

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

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

\* \* \* \* \*

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

**DIRECT TESTIMONY AND ATTACHMENTS OF DEBORAH A. BLAIR**

**ON**

**BEHALF OF**

**PUBLIC SERVICE COMPANY OF COLORADO**

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

**Confidential:** Attachment DAB-1A and Attachment DAB-2A

**February 5, 2020**

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**LIST OF ATTACHMENTS**

Attachment DAB-1	Test Year Revenue Requirement Study for Public Service Company's Gas Department
Confidential Attachment DAB-1A	Confidential version of Attachment DAB-1A, Adjusted Base Rate Revenue for the Test Year
Public Attachment DAB-1A	Public version of Attachment DAB-1A, Adjusted Base Rate Revenue for the Test Year
Attachment DAB-2	Informational HTY Revenue Requirement Study for Public Service Company's Gas Department
Confidential Attachment DAB-2A	Confidential version of Attachment DAB-2A, Adjusted Base Rate Revenue for the 12-Month Period Ended September 30, 2019
Public Attachment DAB-2A	Public version of Attachment DAB-2A, Adjusted Base Rate Revenue for the 12-Month Period Ended September 30, 2019
Attachment DAB-3	Road map of data included in the Test Year versus Informational HTY
Attachment DAB-4	Comparison of Test Year versus the cost of service study supporting the Company's current base rates approved in Proceeding No. 17AL-0363G
Attachment DAB-5	Test Year Detail of Per Book Operations and Maintenance expenses split by Service Company and Public Service Direct (also referred to as Public Service Native) expenses
Attachment DAB-6	Test Year Audit Trail Map
Attachment DAB-7	Regulatory Principles and Adjustments underlying the Test Year
Attachment DAB-8	Lead-Lag Study summary that supports the Cash Working Capital Factors used in the cost of service study
Attachment DAB-9	CD-ROM - Detailed Lead-Lag Study support with Revenue Lag detail
Attachment DAB-10	Labor Productivity Study
Attachment DAB-11	CD-ROM - Copies of Recoverable Advertisements for 12-Month Period Ended September 30, 2019
Attachment DAB-12	2020 PSIA Estimated Revenue Requirement as filed
Attachment DAB-13	Updated 2020 PSIA Estimated Revenue Requirement



**GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
2015 Gas Phase I	Proceeding No. 15AL-0135G
2016 HTY	2016 Historical Test Year
2017 Gas Phase I	Proceeding No. 17AL-0363G
2019 Electric Phase I	Proceeding No. 19AL-0268E
2019 Adjusted Labor	In-period adjustment to reflect the average increase of three percent, effective March 2019 for the entire period
ADIT	Accumulated Deferred Income Tax
AFUDC	Allowance for Funds Used During Construction
AGIS	Advanced Grid Initiative and Security
A&G	Administrative and general
AIP	Annual Incentive Pay
Commission	Colorado Public Utilities Commission
CWIP	Construction Work in Progress
DSM	Demand Side Management
DSMCA	Demand Side Management Cost Adjustment
Dth	Dekatherm
EOC	Energy Outreach Colorado
FAN	Field Area Network
FAS 106	Financial Accounting Standard 106
FAS 112	Financial Accounting Standard 112
FERC	Federal Energy Regulatory Commission
GCA	Gas Cost Adjustment

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
Historical Test Year or HTY	Historical Test Year - Calendar Year of 2016
IRS	Internal Revenue Service
I&S	Investigation and Suspension
MGP	Manufactured Gas Plant
New Prepaid Pension Asset	Any new prepaid pension balance accumulating on or after January 1, 2015
NOL	Net Operating Loss
OCC	Office of Consumer Counsel
OCI	Other comprehensive income
O&M	Operating and Maintenance
PHFU	Plant Held for Future Use
PSIA	Pipeline System Integrity Adjustment
Public Service, or the Company	Public Service Company of Colorado
ROE	Return on Equity
Schedule M items	Taxable addition/deductions
Service Company	Xcel Energy Services Inc.
Service period	Period of time from when the Company receives goods or services and the date the expense is paid
TCJA	Tax Cuts and Jobs Act
Test Year	Ending September 30, 2020
WACC	Weighted average cost of capital
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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EFFECTIVE MARCH 7, 2020 )

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

**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Deborah A. Blair. My business address is 1800 Larimer Street,  
Denver, Colorado 80202.

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

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

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

A. I am testifying on behalf of Public Service.

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

2   A.   As Director, Revenue Analysis, I am responsible for determining the overall  
3       revenue levels required by Public Service and Southwestern Public Service  
4       Company, another Xcel Energy regulated utility subsidiary. I lead a team of  
5       analysts who develop revenue requirement models to support the rates charged  
6       by Public Service. I direct, review, and analyze the revenue requirements that  
7       support the base rates, rate riders, and Federal Energy Regulatory Commission  
8       ("FERC") formula rates used by Public Service. A description of my  
9       qualifications, duties, and responsibilities is set forth in my Statement of  
10      Qualifications at the conclusion of my Direct Testimony.

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

12   A.   The purpose of my Direct Testimony is to present Public Service Gas  
13       Department's revenue requirement study, also known as the cost of service study,  
14       which supports the requested increase in base rate revenue the Company is  
15       requesting in this proceeding. As discussed by Company witness Ms. Brooke A.  
16       Trammell, the Company is proposing to utilize a test year in this rate case ending  
17       September 30, 2020 ("Test Year"), utilizing actual historical costs for the 12-month  
18       period ended September 30, 2019, adjusted for known and measurable Operations  
19       and Maintenance ("O&M") and revenue changes through September 30, 2020, and  
20       rate base capital additions expected to close to plant in-service by September 30,  
21       2020. The overall retail revenue requirement for the Test Year is \$644,483,385. I  
22       also explain the rationale for, and effect of, many of the adjustments included in  
23       the cost of service study. This cost of service study is then utilized by Company

1 witness Mr. Steven Wishart to present the Company's class cost of service study,  
2 revenue distribution by customer class, and rate design proposals for this  
3 proceeding.

4 I also present an informational historical test year ("HTY") for the 12-month  
5 period ended September 30, 2019 ("Informational HTY"), for comparative  
6 purposes. Additionally, I present the amount related to completed projects being  
7 transferred from recovery in the Pipeline System Integrity Adjustment Rider  
8 ("PSIA") to base rates. I also present the updated 2020 estimated PSIA revenue  
9 requirement, reflecting the transfer of completed PSIA projects to base rates at  
10 the conclusion of this rate case.

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

13 A. Yes, I am sponsoring Attachments DAB-1 through DAB-13, which were prepared  
14 by me or under my direct supervision. The attachments are as follows:

- 15 • Attachment DAB-1 – Test Year Revenue Requirement Study for Public  
16 Service Company's Gas Department;
- 17 • Attachment DAB-1A – Confidential and Public versions of Adjusted  
18 Base Rate Revenue for the Test Year;
- 19 • Attachment DAB-2 – Informational HTY Revenue Requirement Study  
20 for Public Service Company's Gas Department;
- 21 • Attachment DAB-2A – Confidential and Public versions of Adjusted  
22 Base Rate Revenue for the 12-Month Period Ended September 30,  
23 2019;
- 24 • Attachment DAB-3 – Road map of data included in the Test Year  
25 versus Informational HTY;

- Attachment DAB-4 – Comparison of Test Year versus the cost of service study supporting the Company's current base rates approved in Proceeding No. 17AL-0363G;
- Attachment DAB-5 – Test Year Detail of Per Book O&M expenses split by Service Company and Public Service Direct (also referred to as Public Service Native) expenses;
- Attachment DAB-6 – 2018 Audit Trail Map;
- Attachment DAB-7 – Regulatory Principles and Adjustments underlying the Test Year;
- Attachment DAB-8 – Lead-Lag Study summary that supports the Cash Working Capital Factors used in the cost of service study;
- Attachment DAB-9 – CD-ROM - Detailed Lead-Lag Study support with Revenue Lag detail;
- Attachment DAB-10 – Labor Productivity Study;
- Attachment DAB-11 – CD-ROM - Copies of Recoverable Advertisements for 12-Month Period Ended September 30, 2019;
- Attachment DAB-12 – 2020 PSIA Estimated Revenue Requirement as filed in November 2019; and
- Attachment DAB-13 – Updated 2020 PSIA Estimated Revenue Requirement.

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

A. I recommend the Colorado Public Utilities Commission ("Commission") approve the retail gas revenue requirement for the Test Year of \$644,483,385. I also recommend the Commission approve transferring completed PSIA projects that went through the 2019 prudency review process into base rates, and implementation of the resulting updated 2020 estimated PSIA revenue

1 requirement presented in Attachment DAB-13, with the effective date of rates  
2 from this proceeding.

**II. TEST YEAR REVENUE DEFICIENCY**

**Q. PLEASE SUMMARIZE THE RESULTS OF THE REVENUE REQUIREMENT  
STUDY FOR THE TEST YEAR PROPOSED IN THIS PROCEEDING.**

A. The Test Year revenue requirement study shows a total revenue requirement, excluding gas costs collected through the Gas Cost Adjustment ("GCA"), costs collected through the Gas Demand Side Cost Adjustment ("DSMCA"), and costs that will continue to be collected through the PSIA, of \$644,483,385. This is based on the proposed return on equity ("ROE") of 9.95 percent, as requested by Ms. Trammell and supported by Company witness Ms. Ann E. Bulkley; and a long-term cost of debt of 4.08, a short-term cost of debt of 2.79 percent and a capital structure of 55.81 percent equity, 42.97 percent long-term debt, and 1.22 percent short-term debt, as recommended by Company witness Ms. Sarah W. Soong, which results in an overall return on rate base of 7.33 percent (i.e., the Company's Weighted Average Cost of Capital ("WACC")). When compared to Test Year present revenue of \$500,019,265, this revenue requirement results in a base rate revenue increase of \$144,464,121.

However, this base rate revenue increase includes costs associated with completed projects as of December 31, 2018, that are currently recovered in the PSIA, and therefore do not increase overall revenues from the Company's gas customers. Excluding the base revenue requirement effects of the projects that are currently recovered in the PSIA, the Company is seeking a net increase in revenues of \$126,738,296.



1 **Q. HOW HAVE COSTS RELATED TO COMPLETED PROJECTS CURRENTLY**  
2 **RECOVERED IN THE PSIA BEEN INCLUDED IN THE TEST YEAR?**

3 A. As previously mentioned, the Company is including certain projects in the Test Year  
4 rate base that are currently recovered in the PSIA. These projects were completed  
5 and in-service as of December 31, 2018 and have gone through a prudence  
6 review before the Commission, consistent with the settlement agreement related to  
7 the PSIA extension approved in Decision No. C18-0983 in Proceeding No. 18A-  
8 0422G. The estimated revenue requirement impact of including these projects in  
9 rate base is \$17,725,825. Going forward, these projects will be included in rate  
10 base like any other base rate project approved for recovery by the Commission.

11 The inclusion of these projects in this proceeding is revenue neutral and  
12 does not reflect an increase in rates to our customers, as the PSIA revenue  
13 requirement filed in Proceeding No. 19AL-0643G is being reduced simultaneously  
14 to reflect these projects moving to rate base. I present the updated PSIA revenue  
15 requirement in Attachment DAB-13 and discuss later in my Direct Testimony the  
16 process by which the Company proposes to implement the changes to the PSIA in  
17 2020 and the associated true-up process for the 2020 PSIA in April of 2021.

18 **Q. OVERALL, WHAT IS DRIVING THE NET INCREASE IN BASE RATES THE**  
19 **COMPANY IS REQUESTING IN THIS RATE CASE?**

20 A. The primary driver of the net increase in base rates is capital investment in the gas  
21 system since the Company's last gas rate case, Proceeding No. 17AL-0363G  
22 ("2017 Gas Phase I"), which set base rates using a 2016 historical test year ("2016  
23 HTY"). The plant and associated increases in depreciation expense, property tax,

and income tax all drive an increased revenue requirement after offsets by accumulated reserve for depreciation, retirements, and Accumulated Deferred Income Taxes ("ADIT"). The plant additions since the 2017 Gas Phase I through the September 30, 2020, end of the Test Year are provided in Table DAB-D-1 below:

**Table DAB-D-1**

<b>Plant Additions by Function</b>				
	<b>2017</b>	<b>2018</b>	<b>1/2019-9/2019</b>	<b>10/2019-9/2020</b>
General/Intangible	12,365,145	28,987,218	2,697,409	31,500,896
Common	173,388,979	78,666,808	42,407,283	100,852,376
Storage	1,899,202	640,276	1,468,463	2,477,380
Production	1,094,485	440,125	-	514,986
Transmission	19,506,518	32,235,141	22,935,943	90,614,188
Distribution	141,486,980	146,419,244	179,622,791	180,073,539
<b>Total</b>	<b>349,741,309</b>	<b>287,388,813</b>	<b>249,131,890</b>	<b>406,033,365</b>

These plant additions, as well as changes in O&M expenses, are described in more detail by Company witnesses Mr. Luke A. Litteken, Mr. Adam R. Dietenberger, and Mr. Sridhar Koneru.

Other drivers of the requested net increase in base rates include increased depreciation expense as a result of an updated study of depreciation rates discussed by Company witness Ms. Laurie J. Wold, and changes in amortization expenses associated with previously approved deferred regulatory assets that I will discuss in more detail later in my Direct Testimony. I have prepared a comparison of the Test Year cost of service in this proceeding to the 2016 HTY approved in the 2017 Gas Phase I, in Attachment DAB-4.

**III.COST OF SERVICE STUDY**

**Q. WHAT TEST YEAR HAS THE COMPANY CHOSEN FOR PURPOSES OF ITS COST OF SERVICE STUDY IN THIS PROCEEDING?**

A. As I previously stated, Public Service is proposing to utilize a Test Year in this proceeding ending on September 30, 2020, based on historical costs for the 12-month period ended September 30, 2019, adjusted for known and measurable O&M and revenue changes through September 30, 2020, and capital additions expected to close to plant in-service by September 30, 2020.

**Q. PLEASE DISCUSS THE MATCHING OF THE COMPANY'S INVESTMENTS, REVENUES, AND EXPENSES IN THE TEST YEAR.**

A. I have provided a detailed road map of all the rate base, income statement, and WACC components included in the Test Year as Attachment DAB-3 for ease of reference. Table DAB-D-2 below summarizes how these components have been matched in the Test Year.

**Table DAB-D-2**

<b>Component</b>	<b>Time Period</b>
Rate Base	Plant in-service as of September 30, 2020
Base Rate Revenue	Two months actual, 10 months forecast for the twelve-month period ending September 30, 2020
O&M Expense	12 months of actual O&M expense ended September 30, 2019, adjusted for known and measurable changes through September 30, 2020
Depreciation Expense	Costs as of September 30, 2020
Property Tax Expense	2021 forecasted expense to be paid based on 2020 plant balances
Capital Structure (WACC)	Three months actual and 10 months forecasted average month-end balances for the 13 months ending September 30, 2020

1 **Q. WHAT IS A COST OF SERVICE STUDY?**

2 A. A cost of service study – also referred to as a revenue requirement study –  
3 examines all of the Company’s investments, revenues, and expenses associated  
4 with providing a utility’s service over a specific 12-month period, or “test year,” with  
5 the goal of determining the Company’s cost of providing service to its customers  
6 during the period of time in which new rates will be in effect. A number of rate case  
7 principles established in previous cases are used in calculating the cost of service.  
8 To the extent that the cost of service study presented in this proceeding departs  
9 from principles applied in previous cases, either Company witness Mr. Steven P.  
10 Berman or I discuss them in our Direct Testimony. The revenue requirement study  
11 indicates the overall level of base rate revenue necessary for the Company to  
12 recover its reasonable and prudent costs of providing safe, reliable, and affordable  
13 natural gas service as well as have an opportunity to earn its authorized return.

14 **Q. HOW WAS THE COST OF SERVICE STUDY DEVELOPED FOR THIS RATE**  
15 **CASE?**

16 A. The starting point in developing the cost of service is the Company’s books and  
17 records for the 12-month period ended September 30, 2019. The Company uses  
18 the FERC Uniform System of Accounts<sup>1</sup> as the basis for the book numbers in the  
19 cost of service. The per book plant balances presented in the Test Year are in the  
20 roll-forward schedules supported by Company witness Ms. Wold. The Company

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<sup>1</sup> Code of Federal Regulations Title 18, Part 201, Uniform System of Accounts prescribed for public utilities and licensees subject to the provision of the Natural Gas Act.

1 then made three types of regulatory adjustments to the book numbers to develop  
2 the cost of service for this rate case:

- 3 1) Accounting adjustments;
- 4 2) Commission-ordered adjustments; and
- 5 3) *Pro forma* adjustments.

6 The resulting required revenues computed by the cost of service model are then  
7 compared to the present base revenues, based on current rates applied to Test  
8 Year customers and sales, to determine any revenue deficiency or excess. If  
9 present revenues are greater than the required revenues, the result indicates  
10 excess revenues and the need for a rate decrease. If present revenues are less  
11 than the required revenues, the result indicates a revenue deficiency and the need  
12 for a rate increase.

13 **Q. HOW IS THE COST OF SERVICE STUDY PRESENTED IN THIS MATTER?**

14 A. The cost of service study presented in this rate case is shown on Attachment DAB-  
15 1. For ease of reference, I have included an Index of Schedules at the beginning of  
16 this Attachment. The Schedules generally follow this order:

- 17 • Schedule 1 – Revenue Requirement
- 18 • Schedule 3 – Capital Structure
- 19 • Schedules 100 through 199 – Rate Base and Support for Rate Base  
20 Adjustments
- 21 • Schedules 200 through 299 – Income Statement and Support for Income  
22 Statement Attachments
- 23 • Schedules 300 through 399 – Jurisdictional Allocation Factors

1 **Q. IS THERE ANY ADDITIONAL INFORMATION YOU ARE PRESENTING IN THIS**  
2 **RATE CASE TO SUPPORT THE PER BOOK DATA PRESENTED IN**  
3 **ATTACHMENT DAB-1?**

4 A. Yes. I am providing additional supporting information for the O&M expenses split  
5 by service company and native Public Service expenses, shown in Attachment  
6 DAB-5. I am also providing the detailed actual O&M data used in the cost of  
7 service in Attachment DAB-6, referred to as the Audit Trail Map.

