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

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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 BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE MARCH 7, 2020	**))))))))))**	**PROCEEDING NO. 20AL-_____G**

**DIRECT TESTIMONY AND ATTACHMENTS OF
RICHARD R. SCHRUBBE**

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

February 5, 2020

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

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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 BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE MARCH 7, 2020	**) PROCEEDING NO. 20AL-_____G**

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2017 Phase I Gas Rate Case	Proceeding No. 17AL-0363G
ADIT	Accumulated Deferred Income Taxes
AIP	Annual Incentive Plan
Commission	Colorado Public Utilities Commission
Company, or Public Service	Public Service Company of Colorado
COSS	Cost of Service Study
CWC	Cash Working Capital
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
GRSA	General Rate Schedule Adjustment
HDHP	High Deductible Health Plan
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
O&M	Operation and Maintenance

Acronym/Defined Term	**Meaning**
NCE	New Century Energies
PBGC	Pension Benefit Guaranty Corporation
TCJA	Tax Cuts and Jobs Act
Total Company	Public Service Company of Colorado as a whole, without any other Xcel Energy affiliates.
VEBA	Volunteer Employee Beneficiary Association
WACC	Weighted Average Cost of Capital
Willis	Willis Towers Watson
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment RRS-1	December 31, 2018 Disclosure Information for Xcel Energy Inc. from Willis Towers Watson
Attachment RRS-2	May 2019 Willis Towers Watson Actuary Report
Attachment RRS-3	May 2018 Willis Towers Watson Actuary Report
Attachment RRS-4	Gas Utility O&M calculations • Qualified Pension • Non-Qualified • Retiree Medical • FAS 112 – Self-Insured LTD
Attachment RRS-5	O&M Calculations for the Requested Amount of Active Health Care
Attachment RRS-6	Summary of Total Prepaid Pension Asset Calculation
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Attachment RRS-8	Pension Tracker Schedule
Attachment RRS-9	Pension and Benefits O&M Expense by Cost Element
Attachment RRS-10	Pension and Benefits O&M Expense by FERC Account

**BEFORE THE PUBLIC UTILITIES COMMISSION
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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 BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE MARCH 7, 2020	**))))))))))**	**PROCEEDING NO. 20AL-______G**

DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. As Area Vice-President of Financial Analysis and Planning, I am responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations, and Corporate Services with respect to budget planning, reporting, and analysis. I oversee the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also responsible for coordinating the benefits operations and maintenance ("O&M") budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. A description of my qualifications, duties, and responsibilities is set forth after the conclusion of my Direct Testimony in my Statement of Qualifications.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

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

1. I support Public Service's request to recover its reasonable and necessary actuarially determined pension and benefit expense, which is composed of:
    - qualified pension expense calculated under Statement of Financial Accounting Standard ("FAS") 87;[1]
    - non-qualified pension expense calculated under FAS 87;
    - retiree medical expense calculated under FAS 106; and

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

- self-insured long-term disability ("LTD") expense calculated under FAS 112;

2. I support the Company's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;
3. I support the Company's request to recover the reasonable and necessary costs incurred for workers' compensation benefits; and
4. I support the Company's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation.

I quantify the amounts of those expenses for 2016, which was the test year in the Company's last gas rate case, Proceeding No. 17AL-0363G (also referred to as the "2017 Phase I Gas Rate Case"),[2] and for the 12 months ended September 30, 2019. I also discuss various adjustments for specific items, and I describe the factors that have caused the costs to change since 2016. In addition, I quantify the known and measurable adjustments, if any, that produce the requested amounts of pension and benefit expense in this case.

I also explain that Public Service has accrued a prepaid pension asset, and I describe the Company's request to amortize the prepaid pension asset over a period of ten years, to include the unamortized balance in rate base, and

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[2] *In the Matter of Advice No. 912-Gas Filed by Public Service Company of Colorado to Roll the Pipeline System Integrity Adjustment ("PSIA") Costs into Base Rates Beginning in 2019 and Increase Rates for All Natural Gas Sales and Transportation Services by Implementing a General Rate Schedule Adjustment ("GRSA") in the Company's Colorado P.U.C. No. 6-Gas Tariff, to Become Effective July 3, 2017*, Proceeding No. 17AL-0363G, Interim Decision Addressing Appeals of Decision No. R18-0318-I, Rescinding Referral, Establishing Modified Provisional Rates, and Scheduling Hearing at 14 (Mailed Aug. 29, 2018).

to earn a return on it at the Company's Weighted Average Cost of Capital ("WACC"). As part of that discussion, I:

- explain what a prepaid pension asset is and how it arises;
- describe the prior Colorado Public Utilities Commission ("Commission") proceedings that affected the balance of the prepaid pension asset;
- discuss the proposal to amortize the balance over a ten-year period;
- discuss the rationale for allowing a WACC return on the unamortized prepaid pension asset balance;
- explain that, until recently, the Commission's standard practice was to allow the Company to include the prepaid pension asset in rate base and to earn a WACC return on that asset;[3]
- explain that the Commission's rationales in the recent Phase I Gas Rate Case for allowing no return on the Company's prepaid pension asset do not withstand scrutiny; and
- describe the Company's proposed alternative calculation of qualified pension expense if the Commission excludes the prepaid pension asset from rate base and rejects Public Service's request to earn a WACC return on the asset.

Finally, I explain that the Company also has a prepaid retiree medical asset balance, and that the Company seeks to include that asset in rate base and to earn a WACC return on it. The justification for including the prepaid retiree medical asset in rate base and allowing it to earn a WACC return is identical to the justification for allowing the prepaid pension asset to be included

[3] *See, e.g., In the Matter of Advice Letter No. 830-Gas of Public Service Company of Colorado, with Accompanying Tariff Sheets Concerning Implementing a General Rate Schedule Adjustment (GRSA), to be Effective January 12, 2013*, Decision No. R13-1307 at 72-73 (Mailed Oct. 22, 2013) ("The ALJ finds no changed circumstances sufficient to warrant a change in the treatment of the prepaid pension asset. The prepaid pension asset will remain in rate base for the purpose of calculating the revenue requirement. The ALJ will not adopt Staff's recommended adjustment to rate base.").

in rate base – both assets represent prepayments that are used and useful because they produce earnings that reduce the current benefit expense on a dollar-for-dollar basis. In fact, the earnings on the assets in the Company's Voluntary Employee Beneficiary Association ("VEBA") trust, which includes the prepaid retiree medical asset, currently produce negative retiree medical expense, although Public Service is proposing to set the current retiree medical expense at $0 to avoid increasing the prepaid retiree medical asset.

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Commission approve the pension and benefits amounts discussed in my Direct Testimony for inclusion in the cost of service for Public Service. I further recommend that the Commission authorize the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a return on those assets at the Company's WACC.

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

A. Yes. Four other Company witnesses address compensation and benefit issues in their Direct Testimonies:

- Steven P. Berman discusses the Commission's prior treatment of the prepaid pension asset and prepaid retiree medical asset, he explains why the Company continues to seek a return on those assets, and he supports the Company's request to continue the pension tracker and the amortization of the tracker balance;
- Michael T. Knoll supports the Company's request to recover compensation paid to employees, including both base pay and incentive

compensation, and he explains the plan design changes that the Company has made in recent years to control pension and benefit costs;

- Naomi Koch supports the accumulated deferred income tax ("ADIT") balances associated with the Company's pension and benefit-related balances; and
- Deborah A. Blair's Cost of Service Study ("COSS") includes the current pension and benefit-related expense, and it reflects the prepaid pension asset and prepaid retiree medical asset amounts that the Company seeks to include in rate base.

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

A. Yes, I am sponsoring the following attachments:

- Attachment RRS-1, which is the 2018 year-end Willis Towers Watson ("Willis") disclosure report that presents final 2018 total Company expense;
- Attachment RRS-2, which is a May 2019 Willis actuarial report;
- Attachment RRS-3, which is a May 2018 Willis actuarial report;
- Attachment RRS-4, which contains the requested amount of Gas Utility O&M amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD expense;
- Attachment RRS-5, which includes the requested amount of Gas Utility O&M calculations for active health care;
- Attachment RRS-6, which summarizes the prepaid pension asset calculations;
- Attachment RRS-7, which reflects a 13-month average of the prepaid retiree medical asset balance;
- Attachment RRS-8, which is a pension tracker schedule;
- Attachment RRS-9, which provides pension and benefit O&M expense by Cost Element; and

- Attachment RRS-10, which provides pension and benefit O&M expense by Federal Energy Regulatory Commission ("FERC") account.

II. PENSION AND BENEFITS OVERVIEW

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

A. In addition to the compensation discussed by Mr. Knoll, Public Service provides the following non-cash benefits to its employees:

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

Q. WHAT ARE THE REQUESTED AMOUNTS OF EXPENSE AMOUNTS FOR EACH OF THE ELEMENTS OF NON-CASH COMPENSATION OFFERED BY THE COMPANY?

