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.	**)**

DIRECT TESTIMONY OF GENE H. WICKES

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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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 GENE H. WICKES

Gene H. Wickes is a Senior Consultant and Actuary who has over 30 years of experience consulting with organizations on the financial considerations of their pension programs. Mr. Wickes describes how annual pension expense is calculated, and he summarizes the requirements governing contributions to qualified pension plans. Mr. Wickes further explains that the timing differences between recognition of annual pension expense and the pension contributions give rise to a prepaid pension asset.

Mr. Wickes recommends that Public Service Company of Colorado's ("Public Service" or the "Company") prepaid pension asset be included in rate base and that the Company earn a return on that prepaid asset at its weighted average cost of capital ("WACC"), which is consistent with the ratemaking treatment of other prepayments by the Company and by customers. It is reasonable for the Company to earn a return on the prepaid pension asset because the earnings on the prepaid pension asset are used to reduce annual pension expense, thereby reducing the amount of pension expense that customers pay in utility rates.

If the Commission decides to exclude the prepaid pension asset from rate base, or if it decides to allow the Company to earn a return lower than the WACC return, the annual pension expense for the Company should be calculated in a parallel manner. Thus, if the prepaid pension asset is allowed to earn only a debt return, the expected return on assets used to calculate annual pension expense for Colorado ratemaking purposes should be restricted to a debt return.

Mr. Wickes next describes how a prepaid retiree medical asset arises, and he recommends that the Company be allowed to earn a WACC return on its retiree medical asset. That treatment is reasonable because the earnings on the retiree medical asset are contributing to the Company's negative retiree medical expense, which reduces the rates customers pay.

**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**

DIRECT TESTIMONY OF GENE H. WICKES

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	**Meaning**
ADIT	Accumulated Deferred Income Taxes
Commission	Colorado Public Utilities Commission
Public Service or the Company	Public Service Company of Colorado
CWC	Cash Working Capital
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
GAAP	Generally Accepted Accounting Principles
IRC	Internal Revenue Code
O&M	Operations and maintenance
VEBA	Volunteer Employees Beneficiary Association
WACC	Weighted Average Cost of Capital
Xcel Energy	Xcel Energy Inc.

**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**

DIRECT TESTIMONY OF GENE H. WICKES

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Gene H. Wickes. My business address is 555 17th Street, Suite 2050, Denver, Colorado 80202.

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

A. I am employed by Willis Towers Watson as a Senior Consultant and Actuary.

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

A. I am testifying on behalf of Public Service Company of Colorado ("Public Service," or the "Company"), a wholly owned subsidiary of Xcel Energy Inc. ("Xcel Energy").

Q. PLEASE SUMMARIZE YOUR EXPERIENCE AND QUALIFICATIONS.

A. I have over 35 years of experience consulting with organizations on the financial considerations of their pension programs. I am a Fellow of the Society of

Actuaries and a Fellow of the Conference of Consulting Actuaries. I have testified or submitted prefiled testimony regarding the cost of pension plans and retiree medical and life plans before the Colorado Public Utilities Commission ("Commission") and utility regulatory commissions in Arizona, Iowa, Minnesota, Montana, Oklahoma, South Dakota, Texas, Utah, Washington, and Wyoming. 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. The purpose of my Direct Testimony is to support the Company's requests: (1) to include a prepaid pension asset and a prepaid retiree medical asset in rate base; and (2) to earn a return on those assets at the Company's weighted average cost of capital ("WACC"). I describe how the prepaid assets arise, and I explain why it is reasonable and equitable for the Company to earn a WACC return on those assets.

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Company be allowed to earn a return on the prepaid pension and retiree medical assets at its WACC, just as customers receive a WACC return on the prepayments they make. Moreover, it is equitable for the Company to earn a WACC return on the prepaid asset balances because customers are also earning a return on those balances.

If the Commission allows something other than a WACC return on the prepaid assets, the Commission should extend the same treatment to the calculation of current pension and retiree medical expense. Thus, if the Commission decides to allow the Company to earn only a debt return on the prepaid assets, as it did in the Company's last gas rate case, Proceeding No. 15AL-0135G, with respect to the prepaid pension asset,[1] customers should also receive a debt return as the expected return used to calculate qualified pension expense and retiree medical expense. That would increase the amount of qualified pension expense and retiree medical expense included in rates, but there is no rational basis to give the Company a debt return while giving customers a higher return on the very same assets, particularly when the assets exist only because of prepayments by the Company.

