BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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RE: IN THE MATTER OF ADVICE LETTER NO. 912-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE ON 30-DAYS NOTICE.	)	**PROCEEDING NO. 17AL-____G**

DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. OSTROM

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

June 2, 2017

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

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SUMMARY OF DIRECT TESTIMONY OF MELISSA L. OSTROM

Ms. Melissa L. Ostrom is Director, Capital Asset Accounting, for Xcel Energy Services Inc. Ms. Ostrom oversees the capital asset accounting policies, the day-to-day maintenance of accounting and tax records for capital assets and the related reporting and regulatory requirements for Xcel Energy Inc. and its subsidiaries, including Public Service Company of Colorado ("Public Service" or the "Company").

Ms. Ostrom sponsors the plant in-service and other plant-related balances for the January 1, 2018 through December 31, 2020 Multi-Year Plan ("MYP") period and the Historical Test Year ("HTY"), consisting of the twelve-month period ending December 31, 2016, that were used to determine the rate base in the revenue requirements studies sponsored by Company witness Mr. Steven P. Berman and contained in Attachment SPB-1, SPB-2, and SPB-3. Ms. Ostrom details how the plant balances for the MYP are developed from a starting point of per-book balances as of January 31,

2017 (the previous month's actuals at the time the forecast was prepared), and continuing through December 31, 2020. This monthly plant roll-forward is presented in Attachment MLO-1. As she explains, these plant balances are the basis for developing the related annual expenses, such as depreciation and deferred taxes, reflected in the MYP revenue requirement studies and the resulting balances that are included as part of the rate base used in determining the revenue requirements for each year of the MYP. Ms. Ostrom also provides support for the book depreciation accruals reflected in the HTY. Lastly, Ms. Ostrom discusses bonus tax depreciation the impact of bonus tax depreciation in this rate case on Accumulated Deferred Income Taxes ("ADIT") and compliance with the Internal Revenue Service ("IRS") normalization rules.

With respect to the Company's depreciation accrual rates for the Company's gas plant accounts, Ms. Ostrom explains that the Company's depreciation rates were recently changed in the Company's 2012 Gas Phase I rate case, Proceeding No. 12AL-1268G, as supported by a depreciation study submitted in that case, and have been in effect since 2013. The only changes to gas plant account depreciation accrual rates proposed in this case are for the distribution and transmission gas mains accounts, as supported by a depreciation study performed by Alliance Consulting. Additionally, Ms. Ostrom proposes that gas general plant accrual rates be updated by applying the depreciation parameters for electric and common general plant from the Settlement Agreement approved by the Commission in the 2016 stand-alone electric depreciation proceeding (Proceeding No.16A-0231E) ("2016 Depreciation Settlement").

With respect to the Company's common utility plant accounts, Ms. Ostrom

explains that in this proceeding, the Company has used the depreciation accrual rates for common utility plant approved in the 2016 Depreciation Settlement.

Ms. Ostrom recommends that the Commission adopt the plant and plant-related balances (*i.e.*, Construction Work In Progress ("CWIP") and the depreciation reserve) reflected in Attachment MLO-1, as well as the corresponding depreciation expense, Allowance for Funds Used During Construction ("AFUDC") and annual deferred taxes derived therefrom, as reasonable inputs to the revenue requirements studies for the purpose of developing rates for the MYP period. Ms. Ostrom further recommends that Commission adopt the depreciation changes for the gas mains, general, and intangible accounts for the gas utility plant and that the Commission adopt the use of the currently-approved depreciation accrual rates for common utility plant included in this proceeding.

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

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RE: IN THE MATTER OF ADVICE LETTER NO. 912-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE ON 30-DAYS NOTICE.	)	**PROCEEDING NO. 17AL-____G**

DIRECT TESTIMONY AND ATTACHMENTS OF SHARON L. KOENIG

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LIST OF ATTACHMENTS

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
2011 Electric Rate Case	Proceeding No. 11AL-947E
2012 Gas Rate Case	Proceeding No. 12AL-1268G
2014 Electric Rate Case	Proceeding No. 14AL-0660E
2016 Depreciation Settlement	Proceeding No. 16A-0231E
2018 Forward Test Year	The 12 months ending December 31, 2018
2019 Forward Test Year	The 12 months ending December 31, 2019
2020 Forward Test Year	The 12 months ending December 31, 2020
ADIT	Accumulated Deferred Income Taxes
AFUDC	Allowance for Funds Used During Construction
Commission	Colorado Public Utilities Commission
Company	Public Service Company of Colorado or Public Service
CWIP	Construction Work in Progress
FTY	Forward Test Year
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
GL	General Ledger
Historical Test Year or HTY	Historical Test Year – Calendar Year 2016