A. Table RRS-D-1 (on the next page) sets forth the Gas Utility O&M pension and benefit expense amounts for 2016 and the twelve-month period ending September 30, 2019, as well as the amounts that Public Service is requesting in the COSS in this case:

Table RRS-D-1

Benefit	2016	12 Months Ended 9.30.19	Adjustments to Develop Test Year Amount	Test Year Requested Amount
Qualified Pension	$10,495,889	$8,230,556	$(399,893)	$7,830,663
FAS 88 Qualified Pension Settlement	-	1,352,319	(1,352,319)	-
Nonqualified Pension	460,468	157,857	(33,019)	124,838
FAS 106 Retiree Medical	(1,605,100)	(1,279,350)	439,617	(839,733)
Proposed FAS 106 Retiree Medical to Zero	-	-	839,733	839,733
FAS 112 Long-Term Disability (Self-Insured)	28,905	6,473	3,725	10,198
Active Health Care[4]	9,577,695	9,302,553	681,357	9,983,910
Long-Term Disability (Third-Party-Insured)	414,725	392,052	-	392,052
Life Insurance	174,814	148,113	-	148,113
Miscellaneous Benefit Programs and Costs	450,525	464,176	-	464,177
401(k) Match	2,811,002	3,078,750	82,560	3,161,310
Miscellaneous Retirement-Related Costs	170,465	106,639	-	106,639
Workers' Compensation	482,101	452,475	(5,875)	446,600
Total Pension and Benefits Expense	**$23,461,489**	**$22,412,613**	**$255,886**	**$22,668,499**

[4] The per book amount for active health care in the cost of service for the twelve months ended September 30, 2019 is $9,119,369. That amount is an estimate, and it must be adjusted to reflect health care claims that were incurred near the end of 2018 but not reported until 2019. After adding the Incurred But Not Reported ("IBNR") amount, which is $183,184, and the known and measurable adjustment that is discussed in Section IV of my Direct Testimony, the requested amount is $9,983,910.

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

A. Yes. The Gas Utility O&M amounts include the pension and benefit expense attributable to Public Service employees, and they also include an allocated share of the pension and benefit expense incurred by XES employees.[5]

Q. DO YOU HAVE ANY OVERARCHING COMMENTS ABOUT THE GAS UTILITY O&M EXPENSE THAT PUBLIC SERVICE IS REQUESTING APPROVAL OF IN THIS PROCEEDING?

A. Yes. I believe it is important to recognize that the overall Gas Utility O&M expense for pension and benefits will have declined by approximately $800,000 million between 2016 and September 30, 2020.[6] Much of that decline is due to initiatives by the Company to reduce pension and benefit costs. Mr. Knoll discusses those changes in his Direct Testimony.

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[5] The O&M amounts by Cost Element and by FERC account are set forth in Attachment RRS-9 and Attachment RRS-10, respectively.

[6] As shown in Table RRS-D-01, the total amount of pension and benefit expense in 2016 was $23,461,489. The total amount requested in this case is $22,668,499, which is nearly $800,000 lower than the 2016 amount.

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

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

A. I discuss the actuarially determined amounts requested for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits.

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

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

A. <u>Qualified Pension</u>

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

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

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

A. Yes. As I testified earlier, Public Service accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP.[7] However, FAS 87 does not dictate how a company must fund the plan. Funding of a qualified pension plan is based upon prudent business practices, with the following 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:

[7] FAS 87 is one of the Generally Accepted Accounting Principles. Because regulatory accounting must follow specific accounting standards unless superseded by regulatory requirements, FAS 87 is used for regulatory accounting by the vast majority of utility companies.

- 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 expense 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 expense for financial accounting purposes, whereas the pension funding requirements reflect different (and sometimes conflicting) goals of the United States Congress. On one hand, the members of Congress want to ensure that the pension plans affecting their constituents are adequately funded. On the other hand, Congress wants to limit the level of tax deductions by employers to avoid worsening the national budget deficit. Over the years, Congress has addressed its two conflicting goals at different times to address specific short-term needs, which has resulted in the following effects:

- 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. As I will explain in more detail later in my Direct Testimony, cumulative cash contributions in excess of the cumulative accounting expenses result in a prepaid pension asset.[8] The prepaid pension asset represents the employer's cash contributions that will be recognized under GAAP as annual pension expense at some time in the future, but that have not been recognized to date.

1. Determination of Annual Pension Costs

Q. HOW IS ANNUAL PENSION COST DETERMINED UNDER FAS 87?

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

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

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

[8] 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.

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

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

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

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

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

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

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

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

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

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

A. Gains and losses are categorized as asset gains or losses, which result from changes in the value of the plan assets, or as liability gains or losses, which result from changes in the amount of the projected benefit obligation. Both types of changes result from experience that differs from what was assumed in a prior year or from changes in assumptions. FAS 87 does not distinguish between the sources of gains and losses.

Q. PLEASE DESCRIBE IN MORE DETAIL THE DIFFERENCE BETWEEN ASSET GAINS AND LOSSES, ON THE ONE HAND, AND LIABILITY GAINS AND LOSSES, ON THE OTHER.

A. Asset gains and losses are the differences between the actual return on assets during a period and the EROA for that same period. Suppose, for example, that the Company uses an EROA of 6.5 percent as the expected return on the pension trust assets in a particular year, but the actual return during that year is 8.0 percent. Because the actual return exceeded the EROA, the plan has an asset gain of 1.50 percent in this example. In contrast, if the actual return is less than the EROA, the plan experiences an asset loss.

Similarly, liability gains and losses are the differences between the actual liability of the pension plan at the end of a measurement period and the expected liability at the end of a measurement period. For example, the plan may assume the discount rate will be 4.0 percent at the end of a period, but it is actually 5.0 percent. In that instance, the plan will experience a liability gain because the higher discount rate means less money must be set aside today to pay tomorrow's pension obligations.

Q. ARE THE ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES RECOGNIZED IMMEDIATELY UNDER FAS 87?

A. No. Because gains and losses may reflect refinements in estimates as well as real changes in economic values, and because the gains in one period may be offset by losses in another or vice versa, FAS 87 does not require recognition of the entire amount of gains and losses as a component of net pension cost in the period in which they arise. Instead, they may be phased in and amortized over a period of years. For example, a plan may phase in a gain or loss over a five-year period, and the portion of the gain or loss that is phased in may also be amortized over a period of years.

Q. HOW ARE UNRECOGNIZED GAINS AND LOSSES AMORTIZED?

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

Q. TURNING NOW TO THE FIFTH COMPONENT OF THE QUALIFIED PENSION EXPENSE CALCULATION, WHAT IS PRIOR SERVICE COST AMORTIZATION?

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

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

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

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

A. Annual pension cost is quantified using the five elements of cost listed in Table RRS-D-2:

TABLE RRS-D-2

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

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

A. No. In some years, the EROA and the gains resulting from the difference between expected and actual experience from prior periods can be larger than the combination of the service cost and interest cost, which means that the annual pension expense in that year is *negative*. If that occurs in a test year, customers pay no pension expense at all in rates during the time the rates are in effect, and in fact they receive a credit to the overall cost of service equal to the amount of the negative pension expense.

2. Comparison of Qualified Pension Expense Amounts

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

A. During 2016, the Company’s qualified pension expense was $10,495,889 (Gas Utility O&M).

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The qualified pension expense was $9,582,875 (Gas Utility O&M). That amount was quantified based on a 2018 year-end disclosure report provided by Willis and a May 2019 actuarial report prepared by Willis. Those documents are being provided as Attachments RRS-1 and RRS-2 to my Direct Testimony. The $9,582,875 is composed of two parts: $8,230,556, which represents the qualified pension expense calculated under FAS 87, and $1,352,319, which represents the expense associated with a 2018 FAS 88 pension settlement.

Q. PLEASE EXPLAIN WHAT A FAS 88 PENSION SETTLEMENT IS.

A. In addition to the five components of pension cost described above, a sixth component, FAS 88 settlement accounting, can be required if lump-sum payments to employees in a year are greater than the sum of the service cost and interest cost components recognized for that year. This criterion for settlement accounting was met in 2018 for two pension plans that affect Public Service, the Xcel Energy Pension Plan and the former New Century Energies ("NCE") Non-Bargaining Pension Plan. When settlement accounting is triggered, the Company is required to recognize immediately a portion of unrealized losses currently deferred as a regulatory asset. When settlement accounting is not triggered, the unrecognized loss is amortized over a much longer period of time. Thus, settlement accounting is not an increase in the overall pension expenses, but rather an acceleration of the timing of when the pension expense will be recognized. Because the 2018 FAS 88 settlement is part of the total 2018 recognized pension cost, it was compared to the pension tracker baseline and deferred along with the other elements of qualified pension expense. However, the FAS 88 settlement is not included in the amount used to determine the baseline for this case because it is viewed as a one-time event and not representative of costs going forward. The pension tracker is described in more detail below.

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF IN THIS CASE?

A. The Company is requesting that the Commission approve $7,830,663 (Gas Utility O&M) of qualified pension expense. That amount is based upon the 2019 and 2020 qualified pension costs from Willis's May 2019 actuarial report, which is Attachment RRS-2 to my Direct Testimony, but it reflects the 15 percent limitation that Public Service has implemented in this case for purposes of calculating Annual Incentive Plan ("AIP") expense.[9] Attachment RRS-4 contains the Gas Utility O&M calculations of the qualified pension expense requested amounts.

