NOTICE OF CONFIDENTIALITY
A SECTION OF THIS TESTIMONY HAS BEEN FILED UNDER SEAL

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

* * * * *

RE: IN THE MATTER OF ADVICE LETTER NO. 912-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE ON 30-DAYS NOTICE.	**)))))))**	**PROCEEDING NO. 17AL-_____G**

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF MARY P. SCHELL

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
A SECTION OF THIS TESTIMONY HAS BEEN FILED UNDER SEAL

Confidential: Page 39, Page 40

June 2, 2017

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

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1 **SUMMARY OF THE DIRECT TESTIMONY OF MARY P. SCHELL**

2 Ms. Mary P. Schell is Director, Corporate Financial Policy of Xcel Energy
3 Services Inc. ("XES"). In this position, Ms. Schell is responsible for implementing the
4 financing required to achieve target capital structure objectives of Public Service
5 Company of Colorado ("Public Service" or "Company"), the other utility subsidiaries of
6 Xcel Energy Inc. ("Xcel Energy"), and Xcel Energy itself. She is also responsible for
7 developing the necessary regulatory applications and testimony to gain regulatory
8 approval for financing and to support financial integrity.

9 In her testimony, Ms. Schell provides a current assessment of Public Service's
10 financial integrity and explains that maintaining a strong credit quality enables the
11 Company to have access to capital markets on favorable terms relative to the market
12 conditions. As part of this portion of her testimony, Ms. Schell discusses rating agency
13 evaluation criteria. Ms. Schell states that the Company currently has an A- corporate
14 credit rating (or its equivalent) from the major rating agencies. She also shows how

1 Public Service's stable financial health has benefitted customers during the last several
2 years by providing a lower overall cost of debt and financing flexibility.

3 Ms. Schell supports the establishment of a regulated capital structure consisting
4 of 55.25 percent equity and 44.75 percent long-term debt for the gas utility portion of the
5 Company. The Company strives to maintain a consistent capital structure for both the
6 gas and electric portions of the Company, and the use of a 55.25 percent equity ratio
7 will allow the Company to satisfy the commitment it made in Proceeding No. 14AL-
8 0660E, the Company's last electric Phase I Rate Case, to propose an equity ratio lower
9 than 56 percent in its next electric base rate case. As Ms. Schell explains, a 55.25
10 percent regulated equity ratio, along with timely cost recovery to allow the Company an
11 opportunity to earn its authorized return on equity, will continue to support Public
12 Service's A- credit rating through the Multi-Year Plan ("MYP") period.

13 Ms. Schell next discusses the relationship between the Company's regulated
14 capital structure and its economic capital structure, which takes into account all debt
15 and imputed debt associated with debt-like obligations, including operating leases,
16 power purchase agreements, and other adjustments. Ms. Schell testifies that a
17 regulated capital structure containing 55.25 percent equity will provide Public Service
18 with sufficient credit metrics to support its current bond rating during the three-year
19 period of the MYP.

20 Ms. Schell provides support for the 4.47 percent cost of long-term debt reflected
21 in the January 1, 2016 through December 31, 2016 Historical Test Year ("HTY"), and
22 she explains that the Company's strong financial health has been an important driver of

1 the reduction from the 4.50 percent authorized in the last gas rate case (Proceeding No.
2 15AL-0135G). She also supports the long-term debt rates forecasted for each year of
3 the MYP.

4 Finally, Ms. Schell presents the Company's weighted average cost of capital for
5 each year of the MYP, which are 7.49 percent for 2018, 7.47 percent for 2019, and 7.49
6 percent for 2020. Each year's weighted average cost of capital is based on the
7 Company's proposed capital structure of 55.25 percent equity and 44.75 percent long-
8 term debt, the forecasted cost of long-term debt for that year, and the 10.0 percent
9 return on equity recommended by Company witness Mr. John Reed.

**BEFORE THE PUBLIC UTILITIES COMMISSION
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CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF MARY P. SCHELL

TABLE OF CONTENTS

SECTION **PAGE**

I. INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY 9

II. FINANCIAL INTEGRITY 13

III. RATING AGENCY METHODOLOGY 23

IV. PUBLIC SERVICE'S FINANCIAL INTEGRITY 31

V. CAPITAL STRUCTURE 34

VI. COST OF LONG-TERM DEBT 41

VII. CONCLUSION 43

LIST OF ATTACHMENTS

Attachment	Description
Attachment MPS-1	Credit Ratings Descriptions
Attachment MPS-2	Standard & Poor's *Key Credit Factors for the Regulated Utilities Industry*
Attachment MPS-3	S&P's Corporate Methodology: *Ratios and Adjustments.*
Attachment MPS-4	Moody's: *Regulated Electric and Gas Utilities*
Attachment MPS-5	Credit Metrics at 55%, 54% and 56% regulated equity ratios.
Attachment MPS-6	Moody's August 11, 2016 *Credit Opinion, Public Service Company of Colorado*
Attachment MPS-7	Moody's Outlook, November 4, 2016, *Timely Cost-Recovery Drives Stable Outlook*
Attachment MPS-8	S&P August 16, 2016: *Ratings Direct: Public Service Company of Colorado.*
Attachment MPS-9	Fitch: July 19, 2016. *Public Service Company of Colorado.*
Attachment MPS-10	Moody's Sector in Depth, March 15, 2017. *Tax Reform to Increase Credit Risk, Impact Dependent on Regulatory Response.*

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2018 Forward Test Year	The 12 months ending December 31, 2018
2019 Forward Test Year	The 12 months ending December 31, 2019
2020 Forward Test Year	The 12 months ending December 31, 2020
CACJA	Clean Air – Clean Jobs Act
CCR	Corporate Credit Rating (S&P)
CFO	Cash from operations
Commission	Colorado Public Utilities Commission or CPUC
DSMCA	Demand - Side Management Cost Adjustment
EBITDA	Earnings Before Interest, Taxes, & Depreciation and Amortization
FFO	Funds from operations
Fitch	Fitch Ratings
Historical Test Year or HTY	Historical Test Year – 12 months ending December 31, 2016
Moody's	Moody's Investors Service
MYP	Multi-Year Plan period of January 1, 2018 through December 31, 2020, which includes the 2018, 2019 and 2020 Test Years
PCCA	Purchased Capacity Cost Adjustment

Acronym/Defined Term	**Meaning**
PPA	Power Purchase Agreement
Proceeding No. 14AL-0660E	2014 Electric Rate Case
PSIA	Pipeline System Integrity Adjustment
Public Service, or the Company	Public Service Company of Colorado
ROE	Return on Equity
S&P	Standard & Poor's
TCA	Transmission Cost Adjustment
U.S.	United States
WACC	Weighted average cost of capital
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

**BEFORE THE PUBLIC UTILITIES COMMISSION
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CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF MARY P. SCHELL

1 **I. INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Mary P. Schell. My business address is Xcel Energy Inc., 414
4 Nicollet Mall, 401-4, Minneapolis, MN 55401.

