

NOTICE OF CONFIDENTIALITY
ATTACHMENTS TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL
BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * * *

IN THE MATTER OF ADVICE NO. 961-)
GAS OF PUBLIC SERVICE COMPANY)
OF COLORADO TO REVISE ITS)
COLORADO PUC NO. 6-GAS TARIFF)
TO INCREASE JURISDICTIONAL BASE) PROCEEDING NO. 20AL-____G
RATE REVENUES, IMPLEMENT NEW)
BASE RATES FOR ALL GAS RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020)
)

DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. SCHMIDT

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
ATTACHMENTS TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL

Confidential: Confidential Attachment MLS-4

February 5, 2020

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

* * * * *

IN THE MATTER OF ADVICE NO. 961-)
GAS OF PUBLIC SERVICE COMPANY)
OF COLORADO TO REVISE ITS)
COLORADO PUC NO. 6-GAS TARIFF)
TO INCREASE JURISDICTIONAL BASE) PROCEEDING NO. 20AL-____G
RATE REVENUES, IMPLEMENT NEW)
BASE RATES FOR ALL GAS RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020)

DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. SCHMIDT

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND RECOMMENDATIONS	7
II. DEFINITIONS	13
III. XCEL ENERGY OPERATIONS.....	19
IV. COST FLOW	22
A. Part A	25
B. Part B	28
C. Part C	34
D. Part D	35

V. SERVICE COMPANY OVERVIEW	38
VI. COST ALLOCATION RULES	44
VII. THE HISTORY OF PUBLIC SERVICE'S COST ASSIGNMENT AND ALLOCATION MANUAL AND FDC STUDY.....	49
VIII. THE COST ASSIGNMENT AND ALLOCATION MANUAL	54
A. Utility Allocations	58
B. Non-regulated Activity Allocations	60
IX. THE FULLY DISTRIBUTED COST STUDY IN THIS PROCEEDING	64
X. CONCLUSION	67

LIST OF ATTACHMENTS

Attachment MLS-1	Public Service Company's Cost Assignment and Allocation Manual ("CAAM") dated December 2019
Attachment MLS-2	Comparison Document that identifies all modifications to the CAAM since it was last filed in Proceeding No. 17AL-0363G
Attachment MLS-3	Public Service Company's Fully Distributed Cost Study, page 1
CONFIDENTIAL Attachment MLS-4	Public Service Company's Fully Distributed Cost Study, page 2 (Confidential Version)
PUBLIC Attachment MLS-4	Redacted copy of Public Service Company's Fully Distributed Cost Study, page 2
Attachment MLS-5	XES Allocating Cost Center Allocation Methods and Percentages
Attachment MLS-6	Comparison of XES Allocation Percentages for Public Service
Attachment MLS-7	Utility Allocation Methods and Percentages
Attachment MLS-8	Non-regulated Activity Allocation Methods and Percentages

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
2002 Phase I Rate Case	Proceeding No. 02S-315EG
2017 Gas Phase I	Proceeding No. 17AL-0363G
A&G	Administrative and General
CAAM	Cost Assignment and Allocation Manual
Commission	Colorado Public Utilities Commission
CWIP	Construction Work in Progress
FDC Study	Fully Distributed Cost Study
FERC	Federal Energy Regulatory Commission
Informational HTY	2019 Informational Historical Test Year
IT	Information Technology
NOPR	Notice of Proposed Rulemaking
NSPM	Northern States Power Company, a Minnesota corporation
NSPW	Northern States Power Company, a Wisconsin corporation
O&M	Operations and Maintenance
Operating Companies	Public Service, NSPM, NSPW, and SPS
Operating Company	One of the Operating Companies
Proceeding No. 06A-555EG	2006 CAAM Proceeding
PUHCA 1935	The Public Utility Holding Company Act of 1935

<u>Acronym/Defined Term</u>	<u>Meaning</u>
PUHCA 2005	The Public Utility Holding Company Act of 2005, 18 Code of Federal Regulation Parts 365 and 366
Public Service or the Company	Public Service Company of Colorado, a Colorado corporation
RIS	Rate Information System
RWIP	Retirement Work in Progress
SEC	Securities and Exchange Commission
SKF	Statistical Key Figure
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	Year Ending September 30, 2020
WBS	Work Breakdown Structures
Xcel Energy	Xcel Energy Inc.
XES or Service Company	Xcel Energy Services Inc.

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

* * * * *

IN THE MATTER OF ADVICE NO. 961-)
GAS OF PUBLIC SERVICE COMPANY)
OF COLORADO TO REVISE ITS)
COLORADO PUC NO. 6-GAS TARIFF)
TO INCREASE JURISDICTIONAL BASE)
RATE REVENUES, IMPLEMENT NEW) PROCEEDING NO. 20AL-____G
BASE RATES FOR ALL GAS RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020)

DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. SCHMIDT

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Melissa L. Schmidt. 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" or "Service Company") as
Director, Corporate Accounting. 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.

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

2 A. As Director, Corporate Accounting, which includes Corporate Accounting,
3 Service Company Accounting, Cash Processes, and Business Area Accounting, I
4 am responsible for the general administration of XES, including accounting,
5 billing, allocations, policies and procedures, service agreements, internal audits,
6 external audits, and external reporting to state and federal regulatory agencies.
7 Additionally, I direct Xcel Energy's Corporate Accounting group, which manages
8 the month-end close process, legal consolidation process, and other accounting
9 functions and controls, and maintains the general ledger; the Cash Processes
10 group, which is responsible for monitoring and reconciling the cash activity, long-
11 term debt, and other related items for all Xcel Energy affiliates and subsidiaries;
12 and the Business Area Accounting group, which is responsible for the accounting
13 functions for the Business Areas of Xcel Energy which includes Energy Supply,
14 Transmission, Distribution, Gas Engineering & Operations, and Corporate
15 Services. A description of my qualifications, duties, and responsibilities is set
16 forth after the conclusion of my Direct Testimony in my Statement of
17 Qualifications.

18 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

19 A. Consistent with Rules 4500 *et. seq.* of the Colorado Public Utilities Commission
20 ("Commission"), which address the topic of unregulated goods and services and
21 the requirement to establish cost assignment and allocation principles to assist
22 the Commission in setting just and reasonable rates and to ensure that utilities

1 do not use ratepayer funds to subsidize non-regulated activities, in accordance
2 with Section 40-3-114 of the Colorado Revised Statutes, the purpose of my
3 Direct Testimony is to sponsor the Company's Cost Assignment and Allocation
4 Manual ("CAAM") and Fully Distributed Cost Study ("FDC Study") in this
5 proceeding. As a result, I provide the following information in my Direct
6 Testimony:

- 7 • In Section II – I provide a list of definitions of specific terms and processes
8 that I use throughout my Direct Testimony to support the Company's cost
9 allocations and FDC Study;
- 10 • In Section III – I describe the Xcel Energy Holding Company structure and
11 organizational structure to provide the context necessary to understand the
12 flow of transactions within Xcel Energy companies (primarily the Service
13 Company) and Public Service;
- 14 • In Section IV – I provide an overview of the flow of costs in the general ledger
15 system including how the costs ultimately reside on Public Service's books
16 and records;
- 17 • In Section V – I describe the Service Company, its history and operations,
18 and the administration of the Allocation Methods, Allocation Statistics,
19 Allocation Percentages or Ratios, and allocation pools;
- 20 • In Sections VI and VII – I explain the cost allocation rules and the history of
21 the cost allocation rules as they apply to Public Service's CAAM and the

1 Company's FDC Study, which we are filing in compliance with Commission
2 Rules 4500 *et seq.*

- 3 • In Section VIII – I sponsor Public Service's CAAM dated December 2019, a
4 copy of which is included as Attachment MLS-1, as well as support the cost
5 assignment and Allocation Methods and the percentages used in preparing
6 the test year in this rate case ending September 30, 2020 ("Test Year").
7 Additionally, I provide a comparison document that identifies all significant
8 modifications to the CAAM since it was last filed in the 2017 Gas Phase I rate
9 case (Proceeding No. 17AL-0363G) ("2017 Gas Phase I") as Attachment
10 MLS-2.

- 11 • In Section IX – I sponsor the Company's FDC Study applicable to the Test
12 Year, a copy of which is included as Attachment MLS-3 and Confidential
13 Attachment MLS-4.

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

16 A. Yes, I am sponsoring Attachments MLS-1 through MLS-8 and Confidential
17 Attachment MLS-4, which were prepared by me or under my direct supervision.

18 A brief description of each attachment is listed below:

- 19 • Attachment MLS-1 – Public Service's CAAM dated December 2019: A
20 complete copy of the CAAM as updated to reflect current processes and cost
21 assignment and allocation methodologies.

- 1 • Attachment MLS-2 – Comparison Document that identifies all significant
2 modifications to the CAAM since it was last filed in the 2017 Gas Phase I: A
3 red-lined copy of the December 2019 CAAM when compared to the
4 December 2016 CAAM.
- 5 • Attachment MLS-3 – Public Service's FDC Study, page 1: The attachment
6 shows the split of Public Service's costs between the electric, gas, and steam
7 utility divisions and the non-regulated activities by Federal Energy Regulatory
8 Commission ("FERC") account.
- 9 • Confidential Attachment MLS-4 – Public Service's FDC Study, page 2
10 (Confidential Version): Page 2 of the FDC Study lists the non-regulated
11 activities of Public Service and includes the amounts for each category of
12 costs, and is therefore confidential.
- 13 • Public Attachment MLS-4 – Redacted copy of Public Service's FDC Study,
14 page 2 (Public Version): This version of page 2 is the same as Confidential
15 Attachment MLS-4, but redacts the amounts for each category of costs.
- 16 • Attachment MLS-5 – XES Allocating Cost Center Allocation Methods and
17 Percentages: This attachment includes a list of the XES Allocating Cost
18 Centers used to allocate XES charges to the Operating Companies and
19 affiliates. It includes the allocation method, statistics, and percentages to
20 charge each Operating Company and affiliate.
- 21 • Attachment MLS-6 – Comparison of XES Allocation Percentages for Public
22 Service: This attachment contains a table showing the trend of the XES

1 percentages used to charge Public Service for each indirect/allocated Cost
2 Center.

- 3 • Attachment MLS-7 – Utility Allocation Methods and Percentages: This
4 attachment includes a list of the Utility Operations and Maintenance (“O&M”)
5 allocations and the Utility Non-O&M allocations, the Allocation Methods, an
6 explanation of the reasonableness of each allocation method, and the
7 percentages allocated to each utility division.

- 8 • Attachment MLS-8 – Non-regulated Activity Allocation Methods and
9 Percentages: This attachment includes a list of the non-regulated activity
10 allocations, the Allocation Methods, the reasonableness of each allocation
11 method, and the percentages applied to each non-regulated activity.