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[9] In an effort to reduce the number of contested issues in this case, Public Service is reflecting the 15 percent AIP cap in the calculation of requested qualified pension expense. However, the Company reserves the right to request the full amount of qualified pension expense without this limitation in future cases.

Q. WHAT FACTORS CONTRIBUTED TO THE OVERALL DECREASE IN QUALIFIED PENSION EXPENSE BETWEEN 2016 AND THE REQUESTED AMOUNT?

A. The primary reasons for the decrease in qualified pension costs from 2016 to the requested amount are:

- plan design changes;
- contributions to the plans, which increased the asset base upon which the Company earns market returns; and
- a reduction in the asset and liability gain/loss amortization.

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

A. There have been two significant changes that have affected non-bargaining employees and lowered pension cost for Public Service and XES employees.

- New hires on or after January 1, 2012 are participants in the 5 percent cash balance plan, rather than the Pension Equity Plan.
- In 2017, the Company eliminated future Retirement Savings Account contributions as well as the Social Security Supplement for participants that will not be retirement eligible by December 31, 2022.

In addition, employees hired, rehired or transferring on or after February 21, 2018, into a Public Service bargaining position are participants in the 5 percent cash balance plan rather than the traditional pension formula. As new bargaining employees are hired each year, the Company will continue to see lower costs as new employees are enrolled in the lower pension benefit plan, resulting in lower service cost each year.

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

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

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

A. The asset and liability gain/loss amortization component has declined due to a number of factors. One reason was the recognition of past losses, including lump sum settlement accounting, which reduced the amortization during the twelve-month period ending September 30, 2019. Also, the amortization periods, which are the average years of future service for active employees, have increased since 2016:

- from 10.3 years to 11.3 years for XES employees;
- from 8.3 years to 9.9 years for Public Service Non-Bargaining employees; and
- from 11.3 years to 13.7 years for Public Service Bargaining employees.

Another reason is specific to the asset loss amortization, which has declined since 2016.

Q. PLEASE DESCRIBE THE MORTALITY TABLE UPDATES AND EXPLAIN WHY THEY LED TO AN INCREASE IN QUALIFIED PENSION EXPENSE FROM 2016 TO THE REQUESTED AMOUNT.

A. In October 2014, the Society of Actuaries' Retirement Plans Experience Committee published updated base mortality table and mortality improvement scales. These tables reflect longer lives, and thus longer periods in which former employees are likely to collect pensions and other retirement benefits. The improvement to life expectancy led to an increase of pension cost.

Q. YOU TESTIFIED EARLIER THAT THE ASSET LOSS AMORTIZATION HAS DECLINED SINCE 2016. PLEASE EXPLAIN.

A. Asset losses occur when actual returns are lower than the EROA for a particular year. That leads to higher pension expense in subsequent years because asset losses are phased in over a five-year period. The Company's asset losses from the 2008 market downturn have largely been amortized, leading to a decline in the asset loss amortization since 2016.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO QUANTIFY THE AMOUNT OF QUALIFIED PENSION EXPENSE THE COMPANY IS REQUESTING?

A. Yes. Attachment RRS-4 contains the Gas Utility O&M calculations of the qualified pension expense amounts requested in this case. The source documents for the numbers in Attachment RRS-4 are Attachments RRS-2 and RRS-3.

B. Non-Qualified Pension

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

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

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

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

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

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined-benefit plan to $225,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $280,000.

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

Q. HOW ARE NON-QUALIFIED PENSION COSTS DETERMINED?

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

Q. DOES THE NON-QUALIFIED PENSION BENEFIT REPRESENT AN INCREMENTAL PENSION BENEFIT RELATIVE TO WHAT OTHER EMPLOYEES ARE RECEIVING?

A. No. To the contrary, the non-qualified pension benefit is necessary to ensure that executives and high-level managers receive the same level of pension benefits relative to their cash compensation as other employees. For example, an employee that is not eligible for the non-qualified pension benefit may accrue an annual qualified pension benefit that is equal to 5 percent of his or her cash compensation, but because of the IRC limits on deductibility, a more highly compensated employee may accrue an annual qualified pension benefit that is equal to only 3 percent of his or her cash compensation. The non-qualified pension benefit is necessary to ensure that some employees are not disadvantaged by the IRC limits on deductibility.

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

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

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The non-qualified pension expense during that time period was $157,857 (Gas Utility O&M).

Q. WHAT IS THE REQUESTED AMOUNT OF NON-QUALIFIED PENSION EXPENSE?

A. The Gas Utility O&M non-qualified pension expense that Public Service is requesting is $124,838. That amount is based upon the 2019 and 2020 costs from Willis's May 2019 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions. That amount reflects the 15 percent limitation on AIP that Public Service has accepted for purposes of this case.[10]

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

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[10] In an effort to reduce the number of contested issues in this case, Public Service is reflecting the 15 percent AIP cap in the calculation of requested non-qualified pension expense. However, the Company reserves the right to request the full amount of non-qualified pension expense without this limitation in future cases.

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

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS NON-QUALIFIED PENSION EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-4 contains the Gas Utility O&M calculations of the non-qualified pension expense requested amounts. Attachments RRS-2 and RRS-3 contain the source documents for those calculations.

C. Retiree Medical

Q. HOW ARE RETIREE MEDICAL COSTS DETERMINED?

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

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

A. The Company's plan consists primarily of retiree medical and pharmacy benefits, but it also includes retiree life and dental insurance. The Company eliminated those benefits for all active non-bargaining employees more than 10 years ago. Moreover, only bargaining employees hired, rehired or transferred to a Public Service bargaining position prior to July 1, 2003 are eligible for subsidized retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

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

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

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The Company's retiree medical expense was $(1,279,350) (Gas Utility O&M) for that time period.

Q. WHAT IS THE ACTUARIALLY DETERMINED AMOUNT OF RETIREE MEDICAL EXPENSE FOR 2020?

A. The actuarially determined retiree medical expense is $(839,733) for 2020. The Gas Utility O&M amount is reflected in Attachment RRS-4.

Q. WHY HAS THE AMOUNT INCREASED SINCE 2016?

A. The major driver for the increase in expense is due to a decrease in the discount rate and expected return on assets since 2016, offset by the plan design changes I discussed earlier, which reduced the number of employees eligible for retiree medical benefits.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS RETIREE MEDICAL EXPENSE?

A. Yes. Attachment RRS-4 contains the Gas Utility O&M calculations of the retiree medical expense amounts. Attachments RRS-2 and RRS-3 contain the source documents for those calculations.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF IN THIS CASE?

A. Public Service is requesting approval of $0 of retiree medical expense in this case.

Q. WHY IS PUBLIC SERVICE REQUESTING $0 OF RETIREE MEDICAL EXPENSE IN THIS CASE?

A. When the annual retiree medical expense is negative in a particular year (i.e., when the EROA and gains from prior periods exceed the other elements of annual retiree medical cost), it reduces the cumulative recognized expense. That increases the difference between the cumulative cash contributions and the cumulative recognized retiree medical expense, which increases the balance of the retiree medical prepaid asset. Public Service acknowledges that prepaid assets have been a contentious issue over the last several years and has worked with the Commission to mitigate the size of the prepaid assets. Recognizing zero retiree medical expense would further this cause and reduce the size of the retiree medical prepaid asset by creating a regulatory liability, which is a reduction to rate base by serving as an offset. The retiree medical prepaid asset is discussed in more detail later in my Direct Testimony.

Q. HAS THE COMMISSION RECENTLY ADDRESSED THE ISSUE OF WHETHER TO INCLUDE $0 OF RETIREE MEDICAL EXPENSE IN RATES, AS OPPOSED TO A NEGATIVE AMOUNT?

A. Yes. In the 2017 Phase I Gas Rate Case, the Commission decided that the amount of retiree medical expense included in rates should be $0, instead of a negative amount.[11]

D. <u>Self-Insured Long-Term Disability</u>

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

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

The Company has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, Public Service provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, Public Service is required to accrue for LTD costs under FAS 112, Employers' Accounting for

[11] Proceeding No. 17AL-0363G, Decision No. R18-0318-I at ¶ 230.

Postemployment Benefits. The FAS 112 accrual represents the forecasted disability benefit payments for employees that are not expected to return to work.

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

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

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR IN 2016 FOR SELF-INSURED LTD BENEFITS?

A. The self-insured LTD benefit cost in 2016 was $28,905 (Gas Utility O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COST DID THE COMPANY INCUR IN THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The self-insured LTD benefit cost during that time was $6,473 (Gas Utility O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COSTS IS THE COMPANY ASKING THE COMMISSION TO APPROVE IN THIS CASE?

A. The Company is requesting that the Commission approve $10,198 of self-insured benefit costs. That amount is based upon the 2019 and 2020 costs from Willis's May 2019 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHY HAS THE SELF-INSURED LTD BENEFIT COSTS DECREASED SINCE 2016?