8 **Q. PLEASE DESCRIBE WHAT YOU MEAN BY "ACCOUNTING ADJUSTMENTS."**

9 A. Accounting adjustments are made either to eliminate certain accounts or expenses  
10 that should not be included in the base rate calculation or to add accounts that  
11 should be included in the calculation. For example, gas costs collected through  
12 the GCA and costs collected through the DSMCA are removed. These costs are  
13 tracked and recovered through adjustment mechanisms and are therefore excluded  
14 for purposes of determining the Company's base rates. Also, accounting  
15 adjustments are made for out-of-period costs. If these costs are applicable to prior  
16 periods they are eliminated, or if costs are applicable to the Test Year but were  
17 recorded after the Test Year, they would be included.

18 **Q. PLEASE DESCRIBE "COMMISSION-ORDERED ADJUSTMENTS."**

19 A. Commission-ordered adjustments are made to comply with rate recovery policies  
20 and principles established by Commission orders issued in prior Public Service rate  
21 proceedings, where Public Service has chosen not to ask for reconsideration. For  
22 example, advertising expenses incurred for marketing, promotional, community  
23 relations, image, and political purposes are costs that the Commission has

specifically ordered to be eliminated from the regulated cost of service study in the past. If Public Service wished to include such items in the cost of service, we would explicitly request Commission authorization to do so.

**Q. PLEASE DESCRIBE “*PRO FORMA* ADJUSTMENTS.”**

A. *Pro forma* adjustments are made to test year results in order for that period to reasonably represent future conditions. Adjustments are made for known and measurable changes occurring both in the Test Year (in-period adjustments) and outside the Test Year (out-of-period adjustments). *Pro forma* adjustments are typically made to a historical test year cost of service in order to make the test year more representative of the costs the Company expects to incur during the period of time in which new rates will be in effect. For example, wage increase adjustments for increases in the test year and outside the test year are *pro forma* adjustments. The Commission traditionally has allowed *pro forma* adjustments to capture known and measurable costs occurring one year after the end of the historical test year.

**Q. WHAT ADJUSTMENTS AND REGULATORY PRINCIPLES ARE INCORPORATED INTO THE COST OF SERVICE STUDY PRESENTED IN THIS RATE CASE?**

A. I have incorporated the following adjustments and regulatory principles, as previously established by the Commission, into the cost of service study presented in Attachment DAB-1.

**Rate Base**

- The gas stored underground inventory balance is collected through the GCA and has been eliminated from rate base;

- 1 • Materials and supplies inventory and other non-plant rate base items,  
2 such as customer deposits and customer advances for construction,  
3 are calculated using a 13-month average of month-end balances;
- 4 • The ADIT balances are calculated using the year-end balances and  
5 incorporate the effects of bonus depreciation, as applicable;
- 6 • The ADIT balances are a net reduction to rate base, as opposed to a  
7 cost-free component in the capital structure. The ADIT balances are  
8 functionalized. Adjustments to ADIT include eliminating amounts that  
9 are not included in the cost of service calculation and adjustments  
10 related to plant adjustments;
- 11 • Full normalization is the method of accounting for income taxes, allowing  
12 the Company to provide for deferred taxes on all book/tax timing  
13 differences, including any offset to ADIT for net operating losses  
14 (“NOL”) or NOL carry-forward;
- 15 • Adjustments to rate base and specific assignment of plant to either the  
16 Commission jurisdiction or the FERC jurisdiction are made using the  
17 year-end balances to match the method of measuring rate base;
- 18 • Common plant is allocated to the Gas Department based on a study of  
19 all common plant assets and assigning an allocation method for each  
20 type of asset;
- 21 • Construction Work in Progress (“CWIP”) is included in rate base with  
22 an Allowance for Funds Used During Construction (“AFUDC”) addition  
23 to earnings based on the year-end balance. The Company annualized  
24 the AFUDC addition to earnings;
- 25 • An adjustment is made to eliminate contractor retentions from CWIP;
- 26 • ADIT and Deferred Income Tax expense are adjusted for the interest  
27 on CWIP;
- 28 • Capital lease assets are not included in rate base;
- 29 • Plant Held for Future Use (“PHFU”) is included in rate base;
- 30 • An adjustment is made to eliminate a portion of the materials and  
31 supplies inventory balance allocated to construction-related projects;



- Cash working capital components consist of gas purchased for resale, O&M expenses both directly incurred by the Company and charges from XES, paid time off, taxes other than income, federal and state income taxes, and franchise and sales taxes;
- Cash working capital factors are based on a lead-lag study;
- Deductions from rate base include customer deposits and customer advances for construction;

#### **Revenue**

- Retail base rate revenue does not include revenues expected to be billed through various recovery mechanisms: GCA, gas DSMCA, and PSIA. Any costs or incentives recovered through these recovery mechanisms are eliminated from the cost of service;
- The revenue collected for the low-income program that are included in the Service & Facility monthly charge are not included in base rate revenue. These revenues are tracked on the balance sheet along with the program expenditures;
- Retail base rate revenue does not include unbilled revenue or adjustments to account for customer additions or losses to the calendar year sales or base rate revenues;
- Gas sales are normalized for weather;
- Adjustments are made to Other Gas Revenue to exclude revenues related to residential late payments, rate refunds, Quality of Service Plan bill credits, and Demand Side Management ("DSM") incentives;
- Residential late payment revenues are excluded from the cost of service calculation, as these revenues are donated to Energy Outreach Colorado ("EOC");

#### **Fuel and O&M Expenses**

- Purchased Gas costs are eliminated from the determination of the revenue requirement;
- Labor expenses recorded in purchased gas expenses are reclassified to FERC Account 807, Other Gas Supply;

- 1 • Expenses associated with the Front Range Pipeline are eliminated from  
2 the cost of service;
- 3 • Include adjustments to O&M expense for known and measurable  
4 changes occurring both in the Test Year (in-period adjustments), and  
5 outside the Test Year (out-of-period adjustments);
- 6 • No out-of-period adjustments to O&M expense have been made to the  
7 cost of service for items expected to occur more than one year after the  
8 end of the Test Year;
- 9 • Include merit increases for bargaining unit and non-bargaining unit  
10 employees that occurred during the Test Year and within one year after  
11 the end of the Test Year, including related adjustments to payroll taxes;
- 12 • Accounting adjustments are made to eliminate or add expenses to  
13 accurately state the Test Year;
- 14 • Interest on customer deposits is included in Customer Operations  
15 expense;
- 16 • DSM costs are eliminated from the cost of service;
- 17 • Advertising expenses related to marketing, promotion, community  
18 relations, image, and political ads are eliminated;
- 19 • Advertising expenses related to safety, conservation, and customer  
20 programs are included in the cost of service;
- 21 • All lobbying expenses and donations are excluded from the cost of  
22 service;
- 23 • Amounts paid to employees for their Annual Incentive Pay ("AIP") above  
24 15 percent of base pay are excluded from the cost of service on a  
25 person-by-person basis;
- 26 • Employee expenses that do not meet accounting guidelines as  
27 recoverable from customers are eliminated;
- 28 • A portion of aviation expenses associated with the corporate aircraft are  
29 eliminated;
- 30 • Regulatory commission expenses associated with the Commission fees  
31 are annualized at the most current level;

- Cost allocation between regulated and non-regulated business activities is based on the Cost Allocation and Assignment Manual and the Fully Distributed Cost Study filed in this rate case as sponsored by Company witness Ms. Melissa L. Schmidt;

#### **Depreciation and Amortization Expense**

- Adjustments to depreciation and amortization expense are made to correspond with adjustments made to plant and accumulated depreciation, or to exclude amounts not included in the cost of service calculation;

#### **Taxes Other Than Income Taxes**

- Property taxes incurred in 2018 through 2020 that were above the level of property taxes included in the base rates from the 2017 Gas Phase I have been deferred and are being amortized over 36 months from the effective date of new rates in this proceeding;
- Adjust property taxes for changes to property taxes that are expected to occur one year following the Test Year;
- Adjustments to payroll taxes are made to correspond with the labor adjustments made to O&M expense;

#### **Income Taxes**

- Current federal and state income taxes are calculated as follows: taxable income less synchronized interest expense, temporary additions/deductions are added, and permanent tax differences are added, then state and federal income taxes are applied;
- Adjustments to current and deferred income tax expense are made to correspond with adjustments made to plant or to exclude amounts not included in the cost of service calculation, and to include interest on CWIP;
- Include adjustments to income taxes and deferred income taxes if the Company is in a NOL tax position;
- Income tax credits are included in total income tax expense;

**AFUDC Offset to Earnings**

- Include an offsetting adjustment to earnings for AFUDC due to CWIP being included in rate base;
- Annualizing the AFUDC addition to earnings because rate base was calculated using year-end balances;

**Capital Structure**

- Adjustments are made to the capital structure to eliminate the following items: 1) notes payable/receivable with subsidiaries; 2) investment in subsidiaries; 3) subsidiary retained earnings; 4) net non-utility plant; 5) other investments at cost; 6) other funds; and 7) other comprehensive income ("OCI");
- The cost of debt is calculated using the par value method and corresponds with the debt balances in the capital structure, and includes bond premiums or discounts, underwriting expenses, other expenses of issue, and amortization of the long-term credit facility;

**Jurisdictional Allocation Factors and Direct Assignments**

- The allocation between the Gas Department retail and wholesale jurisdictions is performed on a line-by-line basis for both rate base and earnings, and based on the methodology last approved by the Commission.

I have prepared Attachment DAB-7 that summarizes the regulatory principles and adjustments included in the cost of service study presented in this rate case, including identifying the Company witnesses that support those adjustments.

**Q. WERE THERE ANY REGULATORY AMORTIZATIONS APPROVED BY THE COMMISSION IN THE 2017 GAS PHASE I THAT ARE NOT INCLUDED IN THE COST OF SERVICE STUDY PRESENTED IN THIS RATE CASE?**

**A.** Yes, there were several regulatory amortizations approved in the 2017 Gas Phase I that will expire on March 31, 2020, including:

- Work Asset Management capital costs;

- 1 • Property Tax expenses;
- 2 • Emergency Response expenses;
- 3 • Damage Prevention expenses;
- 4 • Rate Case expenses from the 2017 Gas Phase I; and
- 5 • Boulder Manufactured Gas Plant (“MGP”) expenses.

6 These regulatory amortizations have not been included in amortization expense  
7 in the cost of service study presented in this case.

8 **Q. IS THE COMPANY PROPOSING ANY CHANGES TO THE TREATMENT OF**  
9 **COSTS OR REVENUES FROM WHAT WAS APPROVED IN THE 2017 GAS**  
10 **PHASE I?**

11 A. Yes. Some of the changes being proposed from the 2017 Gas Phase I are  
12 consistent with proposals adopted by the Commission during its recent  
13 deliberations in Public Service’s 2019 Electric rate case in Proceeding No. 19AL-  
14 0268E (“2019 Electric Phase I”) as noted below. I have incorporated the following  
15 adjustments, some of which deviate from those previously approved by the  
16 Commission in previous rate cases, into the cost of service study presented in  
17 Attachment DAB-1.

18 **Rate Base**

- 19 • Rate Base is calculated using a year-end balance methodology except  
20 for Cash Working Capital, and other non-plant rate base items;
- 21 • Rate Base includes plant additions expected to close within 12 months of  
22 the end of the historical period;
- 23 • The Company proposes to earn a full return at the WACC on the  
24 prepaid pension asset in rate base and requests that other regulatory  
25

assets and liabilities be included in rate base related to employee benefits, including; Financial Accounting Standard No. 112, Accounting for Postemployment Benefits ("FAS 112"),<sup>2</sup> Financial Accounting Standard No. 106, Accounting for Postretirement Benefits Other than Pensions ("FAS 106"),<sup>3</sup> and non-qualified pension;

- The Prepaid Pension Asset is being presented in rate base as the gross balance, and not netting the balance with the pension-related ADIT, as has been done in prior rate cases. This is only a presentation change, as the pension-related ADIT is included with the other ADIT balances in rate base. The change in the treatment of the prepaid pension asset and including other employee benefit regulatory assets and liabilities in rate base is explained in more detail in the testimony of Company witness Mr. Richard R. Schrubbe;
- The unamortized balances of regulatory assets are included in rate base and earn a full return at the WACC. These regulatory assets include:
  - Property Tax expense;
  - Pension expenses;
  - MGP expenses;
  - Damage Prevention expenses; and
  - Rate Case expenses.

### **Revenue**

- Revenue is matched to the Test Year and is based on two months of actual and ten months of forecasted volumes through September 30, 2020, and is increased to account for the anticipated level of customers at September 30, 2020.

### **O&M Expenses**

- Executive long-term incentive pay, net of the time-based component is excluded from the cost of service, consistent with the proposals adopted by the Commission during its recent deliberations in the 2019 Electric Phase I.

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<sup>2</sup> Postemployment benefits are all types of benefits provided to former or inactive employees, their beneficiaries, and covered dependents. Those benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, disability-related benefits (including workers' compensation), job training and counseling, and continuation of benefits such as health care benefits and life insurance coverage.

<sup>3</sup> FAS 106 focuses principally on the postretirement health care benefits, referred to as Retiree Medical.

1       **Taxes Other Than Income Taxes**

- 2               • The baseline for the property tax tracker is set at the forecasted level of  
3               expense one year after the end of the Test Year to reflect the taxes paid  
4               based on plant in-service in the Test Year, consistent with the proposals  
5               adopted by the Commission during its recent deliberations in the 2019  
6               Electric Phase I.

7       **Capital Structure**

- 8               • Capital structure is matched to the Test Year and is based on three  
9               months of actual and 10 months of forecasted average month-end  
10              levels for the 13-month period ending September 30, 2020, consistent  
11              with the proposals adopted by the Commission during its recent  
12              deliberations in the 2019 Electric Phase I;
- 13              • Capital structure includes short-term debt in the calculation to  
14              correspond with including CWIP in rate base with an offset to earnings  
15              for AFUDC, consistent with the proposals adopted by the Commission  
16              during its recent deliberations in the 2019 Electric Phase I;
- 17              • Cost of long- and short-term debt is matched to the Test Year and is  
18              based on three months of actual data and ten months of forecasted  
19              average levels for the thirteen-month period ending September 30,  
20              2020. All capital structure adjustments are discussed by Ms. Soong.

**IV. RATE BASE**

**A. Rate Base Methodology**

**Q. CAN YOU PROVIDE ADDITIONAL DETAIL REGARDING THE METHOD OF DETERMINING RATE BASE THE COMPANY IS PROPOSING IN THIS PROCEEDING?**

A. Yes. The cost of service rate base for the Test Year was calculated using a year-end balance methodology as of September 30, 2020, for all items except the following: (1) materials and supplies inventory balances and non-plant rate base items were calculated using a 13-month average balance methodology; (2) some pension and employment benefit-related assets were calculated using a 13-month average balance methodology; and (3) Cash Working Capital is calculated based on the Test Year operating expenses multiplied by a cash working capital factor premised on a lead-lag study, which is discussed in more detail in the following section of my testimony.

**Q. PLEASE DESCRIBE THE BASIS FOR THE GROSS PLANT, PHFU, AND OTHER PLANT-RELATED ITEMS THAT ARE INCLUDED IN THE COST OF SERVICE STUDY FILED IN THIS RATE CASE.**

A. The gross plant in-service, PHFU, and CWIP balances included in the Test Year cost of service are based on the Company's actual books and records at September 30, 2019, plus projected capital additions expected to be in-service by September 30, 2020.



1 **Q. PLEASE DESCRIBE HOW THE RATE BASE BALANCES PRESENTED IN**  
2 **ATTACHMENT DAB-1 CORRESPOND TO THE CAPITAL ADDITION**  
3 **INFORMATION PRESENTED BY MS. WOLD.**

4 A. The balances presented on Attachment DAB-1, Schedule 100 match the balances  
5 presented by Company witness Ms. Wold in Attachments LJW-1, LJW-2, and LJW-  
6 3 to her Direct Testimony, which shows the calculation of the year-end balances for  
7 plant in-service and accumulated reserve for depreciation and amortization.

8 **Q. PLEASE DISCUSS THE BASIS FOR THE ALLOCATION OF COMMON PLANT**  
9 **TO THE GAS DEPARTMENT RATE BASE PRESENTED IN THIS RATE CASE.**

10 A. Annually, the Company prepares a study to determine the amount of Common  
11 Plant that should be assigned to the electric, gas, thermal energy, and non-utility  
12 operations. Allocation factors are calculated from the study, which are then applied  
13 to the Common Plant balances included in rate base. The 2019 allocation factors  
14 were used in the Test Year presented in this rate case.

15 **Q. HOW WAS CWIP TREATED IN THE TEST YEAR IN THIS RATE CASE?**

16 A. CWIP and related CWIP adjustments are included in rate base to correspond to  
17 the inclusion of short-term debt in the capital structure, as presented by Ms.  
18 Soong. The Company has included CWIP in rate base in this case based on the  
19 amount of accumulated capital expenditures plus AFUDC related to capital  
20 projects in progress, but not yet in-service, as of September 30, 2020. The  
21 Commission has a long-standing regulatory practice that when CWIP is included  
22 in rate base, there is an AFUDC offset to earnings. The AFUDC offset to

1 earnings based on the CWIP included in the Test Year is discussed later in my  
2 Direct Testimony.