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

14 A. I recommend that the Commission: (1) approve the Company’s CAAM and FDC
15 Study as presented in my Direct Testimony; and (2) find that Public Service’s
16 cost assignment, Allocation Methods, and the percentages used in preparing the
17 Test Year for this rate case are reasonable.

1 **II. DEFINITIONS**

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

4 A. In this section, I provide a set of definitions for special terms relevant to the
5 remainder of my testimony, for ease of reading and reference.

6 **Q. IN THE REMAINDER OF YOUR DIRECT TESTIMONY, WILL YOU BE USING**
7 **SPECIAL TERMS?**

8 A. Yes. The following capitalized terms used throughout my Direct Testimony will
9 have the following definitions:

- 10 • *Allocated Charges*: The terms Allocated Charges and Indirect Charges are
11 interchangeable when used in my Direct Testimony. These charges occur
12 when the costs for services cannot be directly assigned to a specific
13 Operating Company or affiliate and are therefore allocated to the Operating
14 Companies and affiliates that benefit from the services based on the
15 appropriate Allocation Methods by XES.
- 16 • *Allocation Methods or Formulas*: Allocation Methods or Formulas are the
17 basis for assigning costs to an affiliate and result from using a single
18 Allocation Ratio or the average of two or more Allocation Ratios. Examples of
19 Allocation Methods or Formulas include: Number of Customers, Number of
20 Employees, Revenues, and Assets.
- 21 • *Allocation Percentages or Ratios*: Each set of Allocation Statistics is used to
22 calculate an Allocation Percentage or Ratio. For example, the employee ratio

1 uses the number of employees for each affiliate to the total number of
2 employees for all affiliates to determine the percentage of services
3 chargeable to each affiliate.

- 4 • *Allocation Statistics*: Allocation Statistics are the actual numerical inputs used
5 to derive the Allocation Ratios or Percentages. Examples of statistics are:
6 The dollar amount of assets, the count of employees, the dollar amount of
7 revenues, the number of customers, the number of invoice transactions,
8 megawatt hours of generation, and the number of customer bills.

- 9 • *Assessment Process*: The process used by the general ledger system to
10 allocate costs from an Allocating Cost Center to the Receiving Cost Element
11 (e.g., Final Cost Center, Internal Order, or Work Breakdown Structures
12 (“WBS”) element).

- 13 • *Business Area*: An operational segment of the Company with assigned
14 employees. Examples include Gas Systems, Operations Services, and
15 Customer and Innovation.

- 16 • *Common Costs*: The term Common Costs in the context of this Direct
17 Testimony means those costs that are applicable to the three utility divisions
18 (e.g., electric, gas, or steam) and the non-regulated activities in Public
19 Service.

- 20 ○ Public Service Common Costs – For example, an invoice for general
21 mail service charged to FERC account 921 on Public Service benefits
22 all three utility divisions and the non-regulated activities. In order to

1 make sure each utility division gets a share of the cost for ratemaking
2 purposes, utility allocations are used to allocate a portion of the cost to
3 each utility using the three-factor allocator defined in Section VI, Utility
4 Allocations of the CAAM (see Attachment MLS-1). Because these
5 costs were charged to FERC account 921 as Common Costs, they are
6 also included in the calculation of the non-regulated activity
7 Administrative and General (“A&G”) overhead as defined in Section
8 VII, Non-regulated Activity Allocations of the CAAM.

- 9 ○ Service Company Common Costs – If similar corporate general mail
10 service charges were allocated from the Service Company to Public
11 Service and charged to FERC account 921, they would be treated as
12 Common Costs benefitting the three utility divisions (e.g., electric, gas,
13 and steam) and the non-regulated activities. These charges would
14 also go through the utility allocations and the non-regulated activity
15 allocations described above.

- 16 • *Cost Element*: An organizational unit that is used to track costs in the
17 accounting system as they move through the various processing steps.
- 18 • *Cost Center*: A grouping of related costs within the general ledger. Cost
19 Centers are primarily used for managerial reporting and analysis, and can
20 serve several purposes. An Allocating Cost Center is used to collect costs
21 that will be allocated to other Cost Centers, Internal Orders, or WBS. A Final
22 Cost Center is used to collect costs defined by a Business Area, or

1 Department within a Business Area, that is associated with an Operating
2 Company or affiliate, and Profit Center. Unlike a Business Area, a Cost
3 Center does not have assigned employees.

- 4 • *Department*: An operational segment of a Business Area. Business Areas
5 can consist of multiple Departments (e.g., Corporate Accounting is a
6 Department of the Other Shared Services Organizations Business Area).
- 7 • *Direct Charges*: Direct Charges occur when an employee of any Operating
8 Company or affiliate including XES can clearly identify that the service being
9 rendered is for the benefit of a specific Operating Company or affiliate.
- 10 • *Indirect Charges*: The terms Indirect Charges and Allocated Charges are
11 interchangeable when used in this document. These charges occur when the
12 cost for services cannot be directly assigned to a specific Operating Company
13 or affiliate and are therefore allocated to the Operating Companies and
14 affiliates that benefit from the services based on the appropriate Allocation
15 Methods.
- 16 • *Internal Orders*: Internal Orders are required for all transactions that are
17 booked to an income statement account. All Internal Orders have settlement
18 rules assigned at the time they are created. The settlement rules determine
19 how the costs will be treated during the month-end close process. For
20 example, if the settlement rule states that the costs in a specific Internal Order
21 are to settle to an Internal Order on an Operating Company or affiliate, the
22 costs are direct charged to that Operating Company or affiliate. If the

1 settlement rule states that the costs in a specific internal order are indirect or
2 allocated Service Company charges, the Service Company Internal Order will
3 settle to an Allocating Cost Center in the Service Company. The Allocating
4 Cost Center will then go through the Assessment Process to charge the costs
5 to the appropriate legal entities. Each Internal Order is associated with only
6 one Operating Company or affiliate.

- 7 • *Native Costs*: Charges that originate in Public Service, benefit Public Service,
8 and remain on Public Service's books and records.
- 9 • *Profit Center*: A data element that identifies the state (e.g., Colorado) and
10 utility division (e.g., electric, gas, steam, or common) or Joint Venture Owner
11 (e.g., Hayden Joint Venture).
- 12 • *Receiving Cost Element*: A generic term for a cost element that receives
13 costs when a Settlement Process or Assessment Process is run.
- 14 • *Settlement Process*: All costs recorded in an Internal Order are processed
15 through the Settlement Process to move them from the Internal Order to a
16 cost element (Final Cost Center, Allocating Cost Center, Internal Order, etc.).
17 The Settlement Process will move the costs both within an Operating
18 Company or affiliate and between Operating Companies and affiliates
19 depending on the settlement rule of the Internal Order. This process
20 captures: (1) Native Costs within an Operating Company or affiliate; (2) XES
21 direct and indirect billings to the Operating Companies and affiliates;
22 (3) billings between an Operating Company and an affiliate other than XES

1 (intercompany billings); and (4) billings between Business Areas within an
2 Operating Company.

- 3 • *Statistical Key Figure ("SKF")*: The method by which the Allocation
4 Percentages or Ratios are organized in the accounting system and linked to
5 Allocating Cost Centers to facilitate the performance of the Assessment
6 Process to allocate or distribute costs.
- 7 • *Work Breakdown Structures*: Hierarchical cost collectors representing work
8 performed that includes various attributes to be used for the reporting of
9 costs.

1 **III. XCEL ENERGY OPERATIONS**

2 **Q. PLEASE DESCRIBE THE XCEL ENERGY HOLDING COMPANY**
3 **STRUCTURE.**

4 A. Xcel Energy is the public utility holding company parent of four utility operating
5 companies: Public Service; Northern States Power Company, a Minnesota
6 corporation (“NSPM”); Northern States Power Company, a Wisconsin corporation
7 (“NSPW”); and Southwestern Public Service Company (“SPS”) (collectively the
8 “Operating Companies” and each individually an “Operating Company”). Xcel
9 Energy owns a natural gas transmission pipeline company, WestGas InterState,
10 Inc. Through a subsidiary, Xcel Energy Transmission Holding Company, LLC,
11 Xcel Energy owns three transmission-only operating companies: Xcel Energy
12 Southwest Transmission Company, LLC; Xcel Energy Transmission
13 Development Company, LLC; and Xcel Energy West Transmission Company,
14 LLC, all of which are either currently regulated by FERC or expected to be
15 regulated by FERC. A complete list of Xcel Energy subsidiaries as of December
16 2019 is provided in Section III of the CAAM (see Attachment MLS-1).

17 **Q. DOES THE XCEL ENERGY HOLDING COMPANY STRUCTURE INCLUDE A**
18 **CENTRALIZED SERVICE COMPANY?**

19 A. Yes. XES is the centralized service company for Xcel Energy. I explain the role
20 of XES in Section V of my Direct Testimony.

1 **Q. PLEASE DESCRIBE HOW XCEL ENERGY MANAGES ITS BUSINESS.**

2 A. Xcel Energy takes both the individual company management (e.g., Public
3 Service) and the functional organization management (e.g., organization,
4 Business Area, and Department) into consideration when managing its business.
5 Xcel Energy is currently organized into the Business Areas and Cost Centers
6 listed below.¹ A brief description is included with each Business Area and Cost
7 Center.

- 8 • *Energy Supply*: all generation and related operations;
- 9 • *Distribution Operations*: distribution and all related operations;
- 10 • *Gas Systems*: gas operations;
- 11 • *Transmission*: transmission and substation operations;
- 12 • *Operations Services*: fuels, commercial operations, and supply chain;
- 13 • *Customer and Innovation*: business systems, customer care, bad debt, and
14 customer and innovation;
- 15 • *Nuclear*: all nuclear generation and related operations (not applicable to
16 Public Service);
- 17 • *Benefits*: corporate-managed employee benefits;
- 18 • *Human Resources and Employee Services*: human resources and employee
19 services, talent strategy and transformation, total rewards, workforce strategy

¹ Business Areas and Cost Centers can be used interchangeably when discussing the origination and ownership of costs within the general ledger; the difference is that Business Areas are generally defined operationally and have assigned employees, whereas Cost Centers are defined by ownership of costs and may not have any assigned employees. Both Business Areas and Cost Centers have budgeted and actual costs that are reviewed and managed. Through the rest of my Direct Testimony, a reference to "Business Area" is also applicable to Cost Centers.

1 and consulting, human resources strategy and performance, property
2 services, and aviation; and

- 3 • *Other Shared Services Organizations*: Chief Executive Officer; Corporate
4 Secretary and Executive Services; Corporate Other; Financial Operations;
5 Group Presidents; and General Counsel.

6 All employees belong to, or are associated with, both an Operating Company or
7 affiliate and a Business Area. For example, an electric distribution lineman will
8 be an employee of Public Service and also be associated with the Distribution
9 Operations Business Area. An accountant will be an employee of XES and also
10 be associated with the Other Shared Services Organizations Business Area.