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

A. No.

Q. HOW IS THE REMAINDER OF YOUR DIRECT TESTIMONY STRUCTURED?

A. In Section II of my testimony, I describe how a prepaid pension asset is created, and I explain why it is reasonable to include the prepaid pension asset in rate base and to earn a WACC return on it. In Section III, I describe how the prepaid retiree medical asset arises and explain that the Company should also be allowed to include it in rate base and to earn a WACC return on it.

[1] 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 Addressing Exceptions, Permanently Suspending Tariff Sheets, Establishing Rates, and Requiring Compliance Filings, Decision No. C16-0123 at 18 (Jan. 27, 2016).

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

A. Yes. Three other Company witnesses address compensation and benefit issues:

- Witness Sharon L. Koenig supports the Company's request to recover cash compensation, including both base pay and incentive compensation.
- Richard R. Schrubbe supports the annual expense amounts for non-cash compensation and benefits, such as qualified pension expense, active healthcare expense, and long-term disability expense, among others. Mr. Schrubbe also provides Company-specific information relative to the prepaid pension asset and the prepaid retiree medical asset.
- John J. Reed, who is the Company's return-on-equity expert, explains that the prepaid assets are funded with a mixture of debt and equity, and therefore the assets should receive a return at the Company's WACC.

II. PREPAID PENSION ASSET

A. Pension Expense and Funding Requirements

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SUBSECTION OF YOUR DIRECT TESTIMONY?

A. In this subsection of my testimony, I explain how annual pension expense is calculated and how pension contributions are made. The timing differences between pension expense recognition and pension cash contributions give rise to the prepaid pension asset.

Q. PLEASE EXPLAIN THE DISTINCTION THAT YOU ARE DRAWING BETWEEN PENSION EXPENSE AND A PENSION ASSET.

A. When I use the term "pension expense," I am referring to the annual cost amount to recognize the Company's qualified pension obligation accrued during that year, which includes amounts that will be recorded to operation and maintenance ("O&M") expense, capital costs, and deferred balances. Annual pension expense is calculated in accordance with Statement of Financial Accounting Standard ("FAS") 87,[2] which prescribes the rules that companies must follow in determining whether their pension expense calculations comply with Generally Accepted Accounting Principles ("GAAP").

In contrast, the prepaid pension asset is an asset recorded on the Company's balance sheet. It represents the cash that the Company has

[2] 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."

contributed in excess of the cumulative amounts recognized as annual pension expense.

Q. HOW IS ANNUAL PENSION EXPENSE CALCULATED UNDER FAS 87?

A. Annual pension expense is quantified under FAS 87 using the formula set forth in Table GHW - D - 1:

Table GHW - D - 1

	Current service cost
+	Interest cost
-	Expected Return on Assets ("EROA")
+/-	Amortization of loss(gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+	Amortization of prior service cost/(credit)
=	Annual pension cost

Mr. Schrubbe discusses the elements of annual pension expense in greater detail as part of his discussion of qualified pension expense.

Q. ARE THE ANNUAL CASH FUNDING AMOUNTS FOR PENSION PLANS DETERMINED UNDER THE SAME STANDARDS AS THE ANNUAL PENSION COST?

A. No. FAS 87 does not dictate how a company must fund the plan. The funding of a qualified pension 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 of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006:

- There are minimum required contributions;

- There are maximum contributions that can be deducted for tax purposes; and
- The Company has a fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under ERISA, the IRC, and the Pension Protection Act use accrual methodologies, but they are different from the methodology used under FAS 87 to determine pension expense. Over the long run, the cumulative employer cash contributions made to a plan and the cumulative annual pension cost amounts should be equal. But in the short and intermediate runs, there can be significant differences.

Q. WHY ARE THE ANNUAL PENSION COST AND THE ANNUAL FUNDING REQUIREMENTS ESTABLISHED IN ACCORDANCE WITH DIFFERENT STANDARDS?