3 **Q. DID THE COMPANY INCLUDE ANY OTHER ADJUSTMENTS TO THE CWIP**  
4 **BALANCES PRESENTED IN THE COST OF SERVICE?**

5 A. Yes, I have included an adjustment to eliminate the amounts recorded for  
6 contractor retentions, booked in FERC Account 252, from the CWIP balance, as  
7 shown on Attachment DAB-1, Schedule 120. For some construction projects, the  
8 Company retains a portion of the contractor's charges until after the completion  
9 of the project. These amounts are funds available for general corporate  
10 purposes and the Company has use of these funds until remitted to contractors.  
11 As such, these funds must be deducted from rate base, similar to customer  
12 deposits and customer advances for construction.

13 **Q. PLEASE DESCRIBE WHAT IS INCLUDED IN THE ACCUMULATED RESERVE**  
14 **FOR DEPRECIATION BALANCE IN THE TEST YEAR.**

15 A. The accumulated reserve for depreciation was matched to reflect the level of  
16 depreciation expense on the plant balances included in the Test Year at a  
17 September 30, 2020, ending balance. This is achieved by including the impact of  
18 annualizing the depreciation expense for actual gross plant as of September 30,  
19 2019, plus including another full year of depreciation expense in the reserve  
20 balance on actual gross plant to bring the reserve balance to the end of September  
21 30, 2020. Additionally, a full year of depreciation expense is included in the reserve  
22 balance related to the Plant Additions through September 30, 2020, effectively  
23 stating net plant at a September 30, 2020, ending balance in the Test Year.

1 Finally, as discussed by Company witness Ms. Wold, the Company is  
2 including the impact of the new depreciation rates based on the results of a new  
3 depreciation study in this rate case. As a result, the Company has included a full  
4 year of depreciation expense resulting from these new depreciation rates in the  
5 Test Year. In order to appropriately match the inclusion of this depreciation  
6 expense, I have also included one year of the impact of the new rates on the  
7 reserve. The adjustments to the reserve balance are presented on Attachment  
8 DAB-1, Schedule 226.

9 **Q. PLEASE DESCRIBE THE BASIS FOR THE BALANCES ASSOCIATED WITH**  
10 **MATERIALS AND SUPPLIES, CUSTOMER DEPOSITS, AND CUSTOMER**  
11 **ADVANCES FOR CONSTRUCTION INCLUDED IN THE TEST YEAR**  
12 **PRESENTED IN THIS RATE CASE.**

13 A. The balances used in the Test Year for materials and supplies (Attachment DAB-1,  
14 Schedule 133), customer deposits (Attachment DAB-1, Schedule 230), and  
15 customer advances for construction (Attachment DAB-1, Schedule 110) are all  
16 based on the actual 13-month average balances ending September 30, 2019,  
17 consistent with Commission precedent. These balances do not change materially  
18 year over year; therefore, forecasting these balances is not necessary for them to  
19 represent an appropriate level to include in rate base ending September 30, 2020.

20 **Q. ARE THERE ANY ADJUSTMENTS TO THESE BALANCES?**

21 A. Yes. The Commission has established in previous rate cases that an adjustment  
22 should be made to the materials and supplies balance to eliminate a portion that is

1       attributable to capital. This adjustment to the cost of service study is shown on  
2       Attachment DAB-1, Schedule 133.

3       **1.       Capital Additions through September 30, 2020**

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

5       A.       In this section, I provide overall support for the Company's request to include  
6       capital additions in the Test Year through September 30, 2020.

7       **Q.       HAS THE COMMISSION PREVIOUSLY INCLUDED PLANT IN-SERVICE**  
8       **BALANCES IN RATE BASE AFTER THE END OF AN HTY PERIOD?**

9       A.       Yes. During its recent deliberations in the 2019 Electric Phase I, the Commission  
10       adopted a current test year with a rate base ending August 2019, using an average  
11       rate base convention, after the Company filed a cost of service model with rate  
12       base based on actual plant in-service in 2018 and projected capital additions  
13       through 2019. The current test year adopted by the Commission is support for  
14       including plant in-service balances in rate base after the end of an HTY period. The  
15       Company is making a similar proposal in this Gas proceeding, in which we have  
16       included plant in-service balances in rate base after the end of the HTY period,  
17       which is further supported by Company witnesses Ms. Trammell, Mr. Litteken, Mr.  
18       Koneru, and Mr. Dietenberger.

19       **Q.       WHY IS IT APPROPRIATE TO INCLUDE PLANT ADDITIONS THROUGH**  
20       **SEPTEMBER 30, 2020, IN THE TEST YEAR COST OF SERVICE?**

21       A.       The Company is asking to include forecasted plant additions in this rate case to  
22       help reduce, but not eliminate, the regulatory lag caused by setting rates based  
23       solely on past investments. The adjustment is also consistent with the ratemaking

1 principle that the purpose of a test year with *pro forma* adjustments is to develop a  
2 cost of service that is at the level of costs the utility is expected to experience when  
3 rates are effective.

4 As previously discussed, the Company is requesting that rates from this rate  
5 case become effective November 1, 2020. If the test year approved in the case  
6 includes capital additions through September 30, 2020, and a year-end rate base  
7 methodology, there will still be capital additions in October 2020 – and in service  
8 prior to the rate-effective date – that are not included in rates, and not captured in  
9 the cost of service presented in this case. In addition, during the first year after the  
10 rate effective date, beginning in November 2020, there will be capital additions that  
11 are providing service to our customers that are also not included in this case. In  
12 contrast, if new rates are based on net plant as of the end of September 2019, the  
13 basis for the HTY I present for informational purposes, recovery will begin  
14 (assuming a rate effective date of November 1, 2020) 13 months after the assets  
15 have been providing utility service to our customers. Using a 13-month average  
16 rate base methodology adds another six months to this lag in recovery, or 18  
17 months. In other words, the Company's proposal still involves regulatory lag, but  
18 not at the levels associated with an HTY rate base and 13-month average rate  
19 base.

1           **2.     Year-End Rate Base**

2   **Q.     WHY IS IT APPROPRIATE TO USE YEAR-END RATE BASE IN DETERMINING**  
3           **THE REVENUE REQUIREMENT FOR THE TEST YEAR FILED IN THIS RATE**  
4           **CASE?**

5   A.     Where a historic or current test year is used to set rates, a year-end rate base more  
6           closely reflects the rate base of the Company when rates are actually in effect, as  
7           plant investment moves to plant in-service throughout the year and the year-end  
8           plant balance accounts for accumulated depreciation as well as other plant impacts.  
9           By contrast, using an average rate base places too much emphasis on data that is  
10          already outdated at the time of the rate proceeding, let alone when rates are placed  
11          in effect. Finally, as discussed by several of the Company's witnesses, the  
12          Company is making significant investments in the Gas Department. By using year-  
13          end rate base, Public Service begins to capture some of these significant  
14          investments, but not all.

15   **Q.     TO WHAT EXTENT DOES THE COMPANY'S PROPOSED TEST YEAR IN THIS**  
16           **PROCEEDING ALIGN WITH THE USE OF YEAR-END VERSUS AVERAGE**  
17           **RATE BASE?**

18   A.     As previously mentioned, the Company is proposing in this rate case to make an  
19           adjustment to include the capital additions through September 30, 2020, in rate  
20           base to capture these significant investments, and to include rate base balances  
21           that are closer to the time when rates are in effect. In this way, the Company's  
22           proposed Test Year in this proceeding aligns with the use of year-end rate base.  
23           With this request, I have also included adjustments to the reserve for depreciation

1 and ADIT to move the actual rate base at September 30, 2019, forward a year to  
2 match the inclusion of these capital additions at the end of September 2020. These  
3 adjustments represent a net decrease to rate base but are important to match the  
4 rate base in the Test Year at September 30, 2020. The Company has requested  
5 that base rates from this rate case become effective November 1, 2020. The  
6 Company's rate base balances presented in this rate case are representative of the  
7 rate base level when rates will be effective.

8 **Q. ARE THERE OTHER REASONS THAT SUPPORT THE USE OF YEAR-END**  
9 **RATE BASE IN LIGHT OF THE FACTS OF THIS PROCEEDING?**

10 A. Yes. A 13-month average of the proposed Test Year in this rate case without the  
11 additions expected to be in service by September 30, 2020, would essentially be  
12 using a March 31, 2019, rate base level, when rates will be effective beginning  
13 November 1, 2020 – a year and a half later. The year-end rate base is a better  
14 match of current costs to current revenues, when rates are in effect, which better  
15 meets the “matching principle” discussed in more detail by Ms. Trammell.

16 Further, in a base rate case, I submit that the most reasonable  
17 ratemaking, accounting, and policy approach is to match the Test Year to set  
18 rates as close to the first year those rates will be effective. In other words, where  
19 a period ending at or prior to the rate effective date is used to set rates, a year-  
20 end rate base more closely reflects the rate base of the Company when rates are  
21 actually in effect, as plant investment may be moved to plant in-service  
22 throughout the year and the year-end plant balance accounts for accumulated  
23 depreciations as well as other plant impacts. The rate base used for setting rates

1 is closer in time to the effective date of the rates. By getting these two points in  
2 time as close as possible to one another, we have more closely adhered to the  
3 matching principle in the historical rate base context.

4 **B. Rate Base Adjustments**

5 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO PLANT IN-SERVICE BALANCES**  
6 **THAT FOLLOW PREVIOUSLY ESTABLISHED RATEMAKING PRINCIPLES?**

7 A. All plant in-service balances, accumulated reserve for depreciation, ADIT,  
8 depreciation expense, current tax additions and deductions, and deferred income  
9 tax expense eligible for recovery through the PSIA were removed from the cost  
10 of service as shown on Attachment DAB-1, Schedule 139. Additionally, as  
11 described earlier in my testimony and consistent with prior Commission  
12 decisions, an adjustment was made to eliminate a portion of the materials and  
13 supplies inventory balance allocated to construction-related projects. This  
14 adjustment is shown on Attachment DAB-1, Schedule 133.

15 **Q. IN THIS PROCEEDING, HAS THE COMPANY MADE ADJUSTMENTS TO ITS**  
16 **PLANT IN-SERVICE BALANCES OTHER THAN THOSE APPROVED BY THE**  
17 **COMMISSION IN PRIOR RATE CASES?**

18 A. Yes. Adjustments were made to reclassify a common general project related to the  
19 Advanced Grid Intelligence and Security ("AGIS") projects to move it out of Gas  
20 Common General plant in-service and PHFU and move it to the Electric  
21 Department. Additionally, an adjustment was made to comply with a finding on the  
22 allocation of capital software as a result of a recently-completed FERC audit, as  
23 discussed by Company witness Ms. Schmidt.



1 **Q. PLEASE DESCRIBE THE ADJUSTMENT REMOVING THE INVESTMENT**  
2 **ASSOCIATED WITH AGIS PROJECTS FROM THE COST OF SERVICE STUDY**  
3 **PRESENTED IN THIS RATE CASE.**

4 A. In general, the Field Area Network component of the AGIS projects is classified as  
5 a common general asset. This is the appropriate classification, because this  
6 component will benefit Public Service's electric and gas customers. However,  
7 benefit to the Gas Department and gas customers will not occur when this asset is  
8 initially put in service. Therefore, the Company added 100 percent of this  
9 investment to the Electric Department cost of service study in the 2019 Electric  
10 Phase I and has removed 100 percent of this investment from the Gas Department  
11 cost of service study presented in this rate case. Adjustments were made to Gas  
12 Common General plant in-service and PHFU. This approach is consistent with the  
13 adjustment made in the 2017 Gas Phase I, where zero percent of these costs were  
14 included in the Gas Department rate base. The adjustments to eliminate the AGIS  
15 projects are shown on Attachment DAB-1, Schedule 135.

16 **Q. WILL THE COMPANY EVER RECLASSIFY THE PLANT-RELATED COST OF**  
17 **AGIS ITEMS TO ALLOCATE A PORTION OF COSTS TO THE GAS**  
18 **DEPARTMENT?**

19 A. Yes; if and when the Field Area Network ("FAN") component of the AGIS initiative is  
20 used by the Gas Department, we may reclassify it as a common general asset and  
21 seek recovery at that time. However, we are not making that request in this rate  
22 case.

1   **Q.   PLEASE DESCRIBE THE ADJUSTMENT MADE TO CORRECT THE**  
2       **ALLOCATION OF CAPITAL SOFTWARE IN THE COST OF SERVICE STUDY**  
3       **PRESENTED IN THIS RATE CASE.**

4   A.   As discussed by Company witness Ms. Schmidt, XES underwent a FERC audit that  
5       resulted in a finding related to the allocation of capital software to Xcel Energy's  
6       non-utility entities. The adjustments to the cost of service represent the small  
7       impact of allocating a portion of capital software to these non-utility entities,  
8       consistent with the audit findings. The adjustments to remove a portion of capital  
9       software are shown on Attachment DAB-1, Schedule 145.

10   **C. Regulatory Assets and Liabilities**

11   **Q.   PLEASE DESCRIBE THE BASIS FOR THE REGULATORY ASSETS AND**  
12       **LIABILITIES INCLUDED IN RATE BASE.**

13   A.   As previously discussed, the Company has incurred costs associated with  
14       environmental remediation projects, property taxes, pension expense, rate case  
15       expenses, and damage prevention work that have been deferred as regulatory  
16       assets, as approved by the Commission in prior rate cases. The Company is  
17       requesting to amortize these costs in this rate case in the manner I describe later in  
18       my Direct Testimony and earn a return on the unamortized balance in rate base.  
19       The unamortized balances of these regulatory assets and liabilities have been  
20       included in rate base in the Test Year. The regulatory assets included in rate base  
21       are shown on Attachment DAB-1, Schedule 123.

1 **Q. WHY IS RATE BASE TREATMENT OF THE REGULATORY ASSETS**  
2 **APPROPRIATE?**

3 A. The Commission's approval to defer these items creates a regulatory asset that  
4 is then amortized off as an expense over several years. Accordingly, where a  
5 regulatory asset is created, the Company pays for the service at the time the  
6 costs are incurred but these costs are not recovered from customers. Rather,  
7 the costs are deferred in the regulatory asset, which is created by the decision to  
8 defer the costs. These costs remain in the regulatory asset, without any carrying  
9 costs, until they are brought forward for recovery in a subsequent rate  
10 proceeding. Including the unamortized portion of the regulatory asset in rate  
11 base provides a return to the shareholder until the cost is recovered in the period  
12 amortized to compensate for the carrying costs of these assets. A return at the  
13 authorized WACC is appropriate because it represents the components of the  
14 carrying costs of these assets, i.e., the Company's weighted average debt and  
15 equity. These regulatory assets must be financed, no differently than  
16 investments in plant.

17 **Q. PLEASE DESCRIBE THE BASIS FOR INCLUDING THE PREPAID PENSION**  
18 **ASSET BALANCE IN THE TEST YEAR PRESENTED IN THIS RATE CASE.**

19 A. Company witness Mr. Schrubbe supports the inclusion of the Prepaid Pension  
20 Asset in rate base in the Test Year presented in this rate case. The Company is  
21 proposing to include the Prepaid Pension Asset in rate base and to earn a full  
22 return on the balance.

1 Further, the Company is presenting the Prepaid Pension Asset as the gross  
2 balance. The related ADIT associated with the Prepaid Pension Asset is included  
3 in the ADIT balances, as discussed later in my Direct Testimony. This presentation  
4 is different than in prior gas rate cases, when the Company presented the net  
5 Prepaid Pension Asset, net of ADIT. The Company is also proposing to use the  
6 September 30, 2020, ending balance instead of a 13-month average balance.  
7 Because this balance is being amortized, the ending balance reflects a full impact  
8 of the amortization through the Test Year. This balance also captures the  
9 reductions applied to the balance from Tax Cuts and Jobs Act ("TCJA") benefits as  
10 ordered in the 2017 Gas Phase I and amortization of the Legacy Prepaid Pension  
11 Asset through September 30, 2020. The Prepaid Pension Asset balance is shown  
12 on Attachment DAB-1, Schedule 134.

13 **Q. PLEASE DESCRIBE THE RETIREE MEDICAL BALANCES INCLUDED IN THE**  
14 **TEST YEAR PRESENTED IN THIS RATE CASE.**

15 A. The retiree medical balance associated with FAS 106 is included in rate base in the  
16 Test Year. The balance is based on the 13-month average through September 30,  
17 2020. As discussed later in my Direct Testimony, an adjustment was made to  
18 eliminate the negative retiree medical expenses, which reduces the retiree medical  
19 balance in rate base. The Commission approved this same adjustment in the 2017  
20 Gas Phase I and 2019 Electric Phase I rate cases.<sup>4</sup> The basis for the retiree  
21 medical balance, including the adjustment, is discussed in more detail by Company

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<sup>4</sup> Adopted by the Commission during its recent deliberations.

1 witness Mr. Schrubbe, and is shown on Attachment DAB-1, Schedules 114 and  
2 233.

3 **Q. PLEASE DESCRIBE THE POST EMPLOYMENT BENEFIT AND NON-**  
4 **QUALIFIED PENSION LIABILITY BALANCES INCLUDED IN THE TEST YEAR**  
5 **PRESENTED IN THIS RATE CASE.**

6 A. As previously mentioned, the Company is requesting approval to include the  
7 balances associated with FAS 112, and the non-qualified pension in rate base in  
8 this rate case, consistent with including the Prepaid Pension Asset and the retiree  
9 medical asset in rate base. These balances are being included in rate base using a  
10 13-month average methodology, through September 30, 2020. The basis for the  
11 FAS 112 and the non-qualified pension balances are discussed more fully by  
12 Company witness Mr. Schrubbe, and are shown on Attachment DAB-1, Schedules  
13 111 and 112.

