NOTICE OF CONFIDENTIALITY
A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS HAS/HAVE BEEN FILED UNDER SEAL.

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**

DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

NOTICE OF CONFIDENTIALITY
A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS HAS/HAVE BEEN FILED UNDER SEAL.

Confidential: Attachment NK-1C
Redactions on Page 32, 36, 37, 44

July 2, 2021

**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**

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Attachment NK-1	Public Service Property Tax Calculation used for the 2022 FTY

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2019 Electric Phase I Rate Case	Proceeding No. 19AL-0268E
ADIT	Accumulated Deferred Income Taxes which are sometimes also referred to as Deferred Tax Assets and Deferred Tax Liabilities
Commission	Colorado Public Utilities Commission
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
DPT	Division of Property Taxation
ECA	Electric Commodity Adjustment
FERC	Federal Energy Regulatory Commission
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles
HTY	Historical Test Year
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ITC	Investment Tax Credit
kWh	Kilowatt hour
NOI	Net Operating Income
NOL	Net Operating Loss
PLR	Private Letter Ruling
PTC	Production Tax Credit
Public Service or Company	Public Service Company of Colorado
R&E	Research and Experimentation

Acronym/Defined Term	**Meaning**
Treasury	United States Department of the Treasury
XES	Xcel Energy Services Inc.
Xcel Energy	Xcel Energy Inc.

**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**

DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Naomi Koch. 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 Director, Tax Reporting. XES is a wholly-owned subsidiary of Xcel Energy Inc. (“Xcel Energy”), and provides an array of support services to Public Service Company of Colorado (“Public Service” or the “Company”) and the other utility operating company subsidiaries of Xcel Energy on a coordinated basis.

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. As Director, Tax Reporting, I am responsible for overseeing federal and state income, sales/use, and property tax compliance and accounting for all Xcel Energy group companies, including Public Service. A description of my qualifications, duties, and responsibilities is set forth after the conclusion of my testimony in my Statement of Qualifications.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my Direct Testimony is to address the impacts of income taxes, normalization, proposed federal income tax legislation, and property taxes on the cost of service in this proceeding. I explain how these items are accounted for in the 2022 Future Test Year ("FTY").

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

A. Yes, I am sponsoring the Confidential and Public versions of Attachment NK-1 (Public Service Property Tax Calculation used for the 2022 FTY), which were prepared under my supervision.

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

A. First, regarding income taxes, I recommend that the Commission calculate Public Service's income tax expense as though Public Service had depreciated its assets on a straight-line book basis. Second, I recommend that the Commission allow Public Service to record and defer the potential changes in income tax expense resulting from any change in the federal income tax rate during the period the rates established in this case are in effect. Finally, I recommend that the Commission allow Public Service to recover the property tax expense in the 2022 FTY, and allow the continuation of the property tax deferral as discussed in Company witness Mr. Steven P. Berman's Direct Testimony.

II. ACCOUNTING FOR INCOME TAXES

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

A. In this section of my Direct Testimony, I discuss the calculation of Public Service's income tax expense included in the cost of service. I also explain how the Accumulated Deferred Income Tax ("ADIT") balance is created.

A. Calculation of Income Taxes and ADIT

Q. DID YOU PARTICIPATE IN THE CALCULATION OF THE INCOME TAX EXPENSE AND ADIT BALANCE INCLUDED IN PUBLIC SERVICE'S COST OF SERVICE?

A. Yes. Company witness Ms. Laurie J. Wold and I provided information to and assisted Company witness Ms. Deborah A. Blair in the calculation of the income tax expense and ADIT balances included in Public Service's cost of service, which is provided as Attachment DAB-1 to the Direct Testimony of Ms. Blair. Along with Ms. Wold, I ensured that the tax calculations were correct and in compliance with United States Department of the Treasury ("Treasury") normalization rules, which I will discuss in more detail later in my Direct Testimony.

Q. WHAT STANDARDS DID YOU FOLLOW WHEN CALCULATING THE INCOME TAX AND ADIT BALANCES?

A. I followed Generally Accepted Accounting Principles ("GAAP"), the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, the Internal Revenue Code ("IRC"), including associated Treasury Regulations and Internal

Revenue Service ("IRS") guidance, and precedent from the Commission concerning the treatment of taxes in the Company's cost of service.

Q. PLEASE DESCRIBE THE GENERAL PROCESS USED TO CALCULATE PUBLIC SERVICE'S INCOME TAX EXPENSE FOR RATEMAKING PURPOSES.

A. Public Service calculates its income tax expense through a multi-step process:

1. As discussed in greater detail in Ms. Blair's Direct Testimony, Public Service determines its taxable income by summing its operating expenses, including interest payments and straight-line book depreciation expense, and then subtracting those operating expenses from total revenues to arrive at the net income before income taxes.

2. Public Service next calculates the additions to or deductions from net income that result from temporary and permanent tax differences. These amounts are then added to the net income calculated above to arrive at taxable income. If the taxable income is negative, it indicates a net operating loss ("NOL") that can be carried forward (or backward) to offset future taxable income.

3. Public Service's federal and state income tax rates are then applied to the taxable income calculated above to arrive at current tax expense. Current income tax expense and deferred income tax expense are added together and then adjusted by reductions for the federal research and experimentation ("R&E") credit and the Company's historical investment tax credit ("ITC").

Q. IN THE SECOND STEP OF THAT PROCESS, YOU REFER TO "TEMPORARY DIFFERENCES." PLEASE EXPLAIN HOW TEMPORARY DIFFERENCES ARISE.

A. Generally speaking, temporary differences arise when Public Service collects tax expense from customers in one period but pays the associated tax expense to the IRS in a different period. The most common example involves depreciation expense, which is typically accelerated for tax purposes, but not for ratemaking purposes. The use of accelerated depreciation reduces Public Service's taxable income, which defers taxes until a later time. For purposes of setting rates, however, Public Service calculates its tax expense as though it had used a straight-line book depreciation method. Thus, Public Service recovers income tax expense from customers on a "normalized" basis, which results in Public Service collecting income tax expense that is not paid to the IRS until a later time. That leads to the ADIT balance that I referenced earlier in my Direct Testimony.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE ADIT BALANCE ACCRUES.

A. Suppose a utility had taxable income of $1,000 and a federal income tax rate of 21 percent. In the absence of any other factors, the utility would collect $210 from its customers as federal income tax expense, and it would pay the IRS $210 in federal income taxes.

Now suppose the same facts, except that accelerated depreciation has given the utility enough depreciation expense to offset the entire $1,000 of taxable income. The utility still collects the $210 from its customers because of normalization rules, but the tax laws allow the Company to defer payment of that amount to the IRS until some later date. In effect, the utility is given an interest-free loan from the federal government, but the utility must record that $210 interest-free loan as a deferred income tax liability, or ADIT.