A. The primary cause of the decrease is lower projected liabilities compared to 2016. This is primarily due to favorable experience and fewer participants receiving payments from the plan compared to 2016.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS SELF-INSURED LTD EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-4 contains the Gas Utility O&M calculations of the self-insured LTD expense amounts requested. Attachments RRS-2 and RRS-3 contain the source documents for those calculations.

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

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

A. Yes. The Company follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other retirement benefits expense amounts. The assumptions and the actuarially calculated total cost amounts are reflected in Attachments RRS-1, RRS-2, and RRS-3, which are the actuarial attachments supporting the requested amounts. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment benefits, is discussed in Mr. Knoll's Direct Testimony.

IV. ACTIVE HEALTH AND WELFARE COSTS

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

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

A. Active Health Care

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

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

Q. WHAT AMOUNT OF ACTIVE HEALTH CARE EXPENSE DID THE COMPANY INCUR IN 2016?

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

Q. WHAT WAS THE AMOUNT OF ACTIVE HEALTH CARE EXPENSE FOR THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The active health care expense during that time was $9,119,369 (Gas Utility O&M).

Q. DOES THAT AMOUNT MATCH THE PER BOOK AMOUNT OF ACTIVE HEALTH CARE COSTS?

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

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

A. The adjustment to the per book amount is $183,184 (Gas Utility O&M). This adjustment is necessary to reflect the claims costs on an incurred basis. As mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred adjustments to per book amounts are necessary so that the amount reflects the

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

actual claims incurred and not the estimated claims that were accrued in the period. Adding the $183,184 IBNR adjustment to the per book amount produces an amount of $9,302,553 for the 12-month period ending September 30, 2019.

Q. WHY DID ACTIVE HEALTH CARE COSTS DECREASE BETWEEN 2016 AND SEPTEMBER 30, 2019?

A. The active health care costs decreased between 2016 and September 30, 2019 primarily due to plan design changes that the Company initiated. For example, prior to 2016, non-bargaining employees had a high deductible health plan ("HDHP"), whereas the Public Service bargaining employees had a non-HDHP plan. Beginning on January 1, 2016, both the bargaining and non-bargaining employees were placed on an HDHP plan, which helped reduce active health care costs relative to what they would have otherwise been. Mr. Knoll discusses those changes in more detail. The cost reductions have been offset to some extent by the normal trend of increasing health care costs.

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

A. Public Service is requesting that the Commission approve $9,983,910 for active health care expense. Please refer to Attachment RRS-5.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE ACTIVE HEALTH CARE AMOUNTS REQUESTED IN THIS CASE.

A. The Company first took the adjusted amount as of September 30, 2019 and then applied two known and measurable adjustments to arrive at the requested active health care amount:

1. The Company applied a 5.50 percent increase to the incurred medical amount, which increased costs by $456,828.
2. The Company applied a 12.60 percent increase to the incurred pharmacy amount, which increased costs by $224,529.

These adjustments result in an increase of $681,357 to the overall amount.

Q. WHAT IS THE COMPANY'S BASIS FOR USING THE MEDICAL AND PHARMACY HEALTH CARE TREND ASSUMPTIONS DESCRIBED ABOVE?

A. The assumptions reflect Willis's overall expectation of health care cost increases based on survey averages, carrier information, and an analysis of the broad health care market.

B. Third-Party-Insured Long-Term Disability

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

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

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

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

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

A. In 2016, the third-party-insured LTD benefit and life insurance expense was $414,725 (Gas Utility O&M).

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR THIRD-PARTY-INSURED BENEFITS?

A. The Company incurred $392,052 (Gas Utility O&M) in third-party-insured LTD expense during that time.

Q. WHY DID THE THIRD-PARTY-INSURED LTD AMOUNT DECREASE FROM 2016 TO THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The Company does not know. As explained earlier, the third-party-insured LTD expense is based on the cost of the premium paid to the third-party insurer. The insurer does not disclose its reasons for setting the premium at a particular level.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE EXPENSE FOR THIRD-PARTY-INSURED LTD?

A. No. At this time, Public Service does not have an updated premium for 2020, so it requests that the amount of third-party-insured LTD incurred during the twelve-month period ending September 30, 2019 serve as a reasonable proxy for the Company's third-party insured LTD costs in this case.

C. Life Insurance

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

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

Q. WHAT LIFE INSURANCE BENEFIT EXPENSE DID PUBLIC SERVICE INCUR DURING 2016?

A. In 2016, the Company incurred $174,814 (Gas Utility O&M) of life insurance expense.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR LIFE INSURANCE BENEFITS?

A. During that time period, Public Service incurred $148,113 (Gas Utility O&M) for life insurance benefits.

Q. WHAT FACTORS CONTRIBUTED TO THE DECREASE IN LIFE INSURANCE EXPENSE BETWEEN 2016 AND THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. Life insurance expense decreased slightly between 2016 and the twelve-month period ending September 30, 2019 mainly due to changes in the employee/employer paid portions of the premiums and lower volumes. These decreases were partially offset by increasing wage and salary levels.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE 2018 EXPENSE FOR LIFE INSURANCE?

A. No. As with third-party insured LTD benefits, Public Service does not have an updated premium for 2020. Therefore, the Company asks the Commission to accept the amount incurred for life insurance during the twelve-month period ending September 30, 2019 as a reasonable proxy for costs going forward.

D. <u>Miscellaneous Benefits</u>

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

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

- Tuition reimbursement;
- Employee Assistance Program costs;
- Wellness program costs;
- Costs incurred by the Human Resources Service Center to answer employee retirement or benefit questions;
- Health and welfare plan actuarial and audit fees;

- Administrative fees for short-term and long-term disability plans; and
- Administrative fees for employee flexible spending and health savings accounts.

Q. WHAT AMOUNT DID THE COMPANY INCUR IN 2016 FOR MISCELLANEOUS BENEFITS?

A. In 2016, the Company incurred $450,525 (Gas Utility O&M) in miscellaneous benefit costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $464,176 (Gas Utility O&M) for miscellaneous benefits during that time.

Q. WHAT FACTORS CAUSED THE COST TO INCREASE BETWEEN 2016 AND THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The miscellaneous benefit costs increased because employees increased their usage of the miscellaneous benefits during the period and because of general inflation during that time.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE MISCELLANEOUS BENEFITS EXPENSE?

A. No. Public Service is requesting that the Commission approve the amount of miscellaneous benefits incurred during the twelve-month period ending September 30, 2019. That represents a reasonable proxy of the miscellaneous benefit costs going forward.

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

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

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

V. WORKERS' COMPENSATION EXPENSE

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

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

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

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

Q. HOW MUCH DID THE COMPANY INCUR IN 2016 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. In 2016, the Company incurred $482,101 (Gas Utility O&M) in third-party-insured workers' compensation benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During that period Public Service incurred $452,475 (Gas Utility O&M) for third-party-insured workers' compensation benefits.

Q. WHY HAS THE REQUESTED AMOUNT DECREASED SINCE THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. When the premiums are being calculated, the insurer's actuaries look at three years of loss history. The most recent premium renewal received at the end of 2018 reflected a decrease in the three-year loss history, thus resulting in lower premiums. This most recent premium renewal is the basis for the 2019 level of costs.

Q. DOES PUBLIC SERVICE SELF-INSURE FOR ANY WORKERS' COMPENSATION LIABILITY?

A. Yes. Public Service self-insures for a small portion of its workers' compensation liability. The amount of that liability is actuarially calculated by Willis.

Q. WHAT AMOUNT OF EXPENSE IS PUBLIC SERVICE REQUESTING FOR WORKERS' COMPENSATION BENEFITS?

A. Public Service is requesting recovery of $446,600 of workers' compensation expense.

Q. HOW DID PUBLIC SERVICE ARRIVE AT THE REQUESTED AMOUNT OF WORKERS' COMPENSATION EXPENSE?

A. The Company started with the 2019 workers' compensation expense as a reasonable proxy for its going-forward workers' compensation costs, but the Company reduced that amount by $5,875 to reflect lower expected expense attributable to the self-insured portion of the workers' compensation benefit.

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

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

VI. OTHER BENEFIT COSTS

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

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

A. 401(k) Match

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

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

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

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

Q. HOW MUCH DID PUBLIC SERVICE INCUR FOR 401(K) MATCH COSTS IN 2016?

A. In 2016, the Company incurred $2,811,002 (Gas Utility O&M) in 401(k) match costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR 401(K) MATCH BENEFITS?

A. During that time period, Public Service incurred $3,078,750 (Gas Utility O&M) for 401(k) benefits.

Q. WHY DID THE 401(K) MATCH COSTS INCREASE BETWEEN 2016 AND THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The costs increased primarily because 401(k) costs are based on amounts that employees contribute as a percentage of salary. Because salaries increased from 2016 through the twelve-month period ending September 30, 2019, the 401(k) match amounts increased as well.

Q. WHAT AMOUNT OF 401(K) EXPENSE IS PUBLIC SERVICE SEEKING TO RECOVER IN THIS CASE?

A. Public Service is seeking recovery of $3,161,310.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE 401(K) AMOUNT REQUESTED IN THIS CASE

A. The Company first took the per book amount of $3,078,750 and then applied a known and measurable adjustment of $82,560 to arrive at the proposed amount of $3,161,310. Because the 401(k) match is based on the amount that employees contribute as a percentage of their salary, escalation factors of 3 percent and 2.8 percent have been applied to the actual non-bargaining and bargaining employee costs, respectively. For justification of the merit increase, please refer to Mr. Knoll's Direct Testimony.

