NOTICE OF CONFIDENTIALITY
A PORTION OF THIS DOCKET HAS BEEN FILED UNDER SEAL

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

*** * * * ***

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

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF PAUL A. SIMON

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
A PORTION OF THIS DOCKET HAS BEEN FILED UNDER SEAL

Confidential: Confidential Attachment PAS-1

Redactions: Page 13, Page 22, Page 28, Page 29

June 2, 2017

**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**

SUMMARY OF THE DIRECT TESTIMONY OF PAUL A. SIMON

Mr. Paul A. Simon is an employee of Xcel Energy Services Inc. ("XES") as Consultant – Tax, Audit & Technical. In this position, he is responsible for reviewing property tax estimates, for review of property tax valuations for various jurisdictions, and for tax appeal preparation and presentation for Public Service Company of Colorado ("Public Service" or "Company"), one of four utility operating company subsidiaries of Xcel Energy Inc.

In his Direct Testimony, Mr. Simon supports the level of total Company property tax expense for the 12 months ending December 31, 2016, the Historical Test Year ("HTY"), and for calendar years 2018, 2019 and 2020, which are the three Forward Test Years of the Multi-Year Plan ("MYP") proposed by the Company. Mr. Simon supports the calculation of total Company property tax expense of $165.9 million for the HTY of calendar year 2016. Further, Mr. Simon also presents the calculation of the Company's

total Colorado property tax expense for the MYP. The latest Company property tax forecast shows total Company property tax estimates of $193.5 million for the 2018 Forward Test Year, $196.0 million for the 2019 Forward Test Year and $211.4 million for the 2020 Forward Test Year. This forecast of property tax contains new information derived from the reconciliation of bills for 2016 property tax paid in April 2017 and the Division of Property Taxation ("DPT") inputs for 2017 property tax. In his testimony, Mr. Simon has incorporated the impacts of this new information with the existing forecast for plant and revenue.

In his testimony, Mr. Simon explains how property taxes are calculated for utilities in Colorado, as well as the internal process the Company undertakes to ensure that it can accurately estimate its property tax expense from year-to-year. Mr. Simon also describes the drivers for the property tax expense increases the Company has incurred since the conclusion of the Public Service's last Gas Phase I rate case, Proceeding No. 15AL-0135G ("2015 Phase I") and future increases that are expected to occur during the MYP. The most significant drivers are the increase in net plant investment as well as increases to the Company's net operating income ("NOI").

Lastly, Mr. Simon discusses that the consistent methodology used for estimating property tax expense in this case, the same it has used for several of the prior Colorado rate case proceedings, has yielded estimates which ultimately were very close to the actual expenses incurred by the Company.

Mr. Simon recommends that the Colorado Public Utilities Commission approve for ratemaking purposes $193.5 million in total Company property tax expense for the

2018 Forward Test Year, $196.0 million for the 2019 Forward Test Year, and $211.4 million for the 2020 Forward Test Year, in accordance with the MYP proposed by the Company. He also supports the calculation of total Company property tax expense of $165.9 million for the HTY (calendar year 2016).

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

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CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF PAUL A. SIMON

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LIST OF ATTACHMENTS

CONFIDENTIAL Attachment PAS-1	Actual Property Tax for 2014, 2015, and 2016 and Current Company Property Tax Forecast for 2018, 2019, 2020
PUBLIC Attachment PAS-1	Public Version- Actual Property Tax for 2014, 2015, and 2016 and Current Company Property Tax Forecast for 2018, 2019, 2020

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2018 Forward Test Year	12 months ending December 31, 2018
2019 Forward Test Year	12 months ending December 31, 2019
2020 Forward Test Year	12 months ending December 31, 2020
ASOP	Annual statement of property
COS	Cost of service
CWIP	Construction work in progress
DPT	Division of Property Tax
FERC	Federal Energy Regulatory Commission
HTY	Historical Test Year – Calendar year of 2016
MYP	Multi-Year Plan referring to the 2018, 2019 and 2020 Forward Test Years
PTA	Property Tax Administrator
“Public Service”, or the “Company”	Public Service Company of Colorado
TABOR	Taxpayer Bill of Rights
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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

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

CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF PAUL A. SIMON

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Paul A. Simon. My business address is 401 Nicollet Mall, Minneapolis, MN, 55401.

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

A. I am employed by Xcel Energy Services Inc. ("XES") as Consultant – Tax, Audit & Technical. XES is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel Energy") and provides an array of support services to Public Service Company of Colorado ("Public Service" or the "Company") and the other utility operating company subsidiaries of Xcel Energy on a coordinated basis.

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. I am responsible for reviewing property tax estimates, forecasts, and submissions to the various state and local county jurisdictions. I am also responsible for review of property tax valuations from those jurisdictions, and for tax appeal preparation and presentation. A description of my qualifications, duties and responsibilities is provided following my Direct Testimony.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The primary purpose of my Direct Testimony is to present and support the total Company property tax expense included in the revenue requirements study for calendar years 2018, 2019, and 2020, which are the three Forward Test Years of the Multi-Year Plan ("MYP"), as well as the property tax expense for the Historical Test Year ("HTY") of calendar year 2016. Mr. Steven P. Berman uses the total Company property tax expense in his support of the development of the Colorado retail jurisdictional amount of property tax expense for the gas department for each year of the MYP and the HTY.