Q. DOES PUBLIC SERVICE EXPERIENCE TEMPORARY DIFFERENCES IN ANY CONTEXT OTHER THAN ACCELERATED DEPRECIATION?

A. Yes. Public Service experiences several non-plant temporary differences, such as costs associated with pension expense, inventory reserves, and many other types of expenses or revenues. Some of these temporary differences result in a deferred tax asset ("DTA"), a prepayment of tax, and some result in a deferred tax liability ("DTL"), a deferred payment of tax. The net cumulative amount represents Public Service's ADIT balance.

Q. HOW IS THE ADIT BALANCE REFLECTED IN RATE BASE?

A. The DTL balance will eventually have to be paid to the IRS and corresponding state agencies because accelerated depreciation creates only a temporary timing difference. That is why the DTL balance is considered to be a deferral of tax liability, not a reduction of tax liability. Until the DTL balance is paid back to the IRS and corresponding state agencies, it is used as a dollar-for-dollar reduction of rate base. As discussed above, in effect, the utility is receiving an interest-free loan from the federal government in the form of the DTL balance; therefore, it does not need a return on an equivalent amount of rate base.

A similar adjustment is made for DTAs. Until Public Service receives the deferred tax benefit from the IRS and corresponding state agencies, the DTA is used as a dollar-for-dollar increase to rate base.

The ADIT reflected in rate base for this proceeding is presented by Ms. Blair in her Attachment DAB-1, Schedule 100.

B. <u>ADIT Related to Pension</u>

Q. IN THE PREVIOUS SECTION YOU PROVIDE PENSION AS AN EXAMPLE OF NON-PLANT ADIT. HOW IS PENSION ADIT CALCULATED?

A. Similar to the process used for calculating regulatory taxable income that was discussed earlier in my Direct Testimony, federal corporate income tax returns start with book net income. Net income is then adjusted by temporary and permanent tax adjustments in order to arrive at taxable income. Included in Public Service's net income is an adjustment for pension which, for book purposes, is expensed over the employee's service life. For tax purposes, pension is deducted as cash is paid to the pension trust. This difference in timing of the deduction results in a temporary tax difference, thus a DTA or DTL.

Q. DOES PUBLIC SERVICE HAVE A DTA OR A DTL RELATED TO PENSION?

A. As it relates to pension, Public Service has a net DTL.

Q. HOW DID THIS DTL ARISE?

A. Company witness Mr. Richard R. Schrubbe discusses the timing of pension expense and pension funding in greater detail in his Direct Testimony, but as of December 31, 2020, Public Service has been required to fund the pension trust in advance of having to record the related pension expense, resulting in a prepaid pension asset. Due to the timing of the pension deductibility discussed above, Public Service has been allowed a deduction for tax purposes, sooner than what has been recognized for book purposes, resulting in a DTL. Public Service effectuates this tax adjustment by adding back the pension expense reflected in net income and deducting the amount of cash paid to the pension trust. The sum of this add-back and deduction has resulted in a net deduction and DTL, which will reverse as pension expense is recorded for book purposes.

C. Federal Tax Credits

Q. IN THE CALCULATION OF INCOME TAXES AND ADIT SECTION, YOU REFERENCED A FEDERAL R&E CREDIT. WHAT IS THIS CREDIT?

A. The federal R&E credit is a credit available to taxpayers who engage in qualifying R&E activities. Public Service completes an annual study to determine which costs are eligible for the federal R&E credit. These costs include certain wages, supplies, and contract research expenses. The credit is non-refundable, which means that a taxpayer must have a liability to use the credit. When there is insufficient tax liability to fully use the credit, the credit may either be carried back one year or carried forward up to twenty years.

Q. DID PUBLIC SERVICE INCLUDE A FEDERAL R&E CREDIT IN ITS 2022 FTY COST OF SERVICE?

A. Yes. The FTY cost of service includes Total Company $4.5 million of federal R&E credits.

Q. WHAT IS AN EXAMPLE OF PUBLIC SERVICE'S R&E ACTIVITY?

A. A recent example is Public Service's research and experimentation related to the construction and engineering for the Cheyenne Ridge Wind Project.

Q. IS PUBLIC SERVICE CURRENTLY EARNING ANY OTHER FEDERAL CREDITS?

A. Yes. Public Service also earns production tax credits ("PTC") for its Rush Creek and Cheyenne Ridge Wind projects.

Q. HOW IS THE PTC CALCULATED?

A. PTCs are an inflation-adjusted per-kilowatt-hour ("kWh") tax credit for electricity generated and sold by the taxpayer during the taxable year. The PTC is available for 10 years after the facility is placed in service. As of 2021, the PTC rate is 2.5 cents per kWh.

Q. ARE ANY PTCS INCLUDED IN THE FTY COST OF SERVICE?

A. No. The PTCs generated by the Rush Creek and Cheyenne Ridge Wind projects are being shared with customers as part of the Electric Commodity Adjustment ("ECA").

Q. DOES PUBLIC SERVICE EARN ANY STATE TAX CREDITS?

A. Yes. Public Service earned a Colorado Renewable Energy ITC for its Rush Creek Wind Project investment.[1] This credit is refundable (i.e., Public Service need not have a Colorado tax liability in order to utilize), is limited to $750,000 per year, but may be carried forward until fully refunded. Because this credit is refundable, it is not accounted for as an income tax. Instead, Public Service records the $750,000 annual benefit as a reduction to Taxes Other Than Income Taxes.

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[1] The Rush Creek Wind Project provided $867,957,113 of ITC-eligible basis, which was multiplied by the 3 percent Colorado Renewable Energy ITC rate, then reduced by 20 percent because Public Service elected to treat the ITC as refundable, resulting in a net $20,830,970 Colorado Renewable Energy ITC.

D. Federal and State Income Tax Rates

Q. WHAT INCOME TAX RATE IS PUBLIC SERVICE USING IN THIS PROCEEDING?

A. Public Service is using a 21 percent federal corporate income tax rate and a 3.5945 percent net state income tax rate.

Q. IS THIS A CHANGE FROM THE TAX RATES PUBLIC SERVICE USED IN ITS LAST PHASE I ELECTRIC RATE CASE?

A. For federal income tax, no. For state income tax, yes. Following the Commission's deliberations in the Company's last electric rate case, Proceeding No. 19AL-0268E ("2019 Electric Phase I"), the state of Colorado enacted a tax rate reduction[2] on December 31, 2020. Effective January 1, 2020, the state of Colorado corporate income tax rate is 4.55 percent. Because state income taxes are deductible for federal purposes, this state income tax rate is reduced by the associated federal benefit of 0.9555 percent (4.55 percent x 21 percent = 0.9555 percent). The resulting, net, state income tax rate is 3.5945 percent (4.55 percent less 0.9555 percent = 3.5945 percent).