1 **IV. COST FLOW**

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

4 A. In this section, I provide an overview of the flow of costs in the general ledger
5 system, including how the costs ultimately reside on Public Service's books and
6 records.

7 **Q. PLEASE EXPLAIN HOW XCEL ENERGY'S ORGANIZATIONAL STRUCTURE**
8 **AND GENERAL LEDGER SYSTEM AFFECT THE FLOW OF COSTS WITHIN**
9 **THE HOLDING COMPANY SYSTEM AND, MORE DIRECTLY, HOW IT**
10 **AFFECTS PUBLIC SERVICE.**

11 A. All charges originate in an Operating Company or affiliate within the Xcel Energy
12 holding company system. Most of Xcel Energy's costs originate in the Operating
13 Companies and the Service Company. To describe the flow of costs, this
14 response has been separated into four categories of costs that are described in
15 Parts A, B, C, and D below.

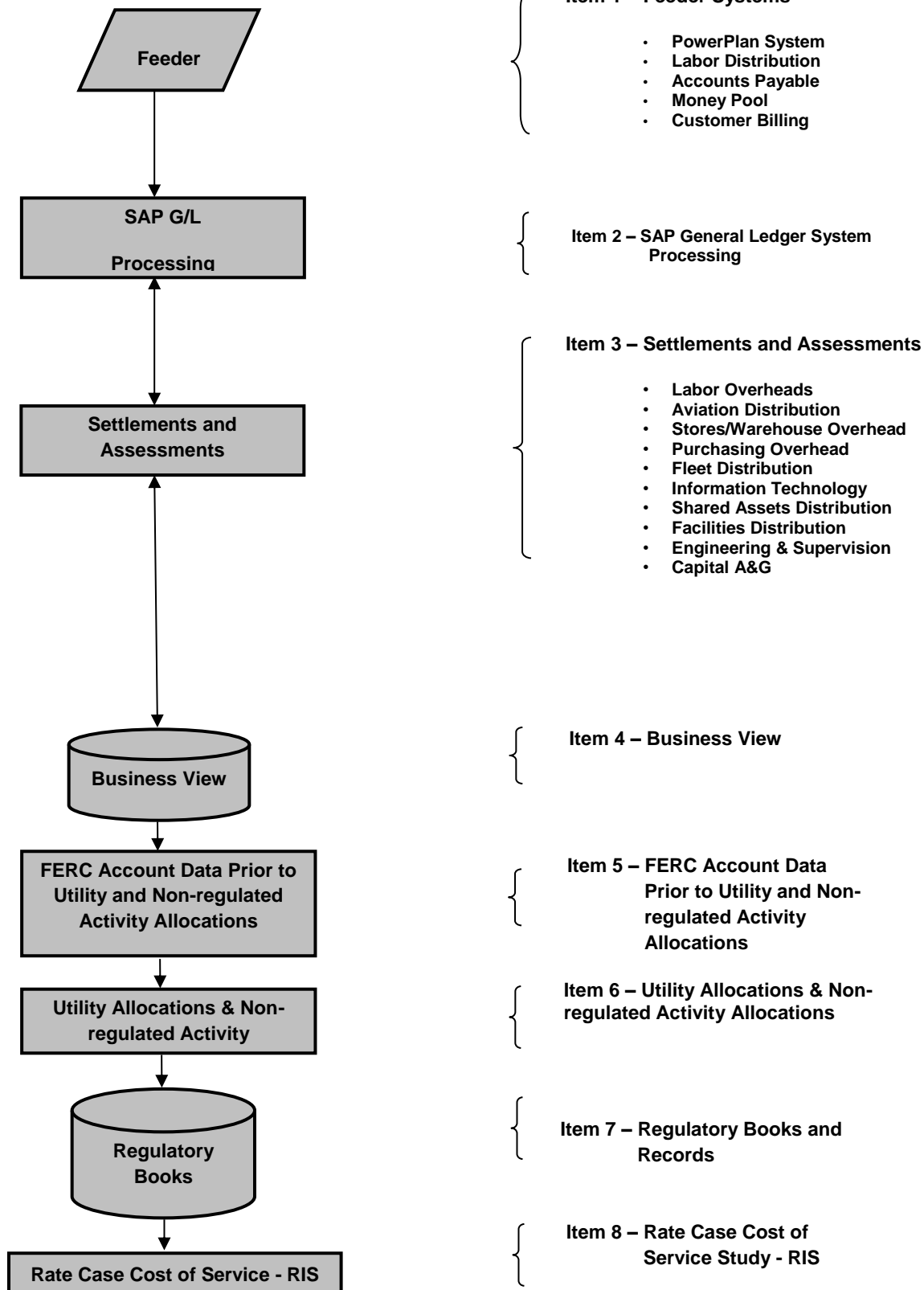
16 Public Service's costs include: (Part A) charges that originate in Public
17 Service and remain on Public Service's books, often referred to as Native Costs;
18 (Part B) charges that originate in the Service Company and are billed to Public
19 Service, as well as the other Operating Companies and affiliates; and (Part C)
20 charges that are the result of billings to and from Public Service and its affiliates.
21 Once all the costs are on Public Service's books, Public Service-specific
22 allocations may be necessary to further allocate the costs among the electric,

1 gas, and steam utility divisions as well as allocate a portion to Public Service's
2 non-regulated activities. The Public Service-specific allocations are explained in
3 Part D.

4 The high-level flowchart that is in the CAAM in Addendum A to Section V
5 is presented in the testimony below as Figure MLS-D-1 to provide a pictorial view
6 of the overall high-level accounting process.

1

Figure MLS-D-1



1 **Q. BASED ON THE FLOWCHART IN FIGURE MLS-D-1 ABOVE, WHERE DO**
2 **MOST MONTHLY ACCOUNTING TRANSACTIONS START?**

3 A. Most of the monthly accounting transactions start in either the feeder systems
4 (e.g., Labor Distribution) as listed in Item 1 on the flowchart or are entered
5 directly into SAP in Item 2. The feeder systems are explained in detail in
6 Section V of the CAAM (see Attachment MLS-1). Parts A, B, C, and D below
7 explain the key processes performed in Items 1-4 and Item 6. The remaining
8 items will be described after these processes are completed.

9 **A. Part A**

10 **Q. PLEASE DESCRIBE PUBLIC SERVICE'S NATIVE COSTS.**

11 A. Within Items 1 (Feeder Systems) and 2 (SAP General Ledger System), the
12 majority of costs incurred by Public Service are its Native Costs or costs that
13 originate on Public Service's books and are associated with Public Service's
14 provision of electric, gas, and steam service to its customers. These costs are
15 not billed from XES or any other affiliate. These costs consist of the plant
16 investment, labor, fuel, and other costs that Public Service incurs for its electric,
17 gas, and steam utility divisions and its non-regulated activities. Native Costs can
18 be applicable to only one utility division or can be common and applicable to all
19 three utility divisions (e.g., electric, gas, and steam). For example, the salaries of
20 Public Service gas operations' employees paid by Public Service are native gas
21 utility division costs, and the salaries of Public Service electric distribution
22 employees that are paid by Public Service are native electric utility division costs.

1 The general mail services of Public Service are also Native Costs. However,
2 they are Common Costs to all three utility divisions and the non-regulated
3 activities.

4 In the case of costs that are directly attributable to the gas utility division,
5 no further allocations are required. The gas operations within Public Service
6 operate a physically separate supply and delivery system and have separate
7 equipment and operating personnel. As such, the costs Public Service incurs to
8 render these services are the direct costs associated with the provision of gas
9 service to its customers, and these transactions are recorded directly on Public
10 Service's books in the gas utility division accounts.

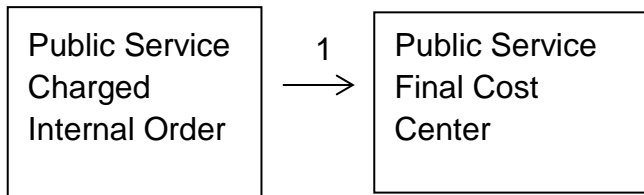
11 Specifically, the costs are recorded in a Public Service Internal Order.
12 The Internal Order has a settlement rule tied to it that identifies the costs in this
13 Internal Order as Public Service costs. The settlement rule has the costs settling
14 to a Final Cost Center on Public Service's books, the associated final Profit
15 Center has been defined as belonging to Public Service, and is only used for
16 transactions related to the gas utility division. As a result, these are Public
17 Service native gas utility division costs. The information on the settlement rule
18 with each Internal Order will also identify the costs as belonging to the electric,
19 gas, or steam division, or the non-regulated activities.

1 **Q. CAN YOU EXPLAIN THE COST FLOW OF PUBLIC SERVICE'S NATIVE**
2 **CHARGES?**

3 A. Yes. Figure MLS-D-2 below is a flowchart that shows the cost flow of Public
4 Service's Native Charges. Example 1 represents an O&M transaction and
5 Example 2 represents a capital transaction.

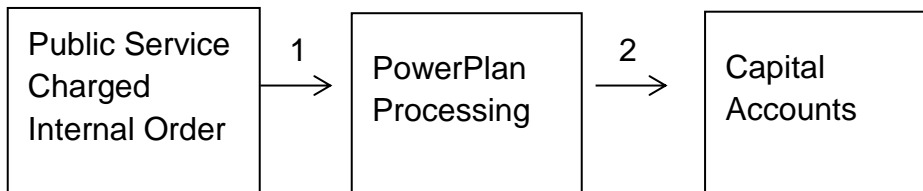
6 **Figure MLS-D-2**
7 **Cost Flow of Native Charges**

8 **Example 1: Processing for Public Service Native O&M Transactions**



- 9 1. Settlement from the Public Service Internal Order to the Final Cost Center
10 (Note: There may be further settlements from one Internal Order to another
11 Internal Order or to an Allocating Cost Center.)

12 **Example 2: Processing for Public Service Native Capital Transactions**



- 13 1. Charges transferred to PowerPlan for processing
14 2. Charges posted back from PowerPlan to Construction Work in Progress
15 ("CWIP")/Retirement Work in Progress ("RWIP")

16 Where Public Service Native Costs are identified as Common Costs that
17 support multiple utility divisions (e.g., electric, gas, and steam) or support both
18 regulated and non-regulated activities, it is necessary to allocate those costs
19 among the electric, gas, and steam utility divisions and the non-regulated

1 activities in accordance with cost Allocation Methods described in the CAAM (see
2 Attachment MLS-1) and explained in Part D below. Examples of Public Service
3 Native Costs that cannot be directly assigned to a particular utility division within
4 Public Service include such expense items as external auditing fees, A&G
5 expenses, and customer service expenses. Examples of costs billed from the
6 Service Company that cannot be directly assigned to a particular utility division
7 within Public Service include such expense items as executive management
8 service, corporate secretary services, etc. For a more detailed explanation of
9 Common Costs, see the Common Cost definition in Section II of my Direct
10 Testimony.