A. The requirements for funding pension plans differ from the requirements for calculating annual pension costs primarily because FAS 87 is designed to present an accurate picture of a company's annual pension cost for financial accounting purposes, whereas the pension funding requirements reflect different (and sometimes conflicting) goals of Congress. On the one hand, the members of Congress want to have pension plans funded so the pensions of their constituents are adequately funded. On the other hand, Congress wants to limit the level of tax deductions by employers. Over the years, Congress has addressed its two conflicting goals at different times to address specific short-term needs. Currently, the combined impact of competing sections of the IRC has the following characteristics:

- Employers of adequately funded plans (as defined in Section 430 of the IRC, as amended by the Pension Protection Act of 2006) generally have flexibility in the amount that can be contributed in any one year so long as the cash contribution falls in the range between the minimum amount required and the amount that is deductible for tax purposes.

- For employers who slip below the threshold of funding adequacy in a given year, a large minimum required contribution can be triggered and benefit restrictions may apply.

- Given the differences between FAS 87 and the IRC funding rules, the cumulative accounting expenses and the cumulative cash contributions are rarely equal. Cumulative cash contributions in excess of the cumulative accounting expenses result in a prepaid pension asset.[3] The prepaid pension asset represents the employer's cash contributions that have not yet been reflected in the accounting expense.

B. <u>Creation of a Prepaid Pension Asset</u>

Q. WHAT IS A PREPAID PENSION ASSET?

A. A prepaid pension asset represents the difference between: (1) the cumulative actuarially determined annual pension expense calculated in accordance with FAS 87 since the plan's inception, and (2) the cumulative cash amounts contributed by the Company to the pension trust fund since the plan's inception.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE DIFFERENCE ARISES?

A. Yes. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of the five years has been

[3] If the annual pension expense recognized under FAS 87 exceeds the pension contributions in a given year, the prepaid pension asset will decline; if the annual pension expense is less than the pension contributions in a given year, the prepaid asset will increase.

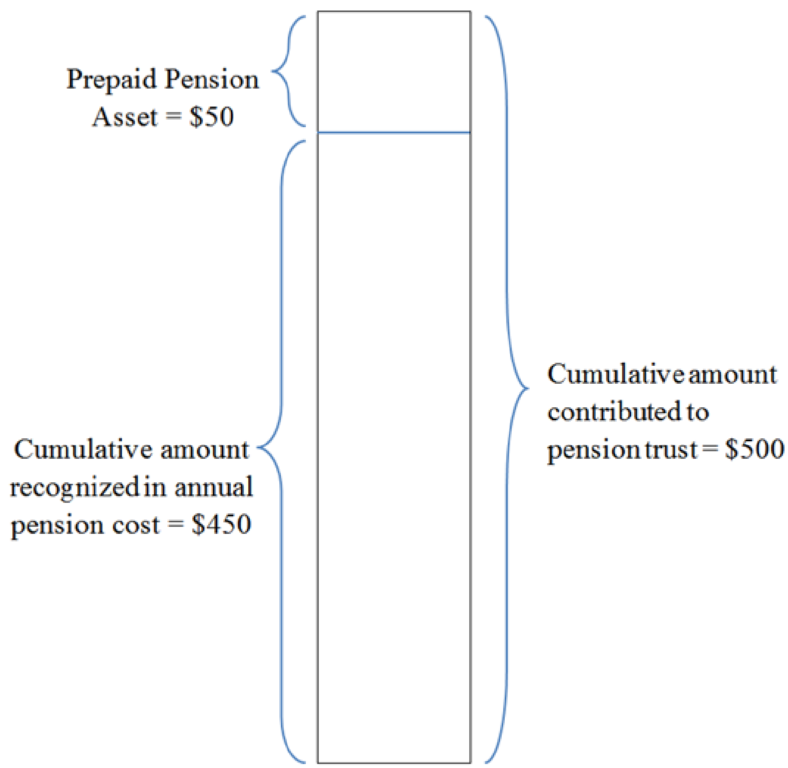
$100 million, whereas the annual pension expense calculated in accordance with FAS 87 has been $90 million in each of those five years. Table GHW - D - 2 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

Table GHW - D - 2 (amounts in millions)

Year	Pension Contribution	Annual Pension Expense	Cumulative Prepaid Pension Asset
1	$100	$90	$10
2	$100	$90	$20
3	$100	$90	$30
4	$100	$90	$40
5	$100	$90	$50
Total	**$500**	**$450**	**$50**

At the end of the five year period, the utility has made cumulative cash contributions of $500 million and has recognized cumulative annual pension expense of $450 million, which produces a prepaid pension asset of $50 million, as shown in Figure GHW - D - 1 (next page):

Figure GHW - D - 1[4]



Q. CAN A UTILITY WITHDRAW THE PREPAID PENSION ASSET AND USE IT TO FUND CAPITAL REQUIREMENTS OR TO PAY FOR O&M EXPENSE?

A. No. Federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. After the contributions are made, they are essentially locked away**.**

[4] The amounts in this figure and the other figures in my testimony are illustrative only. They do not represent Public Service's actual pension trust fund balances or its prepaid pension asset balance.