Q. HOW DID PUBLIC SERVICE ACCOUNT FOR THIS CHANGE IN THE STATE INCOME TAX RATE?

A. In December 2020, Public Service adjusted its ADIT to reflect the new, lower rate. The resulting income tax benefit of $34,220 (Total Company) of was recorded as a regulatory liability to be returned to customers. Additionally, Public Service

[2] Colorado Proposition 116

calculated the impact of the tax rate reduction on the tax expense in its cost of service since the 2019 Electric Phase I rates were implemented. The Company is proposing in this case to return both benefits to customers. Please refer to Ms. Blair's Direct Testimony for additional discussion.

Q. DOES PUBLIC SERVICE INCUR ANY OTHER STATE INCOME TAXES?

A. Yes. As discussed in the 2019 Electric Phase I, Public Service pays California state income taxes as a result of its energy trading in that state.

Q. WHAT IS PUBLIC SERVICE PROPOSING TO DO WITH THESE CALIFORNIA STATE INCOME TAXES?

A. Public Service is proposing to recover its California state income taxes paid. The Commission approved this approach in the Company's 2019 Electric Phase I.[3] However, as discussed by Ms. Blair in her Direct Testimony, Public Service is proposing to recover the cost of its California state income taxes in its ECA rather than base rates.

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[3] *In the Matter of the Advice Letter No. 1797 Filed by Public Service Company of Colorado to Reset the Currently Effective General Rate Schedule Adjustment ("GRSA") as Applied to Base Rates For All Electric Rate Schedules as well as Implement a Base Rate kWh Charge, General Rate Schedule Adjustment ("GRSA-E") to become effective June 20, 2019*, Proceeding No. 19AL-0268E, Decision No. C20-0096 at ¶ 253 (Mailed Feb. 11, 2020).

III. THE ROLE OF NORMALIZATION IN UTILITY RATEMAKING

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

A. In this section of my Direct Testimony, I explain the steps that Public Service took as part of its federal income tax calculation to avoid violating tax normalization rules. These steps are necessary to avoid normalization violations.

A. Normalization and Income Tax Accounting

Q. PLEASE EXPLAIN WHAT "NORMALIZATION" MEANS IN THE CONTEXT OF UTILITY ACCOUNTING.

A. Normalization refers to a method of accounting in which the tax benefits associated with depreciation of utility assets are spread over the same period that the costs of those assets are recovered from customers. For example, if rates are set based on straight-line book depreciation, the federal income tax expense included in those rates must also be calculated as though the utility used straight-line book depreciation. The difference between the federal income tax expense calculated using accelerated depreciation and the federal income tax expense calculated using straight-line book depreciation is recorded as a DTL. The cumulative DTL balance serves as an offset to rate base, and customers are, in essence, paid a return at the Company's weighted average cost of capital for any DTL included in the Company's rate base.

Q. WHAT IS THE SOURCE OF THE TAX NORMALIZATION RULES?

A. Tax normalization rules come from various sources including the IRC, Treasury Regulations, and related guidance provided by the IRS, such as a Private Letter

Ruling ("PLR"). Specifically, Congress set out normalization for public utilities in IRC § 168(i)(9)-(10), which provides that in order to use a normalization method of accounting with respect to public utility property:

> [T]he taxpayer must, in computing its tax expense for purposes of establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, use a method of depreciation with respect to such property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for such purposes.

The rule requiring a utility to calculate federal income tax expense on a normalized basis is Section 1.167(l)-1 of the Treasury Regulations.

Q. EARLIER YOU REFERENCED STRAIGHT-LINE DEPRECIATION, WHAT IS STRAIGHT-LINE DEPRECIATION?

A. Straight-line depreciation is a method of depreciation that recovers the cost of an asset in equal amounts each year over the asset's expected productive life. As is the case in most jurisdictions, the Commission uses straight-line book depreciation for the purpose of computing a utility's depreciation expense in Colorado.

Q. WHAT IS YOUR UNDERSTANDING OF WHY CONGRESS ENACTED THE NORMALIZATION REQUIREMENTS?

A. It is my understanding that Congress's primary purpose in allowing accelerated depreciation was to stimulate investment in capital assets, such as electricity production, transmission, and distribution assets. If a utility were required to immediately pass through all tax benefits resulting from accelerated depreciation using flow-through accounting, utilities would have decreased incentives to invest in the capital assets that give rise to accelerated depreciation. Additionally, using flow-through accounting would create intergenerational inequity because current customers would receive a benefit that should be spread over the life of the asset. Accordingly, Congress set out normalization treatment, which requires that federal income tax expense be calculated for ratemaking purposes as though the utility had depreciated its assets on a straight-line book basis.

Q. DID PUBLIC SERVICE RECOGNIZE ACCELERATED DEPRECIATION IN THE CALCULATION OF FEDERAL INCOME TAX EXPENSE INCLUDED IN THE FTY COST OF SERVICE?

A. No. To remain in compliance with the normalization rules, Public Service calculated the federal income tax expense included in its cost of service using straight-line book depreciation.

Q. WHY SHOULD A REGULATORY COMMISSION FOLLOW THE NORMALIZATION RULES FOR RATEMAKING PURPOSES?

A. While Congress does not prohibit regulators from using other methods to set rates, both the utility and its customers would be adversely affected if the utility were to receive a regulatory order that led to a violation of the normalization rules. When a normalization violation occurs, the utility is no longer allowed to use accelerated depreciation. In addition, the taxes that have been deferred as a result of the prior accelerated depreciation must be paid to the federal government more quickly than they would be in the absence of the normalization violation.

Q. HOW WOULD THOSE PENALTIES AFFECT THE UTILITY'S CUSTOMERS?

A. Both of those circumstances would reduce the DTL balance, which would increase the rate base on which customers pay a return. Therefore, a normalization violation would very likely result in higher rates for utility customers. In light of the potential loss of accelerated deductions and for other reasons, Colorado and virtually all other jurisdictions have adopted the normalization method of tax accounting for rate setting purposes.

Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO HOW THE COMMISSION SHOULD CALCULATE PUBLIC SERVICE'S INCOME TAX EXPENSE?

A. Based on the normalization requirements and the adverse consequences that would result if those requirements are not followed, I recommend that the Commission calculate Public Service's income tax expense as though Public Service had depreciated its assets on a straight-line book basis. This is the basis on which income tax expense is included in Ms. Blair's cost of service.