11 **B. Part B**

12 **Q. PLEASE DESCRIBE BILLINGS FROM XES.**

13 A. In Item 3 (Settlements and Assessments) in Figure MLS-D-1, XES bills the
14 shared or common administrative and management services to Xcel Energy and
15 its Operating Companies and affiliates. The services XES provides to Public
16 Service include, but are not limited to, executive management, accounting,
17 financial reporting, finance, treasury, corporate communications, property
18 services, human resources, information technology ("IT"), environmental, legal,
19 regulatory, customer services, engineering, generation resource planning,
20 distribution and transmission management and support, and energy supply
21 management and support. The purpose of the Service Company billings is to
22 both charge the appropriate Operating Company or affiliate and, if possible,

1 charge a specific utility division (e.g., electric, gas, or steam) or the non-regulated
2 activities. However, both the Direct Charges and the Allocated Charges from the
3 Service Company can be billed as Common Costs benefiting more than one
4 utility division within Public Service. When the Service Company Settlement
5 Process is complete, as described below, all the charges that were on the XES
6 internal order would be on the internal order of an Operating Company's or
7 affiliate's books as defined by the settlement rule. XES Direct Charges and XES
8 Allocated Charges are discussed separately below. Additional information about
9 the Service Company is included in Section V of my Direct Testimony.

10 **Q. PLEASE EXPLAIN HOW COSTS ARE DIRECTLY ASSIGNED FROM XES TO**
11 **PUBLIC SERVICE.**

12 A. If the charge can be clearly identified as related to a service rendered for the
13 benefit of Public Service alone, the costs from XES can be directly charged to
14 Public Service. The same applies to services benefiting only one of the other
15 Operating Companies or affiliates.

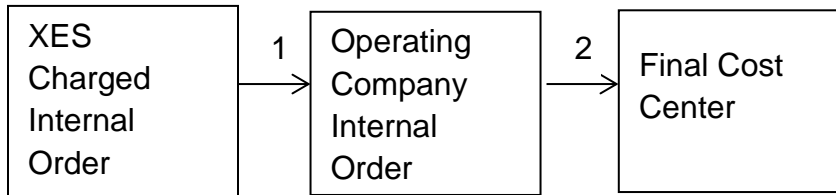
16 Charges are recorded to an Internal Order. The Internal Order has a
17 settlement rule directing those costs to a related Internal Order on a specific
18 Operating Company or affiliate.

19 **Q. CAN YOU EXPLAIN THE COST FLOW OF XES' DIRECT CHARGES?**

20 A. Yes. Figure MLS-D-3 below is a flowchart that shows the cost flow of XES Direct
21 Charges. Example 3 is an O&M transaction and Example 4 is a capital
22 transaction.

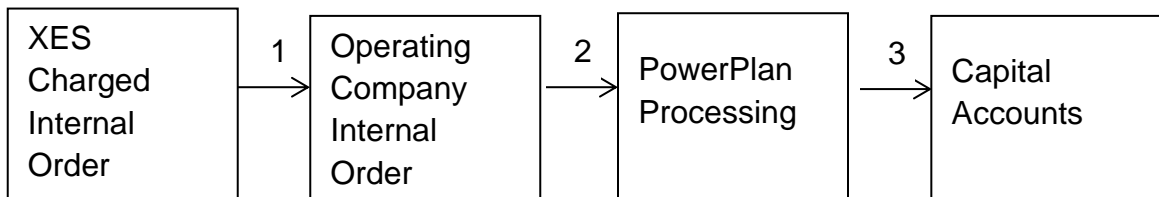
Figure MLS-D-3
Cost Flow of XES Direct Charges

Example 3: Processing for XES Direct Charge O&M Transaction



1. Settlement of Direct Charges for a XES Internal Order to an Operating Company Internal Order
2. Settlement from the Operating Company Internal Order to the Final Cost Center (Note: There could be further settlements from an Internal Order to another Internal Order or to an Allocating Cost Center.)

Example 4: Processing XES Direct Charge Capital Transaction



1. Settlement of Direct Charges for a XES Internal Order to an Operating Company Internal Order
2. Charges transferred to PowerPlan for processing
3. Charges posted back from PowerPlan to CWIP/RWIP

Q. PLEASE EXPLAIN HOW COSTS ARE ALLOCATED FROM XES TO PUBLIC SERVICE.

A. If the charge is an allocated or indirect charge because it benefits more than one Operating Company or affiliate, including Public Service, a portion of the charge will be allocated to Public Service as defined by the Service Company (see Section VI of my Direct Testimony).

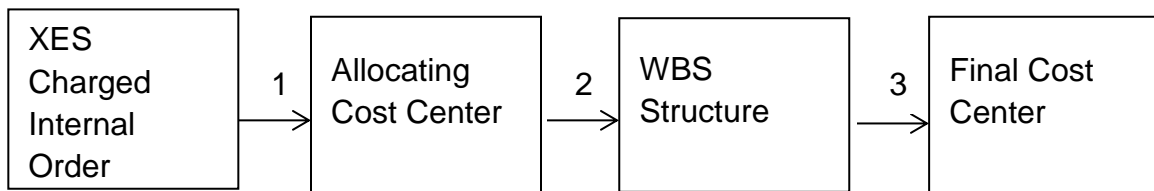
Specifically, the indirect or allocated costs are initially captured in a Service Company Internal Order. Each Internal Order with indirect costs would have a settlement rule that would settle the costs to an Allocating Cost Center. An Allocating Cost Center can receive costs from more than one Internal Order. Each Allocating Cost Center has an assigned assessment that ties it to an SKF, which contains the Allocation Percentages or Ratios that were developed following a defined allocation method and the related statistics. The Assessment Process applies the allocation ratio in the SKF to the costs in the Allocating Cost Center to create the transactions on the Operating Companies or affiliates for their relative portion of the total costs.

Q. PLEASE EXPLAIN THE COST FLOW OF XES' ALLOCATED CHARGES.

A. Figure MLS-D-4 below is a flowchart that shows the cost flow of XES Allocated Charges.

**Figure MLS-D-4
Cost Flow of Allocated Charges**

Example 5: Processing for XES Allocated Charge O&M Transactions



1. Settlement of Indirect Charges for a XES Internal Order to the Allocating Cost Center
2. Assessment of charges using the SKF percentages to Operating Companies or affiliate specific WBS structures
3. Settlement of charges to the Final Cost Center

1 **Q. ARE THERE ANY OTHER PROCESSES THAT ALLOCATE CHARGES FROM**
2 **XES TO THE OPERATING COMPANIES AND AFFILIATES?**

3 A. Yes, the costs for IT software projects are allocated from XES to the Operating
4 Companies and affiliates. This process allocates both the capital and O&M costs
5 for these projects.

6 An Internal Order is used to collect the costs and allocate these costs
7 among the Xcel Energy Operating Companies and affiliates benefitting from the
8 software. The Internal Order either collects all the costs and applies an
9 O&M/capital split to the charges or, if the nature of the work is identifiable, the
10 costs are charged to an O&M Internal Order or a capital Internal Order. The first
11 step in the process is to determine the portion of costs that are O&M versus the
12 portion of costs that are capital if the costs were not charged directly to O&M or
13 capital Internal Orders. Once this is completed, the allocation of the O&M portion
14 of the charges, along with the charges recorded to O&M Internal Orders, are
15 allocated based on the most cost causative relationship between the services
16 provided and the legal entities benefiting from those services. The allocation
17 utilizes the existing Allocating Cost Centers used for all other indirect allocations,
18 as shown in Figure MLS-D-4. The allocation of the capital charges is based on a
19 determination by the Capital Asset Accounting group and follows the
20 capitalization policies to allocate the capital costs of the software to the
21 appropriate Operating Company. The resulting capital costs are Direct Charges
22 and follow the cost flow shown in Figure MLS-D-3. Company witness Ms. Laurie

1 J. Wold further addresses the allocation of capital charges for IT software
2 projects in her Direct Testimony.

3 **Q. PLEASE EXPLAIN THE PROCESS THAT OCCURS ONCE CHARGES HAVE**
4 **BEEN DIRECTLY ASSIGNED OR ALLOCATED FROM XES.**

5 A. Once the XES charges are directly charged or allocated to the Operating
6 Companies or affiliates, all the charges are on the appropriate Operating
7 Company's or affiliate's books as defined by the settlement rule or assessment
8 process. Final settlement(s) are performed to move the costs to a Final Cost
9 Center on that Operating Company or affiliate.

10 The costs are either directly assigned to a Profit Center that has a specific
11 utility division designation or to a Profit Center that has a common designation of
12 Public Service. When the XES charges billed to Public Service are identified as
13 Common Costs that may support both the regulated and non-regulated activities
14 within Public Service, they are recorded in a common utility Profit Center and
15 those costs must be allocated among the utility divisions (electric, gas, and
16 steam) and the non-regulated activities in accordance with cost Allocation
17 Methods described in the CAAM (see Attachment MLS-1) and explained in
18 Part D below.

1 **C. Part C**

2 **Q. PLEASE DESCRIBE BILLINGS FROM AND TO OTHER AFFILIATES AND**
3 **INTERDEPARTMENTAL BILLINGS.**

4 A. In Item 3 (Settlement and Assessments) in Figure MLS-D-1, Public Service may
5 provide services to and bill affiliates other than XES, and affiliates other than
6 XES may provide services and bill costs to Public Service. These are often
7 referred to as intercompany charges and are always Direct Charges to the
8 receiving affiliate. These costs are first recorded on the books of the Operating
9 Company or affiliate providing the service and are then charged to the Operating
10 Company or affiliate receiving the service. For example, Public Service
11 employees may assist SPS with storm restoration work or SPS employees may
12 help Public Service with storm restoration work. When Public Service is the
13 beneficiary of such work, affiliate costs directly billed to Public Service may be
14 billed directly to the electric, gas, or steam utility division.

15 Charges are recorded on an Internal Order that will designate the
16 Operating Company or affiliate that should receive the service and, through the
17 Settlement Process, the costs will be recorded on the receiving company's
18 books.

19 In addition to intercompany charges, there are sometimes charges
20 between Business Areas or Departments within Public Service. These are often
21 referred to as interdepartmental charges and are always Direct Charges to the
22 receiving Business Area or Department. For example, the Gas Systems

1 Business Area may provide services to the Distribution Business Area, or within
2 the Gas Systems Business Area, the Gas Engineering Department may provide
3 services to the Gas Operations Department.

4 Any Common Costs billed to Public Service as an intercompany charge or
5 an interdepartmental charge may be identified as Common Costs that support
6 both the regulated and non-regulated activities within Public Service. These
7 costs are recorded in a Profit Center that has been designated as common and
8 must be allocated among the utility divisions (electric, gas, and steam) and the
9 non-regulated activities in accordance with cost Allocation Methods described in
10 the CAAM and explained in Part D below.