Q. IS IT ALSO POSSIBLE FOR THE CUMULATIVE RECOGNIZED ANNUAL PENSION EXPENSE TO BE HIGHER THAN THE CUMULATIVE CONTRIBUTIONS?

A. Yes. That leads to an unfunded pension liability, which would be subtracted from rate base. In fact, it is my understanding that Public Service currently has an unfunded pension liability for its non-qualified pension plan, and that liability is used to reduce rate base.

C. <u>Rationale for Allowing WACC Return on Prepaid Pension Asset</u>

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE RATEMAKING TREATMENT OF THE COMPANY'S PREPAID PENSION ASSET?

A. I recommend that the prepaid pension asset be included in rate base and that it be allowed to earn a return at the Company's WACC. In my experience, the general ratemaking practice is for utility prepayments to be added to rate base and for customer prepayments to be subtracted from rate base. In both instances, the prepayment amount earns a return at the utility's WACC. For example, the cash working capital ("CWC") balance represents working capital advanced by either shareholders or customers. If the CWC balance is positive, the positive amount is added to rate base, and Public Service earns a return on the balance at its WACC. If the CWC balance is negative, the negative amount is subtracted from rate base, and thus Colorado retail customers effectively avoid paying a WACC return on the portion of rate base that is offset by the negative CWC balance.

It is also my understanding that customers receive the benefit of a reduced rate base attributable to accumulated deferred income taxes ("ADIT"). ADIT represents a prepayment by customers of taxes that the utility does not yet owe the federal government, so the ADIT amount is reduced from rate base.

The prepaid pension asset is no different. It represents a prepayment by the utility of an amount that will eventually be recognized as annual pension expense. Moreover, it is reasonable and equitable to include the prepaid pension asset in rate base and for the Company to earn a WACC return on it because customers pay lower rates as a result of the prepaid pension asset.

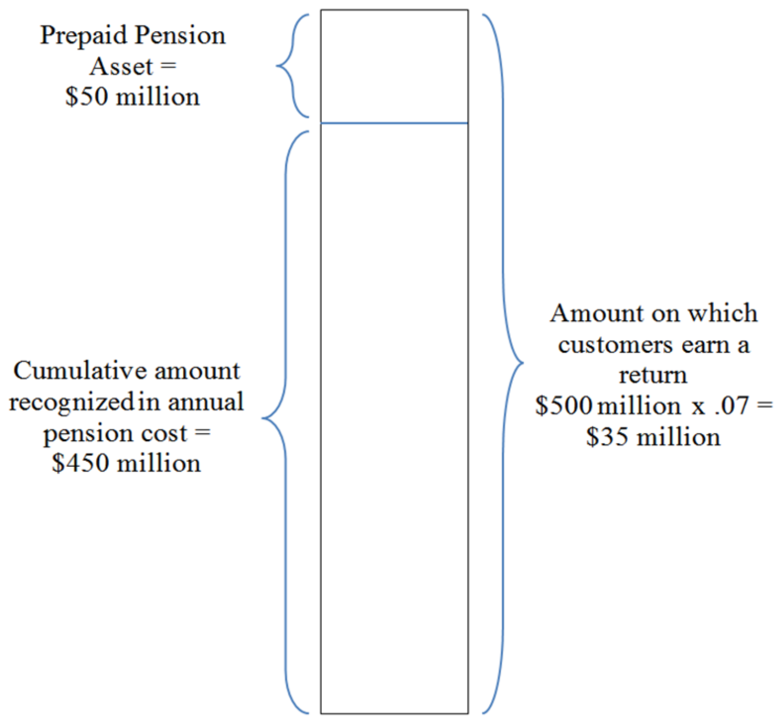
Q. WHAT DO YOU MEAN WHEN YOU STATE THAT CUSTOMERS ARE PAYING LOWER RATES AS A RESULT OF THE PREPAID PENSION ASSET?

