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

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IN THE MATTER OF ADVICE LETTER NO. 1857-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 8-ELECTRIC TARIFF TO REVISE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL ELECTRIC RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE AUGUST 2, 2021	**) PROCEEDING NO. 21AL-______E**

DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

July 2, 2021

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

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
ADIT	Accumulated Deferred Income Taxes
ALJ	Administrative Law Judge
Commission	Colorado Public Utilities Commission
COSS	Cost of Service Study
CWC	Cash Working Capital
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FERC	Federal Energy Regulatory Commission
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles
HDHP	High Deductible Health Plan
HTY	Historical Test Year
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
O&M	Operations and Maintenance
NCE	New Century Energies
PBGC	Pension Benefit Guaranty Corporation
Public Service, or the Company	Public Service Company of Colorado
TCJA	Tax Cuts and Jobs Act

Acronym/Defined Term	Meaning
Total Company	Public Service Company of Colorado electric jurisdiction as a whole, without any other Xcel Energy affiliates.
VEBA	Volunteer Employee Beneficiary Association
WACC	Weighted Average Cost of Capital
Willis	Willis Towers Watson
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

BEFORE THE PUBLIC UTILITIES COMMISSION
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DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

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

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to support the Company's request to recover its current employee pension expense and other non-cash employee benefit expense. In particular:

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

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

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

- I support the Company's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;

- I support the Company's request to recover the reasonable and necessary costs incurred for workers' compensation benefits; and

- I support the Company's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation.

I quantify the amounts of those expenses in the 2018 test year for Public Service's last electric rate case, which was Proceeding No. 19AL-0268E.[2] I then provide the pension and benefit expenses for the Historical Test Year ("HTY") in this case, which is calendar year 2020 with forecast adjustments. Finally, I quantify the amounts for the Future Test Year ("FTY"), which is calendar year 2022.

I also explain that Public Service has accrued a prepaid pension asset, and I describe the Company's request to include that prepaid pension asset in rate base and to earn a return on it at the Company's Weighted Average Cost of Capital ("WACC"). As part of that discussion, I explain what a prepaid pension asset is and how it arises. I also discuss the rationale for allowing a WACC return on the prepaid pension asset and demonstrate mathematically that, even with a WACC return, customers are economically better off than they would be if the prepaid pension asset were disregarded altogether for ratemaking purposes.

[2] In Proceeding No. 19AL-0268E, the test year ultimately approved for purposes of establishing rate base was the twelve-month period ending on August 31, 2019. In contrast, the O&M expense approved in that case was based on calendar year 2018 numbers.

I next describe the Company's pension tracker and the amortization balance that results from that tracker. I support the Company's request to continue the pension tracker.

Finally, I explain that the Company also has a prepaid retiree medical asset balance, and that it seeks to include that asset in rate base and to earn a WACC return on it. The justification for including that asset in rate base and allowing it to earn a WACC return is identical to the justification for allowing the prepaid pension asset to be included in rate base—both assets produce earnings that reduce the current benefit expense on a dollar-for-dollar basis.

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

A. Yes, I am sponsoring Attachments RRS-1 through RRS-7:

- Attachment RRS-1 is the 2020 Willis Towers Watson ("Willis") disclosure report that presents the actuarially determined 2020 pension and benefit expense;
- Attachment RRS-2 is the May 2021 Willis actuarial report that presents the actuarially determined pension and benefit expense for the FTY;
- Attachment RRS-3 contains the requested amount of Electric Utility O&M amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD expense;
- Attachment RRS-4 includes the requested amount of Electric Utility O&M calculations for active health care;
- Attachment RRS-5 summarizes the prepaid pension asset calculations;
- Attachment RRS-6 reflects a 13-month average of the prepaid retiree medical asset balance;
- Attachment RRS-7 is a pension tracker schedule;

Attachments RRS-1 and RRS-2 are true and correct copies of the documents that I represent them to be. Attachments RRS-3 through RRS-7 were prepared by me or under my direct supervision and control.

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

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

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

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

- Steven P. Berman discusses the Company's request to continue the pension tracker;
- Michael T. Knoll supports the Company's request to recover cash compensation paid to employees, including both base pay and incentive compensation, and he explains the plan design changes that the Company has made in recent years to control pension and benefit costs;
- Naomi Koch supports the accumulated deferred income tax ("ADIT) balances associated with the Company's pension and benefit-related balances; and
- Deborah A. Blair's Cost of Service Study ("COSS") includes the current pension and benefit-related expense, and it reflects the prepaid pension asset and prepaid retiree medical asset amounts that the Company seeks to include in rate base. Ms. Blair also addresses the Company's proposed amortization period for the pension tracker balance.

II. PENSION AND BENEFITS OVERVIEW

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

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

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

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

A. TABLE RRS-D-1 below sets forth the Electric Utility O&M pension and benefit expense amounts for 2018 and the HTY, as well as the amounts that Public Service is requesting for the FTY in this case:

TABLE RRS-D-1

Benefit	2018	HTY	Adjustments	Requested Amount
Qualified Pension	$18,841,422	$15,319,605	$(5,374,844)	$9,944,760
FAS 88 Qualified Pension Settlement	5,974,918	-	-	-
Nonqualified Pension	781,667	719,651	(20,326)	699,325
FAS 106 Retiree Medical	(3,322,748)	(1,567,871)	468,329	(1,099,542)
Proposed FAS 106 Retiree Medical Adjusted to Zero	-	1,567,871	(468,329)	1,099,542
FAS 112 Long-Term Disability (Self-Insured)	(27,794)	55,674	(48,897)	6,777
Active Health Care[3]	20,190,180	19,236,641	4,058,417	23,295,058
Long-Term Disability (Third-Party-Insured)	871,951	843,022	30,462	873,484
Life Insurance	327,010	254,308	(1,155)	253,153
Miscellaneous Benefit Programs and Costs	1,126,902	801,255	83,624	884,879
401(k) Match	6,441,176	6,839,634	197,714	6,800,001
Miscellaneous Retirement-Related Costs	421,682	292,316	(52,755)	239,561
Workers' Compensation	1,123,014	654,599	44,312	698,911
Joint Venture Benefit Costs	1,104,173	657,571	101,399	758,970
Total Pension and Benefits Expense	**$53,853,553**	**$45,674,276**	**$(982,050)**	**$44,692,226**

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

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

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[3] The 2020 per book amount for active health care is $19,371,603. That amount is an estimate, as explained in Section IV of my Direct Testimony, and it must be adjusted to reflect health care claims that were incurred near the end of 2020 but not reported until after the end of 2020. Adding the incurred-but-not-reported ("IBNR") amount of $(1,297,905) to the $19,371,603 of per book expense leads to an adjusted amount of $18,073,697 for active health care expense. In addition, as explained on pages 40-41, the Company made a forecast adjustment of $1,162,944 to reflect the anticipated trend increases for medical and pharmacy claims. The Company then made an additional adjustment of $4,058,417 to develop the FTY amount for active health care.

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

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

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

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

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

A. Qualified Pension

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

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

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

A. Yes. As I testified earlier, Public Service accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP.[4] However, FAS 87 does not dictate how a company must fund the plan. The funding of a qualified pension plan is based upon prudent business practices, with the following constraints imposed by the requirements of the Internal Revenue Code ("IRC") and the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006:

- There are minimum required contributions;
- There are maximum contributions that can be deducted for tax purposes; and

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

- The Company has a fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

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

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

A. The requirements for funding pension plans differ from the requirements for calculating annual pension costs primarily because FAS 87 is designed to present an accurate picture of a company's annual pension expense for financial accounting purposes, whereas the pension funding requirements reflect different (and sometimes conflicting) goals of the United States Congress. On the one hand, the members of Congress want to ensure that the pension plans affecting their constituents are adequately funded. On the other hand, Congress wants to limit the level of tax deductions by employers to avoid worsening the national budget deficit. Over the years, Congress has addressed its two conflicting goals at different times to address specific short-term needs, which has resulted in the following effects:

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

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

Given the differences between FAS 87 and the IRC funding rules, the cumulative accounting expenses and the cumulative cash contributions are rarely equal. As I will explain in more detail later in my Direct Testimony, cumulative cash contributions in excess of the cumulative accounting expenses result in a prepaid pension asset.[5] The prepaid pension asset represents the employer's cash contributions that will be recognized under GAAP as annual pension expense at some time in the future, but that have not been recognized to date.

i. <u>Determination of Annual Pension Costs</u>

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

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

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

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

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

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

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

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

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

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

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

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

Q. PLEASE DESCRIBE THE THIRD COMPONENT, THE EROA, AND EXPLAIN HOW IT IS CALCULATED.

A. As I explained earlier, the Company makes periodic cash contributions to its pension plans. The pension plans invest that cash in a portfolio of assets such as stocks, bonds, real estates, and commodities in order to earn a return. Each year, the Company forecasts the expected long-term rate of return on those assets, which is the EROA. As explained in more detail later, the EROA offsets the service cost and interest cost components of the pension expense calculation, so the amount that Public Service expects to earn on the assets in the pension trust reduces the qualified pension expense charged to customers on a dollar-for-dollar basis.

