Public Service Company of Colorado
Gas Department
Multi-Year Plan

Earnings Test Sharing Mechanism
Calculation Methodologies and Adjustments
for 2018 – 2020 Calendar Year Reports

RATE BASE

1. Rate Base will be calculated using a 13-month average of month-end balances except for Cash Working Capital and Accumulated Deferred Income Tax (“ADIT”) balances.

2. The ADIT balances are calculated using end of year balances and prorated consistent with Treasury Regulations.

3. Common plant is allocated to the electric, gas, thermal energy and non-regulated departments based on an annual study of all common plant assets and assigning an allocation method for each type of asset.

4. An adjustment is made to eliminate all plant and plant-related costs associated with the Pipeline System Integrity Adjustment (“PSIA”) rider for 2018 prior to these costs rolling into base rates January 1, 2019.

5. An adjustment is made to eliminate from the common general plant in-service balances the amount of costs associated with SmartGridCity™ (“SGC”) assets that are allocated to the gas department. These assets are not recoverable from gas customers.

6. CWIP will be included in rate base with an Allowance for Funds Used During Construction (“AFUDC”) addition to earnings. The Company will not annualize the AFUDC addition to earnings.

7. An adjustment is made to eliminate contractor retentions from CWIP.

8. Adjustments to rate base for changes after the end of the calendar year are not included.

9. Capital lease assets are not included in rate base.

10. Plant Held for Future Use (“PHFU”) is included in rate base;

11. The gas stored underground inventory balance is not included in base rates; it is recovered through the Gas Cost Adjustment (“GCA”).

12. An adjustment is made to eliminate a portion of the materials and supplies inventory balance allocated to construction-related projects.

13. Cash working capital components consist of gas purchased for resale, operation and maintenance expenses ("O&M expense"), both directly incurred by the Company and charges from Xcel Energy Services, Inc., paid time off, taxes other than income (payroll taxes, property taxes, sales and use taxes), federal and state income taxes and franchise fees and sales taxes paid. The cash working capital factors used are based on a lead-lag study approved in the current gas rate case.

14. The Legacy Pre-Paid Pension Asset is recognized in rate base on a pre-tax basis;

15. The Legacy Pre-Paid Pension Asset and related ADIT balances at December 31, 2014, will be amortized over 15 years. The 13-month average of the unamortized balances of the Pre-Paid Pension Asset and the associated ADIT will be included in rate base.

16. The New Pre-Paid Pension Asset and related ADIT balances after December 31, 2014 will be included in rate base at a 13-month average balance.

17. The retiree medical (FAS 106), self-insured long term disability (FAS 112), and non-qualified pension assets/liabilities are included in rate base on a pre-tax basis at a 13-month average balance.

18. Unamortized balances of other regulatory assets and liabilities are included in rate base.

19. The ADIT reserve is a reduction to rate base, as opposed to a cost-free component in the capital structure. The ADIT balances will be functionalized. Adjustments to ADIT include eliminating amounts that are not included in the cost of service calculation, including adjustments related to plant adjustments, and including interest on CWIP.

20. The Company will calculate its earnings for purposes of the Earnings Test, using full tax normalization, allowing the Company to provide for deferred taxes on all book/tax timing differences, including any offset to ADIT for net operating losses ("NOL") or NOL carry forward applicable to the Company's gas department for income tax purposes.

21. Deductions from rate base include customer deposits and customer advances for construction.

REVENUES

22. Retail Base Rate Revenue does not include revenues billed through the following rider and fuel recovery mechanisms: GCA, gas Demand Side Management ("DSM") Cost Adjustment and PSIA. In addition, revenues billed through a General Rate Schedule Adjustment ("GRSA") rider associated with any Earnings Test Sharing will also be excluded from the Earnings Test calculation. Any costs or incentives associated with these riders and fuel recovery mechanisms are eliminated from the Earnings Test calculation.

23. Retail base rate revenue does not include unbilled revenue, or adjustments to account for customer additions or losses to the calendar year sales or base rate revenues;

24. The revenues collected for the Gas Affordability Program ("GAP") that are included in the Service & Facility monthly charge, will not be included in base rate revenue in the Earnings Test calculation. These revenues are tracked on the balance sheet along with the program expenditures.

25. Gas sales will be normalized for weather. The weather normalization method will be based on the methodology approved in the current gas rate case.

26. Adjustments will be made to Miscellaneous Revenue to eliminate the rate refunds, and Quality of Service Plan bill credits.

27. Residential late payment revenues will be excluded from the cost of service calculation. The Company will continue to donate the residential late payment revenues to Energy Outreach Colorado, and will exclude the donation from the Earnings Test calculation.

28. Include an adjustment to revenue to remove the PSIA in base rates amount in 2018 before the PSIA rolls into base rates January 1, 2019.

EXPENSES

29. Purchased gas costs recovered through the GCA are eliminated from the determination of revenue requirements.

30. All labor expenses recorded in FERC Account 807 will be reclassified from purchased gas costs to Other Gas Supply O&M expense.

31. Eliminate amounts that are booked in calendar years 2018, 2019, or 2020 that are applicable to periods prior to 2018. These adjustments are known as out-of-period accounting entries.

32. Expenses associated with the Front Range Pipeline are excluded from the Earnings Test calculation.

33. Eliminate all expenses associated with the PSIA rider, including, depreciation and income tax expenses for 2018 prior to these costs rolling into base rates January 1, 2019.