11 **D. Part D**

12 **Q. PLEASE DESCRIBE THE ALLOCATIONS THAT OCCUR ONCE ALL**
13 **CHARGES ARE RECORDED ON PUBLIC SERVICE'S BOOKS.**

14 A. In Item 6 (Utility Allocations²) in Figure MLS-D-1 above, after all of Public
15 Service's Native Costs have been recorded on its books (see Part A); all
16 appropriate charges from the Service Company have been recorded on Public
17 Service's books (see Part B); and all intercompany and interdepartmental
18 charges have been recorded on Public Service's books (see Part C), any
19 charges identified as Common Costs that support multiple utility divisions
20 (electric, gas, and steam) or support both regulated and non-regulated activities
21 are allocated. These costs must be allocated among the utility divisions (electric,

² Utility Allocations refer to the allocation of costs among utility divisions (electric, gas, and steam).

1 gas, and steam), and the non-regulated activities in accordance with the cost
2 Allocation Methods described in Section VIII of my Direct Testimony in the
3 subsections titled Utility Allocations and Non-regulated Activity Allocations and in
4 Sections VI and VII of the CAAM.

5 Examples of Public Service common Native Costs that cannot be directly
6 assigned to an electric, gas, or steam utility division within Public Service include
7 such expense items as external auditing fees, A&G expenses, and customer
8 service expenses. Examples of costs billed from the Service Company that
9 cannot be directly assigned to a particular utility division within Public Service
10 include such expense items as executive management services, corporate
11 communication services, and corporate secretary services.

12 These costs are then recorded in a Public Service Internal Order. The
13 Internal Order has a settlement rule tied to it that identifies the costs in this
14 Internal Order as Public Service costs. Because the settlement rule has the
15 costs settling to a Final Cost Center on Public Service's books that has a Profit
16 Center defined as Public Service and also designated as common, these are
17 Public Service common utility costs. The Common Costs are then allocated to
18 the electric, gas, and steam utility divisions per the CAAM rules.

19 As described in the CAAM, there are several methods used to allocate
20 Common Costs on Public Service's books. For example, costs incurred by
21 Public Service that are common to the electric, gas, and steam utility divisions
22 are allocated using Utility Allocations. Customer Accounting and A&G costs

1 associated with non-regulated activities are allocated to the non-regulated
2 activities using Non-regulated Activity Allocations.

3 **Q. ARE THERE OTHER ITEMS ON FIGURE MLS-D-1 THAT YOU HAVE NOT**
4 **EXPLAINED?**

5 A. Yes. These items are described below:

- 6 • *Business View (Item 4):* The business view of the general ledger provides the
7 Generally Accepted Accounting Principles view of the accounting transactions
8 necessary to prepare the external financial statements and the information
9 necessary for the Business Areas to manage the business.
- 10 • *FERC Account Data Prior to Utility and Non-regulated Allocations (Item 5):*
11 The pre-allocated FERC view of the general ledger is available at this stage.
12 The utility allocations and non-regulated activity allocations are necessary for
13 Common Costs to be allocated to the electric, gas, and steam utility divisions
14 and, if appropriate, to be allocated to the non-regulated activities.
- 15 • *Regulatory Books and Records (Item 7):* Completion of the above processes
16 results in the FERC books and records of Public Service.
- 17 • *Rate Case Cost of Service – Regulatory Information Systems (Item 8):* The
18 FERC books and records are the starting point for the preparation of a cost of
19 service study to be used in an electric, gas, or steam rate case filing.

V. SERVICE COMPANY OVERVIEW

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

A. In this section, I provide an explanation of the Service Company, its history and operations, and the administration of the Allocation Methods, Allocation Statistics, Allocation Ratios and Percentages, and allocation pools that are specific to the Service Company.

Q. PLEASE DESCRIBE THE SERVICE COMPANY HISTORY.

A. The Public Utility Holding Company Act of 1935 (“PUHCA 1935”), which was administered by the Securities and Exchange Commission (“SEC”), provided for the initial formation of service companies within registered public utility holding company systems where efficiencies could be achieved through the consolidation of common administrative, management, and support services. A key requirement applicable to service companies under PUHCA 1935 and the related SEC regulations was that a service company generally had to charge utility affiliates on an “at cost” basis. The term “at cost” means that XES earns no profit on the service.

To accomplish the original objectives of service companies under PUHCA 1935, and the current Public Utility Holding Company Act of 2005, 18 Code of Federal Regulation Parts 365 and 366 (“PUHCA 2005”), which is administered by the FERC and supersedes PUHCA 1935, employees who provide services to more than one affiliate within the Xcel Energy holding company system are employed by XES. XES provides the shared or common

1 administrative, management, and support services to Xcel Energy and its
2 Operating Companies and affiliates.

3 **Q. PLEASE DESCRIBE THE OVERALL PHILOSOPHY FOR BILLING COSTS**
4 **FOR XES.**

5 A. XES' goal is to direct charge as much as possible to the Operating Companies
6 and affiliates who use its services. Those costs that cannot be directly charged
7 to a specific affiliate are allocated to the appropriate affiliates in accordance with
8 Allocation Methods reflected in XES' most-recently-filed FERC Form 60, which is
9 for the year ended December 31, 2018, and in Public Service's Service
10 Agreement with XES. There were no changes to the Allocation Methods
11 presented in the 2018 FERC Form 60 during the Test Year.

12 **Q. PLEASE DESCRIBE THE PROCESS FOR BILLING COSTS WITHIN XES.**

13 A. The costs incurred within XES are either directly charged or allocated to the
14 Operating Companies and affiliates based on the actual services provided or the
15 actual expenses incurred. These services are billed, whether directly or through
16 allocations, in the month the services are provided. Please see the previous
17 section for a description of the Service Company billing process.

18 **Q. CAN DIRECT CHARGES AND ALLOCATED CHARGES BE RECORDED IN**
19 **THE SAME INTERNAL ORDER?**

20 A. No. When an Internal Order is established, the settlement rule is created and all
21 transactions charged to that Internal Order can only be direct charged or
22 allocated to either O&M or capital as determined by the settlement rule.

1 For example, an employee in Financial Operations within XES can charge
2 an Internal Order that settles specifically to an Internal Order on Public Service
3 for work that has been performed, but that same employee must charge a
4 different Internal Order for a charge that will be allocated. The transaction to be
5 allocated would flow to an Allocating Cost Center and then be allocated in the
6 Assessment Process based on the SKF that contains the Allocation Percentages
7 that tie to that Allocating Cost Center.

8 **Q. HAVE YOU INCLUDED A LIST OF THE XES ALLOCATING COST CENTERS**
9 **THAT ALLOCATE COSTS TO THE OPERATING COMPANIES AND**
10 **AFFILIATES?**

11 A. Yes. Attachment MLS-5 provides the XES Allocating Cost Centers, including the
12 Allocation Methods, Allocation Statistics, and the Allocation Percentages for each
13 Allocating Cost Center used in the Test Year.

14 **Q. PLEASE DESCRIBE THE PROCESS XES UNDERTAKES TO UPDATE ITS**
15 **ALLOCATIONS.**

16 A. The components of the allocations are as follows:

17 **Allocation Methods** – XES updates its Allocation Methods as necessary
18 to support the operations of the business. There is already an extensive list of
19 Allocation Methods, and XES has not needed to add many since the initial list
20 was developed when the SEC still regulated XES under PUHCA 1935. The
21 current Allocation Methods have been reported to the FERC under PUHCA 2005
22 since 2005. As Allocation Methods are added or deleted, the updated list is

1 provided in Table D of the CAAM (see Attachment MLS-1) in each rate case
2 filing.

3 **Allocation Statistics and Allocation Percentages** – XES annually
4 updates all statistics and percentages for use starting with April business.³
5 These updates are based on the prior calendar year statistics. With this update,
6 new percentages are calculated and loaded into the system in the SKF to be
7 applied to the designated Allocating Cost Centers. For example, the Allocation
8 Statistics and Allocation Percentages used for the first three months of 2019 are
9 based on the 2017 calendar year statistics that were implemented in April of
10 2018, and the Allocation Statistics and Allocation Percentages used for the last
11 nine months of 2019 are based on the 2018 calendar year statistics that were
12 implemented in April of 2019. These Allocation Statistics and Allocation
13 Percentages do not generally change in any significant way year over year.

14 XES may also update the statistics used in the Allocation Percentages to
15 determine new Allocation Percentages throughout the year if there is a significant
16 change in the statistics. These updates are usually driven by the addition or
17 deletion of a company in the Xcel Energy holding company system, and
18 Allocation Percentages would only be impacted if the added or deleted company
19 had statistics that would make it eligible for allocations (employees, assets,
20 revenues, etc.)

³ XES annually updates four Allocation Statistics and Allocation Percentages related to the Joint Operating Agreement and trading activities starting with January business. The statistics are based on the prior calendar year.

1 **Allocation Pools** – The Allocating Cost Centers used for actuals are
2 updated based on expenses incurred each month and are allocated using the
3 allocation statistics and methods discussed previously.

4 **Q. WHEN AND HOW ARE THE UPDATED ALLOCATION COMPONENTS**
5 **PRESENTED TO THE COMMISSION?**

6 A. As part of each rate case and as required by Commission rules, XES updates the
7 CAAM to ensure that it is representative of the allocations in use. Section VIII of
8 the CAAM includes an overview of the XES allocations. Table D in Section VIII
9 of the CAAM lists all XES Allocating Cost Centers and their associated Allocation
10 Methods, as well as a description of the services provided in each Allocating
11 Cost Center.

12 **Q. WHAT STEPS DOES XES TAKE TO ENSURE ITS COSTS ARE RECORDED**
13 **CORRECTLY?**

14 A. XES takes the following steps to ensure that its costs are recorded correctly:

- 15 • XES Policies and Procedures were developed and implemented and are
16 available on the Xcel Energy internal website for access by all Xcel Energy
17 personnel;
- 18 • Personnel within the Financial Performance and Controls organization and
19 the Service Company Accounting Department regularly review XES actual
20 and budgeted charges and may request adjustments where necessary;
- 21 • Service Company employees are required to complete online training through
22 Xcel Energy's Learning Management System, an online training tool.

- 1 Training can also be provided either in a classroom setting, online via Xcel
2 Energy's internal website with computer-based training, or on an individual
3 basis;
- 4 • The FERC reviews XES' FERC Form No. 60 submissions and may review
5 allocations during audits; and
 - 6 • Independent external auditor, Deloitte, annually audits the books and records
7 of Xcel Energy and its affiliates.

1 **VI. COST ALLOCATION RULES**

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

4 A. This section of my Direct Testimony identifies the cost allocation rules that Public
5 Service has applied in this filing in the preparation of its CAAM and its FDC
6 Study.