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

6 A. I am employed by Xcel Energy Services, Inc. ("XES") as Director, Corporate
7 Financial Policy. XES is a wholly owned subsidiary of Xcel Energy Inc. ("Xcel
8 Energy") and provides support services to Public Service Company of Colorado
9 ("Public Service" or the "Company") and the other utility operating company
10 subsidiaries of Xcel Energy on a coordinated basis.

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

12 A. I am testifying on behalf of Public Service.

1 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.**

2 A. As Director of Corporate Financial Policy, I am responsible for implementing the
3 financing required to meet capital requirements and to achieve target capital
4 structure objectives at Xcel Energy and each of its regulated utility operating
5 companies, including Public Service.[1] I am also responsible for developing the
6 necessary regulatory applications and testimony to gain regulatory approval for
7 financings and to support financial integrity. A description of my qualifications,
8 duties, and responsibilities is set forth following my Direct Testimony.

9 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. The purpose of my testimony is to:

12 - Present the January 1, 2016 through December 31, 2016 Historical Test
13 Year ("HTY") capital structure and the Company's recommended Multi-Year
14 Plan ("MYP") regulated capital structure, which consists of 55.25 percent
15 equity and 44.75 percent long-term debt. I also explain why that is a
16 reasonable capital structure during the MYP period, calendar years 2018
17 through 2020, as we manage our capital structure in light of our large capital
18 expenditure forecast, the effects of imputed debt associated with off-balance-
19 sheet obligations, and the negative financial impacts associated with
20 expiration of bonus depreciation;
21 - Present the Company's cost of long-term debt as of December 31, 2016 and
22 its forecasted cost of long-term debt during each year of the MYP period,
23 including the effects of our long-term debt financing plans during the MYP;

[1] The other regulated operating companies of Xcel Energy are Northern States Power Company Minnesota, Northern States Power Company Wisconsin, and Southwestern Public Service Company.

1 • Present the recommended weighted average cost of capital ("WACC") for
2 each year of the MYP period, which is based on an equity ratio of 55.25
3 percent, the forecasted cost of long-term debt during each year of the MYP
4 period, and the 10.0 percent return on equity ("ROE") supported by Mr. John
5 Reed;
6 • Discuss the credit rating agencies' evaluation criteria, provide a current
7 assessment of Public Service's financial integrity, and explain how Public
8 Service's stable overall financial health has benefitted our customers,
9 resulting in lower cost of debt and financing flexibility; and
10 • Show how the Company's recommendation for the MYP period supports
11 credit metrics that align with the guidelines provided by Standard & Poor's
12 ("S&P") and Moody's Investors Service ("Moody's") for an A- corporate credit
13 rating.[2]

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

16 A. Yes, I am sponsoring Attachments MPS-1 (Credit Ratings Descriptions),
17 Attachment MPS-2 (S&P publication entitled *Key Credit Factors for the*
18 *Regulated Utilities Industry),* Attachment MPS-3 (S&P publication entitled *Ratios*
19 *and Adjustment*, Attachment MPS-4 (Moody's publication entitled *Regulated*
20 *Electric and Gas Utilities*), Attachment MPS-5 (Public Service credit metrics at 56
21 percent, 55 percent and 54 percent regulated equity ratios), Attachment MPS-6
22 (Moody's August 11, 2016 publication entitled *Credit Opinion, Public Service*
23 *Company of Colorado*), Attachment MPS-7 (Moody's November 4, 2016

[2] The third major rating agency, Fitch Ratings ("Fitch"), is less transparent than S&P and Moody's with respect to its ratings methodology and analytical adjustments, so it is less practical to calculate accurate metrics under the Fitch methodology.

1 publication entitled *Timely Cost-Recovery Drives Stable Outlook*), Attachment
2 MPS-8 (S&P August 16, 2016 publication entitled *Ratings Direct: Public Service*
3 *Company of Colorado*), Attachment MPS-9 (Fitch July 19, 2016 publication
4 entitled *Public Service Company of Colorado*), and Attachment MPS-10 (Moody's
5 March 15, 2017 publication entitled *Tax Reform to Increase Credit Risk, Impact*
6 *Dependent on Regulatory Response*).

7 **Q. WHAT RECOMMENDATIONS ARE YOU MAKING IN YOUR DIRECT**
8 **TESTIMONY?**

9 A. In my Direct Testimony, I recommend that the Colorado Public Utilities
10 Commission ("Commission") approve a capital structure composed of 55.25
11 percent equity and 44.75 percent long-term debt. I also recommend that the
12 Commission approve the cost of long-term debt set forth in my testimony for
13 each year of the MYP period. Finally, I recommend that the Commission approve
14 the overall WACCs proposed in my testimony, which are 7.49 percent in 2008,
15 7.47 percent in 2019, and 7.49 percent in 2020.

1 ## II. FINANCIAL INTEGRITY

2 **Q. WHAT IS FINANCIAL INTEGRITY?**

3 A. Financial integrity refers to a company's financial strength and its ability to attract
4 capital to support operations and investment requirements over the course of an
5 economic cycle. The ability to attract capital at a reasonable cost in all market
6 conditions is critical to the Company's obligation to provide safe and reliable
7 utility service. Financial integrity ensures that the Company will have the flexibility
8 to withstand unanticipated macro-economic events outside of its control.

9 **Q. WHY SHOULD THE COMMISSION BE CONCERNED ABOUT PUBLIC**
10 **SERVICE'S FINANCIAL INTEGRITY?**

11 A. Financial integrity represents the foundation that Public Service relies upon to
12 ensure that it can deliver reliable gas service to its customers at a reasonable
13 cost. Financial integrity affects the ability of a company to access capital and the
14 cost of that capital. A lack of financial integrity can limit a company's ability to
15 finance assets or undertake new projects, particularly during times of capital
16 market volatility. Weak financial integrity also increases the cost of debt and the
17 cost of equity, which increases the return paid by customers.

18 **Q. WHAT FACTORS CONTRIBUTE TO A UTILITY'S FINANCIAL INTEGRITY?**

19 A. The financial integrity of a regulated utility is largely a function of its capital
20 structure, ROE, and cash flow, but other factors can also affect a utility's financial
21 integrity. To maintain a strong financial profile, a utility needs to timely recover all
22 prudently incurred utility costs, which includes costs for operating and

1 maintaining the utility operating systems, fuel and energy costs, capital
2 expenditures, financing costs, purchased capacity costs, and income tax
3 expense. The Company's gas department's history of under earning its allowed
4 return on equity, as discussed in Mr. Scott Brockett's Direct Testimony, indicates
5 a lack of timely cost recovery. Further, the MYP with forward test years supports
6 financial integrity through timely cost recovery.

7 **Q. HOW DO INVESTORS EVALUATE FINANCIAL INTEGRITY?**

8 A. Investors use company-specific credit ratings published by the major credit rating
9 agencies—S&P, Moody's, and Fitch—as a general indication of a company's
10 financial strength. Credit ratings are assigned after the agencies conduct a
11 comprehensive quantitative and qualitative analysis of a company and the
12 business environment in which it operates.

