NOTICE OF CONFIDENTIALITY
PORTIONS OF THIS TESTIMONY AND ATTACHMENTS HAVE BEEN FILED UNDER SEAL.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

*** * * * ***

IN THE MATTER OF ADVICE NO. 1029-GAS OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO INCREASE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE FEBRUARY 29, 2024	)	**PROCEEDING NO. 24AL-_____G**

PUBLIC DIRECT TESTIMONY AND ATTACHMENTS OF LEAH LOVLEY

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
PORTIONS OF THIS TESTIMONY AND ATTACHMENTS HAVE BEEN FILED UNDER SEAL.

Confidential: Attachment LL-1C
Redactions on Pages 28, 32 and 33

January 29, 2024

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

*** * * * ***

IN THE MATTER OF ADVICE NO. 1029-GAS OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO INCREASE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE FEBRUARY 29, 2024	)	**PROCEEDING NO. 24AL-_____G**

TABLE OF CONTENTS

LIST OF ATTACHMENTS

Attachment LL-1C	Confidential Version Public Service Property Tax Calculation used for the 2023 Test Year
Attachment LL-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 NO. 1029-GAS OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO INCREASE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE FEBRUARY 29, 2024	)	**PROCEEDING NO. 24AL-_____G**

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF LEAH LOVLEY

I. INTRODUCTION, QUALIFICATIONS, AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Leah Lovley. 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 Manager, 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 Manager, Tax Reporting, I am responsible for overseeing sales/use tax 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 impact of income taxes, normalization, and property taxes on the cost of service that is supported by Company witness Mr. Arthur P. Freitas. I also describe the Inflation Reduction Act ("IRA"), which is federal climate and healthcare legislation that was enacted on August 16, 2022.[1]

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

A. Yes, I am sponsoring the Confidential and Public versions of Attachment LL-1 (Public Service Property Tax Calculation used for the Test Year).

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

II. ACCOUNTING FOR INCOME TAXES

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR 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, as did Company witness Mr. Mark P. Moeller. 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' 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 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 historical federal investment tax credit ("ITC").

Q. IN THE FIRST STEP OF THAT PROCESS 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. 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 a number of 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' Direct Testimony 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 at a high level, 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>Federal 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 $1.0 million gas R&E credits as reflected in Attachment APF-1, Schedule 201 to Mr. Freitas' Direct Testimony.

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 gas transmission engineering, including engineering for the Company's transmission integrity management program.

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.

D. <u>Federal and State Income Tax Rates</u>

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 3.4760 percent net state income tax rate.

Q. ARE THESE THE SAME TAX RATES PUBLIC SERVICE USED IN ITS LAST GAS RATE CASE?

A. For federal income tax, yes. For state income tax, no. The State of Colorado enacted an updated state income tax rate on December 27, 2022. Effective January 1, 2022, the State of Colorado corporate income tax rate is 4.4 percent. Because state income taxes are deductible for federal purposes, this state income tax rate is reduced by the associated federal benefit of 0.9240 percent (4.40 percent x 21 percent = 0.9240 percent). The resulting, net, state income tax rate is 3.4760 percent (4.4 percent less 0.9240 percent = 3.4760 percent).

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 in which 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 Private Letter

Rulings ("PLRs"). Congress addressed normalization for public utilities in IRC § 168(i)(9)-(10), which specifies 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. 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 required normalization treatment: the utility's federal income tax expense must 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 PUBLIC UTILITIES 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 calculated in the Company's cost of service.

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 IRA, which, as mentioned earlier, is federal climate and healthcare legislation that was enacted on August 16, 2022.[2]

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

A. Insofar as Public Service's gas operations are concerned, notable energy provisions of the IRA include:

- Extension and expansion of PTCs and ITCs;
- Transferability of energy tax credits;
- Implementation of a book minimum tax; and
- Potential incentives for certain homeowners if they choose to replace their gas appliances with electric appliances.