B. Miscellaneous Retirement-Related Costs

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

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

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DID THE COMPANY INCUR IN 2016?

A. In 2016, the Company incurred $170,465 (Gas Utility O&M) in miscellaneous retirement-related benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019 FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $106,639 (Gas Utility O&M) during the twelve-month period ending September 30, 2019.

Q. WHY DID THE AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DECREASE BETWEEN 2016 AND THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The miscellaneous retirement-related benefits decreased during the twelve months ending September 30, 2019 because the Company's use of third-party consultants declined as compared to 2016.

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS IS PUBLIC SERVICE ASKING THE COMMISSION TO APPROVE?

A. The Company requests that the Commission approve recovery of $106,639 for miscellaneous retirement-related benefits. That amount, which was the per book cost during the twelve-month period ending September 30, 2019, represents a reasonable proxy of miscellaneous retirement-related benefit costs going forward.

C. Reasonableness of Other Benefit Costs

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

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

VII. PREPAID PENSION ASSET

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

A. I first describe how a prepaid pension asset is established, and I recount the sequence of events that have given rise to the current balance of the gas department's prepaid pension asset. I also describe Public Service's proposal to create a Second Legacy Prepaid Pension Asset and a Second New Prepaid Pension Asset for the Company's gas department.

In addition, I explain the Company's request in this case to include the prepaid pension asset in rate base and to earn a return at the Company's WACC. I also explain that, until recently, the Commission allowed the Company to include its prepaid pension asset in rate base because the Commission expressly recognized that customers benefit from the prepaid pension asset. I further discuss the Commission's rationales in recent cases for allowing no return or a reduced return in recent cases, and I explain that those explanations do not justify the disallowances the Commission has ordered. Finally, I present an alternative proposal for the calculation of qualified pension expense if the Commission decides not to allow Public Service to include the prepaid pension asset in rate base and earn a WACC return on it.

A. Creation of a Prepaid Pension Asset

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?

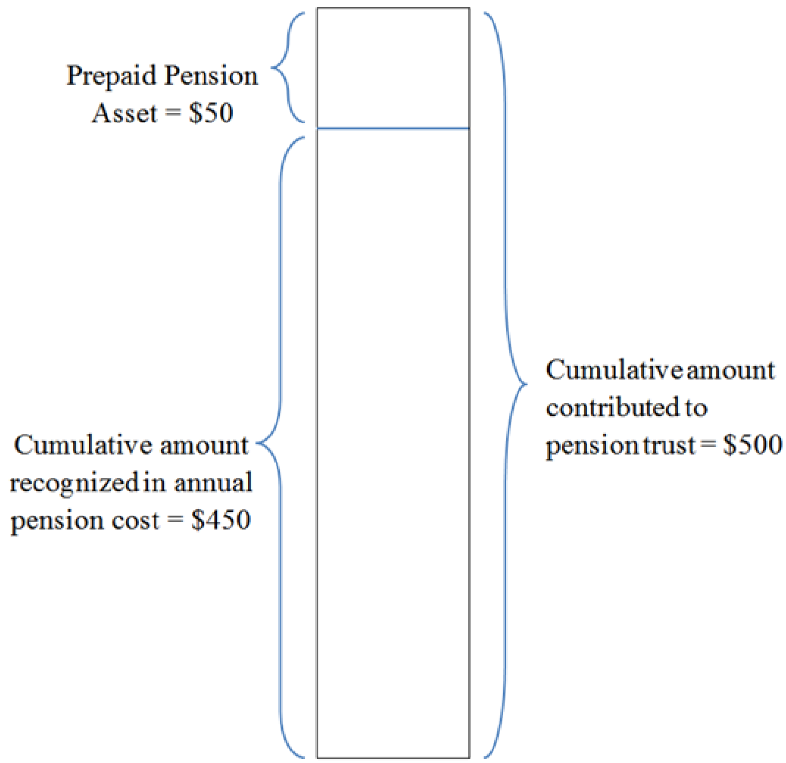
A. Yes. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of the five years has been $100 million, whereas the annual pension expense calculated in accordance with FAS 87 has been $90 million in each of those five years. Table RRS-D-3 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

Table RRS-D-3 (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 under GAAP, which produces a prepaid pension asset of $50 million, as shown in Figure RRS-D-1 (next page):

Figure RRS-D-1[13]



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.

[13] The amounts in this figure and the other figures in my Direct 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 accrued pension liability, which would be subtracted from rate base. In fact, Public Service currently has an accrued pension liability for its non-qualified pension plan, and that liability is used to reduce rate base.

B. <u>Events Contributing to Current Prepaid Pension Asset Balance</u>

Q. DOES PUBLIC SERVICE'S GAS DEPARTMENT CURRENTLY HAVE A PREPAID PENSION ASSET?

A. Yes. As of September 30, 2019, the Public Service gas department's gross prepaid pension asset balance was $53,816,487.[14] That is the sum of the Legacy Prepaid Pension Asset balance and the New Prepaid Pension Asset balance, the latter of which is actually an unfunded liability.[15]

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU REFER TO THE "LEGACY PREPAID PENSION ASSET" BALANCE AND THE "NEW PREPAID PENSION ASSET" BALANCE.

A. In Proceeding No. 15AL-0135G, the Commission approved Staff's proposal to create a Legacy Prepaid Pension Asset, which consisted of the prepaid pension asset balance as of December 31, 2014, and to create a New Prepaid Pension Asset balance, which was intended to record the difference between pension

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[14] I use the term "gross" in this sentence to mean the amount before any reduction to account for pension-related ADIT.

[15] As shown on Attachment RRS-6, the unfunded liability was approximately $5.8 million as of September 30, 2019.

contributions and pension expense on a going-forward basis from January 1, 2015.[16] The Commission also approved Staff's proposal to amortize the balance of the Legacy Prepaid Pension Asset over a 15-year period,[17] which increased the amount of pension expense included in rates by approximately $4.0 million per year.

Q. DID ANY OTHER COMMISSION DECISIONS AFFECT THE BALANCE OF THE LEGACY PREPAID PENSION ASSET THAT WAS ESTABLISHED FOR THE GAS DEPARTMENT IN PROCEEDING NO. 15AL-0135G?

A. Yes. In the next rate case for the Company's gas department, which was the 2017 Phase I Gas Rate Case, the Commission decided to use tax savings arising from the Tax Cuts and Jobs Act ("TCJA") to offset a portion of the gas department's Legacy Prepaid Pension Asset. In addition, the Commission reset the starting date for the New Prepaid Pension Asset as January 1, 2017.[18]

Q. HAS THE COMPANY CREATED A DOCUMENT SHOWING HOW THOSE PENSION-RELATED BALANCES HAVE EVOLVED OVER TIME?

A. Yes. My Attachment RRS-6 presents a roll-forward showing the changes in the pension-related asset and liability balances. After accounting for the beginning balances, the Legacy Prepaid Pension Asset amortizations, and the activity that has created the New Prepaid Pension Asset (i.e., contributions and recognized

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[16] Proceeding No. 15AL-0135G, Decision No. R15-1204 at ¶ 233.

[17] Proceeding No. 15AL-0135G, Decision No. R15-1204 at ¶ 233.

[18] Proceeding No. 17AL-0363G, Decision No. C18-1158 at ¶ 64.

expense since January 1, 2017), the prepaid pension asset balance was $53,816,487 as of September 30, 2019.

Q. DOES PUBLIC SERVICE HAVE A PROJECTION OF THE PREPAID PENSION ASSET BALANCE AS OF SEPTEMBER 30, 2020?

A. Yes. Public Service projects that the prepaid pension asset balance will be $53,209,253 as of September 30, 2020. That amount includes both the Legacy Prepaid Pension Asset balance and the New Prepaid Pension Asset balance.

Q. PLEASE DESCRIBE HOW YOU CALCULATED THE BALANCE AS OF SEPTEMBER 30, 2020?

A. As shown on Attachment RRS-6, I continued the roll-forward through September 30, 2020 by incorporating the projected contributions, expenses, and amortizations through that date. That produced a balance of $53.2 million.

Q. IS PUBLIC SERVICE PROPOSING TO DESIGNATE NEW PREPAID PENSION ASSETS AS PART OF THIS PROCEEDING?

A. Yes. Consistent with its request in the Company’s most recent electric rate case, Public Service is proposing to create a Second Legacy Prepaid Pension Asset and a Second New Prepaid Pension Asset for the gas department. In particular, Public Service proposes to create a Second Legacy Prepaid Pension Asset that has a balance of $53,209,253 as of September 30, 2020, and to amortize that balance over a period of ten years. Public Service also proposes to create a Second New Prepaid Pension Asset to record the difference between pension contributions and pension expense beginning on October 1, 2020. Finally, as it did in the most recent electric rate case, Public Service proposes to work with

Staff and other parties to explore ways to limit the size of the Second New Prepaid Pension Asset for the gas department.