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

A. Gains and losses are either: (1) asset gains or losses, which result from changes in the value of the plan assets, or (2) liability gains or losses, which result from changes in the amount of the projected benefit obligation. Both types of changes result from experience that differs from what was assumed in a prior year or from changes in assumptions. FAS 87 does not distinguish between the sources of gains and losses.

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

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

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

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

A. No. FAS 87 does not require recognition of the entire amount of gains and losses as a component of net pension cost in the period in which they arise. Instead, they may be phased-in and amortized over a period of years. For example, a plan may phase-in a gain or loss over a five-year period, and the portion of the gain or loss that is phased-in may also be amortized over a period of years.

Q. WHY DOES FAS 87 ALLOW THE PHASE-IN OF GAINS AND LOSSES?

A. The gains in one period may be offset by losses in another, or vice versa. Moreover, some of the gains and losses may be attributable to a refinement in estimates, rather than actual economic gains or losses. Trying to capture all of the gains and losses in a single year would create significant volatility in financial reporting. Phasing in the gains and losses over a period of years avoids much of that volatility.

Q. HOW ARE UNRECOGNIZED GAINS AND LOSSES AMORTIZED?

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

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

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

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

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

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

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

TABLE RRS-D-2

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

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

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

ii. Comparison of Qualified Pension Expense Amounts

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING 2018?

A. The 2018 qualified pension expense was $18,841,422 (Electric Utility O&M).

Q. WHAT IS THE HTY AMOUNT OF QUALIFIED PENSION EXPENSE?

A. The 2020 qualified pension expense was $15,800,909 (Electric Utility O&M). That amount was based on the 2020 year-end disclosure report provided by Willis, which is Attachment RRS-1 to my Direct Testimony. The Company made a

$(481,305) adjustment to the 2020 incurred amount to arrive at the HTY amount of $15,319,605, which is shown above in Table RRS-D-1.[6] This forecast adjustment is based upon Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF FOR THE FTY?

A. The Company is requesting that the Commission approve $9,944,760 (Electric Utility O&M) of qualified pension expense for the FTY. That amount is based upon Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony.

Q. WHAT FACTORS CONTRIBUTED TO THE CHANGE IN QUALIFIED PENSION EXPENSE BETWEEN 2018 AND THE FTY?

A. The primary reasons for the change in qualified pension costs from 2018 to the FTY are:

- favorable asset returns in 2019 and 2020;
- a decrease in the net gain/loss amortization;
- a reduction in the interest cost arising from lower discount rates;
- plan design changes; and
- contributions to the plans, which increased the asset base upon which the Company earns returns.

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[6] The 2020 per book amount reflects the qualified pension expense calculated with a 15 percent cap on incentive compensation. Because the Company is asking that incentive compensation be set at target in this case without the 15 percent cap, the HTY amount has been adjusted to eliminate the cap.

These reasons for reduced pension expense are offset to some extent by the loss of prior service credits, reductions to the EROA percentages, and a decrease in discount rates in the requested amount.

Q. PLEASE DESCRIBE THE FAVORABLE ASSET PERFORMANCE THAT LED TO A DECREASE IN QUALIFIED PENSION EXPENSE FROM 2018 TO THE FTY.

A. Favorable asset performance occurs when actual returns are higher than the EROA for a particular year. That leads to lower pension expense in subsequent years because asset gains are generally phased in over 5 years. In 2019 and 2020, the Company's actual returns were considerably higher than the EROA. **Error! Reference source not found.**RRS-D-3 summarizes the 2020 and 2019 actual returns compared to the EROA for the same time period for the three pension plans that affect Public Service.

TABLE RRS-D-3

Pension Plan	2019/20 Expected Return on Assets	2019 Actual Asset Returns	2020 Actual Asset Returns
Public Service Bargaining	6.50%	21.13%	18.25%
New Century Energies ("NCE") Non-Bargaining	6.90%	20.88%	17.44%
Xcel Energy Pension Plan	7.10%	20.91%	17.49%

Q. PLEASE DESCRIBE THE DECREASE TO THE LOSS AMORTIZATION AND EXPLAIN WHY IT IS LEADING TO REDUCED PENSION EXPENSE FROM 2018 TO THE FTY.

A. The asset and liability gain/loss amortization component has declined due to a number of factors. One reason was the recognition of past losses, including lump sum settlement accounting, which reduced the amortization in the FTY. Also, the amortization periods, which are the average years of future service for active employees, have increased slightly since 2018. The amortization periods increased:

- from 11.4 years to 11.5 years for Xcel Energy Services employees; and
- from 10.0 years to 10.1 years for Public Service Non-Bargaining employees.

In contrast, the amortization for Public Service Bargaining employees decreased slightly from 14.4 years to 14.3 years.

Another reason is the decline in the asset loss amortization since 2013, which was the high point of the 2008 market loss amortization. The financial turmoil in 2008 caused nearly all pension trusts to lose a significant part of their value, and Public Service's pension trusts were no exception. Public Service did not, however, reflect all of those losses in its annual pension cost immediately. Instead, as allowed by FAS 87, Public Service phased the asset losses in over a five-year period, beginning in 2009, and Public Service also amortized those amounts in accordance with FAS 87. Because the 2008 asset losses were fully phased in by 2013, the loss amortization amounts have been declining since that time.

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

A. There have been two significant changes that have affected bargaining and non-bargaining employees and lowered pension cost for Public Service and Xcel Services employees. First, non-bargaining employees hired on or after January 1, 2012 are participants in the 5 percent cash balance plan rather than the Pension Equity Plan.

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

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

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

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS FTY QUALIFIED PENSION EXPENSE?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the FTY qualified pension expense. The source document for the numbers in Attachment RRS-3 is Attachment RRS-2.

B. <u>Non-Qualified Pension</u>

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

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

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

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

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

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined-benefit plan to $230,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $290,000.

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

Q. HOW ARE NON-QUALIFIED PENSION COSTS DETERMINED?

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

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR IN 2018?

A. The 2018 non-qualified pension expense was $781,667 (Electric Utility O&M).

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR IN THE HTY?

A. The 2020 per book non-qualified pension expense was $702,085 (Electric Utility O&M). The Company made a $17,566 adjustment to the 2020 incurred amount to arrive at the HTY amount of $719,651, which is shown above in Table RRS-D-1.[7]

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[7] The 2020 per book amount reflects the non-qualified pension expense calculated with a 15 percent cap on incentive compensation. Because the Company is asking that incentive compensation be set at target in this case without the 15 percent cap, the HTY amount has been adjusted to eliminate the cap.

This forecast adjustment is based upon Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

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

A. The Electric Utility O&M non-qualified pension expense for the FTY is requesting is $699,325. That amount is based upon Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony.

Q. WHY HAS THE AMOUNT OF NON-QUALIFIED PENSION EXPENSE CHANGED FROM 2018 TO THE REQUESTED AMOUNT?

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

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS NON-QUALIFIED PENSION EXPENSE FOR THE FTY?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the non-qualified pension expense requested amounts. Attachment RRS-2 contains the source document for those calculations.

C. Retiree Medical

Q. HOW ARE RETIREE MEDICAL COSTS DETERMINED?

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

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

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

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING 2018?

A. The Company's retiree medical expense was $(3,322,748) (Electric Utility O&M) for 2018.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING THEY HTY?