B. <u>Net Operating Losses and Normalization</u>

Q. WHAT IS AN NOL?

A. An NOL occurs when a company's allowable tax deductions exceed its taxable income, resulting in negative taxable income. One way in which an NOL can arise is through accelerated depreciation. As previously mentioned, the use of accelerated depreciation with normalization rules generally creates a deferred tax liability. And if a utility has negative taxable income as a result of using accelerated depreciation, the utility will also have an NOL. An NOL may be carried forward to reduce taxable income in future periods. For financial reporting purposes, an NOL carryforward is recorded as a DTA. In effect, an NOL represents the tax value of claimed deductions that did not reduce the current tax liability.

Q. DO THE TREASURY NORMALIZATION RULES GOVERN THE TREATMENT OF DEFERRED TAX ASSETS SUCH AS NOL CARRYFORWARDS?

A. Yes. The IRS has long held that the tax value of an NOL carryforward is a deferred tax asset that must be offset against the ADIT balance to avoid a normalization violation.[4]

Q. DOES PUBLIC SERVICE HAVE AN NOL?

A. Public Service has an NOL carrying into its 2020 Historical Test Year ("HTY") that is being filed for informational purposes in this proceeding, and the carryforward is fully utilized in the 2020 HTY.

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[4] For example, in PLR 201438003, the IRS stated that the "reduction of Taxpayer's rate base by the full amount of its ADIT account balance unreduced by the balance of its NOL carryforward-related account balance would be inconsistent with the requirements of" IRC § 168(i)(9) and Treasury Regulation § 1.167(l).

IV. PROPOSED TAX LEGISLATION

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

A. In this section of my Direct Testimony, I discuss President Biden's "Made in America Tax Plan" and its potential impact on Public Service's federal corporate tax rate.

Q. IS THE MADE IN AMERICA TAX PLAN THE ONLY FEDERAL TAX LEGISLATION THAT IS CURRENTLY BEING PROPOSED?

A. No. On the contrary, there are several pieces of legislation that have been proposed over the last year that could impact Public Service's federal income taxes. However, I am discussing the Made in America Tax Plan as an example of the type of federal tax legislation that could be enacted in the coming months.

Q. WHAT IS THE MADE IN AMERICA TAX PLAN?

A. The Made in America Tax Plan was released on March 31, 2021 alongside the American Jobs Plan. The American Jobs Plan is part of the larger Build Back Better Plan which is a significant COVID-19 relief and infrastructure plan proposed by President Biden.

Q. WHAT IS DRIVING THE MADE IN AMERICA TAX PLAN?

A. President Biden stated that the Made in America Tax Plan was necessary to fund infrastructure and other investment.

Q. WHAT TAX PROPOSALS ARE INCLUDED IN THE MADE IN AMERICA TAX PLAN?

A. In addition to several international tax proposals and a proposal to reinstate a minimum tax, President Biden is proposing to increase the federal corporate income tax rate from 21 percent to 28 percent.

Q. ARE FEDERAL CORPORATE INCOME TAX RATE CHANGES LIKE THIS COMMON?

A. No. The last federal corporate income tax rate change was in 2018, a decrease from 35 percent to 21 percent. Prior to that, the last change was in 1993, an increase from 34 percent to 35 percent, after several years of tax rate decreases. Tax rate changes can go both ways.

Q. WHAT IS THE CURRENT STATUS OF THE MADE IN AMERICA TAX PLAN?

A. The exact timing of enactment and the effective date for the Made in America Tax Plan or any other federal tax legislation is uncertain at this time. At this point, the Made in America Tax Plan is only a proposal and it would need to be passed by Congress and signed into law by the President before any increase in the federal corporate income tax would take effect.

Q. HAS PUBLIC SERVICE ESTIMATED THE IMPACTS OF A POTENTIAL INCREASE IN THE FEDERAL CORPORATE TAX RATE?

A. Not at a detailed level because the specific impacts to Public Service's cost of service would depend on the actual federal legislation that is enacted, if any. However, at a high level, an increase in the corporate income tax rate is expected to increase Public Service's current and deferred income tax expense and ADIT leading to an increase in Public Service's cost of service.

Q. WHY IS THE MADE IN AMERICA TAX PLAN RELEVANT TO THIS PROCEEDING?

A. As discussed by Company witness Mr. Berman, if federal income tax legislation takes effect after a Commission decision in this case, Public Service would be required to pay more federal income taxes than it is collecting through the federal tax expense amount established in this case.

As discussed above, federal income tax rate changes can go either way. Consistent with how Public Service is returning the benefit of the 2018 tax rate decrease to customers, and similarly is proposing to return the Colorado state tax rate reduction to customers, Public Service is proposing to establish a tracker that would track any additional federal tax expense above the amount established in this case for future recovery. The tracker would enable Public Service to avoid additional proceedings to account for this incremental federal tax expense. This federal income tax rate tracker is discussed in greater detail by Mr. Berman.

V. PROPERTY TAXES

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

A. The purpose of this section of my Direct Testimony is to support the property tax expense included in the Company's cost of service in this proceeding. In his Direct Testimony, Mr. Berman discusses how the Company proposes to continue to track and defer property tax expense consistent with prior Commission orders.

Q. WHAT AMOUNT OF PROPERTY TAXES IS THE COMPANY INCLUDING IN THE 2022 FTY COST OF SERVICE?

A. From a property tax expense perspective, I arrive at the level of property tax in the cost of service by utilizing the forecast for property tax expense for calendar year 2022 (i.e., plant-in-service as of January 1, 2022). The total Company property tax expense for calendar year 2022 is forecasted to be approximately $253 million, which is then allocated by Company witness Ms. Blair, as described briefly below, and included in the cost of service. Utilizing the property tax expense for calendar year 2022 (based on plant-in-service as of January 1, 2022) aligns this expense with the capital additions driving that expense in 2022, which are included in the 2022 FTY. This approach also reduces future property tax deferral amounts, consistent with the approach approved by the Commission in the Company's 2019 Electric Phase I.[5]

[5] Proceeding No. 19AL-0268E, Decision No. C20-0096 at 86 (Mailed Feb. 11, 2020).

A. <u>Property Tax Overview</u>

Q. PLEASE PROVIDE AN OVERVIEW OF HOW PROPERTY TAXES ARE DETERMINED FOR THE COMPANY.

A. As explained in greater detail below, Public Service's property tax liability is determined based on Total Company assessed values and the levy rates set by the various local jurisdictions within Colorado, such as counties, school districts, fire protection districts, metropolitan districts, and conservation districts. To calculate tax, the county treasurers apply a tax rate to the assessed value of Company plant. Tax rates are set annually by the individual taxing entities, and the Company does not control the level of these tax rates which may increase or decrease. Additionally, because the Company's plant balance represents the property that is subject to property tax, the tax can be expected to increase as the plant balance increases.