13 **Q. PLEASE EXPLAIN THE RATING AGENCY SCALES.**

14 A. Credit rating agencies provide ratings for both the business entity as a whole and
15 for the various debt issuances of the entity. For example, S&P issues a
16 Corporate Credit Rating ("CCR"), which reflects the general credit risk of the
17 business enterprise and S&P's opinion of the issuer's *overall* capacity to pay its
18 scheduled financial obligations. It is not a rating of individual securities, but is the
19 core rating of the business enterprise from which ratings of individual securities
20 are derived. *Issue* ratings reflect the likelihood that principal and interest on
21 *specific debt issues* will be paid in a timely manner and take into account the
22 recovery prospects in the event of default.

1 The investment-grade rating categories include the High Grade (Triple-A
2 and Double-A) and the Medium Grade category (Single-A and Triple-B ratings).
3 The ratings are generally further delineated through the use of pluses or minuses
4 to show a company's relative standing within the categories. The highest rating is
5 AAA; the lowest investment-grade rating is BBB-. Debt rated BB+ or below is
6 considered speculative grade. Attachment MPS-1 contains a description of the
7 ratings used by S&P and the corresponding ratings used by Moody's and Fitch.

8 **Q. WHAT ARE PUBLIC SERVICE'S CURRENT CREDIT RATINGS?**

9 A. Public Service currently has a corporate credit rating of A- by all three rating
10 agencies, as reflected in Table MPS-D-1 below.

Table MPS-D-1

	S&P	Moody's	Moody's S&P Equivalent*	Fitch
Corporate Rating	A-	A3	A-	A-
Senior Secured	A	A1	A	A+
Senior Unsecured	A-	A3	A-	A

* S&P equivalent rating of Moody's rating

11 **Q. SHOULD THE COMMISSION BE CONCERNED WITH A UTILITY'S CREDIT**
12 **RATINGS?**

13 A. Yes. The Commission should be concerned with a utility's credit ratings because
14 those ratings affect the availability and cost of both long-term capital and short-
15 term capital. Banks and investors rely on the credit ratings to determine the
16 return that they require on their debt and equity capital. Utility customers pay the
17 return demanded by investors through the rates of return authorized by the
18 Commission.

1 **Q. HOW DOES THE UTILITY'S CREDIT RATING AFFECT ITS COST OF DEBT?**

2 A. When a company issues bonds, the interest rate is based on adding a credit
3 spread to the benchmark United States ("U.S.") Treasury bond having a similar
4 maturity to the new bond that the company is issuing. Companies with lower
5 credit ratings generally face wider credit spreads and a resulting higher debt
6 coupon rate because they are deemed more risky than companies with higher
7 credit ratings. Companies with lower credit ratings may also find it more difficult
8 to access capital when credit market conditions are tighter.

9 **Q. DOES THE UTILITY'S CREDIT RATING ALSO AFFECT ITS COST OF**
10 **EQUITY?**

11 A. Yes. An equity investor's return is residual, meaning that equity investors receive
12 their return after the bond investors. A lower credit rating results in greater risk to
13 both the bond and equity investor. Both the debt and equity investors will require
14 higher returns to be compensated for the additional risk.

15 **Q. HAS THE COMPANY ALWAYS HAD THE STRONG CREDIT RATING IT HAS**
16 **TODAY?**

17 A. No, the Company was in a much weaker financial position in the mid-2000s, with
18 a credit rating that was only one notch above junk-bond status. Starting in 2003,
19 we undertook a number of actions focused on improving Public Service's
20 financial strength. These included appropriately managing our balance sheet and
21 capital structure with more equity to mitigate the impacts of imputed debt. We
22 also obtained Commission approval of our Purchased Capacity Cost Adjustment
23 ("PCCA"), which further mitigated the imputed debt effects of our purchased

1 power agreements ("PPA"). In addition, we were able to moderate the effects of
2 regulatory lag by obtaining approval to implement certain adjustment
3 mechanisms such as the Transmission Cost Adjustment ("TCA"), the Demand -
4 Side Management Cost Adjustment ("DSMCA"), Clean Air - Clean Jobs Act
5 ("CACJA"), and the gas Pipeline System Integrity Adjustment ("PSIA"), all of
6 which enhance the financial metric performance.

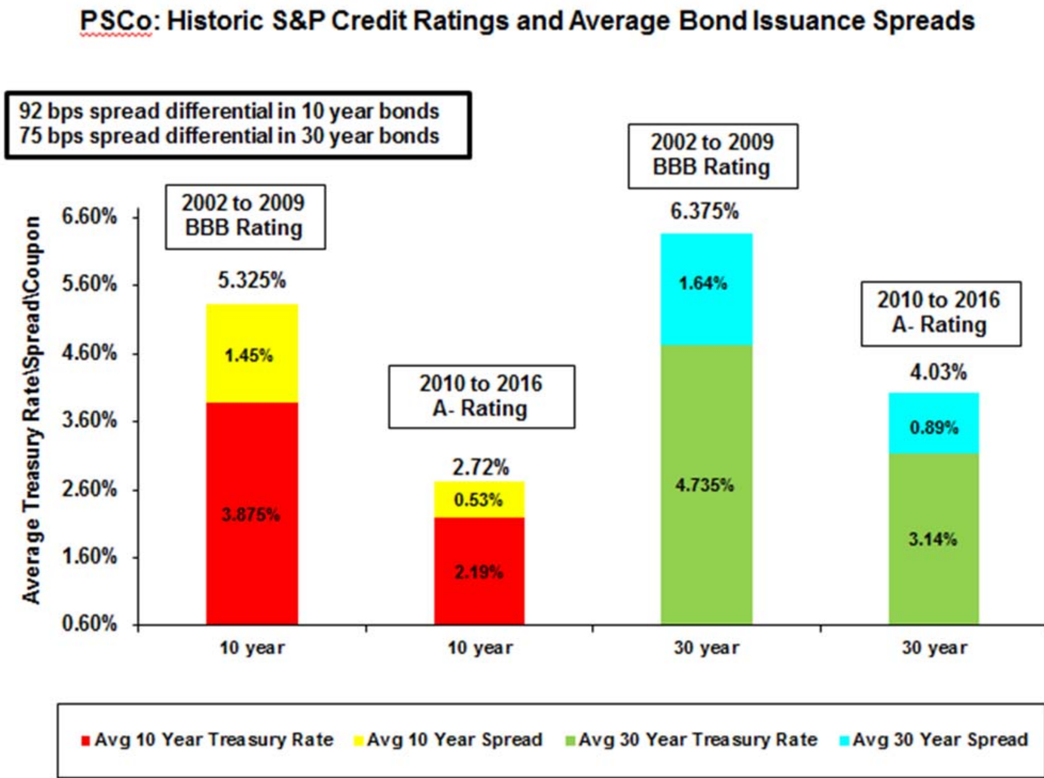
7 Throughout numerous regulatory proceedings over the last several years,
8 the Commission has consistently supported our initiatives. Collectively, these
9 actions have allowed us to improve and now sustain a credit rating that gives us
10 strong access to capital markets at a reasonable cost.

