, depreciation, and income tax, but it does not include interest expense or non-utility income. On occasion, the DPT will use a different average from the NOI history of the past five years when the Company suggests and the DPT agrees that the three-year weighted average overstates the value of the assets during a protest hearing. Next, the DPT applies a capitalization rate to the weighted average NOI.

The capitalization rate is a weighted average cost of capital derived from market data that incorporates all levels of corporate equity and debt for the utility industry, as well as the market as a whole. For the DPT's methodology, the capitalization rate is a discount factor that the DPT uses to convert the weighted average NOI into an indicator of the Total Company's market value.

The income approach calculation divides the weighted average NOI by the capitalization rate to determine the income indicator of value. For 2021, the NOI to capitalize was $758.0 million and the capitalization rate was 7.37 percent. The income indicator of value was $10.3 billion. For 2023, the NOI to capitalize is forecasted to be [redacted], and the capitalization rate for 2023 is forecasted to be 7.71 percent. The resulting income indicator of value is [redacted]

Q. HOW IS THE TOTAL SYSTEM UNIT VALUE SHOWN ON CONFIDENTIAL ATTACHMENT NK-1 DETERMINED?

A. The DPT determines the Company's Total System Unit Value based on a weighted average of the income indicator (typically 60 percent) and cost indicator (typically 40 percent). The 60 percent / 40 percent weighting applied to the two approaches shown on lines 15 and 16 of Confidential Attachment NK-1 is the weighting that has been consistently used by the DPT for many years. The application of the above weightings produces a Total System Unit Value of $10.7 billion for 2021 and [redacted] for 2023.

Q. HOW IS THE COLORADO CURRENT VALUE DETERMINED?

A. It is arrived at by deducting certain property from the Total System Unit Value. Deductions include assets on the Company's balance sheet where the property tax is assessed separately (e.g., Colorado statute[9] mandates a specific valuation method for renewable energy so the related value is removed from the larger appraisal process); property that is fully paid by another party (such as in a joint

[9] Colorado Revised Statute § 39-4-102 (1)(e).

venture); and property that is assessed by county assessors and billed to the Company separately (such as undeveloped vacant land used as a buffer adjacent to power plants). The Colorado deductions ensure that all exempted items are removed and no assets will be taxed twice. As demonstrated in Confidential Attachment NK-1, deductions are approximately $1.4 billion for 2021 and [redacted] for 2023.

Subtracting the 2023 deductions to value from the system unit value results in a Colorado Current Value of $10.5 billion on line 20.

Q. WHAT IMPACT DOES THE SPECIAL WIND VALUATION PROCESS HAVE ON PUBLIC SERVICE'S FORECASTED PROPERTY TAX EXPENSE?

A. Colorado law provides that wind energy facilities and other renewable energy projects are treated differently for property tax purposes than other components of Company property. For the 2023 forecast, $931 million of property was removed from the Colorado Current Value by way of a Deduction to Market Value in order to not double-count the property. The related tax of $2.9 million, out of the total $255.5 million forecasted property tax, was then brought in on Line 28 of Confidential and Public Attachment NK-1.

Q. PLEASE EXPLAIN THE EQUALIZATION FACTOR THAT IS APPLIED TO THE COLORADO CURRENT VALUE?

A. An equalization factor is an inflation factor used to equate utility property to non-utility real property in order to bring the DPT's values for utilities to the same "level of value" as the county assessors use for real property. Real property in Colorado is valued only in odd-numbered years, and by law the assessors must use comparable sales data between two years prior (even numbered years) and six months prior (odd numbered years) to the lien date. Public Attachment NK-1 shows a 99 percent equalization factor for 2023. Between 2016 and 2021, the equalization factor ranged between 98 and 100 percent, with the average being 99 percent. The Colorado Current Value, when multiplied by the equalization factor, determines the Colorado Actual Value, which is expected to increase from $9.2 billion in 2021 to $10.4 billion in 2023.