Q. HOW DOES THE COMPANY'S PAYMENT OF PROPERTY TAXES BENEFIT COLORADO COMMUNITIES AND RATEPAYERS?

A. All of the revenue generated by the property taxes paid by Public Service remain at the local level to help fund many valuable public services within these communities. Property taxes are a significant source of local government revenue, and the majority of property tax revenue is used to fund K-12 public school districts. The remainder supports local services provided by counties, special districts, and, to a lesser degree, cities and towns, including county road maintenance, fire protection, police, water and sewer infrastructure, libraries, and other local services.

Q. CAN YOU PROVIDE ADDITIONAL DETAIL REGARDING WHO BENEFITS FROM THE PROPERTY TAX THE COMPANY PAYS?

A. Yes. Colorado school districts and counties are the largest recipients of the property tax dollars, with school districts receiving approximately 51.7 percent of all dollars and counties receiving approximately 25.7 percent. A list of the top five school districts and counties by percentage of total property tax paid for 2020 is as follows:

TABLE NK-D-1: School Districts & Counties by Percentage of Total Property Taxes Paid

School District	Percentage
Denver School District (0880)	7.4%
Jefferson School District (1420)	6.2%
Pueblo School District (2690)	5.2%
Mapleton School District (0010)	3.5%
Brush School District (2395)	3.5%

County	Percentage
Adams County	4.1%
Denver County	3.9%
Pueblo County	3.6%
Jefferson County	3.1%
Morgan County	2.1%

Q. WHY IS THIS RELEVANT TO THE COMPANY'S PROPERTY TAX DISCUSSION IN THIS RATE CASE?

A. Property taxes are a significant component of Public Service's cost of service in any given year. It is helpful to keep in mind that the taxes are not only mandated by various governmental units; they also provide benefits to and support services to Colorado residents, including individuals and families in the areas served by Public Service.

Q. HOW DOES PUBLIC SERVICE ALLOCATE A PORTION OF THE TOTAL COMPANY PROPERTY TAX EXPENSE TO THE ELECTRIC DEPARTMENT?

A. Once the appropriate level of property tax expense is determined, Ms. Blair allocates the property tax expense to each utility department (i.e., electric, gas, and steam) and to non-utility activities during the process of developing the cost of service study. After the tax is allocated to the Electric Department, a certain amount of those property taxes is further allocated to the retail jurisdiction.

Q. WHAT LEVEL OF PROPERTY TAX EXPENSE WAS INCLUDED IN BASE RATES AND APPROVED IN THE 2019 ELECTRIC PHASE I?

The level of property tax included in base rates in the 2019 Electric Phase I, based on the Adjusted Test Year (i.e. 2020), was $157.3 million (Public Service electric retail). The Total Company equivalent amount of property tax expense that was the basis for the amount included in base rates as a result of the 2019 Electric Phase I was $225.8 million.

Q. WHAT WAS THE ACTUAL PROPERTY TAX EXPENSE FOR THE COMPANY FOR 2019?

A. The Total Company tax liability for 2019 was $197.8 million based on the property tax bills from the various taxing jurisdictions, such as counties, school districts, fire protection districts, metropolitan districts, and conservation districts. This is the latest year for which the Company has actual property tax bills. These payments were made at the end of April 2020.

Q. WHAT IS PUBLIC SERVICE'S ANTICIPATED PROPERTY TAX EXPENSE FOR 2020 AND 2021?

A. Public Service is forecasting $224.6 million of property tax expense related to 2020 and $234.8 million of property tax expense related to 2021.

Q. IS THE COMPANY'S PROPERTY TAX EXPENSE FORECASTED TO INCREASE FOR 2022?

A. Yes. The property tax expense for calendar year 2022 (based on plant-in-service as of January 1, 2022) is forecasted to be approximately $253.1 million (Total Company), an increase of $55.3 million since 2019, the latest year of actual tax amounts.

Q. WHAT IS DRIVING THE $55.3 MILLION INCREASE IN PROPERTY TAX EXPENSE?

A. The $55.3 million increase is largely due to increases in Company plant and the weighted average net operating income ("NOI"). Additionally, there was a decrease in the income capitalization rate. These concepts are discussed in greater detail below. This projected property tax increase does not, however, incorporate any changes in the effective tax rate, which we also expect to increase as discussed below.

Q. WHAT IS THE COMPANY'S FORECAST FOR NOI?

Public Service has forecasted total Company NOI to capitalize (the three-year weighted average used to calculate property tax liability as discussed below) to increase by [redacted] or [redacted] from 2019 to 2022.

Q. PLEASE DISCUSS THE UPCOMING CHANGES IN TOTAL COMPANY NET PLANT LEVELS.

A. The Company's forecast considers that additions to total Company plant during 2019, 2020 and 2021 will be $3.2 billion and will impact the 2022 property tax. However, it is important to note that the Company's wind projects, for which the impact to property tax expense is removed through the Colorado deductions to market value, represent a significant portion of the $3.2 billion additions between 2019 and 2022. Colorado law provides that wind energy facilities and other renewable energy projects are treated differently for property tax purposes than other components of the Company property. The impact of the special valuation procedure for these renewable energy projects is built into the Company's property tax forecast. Accordingly, included in the $253.1 million of forecasted 2022 property tax expense is the property tax associated with the wind projects of only $4.4 million.

In the next section of my Direct Testimony, I discuss in more detail how these property tax expense levels, including Colorado deductions, were calculated.

B. <u>Property Valuation</u>

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

A. In this section of my Direct Testimony, I present how Colorado's Division of Property Taxation ("DPT") values the Company's property and how property tax is calculated by the various taxing jurisdictions throughout Colorado.

Q. WHAT ARE THE METHODS USED BY THE DPT IN DETERMINING THE ASSESSED VALUE TO BE USED TO CALCULATE COMPANY PROPERTY TAX?

A. In Colorado, the DPT is generally responsible for determining the assessed value of the operating property of utility companies for property tax purposes. However, a few of the Company's real estate parcels and some non-operating personal property are valued by county assessors. The operating property is considered to include all real[6] and personal[7] property used in the Company's utility business. The two approaches the DPT uses to assess utility property are referred to as the "cost approach" and the "income approach," which I describe below.

Q. CAN YOU SUMMARIZE THE DPT'S FORMULA FOR VALUING THE PROPERTY OF THE TOTAL COMPANY?

A. Yes. The following equation summarizes the DPT's formula to value the property of the Total Company:

[6] Real property includes real estate, land, and buildings.
[7] Personal property excludes real property, and generally includes machinery and equipment.