14 **D. Tax Normalization and ADIT**

15 **Q. FROM A RATEMAKING PERSPECTIVE, HOW DOES THE COMPANY**  
16 **ACCOUNT FOR INCOME TAXES?**

17 A. The Company uses the tax normalization method to account for income taxes.  
18 Tax normalization refers to the practice of providing deferred taxes on all  
19 book/tax timing differences. Timing differences are transactions that impact book  
20 income and taxable income in different periods. This issue arises because taxes  
21 are not always required to be paid by a utility at the same time the tax obligation  
22 is incurred. In contrast, "flow-through" is the accounting method which, for  
23 ratemaking purposes, provides for income tax expense payable currently to be

1 included as cost of service income tax expense for the period, and deferred  
2 income taxes are not recorded.

3 The classic example of a timing difference is related to depreciation. Book  
4 depreciation is recorded based on a straight-line basis. Current taxes are  
5 reduced by the value of the accelerated depreciation deduction multiplied by the  
6 tax rate. Accelerated depreciation is also known as tax depreciation. The  
7 difference between the accelerated deduction used for tax and the straight-line  
8 depreciation used for book multiplied by the tax rate is recorded as Deferred  
9 Income Tax expense. This Deferred Income Tax expense represents the tax  
10 effect of this accelerated depreciation compared to book accounting and is added  
11 to the ADIT balance. For the purpose of setting customer rates, in the cost of  
12 service study, customer rates are charged for both the current income tax  
13 expense and the deferred income tax expense. However, the ADIT balance is  
14 applied as a reduction to rate base, which gives customers credit and a reduction  
15 in rates. The reduction in rates reflects the Company's use of income taxes that  
16 have been collected from customers that are not due and payable in the  
17 Company's current taxes.

18 **Q. HAS THIS COMMISSION APPROVED THE USE OF TAX NORMALIZATION**  
19 **FOR RATEMAKING PURPOSES?**

20 A. Yes. The Company has used tax normalization associated with depreciation for  
21 setting customers' rates since 1977; however, it was not until 1993 that the  
22 Company went to full tax normalization on all timing differences. The Company's  
23 first request to use tax normalization for ratemaking purposes was in a 1975 rate

1 case, Investigation & Suspension ("I&S") Docket No. 935. In Decision  
2 No. 87474, dated September 12, 1975, the Commission did not allow the  
3 Company to change from flow-through accounting to normalizing timing  
4 differences arising from accelerated depreciation. The Company in its next rate  
5 case, I&S Docket No. 1116, again requested approval to normalize timing  
6 differences arising from accelerated depreciation. In Decision No. 91581, dated  
7 November 1, 1977, the Commission approved tax normalization arising from  
8 accelerated depreciation. The Commission stated:

9 We find that normalization assigns proper costs to both present and  
10 future customers on a basis of equality. Under flow through, by  
11 contrast, present ratepayers pay less than the straight-line cost of  
12 depreciation and future ratepayers pay more than the straight-line  
13 cost of depreciation. Normalization equalizes the burden between  
14 present and future ratepayers and, accordingly, is more equitable to  
15 both.

16 In the 1993 rate case, Proceeding No. 93S-001EG, the Company requested to  
17 use full tax normalization as the method of accounting for income taxes going-  
18 forward. In Decision No. C93-1346, adopted October 14, 1993, the Commission  
19 approved full tax normalization and allowed the Company to provide for deferred  
20 taxes on all timing differences, and allowed the Company to recover a "catch-up"  
21 provision for additional deferred taxes which would have accrued had full  
22 normalization been used during past periods of time. In addition, the  
23 normalization method of accounting is provided for as "comprehensive inter-  
24 period income tax allocation" in General Instruction 18 of the FERC Uniform  
25 System of Accounts, 18 Code of Federal, Regulations, Part 201, and has been  
26 adopted by the Commission for all gas utilities in Colorado.

1   **Q.   WHAT IS BONUS TAX DEPRECIATION?**

2   A.   Bonus tax depreciation is the result of provisions in federal tax laws that allow the  
3       Company to deduct a percentage of qualifying capital investments in the first  
4       year an investment is placed in-service. For example, if the percentage allowed  
5       for bonus depreciation in the first year is 50 percent, then 50 percent of the  
6       qualifying capital investment is depreciated for tax purposes in the first year that  
7       the underlying asset is in service. The remaining 50 percent is then depreciated  
8       for tax purposes using existing accelerated depreciation schedules. Both the  
9       bonus tax depreciation deductions and the existing accelerated depreciation  
10      deductions are normalized for accounting and ratemaking purposes.

11           The Consolidated Appropriations Act of 2016 provided a phase-out of  
12      bonus tax depreciation with bonus tax depreciation of 50 percent on eligible  
13      assets placed into service in 2015, 2016, and 2017, bonus tax depreciation of 40  
14      percent on eligible assets placed into service in 2018, and bonus tax depreciation  
15      of 30 percent on eligible assets placed into service in 2019. With the enactment  
16      of the TCJA, utilities were no longer eligible for bonus tax depreciation. As  
17      discussed by Company witness Ms. Wold, for calendar year 2018, no bonus  
18      depreciation on additions was factored into the calculation of ADIT. In  
19      September 2019, the Internal Revenue Service (“IRS”) issued guidance on the  
20      timing of elimination of bonus depreciation, which the Company implemented as  
21      a change in methodology as discussed by Company witness Ms. Naomi Koch.  
22      That bonus depreciation impact was applied to the Test Year rate base as



discussed in more detail by Ms. Wold. I discuss other impacts of the TCJA on ADIT and other components of the cost of service later in my Direct Testimony.

**Q. HAS THE COMPANY'S USE OF ACCELERATED AND BONUS DEPRECIATION PROVIDED SUBSTANTIAL BENEFITS TO CUSTOMERS?**

A. Yes. Customers benefit from reductions to rate base that flow from the application of both accelerated and bonus depreciation. Income tax normalization accounting has led to substantial reductions in the Company's rate base due to the offsets from ADIT, and this reduced rate base in turn drives lower required earnings.

**Q. HAS TAX NORMALIZATION BECOME MORE COMPLEX AS A RESULT OF BONUS TAX DEPRECIATION?**

A. Yes. The Company must determine if the bonus tax depreciation results in more tax deductions than the Company can currently use. In other words, the Company must calculate if there are more deductions than net income, which results in a tax NOL. The Company has made these calculations for the Test Year presented in this rate case. As shown on Attachment DAB-1, Schedule 104, the Company is not in a NOL position in the Test Year. However, the Gas Department does have an accumulated deferred tax asset balance due to NOLs in prior years. This NOL deferred income tax asset is added to rate base in the Test Year. Due to taxable income in the Test Year, the accumulated deferred income tax asset is unwinding (i.e., the balance is declining); however, it does not go to zero by September 30, 2020. The accumulated deferred income tax

1 asset is included in rate base to offset the ADIT balances, as shown on  
2 Attachment DAB-1, Schedule 100.

3 **Q. PLEASE DESCRIBE THE BASIS FOR THE ADIT BALANCES INCLUDED IN**  
4 **RATE BASE IN THIS RATE CASE.**

5 A. The ADIT balance included in rate base consists of both plant and non-plant related  
6 items booked to FERC Accounts 281, 282, 283, and 190. The plant-related ADIT  
7 balance is primarily due to the book-tax timing difference relating to depreciation.  
8 The book plant-related ADIT balances are detailed on Attachment DAB-1,  
9 Schedule 101. The non-plant ADIT balance is primarily due to the book-tax timing  
10 differences relating to pensions and benefits and other non-depreciation related  
11 items, as discussed by Company witness Ms. Koch. The Company has detailed  
12 the ADIT balance by each non-plant income tax addition/deduction (also known as  
13 "Schedule M items") and has functionalized the plant-related ADIT items. This level  
14 of detail allows the Company to accurately assign the ADIT balances to the correct  
15 jurisdiction. The details of the non-plant ADIT balances are presented on  
16 Attachment DAB-1, Schedule 115. The Company has also correspondingly  
17 presented the deferred income tax expense and additions/deductions to current  
18 income taxes for both plant- and non-plant-related items consistent with the ADIT  
19 balances.

20 **Q. PLEASE DESCRIBE THE IMPACTS OF THE TCJA ON THE AMOUNT OF**  
21 **ADIT IN RATE BASE THAT IS PRESENTED IN THIS RATE CASE.**

22 A. As described in more detail by Company witnesses Ms. Wold and Ms. Koch, the  
23 TCJA impacts the amount of ADIT in rate base. First, the Company has revalued

1 its accumulated deferred tax assets and liabilities at the 21 percent federal  
2 corporate income tax rate and has recorded as a regulatory asset or liability the  
3 difference between: (1) the revalued ADIT, and (2) the ADIT recorded on the  
4 Company's books. These regulatory assets and liabilities contain the "excess  
5 ADIT" that will be collected from or returned to customers over time. For  
6 purposes of calculating rate base, the excess ADIT is included in rate base  
7 because it has not yet been recovered from or returned to customers.

8 In addition, I have included an annual amount of amortization of the  
9 excess ADIT in the income tax calculation as I will describe later in my Direct  
10 Testimony. Specifically, I have reduced the excess ADIT in rate base by the  
11 amount of annual amortization included in income tax expense. I have done this  
12 for both plant-related excess ADIT and non-plant-related excess ADIT that is in  
13 rate base. The adjustment to reduce excess ADIT has the net effect of slightly  
14 increasing rate base.

15 **Q. PLEASE DISCUSS THE ADJUSTMENTS TO THE ADIT BALANCE INCLUDED**  
16 **IN RATE BASE.**

17 **A.** There are several adjustments to the ADIT balance included in rate base in the cost  
18 of service study presented in this rate case. First, there are several adjustments  
19 related to the plant adjustments as previously discussed, including the adjustments  
20 related to the plant expected to be in-service by September 2020. Second,  
21 adjustments have been made to eliminate ADIT balances that are related to items  
22 not included in the cost of service. For example, we have eliminated the ADIT  
23 balances associated with unbilled revenue, deferred gas costs associated with

1 the GCA, and investment tax credits, and Financial Interpretation Number 48  
2 “Accounting for Uncertainty in Income Taxes”, Financial Accounting Standard  
3 109, and other comprehensive income. The effect of these adjustments is to  
4 present ADIT in this rate case consistent with the underlying rate base items. Also,  
5 an adjustment was made to ADIT to account for the move of the ADIT related to  
6 actual plant in-service to September 30, 2020, in order to match rate base in the  
7 Test Year. Finally, an adjustment was made to ADIT to account for the  
8 adjustments to pension, retiree medical, and FAS 112 expenses. Details of the  
9 adjustments to ADIT balances are shown on Attachment DAB-1, Schedule 115.

10 **Q. HAS THE COMPANY INCLUDED ANY OTHER NEW RATE BASE ITEMS IN**  
11 **THE COST OF SERVICE PRESENTED IN THIS RATE CASE?**

12 **A. No.**

**V. CASH WORKING CAPITAL**

**Q. PLEASE DESCRIBE CASH WORKING CAPITAL INCLUDED IN RATE BASE.**

A. Cash working capital is the amount of investor-supplied capital necessary to finance cost of service expenses between the time the expenditures are required to provide the service to customers and the time cash is received for that service. To determine the allowance of cash working capital, the Commission has traditionally accepted the use of a lead-lag study.

**Q. HAS THE COMPANY CALCULATED CASH WORKING CAPITAL IN THIS RATE CASE IN THE SAME MANNER AS IN PRIOR CASES?**

A. Yes.

**Q. DID THE COMPANY PERFORM A LEAD-LAG STUDY THAT WAS USED TO DERIVE THE CASH WORKING CAPITAL AMOUNT IN RATE BASE IN THIS CASE?**

A. Yes. The Company prepared a lead-lag study based on the 12 months ending June 30, 2019, which was used for both the Test Year and the HTY presented in this case. The lead-lag study is presented in two Attachments: (1) Attachment DAB-8 is a summary of the lead-lag study for all components; and (2) Attachment DAB-9 is the detail supporting the study. Attachment DAB-9 is voluminous and is being provided as a CD-ROM.

**Q. PLEASE DESCRIBE A LEAD-LAG STUDY.**

A. A lead-lag study is a method used to measure the amount of working capital required to finance a utility's day-to-day operations. There are two parts in a lead-lag study. First, the expense lead must be calculated. An extensive and

1 detailed study of the payment practices for each cash expense is made by  
2 measuring the period of time from when the Company receives goods or services  
3 and the date the expense is paid ("service period"). Statistical sampling can be  
4 used to determine the expense lead. Once the expenses to be reviewed (census  
5 group or sample) have been determined, each invoice is reviewed to determine  
6 the service period. The service period's mid-point date is calculated. Using the  
7 check date as the payment date, the mid-point is subtracted from the payment  
8 date, resulting in the number of lead days. Second, the revenue lag must be  
9 calculated. The revenue lag is the time between the mid-point of the service  
10 period to the date when the Company receives payment from its customer.  
11 Depending on the number of customers, statistical sampling can be used to  
12 determine the revenue lag.

13 The expense lead is then subtracted from the revenue lag to determine  
14 the number of days until the Company is compensated for its expense payout.  
15 This net number of days is converted to an annual number by dividing by 365  
16 days, which is referred to as the cash working capital factor. The cash working  
17 capital factor is multiplied by the corresponding Test Year expense items and  
18 then added to rate base. Cash working capital factors can be positive or  
19 negative, depending upon whether the expense lead is shorter or longer than the  
20 revenue lag.

**Q. WHAT STATISTICAL SAMPLING METHODOLOGY DID THE COMPANY USE  
IN THE LEAD-LAG STUDY PERFORMED IN THIS CASE?**

A. The Company used the same statistical sampling method to calculate the lead-lag study in this case as was used in the Company's 2017 Gas Phase I, which was developed in Proceeding No. 06S-234EG, and with which both Staff and the Colorado Office of Consumer Counsel ("OCC") agreed would be used in future studies.

Revenue lag parameters

- Confidence level: 95 percent
- Precision: 5 percent
- Proxy mean and variance: mean and variance from the 2017 gas lead-lag study as a starting point for the sample size calculation.
- For sampled data sets: any accounts drawn with records for fewer than eleven months will be discarded and a new account drawn from the sample.
- For census or population data sets: all accounts will be used, regardless of the number of records within each account.
- Sample size: consistent with the preceding two parameters, an increase in sample size of no less than 50 percent is required in order to achieve the confidence and precision requirement as stated above, to compensate for incomplete data, incomplete records, and possible distortion in sample size due to use of mean and variance from the 2017 gas lead-lag study as a proxy mean and variance in this study.
- Sampling: draw without replacement.

Expense lead parameters

- Confidence level: 90 percent
- Precision: 10 percent
- Proxy mean and variance: mean and variance from the 2017 gas lead-lag study as a starting point for sample size calculation.

- Sample size: consistent with the preceding two parameters, an increase in sample size of no less than 20 percent is required in order to achieve confidence and precision requirement as stated above, to compensate for incomplete data, incomplete records, and possible distortion in sample size due to use of mean and variance from the most recent lead-lag study as a proxy mean and variance in this study.
- Stratified sampling/probability proportional to size sampling: acceptable
- Sampling: draw without replacement.

**Q. WHAT PROCESS DOES THE COMPANY FOLLOW WHEN PREPARING A LEAD-LAG STUDY FOR A RATE CASE FILING?**

A. The process used to prepare a lead-lag study for a rate case filing is presented in Attachment DAB-8.

**Q. WHAT CASH EXPENSE ITEMS ARE INCLUDED IN THE EXPENSE LEAD CALCULATION?**

A. The following cash expense items have historically been included in the expense lead calculation, and were included in the study prepared for this case:

- Natural gas purchased for resale;
- Labor O&M expense;
- Non-Labor O&M expense;
- XES charges booked to O&M expense;
- Incentive pay;
- Paid time off;
- Taxes other than income taxes (e.g., property tax and payroll taxes);
- State income taxes;
- Federal income taxes;



- Franchise fees paid; and
- Sales taxes paid.

**Q. DID THE COMPANY INCLUDE INTEREST ON LONG-TERM DEBT IN THE  
EXPENSE LEAD CALCULATION?**

A. No. Interest on long-term debt is not included in the lead-lag study. The Commission has determined in previous Public Service rate cases that interest on long-term debt should not be included as a component in the cash working capital allowance. In the 2017 Gas Phase I, interest on long-term debt was not included in the lead-lag study approved by the Commission.

**Q. BRIEFLY EXPLAIN THE PROCEDURES USED TO DETERMINE THE  
EXPENSE LEAD.**

A. The Company used statistical sampling to determine the expense lead for the non-labor O&M cash working capital expense category. The expense population for this category was limited to invoices pertaining to either the gas or common utility, and excluded thermal and electric utility invoices. One hundred percent of the invoices and payments were reviewed and service dates gathered for the Gas for Resale, O&M Labor, and the various tax cash working capital expense categories. The expense lead is the average number of days from the time of service to the date the Company remits payment for the service to the vendor. The expense lead for each invoice is determined by taking the sum of the following periods:

- 1) The service period, based on the mid-point of each invoice's service period;

1                   2)     The payment period, based on the number of days it takes for the  
2                   Company to remit payment to the vendor from the mid-point date of  
3                   each invoice's service period; and

4                   3)     A half day is added to bring the payment date to noon of that day.  
5                   The expense lead days are weighted by the amount of the invoices.

6     **Q.     HOW DID THE COMPANY CALCULATE THE CASH WORKING CAPITAL**  
7     **ASSOCIATED WITH THE COSTS OF GAS PURCHASED FOR RESALE**  
8     **COSTS?**

9     A.     The Company multiplied the applicable net lead-lag factors by the per book HTY  
10            gas purchased for resale expense amount. Currently, the Gas Department has  
11            no gas costs in base rates, as all gas costs are recovered through the GCA.  
12            Therefore, using per book expense is most representative for calculating a cash  
13            working capital amount.