Q. DOES PUBLIC SERVICE PROPOSE TO EARN A RETURN ON THE UNAMORTIZED BALANCE OF THE SECOND LEGACY PREPAID PENSION ASSET?

A. Yes. In the next subsection of this testimony I will discuss Public Service's request to earn a WACC return on the Second Legacy Prepaid Pension Asset.

Q. YOU STATED EARLIER THAT THE COMPANY PROPOSES TO AMORTIZE THE SECOND LEGACY PREPAID PENSION ASSET OVER A TEN-YEAR PERIOD. WOULD THAT BE IN ADDITION TO THE ANNUAL $4.0 MILLION AMORTIZATION APPROVED IN PROCEEDING NO. 15AL-0135G?

A. No. Under the Company's proposal, the $4.0 million amortization approved in Proceeding No. 15AL-0135G would be subsumed within the new 10-year amortization of the Second Legacy Prepaid Pension Asset, which would be an annual amortization of $5,320,925. That is appropriate because the unamortized balance of the original Legacy Prepaid Pension Asset is included in the Second Legacy Prepaid Pension Asset balance.

Q. DOES THE COMPANY HAVE AN ALTERNATIVE REQUEST IF THE COMMISSION DOES NOT APPROVE THE CREATION OF A SECOND LEGACY PREPAID PENSION ASSET?

A. Yes. If the Commission does not allow the Company to create a Second Legacy Prepaid Pension Asset and to amortize it over ten years, Public Service requests that the Company be allowed to continue the amortization of the Legacy Prepaid

Pension Asset that was approved in Proceeding No. 15AL-0135G. That would allow Public Service to continue recovering approximately $4.0 million in annual amortization expense through April 2023.

C. Rationale for Allowing WACC Return on Prepaid Pension Asset

Q. PLEASE EXPLAIN PUBLIC SERVICE'S REQUEST TO EARN A RETURN ON ITS PREPAID PENSION ASSET.

A. Public Service is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on that portion of the rate base at the 7.33 percent WACC that Public Service is asking the Commission to approve in this rate case proceeding.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF THE PREPAID PENSION ASSET IT SEEKS TO INCLUDE IN RATE BASE?

A. Yes. Attachment RRS-6 provides a detailed calculation of the balances of the Legacy Prepaid Pension Asset and New Prepaid Pension Asset for the gas jurisdiction. Attachment RRS-6 also shows a summary of the Legacy and New Prepaid Pension Asset balances that the Company is seeking to include in rate base. The amount the Company is seeking to include in rate base is the Second Legacy Prepaid Pension Asset balance, which is the net of the Legacy Prepaid Pension Asset balance and the New Prepaid Pension Asset liability balance as of September 30, 2020.

Q. IS IT REASONABLE FOR PUBLIC SERVICE TO ACCRUE A PREPAID PENSION ASSET?

A. Yes. As I explained earlier, the qualified pension plan is necessary for Public Service to attract and retain employees, and the federal pension contribution requirements generally require contributions in advance of the recognition of pension expense under GAAP. Thus, the prepaid pension asset represents a timing difference, and it should be treated like other timing differences for ratemaking purposes.

Q. HOW ARE TIMING DIFFERENCES SUCH AS PREPAYMENTS TREATED FOR RATEMAKING PURPOSES?

A. 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.

Customers also receive the benefit of a reduced rate base attributable to 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.

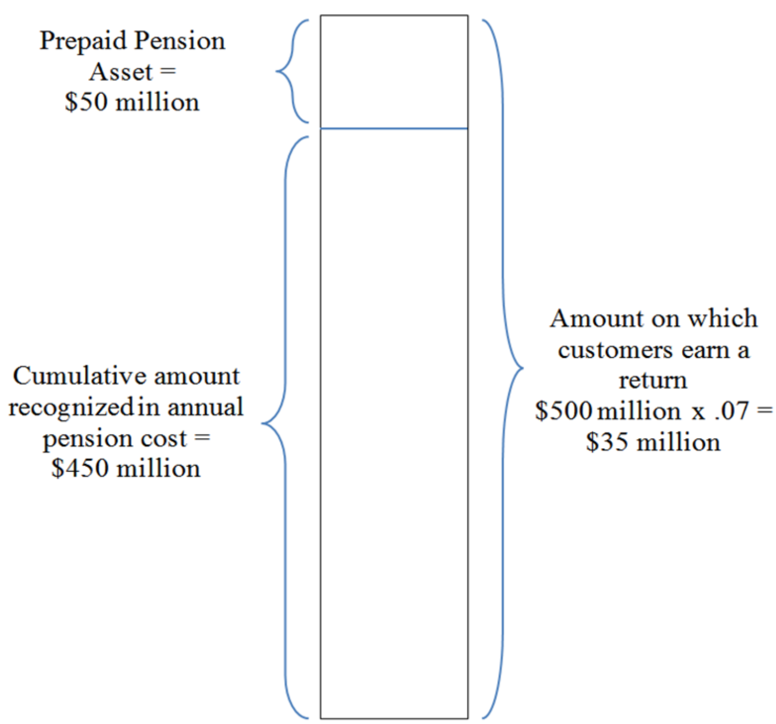
Q. WHAT DO YOU MEAN WHEN YOU STATE THAT CUSTOMERS PAY LOWER RATES AS A RESULT OF THE PREPAID PENSION ASSET?

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 market 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 market 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 market 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. Market returns earned on the pension trust benefit only Public Service's customers – there is not a shareholder benefit from the pension trust market return, even though shareholders have contributed the required funds to the pension trust and, absent inclusion of the unamortized balance in rate base at the Company's WACC, will earn zero return on their investment.

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 RRS-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 RRS-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 on a dollar-for-dollar basis. Consider, for example, the scenario depicted in Figure RRS-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. PLEASE TURN NOW FROM THE HYPOTHETICAL SCENARIOS YOU HAVE BEEN DISCUSSING TO PUBLIC SERVICE'S ACTUAL PREPAID PENSION ASSET. HAS THE COMPANY QUANTIFIED THE REDUCTION IN ANNUAL PENSION EXPENSE THAT CUSTOMERS EXPERIENCED AS A RESULT OF THE PREPAID ASSETS?

A. Yes. As shown in Table RRS-D-4, Public Service's qualified pension expense was reduced by $3.5 million during the twelve-month period ended September 30, 2019 on a gas utility basis because of market earnings on the prepaid pension asset trust:

Table RRS-D-4

Pension Plan	Date	Prepaid Pension Asset Trust	EROA	Pension Expense Reduction from Prepaid Pension Asset
NCE Non-Bargaining	9/30/2019	$4,391,545	6.90%	$303,017
Public Service Bargaining	9/30/2019	$49,424,942	6.50%	$3,212,621
Total		**$53,816,487**		**$3,515,638**

Although the market earnings reduced the Company's revenue requirement by approximately $3.5 million during the twelve-month period ended September 30, 2019 and will continue to reduce the revenue requirement by at least that amount going forward, Public Service cannot withdraw the earnings from the trust.

Q. DO CUSTOMER REALIZE ANY OTHER BENEFIT AS A RESULT OF THE EARNINGS ON PREPAID PENSION ASSETS?

A. Yes. Customers also earn a market return on a balance that the Company is not seeking to include in rate base. Public Service's annual pension cost includes costs for three different pension plans – the Public Service Bargaining Plan, the NCE Non-Bargaining Plan, and the XES Plan. All three of those plans have prepaid pension assets, and customers earn a market return on all three plans, which reduces the annual pension expense attributable to those plans. However, Public Service does not include the XES Plan portion of the prepaid pension asset in rate base because that asset belongs to XES, not to Public Service. Therefore, Public Service's customers are benefiting by receiving a market return on the XES Plan portion of the prepaid pension asset trust, but they do not pay a regulatory return on that asset in base rates.

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

A. The balance of the XES Plan prepaid pension asset associated with Public Service's gas jurisdiction as of September 30, 2019 was $20.5 million. With an EROA of 7.10 percent for the XES Plan, Public Service's gas customers received the benefit of approximately $1.5 million (gas) of market return in the twelve-month period ended September 30, 2019 on an asset on which they pay no return in base rates. That reduced annual pension expense by an equal amount.

Q. DOES THE PREPAID PENSION ASSET BENEFIT CUSTOMERS IN ANY OTHER WAY?

A. Yes. The contributions that helped create the prepaid pension asset allow the Company to avoid incurring Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be included within the annual pension cost charged to customers.

Q. PLEASE EXPLAIN WHAT THE PBGC IS.

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

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

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

Q. DO PUBLIC SERVICE AND ITS CUSTOMERS AVOID THE PAYMENT OF PBGC PREMIUMS BECAUSE OF THE CONTRIBUTIONS THAT HELPED CREATE THE PREPAID PENSION ASSET?

A. Yes. Colorado customers received the benefit of reduced PBGC premiums during the twelve-month period ended September 30, 2019, and Public Service projects that it will have additional PBGC savings in the future. The Company has not attempted to quantify the savings for purposes of this case, but the avoidance of incremental PBGC premiums produces actual savings.