To provide context to these property tax expense levels, I explain how property tax for utilities are calculated in Colorado. I also discuss the drivers of the increase in property tax expense between 2014, which was the test year used for purposes of property tax expense in the last Gas Phase I rate case, Proceeding No. 15AL-0135G ("2015 Phase I"), and the HTY in this case, calendar year 2016. I then explain the increase in forecasted property tax expense for the 2018, 2019 and 2020 Forward Test Years in the MYP. The most

significant driver of this increase is the net plant investment the Company has undertaken since the 2015 Phase I. Future increases to plant as well as increases to the Company's net operating income ("NOI") are forecasted for each year of the MYP. Lastly, I discuss the accuracy of the methodology the Company uses for estimating property tax expense in this case. This methodology has been used for several of the prior Colorado rate case proceedings and has yielded estimates which were very close to the actual expenses incurred by the Company.

Q. CAN YOU PROVIDE AN OVERVIEW OF HOW PROPERTY TAXES ARE DETERMINED FOR THE COMPANY?

A. Explained in further detail through this testimony, Public Service's property tax liability is determined on the basis of total Company assessed values and the levy rates set by the various local jurisdictions within Colorado, such as counties, school districts, fire protection districts, and conservation districts. Since the Company's plant balance represents the property that is subject to property tax, the tax can be expected to increase as the plant balance increases. To calculate tax the county treasurers apply a tax rate to the assessed value. Tax rates are set annually by the individual taxing entities. Therefore as plant increases and tax rates increase, property tax will also increase.

The Revenue Analysis department then allocates the property tax expense to each utility department and to non-utility activities during the process of developing the revenue requirements study. Increases to plant and increases

to NOI are the drivers of increases to total Company property tax expense. Allocations are made to the gas department based on plant components and the impacts arising out of non-gas plant changes and revenue from those additions are removed.

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

A. Yes. I am sponsoring Confidential Attachment PAS-1, which is the confidential version of an attachment that sets forth total Company property tax expense for each year of the MYP and for the HTY. Public Attachment PAS-1 is the public version of this same attachment.

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

A. I recommend that the Colorado Public Utilities Commission ("Commission") approve for ratemaking purposes property tax expense amounts of $193.5 million for 2018, $196.0 million for 2019 and $211.4 million for 2020, which represents the total Company property tax expense for each year of the MYP. I also support the calculation of total Company property tax expense of $165.9 million for the HTY (calendar year 2016).

Q. DO YOU DISCUSS HOW THE COMPANY PROPOSES TO TRACK AND DEFER PROPERTY TAX EXPENSES?

A. No. Mr. Berman and Mr. Brockett discuss those issues in their direct testimonies.

II. PROPERTY TAX EXPENSE LEVELS- PAST AND FUTURE

Q. WHAT WAS THE LEVEL OF PROPERTY TAX EXPENSE THAT WAS INCLUDED IN BASE RATES AND APPROVED IN THE 2015 PHASE I?

A. The level of property tax included in base rates in the 2015 Phase I was $31.77 million (gas retail) for 2014. The total Company equivalent amount of property tax expense included in base rates as a result of 2015 Phase I was $153.71 million.

Q. WHAT WERE THE ACTUAL PROPERTY TAX EXPENSES FOR THE TOTAL COMPANY FOR CALENDAR YEAR 2016?

A. The Company has received the property tax bills from the various taxing jurisdictions, such as counties, school districts, fire protection districts, metropolitan districts, and conservation districts. The payments were made at the end of April 2017. The total Company incurred a tax liability of $165.9 million for calendar year 2016.

Q. WILL THE PROPERTY TAX EXPENSE INCURRED BY THE COMPANY CONTINUE TO INCREASE IN 2017?

A. Yes, it will. The total Company property tax expense for calendar year 2017 will exceed $184.3 million. The Company's forecast, as presented on Public Attachment PAS-1, anticipates further increases in total Company property tax expense in 2018, 2019, and 2020. Company plant and the weighted average NOI are the two primary factors applied by the Property Tax Administrator ("PTA") in the valuation of the Company's operating property.

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

A. The Company's forecast takes into account that additions to total Company plant are expected to be [redacted] percent in 2018, 2019, and 2020, respectively. It is important to note that the Company's Rush Creek wind energy project adds $1.1 billion to Company plant within the increases for 2019 and 2020. Colorado statutes dictate that wind energy facilities are treated differently for property tax purposes than other components of the Company property. The impact of the special valuation procedure for renewable energy projects is built into the Company's property tax forecast. On line 2 of Confidential Attachment PAS-1 the change in net plant from 2018 to 2019 is [redacted] but on line 29 the property tax increases by only $2.5 million. Without this special treatment for renewable energy projects the total Company's property tax expense would be over $210 million in 2019. The additional $15 million of property tax would continue annually into the future.

Q. WHAT IS FORECAST WITH RESPECT TO THE COMPANY'S NET OPERATING INCOME?

A. Public Service has forecasted total Company NOI to increase by [redacted] in 2018, by [redacted] in 2019, and by [redacted] percent in 2020. The three-year weighted average NOI during this period (used to calculate property tax liability) increases each year as well, by $27.5 million or 4.5 percent in 2018, $33.4 million or 5.2 percent in 2019, and $55 or

8.2 percent in 2020. In the next section of my Direct Testimony, I will discuss how these property tax expense levels were calculated in more detail.