14    **Q.     PLEASE DESCRIBE HOW THE EXPENSE LEAD WAS CALCULATED FOR**  
15    **THE CASH WORKING CAPITAL ITEM RELATING TO THE XES CHARGES**  
16    **TO PUBLIC SERVICE.**

17    A.     The Company has calculated the cash working capital expense lead for billings  
18            from XES to Public Service using the same methodology that has been used in  
19            its last several rate cases. XES provides administrative, accounting, and legal  
20            services to Public Service and other Xcel Energy subsidiaries. The Company  
21            pays XES on approximately the 23rd day of the month following the month in  
22            which the services were rendered. The expense lead is calculated by adding the  
23            service period (the mid-point of each month's service period) to the payment  
24            period (the number of days it takes for the Company to remit payment to XES).

1 **Q. PLEASE DESCRIBE THE CASH WORKING CAPITAL ALLOWANCE THAT IS**  
2 **ADDED TO RATE BASE TO REIMBURSE XES FOR FINANCING THE**  
3 **PUBLIC SERVICE CHARGES.**

4 A. Consistent with the methodology that has been used in its last several rate  
5 cases, the Company has calculated a cash working capital factor that is applied  
6 to the XES charges to account for the financing costs incurred by XES before  
7 they are paid for the services rendered. The revenue lag is the number of days it  
8 takes for Public Service to pay for services rendered. The expense lead is the  
9 same as those used by Public Service, since both companies have the same  
10 accounts payable payment practices.

11 **Q. BRIEFLY EXPLAIN THE PROCEDURES USED TO DETERMINE THE**  
12 **REVENUE LAG.**

13 A. The revenue lag was calculated using data from the Company's customer billing  
14 system. The Company used statistical sampling for the customers billed under  
15 the RG and CSG rate schedules due to the large number of customers, and used  
16 100 percent sampling for all other rate schedules. The revenue lag was  
17 calculated for each invoice. The revenue lag is the average number of days from  
18 the time of service to the date the Company receives payment from the  
19 customer. The revenue lag is determined by taking the sum of the following  
20 periods:

- 21 1) The meter-reading period, based on the mid-point of each month's  
22 service period;

1           2) The collection lag, based on the number of days it takes for the  
2           customers to pay their bills from the mid-point date of the service  
3           period; and

4           3) An additional half day is added to account for the posting of the  
5           customer receipts to the Company's bank account. An average lag  
6           day value for each rate schedule was calculated and weighted with the  
7           percent of total revenue.

8           For residential customers, a 30-day limit on lag days was instituted to exclude the  
9           effects of late payments.

10   **Q.   WHAT ARE THE RESULTING LEAD-LAG FACTORS THE COMPANY HAS**  
11   **CALCULATED FOR USE IN DETERMINING CASH WORKING CAPITAL IN**  
12   **THIS CASE?**

13   A.   The resulting lead-lag factors are presented on Attachment DAB-8. These cash  
14   working capital factors were then weighted by the applicable Test Year costs to  
15   calculate Cash Working Capital, as presented on Attachment DAB-1, Schedule  
16   103.

**VI. REVENUE**

**Q. PLEASE DESCRIBE HOW PRESENT BASE RATE REVENUE FOR THE TEST YEAR WAS DEVELOPED FOR THIS RATE CASE.**

A. Actual revenue for two months and forecasted revenue for ten months ending September 30, 2020, were used to match to the other components of the Test Year. Company witness Ms. Jannell E. Marks presents the sales forecast (customer and dekatherm ("Dth") throughput forecast) that was used to develop retail base revenue for the twelve months ending September 30, 2020. The base rate revenue used in the cost of service was calculated using the Test Year number of customers and delivery quantities, by rate schedule, from the customer and Dth throughput forecast that Ms. Marks is sponsoring. The residential and commercial gas lighting billing units (mantle fixtures) and the firm, interruptible, and transportation service demand capacity billing units were all based on historical levels.

The Company made two adjustments to the Test Year billing units. First, as discussed in the Direct Testimony of Ms. Marks, the Company has normalized the Dth throughput based on the weather normalization. Second, the Company made an adjustment to annualize customers at the year-end level consistent with using year-end rate base. The resulting billing units after applying these adjustments were then multiplied by the settled Phase II base rates, recently filed

1 in Proceeding No. 19AL-0309G, that is currently pending Commission approval.<sup>5</sup>

2 The derivation of present base rate revenue is shown on Confidential Attachment  
3 DAB-1A and the year-end customer adjustment is presented on Attachment  
4 DAB-1, Schedule 212. Retail present base rate revenue for the Test Year is  
5 \$500,019,265.

6 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT TO ANNUALIZE**  
7 **CUSTOMERS AT THE YEAR-END LEVEL.**

8 A. The Company is presenting the Test Year using year-end rate base and  
9 annualized depreciation expense. The annualization adjustment to the Test Year  
10 base revenue reflects a full year of projected revenue of residential, commercial  
11 & industrial, and transportation customers at the level forecasted at September  
12 30, 2020. This adjustment results in the addition of \$2,250,436 of revenue to the  
13 Test Year and thus reduces the deficiency by the same amount, as shown on  
14 Attachment DAB-1, Schedule 212.

15 **Q. PLEASE DESCRIBE THE CALCULATION OF THE ADJUSTMENT TO**  
16 **ANNUALIZE CUSTOMER REVENUE.**

17 A. First, we calculated the change in customers from September 30, 2019, to  
18 September 30, 2020. Results of this calculation show that residential customer  
19 counts are expected to grow by 7,215 customers; commercial & industrial  
20 customer counts are expected to decline by 217 customers; and transportation  
21 customer counts are expected to grow by 116 customers.

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<sup>5</sup> We have received Recommended Decision No. R20-0046, dated January 22, 2020, approving the settled Phase II base rates. However, the time to file exceptions has not expired at the time of filing this Direct Testimony, and therefore the recommended decision is not final at this time.

1           Next, we calculated the revenue adjustment necessary to annualize the  
2 revenues of these new customers. Public Service assumed that the base  
3 revenue for each additional customer was equal to the average base revenue per  
4 customer during the entire period. This approach resulted in total adjusted base  
5 rate revenue of \$2,250,436 of which \$1,778,470 was for residential customers,  
6 \$(126,649) was for commercial & industrial customers, and \$598,615 was for  
7 transportation customers.

8 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT FOR THE RECOVERY**  
9 **OF THE CRAIG AND GUNNISON COMPRESSOR PROJECTS.**

10 A. As described by Company witness Mr. Litteken, in the 2017 Gas Phase I, the  
11 Commission found that the Craig and Gunnison compressor projects provide an  
12 overall system benefit, and therefore should be included in the overall cost of  
13 service. However, the projects were not in service during the 2016 HTY  
14 ultimately used to set rates in that proceeding, and therefore were not included in  
15 base rates that resulted from the 2017 Gas Phase I. The Craig and Gunnison  
16 compressor projects are in rate base in this case.

17           After the 2016 HTY, the Company has collected revenue from Atmos  
18 Energy for these projects, which now needs to be excluded in the Test Year base  
19 revenues used to calculate the revenue deficiency in this proceeding. I have  
20 removed the revenue collected from Atmos Energy related to these projects  
21 because once new base rates from this proceeding are effective, the Company  
22 will no longer bill Atmos Energy for these projects.

1 **Q. PLEASE DESCRIBE THE OTHER REVENUES THAT ARE INCLUDED AS A**  
2 **REDUCTION TO THE COST OF SERVICE STUDIES PRESENTED IN THIS**  
3 **CASE.**

4 A. The following other revenues accounts are included in the cost of service studies  
5 presented in this case: FERC Account 487, Late Payment Revenue; FERC  
6 Account 488, Miscellaneous Service Revenue; FERC Account 490, Production  
7 Extraction Revenue; FERC Account 493, Rent from Gas Property, and FERC  
8 Account 495, Other Gas Revenue. The Company used the 12-month period  
9 ending September 30, 2019, balances of the other revenue accounts for the  
10 development of the cost of service study.

11 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO OTHER REVENUE CONSISTENT**  
12 **WITH PREVIOUS RATE CASES?**

13 A. Several adjustments were made to other revenue, which are similar to those  
14 made in previous rate cases, including the following:

- 15 1) Elimination of other revenue amounts not included in retail base rates (i.e.,  
16 rate refunds, DSM incentives, and deferred PSIA costs);
- 17 2) Elimination of other revenue amounts recorded in the cost of service that are  
18 not certain going forward or are not recoverable from retail customers (i.e.,  
19 bad debt concessions, and gas transportation penalties); and
- 20 3) Elimination of residential late payment revenues.

21 The adjustments to other revenue are shown on Attachments DAB-1,  
22  
23 Schedule 211.



1 **Q. PLEASE DESCRIBE THE COMPANY'S TREATMENT OF RESIDENTIAL**  
2 **LATE PAYMENT REVENUE IN THIS CASE.**

3 A. The Company has eliminated the residential late payment revenue billed to  
4 customers in the cost of service studies presented in this case, as shown on  
5 Attachment DAB-1, Schedule 211. The Company proposes to eliminate this  
6 revenue credit and continue the donation to the EOC, consistent with the  
7 treatment of residential late payment revenue approved by the Commission in  
8 prior rate cases.

9 **Q. WHAT NEW ADJUSTMENTS DID YOU MAKE TO OTHER REVENUE IN THIS**  
10 **CASE?**

11 A. The Company did not make an adjustment related to the PSIA in base amount as  
12 was done in the 2017 Gas Phase I, as addressed below. However, an  
13 adjustment was made to set the level of sales/use tax vendor fees to what is  
14 expected at the time rates will be effective from this case.

15 **Q. PLEASE DISCUSS WHY NO ADJUSTMENT WAS MADE FOR PSIA**  
16 **REVENUES IN BASE RATES.**

17 A. In the 2017 Gas Phase I, an adjustment was made to reduce revenue by  
18 \$4,263,980 in the cost of service. This adjustment was related to the previously-  
19 established revenue requirement for certain PSIA projects that remained in base  
20 rates. The adjustment to Other Revenue in the 2017 Gas Phase 1 was made to  
21 ensure these costs were recovered in base rates, since the PSIA revenue  
22 requirement was also being reduced by the same amount. In the 2017 Gas  
23 Phase I and in the cost of service in this proceeding, I have removed all PSIA

1 project costs recovered in the PSIA rider, including those costs that were  
2 historically recovered in base rates, equating to a revenue requirement of  
3 \$4,263,980. By not adjusting revenue in this proceeding, all costs removed from  
4 the cost of service related to projects in the PSIA will be recovered in the PSIA,  
5 and it will no longer be necessary to reduce the rider for a project base amount.  
6 This approach simplifies the delineation between base rates and the PSIA.  
7 Removing all costs related to projects recovered in the PSIA from the base rate  
8 cost of service ensures those projects are completely recovered in the rider and  
9 not recovered in base rates.

10 **Q. PLEASE DESCRIBE THE COMPANY'S ADJUSTMENT RELATED TO SALES**  
11 **AND USE TAX VENDOR FEES.**

12 A. An adjustment was made to miscellaneous revenues to eliminate sales/use tax  
13 vendor fees that will be significantly reduced from the passage in May 2019 of  
14 House Bill 19-1245, as discussed by Company witness Ms. Koch, and shown on  
15 Attachment DAB-1, Schedule 264

**VII. EXPENSES**

**Q. PLEASE DISCUSS GENERALLY THE O&M EXPENSES AND OTHER INCOME STATEMENT ITEMS INCLUDED IN THE TEST YEAR.**

A. As I previously stated, Public Service is proposing to utilize a Test Year in this rate case ending on September 30, 2020, based on historical O&M costs for the 12 months ending September 30, 2019, with pro forma adjustments for known and measurable O&M changes through September 30, 2020. In the sections below, I discuss in more detail the expenses and expense adjustments included in the Test Year.

**A. Labor and Labor-Related Expenses**

**Q. PLEASE DISCUSS THE ADJUSTMENTS TO INCLUDE WAGE INCREASES IN THE COST OF SERVICE STUDY PRESENTED IN THIS RATE CASE.**

A. The actual per book labor O&M expense as of September 30, 2019, was adjusted for known and measurable cost increases that the Company has paid or is expected to pay through September 30, 2020, consistent with Commission precedent for making known and measurable adjustments. As discussed by Company witness Mr. Michael T. Knoll, non-bargaining unit employee wage increases are effective in March each year. I have included an in-period adjustment to reflect the average increase of 3.00 percent effective March 2019 for the entire period ("2019 adjusted labor"). Added to the 2019 adjusted labor is an out-of-period adjustment to reflect the average increase of 3.00 percent for the wage increase effective March 2020. For bargaining unit employees, as discussed by Mr. Knoll, wage increases are effective in June of each year.

Similar to the adjustment made for the non-bargaining wage increases, I have made an adjustment for the bargaining unit wage increase of 2.80 percent effective June 2019, and a second bargaining unit wage increase of 2.80 percent expected to be effective June 2020. I have calculated an average percentage increase to apply to the per book labor amounts to reflect the increases discussed above, as shown below in Table DAB-D-3:

**Table DAB-D-3**

	Number of month to Escalate	Annual Rate	Rate/Month	Compound per Year	Compound Rate Total
<b>Non-Bargaining</b>					
Actual Period	5	3.00%	1.25%		1.25%
K&M Period	12	3.00%	3.00%	0.04%	3.04%
<b>Total Non-Bargaining</b>					<b>4.29%</b>
<b>Bargaining Unit</b>					
Actual Period	8	2.80%	1.87%		1.87%
K&M Period	12	2.80%	2.80%	0.05%	2.85%
<b>Total Bargaining Unit</b>					<b>4.72%</b>

For the non-bargaining unit labor, the average percentage increase is 4.29 percent, and for the bargaining unit labor, the average percentage increase is 4.72 percent, as shown on Attachment DAB-1, Schedule 248. In addition, Taxes Other Than Income Taxes was adjusted for the related payroll taxes from these wage increases. The wage increases are incorporated in the cost of service study presented in this rate case, and shown on Attachment DAB-1, Schedule 248.

1 **Q. DID THE COMPANY CONSIDER PRODUCTIVITY GAINS WHEN MAKING**  
2 **THE WAGE ADJUSTMENTS TO THE COST OF SERVICE?**

3 A. Yes. The Company prepared a productivity study consistent with the productivity  
4 study filed and approved by the Commission in the 2017 Gas Phase I, which was  
5 modeled after the productivity study approved in the Company's 1993 rate case,  
6 in Decision No. C93-1346, adopted October 14, 1993, in Proceeding No. 93S-  
7 001EG.<sup>6</sup> The productivity study is a measure of the average of compound  
8 growth rates of output per unit of labor from 2008 through 2018, as shown in  
9 Attachment DAB-10.

10 **Q. PLEASE DESCRIBE THE METHODOLOGY USED TO DEVELOP THE LABOR**  
11 **PRODUCTIVITY INFORMATION PROVIDED IN ATTACHMENT DAB-10.**

12 A. The general definition of labor productivity is the ratio of output to input. It is the  
13 relationship between the quantity and value of goods and services produced  
14 (output) and the quantity of labor required (the input). The output used was gas  
15 sales, including transportation volumes, normalized for weather. The input used  
16 was total gas labor costs as reported in the Company's FERC Form No. 1, plus  
17 gas employee benefits expense. The result is negative productivity, due to sales  
18 declining over the ten-year period of time that was used for this analysis.

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<sup>6</sup> The Company filed to include an out-of-period wage adjustment with a productivity offset in two subsequent gas rate cases in Proceeding No. 96S-290G ("1996 Rate Case") and Proceeding No. 98S-518G ("1998 Rate Case"). In the 1996 Rate Case, the Commission did not approve the Company's productivity factor, or the productivity factor advocated by the OCC. See Decision No. C97-118, adopted January 27, 1997. In the 1998 Rate Case, the Commission rejected the Company's productivity factors, and accepted a productivity factor that removed the out-of-period wage adjustment in total. See Decision No. C99-579, adopted May 29, 1999.

1 Consequently, there is no productivity offset to the wage adjustment based on  
2 ten years of information using the methodology approved by the Commission.

3 **Q. PLEASE DISCUSS THE COMPANY'S COST OF SERVICE ADJUSTMENTS**  
4 **TO THE ANNUAL EMPLOYEE INCENTIVE COMPENSATION.**

5 A. The Company makes employee incentive payments above base salaries so long  
6 as certain minimum earnings performance targets are met and other pre-  
7 established key performance indicators are met or exceeded, referred to as the  
8 AIP. I made several adjustments to incentive pay in the cost of service  
9 presented in this rate case. First, I started with the per book incentive pay, by  
10 FERC Account for the 12 months ended September 30, 2019, and made an  
11 adjustment to limit incentive pay to 15 percent of employee base wages on a  
12 person-by-person basis. Second, I increased the resulting incentive pay in the  
13 Test Year for wage increases in the same manner as the wage increases were  
14 applied to base labor, as described above.

15 In addition, I adjusted the pension expense to reflect the reduction in  
16 incentive pay. Adjustments have been made to applicable O&M expense  
17 accounts where these amounts are recorded. The adjustments are shown on  
18 Attachment DAB-1, Schedule 250. Finally, Taxes Other Than Income Taxes was  
19 adjusted for the related payroll taxes, and the Cash Working Capital Allowance  
20 related to incentive pay reflects the adjusted Test Year levels.

21 The incentive amounts that have been removed from the cost of service  
22 study presented in this rate case are actual costs that have been paid to

1 employees by the Company pursuant to the compensation plans described by  
2 Company witness Mr. Knoll.

3 **Q. PLEASE DISCUSS THE ADJUSTMENT TO THE OFFICERS' INCENTIVE**  
4 **COMPENSATION.**

5 A. The Company has excluded the long-term portion of the officers' incentive  
6 compensation from the cost of service study presented in this rate case, net of  
7 the time-based component, as discussed by Company witness Mr. Knoll. First,  
8 an adjustment was made to eliminate all of the officers' incentive compensation  
9 as shown on Attachment DAB-1, Schedule 239, and then an adjustment was  
10 made to include the time-based component at target, as shown on Attachment  
11 DAB-1, Schedule 241. In addition, as with the other adjustments to employee  
12 labor expenses, adjustments were made to Taxes Other Than Income Taxes for  
13 the related payroll taxes and the Cash Working Capital Allowance factor was  
14 adjusted.