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

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

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

A. Yes. That is the situation with Public Service's FAS 112 workers' compensation and LTD plans. Public Service has forecasted a corresponding accrued liability on its balance sheet related to these plans, as such Public Service has made a corresponding reduction in rate base in this case based on the amounts shown below. As I describe in the next section of my Direct Testimony, whether the Company has accrued liabilities or accrued assets, we seek appropriate, balanced, and principled ratemaking treatment from the Commission. Public Service has not received that balanced, principled ratemaking treatment in recent base rate proceedings but the Company has the responsibility to keep advocating for appropriate treatment because it aligns with prudent decisions with regard to management of the trusts and produces customer benefits. As I will discuss, it is for these reasons that inclusion of the prepaid pension asset in rate base is just, reasonable and in the best interest of our customers.

D. <u>Commission Precedent on Prepaid Pension Asset</u>

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

A. I describe the way the Commission has treated the prepaid pension asset in the past, and I explain that its recent decisions to allow no return or a reduced return on the prepaid pension asset are both anomalous and poorly reasoned.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED THE PREPAID PENSION ASSET?

A. Until recently, the Commission routinely allowed Public Service to include its prepaid pension asset in rate base and to earn a WACC return on it. The Commission first approved the inclusion of the prepaid pension asset in rate base in 1993, in Proceeding No. 93S-001EG, and in subsequent years the Commission approved numerous settlements that included the prepaid pension asset in rate base. To my knowledge, Staff never disputed the inclusion of the prepaid pension asset in rate base until Proceeding No. 12AL-1268G. In that proceeding, the Administrative Law Judge expressly rejected Staff's challenge to Public Service's request to include its prepaid pension asset in rate base, and the Commission upheld that decision.[19]

Q. HOW WAS THE PREPAID PENSION ASSET TREATED IN PROCEEDING NO. 14AL-0660E, THE COMPANY'S 2014 ELECTRIC RATE CASE?

A. As part of the settlement in Proceeding No. 14AL-0660E, the parties agreed that Public Service would be allowed to earn a return on the prepaid pension asset at the Company's embedded cost of debt until the Company's next rate case, at which time parties would be free to argue for a different return going forward, including none.

Q. WERE THE TERMS IN THE PROCEEDING NO. 14AL-0660E SETTLEMENT AGREEMENT INTENDED TO BE PRECEDENTIAL FOR FUTURE CASES?

A. No. In fact, the Settlement Agreement provided that "[e]xcept as expressly stated herein, nothing in this Settlement Agreement shall resolve any principle or establish any precedent or settled practice."[20] Nothing in the Settlement Agreement provided that the rate of return on the prepaid pension asset would be precedential.

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[19] *In the Matter of Advice Letter No. 830 – Gas of Public Service Company of Colorado, with Accompanying Tariff Sheets Concerning Implementing General Rate Schedule Adjustment (GRSA), to be Effective January 12, 2013,* Proceeding No. 12AL-1268G, Decision No. R13-1307 at 72-73 (mailed Oct. 22, 2013).

[20] Proceeding No. 14AL-0660E Settlement Agreement at 27.

Q. WHEN DID THE COMMISSION NEXT HAVE OCCASION TO CONSIDER THE TREATMENT OF ONE OF THE COMPANY'S PREPAID PENSION ASSETS?

A. In the Company's 2015 gas rate case, Proceeding No. 15AL-0135G, the Company asked to include its prepaid pension asset in rate base and to earn a WACC return on the asset. In contrast, Staff argued that the return should be limited to the cost of long-term debt. The Administrative Law Judge concluded that it was "reasonable to require Public Service *to continue* using its cost of debt as the rate for which it earns as return on the prepaid pension asset."[21] The Administrative Law Judge was evidently not aware that the only time the cost of debt had ever been used as the return on the prepaid pension asset was in the Proceeding No. 14AL-0660E settlement, which was expressly intended to be non-precedential.

Q. DID THE COMMISSION ADDRESS THE PREPAID PENSION ASSET IN A RATE CASE AFTER THAT?

A. Yes. In the 2017 Gas Phase I, the Commission found that the prepaid pension asset should not earn any return at all.[22] With all due respect, however, the reasoning in that order is illogical and internally inconsistent. Accordingly, Public

[21] *In the Matter of the Advice Letter No. 876-Gas Filed by Public Service Company of Colorado to Increase Rates for All Natural Gas Sales and Transportation Services to Become Effective April 3, 2015,* Proceeding No. 15AL-0135G, Decision No. R15-1204 at 71 (Mailed Nov. 16, 2015) (emphasis added).

[22] *In the Matter of Advice No. 912-Gas Filed by Public Service Company of Colorado to Roll the Pipeline System Integrity Adjustment ("PSIA") Costs into Base Rates Beginning in 2019 and Increase Rates for all Natural Gas Sales and Transportation Services by Implementing a General Rate Schedule Adjustment ("GRSA") in the Company's Colorado P.U.C. No. 6-Gas Tariff, to Become Effective July 3, 2017,* Decision No. C18-0736-I at 36 (Mailed Aug. 29, 2018). On March 11, 2019, the Commission denied Public Service's Application for Rehearing, Reargument, and Reconsideration of that order. *See* Decision No. C19-0232 at 15-16 (mailed March 11, 2019).

Service has appealed the Commission's decision in that case to state District Court.[23]

Q. WHY DO YOU SAY THAT THE REASONING IN THE COMMISSION'S DECISION IS ILLOGICAL AND INTERNALLY INCONSISTENT?

A. The Commission articulated three reasons for denying a return on the prepaid pension asset: (1) the return on the asset does not improve the funded status of the pension plan; (2) the return does not fund the pension benefit for employees; and (3) other Colorado utilities are not allowed to earn a return on their prepaid pension assets. In the Company's view, those reasons do not justify denying a return on the prepaid pension asset and in certain respects are misguided or just plain wrong.

Q. WHY DO YOU STATE THAT THOSE REASONS DO NOT JUSTIFY DENYING A RETURN ON THE PREPAID PENSION ASSET?

A. I make that statement for numerous reasons. First, while it is true that "the return on the asset does not improve the funded status of the pension plan,"[24] shareholders' actual prepayments to the pension trust (i.e., the amounts that comprise the prepaid pension asset) do, in fact, improve the funded status of the plan. Without the prepaid pension asset, the Company's pension fund would be underfunded by an additional $31 million as of December 31, 2019 as shown on Attachment RRS-6.

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[23] *Public Service Co. of Colorado v. Public Utilities Commission of the State of Colorado*, Case No. 2019CCV031427 (Dist. Ct., Denver Co., Colo., filed Apr. 10, 2019).

[24] Proceeding No. 17AL-0363G, Decision No. C18-0736-I ¶102, (Mailed August 29, 2018).

Second, the underlying premise of the argument—that the return on the asset *should* improve the funded status of the plan—is simply wrong. It is akin to saying that a bondholder should not earn interest on the bond because the interest does not increase the face value of the bond. The purpose of the interest is not to increase the value of the bond. Instead, the purpose of the interest is to provide an incentive for the bondholder to purchase and hold the bond by compensating the bondholder for the use of the money. Similarly, the purpose of allowing a return on the prepaid pension asset is to incentivize shareholders to make contributions to the pension trust and to compensate them for the use of their money. This is no different than providing a WACC return on a shareholder's investment in a transmission line, which compensates the shareholder for the use of his or her money and incentivizes the shareholder to invest in future transmission lines.

If the Commission wants the funded status of the plan to improve, the most effective way to improve the funded status is to allow the Company a return on the prepaid pension asset so it has a financial incentive to contribute to it. In contrast, disallowing a return or allowing only a debt return removes the incentives for Public Service to fund the plan beyond the bare minimum. This would cause the trust's funded status to fall even lower and would increase the pension expense that customers pay.

The Commission's statement that the return on the prepaid pension asset does not fund the pension benefit for employees is also misguided. The return on the prepaid pension asset is not intended to fund the pension benefit for employees, but instead is intended to incentivize shareholders to make contributions to the pension trust, as noted earlier. However, the assets in the trust, including the prepayments themselves, are intended to fund the pension benefit for employees. Thus, if the Commission wants to ensure that the pension trust is adequately funded for the benefit of employees, the most effective way to do that is to provide an incentive for shareholders to fund the plan adequately by allowing a return on prepayments.

Finally, the mere fact that other utilities are not allowed a return on their prepaid pension assets is not a valid reason to deny Public Service a return because the disallowances in those cases were based on the same flawed arguments put forth by Staff in the 2017 Phase I Gas Rate Case to disallow a return on the prepaid pension asset.[25] Furthermore, the Xcel Energy operating companies earn a WACC return on their prepaid pension assets in all of the other jurisdictions where Xcel Energy operates.

[25] *In the Matter of Advice Letter No. 530 Filed by Atmos Energy Corporation to Increase the Base Rates and the Proposed Recovery of Rate Case Expenses to be Effective July 27, 2017*, Proceeding No. 17AL-0429G, Decision No. C18-0311 at 24-25 (Mailed May 3, 2018).

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 cause the expense to be higher. 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 I discussed earlier, 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 decides 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.