III. CALCULATION AND ALLOCATION OF PROPERTY TAXES

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

A. In this section of my Direct Testimony I present how the PTA at the Division of Property Tax ("DPT") values the Company's property for tax and how property tax is calculated by the various taxing jurisdictions throughout Colorado.

Q. FROM A HIGH LEVEL PERSPECTIVE, HOW IS PROPERTY TAX DETERMINED FOR UTILITIES IN COLORADO?

A. In Colorado, the PTA at the DPT is responsible for determining the assessed value of the property of utility companies for property tax purposes. The property is considered to include all real and personal property used in the Company's utility business. The PTA values only the total Company without distinguishing between the electric gas, and steam thermal departments. The Company's property tax is based on the assessed value of Company property times a tax rate. To determine the assessed value of Company property, the PTA appraises utility property by considering the Company's assets as a single system or unit. In other words, all of Public Service's utility property, including gas, steam thermal, and electric assets, forms one system that can be valued together as a single economic entity. The following equation summarizes the PTA's formula to value the property of the total Company.

PTA Formula

(DPT Determined Cost Indicator x 40% + DPT Determined Income Indicator x 60%)
x DPT Equalization Factor (now 99%)
= Colorado Actual Value
x 29% (Statutory Assessment Ratio)
= Assessed Value
x Statewide Effective Tax Rate
= State-Assessed Property Tax
+ Tax on Locally Assessed Property
= Total Company Property Tax

I will explain the meaning of all of the terms in the above equation in my Direct Testimony.

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

A. The two approaches the PTA uses to assess utility property are referred to as the "cost approach" and the "income approach." In the appraisal of public utility property using the cost approach, the PTA considers the investment made by Public Service in the entire system in Colorado, including electric, gas, and thermal assets. The PTA then considers the depreciated value of Public Service's utility property when determining the value using the cost approach. For the income approach, the PTA considers the history of net utility operating income in valuing the assets for property tax purposes. The premise of the income approach is that the value of property that produces income is the

present worth of anticipated future cash flows. While I explain both the income and cost approach in detail below, from a high-level, the PTA's use of the two varying indicators of value (cost and income), results in a reasonable estimate of the value for the entire system.

Once the assessed valuation is determined, it is then allocated to the taxing jurisdictions in Colorado and each jurisdiction's tax rate is applied to determine the property tax that is due. The Company and the county assessors receive value reports from the DPT and the assessors work with the Company on how the assessed value of Company property should be distributed to taxing jurisdictions (such as cities, school districts, fire districts, etc.) within the counties. Neither the DPT nor the county assessors have the information needed to correctly apportion the Company's property. That is why the PTA requests that the Company work with the county assessors. The assessors send the values divided for all jurisdictions to the county treasurers who create the tax statements the Company receives.

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

A. Each year, the PTA starts with a review of the financial information the Company renders to the DPT using the DPT's Annual Statement of Property ("ASOP") form. The Company's financial data is based on the accounting from its Federal Energy Regulatory Commission ("FERC") Form 1 filing. The ASOP contains information the PTA uses for both the cost approach and the income approach

valuation methods, a balance sheet for the Company as of the most recent calendar year and revenue and expense data for the most recent five calendar years.

When the Company places new assets into service the cost of these new assets is reflected in the plant in-service balances in the FERC Form 1. The increased plant in-service balances, as the starting point for the PTA's appraisal under the cost approach, will drive an increase in property tax liability. The income approach has more inputs that can influence the value derived therein which will be discussed later in this section.

The lien date for purposes of determining the assessed value is January 1 of each year. As such, the PTA staff bases its calculation on the Company's financial data found in the FERC Form 1 from the end of the prior year. In other words, the Company's 2018 property tax will be based on the Company's financial data from year-end 2017.

Q. USING THE PTA'S METHODOLOGY, PLEASE DISCUSS HOW YOU ASSESS THE VALUE OF THE COMPANY'S ASSETS USING THE COST APPROACH.

A. To determine the Total System Unit Value for purposes of property tax assessment, the PTA relies in part on the cost approach. Confidential Attachment PAS-1 is the schedule showing how total Company property tax is calculated, and the cost indicator, starting at line 1, of Confidential Attachment PAS-1 we show the cost approach. To arrive at the cost indicator of value at line 4, the Company follows the PTA's methodology of using the depreciated value of

the Company's operating property. Operating property includes all of the Company's property that is needed to conduct the Company's business, such as property, plant, equipment, and materials and supplies; operating property excludes non-utility property. Construction work in progress ("CWIP") is also considered operating property, as it is needed for future utility operations; however CWIP is taxable only when it is allowed to contribute to earnings. As shown on line 4 of Public Attachment PAS-1, the cost indicator of value based on the depreciated value used by the PTA, was $7.726 billion for 2016. Over the three years of the MYP, increases to the cost indicator of value are forecasted to be $8.66 billion in 2018, $9.75 billion in 2019, and $10.30 billion in 2020.

Q. USING THE PTA'S METHODOLOGY, PLEASE DISCUSS HOW THE VALUE IS CALCULATED USING THE INCOME APPROACH.

A. In the income approach, the PTA typically uses a weighted average of the previous three years' NOI. NOI is based on FERC accounting, and includes operating revenue less operating and maintenance expense, depreciation, and income tax, and does not include interest expense or non-utility income. On occasion the PTA will use a different average from the NOI history of the past five years when the Company suggests the three-year weighted average overstates the value of the assets during a protest hearing. The PTA agreed with the Company that this was the case in 2016. This reduction in the weighted average NOI to capitalize reduced the Company's property tax by $7 million. Next, the PTA applies a capitalization rate to the weighted average NOI.