11 **Q. WHAT HAS BEEN THE SPECIFIC EFFECT OF IMPROVING PUBLIC**
12 **SERVICE'S FINANCIAL STRENGTH?**

13 A. Our improved financial strength has resulted in a lower overall cost of debt, which
14 is directly passed on to customers. In 2002, the Public Service unsecured bond
15 rating from S&P was BBB-, but it improved to BBB in 2008 and to BBB+ in 2009.
16 During this time, Public Service issued eight bond offerings where the average
17 10- and 30-year bond coupons were 5.325 percent and 6.375 percent,
18 respectively. Since 2010, Public Service has had an A- unsecured rating and has
19 issued nine bonds with average coupons of approximately 2.70 percent for a 10-
20 year bond and just over 4.00 percent for a 30-year bond. Although market
21 conditions have changed over this fifteen-year time span with declining U.S.
22 Treasury yields, the differentials in Public Service's average credit spreads for

1 the current A- rated bonds and former BBB rated bonds were 92 basis points on
2 the 10-year bonds and 75 basis points on the 30-year bonds. Chart MPS-D-1
3 illustrates this below. The overall embedded cost has declined from 6.38 percent
4 in 2006 to 4.47 percent in 2016, again reflecting not only a change in market
5 conditions but the improvement in Public Service's financial health and credit
6 rating.

Chart MPS-D-1



7 Favorable pricing continues, as demonstrated in June 2016 when Public
8 Service issued $250 million of 30-year first mortgage bonds that generated over

1 $800 million of investor interest. As a result of this high level of oversubscription,
2 we were able to secure a 3.55 percent coupon on the bond, the lowest 30-year
3 bond in Public Service's debt portfolio. In 2017, our embedded cost of long-term
4 debt is forecasted to be 4.45 percent – a savings of 5 basis points from the 4.50
5 percent debt cost approved in our last gas rate case. While the decrease is
6 partially attributable to the low Treasury yields, our strong financial health is also
7 an important driver of this improvement, as evidenced by the strong investor
8 demand.

9 In addition, Public Service's credit strength provides us with timing
10 flexibility to proactively take advantage of favorable market conditions for the
11 benefit of our customers. Public Service has a strong balance sheet that provides
12 the ability to take actions such as accelerating our financing schedule to prefund
13 bonds ahead of maturity. This may not be possible with a weaker credit quality.

14 Finally, as a result of our financial strength, we have been able to make
15 large investments in our utility infrastructure. Over the last five years, the
16 Company has invested approximately $5.2 billion in gas and electric utility
17 infrastructure, which has continued to build the operational strength of the
18 system.

19 **Q. IS IT IMPORTANT FOR THE COMPANY TO MAINTAIN ITS FINANCIAL**
20 **HEALTH GOING FORWARD?**

21 A. Yes. It is important for us to maintain our financial health because the Company
22 plans to spend approximately $5.5 billion in capital expenditures during the four-

1 year period from 2017 to 2020 of which approximately $1.3 billion is for gas
2 systems. This new investment represents approximately 81 percent of the gas
3 utility rate base as of year-end 2016. The Company will require external funds to
4 finance these expenditures, and maintaining our financial health will enable us to
5 continue to access capital markets on favorable terms relative to the market
6 conditions at the time.

7 Additionally, our financial integrity is critical to maintaining access to the
8 short-term debt markets to fund our daily utility operations, including fuel
9 inventories, and the initial phases of our construction projects. Regardless of the
10 macro-economic conditions, we need to be in a position to access the financial
11 markets for our short-term and long term debt needs.

12 **Q. HOW CAN A PROCEEDING SUCH AS THIS ONE AFFECT THE COMPANY'S**
13 **FINANCIAL INTEGRITY?**

14 A. Achieving a balanced or constructive outcome in a rate proceeding is an
15 important factor considered by the rating agencies in assessing our credit quality.
16 While we have successfully strengthened the Company's balance sheet since
17 2003 through the combination of prudent management and constructive
18 regulatory outcomes, continued diligence is necessary to ensure that the strength
19 that has been gained is not lost, and so that we can to continue to access capital
20 markets on favorable terms relative to the market conditions at the time.

1 **Q. HOW DO DECISIONS REGARDING PUBLIC SERVICE'S COST OF DEBT,**
2 **CAPITAL STRUCTURE, AND ROE IN PARTICULAR AFFECT THE**
3 **COMPANY'S FINANCIAL INTEGRITY?**

4 A. Decisions regarding these key financial factors affect the Company's financial
5 strength and investment strategy in three ways:

6 • First, the authorized ROE and equity ratio affect our earnings and directly
7 affect our ability to fund capital investment with internally generated funds.
8 Both debt and equity investors expect the Company to be able to internally
9 generate a substantial portion of its investment funding.

10 • Second, the capital structure and costs authorized directly affect all of our
11 key credit metrics because either total debt or interest expense is a
12 component of each of the primary credit metrics that rating agencies
13 analyze.

14 • Third, debt and equity investors expect the Company to be able to recover
15 its costs in a timely manner and to have an opportunity to earn its
16 authorized return on equity. Investors' and credit rating agencies'
17 perceptions regarding the regulatory environment in which we operate is an
18 important consideration in assessing our business risk. Investors and rating
19 agencies track the decisions of regulatory agencies relating to capital
20 structure, cost of debt, ROE, and forward-looking cost recovery
21 mechanisms, and they categorize the state regulatory environments in their
22 assessment of the relative risks of different utility investment opportunities.

23 **Q. HAS COLORADO TRADITIONALLY HAD A STABLE AND PREDICTABLE**
24 **REGULATORY ENVIRONMENT?**

25 A. Yes. Colorado has historically had a stable and predictable approach in regard to
26 the significant financial issues associated with ROE, capital structure, and cost of

1 debt, which has supported the Company's credit rating and ability to raise
2 needed capital. Prior decisions have facilitated our efforts to improve our credit
3 quality to current levels and are consistent with supporting an A- corporate credit
4 rating as a standalone company that issues its own debt securities. It will be
5 important in this case and the planned electric case to maintain a constructive
6 regulatory environment.

1 **III. RATING AGENCY METHODOLOGY**

2 **Q. WHAT CONSIDERATIONS GO INTO ASSIGNING A CREDIT RATING?**

3 A. The primary drivers of credit ratings are business and financial risk. Rating
4 agencies analyze the relationship between business risk and financial risk in
5 determining their ratings.

6 **Q. WHAT IS BUSINESS RISK?**

7 A. Business risk addresses the potential sources of variability in a company's cash
8 flow from its operating conditions as a result of various business factors
9 including: regulatory environment and trends,[3] operational performance,
10 regulatory outcomes, fuel mix and geographic dispersion, and management
11 decisions. Business risk is determined by a company's industry characteristics
12 and peer group comparisons.

13 **Q. WHAT IS FINANCIAL RISK?**

14 A. Financial risk addresses the ability of a company to make scheduled payments of
15 interest and principal on its financial obligations. To assess a company's financial
16 risk, credit rating agencies evaluate certain financial ratios to determine whether
17 the company has sufficient levels of cash flow to cover its future interest expense
18 and principal payments. It is therefore important for Public Service to maintain
19 certain financial ratios in order to maintain its credit ratings.