A. As I explained in an earlier part of my Direct Testimony, one of the components of the annual pension expense calculation is the EROA, which is the return that the pension trust is expected to earn on the assets in the trust in a given year. Suppose, for example, that a pension trust has assets of $500 million and is expected to earn a return of seven percent in the current year. Under those assumptions, $35 million ($500 million x 7 percent) would be included in the annual pension expense calculation as the EROA. As I explained in the previous section, the EROA is offset against the positive elements of the pension expense calculation, such as service cost and interest cost. Therefore, in this example, the return on the pension trusts would reduce current annual pension expense by $35 million, thereby allowing customers to avoid paying $35 million of pension expense in utility rates.

Q. DOES THE TRUST FUND AMOUNT THAT IS MULTIPLIED BY THE EROA INCLUDE THE ENTIRE TRUST FUND BALANCE, INCLUDING THE PREPAID ASSET?

A. Yes. As shown in Figure GHW - D - 2, customers are receiving a return on all of the assets in the pension trust, not just the dollars that have been recognized in annual pension expense during the prior years.

Figure GHW - D - 2



That means all of the assets in the trust, including the assets that comprise the prepaid pension asset, are used for the calculation that lowers pension expense, which lowers rates paid by customers.

Q. DOES THE FACT THAT CUSTOMERS ARE RECEIVING A RETURN ON THE ENTIRE PREPAID PENSION ASSET JUSTIFY INCLUDING THE PREPAID ASSET IN RATE BASE AND ALLOWING THE COMPANY TO EARN A RETURN ON IT?

A. Yes. As I have explained, the return on the prepaid pension asset reduces annual pension expense, which causes customers to pay lower rates. Consider, for example, the scenario depicted in Figure GHW - D - 2, in which customers are earning a seven percent return on a $50 million prepaid pension asset. That reduces annual pension expense by $3.5 million, which means that customers pay $3.5 million less in rates.

Q. IN PROCEEDING NO. 15AL-0135G, THE COMPANY'S LAST GAS RATE CASE, THE COMMISSION ALLOWED THE PREPAID PENSION ASSET TO BE INCLUDED IN RATE BASE BUT ALLOWED THE COMPANY TO EARN ONLY A DEBT RETURN. SHOULD THE COMMISSION FOLLOW THAT PRECEDENT IN THIS CASE FOR THE PREPAID PENSION ASSET?

A. No. Both economic and equitable considerations lead to the conclusion that the Company should earn a WACC return on the prepaid pension asset, not a debt return. First, the EROA, which is the rate that is used for calculating the annual pension expense, is higher than a debt rate. There is no basis for restricting the Company to a debt rate when customers are given the benefit of the higher EROA rate in the annual pension expense calculation.

Second, as I discussed earlier, customers are allowed to earn a WACC return on the prepayments they make, such as CWC and ADIT. It would be inequitable to force the Company to accept a lower return for the prepayments it makes.

Third, as discussed by Mr. Reed, Public Service has funded the pension trust with a mixture of debt and equity, and therefore it is entitled to a return that reflects both elements of cost. Allowing only a debt return assumes that the prepaid assets were funded solely by debt, which is simply not true.

Fourth, if the Commission continues to allow the Company to earn only a debt return on the amounts it contributes to the trusts, it will serve as a disincentive for Public Service to make the contributions necessary to maintain the plans' funded status. And if the plan funded status declines as a result, customers will incur additional Pension Benefit Guaranty Corporation premiums, as discussed by Mr. Schrubbe.

D. <u>Effect of Negative Pension Expense</u>

Q. PLEASE EXPLAIN WHAT NEGATIVE PENSION EXPENSE IS.

A. As I testified earlier, the annual qualified pension expense is the net of five cost components:

1. Current service cost;
2. Interest cost;
3. EROA;
4. Amortization of loss/(gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods; and

5. Amortization of prior service cost/(credit).

Two of those cost elements (current service cost and interest cost) give rise to expense. The EROA is an offset to expense. A prior-period loss increases current expense, whereas a prior-period gain offsets current expense. The amortization of prior service cost/(credit) reflects costs or savings associated with changes in benefits over time and can either increase expense or offset expense depending on the actions the Company has taken to change the benefit levels.