VIII. PENSION-RELATED TRACKING AND REPORTING

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

A. In this section of my Direct Testimony, I describe the regulatory tracker created in Proceeding No. 15AL-0135G for qualified pension expense and non-qualified pension expense. I quantify the tracker balance as of September 30, 2019, and I explain that the Company proposes to continue using the tracker for the rates set in this proceeding. In addition, I describe the reporting requirements approved by the Commission in Proceeding No. 15AL-0135G, and I explain that the Company has complied with those reporting requirements.

A. Pension Tracker

Q. DID THE COMMISSION APPROVE A PENSION EXPENSE TRACKING MECHANISM IN PROCEEDING NO. 15AL-0135G?

A. Yes. The Commission approved a tracker in that proceeding to "ensure that parties pay no more and no less than the costs of the pension."[26]

Q. HAS THE COMPANY COMPLIED WITH THE PENSION TRACKER REQUIREMENT IN THE SETTLEMENT AGREEMENT?

A. Yes. As shown in Attachment RRS-8, the Company has been tracking its qualified and non-qualified pension costs against the $9,468,783 baseline established in the 2017 Phase I Gas Rate Case.[27]

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[26] Proceeding No. 15AL-0135G, Decision No. R15-1204 at ¶ 233.

[27] The baselines established in proceeding No. 17AL-0363G were $9,196,962 for qualified pension expense and $271,821 for non-qualified pension expense.

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

A. As shown in Attachment RRS-8, the cumulative balance of the tracker as of September 30, 2019 was a $751,118 regulatory asset that is owed to Public Service. That indicates actual pension expense was more than the baseline established in the previous rate case. This cumulative balance is made up of $1,261,330 related to qualified pension expense and $(510,212) related to non-qualified pension expense. The Company proposes to amortize this balance over 36 months. This proposed amortization is further explained in Mr. Berman's Direct Testimony.

Q. DOES THE COMPANY PROPOSE TO CONTINUE THE PENSION TRACKER AFTER THE RATES ESTABLISHED IN THIS CASE TAKE EFFECT?

A. Yes. The Company is proposing to continue the tracker going forward for both qualified and non-qualified pension expense. The baselines that Public Service proposes are $7,830,663 for qualified pension expense and $124,838 for non-qualified pension expense, which are the requested amounts in this case.

B. <u>Pension-Related Reporting Requirements</u>

Q. DID THE COMMISSION APPROVE PENSION REPORTING REQUIREMENTS FOR THE COMPANY IN PROCEEDING NO. 15AL-0135G?

A. Yes. The Commission directed Public Service to file annual reports providing actual and forecasted information for the three qualified pension plans that affect Public Service employees.[28]

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[28] *Id.*

Q. HAS THE COMPANY COMPLIED WITH THE ANNUAL PENSION REPORTING REQUIREMENTS THAT WERE APPROVED IN PROCEEDING NO. 15AL-0135G?

A. Yes. The Company has filed annual pension reports, including the most recent one on April 30, 2019.

IX. PREPAID RETIREE MEDICAL ASSET

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

A. I address the Company's request to include its prepaid retiree medical asset in rate base and to earn a WACC return on that asset.[29]

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;[30] 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.[31] The Company has accrued a retiree medical asset because its direct payments of benefits and its cumulative cash contributions to the VEBA trust collectively exceed the cumulative retiree medical expense recognized under FAS 106 since the inception of the retiree medical plan.

[29] 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."

[30] 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.

[31] The assets of a retiree medical plan are typically held in a VEBA trust, although benefits are not required to be funded exclusively through a trust.

Q. WHAT IS THE FORECASTED PREPAID RETIREE MEDICAL ASSET BALANCE AT SEPTEMBER 30, 2020?

A. The thirteen-month prepaid retiree medical asset balance is forecasted to be $14,694,799 on a Public Service Gas Utility O&M basis.[32] That is the amount the Company seeks to include in rate base. Please refer to Attachment RRS-7.

Q. DO CUSTOMERS BENEFIT FROM THE RETIREE MEDICAL ASSET?

A. Yes. The return on the assets in the VEBA trust reduces the retiree medical expense included in the cost of service. In fact, as I testified earlier, the retiree medical expense was negative during the twelve-month period ending September 30, 2019, and it is expected to be negative going forward. Therefore, it is reasonable to include the retiree medical asset in rate base and for the Company to earn a WACC return on it.

Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT THE PREPAID RETIREE MEDICAL ASSET RESULTS FROM NEGATIVE RETIREE MEDICAL EXPENSE. 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;
2. Interest cost;
3. EROA;

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[32] Public Service uses a thirteen-month average because the balance of the prepaid retiree medical asset varies from month to month.

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 retiree medical 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. Contributions to the trust have been $0 since 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. 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 market return on it. That market 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 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 market return on the retiree medical asset because the EROA reduces current annual retiree medical expense, and therefore the prepaid retiree medical asset is a used and useful utility asset.

Q. IN THE 2017 PHASE I GAS RATE CASE, THE COMMISSION REJECTED THE COMPANY'S REQUEST TO INCLUDE THE PREPAID RETIREE MEDICAL ASSET IN RATE BASE. SHOULD THE COMMISSION FOLLOW THAT PRECEDENT IN THIS CASE?

A. No. In Decision No. C19-0232 in the 2017 Phase I Gas Rate Case, the Commission offered two reasons for denying the Company a return on the prepaid retiree medical asset: "The program is no longer being offered to new employees and there is more money in the trust than is required to pay benefits."[33] Both reasons are illogical.

Q. WHY DO YOU STATE THAT THE FIRST REASON IS ILLOGICAL?

A. Regardless of whether the program is being offered to new employees, Public Service still provides retiree medical benefits to retirees and to certain current employees that are eligible for the program. Therefore, the retiree medical costs are reasonable and necessary costs of service.

Moreover, the market earnings on the prepaid retiree medical asset reduce current retiree medical expense on a dollar-for-dollar basis, as I have explained. If the Commission is going to treat the prepaid retiree medical asset as if it does not exist because retiree medical benefits are no longer being offered to new employees, the market earnings on that asset should not be included in the calculation of current retiree medical expense.

[33] Proceeding No. 17AL-0363G, Decision No. C19-0232 at 16, ¶ 62.

Q. WHY DO YOU STATE THAT THE SECOND REASON IS ILLOGICAL?

A. The purpose of the regulatory return on the prepaid retiree medical asset is not to increase the balance of the VEBA trust. Instead, it is to compensate investors for the use of the money that has been placed in the trust and to induce them to continue funding the VEBA trust at a level that ensures the beneficiaries of the trust will continue to have access to retiree medical benefits.

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 market 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.

X. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS REGARDING THE PENSION AND BENEFIT COSTS THAT YOU SUPPORT IN THIS CASE?

A. Yes. The pension and benefit requested amounts that I am supporting are reasonable and necessary costs of providing service to Public Service's customers, and therefore they should be included in the Company's revenue requirement. As I explained earlier in my Direct Testimony, the Company's overall pension and benefit expense has declined significantly since 2016, in large part because of the many steps the Company has taken to modify its pension and benefit programs.

The Commission should also allow the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a regulatory return on those assets at the Company's WACC. Prepayments are routinely added to or subtracted from rate base, and there is no valid reason to treat the prepaid pension asset and prepaid retiree medical asset differently. In addition, customers realize a benefit from the assets in the form of earned market returns that reduce pension and retiree medical expense, and it would be inequitable to allow them to retain that benefit without paying any return on the asset.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Richard R. Schrubbe

I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996.

From 2000 to 2005, I was employed by the Do ALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst.

In 2007, I joined Xcel Energy as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. In 2017, I was promoted to the Area Vice President responsible for oversight of the Business Area Finance groups. My current role includes overseeing the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also familiar with the applicable laws, regulatory rules, and ratemaking practices regarding Xcel Energy's recovery of pension and benefits costs and assets in its many jurisdictions.

In addition to Public Service's most recent electric base rate case before the Colorado Public Utilities Commission (Proceeding No. 19AL-0268E), I have testified in the Company's last two gas base rate cases before the Colorado Public Utilities Commission, Proceeding Nos. 17AL-0363G and 15AL-0135G, on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. I have also submitted pre-filed direct and rebuttal testimony in the Company's last Phase II electric rate case in Colorado, Proceeding No. 14AL-0660E. I have also testified before the Minnesota Public Utilities Commission, the

Public Utility Commission of Texas, and the New Mexico Public Regulation Commission on pension and benefit issues.

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 BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE MARCH 7, 2020	**) PROCEEDING NO. 20AL-______G**

AFFIDAVIT OF RICHARD R. SCHRUBBE ON BEHALF OF PUBLIC SERVICE COMPANY OF COLORADO

I, Richard R. Schrubbe, 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, MN, this 3rd day of February, 2020.

Richard R. Schrubbe
Area Vice President, Financial Analysis and Planning

Subscribed and sworn to before me this 3rd day of February, 2020.

Amy Jo Larkin
Notary Public

My Commission expires 1/31/2023

AMY JO LARKIN
Notary Public
State of Minnesota
My Commission Expires
January 31, 2023