Acronym/Defined Term	**Meaning**
IRS	Internal Revenue Service
MYP	Multi-Year Plan period of January 1, 2018 through December 31, 2020, which includes the 2018, 2019, and 2020 Forward Test Years.
Operating Companies	Xcel Energy Operating Companies
Pacific	Pacific Exchange Group
PHMSA	Pipeline and Hazardous Materials Safety Administration
PLR	Private Letter Ruling
PSIA	Pipeline System Integrity Adjustment
Public Service, or the Company	Public Service Company of Colorado
SEC	Securities and Exchange Commission
USofA	Uniform System of Accounts
WAM	Work Asset Management
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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DIRECT TESTIMONY AND ATTACHMENTS OF MELISSA L. OSTROM

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

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Melissa L. Ostrom. My business address is 414 Nicollet Mall, Minneapolis, MN 55401.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

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

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

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. As Director, Capital Asset Accounting, my responsibilities include oversight of the capital asset accounting policies, the day-to-day maintenance of accounting and tax records for capital assets and the related reporting and regulatory requirements. A statement of my education and relevant experience is set forth following my Direct Testimony.

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

A. My Direct Testimony is divided into three main parts, which address the following subjects:

- I support the calculation of plant-related balances for the January 1, 2018 through December 31, 2020 Multi-Year Plan (”MYP”) and the presentation of year-end 2016 balances for the historic test year (“HTY”) in the respective revenue requirements studies presented by Company witness Mr. Steve P. Berman;
- I support the calculation of the annual deferred taxes for the MYP, which factor in all applicable Bonus Depreciation laws and that fully complies with the Internal Revenue Service’s (“IRS”) normalization rules that require the monthly expense to be prorated throughout the current year before the monthly balances are calculated and used for the 13-month averaging of the accumulated deferred tax balance offset to rate base or in lieu of a 13-month averaging of the accumulated deferred tax balance offset to rate base; and
- I present the Company’s proposal (1) to revise depreciation rates for the transmission and distribution gas mains account; (2) to align the gas general assets with the parameters used to calculate the Colorado Public Utilities Commission (“Commission”)-approved depreciation rates in the stand alone

electric depreciation proceeding, Proceeding No. 16A-0231E ("2016 Depreciation Settlement"); (3) to maintain all other remaining gas depreciation rates with those approved by the Commission in Decision No. C13-1568 in the 2012 Gas Phase I rate case in Proceeding No. 12AL-1268G ("2012 Gas Rate Case"); and (4) to use the depreciation rates for common utility plant as approved in the 2016 Depreciation Settlement.

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

A. Yes, I am sponsoring Attachments MLO-1 through MLO-12, which were prepared by me or under my direct supervision. The attachments are as follows:

- Attachment MLO-1 (plant-related roll forward calculations for MYP Forward Test Years);
- Attachment MLO-2 (schedule linking Attachment MLO-1 to Attachments SPB-1, SPB-2 and SPB-3);
- Attachment MLO-3 (gas plant additions);
- Attachment MLO-4 (IRS Reg.1.167(l)-1)
- Attachment MLO-5 (ADIT proration calculation)
- Attachment MLO-6 (PLR 201717008)
- Attachment MLO-7 (Alliance Depreciation Study);
- Attachment MLO-8 (calculation of gas general and intangible depreciation rates);
- Attachment MLO-9 (Exhibit A from the Settlement Agreement in the 2016 Depreciation Case);
- Attachment MLO-10 (depreciation expense using proposed depreciation rates for MYP Forward Test Years);
- Attachment MLO-11 (depreciation expense using proposed depreciation rates for the HTY); and
- Attachment MLO-12 (Amortization of the SAP GL/WAM regulatory asset).