A. Changes to PTCs and ITCs

Q. PLEASE SUMMARIZE THE CHANGES TO PTCS AND ITCS.

A. In general, the IRA provides a 10-year extension of PTCs and ITCs at full value[3] 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

[2] Inflation Reduction Act of 2022, Public Law No. 117-169 (Aug. 16, 2022).
[3] 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.

community," such as near a former coal plant. To claim the full value of the PTCs or ITCs, companies must now meet certain prevailing wage and apprenticeship requirements for the construction, alteration, or repair of such projects.

The IRA expanded the types of projects that can generate PTCs to include solar, nuclear, and clean hydrogen. The IRA also expanded the types of projects that can generate ITCs to include stand-alone energy storage (with an ability to opt out of normalization requirements) and biogas.

Q. DOES THIS RATE PROCEEDING INCLUDE ANY INVESTMENTS THAT GENERATE PTCS OR ITCS?

A. No. The PTC and ITC provisions in the IRA are primarily focused on electricity production from clean energy sources. However, the company will pursue PTC and ITC benefit opportunities, if available, either directly, on investments it owns, or indirectly, through price reductions on purchases from producers that claimed these benefits.

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 generated in 2023 or later. However, transferability is not applicable to this proceeding because it does not include any PTCs or new ITCs.

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 the minimum tax 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 awaiting guidance 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. Appliance Electrification Incentives

Q. PLEASE BRIEFLY INTRODUCE IRA INCENTIVES FOR APPLIANCES.

A. At a high level, there are IRA incentives for residential retrofits, commercial building retrofits, residential new construction, and income-qualified customer electrification. These incentives can take the form of customer income tax credits and deductions, as well as rebates.

Q. IS THE COMPANY ADDRESSING THE IMPACT OF THESE INCENTIVES IN OTHER COMMISSION PROCEEDINGS?

A. Yes. It is my understanding that multiple Commission proceedings have considered or are considering the impact of such appliance incentives from the IRA. For example, the Company's Strategic Issues proceeding for Demand Side

Management ("DSM") and Beneficial Electrification (Proceeding No. 22A-0309EG) considered these IRA incentives, and the Company's more recently filed DSM plan in Proceeding No. 23A-0589EG considers the impact of such incentives as well. No action is required in this rate case relating to these incentives—the impact can be addressed in other appropriate proceedings before the Commission.

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 all the provisions of the IRA to Public Service are subject to change. As the benefits and requirements are better understood, Public Service will continue to evaluate how to use the provisions of the IRA to benefit its customers. Moreover, the Commission recently issued Decision No. C23-0811 in Proceeding No. 23M-0053ALL directing the Company to file semi-annual reports describing how Public Service is capturing the IRA benefits. The Company will be providing the requested information as required by the Commission, and these updates will assist in informing the Commission and stakeholders on the Company's efforts to provide our customers with the potential value opportunity of the IRA.

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 Mr. Jason J. Peuquet 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 2024 (i.e., plant-in-service as of January 1, 2024). The Company's property tax expense for calendar year 2024 is forecasted to be approximately $276.4 million (Total Company), which is allocated to the Gas Department by Company witness Mr. Freitas, and included in the cost of service to establish the most current baseline for the period rates will be in effect. The resulting forecasted property tax expense for calendar year 2024 for the Gas Department is $72.1 million.

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 assessed values set by the Colorado Division of Property Taxation ("DPT") for the entire Company 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, set by the DPT, of all of the Company's plant in the state. 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. BEFORE WE TURN TO A MORE DETAILED DESCRIPTION OF THE FACTORS AFFECTING THE COMPANY'S PROPERTY TAXES, CAN YOU EXPLAIN WHY PROPERTY TAX IS AN IMPORTANT ISSUE FOR THE COMPANY?

A. Yes. Property taxes are a significant expense for the Company, and thus a significant component for the cost of service that the Company prudently takes efforts to manage. However, it is important to recognize that the property taxes paid by the Company function as an investment in the community, benefiting residents, including individuals and families in areas served by the Company.