Negative pension expense refers to the circumstance in which the combination of the EROA and the amortization of prior-period gains (including prior service credits) is greater than the combination of the current service cost, the interest cost, and prior-period losses (including prior service costs). Expressed mathematically, negative pension expense arises when the following circumstances are present:

(EROA + Prior-Period Gains) > (Service Cost + Interest Cost + Prior-Period Losses)[5]

Q. HOW DOES NEGATIVE PENSION EXPENSE AFFECT THE PREPAID PENSION ASSET?

A. As I testified earlier, the prepaid pension asset is the difference between cumulative cash contributions to the pension trust fund and cumulative recognized pension expense. When the annual pension expense is negative in a particular year (i.e., when the EROA and gains from prior periods exceed the other elements of annual pension cost), it reduces the cumulative recognized pension expense. That increases the difference between the cumulative cash

[5] This formula ignores the amortization of prior service costs or credits.

contributions and the cumulative recognized pension expense, which increases the balance of the prepaid pension asset.

Q. FOR RATEMAKING PURPOSES, DOES IT MAKE A DIFFERENCE WHETHER THE PREPAID PENSION ASSET IS DERIVED FROM PUBLIC SERVICE'S CONTRIBUTIONS OR FROM NEGATIVE PENSION EXPENSE?

A. No. The manner in which the prepaid pension asset came into being is irrelevant for purposes of determining the effect on the Company and customers. Regardless of whether the prepaid pension asset arose solely from contributions or from a combination of contributions and negative pension expense, the result is a decrease in annual pension expense charged to customers, which reduces the amount that the Company recovers in the cost of service. In effect, Public Service is forgoing recovery of revenues from customers in an amount that is equal to the amount of the negative expense, but the Company cannot obtain reimbursement of that payment through a distribution from the trust. Thus, negative pension expense prevents the Company from recovering its full cost of providing service to customers.

Q. PLEASE EXPLAIN HOW NEGATIVE PENSION EXPENSE PREVENTS THE COMPANY FROM RECOVERING ITS FULL COST OF SERVICE.

A. Suppose the Company has negative pension expense of $5 million because the combination of the EROA and prior-period gains (if any) is larger than the combination of the service cost, interest cost, and prior-period losses (if any).[6] Further suppose that, before considering the annual pension expense, the

[6] For this example, I am assuming there is no amortization of prior service cost or credits.

Company's cost of service shows that the Company has $100 million of O&M expense. Adding the negative pension expense to the $100 million results in an O&M revenue requirement of $95 million, which is the amount that the utility is allowed to recover from customers, even though it will actually cost the Company $100 million in O&M expense to provide service. The $5 million of negative pension expense means that the pension trust has $5 million of earnings that are not needed to satisfy the current pension expense obligations, but the Company cannot withdraw the negative pension expense from the trust because of the ERISA prohibition that I discussed earlier. Thus, negative pension expense prevents the Company from recovering its full cost of service. The Company can be made whole, however, by allowing the prepaid pension asset to be included in rate base and by allowing the Company to earn a WACC return on it.

Q. WHO BENEFITS FROM THE NEGATIVE PENSION EXPENSE?

A. The Company's customers obviously benefit from the negative pension expense through a reduced cost of service. Moreover, the requirement that the prepaid pension asset, including any portion attributable to negative pension expense, remain in the trust benefits customers in future years, because it creates more assets on which to earn a return in those future years. In fact, even during periods when there is not an active rate proceeding to directly adjust rates, negative pension expense benefits customers because it reduces the need for incremental rate cases. From the perspective of Public Service as a whole, there is no financial benefit from the gains of the pension trust because there is no positive cash flow back to the Company, even though the negative pension expense must be recorded for financial statement purposes. However, if customers receive a reduction in cost of service as a result of the negative pension expense, there is both benefit to customers and a detriment to Public Service because the customer cost reduction is not offset by an actual reduction in cash outflow for Public Service. That is why it is necessary for the Company to earn a WACC return on the prepaid pension asset.

E. Alternative Recommendations on Prepaid Pension Asset

Q. THUS FAR YOU HAVE DISCUSSED YOUR RECOMMENDATION THAT THE COMMISSION ALLOW THE COMPANY TO INCLUDE THE PREPAID PENSION ASSET IN RATE BASE AND TO EARN A WACC RETURN ON IT. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION IF THE COMMISSION DOES NOT ACCEPT YOUR PRIMARY RECOMMENDATION?