Q. PLEASE DESCRIBE THE REMAINING STEPS TAKEN TO ARRIVE AT THE ESTIMATED PROPERTY TAX FOR THE COMPANY.

A. After arriving at the Colorado Actual Value, it is multiplied by the Assessment Ratio to arrive at the Colorado Assessed Value. As a result of Colorado Senate Bill 22-238 enacted in May 2022, Colorado's Assessment Ratio was temporarily reduced for 2023 to 27.9 percent. Once the Colorado Assessed Value is calculated, it is multiplied by the tax rate to arrive at the property tax for the Company's utility property.

The total property tax for property valued by local county assessors is shown on line 27 of Public Attachment NK-1. The $456,000 estimated for 2023 is based on the $459,819 paid in 2021 (rounded to $456,000 for ease of accounting) for locally assessed property. The Company also added the forecasted property tax due from the wind projects discussed above. As shown on line 29 of Public

Attachment NK-1, the resulting property tax expense for the Total Company is $233.6 million for 2021 and is expected to increase to $255.5 million for 2023.

Q. WHAT DOES THE EFFECTIVE TAX RATE REPRESENT?

A. The effective tax rate as shown on line 25 of Public Attachment NK-1 represents the total property tax to be paid each year to all jurisdictions that levy property tax to the Company divided by each year's total assessed value for Colorado that generated that total property tax.

Q. WHAT TAX RATE IS THE COMPANY USING FOR ITS ESTIMATED PROPERTY TAX FOR 2023?

For 2023, the Company rounded its 2021 effective tax rate of 8.67 percent, or 8.70 percent. The 2021 rate is the latest information the Company has to date and it is continued through 2023 because the Company will not be able to calculate the 2023 effective tax rate until May 2024. The Company has seen an overall increase over the last several years in the effective tax rate for the Company. As such, using an effective tax rate from prior years means that the Company's actual tax liability may be underestimated for any future year.

C. Property Tax Expense and the Drivers Affecting Property Tax Expense

Q. PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES BETWEEN THE LEVEL OF TAXES FROM 2021 ACTUALS AND THE AMOUNT OF PROPERTY TAXES REFLECTED IN THE COMPANY'S COST OF SERVICE IN THIS RATE CASE.

A. As noted above, the Company has calculated a total of $255.5 million of property tax expense for 2023. As compared to the $233.6 million in total Company property tax expense for 2021 actuals, the $255.5 million property tax expense for this proceeding is an increase of approximately $21.9 million, or 9 percent.

Q. WHY ARE THE COMPANY'S PROPERTY TAXES FORECASTED TO INCREASE FROM 2021 TO 2023?

A. Changes to the investment in plant and operating income caused the majority of the change in property tax expense since Public Service's 2021 actuals.

Q. BRIEFLY EXPLAIN THE INVESTMENTS IN PLANT SINCE 2021.

A. As discussed above, the DPT always values the entire Company. Therefore, investments in all Company departments impact Total Company property tax expense. The Electric Department's property tax expense is estimated through a ratio of electric plant to total plant. Under this approach, the Electric Department investments remain in the electric property tax estimate, while the non-electric investments, such as new gas transmission lines, are removed. As a result of significant investments over the past several years, the overall net plant-in-service for the Company has been steadily increasing. Net plant-in-service for the entire