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 remains at the local level to help fund many valuable 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 TAXES 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 50.7 percent of all dollars and counties receiving approximately 25.6 percent. A list of the top five school districts and counties by percentage of total property tax paid by Public Service in 2023 is as follows:

TABLE LL-D-1:
School Districts & Counties by Percentage of Total Property Taxes Paid

School District	Percentage
Denver School District	6.7%
Jefferson School District	4.4%
Pueblo School District	4.2%
Mapleton School District	3.2%
Brush School District	3.0%

County	Percentage
Adams County	3.9%
Denver County	3.5%
Pueblo County	3.2%
Jefferson County	2.6%
Weld County	1.9%

Q. CONTINUING WITH AN OVERVIEW OF THE PROPERTY TAX PROCESS, HOW DOES PUBLIC SERVICE ALLOCATE A PORTION OF THE TOTAL COMPANY PROPERTY TAX EXPENSE TO THE GAS 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 Gas Department, a certain amount of those property taxes is further allocated to the retail jurisdiction.

Q. IS PLANT AN APPROPRIATE BASIS ON WHICH TO ALLOCATE PROPERTY TAX TO THE GAS DEPARTMENT?

A. Yes. Plant is the single largest component of rate base, which drives required earnings in the cost of service calculation. While Net Operating Income ("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 gas utility provides an allocation basis that is cost causative and consistent with ratemaking principles.

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 2022. Payments for 2022 property taxes were made at the end of April 2023.

Q. WHAT WAS THE ACTUAL PROPERTY TAX EXPENSE FOR THE COMPANY FOR 2022?

A. The Total Company property tax liability for 2022 was $237.4 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 2023 AND 2024?

A. Public Service is forecasting $245.6 million (Total Company) of property tax expense for 2023 and $276.4 million (Total Company) of property tax expense for 2024, a $39.0 million increase since 2022, the latest year of actual tax expense amounts.

Q. WHAT IS DRIVING THE $39.0 MILLION INCREASE IN PROPERTY TAX EXPENSE?

A. The $39.0 million increase is largely due to increases in Company plant and in the Company's weighted average NOI. Public Service's NOI and other property tax concepts are discussed in greater detail below. This projected property tax increase is conservative—it does not 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 two-year weighted average used to calculate property tax liability in the income approach,

as discussed below) to increase by [redacted], or [redacted], from 2022 to 2024.

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 2022 and 2023, will be $2.3 billion and will impact the 2024 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. The reason I describe the DPT's process is that our analysis of property tax expense for this rate case tracks closely with the DPT's process.

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, as well as some non-operating personal property, are valued by county assessors. The operating property is considered to include all real[4] and personal[5] 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:

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

FIGURE LL-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 2024 property tax assessment will be based on the Company's financial data from year-end 2023. Again, the DPT's process values all of the Company's property in Colorado; it is not until the end of the process that a gas-specific amount of tax is derived.

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

A. Attachment LL-1 to my Direct Testimony shows how the amount of Total Company property tax is calculated. To arrive at the cost indicator of value on line 4 of Attachment LL-1, the Company follows the DPT's methodology of using the depreciated value of the Company's operating property, which includes all 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 Attachment LL-1, the cost indicator of value based on the depreciated value used by the DPT was $11.2 billion for 2022. The cost indicator of value is forecasted to be $12.7 billion for 2024.

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 has typically used a weighted average of the previous three years' NOI from the Company's FERC Form 1. The DPT's NOI formula includes operating revenue less operating and maintenance expense, depreciation, and income tax, but it does not include interest expense or non-utility income. Beginning with the 2023 property tax year, the DPT began to use a two-year weighted average NOI (year 1 is weighted at 66 percent and year 2 is weighted at 33 percent) as they felt this approach more accurately represents the value of the assets. The 2024 forecasted property taxes were calculated using the

two-year weighted average NOI. Next, the DPT applies a capitalization rate to the weighted average NOI.