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

A. I recommend that the Commission adopt the plant and plant-related balances reflected in Attachment MLO-1, as well as the corresponding depreciation expense, Allowance for Funds Used During Construction ("AFUDC") and annual deferred taxes derived therefrom, as reasonable inputs to the revenue requirements studies for the purpose of developing rates for the MYP period. I further recommend that the Commission adopt the depreciation changes for the gas mains, general, and intangible accounts for the gas utility plant and that the Commission adopt the use of the currently-approved depreciation accrual rates for common utility plant included in this proceeding.

II. PLANT-RELATED BALANCES AND EXPENSES

Q. WHAT GOVERNS THE COMPANY'S ACCOUNTING PRACTICES?

A. The Company follows Generally Accepted Accounting Principles ("GAAP"), the Uniform System of Accounts ("USofA") established by the Federal Energy Regulatory Commission ("FERC"), and policies and guidelines established by the Company's Capital Asset Accounting department, such as the capitalization policy. The Commission requires that the Company keep its books and records in compliance with the FERC USofA for Natural Gas Companies.

Q. HOW WERE YOU INVOLVED IN THE DEVELOPMENT OF THE FORECASTED PLANT IN-SERVICE BALANCES USED FOR THE COST OF SERVICE STUDY SPONSORED BY MR. BERMAN?

A. My department, Capital Asset Accounting, is responsible for all aspects of the fixed asset accounting for Public Service. We routinely develop and provide information regarding forecasted plant information to be used in rate base and revenue requirements analyses presented by the Revenue Analysis Group, including Company witness Mr. Berman. One of the main components affecting rate base, and thus revenue requirements, is additions to plant, also known as capital additions.

Q. WHAT IS INCLUDED IN PLANT-RELATED INFORMATION?

A. Plant and plant-related information consists of account balances for plant in-service and the balances and expenses directly derived from plant. Plant-related balances consist of construction work in progress ("CWIP"), depreciation reserve,

and Accumulated Deferred Income Taxes ("ADIT"). Plant-related expenses are AFUDC, book depreciation, and annual deferred taxes. Plant and plant-related information are an important part of the overall development of rate base and revenue requirements. The plant component of rate base consists of plant in-service less depreciation reserve less accumulated deferred taxes on plant.

Q. IS THE FORECASTED PLANT AND PLANT-RELATED INFORMATION BASED ON ESTABLISHED PLANT ACCOUNTING PRINCIPLES?

A. Yes. In a forecast presentation, the development of the plant information follows the applicable accounting rules established by GAAP, the FERC, and policies and guidelines established by the Company's Capital Asset Accounting department, such as the Capitalization Policy. Thus, the forecasted plant and plant-related information are developed using the same methods, rules, calculations, and factors as the Company uses to record actuals on its books each month. For example, the tax depreciation and deferred income taxes for our Forward Test Years (as well as the 2016 HTY that is presented for informational purposes) use the same accounting module and routines that are employed to prepare deferred tax journal entries and to produce the tax filing information filed with the IRS.

Q. HOW IS THE REMAINING DISCUSSION ON PLANT AND PLANT-RELATED EXPENSES DIVIDED?

A. In regard to plant and plant-related expenses, rate base has two main components – (1) net plant, and (2) ADIT. The next section covers the net plant

and the subsequent section covers ADIT. Finally, I will discuss affiliate charges in capital additions and the allocation of costs related to software construction.

A. Net Plant

Q. HOW DO CAPITAL ADDITIONS AFFECT RATE BASE?

A. In regard to net plant in rate base, there are two main components -- plant balances and accumulated reserve for depreciation (a reduction to rate base). Capital additions increase plant balances. Depreciation expense increases the accumulated reserve for depreciation, thereby lowering rate base. If capital additions were equal to depreciation expense, the plant-related rate base would remain constant. If plant-related rate base increases from one year to the next, it is because capital additions are greater than the depreciation expense.

Attachment MLO-1, which I will explain in more detail later in my testimony, includes forecasted capital expenditures for additions that have projected in-service dates during Forward Test Years 2017, 2018, 2019 and 2020 in the MYP and thus will affect these years' plant additions. This in turn affects the MYP rate base and revenue requirement. The overall rate base used in the MYP cost-of-service study in this case reflects the increase in plant balances from the base period ending December 31, 2016.