A. The Company's retiree medical expense was $(2,220,469) (Electric Utility O&M) for 2020. The Company made a $652,598 adjustment to the 2020 incurred amount to arrive at the HTY amount of $(1,567,871), which is shown above in Table RRS-D-1. This forecast adjustment is based upon the 2021 costs in Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent retiree healthcare assumptions.[8]

Q. WHAT IS THE RETIREE MEDICAL EXPENSE FOR 2022?

A. Public Service is expecting to recognize $(1,099,542) of retiree medical expense in 2022. The amount is based on an actuarial calculation provided by Willis to reflect the most recent assumptions for 2021 costs. The Electric Utility O&M amount is reflected in Attachment RRS-3.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS RETIREE MEDICAL EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the retiree medical expense amounts it is seeking to recover in this case. Attachment RRS-2 contains the source document for those calculations.

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[8] For regulatory purposes, Public Service made offsetting adjustments to take the HTY and FTY amounts to $0.

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

A. Public Service is requesting approval of $0 of retiree medical expense in this case. That will give rise to a regulatory liability equal to the difference between $0 and the $(1,099,542) of actual retiree medical expense.

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

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

D. Self-Insured Long-Term Disability

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

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

The Company has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this Direct Testimony, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, Public Service provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, Public Service is required to accrue for LTD costs under FAS 112, Employers' Accounting for Postemployment Benefits. The FAS 112 accrual represents the forecasted disability benefit payments for employees that are not expected to return to work.

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

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

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COST DID THE COMPANY INCUR IN 2018?

A. The self-insured LTD benefit cost in 2018 was $(27,794) (Electric Utility O&M).

Q. WHAT IS THE AMOUNT OF SELF-INSURED LTD BENEFIT COST FOR THE HTY?

A. The self-insured LTD benefit cost in 2020 was $81,867 (Electric Utility O&M). The Company made a $(26,193) adjustment to the 2020 incurred amount to arrive at the HTY amount of $55,674, which is shown above in Table RRS-D-1. This forecast adjustment is based upon the 2021 costs in Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent assumptions.

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COSTS IS THE COMPANY ASKING THE COMMISSION TO APPROVE FOR THE FTY?

A. The Company is requesting that the Commission approve $6,777 of self-insured benefit costs. That amount is based upon 2022 costs from Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent actuarial assumptions.

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

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the self-insured LTD expense amounts requested. Attachment RRS-2 contains the source document for those calculations.

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

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

A. Yes. The Company follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other retirement benefits expense amounts. The assumptions and the actuarially calculated total cost amounts are reflected in Attachments RRS-1 and RRS-2, which are the actuarial attachments for 2020 and the FTY. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment benefits, is discussed in Mr. Knoll's Direct Testimony.

IV. ACTIVE HEALTH AND WELFARE COSTS

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

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

A. Active Health Care

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

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

Q. WHAT WAS THE 2018 AMOUNT OF ACTIVE HEALTH CARE EXPENSE?

A. The 2018 amount of active health care expense was $20,190,180 (Electric Utility O&M).

Q. WHAT WAS THE PERCENTAGE INCREASE PER YEAR OF ACTIVE HEALTHCARE COSTS BETWEEN 2018-2022?

A. Table RRS-D-4 shows that active health care costs grew at a compound annual growth rate of 3.64 percent from 2018 to 2022.

TABLE RRS-D-4

2018 Active Health Care Cost	2022 Active Health Care Cost	Variance	Compound Annual Growth Rate from 2018 to 2022
$20,190,180	$23,295,058	$3,104,878	3.64%

Q. IS THAT GROWTH RATE IN LINE WITH THE INDUSTRY EXPECTATIONS?

A. Yes. The actual trend experience is in line with Willis's overall expectation of health care cost increases based on survey averages, carrier information, and an analysis of the broad health care market.

Q. WHAT WAS THE 2020 AMOUNT OF ACTIVE HEALTH CARE EXPENSE?

A. The 2020 amount of active health care expense was $18,073,698 (Electric Utility O&M).

Q. DOES THAT 2020 AMOUNT MATCH THE PER BOOK AMOUNT OF ACTIVE HEALTH CARE COSTS FOR CALENDAR YEAR 2020?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when Public Service receives a bill for that care.[9] Therefore, the actual amount of active health care expense was not available at the time Public Service recorded its per book amount at year-end 2020. Because Public Service needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through the end of the year and

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

estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred but not Reported ("IBNR") reserve. During the following year, Public Service receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO THE 2020 PER BOOK AMOUNT?

A. The adjustment to the 2020 per book amount is $(1,297,905) (Electric Utility O&M) This adjustment is necessary to reflect the claims costs on an incurred basis. As mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred adjustments to per book amounts are necessary so that the amount reflects the actual claims incurred and not the estimated claims that were accrued in the period. After adjusting the per book amount to the incurred amount, as described above, the Company made two additional forecast adjustments to arrive at the HTY active health care amount:

- The Company applied a 5.00 percent increase to the 2020 incurred medical amount, which increased costs by $786,939; and
- The Company applied a 10.00 percent increase to the 2020 incurred pharmacy amount, which increased costs by $376,005.

These two adjustments result in an increase of $1,162,944 to the per book adjusted amount.

Q. WHAT IS THE COMPANY'S BASIS FOR USING THE MEDICAL AND PHARMACY HEALTH CARE TREND ASSUMPTIONS FOR 2020 DESCRIBED ABOVE?

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

Q. DID COVID-19 HAVE ANY EFFECT ON THE COMPANY'S ACTIVE HEALTH CARE COSTS?

A. Yes. Like many other employers, the Company saw its active health care costs drop in 2020, presumably because of reluctance on the part of employees and their dependents to seek routine medical and dental care in the midst of the pandemic.[10]

Q. WHAT AMOUNT IS PUBLIC SERVICE PROPOSING TO RECOVER FOR ACTIVE HEALTH CARE COSTS IN THE FTY?

A. Public Service is requesting that the Commission approve $23,295,058 for active health care expense. Please refer to Attachment RRS-4.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO CALCULATE THE FTY AMOUNT OF ACTIVE HEALTH CARE EXPENSE.

A. The Company used the 2022 budget amount prepared by Willis to arrive at the active health care amount requested. Willis created the future claim projections using a medical cost trend of five percent and a pharmacy trend of 10 percent.

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[10] *See, e.g.,* As Employees Catch Up on Their Delayed Health Care Needs, Claims Could Surge (shrm.org)

These trends were applied to prior year actual claims data to project future claim costs. Willis assigned different weighting to various historical actual data in order to arrive at a projected future claim cost.

Q. WHAT IS THE COMPANY'S BASIS FOR USING THE MEDICAL AND PHARMACY HEALTH CARE TREND ASSUMPTIONS FOR 2022 DESCRIBED ABOVE?

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

B. Third-Party-Insured Long-Term Disability

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

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

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

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

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING 2018 FOR THIRD-PARTY-INSURED LTD BENEFITS?

A. The Company incurred $871,951 (Electric Utility O&M) in third-party-insured LTD expense during 2018.

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

A. The Company incurred $843,022 (Electric Utility O&M) in third-party-insured LTD expense during the HTY.

Q. WHAT AMOUNT OF THIRD-PARTY-INSURED EXPENSE IS THE COMPANY ASKING THE COMMISSION TO APPROVE FOR THE FTY?

A. The Company is requesting that the Commission approve $873,484 of third-party-insured LTD benefit costs. That amount is based upon the Company's internal budgeting process and is the most current information known at the time of the filing.

C. <u>Life Insurance</u>

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

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

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2018 FOR LIFE INSURANCE BENEFITS?

A. During 2018, Public Service incurred $327,010 (Electric Utility O&M) for life insurance benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE HTY FOR LIFE INSURANCE BENEFITS?

A. During the HTY, Public Service incurred $254,308 (Electric Utility O&M) for life insurance benefits.

Q. WHAT AMOUNT IS THE COMPANY REQUESTING FOR THE FTY LIFE INSURANCE EXPENSE?

A. Yes. The Company is requesting that the Commission approve $253,153 for life insurance benefit costs. The requested amount is based upon the Company's internal budgeting process and is the most current information known at the time of this filing.