A capitalization rate is a weighted average cost of capital, derived from market data, that is intended to be used as a discount factor to convert anticipated future income into present value. Each year, the DPT develops an industry-wide capitalization rate, incorporating all levels of corporate equity and debt for the utility industry, as well as data from the market as a whole.

The income approach calculation divides the weighted average NOI by the capitalization rate to determine the income indicator of value. For 2022, the Company's NOI to capitalize was $806.6 million and the DPT-determined capitalization rate was 7.71 percent. The resulting income indicator of value was $10.5 billion. For our 2024 forecast, the Company's NOI to capitalize is forecasted to be [redacted], and the capitalization rate used is 8.15 percent. This 8.15 percent capitalization rate is the 2023 capitalization rate determined by the DPT--this is the most recent information the Company has to date. The resulting income indicator of value, for 2024, is [redacted].

Q. HOW IS THE TOTAL SYSTEM UNIT VALUE SHOWN ON ATTACHMENT LL-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 as shown on lines 16 and 17 of Confidential Attachment LL-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 2022 and [redacted] for 2024.

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 for which the property tax is assessed separately (e.g., Colorado statute[6] mandates a specific valuation method for renewable energy property so the value of that property is removed from the larger valuation process); property that is fully paid for by another party (such as in a joint 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). These deductions are intended to ensure that all exempted items are removed and no assets will be taxed twice. As shown in Confidential Attachment LL-1, deductions are approximately $1.3 billion for 2022 and [redacted] for 2024.

Subtracting the 2024 deductions to value from the Total System Unit Value results in a Colorado Current Value of $10.9 billion (as shown on line 21 of Confidential Attachment LL-1).

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

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 2024 forecast, $868.1 million of wind generation and other renewable-related property was removed from the Company's Colorado Current Value, by way of a Deduction to Market Value, in order to not double count that property. Tax associated with that renewable property, totaling $2.9 million, was then brought back in to overall property tax expense (as shown on Line 30 of Confidential and Public Attachment LL-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. Attachment LL-1 shows a 98 percent equalization factor for 2024. Between 2018 and 2022, the equalization factor ranged between 97 and 99 percent, with the average being 98 percent. The Colorado Current Value, when multiplied by the equalization factor, determines the

Colorado Actual Value, which is expected to increase from $9.1 billion in 2022 to $10.7 billion in 2024.

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

A. The Colorado Actual Value 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. The Assessment Ratio returns to 29 percent for 2024. Once the Colorado Assessed Value is calculated, it is multiplied by the effective tax rate to arrive at the property tax for the Company's utility property.

The total property tax for Company property valued by local county assessors is shown on line 28 of Attachment LL-1. The $552,000 estimated for 2024 is based on the $546,844 paid for 2022 (rounded to $552,000, i.e., $46,000/per month, so that a round monthly figure can be entered 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 31 of Public Attachment LL-1, the resulting property tax expense for the Total Company is $237.4 million for 2022 and is expected to increase to $276.4 million for 2024.

Q. WHAT DOES THE EFFECTIVE TAX RATE REPRESENT?

A. The effective tax rate as shown on line 26 of Attachment LL-1 represents the total property tax to be paid each year to all jurisdictions that levy property tax on 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 2024?

A. For 2024, the Company utilized its 2022 effective tax rate of 8.80 percent. The 2022 rate is the latest information the Company has to date, and the Company uses this rate for its calculations through 2024 because the actual data that will be used to calculate the 2024 effective tax rate will not be available until May 2025. 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. <u>Property Tax Expense and the Drivers Affecting Property Tax Expense</u>

Q. PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES BETWEEN THE LEVEL OF TAXES FROM 2022 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 $276.4 million of property tax expense for 2024 (Total Company), with resulting forecasted property tax expense for the Gas Department of $72.1 million. As compared to the $237.4 million in total Company property tax expense for 2022 actuals, the $276.4 million

property tax expense for this proceeding is an increase of approximately $39.0 million, or 16.4 percent.