[3] In a recent report, S&P noted that the regulatory framework "is of critical importance when assessing regulated utilities' credit risk because it defines the environment in which a utility operates and has a significant bearing on a utility's financial performance." *See* Attachment MPS-2 at 6. That document contains an extensive discussion regarding the importance of the regulatory environment in which the utility operates.

1 The credit rating agencies also evaluate the relative amounts of debt and
2 equity in the capital structure to determine whether the company is appropriately
3 capitalized given its business risk profile and to determine whether the company
4 has the ability to issue additional debt to fund its utility capital expenditures. The
5 rating agencies include off-balance-sheet obligations adjustments in their debt
6 valuation, placing further pressure on the financial metrics. The credit rating
7 agencies are very concerned with a company's liquidity to meet its short-term
8 capital needs under conditions of financial stress, and they factor in the debt
9 portfolio maturity schedule and other future obligations as part of this
10 assessment.

11 **Q. WHAT ARE THE PRIMARY FINANCIAL RATIOS THAT CREDIT RATING**
12 **AGENCIES ANALYZE?**

13 A. The primary financial metrics evaluated by the major credit rating agencies
14 include some version of the following: (i) the ratio of funds from operations or
15 cash from operations to total debt ("FFO/Total Debt" or "CFO/Debt"); (ii) the ratio
16 of funds from operations or cash from operations to interest ("FFO/Interest" or
17 "CFO/Interest"); (iii) the ratio of debt to earnings before interest, taxes,
18 depreciation, and amortization ("Debt/EBITDA"); and (iv) the ratio of total debt to
19 total capital ("Total Debt/Total Capital"). These financial metrics are a composite
20 measure of the utility's ability to meet its financial obligations when they are due.
21 The greater the *business* risk of a particular company, the stronger these
22 financial metrics must be to provide sufficient evidence to the credit rating

1 agencies and investors that the company can withstand the financial effect of
2 both macroeconomic and company-specific risks.

3 **Q. DO THE RATING AGENCIES CONSIDER IDENTICAL FACTORS IN**
4 **ESTABLISHING CREDIT RATINGS?**

5 A. No. The factors are not identical, but each of the agencies conducts some form
6 of business risk and financial ratio analysis. S&P's methodology includes
7 financial ratios and risk matrices some of which are shown in Tables MPS-D-2 &
8 MPS-D-3:

Table MPS-D-2

S&P's Business and Financial Risk Matrix				
Business Risk	**Financial Risk Profile**			
	Modest	**Intermediate**	**Significant***	**Aggressive**
Excellent*	AA	A	A-	BBB
Strong	A	A-	BBB	BB
Satisfactory	BBB+	BBB	BB+	BB-

* Denotes Public Service's current risk profiles

Table MPS-D-3

S&P's Financial Risk Indicative Ratios: Standard Volatility			
	FFO/Debt (%)	**Debt/EBITDA (x)**	**Debt/Capital (%)**
Modest	45-60	1.5-2	25-35
Intermediate	30-45	2-3	35-45
Significant	20-30	3-4	45-50
Aggressive	12-20	4-5	50-60

9 **Q. PLEASE EXPLAIN THE TABLES MPS-D-2 AND MPS-D-3.**

10 A. Table MPS-D-2 illustrates the S&P matrix that reflects a company's likely CCR
11 based on its combination of business and financial risk. Table MPS-D-3 shows
12 the required ratios under the standard volatility matrix at the various levels of
13 financial risk. For example, a "Significant" financial risk profile requires a

1 company to consistently have a FFO/Debt ratio of 20 to 30 (or greater) and a
2 Debt-to-EBITDA ratio of 3 to 4 (or less). The historical guidance for debt to
3 capital is 45 percent to 50 percent or less in the standard matrix. As indicated in
4 Table MPS-D-2, a decline in business risk from Excellent to Strong, paired with a
5 Significant Financial Risk profile, no longer supports an A- rating, but declines to
6 the BBB category. This matrix stresses the importance and interdependence of
7 both business risk and the financial risk profile.

8 **Q. WHAT IS THE SIGNIFICANCE OF THE RATIOS THE CREDIT RATING**
9 **AGENCIES EVALUATE?**

10 A. The ratios help determine whether a company will be able to service its existing
11 debt obligations at the required level and will have the flexibility for taking on
12 incremental debt. Because strong cash flow coverage is critical to cover existing
13 and future obligations, the equity ratio and ROE determined in this case are
14 crucial to Public Service's financial integrity. The ratio of Total Debt/Total Capital
15 provides a long-term measure of a company's financial risk. The total debt in
16 these metrics includes amounts for on-balance-sheet obligations such as capital
17 leases and short-term debt, as well as off-balance-sheet obligations. As the level
18 of debt in a company's capital structure increases, so does the level of interest
19 expense that must be serviced. An increased level of interest expense requires
20 higher levels of cash flow to produce adequate levels of interest coverage. All
21 else equal, a lower equity ratio will generate less cash flow, assuming the equity

1 return is held constant. In general, the more amount of debt in a capital structure,
2 the more pressure on credit metrics and ratings.

3 **Q. WHAT ARE OFF-BALANCE-SHEET OBLIGATIONS?**

4 A. Off-balance-sheet obligations are payment obligations that do not appear on the
5 balance sheet as debt, but rating agencies may treat them as debt in terms of
6 calculating ratios because the utility has little or no discretion in terms of
7 payment. Examples include purchased power commitments, operating leases,
8 guarantees, asset retirement obligations, underfunded pension or other benefit
9 plans, and other. During 2016, S&P identified approximately $800 million of debt
10 adjustments for off-balance-sheet items for Public Service, of which
11 approximately half were for purchased power agreements and operating leases.
12 Please refer to pages 14 to 16 of Attachment MPS-2 for further discussion on
13 purchased power adjustments, and please refer to Attachment MPS-3 for
14 discussion on S&P's Corporate Methodology: Ratios and Adjustments.

15 **Q. HAS ANY OTHER RATING AGENCY BESIDES S&P ISSUED GUIDANCE TO**
16 **EXPLAIN ITS METHODOLOGY FOR ASSIGNING CREDIT RATINGS?**

17 A. Yes. In December 2013, Moody's issued a report titled *Regulated Electric and*
18 *Gas Utilities,* which provides rating methodology guidance for regulated electric
19 utilities. I have provided a copy of that report as Attachment MPS-4. In that
20 report, Moody's identifies four key rating factors that are weighted as follows:

Table MPS-D-4 Key Rating Factors

Factor	Weighting
Regulatory Framework	25%
Ability to Recover Costs and Earn Returns	25%
Diversification	10%
Financial Strength	40%
Total	100%

1 Moody's further subdivides the first two factors, Regulatory Framework
2 and the Ability to Recover Costs and Earn Returns, into sub-factors to help
3 "provide more granularity and transparency on the overall regulatory
4 environment, which is the most important consideration for this sector."[4]
5 With respect to the Regulatory Framework, Moody's evaluates the
6 foundation for how the decisions that affect utilities are made (including the
7 setting of rates), as well as the transparency, predictability, consistency of
8 decision making, and supportiveness of regulatory commissions.[5]
9 For the second factor, Ability to Recover Costs and Earn Returns,
10 Moody's evaluates the regulatory elements that directly affect the ability of the
11 utility to generate cash flow and service its debt over time.[6] Moody's views the
12 ability to recover costs on a timely basis and to attract debt and equity capital as
13 crucial credit considerations, and, therefore, Moody's seeks to estimate the lag
14 between the time that a utility incurs a major construction expenditure and the

[4] Attachment MPS-4 at 3.