D. <u>Miscellaneous Benefits</u>

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

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

- Tuition reimbursement;

- Employee Assistance Program costs;
- Wellness program costs;
- Costs incurred by the Human Resources Service Center to answer employee retirement or benefit questions;
- Health and welfare plan actuarial and audit fees;
- Administrative fees for short-term and long-term disability plans; and
- Administrative fees for employee flexible spending and health savings accounts.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2018 FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $1,126,902 (Electric Utility O&M) for miscellaneous benefits during 2018.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE HTY FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $801,255 (Electric Utility O&M) for miscellaneous benefits during the HTY.

Q. WHAT AMOUNT IS THE COMPANY SEEKING FOR FTY MISCELLANEOUS BENEFITS EXPENSE?

A. The Company is requesting that the Commission approve $884,879 for miscellaneous benefits costs. The requested amount is based upon the Company's internal budgeting process and is the most current information known at the time of this filing.

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

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

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

V. WORKERS' COMPENSATION EXPENSE

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

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

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

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

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2018 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During 2018, Public Service incurred $1,123,014 (Electric Utility O&M) for third-party-insured workers' compensation benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE HTY FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During 2020, Public Service incurred $627,858 (Electric Utility O&M) for third-party-insured workers' compensation benefits. The Company made a $26,741 adjustment to the 2020 incurred amount to arrive at the HTY amount of $654,599 which is shown above in Table RRS-D-1. This adjustment is based upon Willis's May 2021 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent FAS 112 workers compensation assumptions.

Q. WHAT AMOUNT OF FTY EXPENSE IS PUBLIC SERVICE REQUESTING FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. Public Service is requesting $689,911 of third-party-insured workers' compensation expense in the FTY.

Q. WHY HAS THE REQUESTED AMOUNT CHANGED SINCE 2018?

A. When the premiums are being calculated, the insurer's actuaries look at three years of loss history. The most recent premium renewal received at the end of 2020 reflected a decrease in the three-year loss history, thus resulting in significantly lower premiums than the Company paid in 2018. This most recent premium renewal is the basis for the FTY level of costs.

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

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

VI. OTHER BENEFIT COSTS

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

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

A. 401(k) Match

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

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

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

A. The 401(k) plan is a defined-contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary, with a maximum match of four percent for non-bargaining employees and five percent for bargaining employees. For the majority of Public Service's non-bargaining workforce, the employee must contribute eight percent of eligible income for Public Service to contribute the maximum match of four percent of eligible income. For the bargaining employees, the Company matches 100 percent for the first 3 percent and 50 percent for the next four percent, with a maximum match of five percent. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2018 FOR 401(K) MATCH BENEFITS?

A. During 2018, Public Service incurred $6,441,176 (Electric Utility O&M) for 401(k) benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2020 FOR 401(K) MATCH BENEFITS?

A. During 2020, Public Service incurred $6,653,081 (Electric Utility O&M) for 401(k) benefits. The Company made a $186,553 adjustment to the 2020 incurred amount to arrive at the HTY amount of $6,839,634 which is shown above in Table RRS-D-1. This forecast adjustment is based upon the 2021 internally budgeted merit increases of 2.80 percent and 3.00 percent for bargaining and non-bargaining employees.

Q. WHAT AMOUNT OF 401(K) EXPENSE IS PUBLIC SERVICE SEEKING TO RECOVER FOR THE FTY?

A. Public Service is seeking recovery of $7,037,348.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE 401(K) AMOUNT FOR THE FTY.

A. The amount the Company is seeking to recover is based on the most recent internally calculated budget. As discussed above, the calculation is based on the 2022 internally budgeted merit increases of 2.80% and 3.00% for bargaining and non-bargaining employees, respectively. For justification of the merit increase, please refer to Mr. Knoll's Direct Testimony.

B. Miscellaneous Retirement-Related Costs

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

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

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING 2018 FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $421,682 (Electric Utility O&M) during 2018.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE HTY FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $292,316 (Electric Utility O&M) during the HTY.

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS IS PUBLIC SERVICE SEEKING TO RECOVER FOR THE FTY?

A. The Company seeks to recover $239,561 of miscellaneous retirement-related benefits in this case. The requested amount is based on the Company's most recent internally calculated budget and uses the most up to date information known at the time of the filing.

C. Reasonableness of Other Benefit Costs

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

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

VII. PREPAID PENSION ASSET

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

A. I describe how a prepaid pension asset is established, and I explain the Company's request in this case to include the prepaid pension asset in rate base and to earn a return at the Company's WACC.

A. Creation of a Prepaid Pension Asset

Q. WHAT IS A PREPAID PENSION ASSET?

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

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

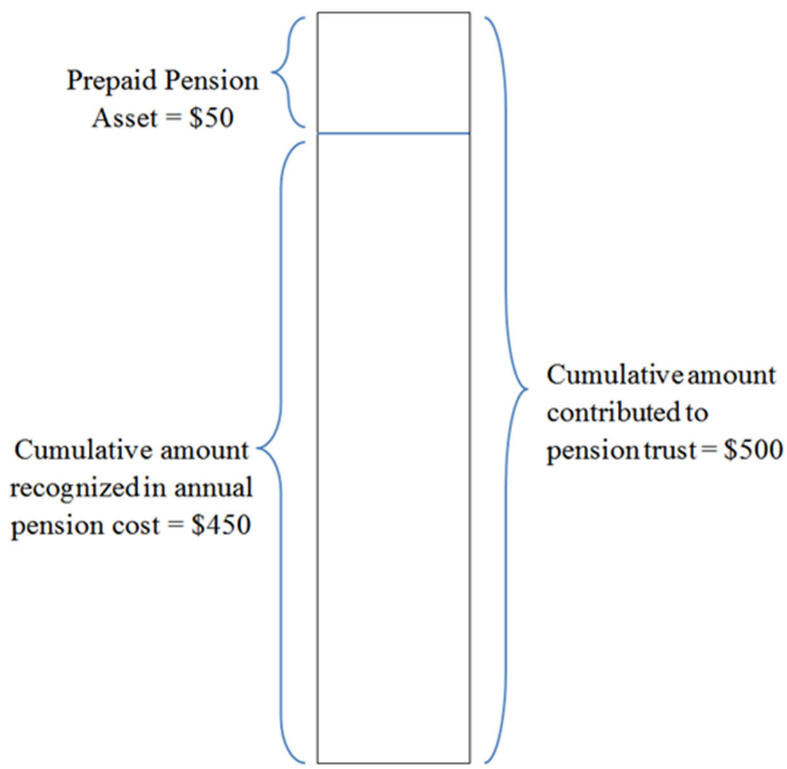
A. Yes. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of the five years has been $100 million, whereas the annual pension expense calculated in accordance with FAS 87 has been $90 million in each of those five years. TABLE RRS-D-5 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

TABLE RRS-D-5 (amounts in millions)

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

At the end of the five-year period, the utility has made cumulative cash contributions of $500 million and has recognized cumulative annual pension expense of $450 million under GAAP, which produces a prepaid pension asset of $50 million, as shown in FIGURE RRS-D-1 below:

FIGURE RRS-D-1[11]



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

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

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

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

A. Yes. That leads to an accrued pension liability, which would be subtracted from rate base. In fact, Public Service currently has an accrued liability for its non-qualified pension plan and FAS 112 obligation, and that liability is used to reduce rate base.

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

Q. PLEASE EXPLAIN PUBLIC SERVICE'S REQUEST REGARDING ITS PREPAID PENSION ASSET.

A. Public Service is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on that portion of the rate base at the 7.17 percent WACC that Public Service is asking the Commission to approve in this case.

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

A. Yes. Attachment RRS-5 provides a detailed calculation of the year-end balances of the Legacy Prepaid Pension Asset and New Prepaid Pension Asset for the Public Service electric utility. Attachment RRS-5 also shows a summary of the Legacy and New Prepaid Pension Asset balances that the Company is seeking to include in rate base. The amount the Company is seeking to include in rate base is the net of the Legacy Prepaid Pension Asset, which has an asset balance, and the New Prepaid Pension Asset, which has an accrued liability balance.