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

The income approach calculation divides the weighted average NOI by the capitalization rate to determine the income indicator of value. Corresponding to the increase in the weighted average NOI, and applying a consistent 7.71 percent capitalization rate across the three years of the MYP, the income indicator of value increased between 2014 and 2016, and is estimated to increase in each year of the MYP. Specifically, as set forth in Public Attachment PAS-1 at line 13, the income indicator of value was $7.2 billion for 2016, is expected to be $8.3 billion for 2018.

Q. HOW IS TOTAL SYSTEM UNIT VALUE ARRIVED AT FOR PUBLIC ATTACHMENT PAS-1?

A. The PTA determines the Company's Total System Unit Value based on a weighted average of the income indicator (60 percent weight) and cost indicator (40 percent weight). The 60 percent/40 percent weighting applied to the two approaches shown on lines 15 and 16 of Public Attachment PAS-1 is the weighting that has been consistently used by the PTA for many years. Market value by definition assumes a sale of the property that is being appraised. The PTA believes that a purchaser of Public Service, or any income producing utility,

would rely more on the potential income from the property that the money spent by the seller to assemble the system. The Company agrees with that assumption and the placement of greater weight on the income approach. The application of the weightings shown on line 17 produces a total system unit value of $7.4 billion for 2016 and $8.4 billion for 2018. This increases to $9.1 billion for 2019 and $9.8 billion for 2020.

Q. WHAT IS THE PURPOSE OF THE COLORADO ACTUAL VALUE IN DETERMINING PROPERTY TAX AMOUNTS?

A. "Colorado Actual Value" is a statutory term that refers to the value of the taxable portion of the Company's property and represents the market value in the appraisals conducted by the PTA. It is arrived at by deducting certain property from the Total System Unit Value and applying an equalization factor. The deductions to market value shown on line 19 of Confidential Attachment PAS-1 take into account, for example, Colorado statutes that exempt business personal property from property taxation until it is actually used in business by the owner. Other deductions include assets on the Company's balance sheet where the property tax is fully paid by another party (such as in a joint venture) and property that is assessed by county assessors and billed to the Company separately (such as undeveloped vacant land used as a buffer adjacent to power plants). The deductions assure the PTA that all exempted items are removed and no assets will be taxed twice. As demonstrated in Confidential Attachment PAS-1, the deductions shown on line 19 decreased between 2016 and 2018 then decline

by [redacted] and increase by over [redacted] during the rest of the MYP time period. Deductions are approximately [redacted] for 2016, and [redacted] in 2018, then [redacted] in 2019 and 2020.

Q. WHAT IS THE CAUSE OF THE LARGE INCREASES TO DEDUCTIONS IN 2019 AND 2020?

A. The large increase in 2019 is due to the Company's Rush Creek wind energy development. In Colorado wind energy is subject to a particular property tax statute regarding new renewable energy property. Therefore the property tax for this project is calculated using the DPT's renewable energy template. On line 27 of Public Attachment PAS-1 the property tax forecast of $2.55 million for 2019 and 2020 is shown. The cost of this project does not impact the cost approach. The revenue for the Company from this project does not impact the income approach.

Q. PLEASE EXPLAIN THE EQUALIZATION FACTOR THAT IS APPLIED AFTER THE DEDUCTIONS ARE MADE TO THE TOTAL SYSTEM UNIT VALUE.

A. After the deductions are made to the Total System Unit Value, the equalization factor is applied in order to arrive at the Colorado Actual Value. The equalization factor on line 21 of Public Attachment PAS-1 is an inflationary adjustment to bring the PTA's values for utilities to the same "level of value" as the county assessors use for real property. Real property in Colorado is valued only in odd numbered years and by law the assessors must use comparable sale data between two years prior and six months prior to the lien date. The equalization

rate adjusts the January 1 value derived by the PTA by six months in odd numbered years and by 18 months in even numbered years. The equalization factor had been 100 percent in 2015 and 2016. For 2017 it is 99 percent. Public Attachment PAS-1 shows a constant 99 percent equalization factor throughout the MYP years. Over the past 17 years, the equalization factor has fluctuated between 96 percent and 100 percent, with the average being 99 percent. The Colorado Actual Value is expected to increase over each year of the MYP. Specifically, Colorado Actual Value goes up to $8 billion in 2018 and 2019, and then increases to $8.6 billion in 2020.

Q. ONCE COLORADO ACTUAL VALUE IS DETERMINED, PLEASE EXPLAIN THE REMAINING STEPS TAKEN TO ARRIVE AT THE ESTIMATED PROPERTY TAX FOR THE COMPANY.

A. The assessment ratio of 29 percent, shown on line 23 of Public Attachment PAS-1, is the Colorado statutory assessment ratio for all property other than residential property. The assessment ratio is applied to the Colorado Actual Value to arrive at the assessed value, and the tax rate is applied to that assessed value. The effective tax rate is applied to the assessed value to arrive at property tax for the Company's utility property. Some property is valued by the local county assessors as opposed to the PTA. The total property tax for these parcels is shown on line 26 of Public Attachment PAS-1. The $900,000 estimate for the MYP years is based on the 2016 payments for locally assessed property. The locally assessed property tax remains constant in the MYP years as there are no

anticipated meaningful increases in property value and tax rates. With the addition of tax on locally-assessed property, we arrive at the Company's total calculated property tax expense. In 2019 and 2020 we also add the forecast property tax due from the Rush Creek project as the value was removed from the larger appraisal process since the statute mandates a specific valuation method for renewable energy. As shown on line 29 of Public Attachment PAS-1, the resulting property tax expense for the Company was $165.9 million for 2016, the HTY, and is expected to increase for each year of the MYP.

