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**

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

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

June 2, 2017

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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<u>SUMMARY OF THE DIRECT TESTIMONY OF RICHARD R. SCHRUBBE</u>

Mr. Richard R. Schrubbe is Area Vice-President for Xcel Energy Services Inc. In this position, Mr. Schrubbe is responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations and Corporate Services with respect to budget planning, reporting, and analysis. He oversees the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. He is also responsible for coordinating the benefits operations and maintenance and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts.

In his testimony, Mr. Schrubbe describes the pension and benefit amounts that Public Service Company of Colorado ("Public Service" or "Company") seeks to recover for its gas retail jurisdiction in each year of the Multi-Year Plan ("MYP") period, which consists of calendar years 2018, 2019, and 2020. To provide the context for the MYP amounts, Mr. Schrubbe lists the pension and benefit amounts in calendar-year 2014, which was the test year in the Company's last rate case, and calendar-year 2016, which is the Historical Test Year ("HTY"), and he describes the drivers that caused the pension and benefit expense to change between 2014 and 2016. Mr. Schrubbe also explains why pension and benefit amounts are changing between the HTY and the MYP period. Mr. Schrubbe further explains that the pension and benefit amounts the Company seeks to recover are reasonable and necessary costs of providing service to the Company's gas retail customers.

In addition, Mr. Schrubbe testifies regarding the Company's compliance with requirements in orders from prior rate cases, including the Company's most recent gas retail rate case, Proceeding No. 15AL-0135G. He explains that the Company has made the filings required by those prior orders, and that the Company has prepared this rate case in compliance with those orders.

Mr. Schrubbe next supports the Company's requests to include its prepaid pension asset and prepaid retiree medical asset in rate base. The earnings on those assets provide benefits to customers in the form of lower pension and retiree medical expense. Therefore, it is appropriate for the Company to earn a return on those assets at its weighted average cost of capital.

For the reasons set forth in this testimony, Mr. Schrubbe recommends that the Commission approve Public Service's requested amounts of pension and benefit expense. Mr. Schrubbe also recommends that the Commission grant the Company's requests to include its prepaid pension and retiree medical assets in rate base, and to earn a return on those assets at the Company's weighted average cost of capital.

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

* * * * *

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LETTER NO. 912-GAS FILED BY	**)**
PUBLIC SERVICE COMPANY OF	**)**
COLORADO TO REVISE ITS	**) PROCEEDING NO. 17AL-________G**
COLORADO PUC NO. 6-GAS TARIFF	**)**
TO IMPLEMENT A GENERAL RATE	**)**
SCHEDULE ADJUSTMENT AND	**)**
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ON 30-DAYS NOTICE.	**)**

DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2015 Phase I	*In the Matter of the Advice Letter No. 876-Gas Filed by Public Service Company of Colorado to Increase Rates for All Natural Gas Sales and Transportation Services to Become Effective April 3, 2015,* Proceeding No. 15AL-0135G.
ADIT	Accumulated Deferred Income Taxes
Commission	Colorado Public Utilities Commission
Company, or Public Service	Public Service Company of Colorado
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
Gas Utility O&M	Operation and Maintenance costs attributable to the Public Service Company of Colorado gas jurisdiction. These costs include both Public Service native gas costs and appropriate Xcel Energy affiliate charges to the gas utility.
HTY	Historical Test Year
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code

Acronym/Defined Term	**Meaning**
LTD	Long-Term Disability
MYP	Multi-Year Plan
NCE	New Century Energies
O&M	Operation and Maintenance
Operating Company	One of the Operating Companies
PBGC	Pension Benefit Guaranty Corporation
Total Company	Public Service Company of Colorado gas jurisdiction as a whole, without any other Xcel Energy affiliates.
WACC	Weighted Average Cost of Capital
Willis	Willis Towers Watson
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

**BEFORE THE PUBLIC UTILITIES COMMISSION
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* * * * *

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TO IMPLEMENT A GENERAL RATE	**)**	
SCHEDULE ADJUSTMENT AND	**)**	
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ON 30-DAYS NOTICE.	**)**	

DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. Most recently, I have taken on responsibilities associated with the oversight and management of the Business Area Finance group, which includes Energy Supply, Transmission, Distribution, Gas Engineering & Operations and Corporate Services. Within that group, I oversee budget planning, reporting, and analysis. As part of my current role, I am still responsible for the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles for Xcel Energy and its subsidiaries. I am also responsible for coordinating the benefits operations and maintenance ("O&M") and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. A statement of my education and relevant experience is set forth following my Direct Testimony.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

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

1. I support Public Service's request to recover its reasonable and necessary actuarially determined pension and benefit expense, which is composed of:

   - qualified pension costs calculated under Statement of Financial Accounting Standard ("FAS") 87;[1]
   - non-qualified pension costs calculated under FAS 87;

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

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

2. I support the Company's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;

3. I support the Company's request to recover the reasonable and necessary costs incurred for workers' compensation benefits; and

4. I support the Company's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation.

I quantify the amounts of those expenses for 2014, which was the test year in the Company's last rate case, and for 2016, which is the Historical Test Year ("HTY") in this case. The 2014 and 2016 amounts used throughout are per book calendar year amounts, with various adjustments for specific items. The adjustments are discussed further in the footnotes to Table RRS-D-1. I also describe the factors that caused the costs to change between 2014 and 2016. In addition, I quantify the pension and benefit amounts for the Multi-Year Plan ("MYP") period, which is the three-year period from January 1, 2018 through December 31, 2020, and I explain why the costs are forecasted to change between the 2016 HTY and the MYP period. I also describe the steps that the Company has taken to comply with the Colorado Public Utilities Commission's ("Commission") final order in the

Company's last gas rate case, Proceeding No. 15AL-0135G.[2] Finally, I explain that Public Service has accrued a prepaid pension asset and a prepaid retiree medical asset, both of which benefit Colorado retail customers by reducing the annual pension and retiree medical expense included in the Company's cost of service.

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

A. I recommend that the Commission allow the Company to recover the reasonable and necessary pension and benefit amounts set forth in my Direct Testimony through its gas rates. I also recommend that the Commission allow the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base, consistent with the treatment of other types of prepayments, and to earn a return on those assets equal to the Company's weighted average cost of capital ("WACC").

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

A. Yes. Company witness Ms. Sharon Koenig discusses the reasonableness of the cash compensation paid to Public Service and XES employees. Ms. Koenig also discusses the reasonableness of the overall compensation and benefit package

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[2] *In the Matter of the Advice Letter No. 876-Gas Filed by Public Service Company of Colorado to Increase Rates for All Natural Gas Sales and Transportation Services to Become Effective April 3, 2015,* Proceeding No. 15AL-0135G, Decision No. C16-0123, Decision Addressing Exceptions, Permanently Suspending Tariff Sheets, Establishing Rates, and Requiring Compliance Filings (Jan. 27, 2016) ("2015 Phase I").

provided as part of Xcel Energy's Total Rewards Program. In addition, Mr. Gene Wickes supports the Company's request to include the prepaid pension and retiree medical assets in rate base. Mr. John Reed also explains why it is appropriate for the Company to earn a WACC return on its prepaid assets.

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

A. Yes, I am sponsoring the following attachments:

Attachment RRS-1:	May 2016 Willis Towers Watson Actuary Report (2016-HTY)
Attachment RRS-2:	February 2017 Willis Towers Watson Actuary Report (MYP : 2017-2022)
Attachment RRS-3:	2016 HTY and MYP Gas Utility O&M calculations • Qualified Pension • Non-Qualified • Retiree Medical • FAS 112 – Self-insured LTD
Attachment RRS-4:	Breakout of Active Healthcare Total Cost Amounts
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Q. ARE ATTACHMENTS RRS-1 AND RRS-2 TRUE AND CORRECT COPIES OF THE DOCUMENTS REFERENCED IN YOUR DIRECT TESTIMONY?

A. Yes.

Q. WERE ATTACHMENTS RRS-3 THROUGH RRS-12 PREPARED BY YOU OR UNDER YOUR DIRECT SUPERVISION AND CONTROL?

A. Yes.

Q. WHAT ARE ATTACHMENTS RRS-13 AND RRS-14?

A. Attachment RRS-13 contains the 2016 per book O&M expense amounts for pension and benefits at the cost element level. Attachment RRS-14 contains the 2016 per book O&M expense amounts for pension and benefits at the FERC account level. Those amounts are from the audit trail map sponsored by Company witness Greg Robinson.

II. PENSION AND BENEFITS OVERVIEW

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

A. In addition to the cash compensation discussed by Ms. Koenig, Public Service offers the following non-cash benefits to its employees:

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

Q. WHAT ARE THE 2014, 2016, AND MYP EXPENSE AMOUNTS FOR EACH OF THE ELEMENTS OF NON-CASH COMPENSATION OFFERED BY THE COMPANY?

A. Table RRS-D- 1 sets forth the Gas Utility O&M pension and benefit expense amounts for 2014, 2016 HTY, and the MYP period:

Table RRS-D- 1

Benefit	2014	2016[3]	2018	2019	2020
Qualified Pension[4]	$8,674,564	$10,495,889	$9,349,601	$9,021,806	$8,869,310
Nonqualified Pension[5]	303,993	460,468	230,600	210,000	194,279
FAS 106 Retiree Medical	(701,284)	(1,605,100)	(1,423,457)	(1,313,436)	(1,008,657)
FAS 112 Long-Term Disability (Self-Insured)	(64,553)	28,905	14,958	11,273	8,156
Active Health Care[6]	9,332,776	9,577,695	12,106,467	12,890,248	13,729,864
Long-Term Disability (Third-Party-Insured)	345,419	414,725	437,493	449,511	461,861
Life Insurance	154,661	174,814	183,304	188,271	193,375
Miscellaneous Benefit Programs and Costs	391,024	450,525	483,650	487,182	490,672
401(k) Match	2,224,538	2,811,002	2,849,585	2,928,640	3,009,832
Miscellaneous Retirement-Related Costs	142,252	170,465	185,884	176,648	177,598
Workers' Compensation [7]	401,539	482,101	567,056	579,984	597,943
Total Pension and Benefits Expense	**21,204,929**	**23,461,489**	**24,985,141**	**25,630,127**	**26,724,233**

[3] The HTY is calendar year 2016.