7 **Q. WHAT IS THE STATED PURPOSE OF THE COMMISSION'S CURRENT COST**
8 **ALLOCATION RULES?**

9 A. Commission Rules 4500, *et. seq.*, are contained within the "Unregulated Goods
10 and Services" section of the rules. Under Rule 4500, the overview and purpose
11 of the cost allocation rules is further described as follows:

12 The purpose of these rules is to establish cost assignment and allocation
13 principles to assist the Commission in setting just and reasonable rates
14 and to ensure that utilities do not use ratepayer funds to subsidize non-
15 regulated activities, in accordance with § 40-3-114, C.R.S. In order to
16 promote these purposes, these rules also specify information that utilities
17 must provide to the Commission. In providing for review of a utility's
18 specific cost allocations in other states and jurisdictions, the rules merely
19 contemplate a methodology to allow interested parties to obtain complete
20 information regarding cost allocations. These rules do not expressly or
21 implicitly allow this Commission to order a utility to revise its cost
22 allocations in other jurisdictions or states.

23 **Q. HAS THE COMPANY PREPARED ITS CAAM AND FDC STUDY IN**
24 **ACCORDANCE WITH THE COMMISSION'S CURRENT COST ALLOCATION**
25 **RULES?**

26 A. Yes. The CAAM and FDC Study that the Company is submitting in this
27 proceeding are consistent with the cost allocation rules contained in Commission

1 Rules 4500, *et seq.* Furthermore, consistent with Commission rules, the
2 Company has modified its CAAM, as necessary, to update information. These
3 modifications are discussed in Section VIII of my Direct Testimony.

4 **Q. HOW DO THE COST ALLOCATION RULES DEFINE A CAAM?**

5 A. According to Commission Rule 4501(d), the CAAM is defined as:

6 [T]he indexed document filed by a utility with the Commission that
7 describes and explains the cost assignment and allocation methods
8 the utility uses to segregate and account for revenues, expenses,
9 assets, liabilities, and rate base cost components assigned or
10 allocated to Colorado jurisdictional activities. It includes the cost
11 assignment and allocation methods to segregate and account for
12 costs between and among jurisdictions, between regulated and
13 non-regulated activities, and between and among utility divisions.

14 **Q. WHAT DO THE COMMISSION RULES REQUIRE SPECIFICALLY FOR A**
15 **CAAM?**

16 A. Under Commission Rule 4503(a), each utility must maintain on file an approved
17 CAAM that “describes and explains the calculation methods the utility uses to
18 segregate and account for revenues, expenses, assets, liabilities, and rate base
19 cost components assigned or allocated to Colorado jurisdictional activities.” The
20 CAAM must include calculation methods for the segregation and accounting for
21 costs between and among jurisdictions; between regulated and non-regulated
22 activities; and between and among utility divisions. I identify more specific
23 requirements included in Commission Rule 4503(b), and each section of the
24 CAAM that addresses those requirements, as follows:

- 1 • Parts (I) and (III) of Rule 4503(b) require a listing of all regulated or non-
2 regulated divisions of Public Service and the regulated or non-regulated
3 activities conducted by each division, and a listing and description in sufficient
4 detail (in accordance with the regulations) of each regulated and non-
5 regulated activity offered by Public Service. See Attachment MLS-1 (CAAM,
6 Section II, Regulated and Non-regulated Divisions and Activities).
- 7 • Part (II) of Commission Rule 4503(b) requires a listing of all regulated or non-
8 regulated affiliates of Public Service and identification of the affiliates that
9 allocate or assign costs to and from the Company. See Attachment MLS-1
10 (CAAM, Section III, Corporate Organization).
- 11 • Parts (IV) and (V) of Commission Rule 4503(b) require a listing of the
12 revenues, expenses, assets, liabilities, and rate base items by Uniform
13 System of Accounts account number that the Company proposes to include in
14 its revenue requirement for Colorado jurisdictional activities, including those
15 items that are partially or exclusively allocated or assigned to Colorado; and a
16 detailed description showing how the revenues, expenses, assets, liabilities,
17 and rate base items by account and sub-account are assigned and/or
18 allocated to Public Service's non-regulated activities, along with a description
19 of the methods used to perform the assignment and allocations. See
20 Attachment MLS-1 (CAAM, Section IV, Assignments and Allocations by
21 FERC Account; CAAM, Section V, Cost Assignment and Allocation Process;

1 CAAM, Section VI, Utility Allocations; and CAAM, Section VII, Non-regulated
2 Activity Allocations).

- 3 • Parts (VI) and (VII) of Commission Rule 4503(b) require a description of each
4 transaction between Public Service and a non-regulated activity which
5 occurred since Public Service's prior CAAM was filed and, for each
6 transaction, a statement as to whether, for this Commission's jurisdictional
7 cost assignment and allocation purposes, the value of the transaction is at
8 cost or market as applicable; and a description of the basis for how the
9 assignment or allocation is made. See Attachment MLS-1 (CAAM, Section
10 IV, Assignments and Allocations by FERC Account; CAAM, Section V, Cost
11 Assignment and Allocation Process; CAAM, Section VI, Utility Allocations;
12 CAAM, Section VII, Non-regulated Activity Allocations); Attachment MLS-3
13 (FDC Study); Confidential Attachment MLS-4 (FDC Study).
- 14 • Part (VIII) of Commission Rule 4503(b) requires specific cost assignments or
15 allocations that are under the jurisdiction of another authority, with a written
16 description of the prescribed methods. See Attachment MLS-1 (CAAM,
17 Section VIII, Service Company Assignments and Allocations).

18 **Q. WHAT IS A FULLY DISTRIBUTED COST STUDY?**

19 A. According to Commission Rule 4501(g), a "Fully-Distributed Cost Study" is
20 defined as:

21 [A] cost study that reflects the result of the fully distributed
22 revenues, expenses, assets, liabilities and rate base amounts for
23 the Colorado utility to and from the different activities, jurisdictions,

1 divisions, and affiliates using cost accounting, engineering, and
2 economic concepts, methods, and standards.

3 **Q. WHAT DO THE COMMISSION RULES REQUIRE FOR AN FDC STUDY?**

4 A. Pursuant to Commission Rule 4504(a), Public Service is required to submit its
5 FDC Study when filing its CAAM. When filed with a rate case, the FDC Study
6 shall be based on the same test year used in the utility's rate case filing under
7 Commission Rule 4504(d). The FDC Study is required to identify all non-
8 regulated activities provided by each division in Colorado, showing the revenues,
9 expenses, assets, liabilities, and rate base items assigned and allocated to each
10 non-regulated activity (Commission Rule 4504(b)). In addition, Commission Rule
11 4504(b) requires that for each utility division of Public Service (electric, gas, and
12 steam), the FDC Study also must include a summary of the assigned and
13 allocated costs. The FDC Study also identifies non-regulated costs by account
14 number and account description.

1 **VII. THE HISTORY OF PUBLIC SERVICE'S COST ASSIGNMENT AND ALLOCATION**
2 **MANUAL AND FDC STUDY**

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

5 A. In this section, I provide a brief history of Public Service's CAAM and FDC Study.

6 **Q. CAN YOU EXPLAIN THE GENESIS OF THE CURRENT VERSION OF THE**
7 **CAAM AND FDC STUDY?**

8 A. As a result of Public Service's 2002 Phase I rate case in Proceeding No. 02S-
9 315EG ("2002 Phase I Rate Case"), the Company and interested parties agreed to
10 engage in workshops on cost allocation and assignment. These workshops were
11 intended to educate interested parties on the Company's cost allocation processes
12 in order to demonstrate that all allocations resulted in a fair and reasonable sharing
13 of costs between Xcel Energy Operating Companies and affiliates and between
14 regulated and non-regulated operations within Public Service.

15 Through these collaborative workshops, there were some changes made in
16 the Company's then-current allocation methods. At the conclusion, all parties
17 agreed that the processes outlined in the CAAM resulted in a fair and reasonable
18 allocation and/or assignment of costs to Public Service, each of its utility divisions,
19 and to Public Service's non-regulated activities. Parties further agreed that there
20 was no cross-subsidization occurring between regulated and non-regulated
21 operations within Public Service.

22 On April 15, 2005, in compliance with Commission Decision No. C03-0670
23 in the 2002 Phase I Rate Case, the Company filed an updated CAAM in

1 Proceeding No. 05I-188E. The April 15, 2005, CAAM update is very similar to the
2 CAAM still in effect today.

3 **Q. WERE THERE ANY FURTHER MEETINGS AROUND COST ALLOCATION**
4 **AFTER THE APRIL 15, 2005, UPDATED CAAM WAS FILED?**

5 A. Yes. Shortly after the workshops concluded, the parties began discussing the new
6 Notice of Proposed Rulemaking ("NOPR") related to cost allocation in an effort to
7 come to an agreement on the requirements desired in the new electric and gas
8 rules prior to each party drafting comments on the NOPR. As a result of these
9 discussions, each party submitted fairly consistent comments that were eventually
10 considered and incorporated into the 2006 cost allocation rules. After these rules
11 became effective, the Commission approved the first version of the Company's
12 CAAM and FDC Study on November 21, 2006, in the 2006 CAAM proceeding
13 ("Proceeding No. 06A-555EG"), through Decision No. C06-1358. While the
14 Company has continued to make routine updates to the CAAM, the CAAM filed
15 in this proceeding, as Attachment MLS-1, nonetheless uses generally the same
16 methods of cost assignment and allocation to develop its regulated revenue
17 requirement as approved by the Commission in 2006.

18 **Q. HOW ARE THE COMPANY'S NON-REGULATED ACTIVITIES SET UP TO**
19 **ENSURE THEY COMPLY WITH THE COST ALLOCATION RULES?**

20 A. First, through the workshop process noted above, the Company worked with Trial
21 Staff of the Commission, the Colorado Business Alliance, and the Office of
22 Consumer Counsel to provide these entities with an understanding of the

1 processes the Company used to separate its non-regulated activities/division
2 from its regulated activities/divisions to ensure no cross subsidization occurred.
3 Because the workshop process was comprehensive, it provided the foundation
4 for the cost allocation section of the gas and electric rules. The development of
5 the cost allocation rules found in 4 CCR 723-3-4500, *et. seq.* included the input
6 of other utility companies as well as the parties noted above, and included two
7 key definitions to address how the Company's non-regulated activities operate.
8 The two key definitions, as found in Rule 4501, are "Activity" and "Division."

9 "Activity" is defined as "a business activity, product, or service whether
10 offered by a Colorado utility, a division of a Colorado utility, or an affiliate of a
11 Colorado utility." "Division" is defined as "an activity conducted by a Colorado
12 utility but not through a legal entity separate from a Colorado utility. It includes
13 the electric, gas, or thermal activities of a Colorado utility and any non-regulated
14 activities provided by the Colorado utility."