Q. WHAT DOES THE EFFECTIVE TAX RATE REPRESENT?

A. The effective tax rate as shown on line 24 of Public Attachment PAS-1 represents the total property tax paid in 2014 through 2016 to all the jurisdictions that levy property tax to the Company divided by each year's total assessed value for Colorado that generated that total property tax. The 2016 effective tax rate of 8.3 percent is continued throughout the MYP period as it is the most accurate information the Company has to date.

The property tax for state-assessed property is calculated by the individual local jurisdictions just like any other property subject to taxation. The DPT reports the county wide assessed values to the county assessors. The Company sends each county, where there is Company property, a letter of distribution showing how the county wide value should be apportioned between all of the jurisdictions in the county. The county assessors send the complete apportionment to the county treasurers. The county treasurers calculate the property tax by multiplying

the assessed value relative to each jurisdiction by the tax rate for that jurisdiction. The Company adds all of the property tax bills to derive a Company total of property tax and then divides that total payment by the total Company assessed calculated by the PTA to reach an effective tax rate for the entire state.

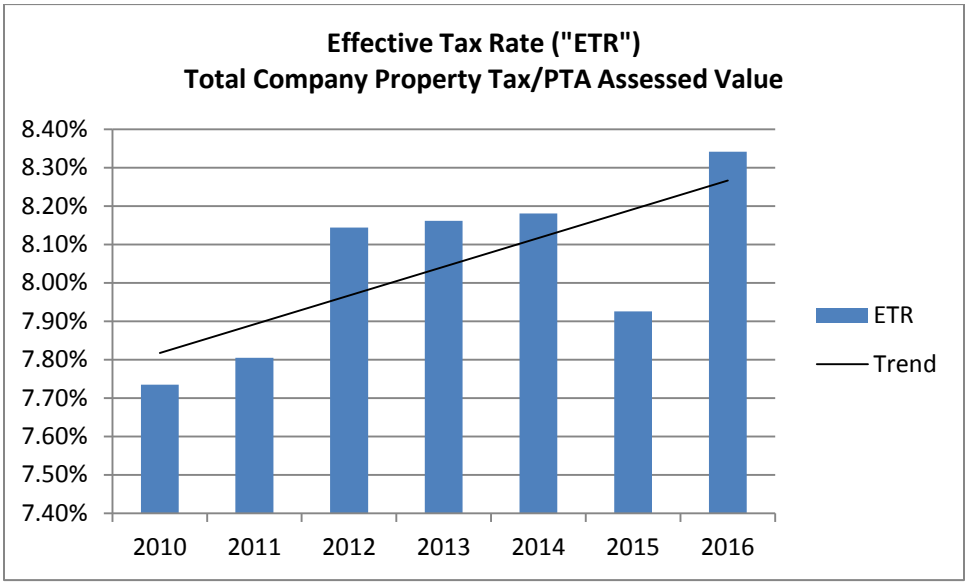
Q, WAS THE CHANGE IN TAX RATE FROM 2015 TO 2016 A TYPICAL ONE?

A. No. The change to the effective tax rate represents a significant increase over the 2015 effective tax rate of 7.926 percent. Large jumps to the effective tax rate are not common in Colorado. In November 2016 voters at several school districts where the Company has a large assessed value passed referenda approving mill levy overrides and new bond issues. These elections caused the effective tax rate to increase as much as it did for 2016. Another factor was that the 2015 effective tax rate was a big drop from the 2014 effective tax rate of 8.18 percent. The decline from 2014 to 2015 was an accumulation of mill levy declines at numerous authorities. Value growth in the real estate markets were one reason levy rates dropped during this period. The Taxpayer Bill of Rights (“TABOR”) restricts an authority’s ability to increase rates to voter approval, and limits the amount of additional revenue an authority can collect over the prior year. When real estate values rise sharply the mill levy must decline for the authority’s revenue to stay within those limitations. A total of 727 taxing authorities of the 2,280 where the Company pays property tax had levy declines for the 2015 tax year. Only 304 had levy increases and 1249 had no change in the levy.

Q. HOW IS THE COMPANY ESTIMATING PROPERTY TAX IN THE MYP PERIOD?

A. The Company is applying the 2016 effective tax rate of 8.3 percent, the latest year for which the Company has actual information, throughout the MYP. The Company typically sees gradual increases from year-to-year in the effective tax rate for the Company. As such, using an effective tax rate from prior years when it is highly likely that the effective tax rate will go up means that, the Company's actual tax liability will be underestimated for the forward test years. The following chart shows the Company's effective tax rate since 2010. There is only one decline over this period. The trend line shows a general upward trend in the effective tax rate.