[4] The 2016 per book amount for qualified pension has been adjusted to remove $27,157 related to the Company-retained cost for incentives over 15 percent of base pay.

[5] The 2016 per book amount for non-qualified pension costs has been adjusted to remove $125,836 related to one-time FAS 88 settlement costs and $150,107 related to the Company-retained cost for incentives over 15 percent of base pay.

[6] The 2016 per book amount for active health care in the HTY is $9,735,501.That amount is an estimate, as explained in Section V of my Direct Testimony, and it must be adjusted to reflect health care claims that were incurred near the end of the HTY but not reported until after the end of the HTY. Adding the incurred-but-not-reported (IBNR) amount of $(157,806) and the $9,735,501 of per book expense leads to an adjusted HTY amount of $9,577,695 for active health care expense. In addition, there was a $(185,577) IBNR adjustment that was added to the 2014 per book expense of $9,518,353 to arrive at the adjusted amount of $9,332,776.

[7] The 2016 per book amount for workers' compensation has been adjusted to remove a one-time captive distribution of $(546,015).

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

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

III. RECOVERY OF CURRENT PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE

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

A. I discuss the actuarially determined amounts requested for pension and other post-employment benefit expense, which are qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits.

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

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

A. <u>Qualified Pension</u>

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

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

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

A. Yes. As I testified earlier, Public Service accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP.[8] However, FAS 87 does not dictate how a company must fund the plan. As Mr. Wickes explains, the funding of the plan is determined based upon prudent business practices, with constraints imposed by the requirements of the Internal Revenue Code ("IRC") and the Employee Retirement Income Security Act ("ERISA"), as amended by the Pension Protection Act of 2006.

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[8] Because regulatory accounting must follow specific accounting standards unless superseded by regulatory requirements, FAS 87 is used for regulatory accounting by the vast majority of utility companies.

1. Determination of Annual Pension Costs

Q. How is annual pension cost determined under FAS 87?

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

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

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

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

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

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

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

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

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

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

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

A. The EROA is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets. The market-related value of plan assets can be either fair (market) value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.

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

A. Gains and losses result from changes in the amount of either the projected benefit obligation or the plan assets. Such changes result from experience that differs from what was assumed in a prior year or from changes in assumptions. FAS 87 does not distinguish between sources of gains and losses. Asset gains and losses are the differences between the actual return on assets during a period and the expected return on assets for that period. Liability gains and losses are the differences between the actual liability at the end of a measurement period and the expected liability at the end of a measurement period. Because gains and losses may reflect refinements in estimates as well as real changes in economic values and because some gains in one period may be offset by losses in another or vice versa, FAS 87 does not require recognition of gains and losses as a component of net pension cost in the period in which they arise.

Q. HOW ARE UNRECOGNIZED GAINS AND LOSSES AMORTIZED?

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

Q. WITH RESPECT TO THE FIFTH COMPONENT, WHAT IS PRIOR SERVICE COST AMORTIZATION?

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

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

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

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

A. Annual pension cost is quantified using the following calculation:

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

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

A. No. In some years, the negative amounts in the calculation (i.e., the EROA and the gains resulting from the difference between expected and actual experience from prior periods) can be larger than the positive amounts. When that happens, the annual pension cost is negative, and it reduces the cumulative recognized pension cost. Mr. Wickes discusses this issue in more detail.

2. Comparison of 2014 and 2016 HTY Qualified Pension Expense

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING 2014?

A. During 2014, the Company’s qualified pension expense was $8,674,564 (Gas Utility O&M).

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE 2016 HTY?

A. The 2016 HTY qualified pension expense was $10,495,889 (Gas Utility O&M). That amount was based on the May 2016 actuarial report provided by Willis, which is Attachment RRS-1.

Q. WHAT FACTORS CONTRIBUTED TO THE INCREASE IN QUALIFIED PENSION EXPENSE BETWEEN 2014 AND the 2016 HTY?

A. The primary driver of the increase in qualified pension expense between 2014 and the 2016 HTY was due to the qualified pension tracker, which was an increase in expense of approximately $1.3 million. The qualified pension tracker was established in Proceeding No. 15AL-0135G to ensure that pension expense is no more or less than the agreed-upon baseline. The qualified pension expense in 2016 was less than the baseline established in the Company's last rate case, so the Company increased qualified pension costs to the baseline amount. This increase in expense is a regulatory liability that is owed back to customers. The pension tracker and cumulative balance are discussed further in Section VIII.

3. Comparison of 2016 HTY and MYP Qualified Pension Expense

Q. WHAT IS THE REQUESTED AMOUNT OF QUALIFIED PENSION EXPENSE FOR EACH YEAR OF THE MYP?

A. The Company is requesting that the following amounts of qualified pension expense be reflected in rates during the MYP period:

Table RRS-D- 2[9]

	2018	2019	2020
Qualified Pension Expense	$9,349,601	$9,021,806	$8,869,310

These amounts are based upon the February 2017 actuarial report provided by Willis to reflect the most recent assumptions for 2017-2022 costs. That February 2017 actuarial report is provided as Attachment RRS-2 to my Direct Testimony. The amounts provided by Willis were subsequently reduced for the pension impact of incentive payments above 15 percent of base pay, as set forth in the 2015 Phase I order. I discuss that order in more detail later in my Direct Testimony.

Q. WHY HAS THE QUALIFIED PENSION AMOUNT INCREASED FROM 2016 TO 2018?

A. The primary reasons for the increase in qualified pension costs from 2016 to 2018 are a reduction in the discount rate and unfavorable asset performance. Those increases were offset by a reduction in the loss amortization, favorable demographic experience, a reduction in the salary scale assumption, and improvements in the mortality assumptions.

Q. PLEASE DESCRIBE HOW CHANGES IN THE DISCOUNT RATE LED TO AN INCREASE IN QUALIFIED PENSION EXPENSE FROM 2016 TO 2018.

A. Changes in the discount rate create liability gains or losses by changing the present value of the future liability. If the discount rate decreases, it causes a

[9] These amounts are on a Gas Utility O&M basis.

liability loss because the lower discount rate increases the amount that must be set aside to satisfy future pension liabilities. Conversely, if the discount rate increases, it causes a liability gain because it reduces the amount that must be set aside to satisfy future pension liabilities.

Q. HAS THE DISCOUNT RATE BEEN CHANGING?

A. Yes. The discount rates in the MYP period are projected to be lower than the discount rate for 2016, which causes an increase in costs. Table RRS-D- 3 compares the discount rates used to determine pension cost for the 2016 HTY and the MYP:[10]

Table RRS-D- 3

Plan	2016	2018	2019	2020
Public Service Bargaining	4.71%	4.21%	4.21%	4.21%
NCE[11] Non-Bargaining	4.48%	3.97%	3.97%	3.97%
Xcel Energy Pension Plan	4.64%	4.11%	4.11%	4.11%

Q. HOW DOES PUBLIC SERVICE DETERMINE THE DISCOUNT RATE?

A. Each year the Company determines the actual discount rate based on a rigorous actuarial analysis of the pension obligations. The study matches the Company's annual pension obligations to discount rates that are appropriate for those obligations. This analysis includes performing a bond-matching study and

[10] The discount rates for 2016 reflect a point-in-time estimate from May 2016. The discount rates for 2018 – 2020 reflect a point-in-time estimate from February 2017. Although the discount rate forecast reflects a point in time, the discount rate applied in the FAS 87 determination of pension cost is based on yields of long-term bonds over the entire expected payout range. As such, it is not so much a reflection of rates today as it is a market-based consensus projection of what rates will be in the future.

[11] NCE refers to New Century Energies, Inc. ("NCE"), which merged with Northern States Power Company in 2000 to create Xcel Energy.

validating the results against the Citigroup pension liability curve and the Citigroup above-median curve.

Q. HOW DID UNFAVORABLE ASSET PERFORMANCE AFFECT THE 2016 to 2018 AMOUNT?

A. The unfavorable asset performance leads to higher pension expense in subsequent years because asset losses are phased in over a five-year period. Asset gains or losses arise when the actual returns on the pension trust assets in a given year are greater than or lesser than the expected return on those assets. In 2016, the Company's actual returns were slightly lower than the EROA. Table RRS-D- 4 summarizes the 2016 actual returns compared to the expected return for the three pension plans that affect Public Service.

Table RRS-D- 4

Pension Plan	2016 Expected Return on Assets	2016 Actual Return on Assets
PSCo Bargaining	6.50%	5.83%
NCE Non-Bargaining	6.90%	6.74%
Xcel Energy	7.10%	6.66%

Q. HOW DID DEMOGRAPHICS DECREASE THE QUALIFIED PENSION EXPENSE AMOUNT FROM 2016 TO 2018?

A. The annual demographic experience true-up, which is required under FAS 87, represents the cost impact of the difference between the expected demographic experience and the actual demographic experience for a calendar year.

Demographic experience includes assumptions for salary increases, expected terminations, expected retirements, deaths, disabilities, and new entrants into the plan. The primary reason for the Company's pension decrease related to favorable demographic experience was due to fewer than expected active participants accruing benefits under the plan.

Q. PLEASE DESCRIBE THE DECREASE TO THE ASSET LOSS AMORTIZATION AND EXPLAIN WHY IT IS LEADING TO REDUCED PENSION EXPENSE FROM 2016 TO 2018.