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

A. Comparing the Total Company $276.4 million of property tax expense for 2024 to the $257.1 million in Total Company property tax expense included in the cost of service in the 2022 Combined Gas Rate Case[7], the Total Company property tax expense for this proceeding is an increase of approximately $19.3 million, or 7.5 percent.

Q. WHY ARE THE COMPANY'S PROPERTY TAXES FORECASTED TO INCREASE FROM 2022 TO 2024?

A. As explained above, the DPT's valuation under the cost approach is based substantially on the Company's plant, and the DPT's valuation under the income approach is based substantially on the Company's NOI. Both of these factors—net plant and NOI—are projected to be higher for 2024 than they were for 2022. Changes to the investment in plant and operating income caused the majority of the change in property tax expense since Public Service's 2022 actuals.

[7] Proceeding 22AL-0046G.

Q. BRIEFLY EXPLAIN THE INVESTMENTS IN PLANT SINCE 2022.

A. As discussed above, the DPT always values the entire Company. Therefore, investments in all Company departments impact Total Company property tax expense. The Gas Department's property tax expense is estimated through a ratio of gas plant to total plant. Under this approach, the Gas Department investments remain in the gas property tax estimate, while the non-gas investments, such as new electric 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 $2.3 billion, or 13.5 percent, as compared to 2022.

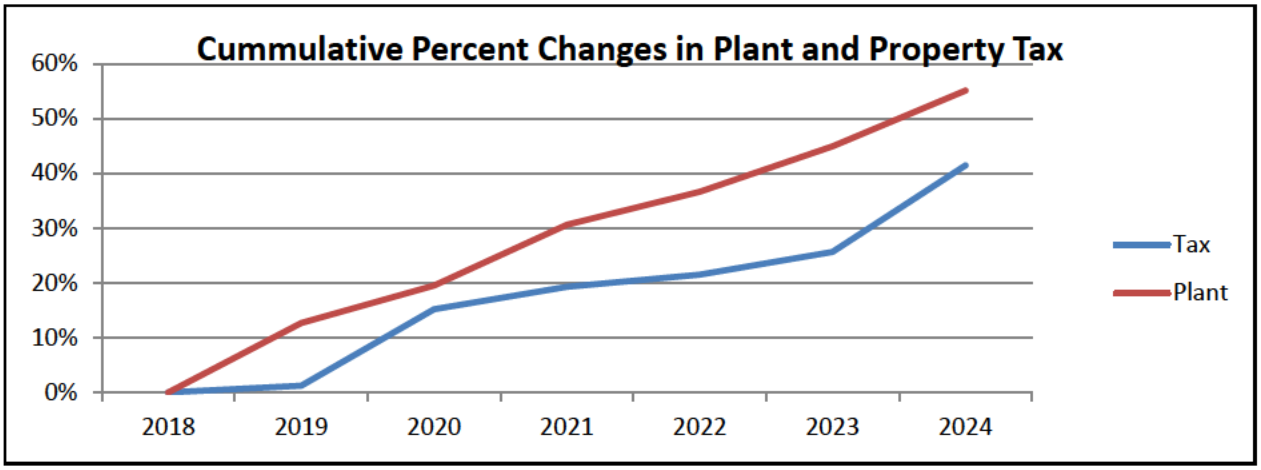
The net plant-in-service includes significant investments in gas plant since 2022. For example, for the 2024 property tax year, based on plant balances forecasted for January 1, 2024, Public Service's gross plant balance will increase from $5.5 billion to $5.9 billion. Capital investments in the gas system since the last case are discussed further in Company Witness Mr. A. Ray Gardner's Direct Testimony.

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

A. As mentioned above, the DPT's valuation under the cost approach, and thus the resulting property taxes, is primarily based on plant balances. Between property

tax year 2018 and 2024, the net plant balance increased 55 percent while the property tax increased 41 percent. Figure LL-D-2, below, shows how property tax has trended with plant growth in that time period.