Graph PAS-D-1



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

A. Yes. Colorado determines Public Service's property tax liability on the basis of the total Company. For ratemaking purposes, the Company allocates the property tax expense to each utility department and to non-utility activities during the process of developing the Cost of Service ("COS") for the HTY and each year of the MYP. In particular, the allocation of the Colorado total Company property tax expense to the gas department is based upon net plant. As explained in greater detail by Mr. Berman, the Company applies allocation factors that best reflect cost causation to complete this analysis. The Company applied a plant allocation factor to allocate the total Company property tax expense among utility departments and non-utility activities, because property tax expense is mostly a function of net plant. The result of application of this allocation factor is that each utility department and non-utility activity is allocated only its portion of the property tax expense for the total Company. After the tax is allocated to the gas department, a certain amount of those property taxes is further allocated to the retail jurisdiction.

IV. HTY AND MYP PROPERTY TAX EXPENSES AND THE DRIVERS AFFECTING INCREASED PROPERTY TAX EXPENSE

Q. PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES BETWEEN THE 2015 PHASE I AND THE HTY.

A. As noted above, for the HTY, the Company paid $165.9 million in property tax expense. As compared to the $153.71 million in total Company property tax expense that was the basis for $31.77 million placed into gas base rates in the 2015 Phase I, the $165.9 million property tax expense for the HTY is an increase of approximately $12.2 million, or 8 percent.

Q. PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES BETWEEN HTY AND EACH YEAR OF THE MYP.

A. As compared to the $165.9 million in property tax expense for the HTY of 2016, the Company calculates that the total Company property tax expense will increase as follows for each year of the MYP: $193.5 million for 2018, an increase of 16.6 percent over the course of 2 years (2016 HTY and 2017), $196.0 million for 2019, an increase of 1.3 percent over 2018; and $211.4 million for 2020, an increase of 7.8 percent over 2019.

Q. [redacted]

A. [redacted]

[redacted]

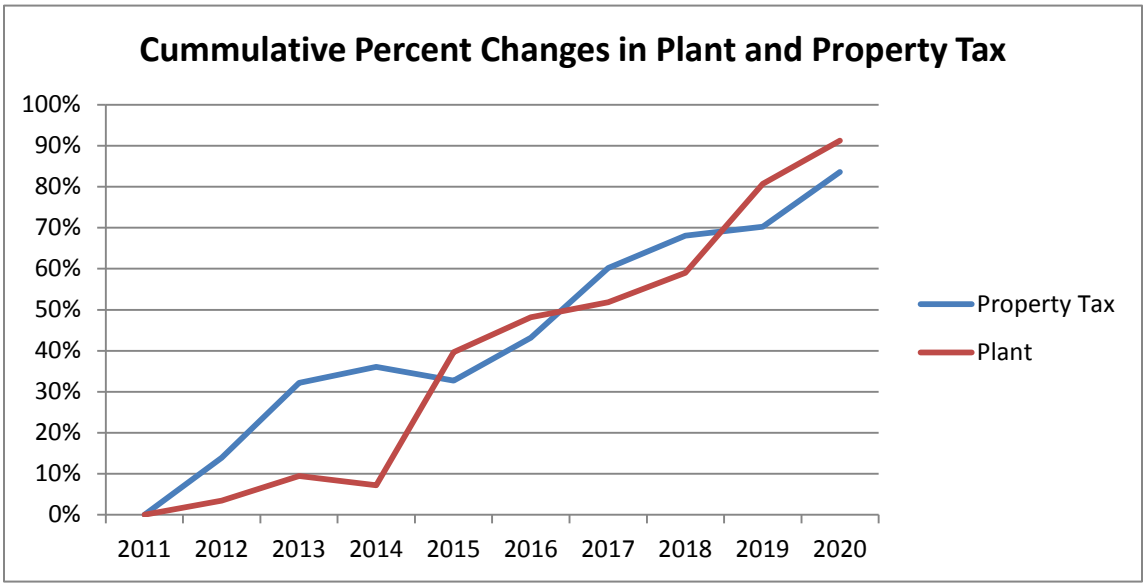
[redacted]

Q. BRIEFLY EXPLAIN THE INVESTMENTS IN PLANT SINCE THE 2015 PHASE I THAT ARE HAVING A LARGE IMPACT ON PROPERTY TAX EXPENSE.

A. While the primary driver of change for property taxes is the increase in the plant-in-service balances reflected on the financial statements, property tax expense is not computed on an asset-by-asset basis. The net plant-in-service for the Company as a whole has been increasing steadily as a result of significant investments. As discussed above, the DPT always values the entire Company. Therefore investments in all Company departments impact total Company property tax expense. The gas department property tax is estimated through a ratio of gas plant to total plant. Under this approach, the gas department investments remain in the gas property tax estimate while the non-gas investments, such as new electric transmission lines, are removed. Between 2014, the HTY of the 2015 Phase I and 2016, the HTY in this rate case net plant in service increased by $2.1 billion or 22 percent. Actual NOI over that period increased by 9 percent but due to protest efforts by the Company the NOI capitalized by the DPT rose by only 1 percent. Total Company assessed value for property tax increased by 4 percent and total Company property tax increased by 5 percent. The factors involved in making the change in tax much less than the change in plant include an increased level of economic obsolescence and a change in the NOI to capitalize at the request of the Company. The increased

effective tax rate offset some of the savings of the obsolescence and the NOI reduction. The following chart shows how closely property tax has trended with plant growth. The chart details the cumulative growth to both net plant and property tax between 2011 and 2020. In 2011 the DPT's valuation just started to include the Comanche 3 generating unit. During construction prior to 2011 the Company convinced the DPT to leave any CWIP related to Comanche 3 not taxable even though the Company was had a return on AFUDC for Comanche 3 built into rates. During this period the Company also convinced the DPT to use a 5 year simple average NOI in the calculation of property tax value. Between 2011 and 2015 the DPT went back to the 3 year weighted average NOI and the Comanche 3 generating unit was in the plant in service. In 2016 the Company requested the DPT use the 5 year average NOI in its calculation during a protest hearing and that request was granted. The Company expects the 3 year weighted average to continue in 2017 and the forward test years.