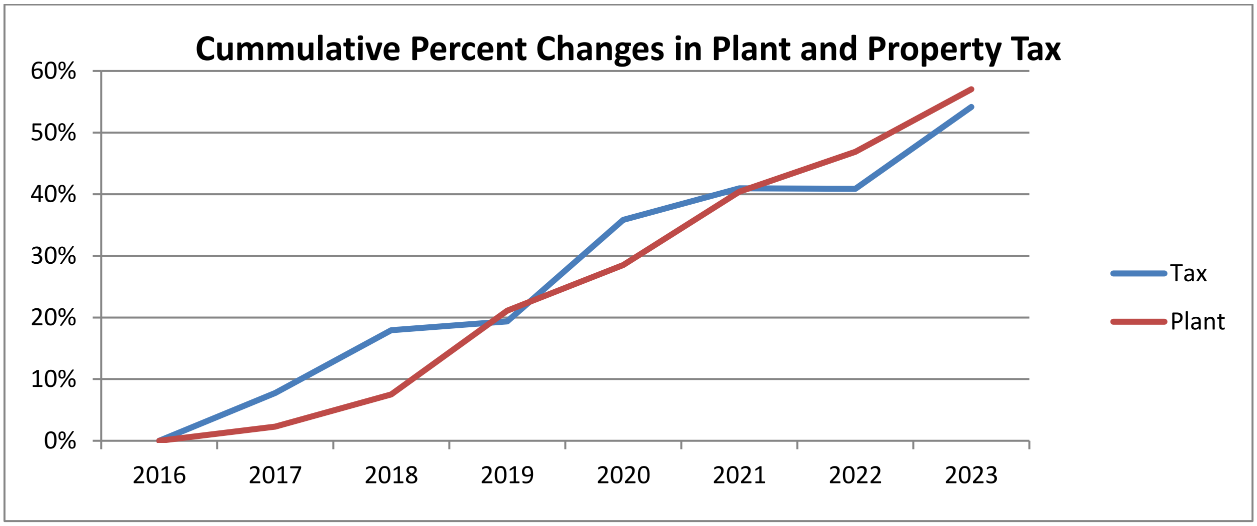
Company as calculated for property tax valuation and used in this rate case for purposes of setting the level of property tax expense in the cost of service will increase by $2.0 billion or 11.8 percent as compared to 2021.

The net plant-in-service includes significant investments in electric plant since 2021. For example, for the 2023 property tax year, based on plant balances forecasted for January 1, 2023, Public Service will have invested $509 million in the electric distribution system, increasing the gross plant balance from $6.2 billion to $6.7 billion from 2022 to 2023.

Q. TO WHAT EXTENT DO PROPERTY TAXES INCREASE AT THE SAME RATE AS PLANT?

A. As mentioned above, property taxes are primarily based on plant balances. Between property tax year 2016 and 2023, the net plant balance increased 57 percent while the property tax increased 54 percent. Figure NK-D-2, below, shows how closely property tax has trended with plant growth in that time period.

FIGURE NK-D-2:



Q. ARE THERE OTHER FACTORS THAT CAN CAUSE THE AMOUNT OF PROPERTY TAXES TO CHANGE?

A. Yes. In addition to increases in plant, the effective tax rate and the capitalization rate can both cause property taxes to change. Between 2016 and 2023, the effective tax rate increased from 8.29 percent to 8.70 percent, while the capitalization rate decreased from 8.04 percent to 7.71 percent. Both the effective tax rate increase and the capitalization rate decrease caused the Company's property tax liability to increase.

Q. HOW DO CHANGES IN THE CAPITALIZATION RATE IMPACT THE COMPANY'S PROPERTY TAX CALCULATION?

A. Capitalization rates have an inverse relationship with value. In order to derive an estimated value for the property of an operating public utility, an NOI selected by the DPT as representative of current Company business activity is divided by the capitalization rate.

Q. DOES THE COMPANY DO ANYTHING TO MANAGE THE OVERALL LEVEL OF PROPERTY TAX?

A. Yes. The Company routinely provides comments to the DPT on a variety of issues annually including cost of capital, changes to property, and changes to income.

Q. BASED ON THE DISCUSSION ABOVE, IS PLANT AN APPROPRIATE BASIS TO ALLOCATE PROPERTY TAX TO THE ELECTRIC DEPARTMENT?

A. Yes. Plant is the single largest component of rate base, which drives required earnings in the cost of service calculation. While NOI can fluctuate some from year-to-year, plant growth correlates well with property tax expense growth, and using plant balances to allocate property taxes to the electric utility provides an allocation basis that is cost-causative and consistent with ratemaking principles.