FIGURE NK-D-1
Property Tax Formula

(DPT Determined Cost Indicator x 40% + DPT Determined Income Indicator x 60%)
= System Unit Value - Deductions to Market Value
= Colorado Current Value x Equalization Factor
= Colorado Actual Value x Statutory Assessment Ratio
= Colorado Assessed Value x Statewide Effective Tax Rate
= State-Assessed Property Tax + Tax on Locally & Separately Assessed Property
= TOTAL COMPANY PROPERTY TAX

Once the assessed valuation is determined by the DPT, it is then allocated to the taxing jurisdictions in Colorado and each jurisdiction's tax rate is applied to determine the property tax that is due.

Q. WHAT IS THE DPT'S STARTING POINT FOR AN APPRAISAL OF COMPANY PROPERTY?

A. The DPT staff bases its calculation on the Company's financial data found in the Company's FERC Form 1 filing from the end of the prior year. In other words, the Company's 2022 property tax will be based on the Company's financial data from year-end 2021.

Q. PLEASE DISCUSS HOW THE VALUE OF THE COMPANY'S ASSETS ARE ASSESSED USING THE DPT'S COST APPROACH.

A. Public and Confidential Attachment NK-1 show how the amount of Total Company property tax is calculated. To arrive at the cost indicator of value at line 4 of Public

Attachment NK-1, the Company follows the DPT's methodology of using the depreciated value of the Company's operating property which includes all of the property that is needed to conduct the Company's business (i.e., property, plant, equipment, and materials and supplies) and excludes non-utility property. As shown on line 4 of Public Attachment NK-1, the cost indicator of value based on the depreciated value used by the DPT, was $9.5 billion for 2019. The cost indicator of value is forecasted to be $12.0 billion for 2022.

Q. USING THE DPT'S METHODOLOGY, PLEASE DISCUSS HOW THE COST INDICATOR OF VALUE IS CALCULATED USING THE INCOME APPROACH.

A. In the income approach, the DPT typically uses a weighted average of the previous three years' NOI from the Company's FERC Form 1, and includes operating revenue less operating and maintenance expense, depreciation, and income tax, and does not include interest expense or non-utility income. On occasion, the DPT will use a different average from the NOI history of the past five years when the Company suggests and the DPT agrees that the three-year weighted average overstates the value of the assets during a protest hearing. Next, the DPT applies a capitalization rate to the weighted average NOI.

The capitalization rate is a weighted average cost of capital derived from market data that incorporates all levels of corporate equity and debt for the utility industry, as well as the market as a whole. For the DPT's methodology, the capitalization rate is a discount factor that the DPT uses to convert the weighted average NOI into an indicator of the Total Company's market value.

The income approach calculation divides the weighted average NOI by the capitalization rate to determine the income indicator of value. For 2019, the NOI to capitalize was $664.4 million and the capitalization rate was 7.57 percent. The income indicator of value was $8.8 billion. For 2022, the NOI to capitalize is forecasted to be [redacted] and the capitalization rate for 2022 is forecasted to be 7.24 percent. The resulting income indicator of value is [redacted].

Q. HOW IS THE TOTAL SYSTEM UNIT VALUE SHOWN ON CONFIDENTIAL ATTACHMENT NK-1 DETERMINED?

A. The DPT determines the Company's Total System Unit Value based on a weighted average of the income indicator (typically 60 percent) and cost indicator (typically 40 percent). The 60 percent / 40 percent weighting applied to the two approaches shown on lines 15 and 16 of Confidential Attachment NK-1 is the weighting that has been consistently used by the DPT for many years. The application of the above weightings produces a Total System Unit Value of $9.1 billion for 2019 and [redacted] for 2021.

Q. HOW IS THE COLORADO CURRENT VALUE DETERMINED?

A. It is arrived at by deducting certain property from the Total System Unit Value. Deductions include assets on the Company's balance sheet where the property tax is fully paid by another party (such as in a joint venture) and property that is assessed by county assessors and billed to the Company separately (such as undeveloped vacant land used as a buffer adjacent to power plants). The Colorado deductions ensure that all exempted items are removed and no assets will be taxed twice. As demonstrated in Confidential Attachment NK-1, the deductions reflected on line 19 increase between 2019 and 2022 by [redacted]. Deductions are approximately $1.0 billion for 2019 and [redacted] in 2022.

Subtracting the 2022 deductions to value from the system unit value results in a Colorado Current Value of $10.0 billion.

Q. WHAT IS THE CAUSE OF THE INCREASE IN THE AMOUNT OF DEDUCTIONS BETWEEN 2019 AND 2022?

A. The increase between 2019 and 2022 is largely due to the Cheyenne Ridge Wind project. As discussed above, in Colorado, wind energy is subject to a particular property tax statute[8] regarding new renewable energy property. Therefore, the property tax for this project is calculated using the DPT's renewable energy template. On line 28 of Confidential and Public Attachment NK-1, the property tax forecast of $4.4 million for 2022 is shown, which includes the Cheyenne Ridge Wind project, as well as the Rush Creek Wind project. The impact of these projects to the assessed value for the Company is removed by inclusion in the Colorado deductions.

Q. PLEASE EXPLAIN THE EQUALIZATION FACTOR THAT IS APPLIED TO THE COLORADO CURRENT VALUE?

A. An equalization factor is an inflation factor used to equate utility property to non-utility real property in order to bring the DPT's values for utilities to the same "level of value" as the county assessors use for real property. Real property in Colorado

[8] Colorado Revised Statute § 39-4-102 (1)(e):

is valued only in odd numbered years, and by law the assessors must use comparable sales data between two years prior (even numbered years) and six months prior (odd numbered years) to the lien date. Public Attachment NK-1 shows a 99 percent equalization factor for 2022. Between 2016 and 2019, the equalization factor ranged between 98 and 100 percent, with the average being 99 percent. The Colorado Current Value, when multiplied by the equalization factor, determines the Colorado Actual Value which is expected to increase from $7.9 billion in 2019 to $9.9 billion in 2022.

Q. PLEASE DESCRIBE THE REMAINING STEPS TAKEN TO ARRIVE AT THE ESTIMATED PROPERTY TAX FOR THE COMPANY.

A. The assessment ratio of 29 percent, shown on line 23 of Public Attachment NK-1, is the Colorado statutory assessment ratio for all property other than residential property. The assessment ratio is applied to the Colorado Actual Value to arrive at the assessed value, and the tax rate is applied to that assessed value. The effective tax rate is applied to the assessed value to arrive at property tax for the Company's utility property. The total property tax for property valued by local county assessors is shown on line 27 of Public Attachment NK-1. The $900,000 estimated for 2022 is based on the $856,353 paid in 2019 for locally assessed property. With the addition of tax on locally assessed property, Public Service arrived at the Company's total calculated property tax expense. The Company also added the forecasted property tax due from the wind projects as the value was removed from the larger appraisal process pursuant to the Colorado State statute that mandates a specific valuation method for renewable energy. As shown on line 29 of Public Attachment NK-1, the resulting property tax expense for the Company is $197.8 million for 2019 and is expected to increase to $253.1 million for 2022.