Graph PAS-D-2



Q. DOES THIS INFORMATION SUGGEST THAT PLANT MAY NOT BE THE BEST BASIS TO ALLOCATE PROPERTY TAX TO THE GAS DEPARTMENT?

A. No. Plant is the single largest component of rate base, which drives required earnings in the revenue requirement calculation. While NOI can fluctuate some from year-to-year, plant growth correlates well with property tax expense growth and using plant balances to allocate property taxes to the gas utility provides an allocation basis that is cost-causative and consistent with historical rate-making.

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

A. Capitalization rates have an inverse relationship with value. In order to derive an estimated value for the property of an operating public utility, an NOI selected by the DPT as representative of current Company business activity is divided by the capitalization rate. Between 2014 and the current HTY, the capitalization rate has

had only minor impact on property tax expense. In 2014 the capitalization rate employed by the PTA to value the Company's property was 8.14 percent. The property tax for 2016 incorporates an 8.04 percent capitalization rate. There is a very significant change in the capitalization rate that impacts total Company property tax for 2017. Initially the PTA proposed a capitalization rate of 7.50 percent, which is a blended rate that combines separate capitalization rates the PTA derives for electric utility and gas utility. Intervention by the Company caused the PTA to increase the blended capitalization rate to 7.71 percent which has the impact of lowering the total Company property tax for 2017 by $5 million if the Company had not intervened. Through the MYP, the capitalization rate is expected to remain at the rate used by the PTA in 2017.

Q. FOR THE MYP TEST YEARS, 2018, 2019, AND 2020 HOW ARE ALL OF THESE DRIVERS IMPACTING PROPERTY TAX EXPENSE?

A. All of the drivers discussed above contribute to the overall calculation of property tax expense presented in Confidential Attachment PAS-1 and Public Attachment PAS-1 for the HTY, 2016, and each year of the MYP. Both the cost indicator of value and the income indicator of value continually increase from the HTY through each year of the MYP. Moreover, both the cost indicator of value and the income indicator of value feed into the approximately $1.143 billion increase in the Colorado Actual Value between the HTY and 2018, the first year of the MYP. Subsequently, Colorado Actual Value decreases by $3.5 million between 2018 and 2019 because 2019 is the first year in which the added value of the Rush

Creek wind energy project is removed in calculating Colorado Actual Value. Colorado Actual Value increases by $641 million between 2019 and 2020 as there are new additions other than the Rush Creek wind energy project.

V. ACCURACY OF THE COMPANY'S PROPERTY TAX EXPENSE CALCULATIONS

Q. PLEASE EXPLAIN WHY THE COMPANY'S CALCULATION IS AN APPROPRIATE ANTICIPATED PROPERTY TAX EXPENSE FOR 2018 THROUGH 2020.

A. The PTA's valuation methodology has been in place for many years, and there have been very few changes to this methodology over the past 10 years. The PTA's methodology is stable, and the Company has substantial knowledge of the appraisal process and the detailed calculations of which it is comprised. As stated in my statement of qualifications, I was employed at the DPT from 1998 until 2003. The process to appraise the property of state-assessed companies has only slightly changed since I was employed at the DPT. Use of this stable methodology has resulted in property tax estimates in prior rate case proceedings that are near or even below the actual property tax expense incurred by the Company. As I describe above, the data presented to the Commission in the Company's most recent gas and electric rate cases (2015 Phase I and Proceeding No. 14AL-0660E, respectively), as well as the new data presented in this testimony, clearly demonstrate that the Company's property tax estimates end up being very close to, and typically below, the actual amount of property tax paid on an annual basis.

For this proceeding, the Company is estimating property taxes in the same way it did in the 2015 Phase I and Proceeding No. 14AL-0660E. Just like in prior rate cases, the Company has estimated test year Total System Unit Value based

on the most recent estimated plant and income information available. In addition, the Company is utilizing the actual effective tax rate for the HTY, which is also the most recent effective statewide tax rate. By using the effective tax rate from 2016 for estimating taxes for each year of the MYP, the Company is likely forecasting conservative property tax estimates as both assessed value and effective tax rates tend to rise over time. Due to the tendency for rates to rise over time, the use of historical tax rates typically leads to an underestimated, not overestimated, tax liability.

For each year of the MYP, the Company is using the 2017 capitalization rate of 7.71 percent, which is the most recent data available.

Finally, part of the property tax expense calculation, as set forth in Public Attachment PAS-1, is based upon a statutory formula. After the calculation of the Colorado Actual Value, which is set up by the PTA and explained above, the Company cannot change aspects of the formula (*i.e.*, the assessment ratio) that results in the final property tax expense calculation.