FIGURE LL-D-2:



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

A. Yes. The effective tax rate, capitalization rate and NOI weightings can all cause property taxes to change.

Q. HOW DOES THE EFFECTIVE TAX RATE IMPACT PROPERTY TAX EXPENSE?

A. Property tax expense moves in tandem with changes in the effective tax rate. As the effective tax rate increases, property tax will increase and as the rate decreases so will property tax. Between 2018 and 2022, the effective tax rate increased from 8.59 percent to 8.80 percent, contributing to the increase in property tax expense over the last five years. As discussed previously, the

effective tax rate for 2023 and 2024 used by the Company is 8.80 percent as that is the most up to date information available.

Q. HOW DOES THE CAPITALIZATION RATE IMPACT PROPERTY TAX EXPENSE?

A. The capitalization rate has an inverse relationship with property taxes, as the capitalization rate increases the property tax expense will decrease. The capitalization rate increased from 7.70 percent in 2018 to 8.15 percent 2023, which has partially offset the increases in the effective tax rate.

Q. HOW DOES THE NOI WEIGHTING IMPACT PROPERTY TAX EXPENSE?

A. Changes in NOI weightings can cause property taxes to increase or decrease depending on how the weightings are changed by the DPT and what the NOI is for that year. Between 2018 and 2022 the DPT's weighting were stable. However, in 2023 the weightings were changed from a three-year average to a two-year average causing the property taxes to increase for 2023 and 2024.

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

A. Yes. The Company routinely has discussions with the DPT on a variety of issues. During the annual valuation process we engage in multiple discussions with the DPT that focus on the cost of capital, changes to property, and changes to income. We also conduct an informal appeal discussion based on a proposed valuation. Through these discussions we have been able to negotiate a reasonable final

assessed value and avoid the time and expense associated with the formal appeal process.

Q. FOR 2024, HOW ARE ALL OF THESE DRIVERS IMPACTING PUBLIC SERVICE'S PROPERTY TAX EXPENSE?

A. The drivers discussed above contribute to the overall calculation of property tax expense presented in Attachment LL-1. Both the cost indicator of value and the income indicator of value increased for 2024 from 2022, the latest year of actual tax amounts. The Total System Unit Value increased by $1.6 billion between 2022 and 2024. Moreover, both the cost indicator of value and the income indicator of value feed into the $1.6 billion increase in the Colorado Actual Value between 2022 and 2024.

D. <u>Accuracy of the Company's Property Tax Expense Calculations</u>

Q. PLEASE EXPLAIN WHY THE COMPANY'S CALCULATION APPROPRIATELY FORECASTS PROPERTY TAX EXPENSE FOR 2024.

A. The DPT's valuation methodology has been in place for many years, and there have been minimal changes to this methodology in recent years. The DPT's methodology is stable, and the Company has substantial knowledge of the DPT's valuation process and the detailed calculations of which it is comprised. The Company's 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.

For this proceeding, the Company is estimating property taxes following the DPT's valuation methodology, just as we did in prior electric and gas rate cases. Just as 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 2022 tax rate of 8.80 percent. By using the 2022 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, for example the passage of school district measures, 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 as I

discussed above, supports local Colorado communities and residents. Finally, as Mr. Peuquet discusses in his Direct Testimony, the Property Tax Tracker ensures customers only pay for the actual amount of property tax expenses incurred by the Company.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Leah Lovley

I am employed by XES, as Manager, Tax Reporting. I earned a Bachelor of Science degree from the College of Saint Benedict and am a Certified Public Accountant. I joined Xcel Energy in 2015 in Tax Services and have more than 13 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 2022, I became responsible for the sales/use tax 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, and PricewaterhouseCoopers.