Q. DO YOU EXPLAIN THE NEED OR PURPOSE OF THE UNDERLYING CAPITAL ADDITIONS INCLUDED IN RATE BASE?

A. No. The following Company witnesses are providing testimony in support of the plant in-service associated with their organizations within the Company:

Cheryl Campbell	—	Gas production, transmission, distribution and related general plant.
David Harkness	—	Network Equipment and software
Tim Brossart	—	General Ledger ("GL") and Work Asset Management ("WAM") systems
Greg Robinson	—	Buildings and General

Each of the business areas represented by these witnesses is responsible for the actual planning and decision-making regarding the capital expenditures, as well as the analyses necessary to develop the capital budgets and project plans. My area of responsibility begins where the responsibility of each of these respective witnesses' finishes. I am responsible for the calculations of plant-related balances and expenses, which can only be derived once the various business areas have completed their analyses. The process of moving the construction costs from Construction Work in Progress ("CWIP") to plant in-service produces the capital additions that then form the basis from which all the other plant-related information can be calculated.

Q. HOW HAVE THE CAPITAL ADDITIONS DESCRIBED BY EACH OF THE BUSINESS AREA WITNESSES BEEN PRESENTED?

A. Capital additions for each business area witness have been assigned a Capital Grouping. Capital Groupings are the major categories of work performed within a particular business area. In essence, business areas calculate their budgets based on what work they deem critical to assure continued operation of the system and identify projects by these Capital Groupings.

Q. PLEASE DESCRIBE THE DEVELOPMENT OF NET PLANT INFORMATION IN THE MYP.

A. The information is extracted from the Company's 2017 five year forecast information for plant assets for the three 13-month periods ending December 31, 2018, December 31, 2019, and December 31, 2020. As with any plant information, the forecasted balances for these years are significantly influenced by the activity in the preceding years. Therefore, the plant information is rolled forward month by month (known as a "monthly roll forward") from the last month's actuals at the time the forecast was prepared, which in this case was January 2017, and forecasted plant and plant-related balances are built upon these actuals using the forecasted changes in plant and plant-related expenses for each month until all months have been calculated through the end of the forecast period. Attachment MLO-1 summarizes this roll forward calculation from the beginning of the Historical Test Year, January 1, 2016 through the end of the MYP, December 31, 2020, for gas and common utility plant. Attachment MLO-1 also includes the roll forward of the CWIP and accumulated reserve for depreciation for the same periods as were provided for the plant information.

The CWIP roll forward is shown for each of the Capital Groupings referenced in the Direct Testimony of the business area witnesses identified above. Therefore, the Company has presented the CWIP information aligned with each business area's Capital Groupings and the budgeted projects within these groupings are shown in Attachment MLO-3.

These roll forwards serve as the basis for the forecasted plant in-service balances used by Mr. Berman in the determination of the forecasted rate base in Attachment SPB-1, SPB-2, and SPB-3. Attachment MLO-2 has been provided as a numerical link of data between my Attachment MLO-1 and the revenue requirements studies contained in Mr. Berman's Attachment SPB-1, SPB-2, and SPB-3.

Q. WHAT ARE THE MAIN COMPONENTS OF NET PLANT INFORMATION?

A. As I mentioned above, there are several components that comprise the plant and plant-related information. The three most significant components are CWIP, plant in-service, and the accumulated reserve for depreciation.

CWIP is an account that is used to gather all the construction-related costs together as they are being incurred during the construction of the project or facility. The costs incurred to construct or install a fixed asset in the construction process are capital expenditures. The accumulation of the construction expenditures in CWIP continues until the asset becomes used and useful, which is typically when the asset is placed into service. The amount transferred from the accumulated CWIP balance to plant in-service is known as the capital addition or plant addition.

Plant in-service represents facilities that are used and useful in providing utility service, including facilities currently in-service, capital projects completed but not classified, and property held for future use. Forecasted plant in-service represents historical and projected additions and retirements to Public Service's

electric and common utility plant accounts. Common utility represents all of the property that is used in the general operations of the business that affect more than one utility, such as electric and gas operations. Plant additions represent plant that will become used and useful during the month.