A. The asset loss amortization is a legacy of the sharp downturn in the national economy during 2008. The financial turmoil in 2008 caused nearly all pension trusts to lose a significant part of their value, and Public Service's pension trusts were no exception. Public Service's pension plans lost approximately 26 percent of their value as a result of the severe recession in 2008. Public Service did not, however, reflect all of those losses in its annual pension cost immediately. Instead, as allowed by FAS 87, Public Service phased the asset losses in over a five-year period, beginning in 2009. Because the 2008 asset losses were fully phased in by 2013, the amounts have now begun declining.

Q. HOW DID CHANGES IN SALARY SCALE ASSUMPTIONS AFFECT THE EXPENSE AMOUNT FROM 2016 TO 2018?

A. The 2016 pension expense was calculated by Willis using a 4.0 percent salary scale, as shown in Attachment RRS-1, Exhibit I, page 1 of 6. However, the 2017-2022 pension expense estimates were calculated by Willis using a 3.75 percent salary scale, as shown in Attachment RRS-2, Exhibit 1 pages 2-4. The salary scale assumption was changed in order to reflect changing Company experience. A decrease in the salary scale assumption used leads to a decrease in the Company's obligation and lower costs.

Q. PLEASE DESCRIBE THE MORTALITY TABLE UPDATES AND EXPLAIN WHY THEY LED TO OFFSETTING DECREASES TO QUALIFIED PENSION EXPENSE FROM 2016 TO 2018.

A. In October 2014, the Society of Actuaries' Retirement Plans Experience Committee published updated base mortality table and mortality improvement scales. These tables reflect longer lives, and thus longer periods in which former employees are likely to collect pensions and other retirement benefits. However, in 2016, a new projection table was released. In 2016, the Company adopted a modified version of the new projection table. The new projection table was favorable, and it decreased expense beginning in 2016.

Q. WHY IS THE COMPANY'S QUALIFIED PENSION COST DECREASING IN EACH YEAR OF THE MYP?

A. The decreases in qualified pension costs from 2018 to 2020 are primarily caused by plan design changes, an increased asset base, and a continued decrease in the loss amortization, which was described above.

Q. PLEASE DESCRIBE HOW PLAN DESIGN CHANGES CONTRIBUTE TO THE DECREASED PENSION EXPENSE.

A. Plan design changes implemented in 2012 significantly reduced benefit levels for newly hired non-bargaining employees. Each year as new employees are hired, the Company will continue to see lower costs as new employees are enrolled in the lower pension benefit plan, resulting in lower service cost each year.

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

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

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS QUALIFIED PENSION EXPENSE AMOUNTS IN THE 2016 HTY AND THE MYP?

A. Yes. Attachment RRS-3 contains the Gas Utility O&M calculations of the qualified pension expense amounts for the 2016 HTY and the MYP. The source documents for the numbers in Attachment RRS-3 are Attachments RRS-1 and RRS-2.

B. Non-Qualified Pension

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

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

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

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

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

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined-benefit plan to $210,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $265,000.

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

Q. HOW ARE NON-QUALIFIED PENSION COSTS DETERMINED?

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

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING 2014 FOR NON-QUALIFIED PENSION EXPENSE?

A. The non-qualified pension expense in 2014 was $303,993 (Gas Utility O&M).

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR IN 2016?

A. The 2016 HTY non-qualified pension expense was $460,468 (Gas Utility O&M).

Q. WHY DID THE NON-QUALIFIED PENSION EXPENSE INCREASE BETWEEN 2014 AND 2016?

A. The non-qualified pension expense increased between 2014 and 2016 primarily due to increases in the discount rate, salary scale assumptions used in the 2016 actuarial costs, and the non-qualified pension tracker. The non-qualified pension expense in 2016 was less than the baseline, so the Company increased non-qualified pension costs to the baseline amount. This increase in expense is a regulatory liability that is owed back to customers. The cumulative tracker balance is discussed further in Section VIII.

Q. WHAT IS THE REQUESTED AMOUNT OF NON-QUALIFIED PENSION EXPENSE FOR EACH YEAR OF THE MYP?

A. Table RRS-D- 5 sets forth the Gas Utility O&M non-qualified pension expense for each year of the MYP:

Table RRS-D- 5

	2018	2019	2020
Non-Qualified Pension Expense	$230,600	$210,000	$194,279

The amounts are based on an actuarial calculation provided by Willis in February 2017 to reflect the most recent assumptions for 2017-2022 costs. The MYP total cost amounts are reflected in Attachment RRS-2, Exhibit II, pages 2-4. The amounts provided by Willis were subsequently reduced for the pension impact of incentive payments above 15 percent of base pay, as required by the 2015 Phase I order. I discuss the Company’s compliance with that order in more detail later in my Direct Testimony.

Q. WHY HAS THE AMOUNT OF NON-QUALIFIED PENSION EXPENSE DECREASED FROM THE 2016 HTY TO THE MYP PERIOD?

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

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS NON-QUALIFIED PENSION EXPENSE AMOUNTS IN THE 2016 HTY AND THE MYP PERIOD?

A. Yes. Attachment RRS-3 contains the Gas Utility O&M calculations of the non-qualified pension expense amounts for the 2016 HTY and the MYP. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

C. Retiree Medical

Q. HOW ARE RETIREE MEDICAL COSTS DETERMINED?

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

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

A. The Company's plan consists primarily of retiree medical and pharmacy benefits, but it also includes retiree life and dental insurance. The Company eliminated those benefits for all active non-bargaining employees more than ten years ago.

Moreover, Public Service bargaining employees hired on or after January 1, 2012 no longer receive retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR IN 2014?

A. In 2014, the Company's retiree medical expense was $(701,284) (Gas Utility O&M).

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING THE 2016 HTY?

A. The Company's retiree medical expense was $(1,605,100) (Gas Utility O&M) for the 2016 HTY.

Q. WHY DID THE RETIREE MEDICAL EXPENSE DECREASE BETWEEN 2014 AND THE 2016 HTY?

A. The retiree medical expense decreased between 2014 and the 2016 HTY primarily due to plan design changes and a decrease to the asset loss amortization.

Q. WHAT ARE THE REQUESTED AMOUNTS OF RETIREE MEDICAL EXPENSE FOR THE MYP YEARS?

A. Table RRS-D- 6 sets forth the Gas Utility O&M retiree medical expense for each year of the MYP:

Table RRS-D- 6

	2018	2019	2020
Retiree Medical Expense	$(1,423,457)	$(1,313,436)	$(1,008,657)

The amounts are based on an actuarial calculation provided by Willis in February 2017 to reflect the most recent assumptions for 2017-2022 costs. The MYP Gas Utility O&M amounts are reflected in Attachment RRS-3, page 2.

Q. WHY HAS THE AMOUNT INCREASED FROM THE 2016 HTY TO THE MYP YEARS?

A. The major driver for the increase in expense is due to unfavorable claims experience and a reduction in the discount rate, offset by improvements in the mortality assumptions.

Q. PLEASE DESCRIBE THE COMPANY'S UNFAVORABLE CLAIM EXPERIENCE AND EXPLAIN WHY IT DECREASED RETIREE MEDICAL EXPENSE.

A. The unfavorable retiree medical claims experience was primarily caused by the expectation that the Company will receive less in Medicare Part D reimbursements and also less in retiree premiums from bargaining employees.

Q. PLEASE DESCRIBE THE CHANGE IN THE DISCOUNT RATE.

A. Table RRS-D- 7 shows the changes in the discount rate from the 2016 HTY through the MYP period.

Table RRS-D- 7

	2016	2018	2019	2020
Discount Rate	4.65%	4.13%	4.13%	4.13%

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS RETIREE MEDICAL EXPENSE AMOUNTS IN THE 2016 HTY AND THE MYP?

A. Yes. Attachment RRS-3 contains the Gas Utility O&M calculations of the retiree medical expense amounts for the 2016 HTY and the MYP. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

Q. ARE THERE ANY OTHER TOPICS WITH RESPECT TO FAS 106 COSTS THAT YOU WOULD LIKE TO ADDRESS?

A. Yes. On May 17, 2017 the Company received notice that the International Brotherhood of Electrical Workers, IBEW Local 111 ("Local 111"), filed a petition to reopen Docket Nos. 91A-281E and 94A-679EG. Local 111 is requesting that the Commission:

- Permit Local 111 to intervene in the cited dockets and reopen them or, in the alternative, treat Local 111's motion as a formal complaint by the individual Public Service ratepayers who are the named complainants;
- Re-affirm the orders that were entered in the prior dockets; and
- Amend those prior orders to provide that the Company cannot terminate "or further modify" the Medical Managed Care/Medicare Coordinated Plan (the "M/M Plan") for at least as long as the Voluntary Employee Beneficiary Association ("VEBA") trust contains sufficient assets attributable to the Company's retiree medical benefits to pay benefits

> established under the M/M Plan as currently designed, and Local 111 asks for an order that assets held in the VEBA trust may not be diverted for purposes other than retiree medical benefits under the existing plans.

Because I am supporting the Company's FAS 106 costs in this case, I felt it prudent to formally respond to some of the accusations that Local 111 has made regarding the Company's compliance with the two Commission orders mentioned above.

Q. WHAT SPECIFIC ACCUSATIONS FROM LOCAL 111 ARE YOU RESPONDING TO?

A. I am responding to two accusations that Local 111 has made in the filed motion. First, Local 111 claims that the Company's current proposal violates prior Commission orders from the 1990s, and second, Local 111 claims that Public Service has been commingling VEBA assets designated for retiree medical benefits. Neither accusation has any merit.

Q. ADDRESSING THE FIRST ACCUSATION, HAS THE COMPANY COMPLIED WITH THE FAS 106 REQUIREMENTS SET FORTH IN DOCKET NOS. 91A-281E AND 94A-679EG?