15 **Q. WHAT ACCOUNTS IN THE COST OF SERVICE STUDY ARE SUBJECT TO**  
16 **THIS APPROACH TO ADDRESSING LABOR AND LABOR-RELATED**  
17 **EXPENSES?**

18 A. The list below identifies adjustments made to include wage increases for the  
19 bargaining unit employees and non-bargaining unit employees. These  
20 adjustments are shown on Attachment DAB-1, Schedule 248.

- 21 • Other gas supply O&M expense;
- 22 • Underground storage O&M expense;
- 23 • Production operations O&M expense;

- Transmission O&M expense;
- Distribution O&M expense;
- Customer operations expense; and
- Administrative and general ("A&G") expense

**B. Cost Of Gas Purchased For Resale**

**Q. PLEASE DISCUSS THE ADJUSTMENTS TO COST OF GAS PURCHASED FOR RESALE COSTS.**

A. The cost of gas purchased for resale was removed from base rates in a previous Phase II gas rate case, Proceeding No. 99S-609G. These costs are now included in the GCA. Therefore, the costs of gas purchased for resale costs are set to zero in the cost of service study presented in this rate case.

**C. Other Gas Supply And Underground Storage O&M Expense**

**Q. WHAT ADJUSTMENTS WERE MADE TO OTHER GAS SUPPLY O&M EXPENSES?**

A. Adjustments were made to:

- 1) Include labor expenses recorded in FERC Account 807, Well Expenses – Purchased Gas; and
- 2) Include known and measurable expenses related to storage activities, as discussed in more detail by Company witness Mr. Litteken.

**Q. PLEASE DISCUSS THE ADJUSTMENT TO INCLUDE LABOR EXPENSES FROM THE PURCHASED GAS ACCOUNT TO O&M EXPENSES.**

A. The Company recorded labor expenses in FERC Account 807, which is a cost of gas purchased for resale expense account that would normally be eliminated because these costs are recovered through the GCA. However, labor expense



costs are not recovered through the GCA, so these costs needed to be reclassified as Other Gas Supply expenses and recovered in base rates. The adjustment is shown on Attachment DAB-1, Schedule 261.

**Q. HOW DOES THE COST OF SERVICE STUDY REFLECT KNOWN AND MEASURABLE EXPENSE ADJUSTMENTS FOR STORAGE ACTIVITIES?**

A. A known and measurable adjustment was included in the cost of service to reflect costs associated with the storage well integrity program the Company expects to incur during the Test Year as discussed in more detail by Company witness Mr. Litteken. The adjustment is shown on Attachment DAB-1, Schedule 254.

**D. Transmission O&M Expense**

**Q. WHAT ADJUSTMENTS HAVE YOU MADE TO TRANSMISSION O&M EXPENSE?**

A. Adjustments were made to:

- 1) Eliminate the costs associated with the Front Range Pipeline; and
- 2) Include known and measurable expenses related to pipeline activities, as discussed in more detail by Company witness Mr. Litteken.

**Q. PLEASE DISCUSS THE FRONT RANGE PIPELINE ADJUSTMENTS.**

A. In Decision No. C98-556, mailed June 4, 1998, in Proceeding No. 97A-622G, the Commission approved Public Service's application for a Certificate of Public Convenience and Necessity to construct the Front Range Pipeline, subject to conditions. As one condition, the Commission required that service over the Front Range Pipeline be provided on a separate, stand-alone basis instead of

1 being accorded “rolled-in” rate treatment with Public Service’s other services. In  
2 accordance with that determination, all costs associated with the Front Range  
3 Pipeline are excluded from base rate revenue requirements. The Company  
4 made three adjustments to the Gas Department cost of service study associated  
5 with the Front Range Pipeline, including:

- 6 1) Eliminating the Test Year lease payments (FERC Account 860);
- 7 2) Eliminating O&M expenses (FERC Account 863); and
- 8 3) Eliminating property taxes (FERC Account 408).

9 All of these adjustments are shown on Attachments DAB-1, Schedule 242.  
10 Through these three adjustments, the Company has excluded all costs  
11 associated with the Front Range Pipeline consistent with Decision No. C98-556.

12 **Q. HOW DOES THE COST OF SERVICE STUDY REFLECT KNOWN AND**  
13 **MEASURABLE EXPENSE ADJUSTMENTS RELATED TO PIPELINE**  
14 **ACTIVITIES?**

15 A. A known and measurable adjustment was included in the cost of service to  
16 reflect costs associated with compliance and pipeline activities the Company  
17 expects to incur during the Test Year as discussed in more detail by Company  
18 witness Mr. Litteken. The adjustment is shown on Attachment DAB-1, Schedule  
19 254.

20

1        **E. Distribution O&M Expense**

2        **Q.    WHAT ADJUSTMENTS HAVE YOU MADE TO DISTRIBUTION O&M?**

3        A.    Adjustments were made to:

4            1) Include costs associated with the Damage Prevention program described by  
5            Company witness Mr. Litteken; and

6            2) Include known and measurable expenses related to right of way clearing  
7            activities discussed by Mr. Litteken.

8        **Q.    PLEASE DESCRIBE THE PROPOSAL TO DEFER O&M COSTS**  
9        **ASSOCIATED WITH THE DAMAGE PREVENTION PROGRAM.**

10       A.    Mr. Litteken testifies that the Company is proposing to continue deferral of O&M  
11       costs associated with the Damage Prevention program that are greater than or  
12       less than the amount in base rates, beginning with the rates effective from this  
13       rate case. During the Test Year, the Company recorded credits to FERC  
14       Account 874 to reduce O&M expenses to the level of Damage Prevention  
15       approved in the Company's 2017 Gas Phase I. However, the Company spent  
16       more in Damage Prevention O&M expenses than the level set in the Company's  
17       2017 Gas Phase I. An adjustment was made to the Test Year to eliminate the  
18       credits, thereby reflecting the Test Year level of Damage Prevention costs in this  
19       rate case. The Company has included \$17,301,954 in Damage Prevention O&M  
20       expense in the Test Year, as shown on Attachment LAL-4 to Mr. Litteken's Direct  
21       Testimony. The Company will address the recovery of any regulatory  
22       asset/liability that might arise after this rate case in its next gas rate case

1 proceeding. I discuss the Company's amortization proposal related to the  
2 deferral of these costs from the Company's 2017 Gas Phase I later in my Direct  
3 Testimony.

4 **Q. HOW DOES THE COST OF SERVICE STUDY REFLECT KNOWN AND**  
5 **MEASURABLE EXPENSE ADJUSTMENTS RELATED TO RIGHT OF WAY**  
6 **CLEARING ACTIVITIES?**

7 A. A known and measurable adjustment was made to Distribution O&M expense to  
8 reflect costs associated with compliance and right of way clearing activities the  
9 Company expects to incur during the Test Year, as discussed in more detail by  
10 Company witness Mr. Litteken. The adjustment is shown on Attachment DAB-1,  
11 Schedule 255.

12 **F. Customer Operations Expense**

13 **Q. WHAT ADJUSTMENTS HAVE YOU MADE TO CUSTOMER OPERATIONS**  
14 **EXPENSES?**

15 A. Adjustments were made to:  
16 1) Include interest expense on customer deposits;  
17 2) Eliminate the Gas DSM expenses; and  
18 3) Exclude a prior period adjustment to Advertising expenses.

19 **Q. PLEASE DISCUSS THE ADJUSTMENT TO INCLUDE INTEREST EXPENSE ON**  
20 **CUSTOMER DEPOSITS.**

21 A. As I previously discussed, the Company includes customer deposits as a  
22 reduction to rate base, and is also allowed to include the related interest as an  
23 addition to Customer Operations expense. The customer deposit interest rate

1 used in this rate case is 2.33 percent, which is the current Commission-----  
2 approved rate effective January 1, 2020, as approved in Decision No. C19-0859  
3 in Proceeding No.19M-0575E. The adjustment is shown on Attachment DAB-1,  
4 Schedule 230.

5 **Q. PLEASE DISCUSS THE ADJUSTMENT TO ELIMINATE THE GAS DSM**  
6 **COSTS FROM THE COST OF SERVICE.**

7 A. All costs associated with the Company's gas DSM program have been excluded  
8 from the cost of service in this case, since these costs are currently recovered  
9 through the gas DSMCA. An adjustment has been made to eliminate the amount  
10 of gas DSM costs booked in the Test Year from Customer Operations expense,  
11 FERC Account 908, as shown on Attachment DAB-1, Schedule 222.

12 **Q. PLEASE DISCUSS THE PRIOR PERIOD ADJUSTMENT TO ADVERTISING**  
13 **EXPENSES.**

14 A. An adjustment was made to FERC Account 909 to exclude a prior period  
15 adjustment related to the reversal of costs incorrectly recorded in that account.  
16 The adjustment is shown on Attachment DAB-1, Schedule 237. The remaining  
17 safety, conservation, and customer program-related advertising expenses are  
18 included in the cost of service study in customer operations accounts. Copies of  
19 the ads for the 12-month period ending September 30, 2019, along with their  
20 related costs are provided in Attachment DAB-9.

**G. Administrative & General Expense**

**Q. WHAT ADJUSTMENTS HAVE YOU MADE TO A&G EXPENSES?**

A. Adjustments were made to:

- 1) Eliminate a majority of the Company's aviation expenses;
- 2) Eliminate certain employee expenses;
- 3) Adjust the level of pension and benefits expenses in the Test Year;
- 4) Eliminate the pension expense amount that was deferred in the Test Year above the pension expense baseline;
- 5) Adjust active healthcare expense for claims incurred-but-not-reported;
- 6) Adjust retiree medical expenses to zero out the negative expenses;
- 7) Adjust the regulatory Commission expense for the Commission's current level of assessment fees;
- 8) Eliminate the amortization of rate case expenses from the 2017 Gas Phase I;
- 9) Include the incremental costs for preparing and litigating this rate case and other cases that have been deferred;
- 10) Eliminate certain advertising expenses;
- 11) Eliminate costs associated with the City of Boulder municipalization and separation cases; and
- 12) Make accounting adjustments to correctly state the Test Year.

**Q. PLEASE DISCUSS THE ADJUSTMENT TO ELIMINATE CERTAIN AVIATION EXPENSES ASSOCIATED WITH THE CORPORATE AIRCRAFT.**

A. The Company is proposing to recover 6.98 percent of the costs associated with the corporate aircraft in base rates. An adjustment was made to eliminate 93.02 percent of the corporate aircraft costs included in the cost of service study, as

1 shown on Attachment DAB-1, Schedule 224. The adjustment to eliminate a  
2 majority of corporate aircraft costs is based on a study of the Company's corporate  
3 aircraft usage between Xcel Energy's corporate headquarters in Minneapolis,  
4 Minnesota, and the other Xcel Energy Operating Company headquarters in Denver,  
5 Colorado, and Amarillo, Texas, in the Test Year. The corporate aircraft costs were  
6 compared to equivalent commercial aircraft costs to determine the percentage  
7 eliminated. Some aviation expenses are recorded as labor expenses in the  
8 Company accounting system. Therefore, as with the other adjustments to  
9 employee labor expenses, adjustments were made to Taxes Other Than Income  
10 Taxes for the related payroll taxes.

11 **Q. PLEASE DISCUSS THE ADJUSTMENT THE COMPANY MADE TO ELIMINATE**  
12 **CERTAIN EMPLOYEE EXPENSES.**

13 A. The employee expense adjustment resulted from a review of the actual accounting  
14 transactions for the 12 months ending December 31, 2018. Employee expense  
15 transactions that were allocated or assigned to the Company and incorrectly  
16 recorded to operating accounts were searched electronically using key words and  
17 categories. This analysis is similar to what has been used in prior rate cases. The  
18 review identified that the total costs recorded in operating accounts and assigned to  
19 the Gas Department that did not meet travel policy guidelines as recoverable from  
20 customers was approximately 0.6 percent of the total amount recorded for  
21 employee expenses in FERC Account 921. Therefore, I have removed  
22 approximately 0.6 percent of the expense recorded in FERC Account 921 in the  
23 Test Year. The adjustment is shown on Attachment DAB-1, Schedule 227.

**Q. PLEASE DISCUSS THE LEVEL OF PENSION AND BENEFITS EXPENSE INCLUDED IN THE TEST YEAR.**

A. As discussed by Company witness Mr. Schrubbe, the qualified pension and non-qualified pension expense, active healthcare expense, and other employee benefit expenses at the level expected on September 30, 2020, are included in the Test Year. The pension and benefits adjustments are shown on Attachment DAB-1, Schedule 233. As discussed by Company witness Mr. Berman in his Direct Testimony, the Company is proposing to continue to use a pension expense tracker, in which the retail qualified and non-qualified pension costs in the Test Year will set the level of pension expenses for the deferral beginning with new rates from this rate case. The amount of the Test Year retail pension expenses are shown below in Table DAB-D-4.

**Table DAB-D-4**

	Total Electric	Retail Allocator <sup>7</sup>	CPUC Amount
Qualified Pension	\$7,830,663	99.94%	\$7,825,885
Non-Qualified Pension	\$ 124,838	99.94%	\$ 124,762
Total	\$7,955,501		\$7,950,647

Pension expenses incurred beginning with the effective date of rates in this rate case, expected November 1, 2020, that are greater or lower than the Test Year level will be deferred in a regulatory asset/liability account, and any regulatory asset/liability would be recovered in a future rate case.

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<sup>7</sup> The retail allocation factor shown in the table is rounded.



1 **Q. PLEASE DISCUSS THE ADJUSTMENT TO PENSION AND BENEFITS**  
2 **EXPENSE TO ELIMINATE THE AMOUNT THAT WAS DEFERRED IN THE TEST**  
3 **YEAR ABOVE THE PENSION EXPENSE BASELINE ESTABLISHED IN THE**  
4 **2017 GAS PHASE I.**

5 A. An adjustment was made to eliminate the pension expense amount that was  
6 deferred in the Test Year above the pension expense baseline established in  
7 the 2017 Gas Phase I, in order to reflect the current level of pension expense in this  
8 rate case, as discussed by Company witness Mr. Schrubbe. In addition, the  
9 Company is proposing to amortize the deferred pension expenses in this rate case,  
10 as discussed later in my Direct Testimony. The adjustment to eliminate the pension  
11 expense that was deferred in the Test Year is shown on Attachment DAB-1,  
12 Schedule 233.

13 **Q. PLEASE DISCUSS THE ADJUSTMENT RELATED TO ACTIVE HEALTHCARE**  
14 **CLAIMS INCURRED-BUT-NOT-REPORTED.**

15 A. As discussed by Mr. Schrubbe, the actual amount booked in the Test Year for  
16 active healthcare expense is an estimate. Claims that are incurred in the Test  
17 Year but not reported until after the books close should be adjusted in the Test  
18 Year. This adjustment to FERC Account 926, Employee Pensions and Benefits  
19 Expense is shown on Attachment DAB-1, Schedule 228.

20 **Q. PLEASE DISCUSS THE ADJUSTMENT TO EMPLOYEE PENSION AND**  
21 **BENEFIT EXPENSES RELATED TO RETIREE MEDICAL EXPENSES.**

22 A. As discussed by Mr. Schrubbe, the Company recorded negative retiree  
23 medical expenses in the Test Year. The Company is proposing an

1 adjustment similar to what was approved in the 2017 Gas Phase I, to zero  
2 out the negative expense, in other words increase expense, and lower the  
3 prepaid balance, as shown on Attachment DAB-1, Schedule 233.

4 **Q. PLEASE DISCUSS THE ADJUSTMENT RELATED TO THE ADMINISTRATION**  
5 **FEES PAID TO THE COMMISSION.**

6 A. The Company made an adjustment to FERC Account 928, Regulatory  
7 Commission Expense in the Test Year to reflect the Commission  
8 administration fees for the fiscal year July 1, 2019, through June 30, 2020, as  
9 shown on Attachment DAB-1, Schedule 229. The actual expense recorded in the  
10 Test Year has this level of Commission administration fees through September 30,  
11 2019. The adjustment is to bring in the expenses through June 30, 2020, in the  
12 Test Year.

13 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO A&G EXPENSE TO ELIMINATE**  
14 **THE AMORTIZATION OF RATE CASE EXPENSES APPROVED IN THE 2017**  
15 **GAS PHASE I.**

16 A. The Commission approved amortization of rate case expenses related to the 2017  
17 Gas Phase I over a 27-month period that will end on March 31, 2020. Because this  
18 expense is included in actual Test Year expenses and will not continue into the  
19 period where rates from this rate case will be effective, I eliminated the expenses  
20 from the Test Year, as shown on Attachment DAB-1, Schedule 238.

1 **Q. PLEASE DESCRIBE THE ADJUSTMENTS FOR CURRENT RATE CASE**  
2 **EXPENSE AND PREVIOUSLY-DEFERRED COSTS INCURRED FOR RATE**  
3 **CASE EXPENSES OR OTHER COMMISSION PROCEEDINGS.**

4 A. As discussed by Company witness Mr. Berman, the Company's Test Year includes  
5 the actual costs for this rate case incurred to date, plus the estimated incremental  
6 costs of preparing, filing, and litigating this rate case. Such incremental costs  
7 include, among other things, the cost of customer noticing, duplicating, postage,  
8 consultant and outside witness fees, transcripts, and outside legal and consulting  
9 fees.