A. Yes. If the Commission decides to exclude the prepaid pension asset from rate base, or if it decides to allow the Company to earn only a debt return on the prepaid pension asset, I recommend parallel treatment with respect to pension expense.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY “PARALLEL TREATMENT”.

A. By “parallel treatment,” I mean that the Commission should treat customers and the Company the same with respect to the prepaid pension asset. Thus, if the Commission decides to exclude the prepaid pension asset from rate base, the earnings on the prepaid pension asset should not be included in the calculation of annual pension expense, which would increase that expense. It would be inequitable to deny the Company a return on the prepaid pension asset while providing to customers all the benefits arising from the existence of this asset. The entire prepaid pension asset produces investment income to offset pension expenses, regardless of when the amounts were contributed or realized.

Similarly, if the Commission allows the Company to earn only a debt return on the prepaid pension asset, the annual pension expense used for ratemaking for Public Service should be calculated using a debt return as the expected return for the prepaid portion of the pension asset balance. There is no rational basis to give customers the benefit of the higher EROA return if the Company is limited to a debt return.

Q. ARE YOU RECOMMENDING THAT THE COMMISSION EXCLUDE THE RETURN ON THE PREPAID PENSION ASSET FROM RATE BASE, OR THAT THE COMMISSION REQUIRE ANNUAL PENSION EXPENSE TO BE CALCULATED USING A DEBT RETURN FOR THE EROA?

A. No. My primary recommendation is that the Commission allow the Company to earn a WACC return on the prepaid pension asset and to allow annual pension expense to be calculated by applying the EROA to the prepaid portion of the pension assets. For the reasons described by Mr. Schrubbe, customers are better off with the prepaid pension asset being included in rate base and with it being allowed a WACC return than they would be if the prepaid pension asset were disregarded for ratemaking purposes. But if the Commission were to exclude the prepaid pension asset from rate base, it should also exclude the return on the prepaid asset from the calculation of annual pension expense. And if the Commission restricts the company to a debt return on the prepaid pension asset, the EROA used for purposes of calculating pension expense used for ratemaking for Public Service should be limited to a debt return as well.

III. PREPAID RETIREE MEDICAL ASSET

A. Creation of Prepaid Retiree Medical Asset

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

A. I discuss the Company's request to include its prepaid retiree medical asset in rate base.[7]

Q. WHAT IS A PREPAID RETIREE MEDICAL ASSET?

A. A prepaid retiree medical asset is similar to a prepaid pension asset, except that it represents the difference between: (1) the cumulative annual retiree medical expense calculated under FAS 106 since the inception of FAS 106 accounting requirements starting in 1993;[8] and (2) the cumulative cash outlays to fund benefits under the plan, either through contributions made to the FAS 106 trust by the Company or direct payment of plan benefits over the same period of time.[9]

B. Effect of Negative Retiree Medical Expense

Q. PLEASE EXPLAIN WHAT NEGATIVE RETIREE MEDICAL EXPENSE IS.

A. Similar to pension expense, the annual retiree medical expense is the net of five cost components:

1. Current service cost;

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[7] Retiree medical expense calculated under FAS 106 is sometimes referred as Other Post-Employment Benefits, or "OPEB." To minimize the acronyms in my testimony, I will use the phrase "retiree medical" rather than "OPEB."

[8] Prior to 1992, retiree medical plans were accounted as a "pay-as-you-go" expense, where the annual expense was equal to the cash outlay for the benefits.

[9] The assets of a retiree medical plan are typically held in a Voluntary Employee Beneficiary Association ("VEBA") trust. Benefits are not required to be funded exclusively through a trust.

2. Interest cost;
3. EROA;
4. Amortization of loss/(gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods; and
5. Amortization of prior service cost/(credit).

Negative retiree medical expense refers to the circumstance in which the combination of the EROA, the prior-period gains (if any) and the amortization of prior service credit is greater than the combination of the current service cost, the interest cost, and the prior-period losses (if any). In the Company's case, the amortization of prior service cost/(credit) is an offset to expense due to changes the Company has made to reduce benefit levels.

Q. HAS THE COMPANY HAD NEGATIVE RETIREE MEDICAL EXPENSE IN RECENT YEARS?

A. Yes. Public Service has had negative retiree medical expense since 2014. Prior to that, Public Service had positive retiree medical expense.