Q. WHAT DOES THE EFFECTIVE TAX RATE REPRESENT?

A. The effective tax rate as shown on line 25 of Public Attachment NK-1 represents the total property tax to be paid each year to all jurisdictions that levy property tax to the Company divided by each year's total assessed value for Colorado that generated that total property tax.

Q. WHAT TAX RATES IS THE COMPANY USING FOR ITS ESTIMATED PROPERTY TAX FOR 2022?

For 2022, the Company rounded its 2019 effective tax rate of 8.53 percent for 2022, or 8.60 percent. The 2019 rate is the latest information the Company has to date and it is continued through 2022 because the Company will not be able to calculate the 2022 effective tax rate until May 2023. The Company typically sees gradual increases from year to year in the effective tax rate for the Company. As such, using an effective tax rate from prior years means that the Company's actual tax liability may be underestimated for any future year.

C. <u>Property Tax Expense and the Drivers Affecting Property Tax Expense</u>

Q. PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES BETWEEN THE LEVEL OF TAXES APPROVED IN THE 2019 ELECTRIC PHASE I AND THE AMOUNT OF PROPERTY TAXES REFLECTED IN THE COMPANY'S COST OF SERVICE IN THIS RATE CASE.

A. As noted above, the Company has calculated a total of $253.1 million for 2022 in property tax expense. As compared to the $225.8 million in total Company property tax expense that was the basis for the $157.3 million used in electric base rates in the 2019 Electric Phase I, the $253.1 million property tax expense for this proceeding is an increase of approximately $27.3 million, or 12.1 percent. However, this is the total of an incremental increase in property taxes in each of the last several years.

Q. WHY HAVE THE COMPANY'S PROPERTY TAXES INCREASED OVER THE LAST FEW YEARS?

A. Changes to the investment in plant and operating income caused the majority of the change in property tax expense since the end of the 2019 Adjusted Test Year (i.e. 2020) utilized in Public Service's 2019 Electric Phase I.

Q. BRIEFLY EXPLAIN THE INVESTMENTS IN PLANT SINCE THE 2019 ELECTRIC PHASE I THAT ARE INCREASING THE COMPANY'S PROPERTY TAX EXPENSE.

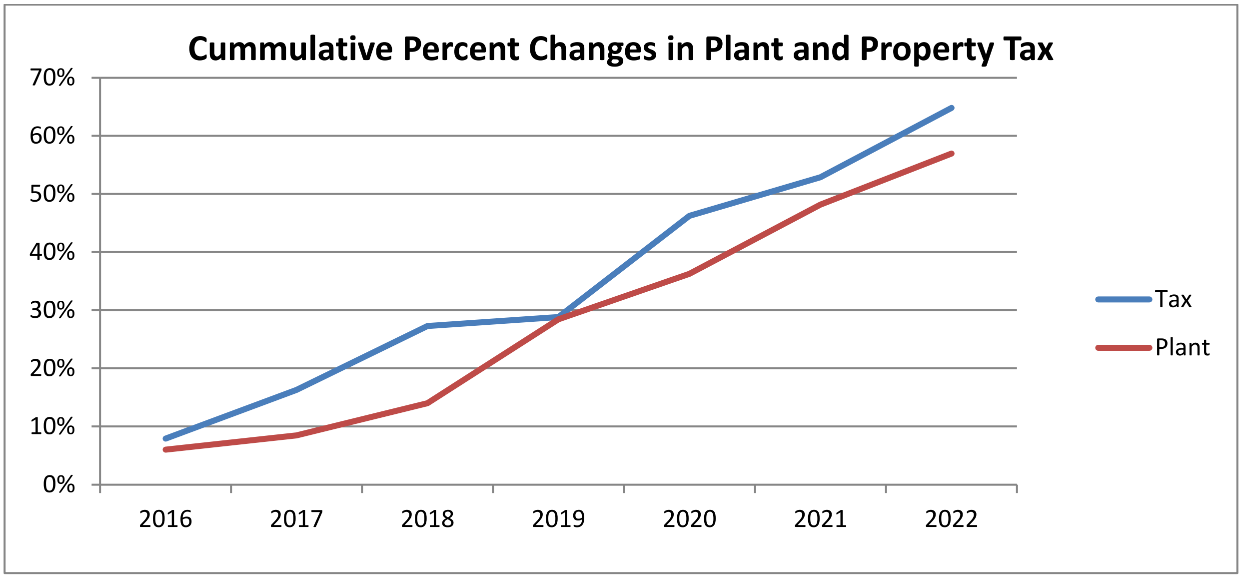
A. As discussed above, the DPT always values the entire Company. Therefore, investments in all Company departments impact Total Company property tax expense. The Electric Department's property tax expense is estimated through a ratio of electric plant to total plant. Under this approach, the Electric Department investments remain in the electric property tax estimate, while the non-electric investments, such as new gas distribution lines, are removed. As a result of significant investments over the past several years, the overall net plant-in-service for the Company has been steadily increasing. Net plant-in-service for the entire Company as calculated for property tax valuation and used in this rate case for purposes of setting the level of property tax expense in the cost of service will increase by $3.2 billion or 22 percent as compared to 2019.

The net plant-in-service include significant investments in electric plant. For example, for the 2019 to 2022 property tax years, based on plant balances as of December 31, 2018, and December 31, 2021, respectively, Public Service has invested $1.2 billion in electric distribution and $650 million in the Cheyenne Ridge Wind Project, increasing the gross plant balance.

Q. TO WHAT EXTENT DO PROPERTY TAXES INCREASE AT THE SAME RATE AS PLANT?

A. As mentioned above, property taxes are primarily based on plant balances. Between property tax year 2016 and 2022, the net plant balance increased 48 percent while the property tax increased 53 percent. Figure NK-D-2, below, shows how closely property tax has trended with plant growth in that time period.

FIGURE NK-D-2:



Q. ARE THERE OTHER FACTORS THAT CAN CAUSE THE AMOUNT OF PROPERTY TAXES TO CHANGE?

A. Yes. In addition to increases in plant, the effective tax rate and the income capitalization rate can both cause property taxes to change. Between 2016 and 2022, the effective tax rate increased from 8.29 percent to 8.60 percent, while the income capitalization rate decreased from 8.04 percent to 7.24 percent. Both the effective tax rate increase and the capitalization rate decrease caused the Company's property tax liability to increase.

Q. HOW DO CHANGES IN THE CAPITALIZATION RATE IMPACT THE COMPANY'S PROPERTY TAX CALCULATION?

A. Capitalization rates have an inverse relationship with value. In order to derive an estimated value for the property of an operating public utility, an NOI selected by the DPT as representative of current Company business activity is divided by the capitalization rate.