Q. DO YOU RECOMMEND THAT THE COMMISSION INCLUDE THE PREPAID PENSION ASSET IN RATE BASE?

A. Yes. The standard ratemaking practice is for prepayments to be included in rate base and to earn a return at the utility's WACC. For example, Accumulated Deferred Income Tax ("ADIT") balances, which reflect customer prepayments of taxes before they must be paid to the Internal Revenue Service, are subtracted from rate base, effectively earning a WACC return for customers.

Moreover, the prepaid pension asset is a used and useful utility asset because the pension plan earns a return on the prepaid pension asset, and that return reduces the pension expense included in rates on a dollar-for-dollar basis. There is no reason to treat the used and useful prepaid pension asset any differently than other used and useful assets, such as transmission and distribution lines.

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU STATE THAT THE RETURN ON THE PREPAID PENSION ASSET REDUCES THE PENSION EXPENSE INCLUDED IN RATES ON A DOLLAR-FOR-DOLLAR BASIS.

A. As I explained in a prior section of my Direct Testimony, the assets in the pension trust are invested in stocks, bonds, and other asset classes. Under FAS 87, the total amount of the assets in the trust is multiplied by the expected return on those assets (i.e., the EROA), and the resulting amount *reduces* the annual pension expense on a dollar-for-dollar basis.[12] Suppose, for example, that a pension trust has assets of $500 million and is expected to earn a return of 7% in the current year, for an annual return of $35 million. Under those assumptions, $35 million would be included in the annual pension cost calculation as a reduction to pension expense.

Q. DOES THE PENSION TRUST ASSET BALANCE THAT IS MULTIPLIED BY THE EROA INCLUDE THE PREPAID PENSION ASSET?

A. Yes. As shown in Figure RRS-D-2 below, customers receive the benefit of the expected return on the entire amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost.

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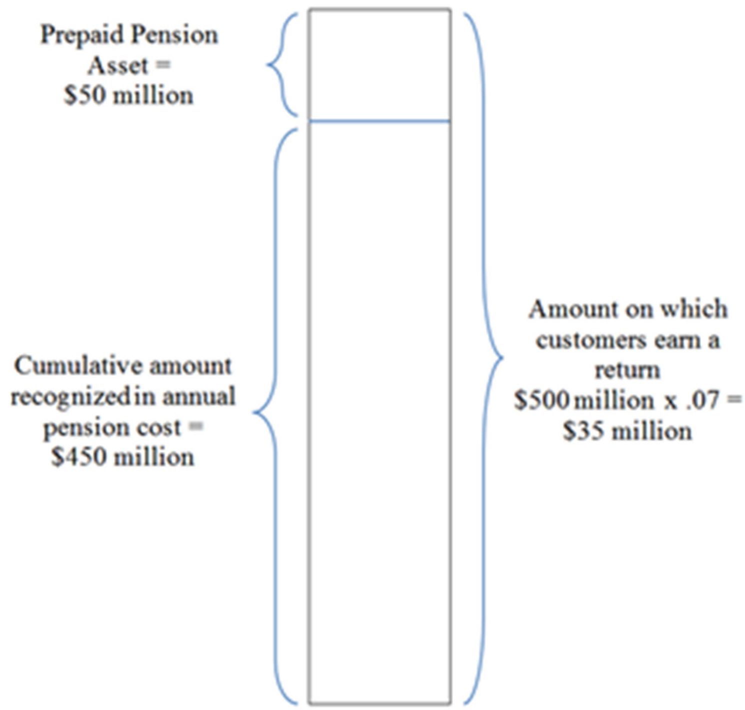
[12] I explained earlier in my Direct Testimony that annual pension expense is calculated in accordance with the following formula:

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

FIGURE RRS-D-2[13]



That means all of the assets in the pension trust, including the assets that comprise the prepaid pension asset, are used and useful to Public Service's customers.

Q. PLEASE TURN NOW FROM THE HYPOTHETICAL EXAMPLES YOU HAVE BEEN DISCUSSING TO PUBLIC SERVICE'S ACTUAL PREPAID PENSION ASSET. HOW MUCH ARE PUBLIC SERVICE'S CUSTOMERS SAVING IN ANNUAL PENSION COST AS A RESULT OF THE PREPAID PENSION ASSET?

A. As Table RRS-D-6 below shows, the Company's customers are saving $2,905,925 million in annual pension costs because of the return on the prepaid pension asset.

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[13] The amounts in this figure are just examples that have been simplified for ease of understanding.

TABLE RRS-D-6

	Total Company Qualified Prepaid Pension Asset 13-Month Average	Weighted Average EROA	Total Company Cost Reduction from Prepaid Pension Asset
Prepaid Pension for Regulatory Purposes	$45,547,415	6.38%	$2,905,925

Q. PLEASE EXPLAIN THE COMPANY'S REQUEST REGARDING ITS PREPAID PENSION ASSET.

A. Public Service is requesting that the prepaid pension asset, which is $45.5 million, be included in rate base to provide a corresponding return. The calculation to support the prepaid pension asset 13-month average can be found in my Attachment RRS-5.

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

A. Yes. In fact, that is the situation with the Company's FAS 112 LTD balance. For that element of cost, the cumulative amount of expense recognized for GAAP purposes is larger than the amount set aside to pay for it. Thus, Public Service has reduced its rate base to reflect the accrued liability.

Q. IS PUBLIC SERVICE'S REQUESTED WACC RETURN ON THE PREPAID PENSION ASSET HIGHER THAN THE EROA RETURN THAT CUSTOMERS EARN ON THE PREPAID PENSION ASSET?

A. Yes. In this case, Public Service's requested WACC is 7.17 percent and the weighted average of the EROA for the Public Service Bargaining Plan and the NCE Non-Bargaining Plan is 6.38 percent.[14]

Q. GIVEN THAT THE WACC IS HIGHER THAN THE EROA, IS IT FAIR TO CUSTOMERS TO USE THE WACC AS THE RETURN ON THE PREPAID PENSION ASSET?

A. Yes. It is fair and reasonable for customers to pay the WACC return for three separate reasons:

1. The Public Service pension plan balance on which customers earn an EROA return is much larger than the balance on which they pay a WACC return.
2. Customers earn a return on the XES prepaid pension asset, but they do not pay any return on that asset because it is not included in rate base for ratemaking purposes.
3. The prepaid pension asset allows the Company to avoid paying incremental Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be added to the pension expense paid by customers.

[14] The EROA for the Public Service Bargaining Plan is 6.50%, and the EROA for the NCE Non-Bargaining Plan is 6.90%. The weighted average of those amounts is 6.84%.

Q. PLEASE EXPLAIN THE FIRST REASON, WHICH IS THAT THE PREPAID PENSION ASSET BALANCE ON WHICH CUSTOMERS EARN AN EROA RETURN IS MUCH LARGER THAN THE BALANCE ON WHICH THEY PAY A WACC RETURN.

A. The 6.38 percent EROA is applied to the full amount of the Public Service prepaid pension asset, which totals approximately $45.5 million on an Electric Utility O&M basis. As shown in Table RRS-D-6, that reduces the pension expense included in rates by approximately $2.9 million per year. In contrast, Public Service's customers are being asked to pay a return on approximately $32.9 million because the net prepaid pension asset included in rate base is reduced by offsets for ADIT and for the unfunded liability associated with FAS 112. Because the balance on which customers earn a return is far larger than the balance on which they pay a return, customers realize a net benefit even when the WACC exceeds the EROA.

Q. THE SECOND REASON YOU LISTED EARLIER IS THAT CUSTOMERS EARN A RETURN ON THE XES PREPAID PENSION ASSET BUT DO NOT PAY A RETURN ON IT. WHAT IS THE BALANCE OF THE XES PLAN PREPAID PENSION ASSET?

A. The 13-month average balance of the XES Plan net prepaid pension asset is approximately $28.6 million. With an EROA of 6.60 percent for the XES Plan, Public Service's customers receive the benefit of $1.9 million of return, and that amount reduces the pension expense included in rates on a dollar-for-dollar basis. Public Service's customers, however, do not pay any return on the XES Plan prepaid pension asset.

Q. THE THIRD REASON YOU LISTED FOR WHY IT IS REASONABLE FOR CUSTOMERS TO PAY A WACC RETURN ON THE PREPAID PENSION ASSET IS THAT THE ASSET ALLOWS PUBLIC SERVICE TO AVOID INCURRING PBGC PREMIUMS THAT WOULD OTHERWISE BE INCLUDED WITHIN THE ANNUAL PENSION COST CHARGED TO CUSTOMERS. PLEASE DESCRIBE THE PBGC.