[5] Attachment MPS-4 at 9-10.

[6] Attachment MPS-4 at 15.

1 time that the utility starts to earn a return of and on that expenditure. According to
2 Moody's, "The inability to recover costs…has been one of the greatest drivers of
3 financial stress in this sector."[7] That is particularly true when utilities' capital
4 expenditures exceed their cash from operations, resulting in negative cash flow,
5 so any lack of timely recovery or an insufficiency of rates can strain access to
6 capital markets.

7 The third factor is Diversification, which considers many of the same
8 business risk factors that S&P evaluates. Moody's evaluates the balance among
9 businesses, geographic regions, regulatory regimes, and generating plants or
10 fuel sources.[8]

11 The fourth factor, Financial Strength, comprises 40 percent of the Moody's
12 rating. Similar to S&P, Moody's considers both historical and future data to
13 calculate financial strength ratios and to analyze trends. Public Service's financial
14 strength is necessary to attract capital at a reasonable cost to fund its utility
15 investment and fulfill its service obligations to customers at a reasonable cost.

16 **Q. HAVE THE RATING AGENCIES EXPLAINED THE ROLE OF REGULATION IN**
17 **THEIR METHODOLOGIES?**

18 A. Yes. S&P states specifically in the 2013 report that "[t]he regulatory
19 framework/regime's influence is of critical importance when assessing regulated

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[7] Attachment MPS-4 at 15.

[8] Attachment MPS-4 at 19.

1 utilities' credit risk,"[9] and it observes further that "[w]e base our assessment of the
2 regulatory framework's credit supportiveness on our view of how regulatory
3 stability; efficiency of tariff setting procedures, financial stability, and regulatory
4 independence protect a utility's credit quality and its ability to recover its costs
5 and earn a timely return."[10]

6 Moody's describes in its 2013 report how regulation accounts for 50
7 percent of the credit rating methodology in the analysis for their ratings.[11] In its
8 August 11, 2016 report, Moody's identified deterioration in the credit
9 supportiveness of the regulatory environment, including adverse regulatory
10 rulings, as being among the factors as having the potential to cause a ratings
11 downgrade.[12] In a report published on November 4, 2016, Moody's also stated,
12 "We expect that regulatory support will continue to allow utilities to recover costs
13 in a timely manner and maintain stable cash flows, such that the ratio of CFO to
14 debt will remain about 22 percent on average for the peer group of 140 rated
15 utilities."[13]

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[9] Attachment MPS-2 at 6.

[10] Attachment MPS-2 at 6.

[11] Attachment MPS-4 at 6.

[12] Attachment MPS-6 at 2.

[13] Attachment MPS-7 at 2.

1 **IV. PUBLIC SERVICE'S FINANCIAL INTEGRITY**

2 **Q. WHAT CREDIT STRENGTHS HAVE THE RATING AGENCIES IDENTIFIED**
3 **FOR PUBLIC SERVICE?**

4 A. For U.S. utilities operating in regulated environments, business risk is generally
5 assessed as being very low. In a report dated August 16, 2016, S&P affirmed the
6 "excellent" business risk and "significant" financial risk of utilities by noting the
7 low risk of a vertically integrated regulated electric and gas utility.[14]

8 In a report dated August 11, 2016, Moody's stated, "The A3 senior
9 unsecured rating of Public Service Company of Colorado (PSCo) captures the
10 vertically integrated electric and natural gas distribution utility's constructive
11 relationship with the Colorado Public Utility Commission (CPUC). It also reflects
12 an overall credit supportive regulatory environment in terms of balanced rate
13 case outcomes and a shift towards riders and forward-looking recovery
14 mechanisms, a credit positive for PSCo's cash flows."[15] "The stable outlook
15 assumes that PSCo's regulatory environment will remain credit supportive and
16 that Xcel will contribute sufficient capital as needed to maintain the utility's capital
17 structure."[16]

18 In a report dated July 19, 2016, Fitch stated, "The ratings on Public
19 Service Company of Colorado (PSCo) reflect a relatively balanced and stable

[14] Attachment MPS-8.

[15] Attachment MPS-6 at 1.

[16] Attachment MPS-6 at 2.

1 regulatory environment overseen by the Colorado Public Utilities Commission
2 (CPUC)." [17]

3 **Q. WHAT CREDIT WEAKNESSES HAVE THE RATING AGENCIES IDENTIFIED**
4 **FOR PUBLIC SERVICE?**

5 A. Moody's in its August 11, 2016 report states "The ratings could be downgraded if
6 there is deterioration in the credit supportiveness of the regulatory environment,
7 including adverse regulatory rulings and/or a more aggressive financing
8 strategy."[18]

9 Fitch stated in its July 19, 2016 report that the "future developments that
10 may lead to a negative rating action include a material deterioration of the
11 Colorado regulatory environment."[19]

12 The strengths and weaknesses discussions in the rating agency reports
13 are primarily focused on the regulatory environment and confirm how critical it is
14 for the Commission to maintain its current credit-supportive policies and a stable
15 regulatory environment.

16 **Q. HAVE OTHER CONCERNS BEEN IDENTIFIED RECENTLY BY THE RATING**
17 **AGENCIES?**

18 A. Yes. Moody's recently published a report on the potential impact of tax reform on
19 the utility industry. Moody's stated in its March 15, 2017 report, "Proposed US tax

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[17] Attachment MPS-9 at 1.

[18] Attachment MPS-6 at 2.

[19] Attachment MPS-6 at 1.

1 reform is negative for utilities due to lower deferred tax benefits, but the ultimate
2 credit impact will be determined by state government regulatory responses."[20]
3 Moody's believes that utilities will manage the negative financial implications of
4 tax reform through regulatory channels. In order to offset a decline in cash flow,
5 utilities could increase investments that provide benefits to its customers,
6 resulting in an increased rate base and earnings, or could propose to increase
7 the authorized equity layer or allowed ROE level. Moody's states that "a
8 cooperative regulatory relationship matters most for a given utility."[21] "Deferred
9 tax benefits have grown considerably over the past several years since bonus
10 depreciation increased and other tax credits for renewable generation have taken
11 hold."[22] In fact, since 2006, deferred taxes are the fastest growing component of
12 cash flow, at an almost 20 percent annual compound growth rate, as compared
13 to net income and depreciation at 5 percent or less.

[20] Attachment MPS-10 at 1.

[21] Attachment MPS-10 at 5.

[22] Attachment MPS-10 at 2.

1 **V. CAPITAL STRUCTURE**

2 **Q. WHAT ARE PUBLIC SERVICE'S ACTUAL CAPITAL STRUCTURE AND COST**
3 **OF CAPITAL FOR THE HTY?**

4 A. The actual capital structure and cost of debt for 2016 are shown in Table MPS-D-
5 4 below. The ROE is set at 10.00 percent, consistent with the proposed ROE in
6 this case.