15 These are key definitions because the non-regulated activities the
16 Company offers, such as HomeSmart, are provided as divisions within Public
17 Service. For example, the HomeSmart non-regulated activities of the Company
18 are separated from the regulated operations through the use of Cost Centers and
19 account numbers that charge the revenues and expenses to FERC accounts
20 417, Nonutility Revenues, and 417.1, Nonutility Expenses. These processes
21 provide the division separation of the non-regulated activities of HomeSmart.
22 Using divisions allows the activities to be performed within the legal entity of

1 Public Service without requiring separation into a separate legal entity, but still
2 requires the activities to be clearly separated from the electric, gas, or steam
3 regulated activities within Public Service.

4 The steps within the cost allocation rules further define the assignment or
5 allocation processes for charges to the non-regulated activities. The Company
6 has implemented the assignment and allocation processes in its day-to-day
7 operations and detailed the assignment and allocation processes it uses in its
8 CAAM. Various departments within the Company work with the personnel who
9 are associated with the non-regulated activities to assist them in setting up their
10 processes to ensure their revenues and expenses are recorded properly and to
11 ensure they are separated as clearly as possible from the regulated operations.
12 For instance, the following bullets explain the processes for three different types
13 of charges for HomeSmart:

- 14 • HomeSmart has a separate building/facility for which the rent is billed directly
15 from the vendor and paid by the HomeSmart division, charged to the
16 HomeSmart Cost Center, and recorded in FERC account 417.1.
- 17 • The employees of Public Service who work for HomeSmart charge their time
18 directly to the HomeSmart Cost Centers which gets recorded in FERC
19 account 417.1.
- 20 • The accounting and information systems within the Company charge the
21 labor overheads to follow labor, so those costs would also be charged to the
22 HomeSmart Cost Centers and are recorded in FERC account 417.1.

1 The FDC Study for the Test Year attached to this Direct Testimony as
2 Confidential Attachment MLS-4 and explained in Section IX of my Direct
3 Testimony details the HomeSmart revenues and expenses and the other non-
4 regulated activities of Public Service.

1 **VIII. THE COST ASSIGNMENT AND ALLOCATION MANUAL**

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

4 A. In this section, I sponsor and provide specific information regarding Public
5 Service's CAAM dated December 2019, a copy of which is included with this
6 Direct Testimony as Attachment MLS-1, as well as the cost assignment,
7 Allocation Methods, and percentages used to develop the Test Year.

8 **Q. HOW HAVE YOU ADDRESSED THE COST ALLOCATION METHODS USED**
9 **IN THE TEST YEAR THROUGHOUT YOUR TESTIMONY?**

10 A. As required by Commission Rules 4503(f), Public Service has prepared its
11 December 2019 CAAM based on the cost Allocation Methods used for October
12 1, 2018, to September 30, 2019, consistent with the data used in the Test Year.
13 This is the same practice the Company uses to prepare its budget and the same
14 practice used in the Company's gas case filed in Proceeding No. 15AL-0135G
15 and its 2017 Gas Phase I.

16 **Q. HAS THE COMPANY UPDATED ITS CAAM SINCE IT WAS SUBMITTED IN**
17 **2017 GAS PHASE I?**

18 A. Yes. The CAAM filed in this proceeding, dated December 2019, has been
19 updated and is applicable to the Test Year. The modifications do not propose a
20 significant change to the Company's cost assignment and allocation process.
21 Attachment MLS-2 to my Direct Testimony is a comparison document that

1 identifies all significant modifications to the CAAM, since it was last filed in the
2 2017 Gas Phase I.

3 **Q. ARE THERE ANY ALLOCATION METHODS INCLUDED IN THE CAAM THAT**
4 **HAVE BEEN REVIEWED AND APPROVED FOR USE BY OTHER**
5 **REGULATORY AUTHORITIES?**

6 A. Yes. The Allocation Methods included in the CAAM for XES costs were initially
7 developed and approved by the SEC under PUHCA 1935. We also have reported
8 our Allocation Methods to FERC under PUHCA 2005 through the filing of the
9 annual XES FERC Form No. 60 report. The Allocation Methods in the CAAM are
10 also reviewed by other state regulatory commissions in rate cases filed by other
11 Xcel Energy Operating Companies. For example, the Minnesota Public Utilities
12 Commission reviews the CAAM and the allocation of XES costs to NSPM in NSPM
13 retail rate cases. Additionally, FERC periodically initiates audits in the normal
14 course of business that can include a review of XES cost allocations and
15 intercompany transactions.

16 **Q. HAS XES GONE THROUGH AN AUDIT BY THE FERC IN WHICH THE COST**
17 **ASSIGNMENT AND ALLOCATION FRAMEWORK WAS REVIEWED?**

18 A. Yes. XES underwent a FERC audit that covered the period of January 1, 2014,
19 through December 31, 2018. The final audit report was issued on
20 August 29, 2019, in FERC Docket No. FA17-4-000.

1 **Q. WHAT FINDINGS OF THE FERC AUDIT HAVE AN IMPACT ON THE TEST**
2 **YEAR?**

3 A. The FERC audit of XES identified one audit finding that impacts the Test Year.
4 The finding addressed the allocation of capital software to Xcel Energy's non-
5 utility entities. Historically, capital costs related to software applications have
6 been recorded to the Operating Companies, the primary users of the
7 applications. As other affiliate companies receive indirect benefits of certain
8 corporate software applications, the FERC finding requires a retrospective
9 adjustment as well as a prospective change in how software capital costs are
10 recorded, ensuring that all Operating Companies and affiliates that receive direct
11 or indirect benefits receive a portion of the capital charges. The Company has
12 made an adjustment to the Test Year to correct the allocation of capital software,
13 as discussed in the Direct Testimonies of Ms. Laurie Wold and Ms. Deborah
14 Blair. There were no other findings identified in the FERC audit report that
15 impact the Test Year.

16 **Q. PLEASE PROVIDE A HIGH-LEVEL OVERVIEW OF THE CONTENTS OF THE**
17 **COMPANY'S DECEMBER 2019 CAAM.**

18 A. The following is a description of the sections included in Public Service's
19 December 2019 CAAM:

- 20 • Section I – Introduction: Provides an introduction to the CAAM, as well as
21 definitions for abbreviations, acronyms, or terms used in the document.

- 1 • Section II – Regulated and Non-regulated Divisions and Activities: Describes
2 Public Service’s regulated electric, gas, and steam utility divisions and
3 activities, incidental services, and non-regulated activities.
- 4 • Section III – Corporate Organization: Provides an overview of Public Service
5 and lists the regulated and non-regulated affiliates in the Xcel Energy holding
6 company system, including Public Service’s subsidiaries, and identifies the
7 affiliates with whom Public Service has transactions.
- 8 • Section IV – Assignments and Allocations by FERC Account: Lists the
9 accounts Public Service includes in its revenue requirement for Colorado
10 jurisdictional activities and specifies how those FERC accounts and sub-
11 accounts are assigned and/or allocated to Public Service’s non-regulated
12 activities, along with a description of the methods used to perform the
13 assignments or allocations.
- 14 • Section V – Cost Assignment and Allocation Process: Provides an overview
15 of the cost assignment and allocation principles Public Service uses and the
16 accounting processes within monthly close, including system-generated
17 processes and manual processes used to assign and allocate costs between
18 the regulated utility divisions and non-regulated activities of Public Service.
- 19 • Section VI – Utility Allocations: Explains the utility allocations and the
20 Allocation Methods used within Public Service to allocate common or shared
21 costs among electric, gas, and steam utility divisions and non-regulated
22 activities.

- 1 • Section VII – Non-regulated Activity Allocations: Explains the Allocation
2 Methods used to allocate A&G and Customer Accounting costs to the non-
3 regulated activities.
- 4 • Section VIII – Service Company Assignments and Allocations: Lists the
5 Allocation Methods used by XES to allocate costs among the Xcel Energy
6 holding company system of companies.

7 For each allocation referenced, the CAAM describes the allocation method or the
8 development of internal billing rates, whichever is applicable.

9 **Q. PLEASE EXPLAIN THE REMAINING PUBLIC SERVICE ALLOCATIONS**
10 **DETAILED IN THE CAAM.**

11 A. In addition to the XES allocations described above, the CAAM includes detailed
12 sections on the Utility Allocations (O&M and Non-O&M), and the Non-regulated
13 Activity Allocations. The following sections explain each type of allocation.

14 **A. Utility Allocations**

15 **Q. WHAT IS THE PURPOSE OF COMMON O&M UTILITY ALLOCATIONS?**

16 A. Common O&M utility allocations within Public Service are developed to allocate
17 common (electric, gas, and steam) costs that are recorded in A&G FERC
18 accounts 920 to 935 to the electric, gas, and steam utility divisions and to
19 allocate common (electric, gas, and steam) costs that are recorded in FERC
20 accounts 901 to 917 for customer accounting, customer information, and sales
21 costs to the electric, gas, and steam utility divisions.

1 **Q. WHEN AND HOW ARE COMMON O&M UTILITY ALLOCATIONS APPLIED?**

2 A. Common O&M utility allocations are performed on a monthly basis after all
3 transactions have been recorded. Any records with a “common” designator for
4 Public Service within the general ledger are allocated based on the allocation
5 method developed for each specific pool of costs. The common utility cost pools
6 are programmed into the system based on a specific FERC account or a
7 combination of FERC accounts. For example, Common Costs in FERC account
8 925, Injuries and Damages, and FERC account 926, Pensions and Benefits, are
9 allocated to the electric, gas, and steam utility divisions based on the labor
10 allocation method, because the costs in the pool have a cost causative
11 relationship with labor. Section VI of the CAAM (see Attachment MLS-1)
12 explains the allocation method used for each of the allocation pools for Common
13 Costs recorded in FERC accounts 901 to 935.

14 **Q. HAVE THE TEST YEAR O&M UTILITY ALLOCATION METHODS AND**
15 **ALLOCATION PERCENTAGES BEEN PROVIDED?**

16 A. Yes. The Test Year O&M utility Allocation Methods are explained in Section VI
17 of the CAAM. In addition, the Test Year O&M utility Allocation Methods and
18 percentages are provided in Attachment MLS-7.

1 **Q. HAVE THE TEST YEAR UTILITY RATE BASE AND NON-O&M ALLOCATION**
2 **METHODS AND ALLOCATION PERCENTAGES BEEN PROVIDED?**

3 A. Yes. The utility rate base and non-O&M Allocation Methods used for the Test
4 Year are explained in Section VI of the CAAM (see Attachment MLS-1). Ms.
5 Blair discusses the common plant Allocation Percentages used to develop the
6 Test Year in her Direct Testimony.

7 **B. Non-regulated Activity Allocations**

8 **Q. WHAT IS THE PURPOSE OF NON-REGULATED ACTIVITY ALLOCATIONS?**

9 A. Non-regulated activity allocations ensure that the billed costs for services
10 provided to non-regulated activities represent a fully distributed cost and that
11 electric, gas, and steam utility divisions are not subsidizing the non-regulated
12 activities.