Q. DOES THE COMPANY WORK TO ACTIVELY MANAGE ITS CAPITALIZATION RATES, AND THEREFORE ITS PROPERTY TAX LEVELS?

A. Yes. Although the Company had provided comments to the DPT about the 2020 capitalization rate, no changes were ultimately made. However, for 2019, the DPT initially proposed a capitalization rate of 7.30 percent, which is a blended rate that combines separate capitalization rates the DPT derived for the electric utility and gas utility. Intervention by the Company caused the DPT to increase the blended capitalization rate to 7.57 percent, which had the impact of lowering the total Company property tax for 2019 by $4.7 million.

Q. DOES THIS INFORMATION SUGGEST THAT PLANT IS AN APPROPRIATE BASIS TO ALLOCATE PROPERTY TAX TO THE ELECTRIC DEPARTMENT?

A. Yes. Plant is the single largest component of rate base, which drives required earnings in the cost of service calculation. While NOI can fluctuate some from year-to-year, plant growth correlates well with property tax expense growth and using plant balances to allocate property taxes to the electric utility provides an allocation basis that is cost-causative and consistent with ratemaking principles.

Q. FOR 2022, HOW ARE ALL OF THESE DRIVERS IMPACTING PUBLIC SERVICE'S PROPERTY TAX EXPENSE?

A. All of the drivers discussed above contribute to the overall calculation of property tax expense presented in Confidential and Public Attachment NK-1. Both the cost indicator of value and the income indicator of value increase from 2019 to 2022. The Total System Unit Value increases by [redacted] between 2019 and 2022. Moreover, both the cost indicator of value and the income indicator of value feed into the $2.0 billion increase in the Colorado Actual Value between 2019 and 2022. The addition of the wind projects is included in the Total System Unit Value but is removed in calculating Colorado Actual Value.

D. <u>Accuracy of the Company's Property Tax Expense Calculations</u>

Q. PLEASE EXPLAIN WHY THE COMPANY'S CALCULATION APPROPRIATELY FORECASTS PROPERTY TAX EXPENSE FOR 2022.

A. The DPT's valuation methodology has been in place for many years, and there have been very few changes to this methodology over the past 10 years. The DPT's methodology is stable, and the Company has substantial knowledge of the appraisal process and the detailed calculations of which it is comprised. Use of this stable methodology has resulted in property tax estimates in prior rate case proceedings that are near or below the actual property tax expense incurred by the Company. As I described above, the data presented to the Commission in the Company's most recent phase I electric and gas rate cases (Proceeding Nos. 20AL-0049G, 19AL-0268E, and 17AL-0363G), as well as the new data presented in this Direct Testimony, demonstrate that the Company's property tax estimates end up being very close to, and typically below, the actual amount of property tax paid on an annual basis.

For this proceeding, the Company is estimating property taxes using the same methodology as these prior electric and gas rate cases. Just like in those prior matters, the Company has estimated Test Year Total System Unit Value based on the most recent estimated plant and income information available. As stated previously, the Company is using the latest effective tax rate, the 2019 tax rate, rounded to 8.60 percent. By using the 2019 rate, the Company is likely forecasting a conservative property tax estimate as effective tax rates tend to rise over time and the use of a historical tax rate typically leads to an underestimated, not overestimated, tax liability.

Q. OVERALL, IS THE AMOUNT OF PROPERTY TAX EXPENSE REQUESTED FOR RECOVERY BY PUBLIC SERVICE IN THIS PROCEEDING REASONABLE?

A. Yes. It is important to remember that while the Company works to manage the amount of property tax expense requested for recovery to the extent possible, the amount of property tax Public Service is required to pay is largely out of the Company's control. Increases in property tax rates result from a multitude of factors, like the passage of school district measures, for example, and eventually flow through to the levy rates used, in part, to determine, the Company's property tax liability. Public Service takes steps to mitigate the impact of increasing property tax expense in Colorado, though these steps do not absolve the Company from its obligation to pay property tax nor do these steps necessarily lessen the Company's property tax responsibility. In fact, continuing to pay the requisite assigned property tax is necessary to comply with governmental mandates supporting local Colorado communities and residents.

Q. IN SUMMARY WHAT IS THE COMPANY RECOMMENDING REGARDING PROPERTY TAX?

The property tax expense discussed above is a necessary expense in order for Public Service to provide electric service to customers. Therefore, I recommend that the Commission allow Public Service to recover the property tax expense included in its 2022 FTY cost of service. Although the 2022 property tax forecast is based on the Company's forecasted plant and NOI, changes are expected to occur in the effective tax rate, and there is still some uncertainty in the forecasted property tax expense. As a result, I also recommend the Commission approve the continuation of the property tax deferral as discussed by Mr. Berman.

VI. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. I have three primary recommendations. First, I recommend that the Commission calculate Public Service's income tax expense as though Public Service had depreciated its assets on a straight-line book basis. Second, I recommend that the Commission allow Public Service to record and defer the potential changes in income tax expense resulting from any change in the federal income tax rate during the period the rates established in this case are in effect. Third, I recommend that the Commission allow Public Service to recover the property tax expense in the 2022 FTY, and allow the continuation of the property tax deferral as discussed in Company witness Mr. Berman's Direct Testimony.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Naomi Koch

I am employed by XES, as Director, Tax Reporting. I earned a Bachelor of Science degree from the University of Minnesota and a Master of Business Taxation degree from the University of Minnesota. I joined what is now Xcel Energy in 1999 in Tax Services, and have more than 20 years of corporate tax experience. Through this experience, I have become familiar with various provisions of the IRC and IRS regulations that affect public utilities. I also have become familiar with various state laws, utility commission rules, and court cases that relate to the treatment and calculation of tax expenses, including income tax, for ratemaking and utility regulatory purposes. In 2019, I also became responsible for the sales/use and property tax compliance and accounting for all Xcel Energy group companies, including Public Service. I have taken several courses related to accounting and taxation of public utilities offered by the Edison Electric Institute, the American Gas Association, Deloitte & Touche, PricewaterhouseCoopers, and Arthur Andersen. I am also a member of the Tax Executives Institute, an association of in-house business tax professionals worldwide.

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 NAOMI KOCH
ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO

I, Naomi Koch, 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, Minnesota, this 25th day of June 2021.

Naomi Koch

Naomi Koch
Director, Tax Reporting

Subscribed and sworn to before me this 25th day of June, 2021.

JILL N YEAMAN
Notary Public
Minnesota
My Commission Expires January 31, 2026

Jill N. Yeaman
Notary Public

My Commission expires Jan. 31, 2026