34. Damage prevention O&M expenses included in the Earnings Test calculation will be $12,763,072 per year. Amounts greater than or less than this amount will be deferred in a Regulatory Asset/Liability account.

35. Damage prevention expense of $2,913,447, deferred through December 31, 2017 will be amortized beginning March 1, 2018 through December 31, 2020.

36. Emergency response expense of $6,006,234, deferred through December 31, 2017 will be amortized beginning March 1, 2018 through December 31, 2020.

37. Work Asset Management depreciation expense of $2,630,188, deferred through December 31, 2017 will be amortized beginning March 1, 2018 through December 31, 2020.

38. Interest on customer deposits is included in Customer Operations expense.

39. DSM costs are excluded from the Earnings Test calculation.

40. Advertising expense related to specific energy conservation, safety, and customer programs and services are included in the Earnings Test calculation.

41. Advertising expense related to marketing, promotion, community relations, image and political ads are eliminated.

42. All lobbying expenses and donations are excluded from the Earnings Test calculation.

43. Executive long-term incentive pay is not included in the Earnings Test calculation.

44. Any amounts paid to employees for their Annual Incentive Pay ("AIP") will be capped at 15% of salary.

45. Discretionary pay is not included in the Earnings Test calculation.

46. Employee expenses that do not meet corporate guidelines will not be included in the Earnings Test calculation.

47. The Legacy Pre-Paid Pension Asset and related ADIT balances at December 31, 2014, will be amortized over 15 years.

48. Qualified pension and non-qualified pension expenses included in the Earnings Test calculation will be equal to $9,580,200 in 2018, $9,231,806 in 2019, and $9,063,589 in 2020. Amounts greater than or less than this amount will be deferred in a Regulatory Asset/Liability account.

49. Qualified pension and non-qualified pension expenses of ($3,588,049), deferred through December 31, 2017 will be amortized beginning March 1, 2018 through December 31, 2020.

50. Property tax expenses included in the Earnings Test calculation will be equal to $34,821,239 in 2018, $42,914,738 in 2019, and $46,399,857 in 2020. Amounts greater than or less than this amount will be deferred in a Regulatory Asset/Liability account.

51. Property tax expense deferred in 2018 will be amortized beginning July 1, 2019 through December 31, 2020.

52. Property tax expense of $12,597,288, deferred through December 31, 2017 will be amortized beginning March 1, 2018 through December 31, 2020.

53. Rate case expenses associated with the current gas rate case equal to $1,073,682 will be amortized beginning March 1, 2018 through December 31, 2020.

54. 8.55 percent of aviation expenses associated with the corporate aircraft will be included in the Earnings Test calculation.

55. Cost allocation between regulated and non-regulated business activities is based on the Cost Allocation Manual and the Fully Distributed Cost Allocation Study filed in the current gas rate case. The Company will identify and provide the basis for any changes to cost allocation methodologies with the annual Earnings Test filing.

56. Depreciation expense is based on the depreciation rates approved in Proceeding No. 15AL-0135G, with limited changes proposed to common, general, and transmission and distribution gas mains functions.

57. Adjustments to depreciation and amortization expense are made to correspond with adjustments made to plant and accumulated depreciation, or to exclude amounts not included in the Earnings Test calculation.

58. The environmental clean-up costs (net of any credits) at the Boulder Manufactured Gas Plant ("MGP") site of $50,839 through December 31, 2016 will be amortized beginning March 1, 2018 through December 31, 2020.

59. Adjustments to payroll taxes are made to correspond to labor adjustments made to O&M expense, e.g., aviation expenses, executive long-term incentive costs.

60. Gain or loss on the sale of land retained by the company and gain or loss on the sale of assets split 50/50 between the company and customers.

61. Current federal and state income taxes are calculated as follows: taxable income is determined by using the return on rate base, then synchronized interest expense is deducted, taxable additions/deductions are added, and permanent tax differences are added, then state and federal income taxes are applied.

62. Adjustments to current and deferred income tax expense are made to correspond with adjustments made to plant, to include interest on CWIP, or to exclude amounts not included in the Earnings Test calculation.

63. Income tax credits and the amortization of Investment Tax Credits are included in total income tax expense.

64. Include an offset to earnings for AFUDC.

<u>CAPITAL STRUCTURE</u>

65. The capital structure ratio will be based on year-end actual balances. Adjustments are made to the capital structure to eliminate the following items: 1) notes payable/receivable with subsidiaries; 2) investment in subsidiaries; 3) subsidiary retained earnings; 4) net non-utility plant; 5) other investments at cost; 6) other funds; and 7) other comprehensive income.

66. The cost of debt corresponds with the debt balances in the capital structure, and includes bond premiums or discounts, underwriting expenses, and other expenses of issue.

67. The return on equity for measuring any sharing under the Earnings Test calculation in is 10.00%. If the Company earns a return on equity in excess of these levels, earnings will be shared with customers using the following structures:

	Sharing Percentages	
Earned Return on Equity	Customers	Company
≤ 10.00%	0%	100%
> 10.01% ≤ 12.00%	50%	50%
> 12.01%	100%	0%

JURISDICTIONAL ALLOCATION FACTORS

68. The allocation between the retail and wholesale jurisdictions is performed on a line-by-line basis for both rate base and earnings based on either a fundamental allocator or a derived allocator. The fundamental allocators are the peak day demand, annual consumption and total customer allocators.