A. Yes, the Company has complied with all of the FAS 106 requirements set forth in the orders in both of those dockets.

Q. DOES THE ORDER IN EITHER OF THOSE DOCKETS DEFINE THE LEVEL OF FAS 106 BENEFITS THAT THE COMPANY MUST OFFER?

A. No.

Q. DOES THE ORDER IN EITHER OF THOSE DOCKETS PREVENT THE COMPANY FROM CHANGING THE LEVEL OF BENEFITS?

A. No.

Q. IF THE COMPANY REDUCES OR ELIMINATES THE FAS 106 BENEFITS, DO RATEPAYERS RECEIVE A CORRESPONDING REDUCTION TO RATES?

A. Yes. A plan design change reduces FAS 106 cost and the Company's cost of service, which results in a reduction to rates for customers.

Q. WITH REGARD TO THE SECOND ACCUSATION, HAS LOCAL 111 STATED ACCURATELY THE FACTS SURROUNDING THE COMBINATION OF VEBA TRUSTS?

A. No. The Company's VEBA trust is a trust qualified under Section 501(c)(9) of the Internal Revenue Code to hold assets. A permissible use of the assets held in the trust is for the payment of life, sickness, accident or other benefits, and the terms of those benefits are detailed under one or more employee benefit plans as defined under ERISA. The Company's VEBA trust (now known as the Xcel Energy Inc. Voluntary Employees' Beneficiary Trust for Retired Employees (Bargaining and Non-Bargaining Combined)) has undergone name changes and has been combined with other Company-sponsored VEBA trusts over the years. However, no VEBA trust sponsored by the Company has been "wrapped" into any other VEBA trust. Rather, Local 111 appears to confuse this term with actions related to the ERISA health and welfare benefit plans sponsored by Public Service, and later by NCE and Xcel Energy Inc. As Local 111 correctly states in footnote 7 of its complaint, multiple health and welfare benefit plans and programs can be "wrapped" into one "plan" for ERISA reporting and compliance purposes. The benefit programs, including the M/M plan, are described in separate documents incorporated into the "wrap plan." The "plans and programs" of the wrap plan are separate and distinct from the "trust" as a funding mechanism.

Q. HAS THE COMPANY IMPERMISSIBLY COMINGLED ANY OF ITS VEBA ASSETS?

A. No. Neither order referenced by Local 111 required the Company to create one exclusive trust for funding Company bargaining retiree medical benefits. Instead, the Docket No. 94A-679EG order states in part that "the Company will place 100 percent of the amounts collected in one or more trust funds…" The Company has structured its VEBAs into subaccounts that specifically separate and track assets by entity, active or retiree status, and by union and non-union status. Further, separate accounting is done on employee and retiree contributions. This is done to adhere to both tax and regulatory requirements. The IRS recognizes pooling assets of multiple VEBAs for investment purposes. Finally, the IRS has approved the combination of VEBA trusts, and did so specifically in the combinations made by Xcel Energy Inc. in 2005.

D. Self-Insured Long-Term Disability

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

A. The LTD costs are attributable to benefits provided by the Company to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment.

The Company has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, Public Service provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, Public Service is required to accrue for LTD costs under FAS 112, Employers' Accounting for Postemployment Benefits. The FAS 112 accrual represents the expected disability benefit payments for employees that are not expected to return to work.

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

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

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR IN 2014 FOR SELF-INSURED LTD BENEFITS?

A. The self-insured LTD benefit costs in the 2014 were $(64,553) (Gas Utility O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COSTS DID THE COMPANY INCUR IN THE 2016 HTY?

A. The self-insured LTD benefit costs in the 2016 HTY were $28,905 (Gas Utility O&M).

Q. WHY DID THE SELF-INSURED LTD BENEFIT COSTS INCREASE BETWEEN 2014 AND THE 2016 HTY?

A. The primary cause of the increase in cost from 2014 to the 2016 HTY was a decrease to the discount rate.

Q. WHAT ARE THE REQUESTED AMOUNTS OF SELF-INSURED LTD BENEFITS EXPENSE FOR THE MYP YEARS?

A. Table RRS-D- 8 sets forth the self-insured LTD Gas Utility O&M expense for each year of the MYP:

Table RRS-D- 8

	2018	2019	2020
Self-Insured LTD	$14,958	$11,273	$8,156

The amounts are based on an actuarial calculation provided by Willis in February 2017 to reflect the most recent assumptions for 2017-2022 costs. The MYP Gas Utility O&M amounts are reflected in Attachment RRS-3, page 2.

Q. WHY HAS THE AMOUNT DECREASED FROM THE 2016 HTY TO THE MYP PERIOD?

A. The amount has decreased primarily because it is a closed plan, and the number of participants drives the expense.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS SELF-INSURED LTD EXPENSE AMOUNTS IN THE 2016 HTY AND THE MYP?

A. Yes. Attachment RRS-3 contains the Gas Utility O&M calculations of the self-insured LTD expense amounts for the 2016 HTY and the MYP period. Attachments RRS-1 and RRS-2 contain the source documents for those calculations.

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

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

A. Yes. The Company follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other retirement benefits expense amounts for the MYP period. The assumptions and the actuarially calculated total cost amounts are reflected in Attachments RRS-1 and RRS-2, which are the actuarial attachments for the 2016 HTY and the MYP. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment benefits, is discussed in Ms. Koenig's Direct Testimony.

IV. ACTIVE HEALTH AND WELFARE COSTS

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

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

A. Active Health Care

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

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

Q. WHAT AMOUNT OF ACTIVE HEALTH CARE EXPENSE DID THE COMPANY INCUR IN 2014?

A. The active health care expense in 2014 was $9,332,776 (Gas Utility O&M).

Q. WHAT WAS THE 2016 HTY AMOUNT OF ACTIVE HEALTH CARE EXPENSE?

A. The 2016 HTY amount of active health care expense was $9,577,695 (Gas Utility O&M).

Q. DOES THE 2016 HTY AMOUNT MATCH THE PER BOOK AMOUNT OF ACTIVE HEALTH CARE COSTS FOR CALENDAR YEAR 2016?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when Public Service receives a bill for that care.[12] Therefore, the actual amount of active health care expense was not available at the time Public Service recorded its per book amount at year-end 2016. Because Public Service needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through a certain point in the year and estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred but not Reported ("IBNR") reserve. During the following year, Public Service receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO THE 2016 PER BOOK AMOUNT?

A. The adjustment to the per book amount is a decrease of $157,806 (Gas Utility O&M). This adjustment is necessary to reflect the claims costs on an incurred basis. As mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred

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

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

Q. WHY DID ACTIVE HEALTH CARE COSTS INCREASE BETWEEN 2014 AND 2016?

A. The active health care costs increased between 2014 and 2016 due to the normal health care trend of increasing costs. The trend was mitigated during this time period due to the plan design changes discussed below.

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

A. Table RRS-D- 9 sets forth the Gas Utility O&M active health care expense for each year of the MYP:

Table RRS-D- 9

	2018	2019	2020
Active Health Care	$12,106,467	$12,890,248	$13,729,864

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE ACTIVE HEALTH CARE AMOUNTS FOR 2018-2020.

A. In May 2016, Willis calculated a new 2017 active health care amount by using the active health care expense actually experienced by Xcel Energy in 2014, 2015, and 2016 with a weighting as follows:

- Experience Period 1: Incurred May 1, 2014 – April 30, 2015, paid through June 30, 2016 (20 percent for Non-PSCo, 33.3 percent for PSCo); and

- Experience Period 2: Incurred May 1, 2015 – April 30, 2016, paid through June 30, 2016 (80 percent for Non-PSCo, 66.7 percent for PSCo).

Willis adjusted for changes in plan design, regulations, high cost claims, administrative fees, etc., and then trended the data forward to using a 6.50 percent trend factor. This 6.50 percent trend factor was applied on a per-employee-per-year basis. These costs are calculated at a plan level, meaning all operating companies with employees in that plan are calculated together.

Q. WHAT IS THE COMPANY'S BASIS FOR USING A 6.50 PERCENT HEALTH CARE TREND ASSUMPTION?

A. There are numerous statistics and projections on how much health care costs will increase in the upcoming years. Willis recommended the 6.50 percent trend rate because it reflects Willis's overall expectation of health care cost increases based on survey averages, carrier information, and an analysis of the broad health care market.

Q. A 6.50 PERCENT ANNUAL INCREASE WOULD RESULT IN A 13 PERCENT INCREASE FROM 2016 TO 2018, BUT THE COMPANY'S PROPOSED INCREASE IS GREATER THAN THAT. WHAT IS YOUR EXPLANATION FOR THAT INCREASE?

A. As I have explained, Willis calculated the 2017 amount based on incurred claims from 2014, 2015 and part of 2016, and then it trended that forward in the MYP period. Starting in 2016, however, the Company made plan design changes that reduced the 2016 actual amounts compared to what they would have been with no changes. The savings that the Company experienced in 2016 from the plan design changes were much greater than Willis anticipated. Willis is currently in the process of updating its active health care forecast to incorporate the 2016 numbers. Because of the plan design changes, the 2017 expense is likely to be lower, which will reduce the amounts in the MYP period as well.

Q. WHAT DESIGN CHANGES DID THE COMPANY MAKE TO ITS HEALTH CARE PLAN?

A. Prior to 2016, the medical and pharmacy costs had two plans; the non-bargaining employees had a high deductible health plan ("HDHP"), while the Public Service bargaining employees had a non-HDHP plan. Beginning on January 1, 2016 both the bargaining and non-bargaining employees were on an HDHP plan.

Q. WHEN WILL THE COMPANY RECEIVE UPDATED 2017 AND 2018 HEALTH CARE ACTUARIAL AMOUNTS THAT REFLECT THE 2016 CLAIMS EXPERIENCE?

A. The Company is expecting to receive 2017 and 2018 updated health care projections from Willis in June 2017. These updated amounts will use 2016 incurred claims as the primary basis for the projections.