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

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

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

Q. ARE THE VARIABLE PREMIUMS APPLICABLE TO UNDERFUNDED PLANS INCREASING?

A. Yes. For 2021, the variable-rate premium for a single-employer plan such as that of Public Service is $46 per $1,000 of unfunded vested benefits.

Q. ARE PUBLIC SERVICE'S PENSION PLANS CURRENTLY UNDERFUNDED?

A. Yes. And absent the prepaid pension asset, the plan would be further underfunded.[15]

Q. BY HOW MUCH WOULD THE PENSION PLANS BE UNDERFUNDED IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. In the absence of the prepaid pension asset, the Public Service pension plans would be further underfunded by $45.5 million.

Q. BY HOW MUCH WOULD THE PBGC PREMIUMS INCREASE IN 2021 IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. The PBGC premiums would be approximately $3.3 million higher in 2021 without the prepaid pension asset.

Q. ARE PBGC PREMIUMS INCLUDED IN THE ANNUAL PENSION COST?

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, the existence of the prepaid pension asset avoids the need for Public Service's customers to pay an additional $3.3 million of annual pension expense in 2021.

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[15] As I explained earlier, a plan can be underfunded at the same time it has a prepaid pension asset because they measure different things. The prepaid pension asset is the amount by which cumulative contributions exceed cumulative recognized pension expense. A pension plan is underfunded when its pension benefit obligations exceed the value of its assets.

Q. CAN YOU DEMONSTRATE MATHEMATICALLY THAT, BECAUSE OF THE THREE FACTORS YOU HAVE DISCUSSED, THE COMPANY'S CUSTOMERS ARE BETTER OFF PAYING A WACC RETURN ON THE PREPAID PENSION ASSET THAN THEY WOULD BE IF THE PREPAID PENSION ASSET WERE DISREGARDED ALTOGETHER FOR RATEMAKING PURPOSES.

A Yes. Table RRS-D-7 shows that the Company's customers receive approximately $2.9 million of benefit as a result of EROA that is applied to the Public Service's prepaid pension asset. In addition, they receive $1.9 million of return on the XES prepaid pension asset, even though they pay no return on that asset. Because of the prepaid pension asset, customers also avoid $3.3 million PBGC premiums that would otherwise be included in rates. Together, those amounts save customers approximately $8.1 million in annual pension expense that would otherwise be included in base rates.

In contrast, after offsetting the pension-related ADIT and unfunded FAS 112 liability, the net prepaid pension asset included in rate base is $32.9 million. Multiplying that amount by the 7.17 percent WACC requested by Public Service results in a return of approximately $2.4 million. Even when that amount is grossed up for taxes, the total amount paid by customers is $3.1 million, which is approximately $4.9 million less than the savings that Public Service's customers realize from the prepaid pension asset.[16]

[16] If the Commission were to approve a WACC lower than 7.17 percent, the disparity between the benefit to customers and the return to Public Service would be even larger.

TABLE RRS-D-7
All Amounts are Total Company

Prepaid pension asset balance (excluding the XES prepaid pension asset)	$45,547,415	a
Weighted average EROA for Public Service Bargaining and NCE Non-Bargaining Plans	6.38%	b
Initial return benefit to customers	2,905,925	a * b = c
Balance of XES prepaid pension asset	28,647,833	d
EROA for XES prepaid pension asset	6.60%	e
Return on XES prepaid pension asset	1,890,757	d * e = f
Avoided PBGC premiums	3,267,673	g
Total annual reduction in rates attributable to prepaid pension assets	8,064,355	c + f + g = h
Prepaid pension asset net of ADIT and after unfunded liability offsets	32,866,553	i
Requested WACC	7.17%	j
Requested return on prepaid pension asset	2,356,532	i * j = k
Tax gross-up factor	1.33%	l
Total return paid by customers	3,134,187	k * l = m
Net benefit to customers from prepaid pension asset	$4,930,168	h – m = n

Q. WOULD INCLUDING PUBLIC SERVICE'S PREPAID PENSION ASSET IN RATE BASE BE CONSISTENT WITH COMMISSION PRECEDENT?

A. Yes. In the Company's most recent electric rate case, which was Proceeding No. 19AL-0268E, the Commission allowed the Company to include its prepaid pension asset in rate base.

Q. WOULD ALLOWING A WACC RETURN ON THE PREPAID PENSION ASSET BE CONSISTENT WITH COMMISSION PRECEDENT?

A. Yes. In Proceeding No. 20AL-0049G, the Commission authorized a WACC return on the Public Service Gas department's prepaid pension asset.

Q. IN PROCEEDING NO. 19AL-0268E, THE COMMISSION ALLOWED THE COMPANY TO EARN A DEBT RETURN ON THE PREPAID PENSION ASSET, RATHER THAN A WACC RETURN. WHY IS THE COMPANY SEEKING A WACC RETURN IN THIS CASE?

A. Public Service respectfully disagrees with the Commission's decision to award a debt return on the prepaid pension asset in Proceeding No. 19AL-0268E. As I have explained, the prepaid pension asset is used and useful for providing utility service because the return on that asset reduces qualified pension expense on a dollar-for-dollar basis. Therefore, the prepaid pension asset should earn the same return that other used and useful assets earn.

Moreover, the prepaid pension asset is funded with a combination of debt and equity, not just debt. Therefore, equity investors are deprived of a fair return on the portion of their investment used to fund the pension trust if the Commission allows only a debt return on the prepaid pension asset.

Finally, allowing a debt return on the prepaid pension asset creates a disincentive for the Company to make contributions to the pension trust, particularly when capital used to fund other assets earns the higher WACC return. Public Service will comply with its fiduciary duty to fund the pension trusts at the minimum required levels, but allowing only a debt return makes it more difficult to justify the contributions necessary to lead to full funding of the trusts.

VIII. PENSION-RELATED REQUIREMENTS FROM PRIOR ORDERS

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

A. In this section of my Direct Testimony, I discuss three separate issues. First, I describe the agreements by the parties and the approvals by the Commission in prior cases with respect to the Company's prepaid pension asset balance. I also explain how that balance was affected by the Commission's approval of the signatories' Settlement Agreement in Proceeding No. 18M-0074EG to use part of the tax savings produced by the Tax Cuts and Jobs Act of 2017 ("TCJA") to reduce the balance of the Company's prepaid pension asset.[17]

Second, I describe the regulatory trackers created in Proceeding No. 14AL-0660E for qualified pension expense and non-qualified pension expense.[18] I quantify the tracker balance as of December 31, 2020, and I explain that the Company proposes to continue using the tracker for the rates set in this proceeding.

Third, I describe the reporting requirements approved by the Commission in Proceeding No. 14AL-0660E, and I explain that the Company has complied with those reporting requirements.

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[17] *In the Matter of the Commission's Consideration of the Impact of the Federal Tax Cuts and Jobs Act of 2017 on the Rates of Colorado Investor-Owned Electric and Natural Gas Utilities*, Proceeding No. 18M-0074G, Revised Stipulation and Settlement Agreement of Public Service Company of Colorado, Trial Staff of the Colorado Public Utilities Commission, and the Office of Consumer Counsel Regarding Incorporating TCJA Impacts into Public Service's Rates, and Motion to Approve Settlement on Expedited Basis at 7-8 (Apr. 27, 2018).

[18] *In the Matter of Advice Letter No. 1672-Electric Filed by Public Service Company of Colorado PUC No. 7-Electric Tariff to Implement a General Rate Schedule Adjustment and Other Changes Effective July 18, 2014*, Proceeding No. 14AL-0660E, Settlement Agreement (Jan. 23, 2015).

A. Prepaid Pension Asset Balances

Q. WHAT AGREEMENTS DID THE PARTIES REACH WITH RESPECT TO THE TREATMENT OF THE COMPANY'S PREPAID PENSION ASSET IN PROCEEDING NO. 14AL-0660E?

A. In Proceeding No. 14AL-0660E, the settling parties reached several agreements with respect to the treatment of the prepaid pension asset on a going-forward basis.