13 **Q. PLEASE DESCRIBE PUBLIC SERVICE'S NON-REGULATED ACTIVITIES.**

14 A. A complete list of Public Service's non-regulated activities is included in
15 Section II of the CAAM (see Attachment MLS-1).

16 **Q. HOW ARE PUBLIC SERVICE'S NON-REGULATED ACTIVITIES SEPARATED**
17 **FROM ITS REGULATED UTILITY ACTIVITIES TO ENSURE THEIR COSTS**
18 **ARE NOT INCLUDED IN THE UTILITY REVENUE REQUIREMENTS**
19 **CALCULATION?**

20 A. The costs of Public Service's non-regulated activities are separated through the
21 use of specific Final Cost Centers. The specific Final Cost Centers are identified
22 as non-regulated and have a non-utility FERC account assignment that ensures

1 costs are recorded appropriately. As a result, these costs are excluded from
2 revenue requirements calculations.

3 **Q. WHAT TYPES OF COSTS ARE BILLED TO THE NON-REGULATED**
4 **ACTIVITIES?**

5 A. Non-regulated activities are directly charged to FERC accounts 417, Revenues
6 from Nonutility Operations, and 417.1, Nonutility Expenses, whenever possible,
7 for services performed for their benefit by Public Service and XES. Non-
8 regulated activities incur a majority of their costs through direct assignment. For
9 example, XES employees working on Public Service's non-regulated activities
10 will charge their labor costs through labor distribution each month directly to each
11 non-regulated activity. In addition, a portion of their non-labor expenses will
12 follow their labor. All expenses recorded in each non-regulated activity account
13 are linked to FERC account 417.1, Nonutility Expenses. These costs are not
14 recorded in Public Service's utility division O&M accounts and are, therefore, not
15 included in the cost of service.

16 Public Service employees working on Public Service's non-regulated
17 activities also charge their labor costs through labor distribution to the non-
18 regulated activity account. These expenses are also linked to FERC
19 account 417.1, Nonutility Expenses, and are not recorded in Public Service's
20 utility division O&M accounts.

21 Labor-related overheads (e.g., pensions, benefits, non-productive time,
22 and workers' compensation) and facilities costs are programmed to follow labor

1 costs and will also be recorded in the non-regulated activity accounts that are
2 linked to FERC account 417.1, Nonutility Expenses. The labor-related
3 overheads are described in more detail in Section V of the CAAM along with
4 other overheads.

5 **Q. WHAT METHOD HAS BEEN APPROVED BY THIS COMMISSION FOR**
6 **ALLOCATING A&G COSTS TO THE NON-REGULATED ACTIVITIES?**

7 A. The Commission approved the use of an A&G allocator based on the ratio of
8 Common Costs (i.e., costs not directly assigned to electric, gas, or steam utility
9 divisions) in FERC accounts 920 to 935 to total Public Service labor in
10 Proceeding No. 06A-555EG, Decision No. C06-1358. The allocation percentage
11 is then applied to labor charged to each non-regulated activity to determine the
12 A&G overhead to be allocated to that activity.

13 **Q. IS THE COMPANY PROPOSING ANY REVISIONS TO ITS A&G OVERHEAD**
14 **CALCULATION?**

15 A. No.

16 **Q. WHAT METHOD HAS THIS COMMISSION APPROVED FOR ALLOCATING**
17 **CUSTOMER ACCOUNTING COSTS TO THE NON-REGULATED ACTIVITIES?**

18 A. In Proceeding No. 06A-555EG, Decision No. C06-1358, the Commission
19 approved use of a customer accounting allocator based on the ratio of Common
20 Costs in FERC accounts 901 to 917, excluding the amounts recorded in FERC
21 accounts: 902, Meter Reading Expenses; 904, Uncollectible Accounts; and
22 Demand-Side Management costs included in account 908, to total revenues,

1 excluding trading revenues. The specific exclusions include accounts that are
2 unrelated to the Company's non-regulated activities.

3 **Q. IS THE COMPANY PROPOSING ANY REVISIONS TO ITS CUSTOMER**
4 **ACCOUNTING OVERHEAD CALCULATION?**

5 A. No.

6 **Q. HAVE THE TEST YEAR NON-REGULATED ACTIVITY ALLOCATION**
7 **METHODS AND ALLOCATION PERCENTAGES BEEN SUPPLIED?**

8 A. Yes. The Test Year non-regulated Allocation Methods are explained in
9 Section VI of the CAAM. In addition, the Allocation Percentages used for
10 purposes of the Test Year are provided in the schedule included as
11 Attachment MLS-8.

12 **Q. DOES THE CAAM DEMONSTRATE THAT PUBLIC SERVICE HAS NOT USED**
13 **RATEPAYER FUNDS TO SUBSIDIZE NON-REGULATED ACTIVITIES?**

14 A. Yes. The CAAM demonstrates that the Company has not used customer funds
15 to subsidize non-regulated activities.

1 **IX. THE FULLY DISTRIBUTED COST STUDY IN THIS PROCEEDING**

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

4 A. In this section, I sponsor and provide specific information regarding the
5 Company's FDC Study applicable to the Test Year, a copy of which is included
6 as Attachment MLS-3 and the Confidential and Public versions of
7 Attachment MLS-4.

8 **Q. HAS THE COMPANY PERFORMED AN FDC STUDY FOR PURPOSES OF**
9 **THIS CASE?**

10 A. Yes.

11 **Q. PLEASE DESCRIBE THE COMPANY'S FDC STUDY.**

12 A. The FDC Study performed for this proceeding is attached to my Direct Testimony
13 as Attachment MLS-3 and Confidential Attachment MLS-4. The FDC Study
14 summarizes the results of applying the methods set forth in the CAAM in order to
15 segregate all revenues, expenses, and investments associated with the
16 Company's non-regulated activities from the Company's regulated cost of
17 service. This is the same format for the FDC Study that was agreed to as part of
18 the 2002 Phase I Rate Case settlement referenced earlier. This format was
19 reviewed by the parties who participated in the workshop process, and it was
20 agreed in that context that the format should remain the same.

21 Attachment MLS-3 is in the form of an income statement and balance
22 sheet and shows the results of the Company's assignment and allocation of the

1 major categories of revenues, expenses, and investment among the electric, gas,
2 and steam utility divisions, and the nonutility divisions. Confidential Attachment
3 MLS-4 shows the detailed breakdown of revenues, expenses, and investment
4 assigned and allocated to the Company's non-regulated activities. The non-
5 regulated products and services are identified across the top of the report,
6 starting in the second column. Each product or service has one or more Final
7 Cost Center that identifies where costs are recorded for that non-regulated
8 product or service. The first column on the page provides the line item
9 information by description of the type of cost incurred. The A&G and Customer
10 Accounting overhead loadings are included in Administrative and General and
11 Other Operating Expense line items shown near the bottom of the report.

12 **Q. DOES THE FDC STUDY COMPLY WITH COMMISSION RULE 4504?**

13 A. Yes. As required by Commission Rule 4504(d), Public Service has prepared its
14 FDC Study based on the cost allocation methods used for October 1, 2018,
15 through September 30, 2019, consistent with the data used in the 2019
16 informational historical test year ("Informational HTY") provided by Company
17 witness Ms. Blair. Because the Informational HTY is the basis for developing the
18 test year ending September 30, 2020, the Informational HTY cost allocation
19 methods are inherently included in the Test Year. Put differently, the Company
20 typically uses historical data to calculate its allocations for budget and forecasting
21 purposes, such that the FDC also aligns with the Test Year in this proceeding.

1 Additionally, the Company's historical experience and annual reviews
2 performed during updates have shown that there is minimal change in the
3 allocation percentages on a year-to-year basis. In addition, this is the same
4 practice the Company uses in preparing its budget and the same practice used in
5 the Company's gas case filed in Proceeding No. 15AL-0135G and its 2017 Gas
6 Phase I. As a result, the Company has determined that the Informational HTY
7 cost allocations appropriately align with the Test Year.

8 **Q. DOES THE FDC STUDY ALSO DEMONSTRATE THAT PUBLIC SERVICE**
9 **HAS COMPLIED WITH COMMISSION RULE 4502?**

10 A. Yes. The FDC Study demonstrates that all appropriate revenues, expenses,
11 assets, liabilities, and rate base items for the Test Year have been appropriately
12 assigned and allocated and that the Company has complied with the cost
13 allocation principles established in Commission Rule 4502.

14

X. CONCLUSION

Q. IN CONCLUSION, PLEASE RESTATE YOUR RECOMMENDATIONS TO THE COMMISSION.

A. I recommend that the Commission: (1) approve the Company's CAAM and FDC Study as presented in my Direct Testimony; and (2) find that Public Service's cost assignment, Allocation Methods, and the percentages used in preparing the Test Year for this rate case are reasonable.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Statement of Qualifications

Melissa L. Schmidt

I received a Bachelor of Arts in Business Administration, with a major in accounting, from the University of St. Thomas in 2000.

My current position with XES is Director, Corporate Accounting which includes Corporate Accounting, Service Company Accounting, Cash Processes, and Business Area Accounting. I am responsible for the general administration of XES, including accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits, and external reporting to state and federal regulatory agencies. Additionally, I direct Xcel Energy's Corporate Accounting group, which manages the month-end close process, legal consolidation process, and other accounting functions and controls, and maintains the general ledger; the Cash Processes group, which is responsible for monitoring and reconciling the cash activity, long-term debt, and other related items for all Xcel Energy affiliates and subsidiaries; and the Business Area Accounting group, which is responsible for the accounting functions for the Business Areas of Xcel Energy.

I have been employed by XES since April 2005, holding positions in Corporate Accounting, Internal Reporting, Benefits Accounting, SOX management office, and External Reporting.

Prior to joining XES, I was employed by Temple Inland as a senior financial and operational auditor. Prior to Temple Inland, I was employed by Andersen LLP and

Deloitte LLP where I performed financial statement audits for companies in various industries including energy and utilities, manufacturing, retail, and travel services.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

IN THE MATTER OF ADVICE NO. 961-GAS OF)
PUBLIC SERVICE COMPANY OF COLORADO)
TO REVISE ITS COLORADO PUC NO. 6-GAS)
TARIFF TO INCREASE JURISDICTIONAL BASE) PROCEEDING NO. 20AL-____G
RATE REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL GAS RATE SCHEDULES, AND)
MAKE OTHER PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020.)

AFFIDAVIT OF MELISSA L. SCHMIDT
ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO

I, Melissa L. Schmidt, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct 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 29 day of January, 2020.

Melissa L. Schmidt

Melissa L. Schmidt
Director, Corporate Accounting

Subscribed and sworn to before me this 29 day of January, 2020.

Zenia Nevinski
Notary Public

My Commission expires 1/31/2020