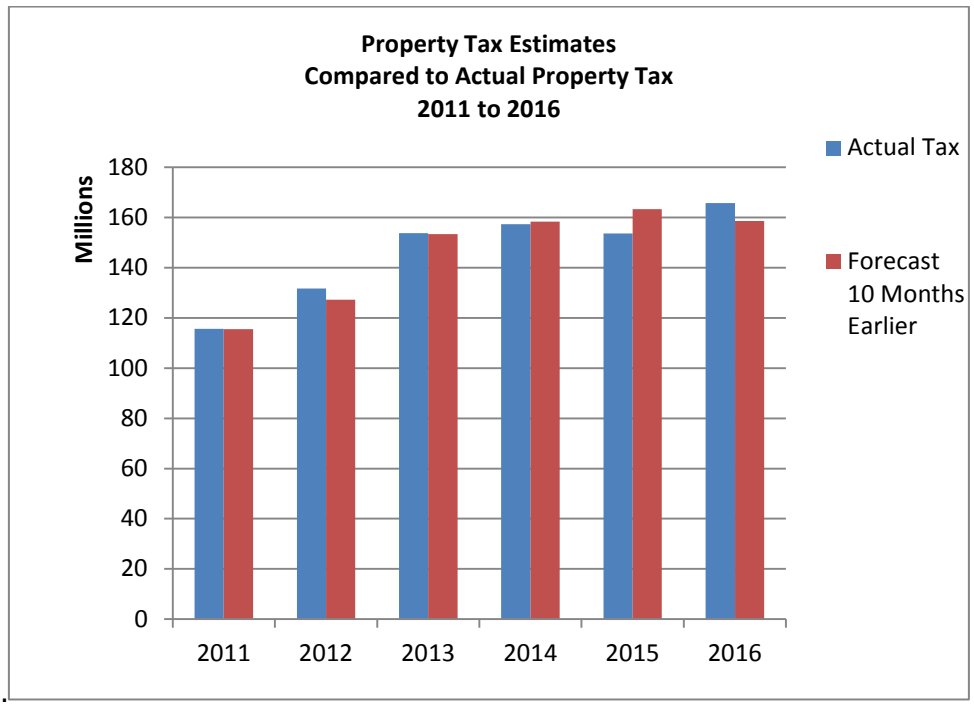
Q. ON WHAT BASIS DO YOU CONCLUDE THAT THE METHODOLOGY THE COMPANY USES RESULTS IN REASONABLY ACCURATE ESTIMATES?

A. In my Direct Testimony in the 2015 Phase I, I provided much the same data as in this testimony regarding the Company's historical accuracy for estimating its projected property tax liability. The graph below, which represents property tax amounts for the total Company, demonstrates graphically that from 2011 through

2016 the estimates that the Company has provided to the Commission have been close to the actual property tax incurred by Public Service.

The variances between the forecasts and the actual tax liability for the years 2011 through 2016 range from one to six percent. The average variance over the six-year period is one percent.

Graph PAS-D-3



Q. WHAT CAN THE COMMISSION CONCLUDE FROM THIS DATA?

A. The Commission may conclude that it can rely on the Company's property tax calculations as presented by the Company in this rate case in Confidential Attachment PAS-1. The Company works very closely with the PTA in determining its Colorado property taxes. The PTA's methodology is stable, and the Company has substantial knowledge of the appraisal process. The Company has used this

same methodology for multiple rate cases, and the estimation results are often similar to or below the actual amount of property tax paid. Given the Company's proven track record, the Commission can have confidence that the methodology used by the Company will result in a fair and reasonable amount of property tax expense to be recovered in the Company's base rates for each year of the MYP, 2018, 2019, and 2020.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Paul A. Simon

I graduated from Washington and Jefferson College, Washington, PA in 1978 with a Bachelor of Arts degree in economics. After 13 years of employment as a real estate appraiser, I earned an MAI (Member of the Appraisal Institute) designation from the Appraisal Institute. Prior to my employment at Xcel Energy, I was employed by the Division of Property Taxation at the Colorado Department of Local Affairs. From April 1998 until September 2003, I worked in the State Assessed Section valuing the property of public utilities doing business in Colorado. In that capacity I valued the property of telecommunications companies, airlines, railroads, natural gas and fluid pipelines, independent electric generators, and electric utilities. I began my career with Xcel Energy in September 2003 in the Tax Services department. My responsibilities include review of property tax renditions that are filed in Xcel Energy jurisdictions, review of valuations, and tax appeal preparation and presentation.

In addition I am a member of the planning committee for the annual Workshop for Ad Valorem Taxation of Telecommunications, Transportation, and Energy Companies held at Wichita State University. I am currently the President of NAPTR-TEC, a national organization of corporate utility property tax professionals. I am currently the Past President of the Western States Association of Tax Representatives, a regional organization of corporate utility property tax professionals. I have testified before the Colorado Board of Assessment Appeals, the Gray County, TX, Tax Appeals Board, and the Commission. As an AQB Certified USPAP Instructor, the Appraisal Foundation has

qualified me to teach appraisal ethics to appraisal students. USPAP refers to the Uniform Standards of Professional Appraisal Practice. The AQB is the Appraisal Qualifications Board of the Appraisal Foundation.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

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

AFFIDAVIT OF PAUL A. SIMON
PUBLIC SERVICE COMPANY OF COLORADO

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

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

Paul A. Simon
Consultant – Tax, Audit & Technical

Subscribed and sworn to before me this 24th day of May, 2017.

PAMELA C. WILSON
NOTARY PUBLIC - MINNESOTA
My Commission Expires
January 31, 2020

Pamela C. Wilson
Notary Public

My Commission expires 1/31/2020