Q. FOR 2023, HOW ARE ALL OF THESE DRIVERS IMPACTING PUBLIC SERVICE'S PROPERTY TAX EXPENSE?

A. All of the drivers discussed above contribute to the overall calculation of property tax expense presented in Confidential and Public Attachment NK-1. Both the cost indicator of value and the income indicator of value increased for 2023 from 2021, the latest year of actual tax amounts. The Total System Unit Value increased by [redacted] between 2021 and 2023. Moreover, both the cost indicator of value and the income indicator of value feed into the $1.2 billion increase in the Colorado Actual Value between 2021 and 2023.

D. Accuracy of the Company's Property Tax Expense Calculations

Q. PLEASE EXPLAIN WHY THE COMPANY'S CALCULATION APPROPRIATELY FORECASTS PROPERTY TAX EXPENSE FOR 2023.

A. The DPT's valuation methodology has been in place for many years, and there have been very few changes to this methodology over the past 10 years. The DPT's methodology is stable, and the Company has substantial knowledge of the appraisal process and the detailed calculations of which it is comprised. Use of this stable methodology has resulted in property tax estimates in prior rate case proceedings that are near or below the actual property tax expense incurred by the Company. As I described above, the data presented to the Commission in the Company's most recent Phase I electric and gas rate cases (Proceeding Nos. 21AL-0317E and 22AL-0046G), as well as the new data presented in this Direct Testimony, demonstrate that the Company's property tax estimates end up being very close to the actual amount of property tax paid on an annual basis.

For this proceeding, the Company is estimating property taxes using the same methodology as these prior electric and gas rate cases. Just like in those prior matters, the Company has estimated Test Year Total System Unit Value based on the most recent estimated plant and income information available. As stated previously, the Company is using the latest effective tax rate, the 2021 tax rate, rounded to 8.70 percent. By using the 2021 tax rate, the Company is likely forecasting a conservative property tax estimate as effective tax rates tend to rise over time.

Q. OVERALL, IS THE AMOUNT OF PROPERTY TAX EXPENSE REQUESTED FOR RECOVERY BY PUBLIC SERVICE IN THIS PROCEEDING REASONABLE?

A. Yes. It is important to remember that while the Company works to manage the amount of property tax expense requested for recovery to the extent possible, the amount of property tax Public Service is required to pay is largely out of the Company's control. Increases in property tax rates result from a multitude of factors, like the passage of school district measures, for example, and eventually flow through to the levy rates used, in part, to determine, the Company's property tax liability. Public Service takes steps to mitigate the impact of increasing property tax expense in Colorado, though these steps do not absolve the Company from its obligation to pay property tax nor do these steps necessarily lessen the Company's property tax responsibility. In addition, continuing to pay the requisite assigned property tax is necessary to comply with governmental mandates and supports local Colorado communities and residents.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Naomi Koch

I am employed by XES, as Director, Tax Reporting. I earned a Bachelor of Science degree and a Master of Business Taxation degree from the University of Minnesota. I joined what is now Xcel Energy in 1999 in Tax Services, and have more than 20 years of corporate tax experience. Through this experience, I have become familiar with various provisions of the IRC and IRS regulations that affect public utilities. I also have become familiar with various state laws, utility commission rules, and court cases that relate to the treatment and calculation of tax expenses, including income tax, for ratemaking and utility regulatory purposes. In 2019, I also became responsible for the sales/use and property tax compliance and accounting for all Xcel Energy group companies, including Public Service. I have taken several courses related to accounting and taxation of public utilities offered by the Edison Electric Institute, the American Gas Association, Deloitte & Touche, PricewaterhouseCoopers, and Arthur Andersen.

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

* * * *

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 TARIFF PROPOSALS EFFECTIVE DECEMBER 31, 2022.	**) PROCEEDING NO. 22AL-XXXXE**

AFFIDAVIT OF NAOMI KOCH ON BEHALF OF PUBLIC SERVICE COMPANY OF COLORADO

I, Naomi Koch, 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 Minneapolis, Minnesota, this 22nd day of November, 2022.

Naomi Koch

Naomi Koch
Director, Tax Reporting

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

Andrew James Murphy

Notary Public

ANDREW JAMES MURPHY
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2025

My Commission expires Jan 31st, 2025