First, the settling parties agreed to create what they labeled as the "Legacy Prepaid Pension Asset," and they agreed that the balance of the Legacy Prepaid Pension Asset as of December 31, 2014 would be $139,137,447, which was the Company's actual prepaid pension asset balance of that date after accounting for the offset of ADIT associated with qualified pension expense.[19] The settling parties further agreed that Public Service would be allowed to amortize the Legacy Prepaid Pension Asset over a 15-year period, with $9,275,830 being included in the Company's annual revenue requirement in each of those years.[20] In this testimony, I refer to that 15-year amortization as the "Proceeding No. 14AL-0660E Legacy Prepaid Pension Asset Amortization."

Second, the settling parties agreed that the Company would include the unamortized balance of the Legacy Prepaid Pension Asset in rate base for purposes of the earnings test established as part of the Settlement Agreement. The parties also agreed that from January 1, 2015 until the date on which the rates

[19] As I will explain below, the actual amount of the prepaid pension asset on that date was $226.4 million. The offsetting ADIT balance was approximately $87.3 million.
[20] Proceeding No. 14AL-0660E, Settlement Agreement at 8.

set in the Company's 2017 Rate Case became effective, the Legacy Prepaid Pension Asset balance would earn a return at the Company's cost of debt, which was 4.67 percent. However, the parties also agreed that in the 2017 Rate Case and afterwards, Public Service and other settling parties will be free to argue for a different going-forward rate of return for the remaining balance of the Legacy Prepaid Pension Asset.[21]

Third, the settling parties agreed that Public Service should be allowed to record "prudently incurred amounts for pre-paid pension assets or liabilities accumulating on or after January 1, 2015." The settling parties also agreed that the new balance, which was labeled as the "New Prepaid Pension Asset," would be treated as a regulatory asset or liability. Finally, they agreed that "[u]ntil such time as new rates are put into effect following the 2017 Rate Case, Public Service shall not earn a return or otherwise apply carrying charges on the New Pre-Paid Pension Asset balance."[22]

Fourth, the settling parties agreed that the Company will seek to recover the amounts accumulated in the New Prepaid Pension Asset balance at the earlier of the Company's next rate case or in a stand-alone case filed within a reasonable time after the balance of the New Prepaid Pension Asset exceeds $50 million. The parties agreed that, in the subsequent filing, the Company could propose the manner in which the New Prepaid Pension Asset would be recovered, but other

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[21] *Id.*
[22] *Id.* at 9.

parties were free to challenge the recovery of the amounts and the method proposed for recovery of them.[23]

Q. DID THE COMMISSION APPROVE THE PARTIES' PENSION-RELATED AGREEMENTS?

A. Yes. The Commission approved those agreements in Decision No. C15-0292.

Q. DID THE COMPANY COMPLY WITH THE "LEGACY PREPAID PENSION ASSET" AMORTIZATION REQUIREMENT?

A. Yes. The Company began the Proceeding No. 14AL-0660E Legacy Prepaid Pension Asset Amortization in 2015, and the Company amortized the following amounts in accordance with the Proceeding No. 14AL-0660E Settlement Agreement, see Table RRS-D-8 below:

TABLE RRS-D-8

Year	Amortization Amount
2015	$8,171,564[24]
2016	$9,275,830
2017	$9,275,830
2018	$9,275,830
2019	$9,275,830
2020	$1,412,698[25]

[23] *Id.*
[24] The 2015 amortization amount is lower because the amortization began in February, rather than at the beginning of the year.
[25] The 2020 amortization amount is lower because the Company began amortization of the second "legacy" prepaid pension in February 2020.See Table RRS-D-9 for a summary of the second "legacy" prepaid pension amortization.

Q. DID ANY SUBSEQUENT EVENTS AFFECT THE BALANCE OF THE LEGACY PREPAID PENSION ASSET?

A. Yes. In December 2017, Congress enacted the TCJA, which reduced the federal corporate tax rate from 35 percent to 21 percent. In response, the Commission opened Proceeding No. 18M-0074EG to determine how the tax savings produced by the lower tax rate should be reflected in customer rates. As part of that proceeding, Public Service and Staff, among others, entered into a Settlement Agreement in which they agreed to use a portion of the tax savings to expedite the amortization of the Legacy Prepaid Pension Asset. In particular, the signatories agreed that $59.2 million would be applied to reduce the Legacy Prepaid Pension Asset in 2018, and an additional $33.7 million would be applied to reduce the Legacy Prepaid Pension Asset in 2019. I refer to this agreed-upon amortization as the "TCJA Legacy Prepaid Pension Asset Amortization."

Q. HOW HAS THE COMBINATION OF THE PROCEEDING NO. 14AL-0660E LEGACY PREPAID PENSION ASSET AMORTIZATION AND THE TCJA LEGACY PREPAID ASSET AMORTIZATION AFFECTED THE BALANCE OF THE LEGACY PREPAID PENSION ASSET BALANCE?

A. The combination of the two amortizations extinguished the Legacy Prepaid Pension Asset balance as of July 2019, but as I explained earlier, the term "Legacy Prepaid Pension Asset" was defined to include only the December 31, 2014 prepaid pension asset balance net of ADIT, which was $139.1 million. Without the offset provided by ADIT, the prepaid pension asset balance on that date was

$226.4 million. Thus, the TCJA savings did not extinguish the entire prepaid pension asset.

Q. DID THE COMPANY CEASE ALL AMORTIZATIONS RELATED TO THE PREPAID PENSION ASSET IN JULY 2019, WHEN THE LEGACY PREPAID PENSION ASSET WAS EXTINGUISHED?

A. No. In Proceeding No. 19AL-0268E, the Commission approved the creation of a second "legacy" prepaid pension asset consistent with past practice. The balance of the second legacy prepaid pension was $31,254,572 and it was set to be amortized over a five-year period.

Q. DID THE COMPANY COMPLY WITH THE SECOND "LEGACY PREPAID PENSION ASSET" AMORTIZATION REQUIREMENT?

A. Yes. The Company began the Proceeding No. 19AL-0268E Legacy Prepaid Pension Asset Amortization in February 2020, and the Company amortized the following amounts in accordance with the Proceeding No. 19AL-0268E Settlement Agreement, see Table RRS-D-9 below:

TABLE RRS-D-9

Year	Amortization Amount
2020	$5,298,907[26]
2021 YTD through June 30	$3,125,457

[26] The 2020 amortization amount is lower because the amortization began in February, rather than at the beginning of the year.

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

A. Yes. My Attachment RRS-5 presents a roll-forward showing the changes in the pension-related asset and liability balances. After accounting for the beginning balances, the Legacy Prepaid Pension Asset amortizations, and the activity that has created the New Prepaid Pension Asset (i.e., contributions and recognized expense since January 1, 2015), the 13-month average prepaid pension asset balance will be $45,547,415 as of December 31, 2022.[27] That is the amount Public Service seeks to include in rate base.

B. <u>Pension Tracker</u>

Q. DID THE PARTIES IN PROCEEDING NO. 14AL-0660E AGREE ON A PENSION EXPENSE TRACKING MECHANISM?

A. Yes. The parties agreed to baselines for qualified and non-qualified pension expense, and they agreed that on an annual basis, amounts incurred above or below the baselines would "be deferred in an accounting regulatory asset" for inclusion in the Company's next rate case.[28]

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[27] *See* Attachment RRS-5. The December 31, 2022 balance does not include any ADIT offsets. Ms. Koch quantifies the ADIT associated with the December 31, 2022 balance, and Ms. Blair includes that ADIT balance in the Company's Cost of Service Study, which effectively reduces the amount on which Public Service seeks a return.

[28] Proceeding No. 14AL-0660E Settlement Agreement at 11.

Q. DID THE COMMISSION CONTINUE THE PENSION TRACKER MECHANISM IN A LATER CASE?

A. Yes. In Proceeding No. 19AL-0268E, the Commission ordered that the pension tracker remain in place.[29]

Q. HAS THE COMPANY COMPLIED WITH THE PENSION TRACKER REQUIREMENT?

A. Yes. As shown in Attachment RRS-7, the Company has been tracking its qualified and non-qualified pension costs against the $15,887,349 baseline established in Proceeding No. 19AL-0268E. In addition, the Company has complied with the new pension tracker amortization that was approved in Proceeding No. 19AL-0268E.