10 In addition, the Company has included the deferred rate case expense  
11 associated with the Company's 2019 Phase II rate case filed in Proceeding No.  
12 19AL-0309G, consistent with the settlement in that proceeding, which has been  
13 approved without material modification by Decision No. R20-0046, mailed on  
14 January 22, 2020. The Company is proposing to amortize the total of these costs  
15 over 36 months, effective with the base rates in this rate case. The rate case  
16 expense adjustment to A&G expense is shown on Attachment DAB-1, Schedule  
17 123.

18 **Q. WHAT ADVERTISING COSTS ARE INCLUDED OR EXCLUDED FROM THE**  
19 **COST OF SERVICE?**

20 A. Consistent with prior Commission rulings, advertising expenses related to brand  
21 or promotional advertising booked in FERC Account 930.1, Miscellaneous A&G  
22 expense, have been eliminated from the cost of service. These adjustments to  
23 FERC Account 930.1 are shown on Attachment DAB-1, Schedule 237.

1   **Q.   PLEASE DISCUSS THE ADJUSTMENTS RELATED TO THE CITY OF**  
2   **BOULDER’S PROPOSED MUNICIPALIZATION AND SEPARATION CASES.**

3   A.   The Company has made adjustments to the Test Year related to the City of  
4   Boulder’s proposed municipalization and separation cases before the Commission,  
5   as discussed by Company witness Mr. Dietenberger. First, the Company has  
6   made adjustments to A&G expenses and payroll taxes to eliminate any costs  
7   associated with the municipalization case that are not reimbursable from the City of  
8   Boulder. Second, beginning in September 2017, with the Commission’s order in  
9   Proceeding No. 15-0589E, the Company is currently being reimbursed by the City  
10   of Boulder for its costs related to the separation of assets. During the Test Year,  
11   the Company billed the City of Boulder for these costs incurred and recorded  
12   reductions to the Distribution O&M and A&G expenses. I have made adjustments  
13   to eliminate both the charges and the credits booked to Distribution O&M,  
14   Transmission O&M, and A&G expenses, and payroll taxes for any 2017 and 2018  
15   costs being reimbursed by the City of Boulder, resulting in no net costs in base  
16   rates associated with these transactions. All of the adjustments related to the City  
17   of Boulder municipalization and separation cases are shown on Attachment DAB-1,  
18   Schedule 235.

19   **Q.   PLEASE DISCUSS ANY ACCOUNTING ADJUSTMENTS TO THE TEST YEAR.**

20   A.   An adjustment was made to correct an allocation of Edison Electric Institute dues  
21   that was inadvertently recorded to the gas service in FERC Account 930.2, as  
22   these costs should have all been allocated to the electric service, as shown on  
23   Attachment DAB-1, Schedule 231.

1        **H. Depreciation Expense**

2        **Q.     PLEASE DISCUSS HOW THE RESULTS OF THE NEW DEPRECIATION RATES**  
3        **STUDY ARE REFLECTED IN THE COST OF SERVICE IN THIS RATE CASE.**

4        A.     Company witness Mr. Dane A. Watson sponsors the new depreciation study and  
5        associated depreciation rates and Company witness Ms. Wold sponsors the impact  
6        of the new rates on depreciation expense in the Test Year. I have incorporated the  
7        annual impact of the changes in depreciation rates to depreciation expense for  
8        plant in-service as of September 30, 2019, shown on Attachment DAB-1, Schedule  
9        232. The impact of new rates is embedded in the forecasted depreciation expense  
10       related to the forecasted plant through September 30, 2020. The Company will  
11       implement the change in the Gas utility depreciation rates with the effective date of  
12       rates from this rate case, to match when revenue begins to be collected for these  
13       expenses. As discussed earlier in my testimony, a corresponding adjustment was  
14       made in rate base to accumulated depreciation to match rate base with this  
15       adjustment for new depreciation rates.

16       **Q.     PLEASE DISCUSS THE ANNUALIZATION OF DEPRECIATION EXPENSE IN**  
17       **THE TEST YEAR.**

18       A.     The Company has reflected an annual amount of depreciation expense based on  
19       the plant balances at September 30, 2020, for all actual plant in-service as of  
20       September 30, 2019, and plant additions expected to be in-service before  
21       September 30, 2020, as shown on Attachment DAB-1, Schedules 226 and 262.

1        **I. Amortization Expense**

2        **Q.     PLEASE EXPLAIN THE ADJUSTMENTS TO THE TEST YEAR AMORTIZATION**  
3        **EXPENSE ASSOCIATED WITH THE 2017 GAS PHASE I.**

4        A.     All of the amortizations approved in the 2017 Gas Phase I were set to recover the  
5        amounts over a 27-month period that will end on March 31, 2020. All of the  
6        amortization expense associated with these prior amortizations has been  
7        eliminated from the Test Year prior to the inclusion of any new amortization  
8        expense being requested in this rate case. Where a tracker mechanism was  
9        approved, as is the case for property taxes and the Damage Prevention program,  
10       the Company will continue to expense any expired amortizations and credit the  
11       deferred balance in the trackers through the effective date of rates from this case.  
12       The amortization associated with the Legacy Prepaid Pension Asset established in  
13       Proceeding No. 15AL-0135G ("2015 Gas Phase I") will not extinguish the balance  
14       until 2023, including the application of TCJA benefits to the Legacy Prepaid  
15       Pension Asset approved in the 2017 Gas Phase I. As discussed by Company  
16       witness Mr. Schrubbe, the Company is proposing to reset the prepaid pension  
17       asset amortization based on the projected balance of the asset at September 30,  
18       2020, accounting for all amortization approved in prior cases through the rate  
19       effective date of this proceeding. The Company is proposing that this amortization  
20       of the prepaid pension asset be over ten years. These adjustments to amortization  
21       expense are shown on Attachment DAB-1, Schedule 123.

1   **Q.   DOES THE COMPANY PROPOSE ANY AMORTIZATION OF THE**  
2       **REGULATORY ASSETS APPROVED IN PRIOR PROCEEDINGS FOR**  
3       **PURPOSES OF THIS RATE CASE?**

4   A.   Yes. The Company is proposing to amortize regulatory assets approved in the  
5       2017 Gas Phase I for deferred environmental cleanup expenses, property taxes,  
6       pension expenses, and Damage Prevention program expenses, as discussed in  
7       detail below, over a 36-month period beginning with the effective date of rates from  
8       this proceeding.

9   **Q.   PLEASE EXPLAIN HOW YOU DETERMINED THE 36-MONTH AMORTIZATION**  
10       **PERIOD.**

11 A.   Company witness Mr. Berman provides the policy rationale for our approach to the  
12       amortization period, but generally speaking, the Company has structured the  
13       amortization period to mitigate rate impacts to customers. In the 2017 Gas Phase I,  
14       a 27-month amortization period was approved based on the historical time between  
15       gas rate cases. While increasing the duration of the amortization period serves to  
16       mitigate the rate impact in this proceeding, it does increase the period of time  
17       between the expenditure of cash by the Company and the receipt of revenue from  
18       customers for that expenditure. This rate mitigation strategy does require the  
19       inclusion of the unamortized balances for these regulatory assets in rate base to  
20       properly compensate the Company for their carrying costs, as I discussed earlier in  
21       my testimony. Should the Company implement new rates from a future case  
22       before the 36-month amortization period proposed in this case were to expire,

1 Public Service would propose that the remaining balance of the regulatory assets  
2 and liabilities discussed below be amortized in that proceeding.

3 **Q. PLEASE DESCRIBE THE AMORTIZATION OF ENVIRONMENTAL**  
4 **INVESTIGATION, REMEDIATION, AND LITIGATION COSTS AT THE**  
5 **BOULDER SITE.**

6 A. As discussed in more detail by Mr. Berman in his Direct Testimony, in Decision  
7 No. R11-1311, mailed December 2, 2011, in Proceeding No. 11A-646G, the  
8 Commission approved the Company's request to defer environmental  
9 investigation-, remediation-, and litigation-related costs associated with the MGP  
10 site located in Boulder. In Decision No. C13-0064 in Proceeding No. 12AL-  
11 1268G, the Commission authorized the Company to amortize the deferred  
12 balance as of December 31, 2012, for a total of \$93,174 over an amortization  
13 period of two years, which expired August 9, 2015. The Company continued to  
14 defer subsequent costs along with any related credits from January 1, 2013,  
15 through December 31, 2014. By Decision No. C16-0123 in Proceeding No.  
16 15AL-0135G, the Commission authorized the Company to amortize the deferred  
17 balance as of December 2014 of \$419,802, over a 26-month period beginning  
18 November 1, 2015, and ending December 31, 2017. The Company continued to  
19 defer subsequent costs from January 1, 2015, through December 31, 2016. By  
20 Decision No. C18-1158 in the 2017 Gas Phase I, the Commission authorized the  
21 Company to amortize the deferred balance as of December 2016 of \$50,838,  
22 over a 27-month period beginning January 1, 2018, and ending March 31, 2020.  
23 The current deferred balance at December 31, 2019, is \$3,425,796, as shown on



1 Attachment DAB-1, Schedule 123. The Company proposes to amortize the  
2 deferred balance over 36 months, as previously discussed.

3 **Q. WILL THE COMPANY CONTINUE THE DEFERRED ACCOUNTING AND**  
4 **AMORTIZATION TREATMENT APPROVED IN THE PAST FOR THE**  
5 **ENVIRONMENTAL CLEAN-UP COSTS AT THE BOULDER SITE?**

6 A. Yes. The environmental clean-up project related specifically to the Boulder MGP  
7 site is complete due to a settlement with the City of Boulder resolving Public  
8 Service's responsibilities for investigation and remediation costs for the site, and  
9 we will not be receiving any further insurance reimbursements unless we receive  
10 disbursements from insurers going through liquidation proceedings. As a result,  
11 the Company does not expect to defer any additional costs associated with the  
12 Boulder MGP. If there are future additional insurance reimbursements, we will  
13 bring those forward in the next case.

14 **Q. PLEASE DESCRIBE THE AMORTIZATION OF ENVIRONMENTAL**  
15 **INVESTIGATION AND REMEDIATION COSTS AT OR ORIGINATING FROM**  
16 **THE RICE YARDS SITE.**

17 A. As discussed in more detail by Mr. Berman in his Direct Testimony, in Decision  
18 No. R17-0705, mailed August 24, 2017, in Proceeding No. 17A-0435G, the  
19 Commission approved the Company's request to defer investigating, litigating,  
20 and remediating possible environmental contamination at or originating from the  
21 Rice Yards site and the Crown Tar Works site in Denver. The deferred balance  
22 related to the settlement of the City and County of Denver's claims at December  
23 31, 2019, is \$1,322,229, as shown on Attachment DAB-1, Schedule 123. The

1 Company proposes to amortize this deferred balance over 36 months, as  
2 previously discussed.

3 **Q. WILL THE COMPANY CONTINUE THE DEFERRED ACCOUNTING**  
4 **TREATMENT APPROVED IN THE PAST FOR THE ENVIRONMENTAL**  
5 **INVESTIGATION, REMEDIATION, AND LITIGATION COSTS RELATED TO**  
6 **THE RICE YARDS AND CROWN TAR WORK SITES?**

7 A. Yes. Investigating, litigating, and remediating possible environmental  
8 contamination at the Rice Yards site and the Crown Tar Works site in Denver are  
9 not complete and therefore the Company will leave the regulatory asset on the  
10 books and continue deferral. Any additional deferred costs at the time of the next  
11 gas rate case will be brought forward to amortize at that time.

12 **Q. PLEASE DISCUSS THE DEFERRED PROPERTY TAX AMORTIZATION.**

13 A. As approved by the Commission in the 2017 Gas Phase I and discussed in the  
14 Direct Testimony of Ms. Koch, the Company has deferred property taxes since the  
15 last rate case. The Company has recorded a regulatory asset for the difference in  
16 the retail property taxes included in base rates in the 2017 Gas Phase I and the  
17 actual incurred retail property taxes beginning with calendar year 2018. The  
18 deferral from the last rate case will continue until new rates are approved in this  
19 current case. The level of retail property taxes included in base rates in the 2017  
20 Gas Phase I was \$34,743,977. The Company is proposing in the Test Year to  
21 amortize the forecasted retail property tax deferred balance through the end of  
22 2020. Any difference in the actual property taxes from the forecasted deferred  
23 balance at the end of 2020 will be recovered in the next rate case. Estimation of

1 the deferred balance at the end of 2020 minimizes the deferred balance the  
2 Company will bring forward in the next rate case and appropriately matches the  
3 expenses in customer rates closer to when they will be incurred. The amortization  
4 of the property tax deferred balance is shown on Attachment DAB-1, Schedule 123.

5 **Q. PLEASE DISCUSS THE PENSION EXPENSE AMORTIZATION.**

6 A. As approved by the Commission in the 2017 Gas Phase I, the Company has  
7 deferred pension expenses since the last rate case. The Company has recorded a  
8 regulatory asset account for the difference in retail pension expense included in  
9 base rates from the 2017 Gas Phase I and the actual pension expenses. The  
10 deferral from the 2017 Gas Phase I, totaling \$752,118, will continue until new rates  
11 are approved in this current case. The level of retail pension expenses included in  
12 base rates in the 2017 Gas Phase I was as follows:

13	Non-Qualified Pension Expense	\$271,821
14	Qualified Pension Expense	\$9,196,962

15 The Company is proposing in the Test Year to amortize the actual deferred retail  
16 pension expense balance through September 30, 2019. The Company is not  
17 seeking to amortize the forecasted balance of the regulatory asset at the end of  
18 2020 as it is with property taxes due to the difficult nature of forecasting pension  
19 expense. Any difference in the actual pension expense deferral from the level of  
20 retail pension expenses in this rate case, plus the deferrals through the effective  
21 date of rates in this rate case, will be recovered in the next rate case. The  
22 amortization for the pension expense deferred balance is shown on Attachment  
23 DAB-1, Schedule 123.

1    **Q.    PLEASE DISCUSS THE DAMAGE PREVENTION PROGRAM AMORTIZATION.**

2    A.    As discussed by Company witness Mr. Litteken and noted above in my testimony,  
3        and as approved by the Commission in the 2017 Gas Phase I, the Company has  
4        deferred Damage Prevention expense since the last rate case. The Company has  
5        recorded a regulatory asset for the difference in the Damage Prevention expense  
6        included in base rates in the 2017 Gas Phase I and the actual incurred expenses  
7        beginning with calendar year 2018. The deferral from the last rate case will  
8        continue until new rates are approved in this current case. The level of Damage  
9        Prevention expense included in base rates in the 2017 Gas Phase I was  
10       \$12,763,072. The Company is proposing in the Test Year to amortize the actual  
11       Damage Prevention deferred balance of \$7,339,486 through September 30, 2019.  
12       The Company is not seeking to amortize the forecasted balance of the regulatory  
13       asset at the end of 2020, as it is with property taxes, due to the difficult nature of  
14       forecasting Damage Prevention expense. Any difference in the actual expenses  
15       from the level of expenses in this rate case, plus the deferrals through the effective  
16       date of rates in this rate case, will be recovered in the next rate case. The  
17       amortization of the Damage Prevention deferred balance is shown on Attachment  
18       DAB-1, Schedule 123.

19   **Q.    PLEASE SUMMARIZE ALL OF THE PROPOSED NON-PLANT**  
20   **AMORTIZATIONS INCLUDED IN THIS RATE CASE.**

21   A.    Please see Table DAB-D-5 below, which shows the non-plant amortizations  
22        included in the Test Year.

**Table DAB-D-5**

<b>Description</b>	<b>Deferred Balance</b>	<b>Time Period</b>	<b>Start Date</b>	<b>Test Year</b>
Property Tax	\$38,313,334	36 Months	11/1/2020	\$12,771,111
Pension Expense	\$751,118	36 Months	11/1/2020	\$250,373
Boulder MGP	\$3,425,796	36 Months	11/1/2020	\$1,141,932
Denver MGP	\$1,322,229	36 Months	11/1/2020	\$440,743
Damage Prevention	\$7,339,486	36 Months	11/1/2020	\$2,446,495
Rate Case Expenses	\$1,810,118	36 Months	11/1/2020	\$603,373
<b>Total</b>				<b>\$17,654,027</b>

As previously discussed in my Direct Testimony, the Company is proposing an amortization period of 36 months for most of the regulatory assets except for the Prepaid Pension Asset, where the Company is proposing an amortization of 10 years.

**Q. PLEASE SUMMARIZE THE EXPENSE LEVELS INCLUDED IN THIS RATE CASE THAT WILL BE USED AS THE BASELINE FOR DEFERRAL BEGINNING WITH THE EFFECTIVE DATE OF RATES FROM THIS RATE CASE.**

**A.** Please see Table DAB-D-6 below.

**Table DAB-D-6**

	<b><i>Test Year Amount</i></b>
Property Tax Expense	\$57,634,683
Qualified Pension Expense	\$7,825,885
Non-Qualified Pension Expense	\$124,762
Damage Prevention	\$17,301,954

The amounts presented in this table are the retail level of expenses in the Test Year in this rate case.

1       **J. Taxes Other Than Income Tax Expense**

2       **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO PAYROLL TAX EXPENSE.**

3       A. Adjustments were made to eliminate the payroll taxes associated with all the labor  
4       adjustments, as previously discussed. These adjustments are shown on the  
5       following schedules:

6               1) Employee wage increases and incentive compensation (Attachment  
7               DAB-1, Schedule 248;

8               2) Officers' incentive compensation (Attachment DAB-1, Schedules 239  
9               and 241);

10              3) Aviation labor (Attachment DAB-1, Schedule 224);

11              4) Labor related to the City of Boulder municipalization and separation  
12              efforts (Attachment DAB-1, Schedule 235); and  
13

14              5) Known and measurable labor (Attachment DAB-1, Schedule 254).  
15

16       **Q. PLEASE DISCUSS THE PRESENTATION OF PROPERTY TAX EXPENSE IN**  
17       **THE TEST YEAR PRESENTED IN THIS RATE CASE.**

18       A. Company witness Ms. Koch addresses the property taxes on a total Company  
19       basis. That information is then allocated to the electric, gas, thermal energy, and  
20       non-utility departments based on our gross plant balances. The gas property taxes  
21       are then allocated to the retail jurisdiction based on a retail plant in-service  
22       allocation factor.