Accumulated reserve for depreciation, also known as the depreciation reserve, is the accumulation of depreciation expense taken on assets that are in-service. When an asset is retired, the depreciation reserve is reduced by the original cost of that asset based on the assumption that the asset is fully expensed (i.e., fully depreciated) at that time. The average gross monthly plant balance multiplied by the applicable depreciation accrual rate results in the depreciation expense, which is added to and consequently results in an increase in the depreciation reserve. Factored into the depreciation rate is a net salvage rate component to provide for the estimated cost of future removal less any gross salvage value. Lastly, the depreciation reserve is decreased by actual removal expenditures when incurred, and increased by any salvage proceeds received.

Q. PLEASE PROVIDE A SUMMARY OF THE CWIP ACTIVITY IN A MONTH.

A. During the course of each month, the beginning CWIP balance is increased by CWIP expenditures incurred during the month and AFUDC, and is reduced by the CWIP balances associated with projects that are placed in service during the month. Table MLO-D-1 summarizes the monthly transactions for CWIP:

Table MLO-D-1 Construction Work in Progress

	CWIP Beginning Balance
+	CWIP Expenditures
+	*AFUDC*
-	CWIP Closings (equal to Additions to Plant In-service)
=	**CWIP Ending Balance**

Q. PLEASE PROVIDE A SUMMARY OF PLANT ACTIVITY IN A MONTH.

A. During the course of each month, the beginning plant balance is increased to reflect plant additions and reduced to reflect plant retired from service. Table MLO-D-2 summarizes the monthly transactions for plant.

Table MLO-D-2 Plant In-service

	Plant Beginning Balance
+	*Additions (equal to CWIP Closings from Table 1)*
-	Plant Retirements
=	**Plant Ending Balance**

Q. PLEASE PROVIDE A SUMMARY OF DEPRECIATION RESERVE ACTIVITY IN A MONTH.

A. During the course of each month, the beginning depreciation reserve is increased by depreciation expense and any salvage proceeds realized, and is reduced by the depreciation reserve attributable to retirements (equal to the gross plant cost of the retired assets) and removal costs. Table MLO-D-3 summarizes the monthly transactions for depreciation reserve.

Table MLO-D-3 Accumulated Reserve for Depreciation

	Depreciation Reserve Beginning Balance
+	*Depreciation Expense*
-	Plant Retirements
+/-	Adjustments (i.e. Reserve Reallocations)
+	Salvage Value Realized
-	Plant Removal Expenditures
=	**Depreciation Reserve Ending Balance**

Q. WHEN YOU PRESENTED THE ITEMS RECOGNIZED IN THE CWIP ROLL FORWARD IN TABLE MLO-D-1, YOU LISTED AFUDC. WHAT IS AFUDC?

A. AFUDC is used to assign to the asset the assumed cost of financing construction that would normally be expensed on the income statement during construction. Once the construction is completed and the asset is placed into service, the total cost of the asset, including the AFUDC, is systematically allocated back to the income statement in the form of depreciation expense over the life of the asset. Since the AFUDC is part of the asset cost, the construction financing costs move from the balance sheet to the income statement as a part of depreciation over the life of the asset. Public Service follows the FERC USofA in calculating the AFUDC rate and its application to construction projects. The AFUDC rate is a weighted-average cost of capital that first gives weight to short-term debt as a function of the CWIP balance and then factors in the costs of long-term debt and common equity.

B. ADIT

Q. WHAT ARE DEFERRED TAXES?

A. Deferred taxes are a result of an accounting process called "normalization", which represents the timing difference between book and tax accounting. The timing difference is then multiplied by the current tax rate to determine the current deferred tax. This amount in turn is added to the ADIT balance. Deferred taxes generally derive from tax depreciation being greater than book depreciation (in the early years of an asset's life). Regulated utilities are required by the IRS to normalize accelerated tax depreciation on plant assets (use deferred taxes) in order to receive the benefits of accelerated tax depreciation. Thus, deferred taxes and accelerated tax depreciation go together. Public Service's ADIT balance has been growing in large part due to bonus tax depreciation. Public Service strives to maximize the tax benefits by using accelerated methods to tax depreciate its assets, which are often taken in the early years of an asset's life. Deferred taxes, from a ratemaking perspective, allow Public Service to share the early tax benefits with all customers equally over the asset's straight line book life.