Q. WHAT IS THE COMPANY PROPOSING IN REGARD TO THESE NEW 2017-2020 HEALTH CARE AMOUNTS?

A. The Company will provide the new amounts to the parties when they are available.

B. <u>Third-Party-Insured Long-Term Disability</u>

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

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

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

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

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR IN 2014 FOR THIRD-PARTY-INSURED LTD BENEFITS?

A. In 2014, the self-insured LTD benefit expense was $345,419 (Gas Utility O&M).

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING THE 2016 HTY FOR THIRD-PARTY-INSURED LTD BENEFITS?

A. The Company incurred $414,725 (Gas Utility O&M) in third-party-insured LTD expense during the 2016 HTY.

Q. WHY DID THIRD-PARTY-INSURED LTD EXPENSE INCREASE BETWEEN 2014 AND THE 2016 HTY?

A. Third-party-insured LTD expense increased between 2014 and 2016 because LTD benefits are based in large part on the affected employees' wage and salary levels. As such, the expense increased consistent with higher wage and salary levels in 2016 as compared to 2014.

Q. WHAT AMOUNTS IS THE COMPANY PROPOSING FOR THIRD-PARTY-INSURED LTD BENEFITS DURING THE MYP?

A. Table RRS-D- 10 sets forth the Gas Utility O&M third-party-insured LTD expense for each year of the MYP:

Table RRS-D- 10

	2018	2019	2020
Third-Party-Insured LTD	$437,493	$449,511	$461,861

Q. WHY IS THE THIRD-PARTY-INSURED LTD AMOUNT INCREASING FOR THE MYP, AS COMPARED TO THE 2016 HTY?

A. LTD benefits are based in large part on the affected employees' wage and salary levels. Because wages and salaries are forecasted to increase between the 2016 HTY and the MYP, Public Service took the 2016 HTY LTD insurance premium and escalated it by a percentage equal to the wage and salary escalation percentage.

C. Life Insurance

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

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

Q. WHAT LIFE INSURANCE BENEFIT EXPENSE DID PUBLIC SERVICE INCUR DURING 2014?

A. In 2014, the Company incurred $154,661 (Gas Utility O&M) of life insurance expense.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2016 HTY FOR LIFE INSURANCE BENEFITS?

A. During the 2016 HTY, Public Service incurred $174,814 (Gas Utility O&M) for life insurance benefits.

Q. WHAT FACTORS CONTRIBUTED TO THE INCREASE IN LIFE INSURANCE EXPENSE BETWEEN 2014 AND 2016?

A. Life insurance expense increased between 2014 and 2016 due mainly due to the fact that, like LTD benefits, life insurance benefits are tied to wage and salary levels. Therefore, as salary and wage levels increased from 2014 to 2016, the life insurance costs increased.

Q. WHAT AMOUNT IS PUBLIC SERVICE PROPOSING FOR LIFE INSURANCE BENEFITS IN THE MYP?

A. Table RRS-D- 11 sets forth the Gas Utility O&M life insurance benefit expense for each year of the MYP:

Table RRS-D- 11

	2018	2019	2020
Life Insurance Benefits	$183,304	$188,304	$193,375

Q. WHY IS THE COST OF LIFE INSURANCE BENEFITS INCREASING FOR THE MYP, AS COMPARED TO THE 2016 HTY?

A. Like LTD benefits, life insurance benefits are tied to wage and salary levels. Therefore, Public Service escalated the MYP amount to increase by a percentage equal to the expected wage and salary percentage increases.

D. Miscellaneous Benefits

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

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

- Tuition reimbursement,
- Employee Assistance Program costs,
- Wellness program costs,
- Costs incurred by the HR Service Center to answer employee retirement or benefit questions,
- Health and welfare plan actuarial and audit fees,
- Administrative fees for short-term and long-term disability plans, and

- Administrative fees for employee flexible spending and health savings accounts.

Q. WHAT AMOUNT DID THE COMPANY INCUR IN 2014 FOR MISCELLANEOUS BENEFITS?

A. In 2014, the Company incurred $391,024 (Gas Utility O&M) in miscellaneous benefit costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2016 HTY FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $450,525 (Gas Utility O&M) for miscellaneous benefits during the 2016 HTY.

Q. WHAT FACTORS CAUSED THE COST TO INCREASE BETWEEN 2014 AND THE 2016 HTY?

A. The miscellaneous benefit costs increased between 2014 and the 2016 HTY because of increased utilization during the period and general inflation of costs included in the miscellaneous benefit programs.

Q. WHAT AMOUNTS IS PUBLIC SERVICE PROPOSING FOR THE MYP MISCELLANEOUS BENEFITS EXPENSE?

A. Table RRS-D- 12 sets forth the Gas Utility O&M miscellaneous benefit expense for each year of the MYP:

Table RRS-D- 12

	2018	2019	2020
Miscellaneous Benefit	$483,650	$487,182	$490,672

Q. WHY IS THE COST OF MISCELLANEOUS BENEFITS INCREASING FROM THE 2016 HTY TO THE MYP?

A. The increase in cost is attributable to minor cost inflations of the various employee benefit programs.

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

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

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

WORKERS' COMPENSATION COSTS

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

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

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

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

Q. HOW ARE THIRD-PARTY-INSURED WORKERS' COMPENSATION AMOUNTS DETERMINED?

A. The workers compensation insurance costs are calculated by actuaries of the vendor from whom Public Service purchases the insurance. The actuaries presumably base the costs on company-specific historical loss data and payroll to determine exposure related to the policy period.

Q. HOW MUCH DID THE COMPANY INCUR IN 2014 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. In 2014, the Company incurred $401,539 (Gas Utility O&M) in third-party-insured workers' compensation benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2016 HTY FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During the 2016 HTY Public Service incurred $482,101 (Gas Utility O&M) for third-party-insured workers' compensation benefits. The 2016 per book amount for workers' compensation has been adjusted to remove a one-time captive distribution of $(546,015). The costs related to this one time captive distribution have been excluded due to the fact that it was a one-time nonrecurring item and we are removing the effect of it in the 2016 HTY for comparability reasons.

Q. WHAT FACTORS CONTRIBUTED TO THE INCREASE IN THIRD-PARTY-INSURED WORKERS' COMPENSATION EXPENSE BETWEEN 2014 AND THE 2016 HTY?

A. The increase in third-party-insured workers' compensation expense between 2014 and the 2016 HTY is attributable to actuarially calculated FAS 112 workers' compensation costs and increases in workers' compensation insurance costs.

Q. WHAT AMOUNT OF EXPENSE IS PUBLIC SERVICE REQUESTING FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS FOR THE MYP PERIOD?

A. Table RRS-D- 13 sets forth the Gas Utility O&M third-party-insured workers' compensation expense for each year of the MYP:

Table RRS-D- 13

	2018	2019	2020
Third-Party-Insured Workers' Compensation	$567,056	$579,984	$597,943

Q. WHY HAS THE AMOUNT INCREASED FROM THE 2016 HTY TO THE MYP PERIOD?

A. It is Public Service's understanding that when the premiums are being calculated, the insurer's actuaries look at three years of loss history. The most recent premium renewal received at the end of 2016 reflected an increase in the three-year loss history, thus resulting in higher premiums. This most recent premium renewal is the basis for the MYP level of costs.

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

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

V. OTHER BENEFIT COSTS

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

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

A. 401(k) Match

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

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

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

A. The 401(k) plan is a defined-contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary, with a maximum match of 4 percent. For the majority of Public Service's workforce, the employee must contribute 8 percent of eligible income for Public Service to contribute the maximum match of 4 percent of eligible income. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. HOW MUCH DID PUBLIC SERVICE INCUR FOR 401(K) MATCH COSTS IN 2014?

A. In 2014, the Company incurred $2,224,538 (Gas Utility O&M) in 401(k) match costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2016 HTY FOR 401(K) MATCH BENEFITS?

A. During the 2016 HTY, Public Service incurred $2,811,002 (Gas Utility O&M) for 401(k) benefits.

Q. WHY DID THE 401(K) MATCH COSTS INCREASE BETWEEN 2014 AND THE 2016 HTY?

A. The costs increased primarily because 401(k) costs are based on amounts that employees contribute as a percentage of salary. Because salaries increased from 2014 to 2016, the 401(k) match amounts increased as well.

Q. WHAT AMOUNT OF 401(K) EXPENSE IS PUBLIC SERVICE SEEKING TO RECOVER FOR THE MYP PERIOD?

A. Table RRS-D- 14 sets forth the 401(k) expense for each year of the MYP:

Table RRS-D- 14

	2018	2019	2020
401(k) Expense	$2,849,585	$2,928,640	$3,009,832

Q. WHY IS THE 401(K) EXPENSE INCREASING IN THE MYP PERIOD AS COMPARED TO THE 2016 HTY?

A. The 401(k) match amount is increasing on a year-over-year basis for the reason I discussed above – the 401(k) match is based on the amount that employees contribute as a percentage of their salary. The increase is driven by assumed salary increases for participants in the budget. Because the employees' salaries are increasing for the reasons set forth in Ms. Koenig's Direct Testimony, it is appropriate for the 401(k) costs to increase as well.

B. Miscellaneous Retirement-Related Costs

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

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

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DID THE COMPANY INCUR IN 2014?

A. In 2014, the Company incurred $142,252 (Gas Utility O&M) in miscellaneous retirement-related benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2016 HTY FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $170,465 (Gas Utility O&M) during the 2016 HTY.

Q. WHY DID THE AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS INCREASE BETWEEN 2014 AND THE 2016 HTY?

A. The miscellaneous retirement-related benefits increased during that time because of natural increases in the costs associated with using third-party retirement-related consulting.

Q. WHAT AMOUNT IS PUBLIC SERVICE REQUESTING FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS DURING THE MYP PERIOD?