Table MPS-D-5

		2016 Y/E	
	Ratio	**Rate**	**Wtd Cost**
Long-Term Debt	43.94%	4.47%	1.97%
Equity	56.06%	10.00%	5.61%
Total Cost			**7.58%**

7 **Q. WHAT ARE PUBLIC SERVICE'S RECOMMENDED CAPITAL STRUCTURE**
8 **AND COST OF CAPITAL FOR THE MYP PERIOD?**

9 A. For the MYP, we recommend a capital structure consisting of 55.25 percent
10 equity and 44.75 percent long-term debt. An equity ratio of 55.25 percent will
11 help maintain the Company's current crediting ratings, and it is consistent with
12 the commitment the Company made in the Settlement Agreement approved by
13 the Commission in the last Electric Phase I rate case, Proceeding No. 14AL-
14 0660E, to propose a regulated equity ratio of less than 56 percent in the
15 Company's next electric base rate case. The recommended cost of capital is
16 stated in Table MPS-D-5 below for each year of the MYP.

Table MPS-D-6 Cost of Capital in MYP Period

		2018		2019		2020	
	Ratio	**Rate**	**Wtd. Cost**	**Rate**	**Wtd. Cost**	**Rate**	**Wtd. Cost**
Long-Term Debt	44.75%	4.38	1.96	4.33	1.94	4.37	1.96
Equity	55.25%	10.00	5.53	10.00	5.53	10.00	5.53
WACC			**7.49**		**7.47**		**7.49**

1 **Q. DOES A COMMITMENT TO PROPOSE A PARTICULAR EQUITY RATIO IN**
2 **THE COMPANY'S NEXT ELECTRIC BASE RATE CASE OBLIGATE THE**
3 **COMPANY TO MAKE THAT SAME RECOMMENDATION IN A GAS BASE**
4 **RATE CASE?**

5 A. No, but the Company finances it's electric and gas operations from a common
6 pool of dollars supplied by debt and equity investors. The Company is a
7 combined legal entity and cannot stand alone in financings, credit ratings, or
8 business decisions related to either gas or electric operations. Therefore, it is
9 reasonable to propose the same regulated capital structure for both electric and
10 gas operations.

11 **Q. IS A REGULATED EQUITY RATIO OF 55.25 PERCENT NECESSARY FOR**
12 **THE COMPANY TO MAINTAIN ITS FINANCIAL INTEGRITY?**

13 A. Yes. The combination of a 55.25 percent regulated equity ratio, the Company's
14 recommended cost of long-term debt, and the recommended ROE will allow the
15 Company to maintain its credit metrics within the guidelines provided by the
16 credit rating agencies for our current credit rating. A lower equity ratio reduces

1 the cash flow metrics, which will be further pressured during the MYP with tax
2 reform and loss of bonus depreciation.

3 **Q. PLEASE FURTHER EXPLAIN THE EFFECT OF BONUS DEPRECIATION ON**
4 **THE COMPANY'S FINANCIAL METRICS?**

5 A. Deferred taxes are a large component of a company's internally generated funds,
6 and bonus depreciation has been a major contributor to deferred taxes resulting
7 in a higher level of cash flow. Calendar year 2019 will be the last year the
8 Company can take bonus depreciation on projects put into service during that
9 year. (Currently, 50 percent bonus depreciation applied for projects placed in
10 service in 2015-2017, 40 percent for projects placed in service in 2018, and 30
11 percent for projects placed in service in 2019). Because of the expiration of
12 bonus depreciation, Public Service is projecting that cash flow and the
13 associated credit metrics will decline over the 2018-2020 MYP period.

14 **Q. WHAT ARE THE PROJECTED FINANCIAL METRICS FOR PUBLIC**
15 **SERVICE?**

16 A. With a 55.25 percent regulated equity ratio, the economic ratio including debt
17 adjustments from S&P is approximately 50 percent, the Company's target to
18 support the A- corporate rating. The Company analyzed the credit metrics at a 56
19 percent, 55 percent, and 54 percent regulated equity ratio. At a 55.00 percent
20 regulated equity ratio, the FFO/Debt and Debt/EBITDA ratios continue to support
21 the A- rating under S&P methodology as shown below in Table MPS-D-7.

Table MPS-D-7: S&P Metrics at 55.00 Percent Regulated Equity Ratio

Guidelines for A Corp. Rating Medial Volatility	S&P	Actual 2016	Forecast 2017	Projected MYP Metrics 2018	2019	2020
FFO/Debt *	**13-23**	21.9	21.9	23.4	23.1	21.4
Debt/EBITDA**	**3.5-4.5**	3.7	3.8	3.9	3.7	3.5
Debt/Capital*(1)**	**45-50%**	49.4	49.4	***50.3***	50.0	49.0

*(Funds from Operations/Total Debt including adjustments)
**(Debt including adjustments/Earnings before interest taxes depreciation and amortization)
***(Adjusted Debt/Total Capital), (1) historical standard matrix

1 Although a 55.00 percent regulated equity ratio supports the credit rating under
2 the S&P methodology, a 55.00 percent ratio does not support our current rating
3 over the MYP under the Moody's methodology. As shown in Table MPS-D-8
4 below, at a 55.00 percent regulated equity ratio, two of the three cash flow ratios
5 fall below or are on the cusp of dropping into the BBB rating category by 2019
6 and 2020. A regulated equity ratio less than 55.00 percent advances the timing of
7 when Public Service's credit metrics no longer support an A rating.

Table MPS-D-8: Moody's Metrics at 55.00 Percent Regulated Equity Ratio

Guidelines for A Corp. Rating	Moody's Guidelines	Actual 2016	Forecast 2017	Projected MYP Metrics 2018	2019	2020
CFO/Interest*	**4.5 – 6.0**	7.0	7.6	8.0	7.2	6.7
CFO/Debt**	**30% – 22%**	23.6	23.7	24.0	23.0	***22.0***
CFO-Div/Debt***	**25% - 17%**	***16.4***	***17.0***	17.4	***16.3***	***15.1***

*(Cash from Operations before working capital plus interest/interest)
**(Cash from Operations before working capital/Debt)
***(Cash from Operations before working capital-Dividends/Debt)

1 Financial metrics account for 40 percent of Moody's methodology grid, and the
2 CFO/Debt ratio is the most important financial measure. Rating agencies look not
3 only at the ratio in one year but the trend over time. As shown above, in a 55.00
4 percent regulated equity ratio analysis, the 2016 actual CFO/Debt ratio of 23.6
5 percent is at the low end of the range. During the MYP, this ratio declines to 22
6 percent, the minimum ratio to be within the A rating guideline. Stated otherwise,
7 22 percent is the cross over point for a BBB category. As the metrics steadily
8 decline from 2018 through 2020, it is critically important to maintain a strong
9 capital structure to offset the effects of less cash flow due to the expiration of
10 bonus depreciation.