23              In addition, as discussed by Company witness Mr. Berman, the Company is  
24       proposing to continue the property tax expense tracker. If property tax expenses  
25       incurred after the rate effective date from this proceeding are greater or less than  
26       the level included in this rate case, the difference will be deferred in a regulatory

1 asset/liability account, and the regulatory asset/liability would be brought forward for  
2 recovery in a future rate case.

3 **Q. PLEASE DISCUSS THE LEVEL OF PROPERTY TAX EXPENSE IN THE TEST**  
4 **YEAR.**

5 A. The Company has included property tax expense in the Test Year based on the  
6 forecasted expense to be paid in 2021, and also proposes this as the new baseline  
7 for the property tax tracker. The Test Year rate base includes plant in-service as of  
8 September 30, 2020, as discussed earlier in my Direct Testimony. The property tax  
9 expense on 2020 plant balances will be paid in 2021; therefore, the 2021  
10 forecasted expense level best matches the rate base in the Test Year. Company  
11 witness Ms. Koch addresses the forecast and drivers of the changes from the 2016  
12 property tax expense included in the 2017 Gas Phase I and the current baseline for  
13 the tracker.

14 The use of the 2021 forecasted expense in the Test Year in tandem with  
15 continuation of the tracker will result in most closely matching property tax expense  
16 to the period where it occurs and minimize the amount deferred into the tracker  
17 between rate cases. Limiting the tracker balance more accurately assigns the  
18 costs to customers in the period where they occur and limits generational  
19 inequities. This is consistent with the process approved by the Commission in oral  
20 deliberations in the 2019 Electric Phase I.

1       **K. Income Tax Expense**

2       **Q.   HOW IS THE INCOME TAX EXPENSE CALCULATED FOR THE COST OF**  
3       **SERVICE STUDY PRESENTED IN THIS RATE CASE?**

4       A.   Taxable income is determined by summing operating expenses, including book  
5       depreciation expense, and then subtracting those operating expenses from total  
6       revenues to arrive at net income before income taxes. Next, from this amount  
7       synchronized interest expense is deducted, taxable temporary additions/deductions  
8       (these are also known as "Schedule M items") were added, and permanent tax  
9       differences are added, to arrive at taxable income. In the cost of service study  
10      presented in this rate case, the Schedule M items, permanent tax differences, and  
11      deferred income tax expense related to plant are detailed on Attachment DAB-1,  
12      Schedule 200. The Schedule M items, permanent tax differences, and deferred  
13      income tax expense related to non-plant are detailed on Attachment DAB-1,  
14      Schedule 115. The state and federal income tax rates are then applied to taxable  
15      income to arrive at current income tax expense. The federal income tax rate  
16      reflects the 21 percent rate effective January 1, 2018, with the enactment of the  
17      TCJA. Deferred income tax expense and tax credits are added to arrive at total tax  
18      expense. The taxable additions/deductions and the deferred income taxes are  
19      being presented in this rate case at the same level of detail, in order to properly  
20      allocate to the retail jurisdiction. In the cost of service study, the deferred income  
21      taxes and tax credits related to non-plant are detailed on Attachment DAB-1,  
22      Schedule 115.



1 **Q. IS THE COMPANY'S APPROACH TO CALCULATING INCOME TAXES THE**  
2 **SAME AS IN PRIOR RATE CASES?**

3 A. Generally, yes. However, the Company has made one change to the calculation of  
4 income taxes in this rate case from prior rate cases. Company witness Ms. Koch  
5 explains that the state income tax rate used in this rate case is a composite rate for  
6 Colorado and California state income taxes.

7 **Q. PLEASE DISCUSS THE ADJUSTMENTS TO INCOME TAX EXPENSE.**

8 A. The adjustments to current federal and state income tax expense and deferred  
9 income tax expense include:

10 1) The plant adjustments previously discussed (Attachment DAB-1, Schedule  
11 115);

12 2) The elimination of accounts that are not included in the cost of service study  
13 (Attachment DAB-1, Schedule 115);

14 3) Deferred tax expense includes an annual amount of amortization of the non-  
15 plant excess or deficient ADIT as a result of a true-up of the excess ADIT  
16 from the 2017 Gas Phase I (Attachment DAB-1, Schedule 127); and

17 4) An adjustment for the "NOL" carryforward.  
18

19 **Q. PLEASE DISCUSS THE ADJUSTMENT TO TRUE-UP NON-PLANT EXCESS**  
20 **OR DEFICIENT ADIT FROM THE 2017 GAS PHASE I.**

21 A. As discussed by Company witness Ms. Koch, the excess ADIT in the 2017 Gas  
22 Phase I was based on 2016 ending balances. Public Service has updated its  
23 non-plant and NOL excess ADIT from the 2016 balances to December 2017, the  
24 date of the TCJA enactment. The difference in the balances of non-plant excess  
25 ADIT are being amortized over 36 months, consistent with other amortizations  
26 proposed in this case. The unamortized balance remains in ADIT consistent with

1 the treatment I discuss earlier in the rate base section of my Direct Testimony.  
2 The difference in the NOL excess ADIT is being amortized over 52 years based  
3 on the Average Rate Assumption Method life and normalization rules. The  
4 amortization is included in deferred taxes and the unamortized balance remains  
5 in ADIT consistent with the treatment of other excess ADIT related to plant as I  
6 discuss earlier in the rate base section of my Direct Testimony. The detail of this  
7 amortization is shown on Attachment DAB-1, Schedule 127.

8 **Q. PLEASE DISCUSS THE ADJUSTMENTS FOR THE NOL CARRYFORWARD.**

9 A. In order to derive the NOL Beginning Balance in the Test Year, the Company  
10 performed a simple analysis based upon the NOL balance as of the end of 2017  
11 reported in Attachment DAB-1, Schedule 127, and the NOL activity presented in  
12 the Company's 2018 Appendix A filing. First, we divided the 2018 activity by  
13 12 months to determine the monthly activity. Next, we multiplied the 2018  
14 monthly activity amount by nine months, and added this to the 2017 ending NOL  
15 balance, as shown on Attachment DAB-1, Schedule 104.

**VIII.AFUDC OFFSET TO EARNINGS**

**Q. IS THE COMPANY INCLUDING AN ADJUSTMENT TO INCLUDE AFUDC AS  
AN OFFSET TO EARNINGS IN THIS RATE CASE?**

A. Yes. The Commission has a long-standing ratemaking policy that if CWIP is included in rate base, then an AFUDC offset to earnings is required. When year-end rate base is used, as in the Test Year presented by the Company in this case, AFUDC is annualized at the year-end level, as of September 30, 2020, to match the year-end CWIP balance. The adjustment to annualize AFUDC is shown on Attachment DAB-1, Schedules 225 and 236.

**IX. JURISDICTIONAL ALLOCATION**

**Q. PLEASE DESCRIBE THE BASIS OF THE RETAIL JURISDICTIONAL ALLOCATORS USED IN THIS CASE.**

A. The retail jurisdictional allocations used in this case are either a “fundamental” allocator or a “derived” allocator. Fundamental allocators include the peak day demand, annual consumption, and total customer allocators. Derived allocators are determined within the cost of service study, as the resulting percentage of the total of other allocated cost items. For example, the total plant allocator would be the percentage of the total plant assigned to each jurisdiction, where each of the various components of plant would have been allocated using a different fundamental allocator.

**Q. WHAT RETAIL JURISDICTIONAL ALLOCATION FACTORS DID YOU USE IN THE COST OF SERVICE STUDIES PRESENTED IN THIS CASE?**

A. The jurisdictional allocation factors are presented on Attachment DAB-1, Schedule 300. The derivation of the labor allocation factors is presented on Attachment DAB-1, Schedule 203. The jurisdictional allocation factors for the Test Year were developed using the Test Year Dth throughput and peak day loads for both the retail and wholesale customers.

**Q. IS THE COMPANY PROPOSING TO CHANGE THE ALLOCATION OF COSTS TO THE RETAIL JURISDICTION IN THIS CASE?**

A. No.

**X.CAPITAL STRUCTURE**

**Q. WHAT IS THE BASIS FOR THE CAPITAL STRUCTURE USED IN THE TEST YEAR?**

A. As described by Company witness Ms. Soong, the long-term debt, short-term debt, and equity balances included in the Test Year capital structure are based on three months of actual and ten months of forecasted average month-end balances ending September 30, 2020. This capital structure best matches to the rate base balances included in the Test Year. The capital structure is shown on Attachment DAB-1, Schedule 3.

**Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO THE CAPITAL STRUCTURES PRESENTED IN THIS RATE CASE?**

A. Yes. These adjustments to the book balances are reflected in Attachment DAB-1, Schedule 3.

**Q. PLEASE DISCUSS THE ADJUSTMENTS TO COMMON EQUITY.**

A. Adjustments to common equity were made to eliminate the effect of subsidiaries, net non-utility plant, other investments, other funds, and other comprehensive income. These adjustments are consistent with those approved by the Commission in previous Company rate cases.

**Q. PLEASE DISCUSS THE ADJUSTMENTS TO DEBT.**

A. Adjustments to debt were made to eliminate the effect of subsidiaries, specifically, eliminating any notes receivable from subsidiaries or notes payable to subsidiaries.

1    **Q.    HOW WAS THE COST OF DEBT CALCULATED IN THIS RATE CASE?**

2    A.    As discussed by Ms. Soong, the Company calculated the cost of long-term debt  
3        based on a yield-to-maturity calculation where interest costs plus all related  
4        issuance costs are divided by the 13-month average principal amount of the bonds.  
5        The cost of short-term debt is calculated using debt costs, including interest on  
6        commercial paper and credit facility fees, divided by the 13-month average amount  
7        of the short-term debt outstanding.

**XI. REVENUE REQUIREMENT AND EARNINGS DEFICIENCY**

**Q. WHAT IS THE OVERALL RETAIL REVENUE REQUIREMENTS FOR THE TEST YEAR?**

A. The overall retail revenue requirement for the Test Year is \$644,483,385.

**Q. WHAT IS THE REVENUE DEFICIENCY INDICATED BY THE TEST YEAR COST OF SERVICE STUDY?**

A. The revenue deficiency is calculated by comparing the overall retail revenue requirements to the present base revenues. The resulting Test Year revenue deficiency is \$144,464,121 as shown on Attachment DAB-1, Schedule 1.

**XII. 2020 PSIA RIDER TRUE-UP PROCESS**

**Q. HOW IS THE COMPANY CURRENTLY COLLECTING THE PSIA REVENUE REQUIREMENT?**

A. The Company filed an estimated 2020 PSIA revenue requirement on November 15, 2019, in Proceeding No. 19AL-0643G, for rates effective January 1, 2020.

**Q. HOW WILL THE RESULTS OF THIS RATE CASE IMPACT THE PSIA RIDER AFTER THE EFFECTIVE DATE OF NEW BASE RATES FROM THIS PROCEEDING?**

A. At the conclusion of this proceeding, when new base rates are effective, it will be necessary to revise the estimated 2020 PSIA revenue requirement to reflect 1) the removal of any projects historically recovered through the PSIA and approved to transfer to base rates, and 2) the ordered ROE in this proceeding. I have provided both the estimated 2020 PSIA revenue requirement filed in No. 19AL-0643G and an updated version of the estimated 2020 PSIA revenue requirement, based on the proposed project shifts and ROE in the Test Year as Attachments DAB-12 and DAB-13. Company witness Mr. Wishart provides the updated estimated 2020 PSIA rates based on Attachment DAB-13 in his Direct Testimony.

**Q. WHEN WOULD THE COMPANY PROPOSE IMPLEMENTING THE UPDATED ESTIMATED 2020 PSIA REVENUE REQUIREMENT?**

A. We propose to implement this change concurrently with the implementation of new base rates.



1 **Q. PLEASE DESCRIBE THE TRUE-UP PROCESS FOR THE 2020 PSIA**  
2 **REVENUE REQUIREMENT.**

3 A. The PSIA will follow the approved true-up process in the same schedule as  
4 previous years. To calculate the amount of the true-up, the Company will  
5 prepare two versions of the revenue requirement. The first version will be based  
6 on a full year of 2020 under the principles in place prior to this proceeding. The  
7 second version will be based on a full year of 2020 updating for the items I  
8 mentioned above based on the outcome of this proceeding. The actual billing  
9 determinants from 2020 will then be used to assign a percentage of the revenue  
10 requirement that should be collected from each version of the revenue  
11 requirements. Assuming rates from this proceeding are effective November 1,  
12 2020, and the actual billing determinants dictate that 10 percent of the billed  
13 volumes in 2020 occurred in November and December, the true-up will consist of  
14 90 percent of the revenue requirement in version one and 10 percent of the  
15 revenue requirement in version 2. This is a similar process to how the PSIA true-  
16 up occurred following the 2015 Gas Phase I and 2017 Gas Phase I cases.

17 **Q. WILL THE CAPITAL STRUCTURE DETERMINED FOR BASE RATES APPLY**  
18 **TO THE PSIA?**

19 A. No. The PSIA tariff states that the actual capital structure of the Company will be  
20 used to determine the WACC in the true-up. This would continue to consist of  
21 the actual capital structure at the end of the year subject to true-up. So for 2020,  
22 the actual capital structure at December 31, 2020, will be used as has been the  
23 case in all prior PSIA true-ups. If the Commission approves the inclusion of

1 short-term debt in the capital structure to set the WACC for base rates, we would  
2 not include short-term debt in the capital structure used for the PSIA, since no  
3 CWIP is included in the PSIA revenue requirement.

**XIII.CONCLUSION**

**Q. PLEASE DESCRIBE THE RECOMMENDATIONS YOU ARE MAKING AS PART OF THIS RATE CASE.**

A. As set forth above, my overarching recommendation is that the Commission approves the retail gas revenue requirement for the Test Year of \$644,483,385.

I also recommend the Commission approve the inclusion of completed projects currently recovered through the PSIA in the Test Year rate base and the implementation of the resulting updated 2020 estimated PSIA revenue requirement presented in Attachment DAB-13.

**Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

A. Yes, it does.

**Statement of Qualifications**

**Deborah A. Blair**

I graduated from Colorado State University in 1981 with a Bachelor of Science degree in Business Administration, with an emphasis in accounting. I began my career with Public Service in June 1981 in the Accounting Division. I held several positions in the Accounting Division including the Cheyenne Light, Fuel and Power Company ("Cheyenne") accountant and the Public Service accountant. Cheyenne was formerly a wholly-owned subsidiary of Public Service, but became an operating utility subsidiary of New Century Energies, Inc. upon the completion of the merger between Public Service and Southwestern Public Service Company in 1997, and then became an operating utility subsidiary of Xcel Energy Inc. Cheyenne has since been sold and is no longer a subsidiary of Xcel Energy Inc. In 1982, I accepted a position as a Rate Accountant in the Revenue Requirements Department of Public Service. In 1989, I was promoted to Supervisor, Revenue Reporting and in 1994 was promoted to Unit Manager, Revenue Requirements, both of Public Service. In May 1997, I was promoted to the position of Director, Regulatory Support Services for New Century Services, Inc. In August 2000, I accepted my current position of Director, Revenue Analysis of Xcel Energy Services Inc.

I have testified before the Commission in Proceeding Nos. 93I-199EG, 95S-041E, 95A-531EG, 96S-290G, 97A-299EG, 97S-366G, 98A-262EG, 98A-511E, 98S-518G, 99A-037E, 99A-377EG, 99A-557E, 00A-351E, 06S-234EG, 07A-469E, 08A-497EG, 08S-520E, 09AL-299E, 10AL-963G, 11AL-947E, 12A-782E, 12AL-1264ST, 12AL-1268G, 12AL-1269ST, 14AL-0660E, 15AL-0135G, 15A-0589E, 15AL-0877E, 16A-0117E, 16AL-0869E, 17AL-0649E and 19AL-0268E. I have testified before the Wyoming Public Service

Commission in Proceeding No. 30005-GR-97-51 and have submitted written testimony in Proceeding Nos. 20003-EA-95-40, 30005-GA-95-39, 20003-EA-99-53 and 30005-GA-99-69. I have submitted written testimony before the New Mexico Public Regulation Commission in Case Nos. 2798, 3116, 3849, and 15-00343-UT, and before the Public Utility Commission of Texas in Proceeding Nos. 21190, 27052, 42042, 43695, and 45291.

I have testified before the FERC in Proceeding No. EL05-19-002, and have submitted written testimony in Proceeding Nos. ER96-713-000, ER00-536-000, ER03-971-000, ER04-1174-000, ER06-274-000, ER07-1415-000, ER08-313-000, ER08-527-000 ER08-749-000, ER10-192-000, ER10-992-000, ER11-2853-000, ER12-1589-000, ER14-1969-000, ER15-949-000, ER16-180-000, and ER19-1613-000.

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 ) PROCEEDING NO. 20AL-\_\_\_\_G  
REVENUES, IMPLEMENT NEW BASE RATES )  
FOR ALL GAS RATE SCHEDULES, AND MAKE )  
OTHER PROPOSED TARIFF CHANGES )  
EFFECTIVE MARCH 7, 2020 )

AFFIDAVIT OF DEBORAH A. BLAIR  
ON BEHALF OF  
PUBLIC SERVICE COMPANY OF COLORADO

I, Deborah A. Blair, 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 Denver, Colorado, this 3 day of Feb, 2020.

Deborah A. Blair

Deborah A. Blair  
Director, Revenue Analysis

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

Amanda Clark

Notary Public

AMANDA CLARK  
Notary Public  
State of Colorado  
Notary ID # 20164004880  
My Commission Expires 02-05-2020

My Commission expires 2/5/2020