A. Table RRS-D- 15 sets forth the Gas Utility O&M miscellaneous retirement-related benefit expense for each year of the MYP period:

Table RRS-D- 15

	2018	2019	2020
Miscellaneous Retirement-Related Benefit Expense	$185,884	$176,648	$177,598

Q. WHY ARE THE MISCELLANEOUS RETIREMENT-RELATED BENEFITS DECREASING IN THE MYP AS COMPARED TO THE 2016 HTY?

A. The increase in the miscellaneous retirement-related benefits in 2018 as compared to the 2016 HTY is primarily due the Company projecting to utilize additional third-party compensation consulting fees in 2018 compared to actuals in the 2016 HTY. The main reason for the decrease from 2018 to 2019 is due to budgeted costs in 2018 associated with contractors for a project that is not forecasted to be utilized again in 2019.

C. <u>Reasonableness of Other Benefit Costs</u>

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

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

VI. COMPLIANCE WITH PENSION-RELATED REQUIREMENTS IN PRIOR ORDERS

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

A. I discuss the requirements imposed by the Commission in Proceeding No. 15AL-0135G with respect to the Company's prepaid pension asset and its regulatory trackers for qualified pension and non-qualified pension.

Q. HOW DID THE COMMISSION TREAT THE COMPANY'S PREPAID PENSION ASSET IN THE MOST RECENT CASE?

A. In Decision No. R15-1204, the Administrative Law Judge included the following finding of fact related to the Company's prepaid pension asset:

> 22. Public Service may continue using its long-term cost of debt as the rate it earns on pre-paid pension assets. In addition, several proposals by Staff which were unopposed will be adopted, including, the designation of a "Legacy Prepaid Pension Asset" of $59,641,230 which is the requested prepaid pension asset adjusted for deferred income taxes; the authorization of a $3,976,082 15-year amortization to accelerate elimination of the account, and use of a pension tracker; and, Staff's proposal to implement the same annual pension reporting requirements for the gas side that Public Service agreed to undertake as part of the settlement agreement in the Company's most recent electric rate case, Proceeding No. 14AL-0660E.[13]

Q. HAS THE COMPANY COMPLIED WITH THE "LEGACY PREPAID PENSION ASSET" AMORTIZATION REQUIREMENT IN THAT RECOMMENDED DECISION?

A. Yes. As shown in Attachment RRS-10, the Company began amortizing the Legacy Prepaid Pension Asset of $59,641,320, net of accumulated deferred

[13] Proceeding No. 15AL-0135G, Decision No. R15-1204 at 7, Finding of Fact No. 22.

income taxes ("ADIT"), in 2016, and the Company amortized a total of $4,970,103 in 2016.[14] At the end of 2016, the Legacy Prepaid Pension Asset had a balance of $54,671,129, net of ADIT.

Q. DOES THE COMPANY HAVE ANY OTHER PENSION ASSETS OR LIABILITIES?

A. Yes. In addition to the Legacy Prepaid Pension Asset, the Company has a balance called the "New Prepaid Pension Asset," which is also an outgrowth of the Recommended Decision in Proceeding No. 15AL-0135G. The New Prepaid Pension Asset is designed to record pension asset or liability balances that have arisen since the creation of the Legacy Prepaid Pension Asset."

Q. WHAT IS THE BALANCE OF THE NEW PREPAID PENSION ASSET?

A. Despite the label, the New Prepaid Pension Asset actually had a liability balance of $(6,059,168) for the gas jurisdiction as of the end of 2016. That balance is net of ADIT, similar to the net balance of the Legacy Prepaid Pension Asset. The negative balance indicates that the New Prepaid Pension Asset has an unfunded liability that is used to offset the Legacy Prepaid Pension Asset for GAAP reporting. The unfunded liability was created because cash contributions have been less than recognized expense since the New Prepaid Pension Asset period began.

[14] The amount amortized in 2016 is more than the annual amortization of $3,976,082 noted above because the Company retroactively recorded the October through December 2015 amortization amounts in 2016. There was $994,021 of retroactive amortization added to the annual amortization of $3,976,082, to arrive at the 2016 total of $4,970,103.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE TREATMENT OF THE LEGACY PREPAID PENSION ASSET AND THE NEW PREPAID PENSION ASSET?

A. Yes. Attachment RRS-10 shows the breakout of the Legacy Prepaid Pension Asset, Regulatory Amortization and New Prepaid Pension Asset. The attachment shows that the net balance of these items was $46,808,172 at the end of 2016. The attachment shows the roll-forward of these balances, but the net balances shown in the attachment are different from the net prepaid pension asset balances that the Company is requesting recovery of because the Company is requesting the 13-month average balances for the three years of the MYP period, 2018-2020.

Q. HAS THE COMPANY COMPLIED WITH THE PENSION TRACKER REQUIREMENT IN THE 2015 PHASE I ORDER?

A. Yes. As shown in Attachment RRS-12, the Company has been tracking its qualified and non-qualified pension costs against the baseline of $10,312,925 ($9,890,661 qualified baseline; $422,265 non-qualified baseline), which was subsequently set forth in Decision No. C16-0123:

> 67. We authorize Public Service to implement a tracker for its future pension expense with a baseline amount of $10,312,925, consistent with the amount presented at the Technical Conference. The Company's request is a reasonable addition to the revenue requirement calculation for its pension expense.

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

A. As shown in Attachment RRS-12, the cumulative balance of the tracker as of the end of 2017 is projected to be a $(1,667,620) regulatory liability that is owed to Public Service customers. That indicates actual pension expense was less than the baseline established in the previous rate case. This cumulative balance is made up of $(1,316,526) related to qualified pension expense and $(351,094) related to non-qualified pension expense. The Company proposes to amortize this balance over 34 months (MYP) or 24 months (2016 HTY). This proposed amortization is further explained in Company witness Steven Berman's Direct Testimony.

Q. DOES THE COMPANY HAVE ANY UDPATES TO THE TRACKER BASELINE?

A. Yes. The Company believes that the baselines for qualified and non-qualified pension should be reset based on the updated qualified and non-qualified pension expense amounts included in each of the year included in the MYP. The baseline for years after 2020 should be set at the 2020 expense amounts until the Company files for a new rate case. At that time the Company can address resetting the baseline. The table below breaks out the baseline amounts for the MYP, which have been reduced for the pension impact of incentive payments above 15 percent of base pay.

Table RRS-D- 16

	2018	2019	2020
Qualified Pension Baseline	9,349,601	9,021,806	8,869,310
Non-Qualified Pension Baseline	230,600	210,000	194,279
Total Baseline	**9,580,201**	**9,231,806**	**9,063,589**

Q. HAS THE COMPANY COMPLIED WITH THE COST OF SERVICE REDUCTION FOR THE PENSION IMPACT OF INCENTIVE PAYMENTS ABOVE 15 PERCENT OF BASE PAY, AS REQUIRED BY THE 2015 PHASE I ORDER?

A. Yes. In Decision No. C16-0123, the Commission directed the Company to reduce the cost of service for the pension impact of incentive payments above 15 percent of base pay:

> 73. We uphold the ALJ's directive to limit cost recovery of AIP compensation to 15 percent of an employee's base salary. The ALJ fully considered the issues surrounding the AIP, and the 15 percent cap for cost recovery purposes is reasonable. We instruct Public Service to calculate the recoverable costs based on each employee's base salary rather than an aggregate amount. In addition, consistent with these limits, we require Public Service, on our own motion, to eliminate from the revenue requirement the pension expense impacts associated with bonuses that exceed the 15 percent threshold.

Starting with the 2016 HTY, the qualified and non-qualified pension expense was reduced for the pension impact of incentive payments above 15 percent of base pay before being compared to the baseline.

Q. DOES THE COMPANY PROPOSE THAT THE SAME METHODOLOGY BE USED ON A GOING-FORWARD BASIS?

A. No. Calculating the recoverable costs based on an employee-by-employee basis is complex and labor-intensive. It is also costly, because much of the work must be performed by Willis, and the costs charged by Willis are ultimately passed through to customers as part of O&M expense.

Q. WHAT TASKS MUST THE COMPANY AND WILLIS PERFORM TO CALCULATE THE EFFECT THAT ELIMINATING INCENTIVE AMOUNTS ABOVE 15 PERCENT HAS ON PENSION EXPENSE?

A. To calculate the effect of eliminating incentive amounts above 15 percent on an employee-by-employee basis, the Company and Willis must perform numerous calculations:

- Liability projections – Willis must perform an additional valuation for active employees, limiting both historical incentive payments to 15 percent of base pay, as well as projections of future pay. Limiting historical incentive compensation requires calculation and maintenance of additional data.
- Benefit payments – Approximately 165 employees terminated employment during 2015 or 2016 after receiving incentives above 15 percent of 2014 or 2015 base pay. Because the 2015 Phase I order requires the limit to be applied on an individual basis, it was necessary to recalculate the actual benefits payable to these participants reflecting the incentive compensation limits. These updated benefit values are used in the valuation.
- Assets – Because actual benefit payments are based on total annual incentive plan amounts, the fair market value of assets and the market-related value of assets must be increased to account for the portion of benefit

payments made from the trust attributable to incentive payments above 15 percent of base pay. Willis must also make adjustments for approximately 85 participants that received a lump sum payment and 30 participants that commenced an annuity prior to the valuation date.

- Liabilities – The pension benefit obligation for approximately 80 former employees that did not receive a lump sum must be reduced by excluding projected future benefit payments attributable to incentive payments above 15 percent of base pay. Adjusted benefit payment amounts also require additional data to be maintained.
- Prepaid/(accrued) – The Company must maintain a separate set of accounting books to reflect the lower 2015 and 2016 Colorado regulatory costs previously provided to Xcel Energy and adjusted benefit payments from the nonqualified plan.

All of these requirements make it difficult and expensive to track the pension expense on an employee-by-employee basis.

Q. HOW DOES THE COMPANY PROPOSE TO LIMIT THE PENSION EXPENSE IMPACT ASSOCIATED WITH ANNUAL INCENTIVE PAY THAT EXCEEDS THE 15 PERCENT THRESHOLD?