Q. WHAT TRACKER AMORTIZATION WAS APPROVED IN THE LAST RATE CASE?

A. As noted above, Public Service has been allowed to defer pension expense amounts incurred above or below the established baseline. In Proceeding No. 19AL-0268E, the Commission ordered that the cumulative pension tracker balance of $3,320,547 associated with 2015 through 2018 deferrals be amortized over a three-year period. Table RRS-D-10 below shows the life-to-date amortizations.

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[29] Proceeding No. 19AL-0268E, Decision No. C20-0096 at ¶ 215 (Mailed Feb. 11, 2020) ("Public Service shall continue to use a tracker for the purpose of deferrals for consideration in a future rate proceeding.").

TABLE RRS-D-10

Year	Amortization Amount
2020	$938,277[30]
2021	$1,106,849
YTD March 2022	$276,712
Total	**$2,321,839**

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

A. As shown in Attachment RRS-7, the cumulative net balance of the tracker is a $(5,083,180) regulatory liability that Public Service owes to customers. This balance is made up of the following items:

- Unamortized balance associated with 2015-2018 deferrals; and
- New deferrals associated with 2019-2020 pension expense.

That indicates total actual pension expense during 2019-2020 was lower than the baseline established in Proceeding No. 19AL-0268E. This cumulative balance is made up of $(5,168,962) related to qualified pension expense and $85,782 related to non-qualified pension expense. The Company proposes to amortize this balance over 36 months. This proposed amortization, which is further explained in Ms. Blair's Direct Testimony, is consistent with the treatment of other deferred balances.

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

A. Yes. The Company is proposing to continue the tracker going forward for both qualified and non-qualified pension expense. The baselines that Public Service

[30] The 2020 amortization amount is lower because the amortization began in February, rather than at the beginning of the year.

proposes are $9,944,760 for qualified pension expense and $699,325 for non-qualified pension expense, which are the requested amounts in this case.

C. Pension-Related Reporting Requirements

Q. DID THE SETTLING PARTIES IN PROCEEDING NO. 14AL-0660E AGREE ON PENSION REPORTING REQUIREMENTS FOR THE COMPANY?

A. Yes. The parties agreed that Public Service would file annual reports providing actual and forecasted information for the three qualified pension plans that affect Public Service employees.[31]

Q. HAS THE COMPANY COMPLIED WITH THE ANNUAL PENSION REPORTING REQUIREMENTS THAT WERE AGREED TO AS PART OF THE SETTLEMENT IN PROCEEDING NO. 14AL-0660E AND CONTINUED IN PROCEEDING NO. 19AL-0268E?

A. Yes. The Company filed the annual pension reports, including the most recent one on April 30, 2021.

[31] Proceeding No. 14AL-0660E Settlement Agreement at 11.

IX. PREPAID RETIREE MEDICAL ASSET

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

A. I address the Company's request to include its prepaid retiree medical asset in rate base and to earn a WACC return on that asset.[32]

Q. WHAT IS A PREPAID RETIREE MEDICAL ASSET?

A. A prepaid retiree medical asset is similar to a prepaid pension asset, except that it represents the difference between: (1) the cumulative annual retiree medical expense calculated under FAS 106 since the inception of FAS 106 accounting requirements starting in 1993;[33] and (2) the cumulative cash outlays to fund benefits under the plan, either through contributions made to the FAS 106 trust by the Company or direct payment of plan benefits over the same period of time.[34] The Company has accrued a retiree medical asset because its direct payments of benefits and its cumulative cash contributions to the VEBA trust collectively exceed the cumulative retiree medical expense recognized under FAS 106 since the inception of the retiree medical plan.

Q. WHAT IS THE PREPAID RETIREE MEDICAL ASSET BALANCE?

A. The 13-month average of the Company's prepaid retiree medical asset balance on a Public Service electric retail basis is $48.1 million as of December 31, 2022.

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

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

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

That is the amount the Company seeks to include in rate base. Please refer to Attachment RRS-6.

Q. DO CUSTOMERS BENEFIT FROM THE RETIREE MEDICAL ASSET?

A. Yes. The return on the assets in the VEBA trust reduces the retiree medical expense included in the cost of service. In fact, as I testified earlier, the retiree medical expense was negative in 2020, and it is expected to be negative going forward. Therefore, it is reasonable to include the retiree medical asset in rate base and for the Company to earn a WACC return on it.

Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT THE PREPAID RETIREE MEDICAL ASSET RESULTS FROM NEGATIVE RETIREE MEDICAL EXPENSE. PLEASE EXPLAIN WHAT NEGATIVE RETIREE MEDICAL EXPENSE IS.

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

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

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

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

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

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

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

1. A 1991 rate order required the Company to fund the VEBA trust each year in an amount equal to the Company's actuarially determined retiree medical expense.
2. The Company has reduced the retiree medical benefit levels over time, resulting in reduced liabilities and lower retiree medical expense. However, the Company continued to fund the benefits as required under a 1991 rate order until retiree medical expense became negative, at which time the Company stopped contributing to the VEBA trust; and
3. Because the VEBA trust is well funded and because the liabilities have continued to decline as a result of reduced benefits, the expected return on the assets in the trust has been greater than the sum of the other components of retiree medical cost, which created negative retiree medical expense.

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

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

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

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

- The retiree medical asset is a prepayment by the Company, and it should be treated consistently with other prepayments, such as ADIT; and
- Customers effectively earn a return on the retiree medical asset because the EROA reduces current annual retiree medical expense.

Moreover, when the VEBA trust had an unfunded liability, Public Service reduced rate base to reflect the unfunded liability. It would be inequitable to include the FAS 106 balance in rate base only when it benefits customers.

Q. WOULD ALLOWING THE PREPAID RETIREE MEDICAL ASSET TO BE INCLUDED IN RATE BASE BE CONSISTENT WITH COMMISSION PRECEDENT?

A. Yes. In Proceeding No. 19AL-0268E, the Commission authorized the Company to include its prepaid retiree medical asset in rate base.

Q. IN PROCEEDING NO. 19AL-0268E, THE COMMISSION ALLOWED THE COMPANY TO EARN A DEBT RETURN ON THE PREPAID RETIREE MEDICAL ASSET. SHOULD THE COMMISSION FOLLOW THAT PRECEDENT IN THIS CASE?

A. No. The Commission should authorize a WACC return for the same reasons I discussed earlier in connection with the prepaid pension asset. Alternatively, the

Commission should calculate prepaid retiree medical expense using a debt return on the assets in the VEBA trust.

X. CONCLUSION

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

A. Yes. The pension and benefit requested amounts that I am supporting are reasonable and necessary costs of providing service to Public Service's customers, and therefore they should be included in the Company's revenue requirement. As I explained earlier in my Direct Testimony, the Company's overall pension and benefit expense has declined significantly since 2013, in large part because of the many steps the Company has taken to modify its pension and benefit programs.

The Commission should also allow the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a return on those assets at the Company's WACC. Prepayments are routinely added to rate base, and there is no valid reason to treat the prepaid pension asset and prepaid retiree medical asset differently. In addition, customers realize a benefit from the assets in the form of returns that reduce pension and retiree medical expense.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Richard R. Schrubbe

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

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

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

I testified in Public Service's last electric rate case before the Colorado Public Utilities Commission, which was Proceeding No. 19AL-0268E, on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. In addition, I submitted pre-filed direct and rebuttal testimony in the Company's 2014 electric rate case in Colorado, Proceeding No. 14AL-0660E, on those same issues. I have also testified or submitted prefiled testimony in Public Service's last three gas base rate cases in Colorado, which were Proceeding Nos. 15AL-00135G, 17AL-0363G, and 20AL-0049G. Finally, I have testified before the

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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * * *

IN THE MATTER OF ADVICE LETTER NO. 1857-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 8-ELECTRIC TARIFF TO REVISE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL ELECTRIC RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE AUGUST 2, 2021	**)**	**PROCEEDING NO. 21AL-_____E**

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

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

Dated in Minneapolis, MN, this 23 day of June 2021.

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

Subscribed and sworn to before me this 23 day of June, 2021.

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Notary Public

ANDREW D BENIK
NOTARY PUBLIC-MINNESOTA
My Commission Expires Jan. 31, 2025

My Commission expires 01/31/2025