Q. WHAT HAS CAUSED THE RETIREE MEDICAL EXPENSE TO BE NEGATIVE?

A. The negative retiree medical expense for Public Service is primarily due to two reasons:

1. The Company has reduced the benefit levels over time, resulting in reduced liabilities and lower retiree medical expense. However, the Company continued to fund the benefits as required under a 1991 rate order. In that order, the Company was required to fund the amounts

recovered in rates into the trust. Funding of the benefits ceased once the retiree medical expense became negative; and

2. Due to the funding of the plan, the expected return on the retiree medical assets has been greater than the sum of the other components of retiree medical cost. Stated simply, the combination of the amortization of prior service credit due to the reduced benefits and the assumed investment return on the plan assets was greater than the cost elements in the plan's expense.

Q. HOW IS THE NEGATIVE RETIREE MEDICAL EXPENSE TREATED FOR RATEMAKING PURPOSES IN THE COMPANY'S COST OF SERVICE?

A. The negative retiree medical expense is credited to customers as a reduction to the cost of service.

Q. FOR RATEMAKING PURPOSES, DOES IT MAKE A DIFFERENCE WHETHER THE PREPAID RETIREE MEDICAL ASSET IS DERIVED FROM PUBLIC SERVICE CONTRIBUTIONS OR FROM NEGATIVE RETIREE MEDICAL EXPENSE?

A. No. Similar to a prepaid pension asset, there is no question that customers reap the benefit of that prepaid retiree medical asset because it remains in the trust and customers earn a return on it. That return is used to lower annual retiree medical expense, reducing the retiree medical expense included in the cost of service.

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S REQUEST TO INCLUDE THE PREPAID RETIREE MEDICAL ASSET IN RATE BASE?

A. Yes. The reasons that I discussed in connection with the prepaid pension asset also apply to the retiree medical asset:

- The negative retiree medical expense is currently reducing the cost of service, thereby lowering the rates paid by customers;
- The retiree medical asset is a prepayment by the Company, and it should be treated consistently with other prepayments, such as CWC and ADIT; and
- Customers effectively earn a return on the retiree medical asset because the EROA reduces current annual retiree medical expense.

There is no valid basis to remove the prepaid retiree medical asset from rate base, or to allow it to earn less than a WACC return.

Q. DO YOU HAVE ANY ALTERNATIVE RECOMMENDATIONS WITH RESPECT TO THE PREPAID RETIREE MEDICAL ASSET?

A. Yes. As with the prepaid pension asset, I recommend that the Commission treat the prepaid retiree medical asset consistently from both the customers' and the Company's view. If the Commission disallows the prepaid retiree medical asset from rate base, it should also eliminate the return on the prepaid asset when calculating annual retiree medical expense. And if the Commission allows the Company to earn only a debt return on the prepaid retiree medical asset, it should order that a debt return be applied to the prepaid portion of the VEBA trust for purposes of calculating Public Service's annual retiree medical expense for purposes of ratemaking in Colorado.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Gene H. Wickes

Gene Wickes leads the Exchange Solutions segment at Willis Towers Watson, and is the executive sponsor of the Willis Towers Watson integration team. Previously, Gene was the managing director for Towers Watson's Benefits segment. He has 39 years of experience consulting on retirement, actuarial, plan administration and other human resource issues. In particular, Gene has over 30 years of experience testifying or submitting pre-filed testimony regarding the cost of pension plans and retiree medical and life plans before utility regulatory commissions in Arizona, Colorado, Iowa, Minnesota, Montana, Oklahoma, South Dakota, Texas, Utah, Washington, and Wyoming. Gene attended Brigham Young University, where he received a bachelor's degree in mathematics and master's degrees in mathematics and economics. Gene is a Fellow of the Society of Actuaries and a Fellow of the Conference of Consulting Actuaries.

**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 GENE H. WICKES
PUBLIC SERVICE COMPANY OF COLORADO**

I, Gene H. Wickes 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 Arlington, Virginia this Twenty Fourth day of May 2017.

____
Gene H. Wickes
Senior Consultant and Actuary
Willis Towers Watson

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

____
Notary Public

My Commission expires May 31, 2017

LINA VANESSA JARAMILLO
NOTARY PUBLIC
REG. #248866
MY COMMISSION EXPIRES
05/31/2017
COMMONWEALTH OF VIRGINIA