A. The Company proposes to adopt an agreed-upon percentage based on the three-year average reduction from 2015-2017 related to annual pension costs that exceed the 15 percent threshold, as opposed to calculating the reduction based on each individual employees base salary. The agreed-upon reduction percentage will then be reviewed during each subsequent rate case proceeding. The following tables contain the three-year average reductions from 2015-2017 related to annual pension costs (qualified and nonqualified) that exceed the 15 percent threshold.

Table RRS-D- 17

Company Retained Cost as a percentage of Total Cost	2015	2016	2017	3 year Average
PSCo Qualified Pension	0.71%	0.82%	1.18%	0.90%
XES Qualified Pension	0.77%	0.97%	1.34%	1.03%

Table RRS-D- 18

Company Retained Cost as a percentage of Total Cost	2015	2016	2017	3 year Average
PSCo Nonqualified Pension	3.74%	7.35%	0.69%	3.93%
XES Nonqualified Pension	42.77%	47.80%	46.96%	45.84%

Q. DO THE MYP PENSION AMOUNTS IN TABLE RRS-D-1 INCLUDE THE IMPACT OF YOUR PROPOSAL?

A. Yes. The impact of the Commission order stated above can be seen in Attachment RRS-3 for both qualified and non-qualified pension. These adjustments reflect the Company's proposal to use a three-year average reduction percentage.

Q. DID THE COMPANY COMPLY WITH THE ANNUAL PENSION REPORTING REQUIREMENTS THAT WERE IMPOSED AS PART OF THE 2015 PHASE I?

A. Yes. The Company filed the annual pension reporting requirement on May 1, 2017. As noted above in Finding of Fact No. 22, the Commission imposed the same annual pension reporting requirements for the gas jurisdiction that Public

Service agreed to undertake as part of the settlement agreement in the Company's most recent electric rate case, Proceeding No. 14AL-0660E.

Q. ARE THERE ANY NEW ACCOUNTING STANDARDS THAT ARE APPLICABLE TO THE MYP IN THIS CASE?

A. Yes, the Financial Accounting Standards Board issued Accounting Standards Update, ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The standard requires employers to report the service cost component of net benefit cost in the same line item on the income statement as other employee compensation costs, while presenting the other cost components separately outside of operating income. Historically, Public Service presented all cost components in O&M expense. The Company's defined benefit pension plans (qualified and non-qualified) and other postretirement benefit plans (FAS 106) O&M costs are all included in Federal Energy Regulatory Commission ("FERC") Account 926. The Accounting Standards Update also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The required effective date of the standard is January 1, 2018.

Q. WILL THE AMOUNT OF FERC ACCOUNT 926 AND CAPITAL COSTS BE CHANGING AS A RESULT OF THIS NEW STANDARD?

A. No. Regulated utility accounting requirements for the components of net periodic benefit costs are mandated by utility regulators for purposes of setting the rates that utilities are permitted to charge customers for utility service. Regardless of the requirements of GAAP, utility recordkeeping requirements may, and often do, mandate specific accounting approaches. FERC has stated the regulatory accounting requirements for pension costs will remain unchanged, thereby continuing to support the current regulatory treatment of all of the components of the net benefit costs as an operating expense in FERC Account 926, with all the components being subject to capitalization.

VII. PREPAID PENSION ASSET

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

A. I describe the Company's current prepaid pension asset and its forecasted prepaid pension asset during the MYP period. I also explain the Company's request in this case to include the prepaid pension asset in rate base and to earn a return at the Company's WACC. As I testified earlier, Mr. Wickes is also providing testimony supporting the Company's request to include the prepaid pension asset in rate base and to earn a return on it equal to the Company's WACC.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF PREPAID PENSION ASSET THAT IS IN THE MYP PERIOD?

A. Yes. Attachments RRS-7 and 8 provide a detailed calculation of the 13-month average of the Legacy Prepaid Pension Asset and New Prepaid Pension Asset for the MYP period for the gas jurisdiction. Attachment RRS-6 shows a summary of the Legacy and New Prepaid Pension Asset balances that the Company is seeking to include in rate base. The amount the Company is seeking to recover is the net of the Legacy Prepaid Pension Asset, which has an asset balance, and the New Prepaid Pension Asset, which has an unfunded liability balance.

Q. WHAT WAS THE PREPAID PENSION ASSET BALANCE IN THE 2016 HTY?

A. In the 2016 HTY, the thirteen-month average of the Company's net prepaid pension asset balance for the Public Service gas utility was $50,676,466.[15]

Q. DOES THE COMPANY EXPECT TO HAVE A PREPAID PENSION ASSET IN THE MYP PERIOD?

A. Yes. For each year of the MYP, the thirteen-month average of the prepaid pension asset is shown below:

Table RRS-D- 19

Net Prepaid Pension (Gas)			
	2018	2019	2020
Thirteen-Month Average of Prepaid Pension Asset in MYP Period	$37,728,299	$33,335,181	$30,017,617

The calculation to support the prepaid pension asset thirteen-month MYP average appears in Attachments RRS-6, 7 and 8, and the cumulative qualified prepaid pension asset balance since the adoption of FAS 87 through 2014 appears in Attachment RRS-9.

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

A. Public Service is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on that portion of the rate base at the

[15] The Company uses a thirteen-month average to avoid selecting a point-in-time amount that is not representative of the asset balance. The prepaid pension asset varies throughout the year as pension expense is recognized.

WACC that Public Service has proposed for each year of the MYP period, which are 7.49 percent for 2018, 7.47 percent for 2019, and 7.48 percent for 2020.

Q. WHY IS IT APPROPRIATE TO INCLUDE THE NET PREPAID PENSION ASSET IN RATE BASE?

A. As Mr. Wickes explains in more detail, it is standard ratemaking practice for utility prepayments to be added to rate base and for customer prepayments to be subtracted from rate base. Prepayments also typically earn a return at the utility's WACC. There is no reason to treat the prepaid pension asset differently in this case.

Second, customers are earning a return on the prepaid pension asset, which reduces the annual pension expense included in the cost of service. Therefore, it is appropriate that the Company earn a return on its net prepayment as well. In fact, when all of the benefits and detriments flowing from the prepaid assets are considered, customers are actually better off with the prepaid assets being included in rate base and earning a WACC return than they would be if the assets were disregarded for ratemaking purposes.

Q. IN THE PRIOR ANSWER, YOU STATED THAT THE RETURN ON THE PREPAID PENSION ASSET REDUCES ANNUAL PENSION EXPENSE. HAS THE COMPANY QUANTIFIED THE REDUCTIONS IN ANNUAL PENSION EXPENSE AS A RESULT OF THE PREPAID ASSETS?

A. Yes. As shown in Table RRS-D- 20, Public Service's qualified pension expense will be reduced by $2.5 million in 2018 on a gas retail basis because of earnings on the prepaid pension asset:

Table RRS-D- 20[16]

Pension Plan	**Date**	**Net Prepaid Pension Asset MYP 13-Month Average**	**EROA**	**Cost Reduction from Prepaid Pension Asset**
NCE Non-Bargaining	12/31/2018	$4,214,621	6.90%	$290,809
Public Service Bargaining	12/31/2018	$33,842,940	6.50%	$2,199,791
Total		**$38,057,561**		**$2,490,600**

Although the earnings reduce the Company's revenue requirement by nearly $2.5 million, Public Service cannot withdraw the earnings from the trust.

Q. WON'T THE RETURN EARNED BY THE COMPANY ON THE PREPAID PENSION ASSET BE HIGHER THAN $2.5 MILLION?

A. Yes, because the WACC is somewhat higher than the EROA. As noted earlier, Public Service's requested WACC is 7.49 percent in 2018, 7.47 percent in 2019, and 7.48 percent for 2020, whereas the weighted average of the EROA for the Public Service Bargaining Plan and the NCE Non-Bargaining Plan is 6.84 percent. But even with that disparity in returns, Public Service's customers are better off than they would be if the prepaid pension asset were disregarded for ratemaking purposes.

[16] The Company has shown only one year of the MYP because the table is meant to be used for illustrative purposes, but Public Service's pension cost will be reduced each year of the MYP because of earnings on the prepaid pension asset.

Q. WHY DO YOU SAY CUSTOMERS ARE BETTER OFF PAYING A WACC RETURN ON THE PREPAID PENSION ASSET THAN THEY WOULD BE IF THE PREPAID PENSION ASSET WERE DISREGARDED FOR RATEMAKING PURPOSES?

A. Customers are better off with the prepaid pension asset being included in rate base and earning a WACC return than they would be with no prepaid pension asset for two separate reasons (the second of which I will discuss later). First, customers are earning a return on a balance that the Company is not seeking to include in rate base. Public Service's annual pension cost includes costs for three different pension plans – the Public Service Bargaining Plan, the NCE Non-Bargaining Plan, and the XES Plan. All three of those plans have prepaid pension assets, and customers earn a return on all three plans, which reduces the annual pension expense attributable to those plans. However, Public Service does not include the XES Plan portion of the prepaid pension asset in rate base because that asset belongs to Xcel Energy Services Inc., not to Public Service. Therefore, Public Service's customers are receiving a return on the XES Plan portion of the prepaid pension asset, but they do not pay a return on that asset.

Q. WHAT IS THE BALANCE OF THE XES PLAN PREPAID PENSION ASSET?

A. The balance of the XES Plan prepaid pension asset associated with Public Service's gas retail jurisdiction as of December 31, 2018 is forecasted to be $14.3 million. With an EROA of 7.10 percent for the XES Plan, Public Service's gas retail customers will receive approximately $1 million (gas retail) of return in each year of the MYP on an asset on which they pay no return. That will reduce annual pension expense by an equal amount.