11 Attachment MPS-5 shows the credit metric results for regulated equity
12 ratios at 56 percent, 55 percent and 54 percent. At a 54 percent regulated equity
13 ratio, some metrics are non-supportive of the current A- rating beginning in 2018.
14 A 55 percent regulated equity ratio is the minimum to maintain a CFO/Debt ratio
15 of at least 22 percent during the MYP. Because a 55 percent regulated equity

1 ratio results in a critical metric that could support a downgrade to the BBB rating
2 category, the Company is recommending a 55.25 percent equity ratio to be
3 above the minimum threshold.

4 **Q. HAS MOODY'S COMMENTED ON PUBLIC SERVICE'S BONUS**
5 **DEPRECIATION?**

6 A. Yes. In its August 11, 2016, Credit Opinion, Moody's stated that Public Service
7 exhibits key credit metrics that remain well positioned within the A- range and
8 further discussed the benefits from "tax savings associated with bonus
9 depreciation."[23]

10 **Q. ARE THERE OTHER EXTERNAL FACTORS PROJECTED TO AFFECT**
11 **PUBLIC SERVICE'S CASH FLOW?**

12 A. Yes, the industry is faced with added business risk with the uncertainty of the
13 pending tax reform. As I discussed earlier in my testimony, this uncertainty is not
14 viewed as a positive for the utility industry. As I demonstrated with the S&P credit
15 matrix, increased business risk requires stronger financial metrics to offset the
16 added business risk.

17 **Q.**
18 A.
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[23] Attachment MPS-6 at 4.

1 **Q.**
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3 A.
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1 **VI. COST OF LONG-TERM DEBT**

2 **Q. WHAT WAS PUBLIC SERVICE'S EMBEDDED COST OF LONG-TERM DEBT**
3 **DURING THE HTY?**

4 A. The Company's embedded cost of long-term debt as of December 31, 2016 was
5 4.47 percent.

6 **Q. WHAT IS THE COMPANY'S FORECASTED EMBEDDED COST OF LONG-**
7 **TERM DEBT FOR THE MYP PERIOD?**

8 A. Table MPS-D-9 sets forth the Company's forecasted embedded cost of long-term
9 debt during each year of the MYP:

Table MPS-D-9

Year	Long-Term Debt Rate
2017	4.45
2018	4.38
2019	4.33
2020	4.37

10 Our forecast for the MYP includes an assumed 10-year first mortgage bond
11 issuance in 2017 with a forecast coupon of 3.5 percent. The projected coupon for
12 2018 and beyond is based on the most recent Global Insights forecast of U.S.
13 Treasury rates and a credit spread based on current and historical credit
14 spreads. We will provide the most recent Global Insights forecast and an updated
15 credit spread for Public Service at the time we file our Rebuttal Testimony.
16 Consistent with prior rate case proceedings, the annual cost of debt includes

1 interest charges, amortization of issuance and underwriting expenses, hedge
2 gains or losses, and the upfront fees related to our credit facility.

1 ## VII. CONCLUSION

2 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY?**

3 A. Public Service requests authorization of its proposed capital structure as follows:

4 **2016:** 7.58 percent weighted cost of capital based on the actual capital structure,
5 actual cost of debt, and a proposed 10.00 percent ROE.

Table MPS-D-10 Cost of Capital in HTY

		2016 Y/E	
	Ratio	**Rate**	**Wtd. Cost**
Long-Term Debt	43.94%	4.47%	1.97%
Equity	56.06%	10.00%	5.61%
Total Cost			**7.58%**

6 **MYP:** Public Service recommends the following cost of capital during the MYP:

Table MPS-D-11 Cost of Capital in MYP Period

		2018		2019		2020	
	Ratio	**Rate**	**Wtd. Cost**	**Rate**	**Wtd. Cost**	**Rate**	**Wtd. Cost**
Long-Term Debt	44.75%	4.38	1.96%	4.33	1.94%	4.37	1.96%
Equity	55.25%	10.00	5.53%	10.00	5.53%	10.00	5.53%
WACC			**7.49%**		**7.47%**		**7.49%**

7 Public Service Company proposes a 55.25 percent equity ratio because it:

8 • Supports Public Service's current credit rating, which will allow continued long
9 term debt financings at favorable rates;
10 • Provides a cushion from the minimum 55.00 percent that is associated with a
11 lower credit rating and that could result in a downgrade;
12 • Maintains regulatory environment stability and balanced outcome; and

1 • Is consistent with rating agency expectations of a credit supportive
2 environment and sufficient capital from Xcel Energy to maintain the utility's
3 capital structure and metrics.

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes, it does.

Statement of Qualifications

Mary Patricia Schell

I received my Bachelor of Arts degree in Business in 1981 from the University of Minnesota – Mankato and my Master of Business Administration degree with a concentration in Accounting in 1989 from the University of Minnesota, Carlson School of Management.

My current position with Xcel Energy is Director of Corporate Financial Policy. I am responsible for implementing the financing required to achieve target capital structure objectives at each of the regulated utility operating companies, including Public Service, and at Xcel Energy, its holding company parent. I am also responsible for developing the necessary regulatory applications and testimony to gain regulatory approval for financing activities.

I have been employed by Xcel Energy Inc. (formerly Northern States Power Company – Minnesota) since October 1991, first as Financial Analyst then progressing through various positions within the Treasury Organization to my current position.

I worked for The Pillsbury Company from 1981 through 1988 in the finance department prior to coming to Xcel Energy Inc.

I have previously testified or submitted prefiled testimony on capital structure and cost of capital in the following proceedings:

- Testimony for Public Service Company of Colorado in Proceeding Nos. 02S-315EG, 14-AL-0660E, and 15AL-0135G before the Colorado Public Utilities Commission;

- Testimony for Black Mountain Gas in Proceeding No. G-03703A-01-0263 before the in the Arizona Corporation Commission;
- Testimony for Northern States Power Company Minnesota in Proceeding No. PU-400-00-521 before the North Dakota Public Utilities Commission;
- Testimony for Northern States Power Company Wisconsin in Proceeding 4220-UR-121 before the Wisconsin Public Utility Commission;
- Testimony for Southwestern Public Service Company in Docket Nos. 42004, 43695, and 45524 before the Public Utility Commission of Texas; and
- Testimony for Southwestern Public Service Company in Case No. 16-00269-UT before the New Mexico Public Regulation Commission.

I have also testified several times in securitization proceedings before the New Mexico Public Regulation Commission.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

RE: IN THE MATTER OF ADVICE LETTER NO. 912-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE ON 30-DAYS NOTICE.	**) PROCEEDING NO. 17AL-____G**

AFFIDAVIT OF MARY P. SCHELL
PUBLIC SERVICE COMPANY OF COLORADO

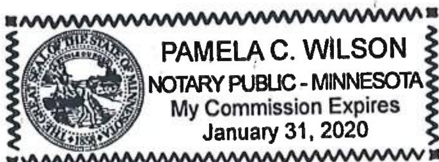
I, Mary P. Schell, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony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

Dated at Minneapolis, Minnesota this twenty fifth day of May 2017.

Mary P. Schell
Director, Corporate Financial Policy

Subscribed and sworn to before me this 25TH day of May, 2017.

Notary Public



My Commission expires 1/31/2020