Public Service Company

		2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Forecast
	SYSTEM UNIT VALUE CALCULATION							
1	**Cost Indicator**							
2	Net Plant per FERC Form 1	12,709,994,941	14,318,530,770	15,193,107,333	16,598,532,140	17,363,434,030	18,422,200,686	19,704,552,713
3	Less: Economic Obsolescence	(4,188,220,919)	(4,853,981,931)	(4,588,318,415)	(5,307,581,449)	(6,190,651,181)	(6,678,494,696)	(7,012,060,334)
4	**Cost Indicator of Value**	**8,521,774,021**	**9,464,548,839**	**10,604,788,918**	**11,290,950,692**	**11,172,782,849**	**11,743,705,990**	**12,692,492,380**
5								
6	**Income Indicator**							
7	FERC NOI (PY3)	629,079,318	624,467,066	640,231,644	693,831,416	780,180,586	N/A	[redacted]
8	FERC NOI (PY2)	624,467,066	640,231,644	693,831,416	780,180,586	764,579,469	843,344,015	[redacted]
9	FERC NOI (PY1)	640,231,644	693,831,416	780,180,586	764,579,469	843,344,015	[redacted]	
10								
11	NOI to Capitalize (Various Weightings)	633,118,064	664,404,100	704,747,882	757,988,499	806,561,928	[redacted]	[redacted]
12	Capitalization Rate	7.70%	7.57%	7.24%	7.37%	7.71%	8.15%	8.15%
13	**Income Indicator of Value**	**8,222,248,698**	**8,780,624,904**	**9,730,811,355**	**10,284,444,312**	**10,455,850,945**	[redacted]	[redacted]
14								
15	**Apply Weightings**							
16	Cost Indicator x 40%	3,408,709,600	3,785,819,520	4,241,915,560	4,516,380,277	4,469,113,140	4,697,482,396	5,076,996,952
17	Income Indicator x 60%	4,933,349,220	5,268,374,940	5,838,486,840	6,170,666,587	6,273,510,567	[redacted]	[redacted]
18	**Total System Unit Value**	**8,342,058,820**	**9,054,194,460**	**10,080,402,400**	**10,687,046,864**	**10,742,623,706**	**11,425,122,244**	**12,293,887,234**
19								
20	Deductions to Market Value	373,807,874	1,028,962,669	1,032,582,880	1,409,305,586	1,339,146,851	[redacted]	[redacted]
21	Colorado Current Value	7,968,250,946	8,025,231,791	9,047,819,520	9,277,741,278	9,403,476,855	10,063,609,140	10,915,715,363
22	Equalization Factor	98%	99%	98%	99%	97%	98%	98%
23	**Colorado Actual Value**	**7,808,885,927**	**7,944,979,473**	**8,866,863,130**	**9,184,963,865**	**9,121,372,550**	**9,862,336,957**	**10,697,401,056**
24	Assessment Ratio	29%	29%	29%	29%	29%	28%	29%
25	**Colorado Assessed Value**	**2,264,576,919**	**2,304,044,047**	**2,571,390,308**	**2,663,639,521**	**2,645,198,039**	**2,751,592,011**	**3,102,246,306**
26	Tax Rate	8.59%	8.53%	8.66%	8.65%	8.80%	8.80%	8.80%
27	**Estimated Property Tax**	**194,520,000**	**196,505,548**	**222,717,095**	**230,372,639**	**232,793,515**	**242,140,097**	**272,997,675**
28	Add: Locally Assessed (Chiller Plant)	911,887	856,353	456,740	459,819	546,844	552,000	552,000
29	Add: Manchief taxes (2022 only)	-	-	-	-	1,179,062	-	-
30	Add: Wind Farm Taxes	-	453,947	1,957,795	2,283,115	2,896,349	2,892,000	2,892,000
31	**Total Property Tax**	**195,431,887**	**197,815,848**	**225,131,630**	**233,115,573**	**237,415,770**	**245,584,097**	**276,441,675**
32								
33	**FORECASTED PROPERTY TAX (ROUNDED)**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**245,580,000**	**276,444,000**