Q. YOU TESTIFIED EARLIER THAT THERE ARE TWO SEPARATE REASONS WHY CUSTOMERS ARE BETTER OFF AS A RESULT OF THE PREPAID PENSION ASSET. PLEASE DESCRIBE THE SECOND REASON THAT THE PREPAID PENSION ASSET RESULTS IN A NET BENEFIT TO CUSTOMERS.

A. As previously described, contributions in excess of the annual pension costs result in a prepaid pension asset. These additional contributions allow the Company to avoid incurring Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be included within the annual pension cost charged to customers.

Q. PLEASE EXPLAIN WHAT THE PBGC IS.

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

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

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

Q. WHAT IS THE VARIABLE PREMIUM APPLICABLE TO UNDERFUNDED PLANS?

A. For 2016, the variable-rate premium for a single-employer plan such as that of Public Service was $30 per $1,000 of unfunded vested benefits. The premium may be higher in the future.

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

A. Yes. The Company's pension plans are currently underfunded, and absent the prepaid pension asset, the plans would be further underfunded.[17]

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

A. If the prepaid pension asset is subtracted from plan assets, Public Service's pension plans would be further underfunded by approximately $54 million as of the end of 2016 on a gas retail basis. In the MYP period, Public Service's pension plans are expected to be underfunded by an average of approximately $34 million on a gas retail basis.

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

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

A. Absent the cap on premiums that I discuss below, the PBGC variable premiums would be $1.6 million higher on a gas retail basis if the prepaid pension asset was subtracted from plan assets, as shown in Table RRS-D- 21 below:

Table RRS-D- 21 Increase in PBGC Premiums without Net Prepaid Pension Asset (Gas Retail)

Benefit Plan	Prepaid Pension Asset as of 12/31/2018	Variable Rate per $1,000 of Unfunded Vested Benefit	PBGC Premiums related to Prepaid Pension Asset
NCE Non-Bargaining Plan	$4,214,621	$30	$126,439
Public Service Bargaining Plan	$33,842,940	$30	$1,015,288
Xcel Energy Pension Plan	$14,270,885	$30	$427,805
Total	**$52,317,738**		**$1,569,532**

Q. IS THERE AN ANNUAL CAP RELATED TO THE AMOUNT OF PBGC VARIABLE PREMIUMS THAT THE COMPANY CAN BE CHARGED?

A. Yes. 2016 PBGC variable premiums were capped at $500 times the number of participants included in the benefit plan. The 2016 cap for gas retail PBGC premiums was $1.3 million. Therefore, not all of the $1.6 million identified in Table RRS-D-22 would be true cost avoidance.

Q. HOW MUCH PBGC COST AVOIDANCE DID PUBLIC SERVICE AND ITS CUSTOMERS RECEIVE IN 2016 AS A RESULT OF THE PREPAID PENSION ASSET?

A. The Company would have been liable for an additional $169,726 of PBGC premiums in 2016 if Public Service did not have a prepaid pension asset. This additional cost would be passed on to customers as increased pension expense. That amount was calculated by subtracting the amount of PBGC premiums the Company actually paid from the amount of PBGC premiums it would have paid if the Company did not have the prepaid pension asset:

Table RRS-D- 22

	2016 PSCo Gas
PBGC Premium Cap	$1,250,112
PBGC Variable Premiums Paid	$1,080,387
PBGC Savings from Prepaid Pension Asset	$169,726

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

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, Public Service's customers saved approximately $169,726 (gas retail) in 2016 as a result of the prepaid pension asset, and the PBGC premiums during the MYP period are likely to be higher than the 2016 rates listed. Thus, the saving amounts listed above are conservative for the MYP period, and the actual amount of premiums avoided is likely to be higher.

Q. WHAT CONCLUSION DO YOU DRAW FROM THE NUMBERS?

A. I conclude that, after consideration of the return on the XES pension asset and the avoidance of PBGC premiums, Public Service's gas retail customers are better off with the prepaid pension asset being included in rate base and earning a WACC return than they would be if the prepaid pension asset were disregarded altogether for ratemaking purposes.

Q. CAN YOU DEMONSTRATE MATHEMATICALLY THAT PUBLIC SERVICE'S COLORADO GAS RETAIL CUSTOMERS ARE BETTER OFF AS A RESULT OF THE PREPAID PENSION ASSET?

A. Yes. Multiplying the prepaid pension asset of $38.1 million by the 7.49 percent WACC requested by the Company for 2018 results in a return of $2.9 million on a gas retail basis.[18] Table RRS-D- 23, however, shows that customers receive approximately $3.8 million of benefit on a gas retail basis as a result of the prepaid pension asset. Thus, the prepaid pension asset results in a net benefit of approximately $0.9 million on a gas retail basis as compared to a situation in which there was no prepaid pension asset.

[18] The actual gas net prepaid pension asset after subtracting the ADIT associated with the prepaid pension asset is approximately $23.2 million, not $38.1 million. But multiplying $23.2 million by 7.49 percent and then applying the tax gross-up factor of 1.53846 leads to a total of $2.7 million, which is essentially equivalent to multiplying $38.1 million by 7.49 percent.

Table RRS-D- 23

Prepaid pension asset balance (excluding the XES prepaid pension asset)		$38,057,561	
Weighted average EROA for Public Service Bargaining and NCE Non-Bargaining plans	x	6.84%	
Initial return benefit to customers	=		$2,603,137
Balance of XES prepaid pension asset		$14,270,894	
EROA for XES prepaid pension asset	x	7.10%	
Return on XES prepaid pension asset	=		$1,013,233
Avoided PBGC premiums	+		$169,726
Total Pension Benefit			$3,786,096
Return on prepaid pension asset at WACC	-		$2,850,511
Net benefit to customers from prepaid pension asset	=		$935,585

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

A. Yes. That is the situation with Public Service's non-qualified pension plan. For that plan, the cumulative pension expense recognized under FAS 87 has exceeded cumulative contributions for part of the MYP, and therefore Public Service has forecasted a corresponding unfunded pension liability on its balance sheet. Public Service has made a corresponding reduction in rate base in this case based on the amounts shown below.

Table RRS-D- 24

Prepaid Non-Qualified Pension Asset/Liability (Gas)			
	2018	2019	2020
Thirteen-month Average of Prepaid Pension Asset/ (Liability)	$10,485	$(9,896)	$(22,371)

Q. DOES PUBLIC SERVICE HAVE ANY OTHER UNFUNDED ACCRUED COSTS THAT SHOULD BE SUBTRACTED FROM RATE BASE?

A. Yes. That is the situation with Public Service's FAS 112 workers' compensation and LTD plans. Public Service has forecasted a corresponding unfunded liability on its balance sheet related to these plans, as such Public Service has made a corresponding reduction in rate base in this case based on the amounts shown below.

Table RRS-D- 25

FAS 112 Unfunded Liability (Gas)			
	2018	2019	2020
Thirteen-month Average of FAS 112 (Liability)	$(915,380)	$(790,840)	$(686,961)

VIII. PREPAID RETIREE MEDICAL ASSET

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

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

Q. WHAT WAS THE PREPAID RETIREE MEDICAL ASSET BALANCE IN THE 2016 HTY?

A. In the 2016 HTY, the thirteen-month average of the Company's prepaid retiree medical asset balance on a Public Service gas basis was $4,982,107.

Q. DOES THE COMPANY EXPECT TO HAVE A PREPAID RETIREE MEDICAL ASSET IN THE MYP PERIOD?

A. Yes. The thirteen-month average of the prepaid retiree medical asset is shown below for each year of the MYP period:

Table RRS-D- 26

Prepaid Retiree Medical (Gas)			
	2018	2019	2020
Thirteen-Month Average of Prepaid Retiree Medical Asset in MYP Period	$11,075,334	$14,055,482	$9,861,631

The calculation to support the prepaid retiree medical asset thirteen-month MYP average appears in Attachment RRS-11.

Q. HOW DID THE PREPAID RETIREE MEDICAL ASSET ARISE?

A. As I explained earlier in my testimony, FAS 106 retiree medical expense is calculated in exactly the same way as FAS 87 qualified pension expense, except that prior-period gains and losses are not phased in over time under FAS 106, as they are under FAS 87. The Company accrued a retiree medical asset because its cumulative cash contributions to the VEBA trust exceed the cumulative retiree medical expense recognized under FAS 106 since the inception of the retiree medical plan.

Q. DO CUSTOMERS BENEFIT FROM THE RETIREE MEDICAL ASSET?

A. Yes. The return on the assets in the VEBA trust reduces the retiree medical expense included in the cost of service. In fact, as I testified earlier, the retiree medical expense was negative in the 2016 HTY, and it is expected to be negative in the MYP period. Thus, not only are customers not paying any FAS 106 retiree medical expense in rates, but the cost of service is actually being reduced by more than $1 million per year as a result of the return on the assets in the trust. Therefore, it is reasonable to include the retiree medical asset in rate base and for the Company to earn a WACC return on it. Mr. Wickes also discusses this issue in his testimony.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Richard R. Schrubbe

I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996. From 2000 to 2005, I was employed by the Do ALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst. In 2007, I joined Xcel Energy as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. In 2017 I became the Area Vice President responsible for oversight of the Business Area Finance groups. Part of my current role encompasses overseeing the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. As part of my job responsibilities, I have become familiar with the applicable laws, regulatory rules, and ratemaking practices regarding Xcel Energy's recovery of pension and benefits costs and assets. In addition, I am responsible for Xcel Energy's corporate accounting, including four core utility business unit accounting groups and multiple Xcel Energy subsidiaries.

I testified in Public Service's last gas base rate case before the Colorado Public Utilities Commission, Proceeding No. 15AL-0135G, on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. I submitted pre-filed direct and rebuttal testimony on the same issues in Public Service's last electric rate base in Colorado, Proceeding No. 14AL-0660E. I have also testified before the Minnesota Public Utilities

Commission on those issues, and I have submitted pre-filed direct testimony to the Public Utility Commission of Texas and the New Mexico Public Regulation Commission on pension and benefit issues.