Q. DID THE CALCULATION OF ADIT INCLUDE BONUS TAX DEPRECIATION?

A. Yes. The effects of various laws passed by Congress allowing for Bonus Tax Depreciation have been incorporated into the ADIT balances in this case. This includes the effects of the Consolidated Appropriations Act of 2016, which provided for bonus tax depreciation of 50 percent on eligible assets placed into

service in 2015, 2016, and 2017, bonus tax depreciation of 40 percent on eligible assets placed into service in 2018, and bonus tax depreciation of 30 percent on eligible assets placed into service in 2019. In 2018 through 2020, there is a long lead time construction allowance, which allows a construction project that is under way in a year where a higher bonus tax depreciation rate is in effect, yet in-serviced in the following year where a lower bonus tax depreciation rate is in effect, to use the higher bonus tax depreciation rate on the in-serviced asset. For example, an asset that was under construction in 2017 and 2018, and placed into service in 2018, the entire asset would use the 50 percent bonus tax depreciation rate. This allowance only partially applies to an asset under construction prior to 2020 and in-serviced in 2020. This 2020 addition would get a limited amount of bonus tax depreciation taken on the portion of construction done in 2019, but not on the construction done in 2020 and the bonus tax depreciation would be taken in 2020.

Q. DO YOU KNOW OF ANY TAX LAW CHANGES FOR 2017?

A. No. While there is work in Washington on tax reform, potential changes to tax laws are not known at this time. If there is new tax legislation passed while this case is progressing, we will update the case should any changes affect the current or deferred taxes included in this case.

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 time 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 for tax purposes. 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 deferred tax liability. The cumulative deferred tax liability balance is recorded as ADIT and serves as an offset to rate base. The regulations further define how the deferred tax balance for the federal portion of FERC Account 282 must be calculated for forward test years. While the discussion is based on the federal rules for timing differences related to life differences, the ADIT includes other plant related timing differences. As described by Mr. Berman, the Commission has approved full tax normalization for all timing differences, and therefore Public Service interprets these rules to apply to all plant deferred taxes, including Net Operating Losses ("NOLs") since these were largely driven by bonus tax depreciation.

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

A. Tax normalization rules come from various sources including the Internal Revenue Code ("IRC"), Treasury Regulations, and related guidance provided by the IRS, such as Private Letter Rulings ("PLR").

Specifically, Congress mandated 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.[1]

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. Copies of the rule are attached to my testimony as Attachment MLO-4.

Q. IS A REGULATORY COMMISSION REQUIRED BY LAW TO FOLLOW THE NORMALIZATION RULES FOR RATEMAKING PURPOSES?

A. No. Congress did not directly prohibit regulators from using other methods to set rates, but it did link the use of accelerated tax depreciation with the use of deferred taxes in rate making. A company is prohibited from claiming accelerated tax depreciation on its returns if a state utility commission requires all current tax benefits to be flowed through to customers. In other words, the IRS would require

[1] IRC § 168(i)(9)(A)(i).

a company ordered to use flow through tax benefits in rate making to tax depreciate their assets over a straight line life (i.e. book depreciation) on its tax returns. Currently, the revenue requirement provides for this sharing of tax benefits equally with all customers using the asset throughout its life (over a straight line basis), with the use of ADIT providing a large rate base reduction that is not available with flow through methods. For that reason, Public Service has calculated the income tax expense included in its cost of service using straight-line book depreciation for its assets and included ADIT as an offset to rate base. This calculation is supported in Company witness Mr. Berman's testimony.

Q. ARE THERE NORMALIZATION RULES REGARDING HOW ADIT MUST BE CALCULATED WHEN USING FUTURE TEST YEARS?

A. Yes. When a utility that is subject to normalization rules uses a future test year to determine its cost of service, Treasury Regulations require that the increase or decrease to the ADIT balance be prorated first before applying the 13-month averaging method.

Q. WHAT SECTION OF THE TAX NORMALIZATION RULES MANDATES THE USE OF THE PRORATION METHOD?

A. Section 1.167(l)-1(h)(6)(ii) of the Treasury Regulations mandates the use of a very specific proration procedure in measuring the amount of future test period ADIT. This code section has been provided in Attachment MLO-4. This regulation requires that if solely a historical period is used to determine the ADIT balance to

be subtracted from rate base, then no proration is required. If, on the other hand, a future period is used to determine the rate base, the ADIT balance "is the amount of the reserve at the beginning of the period and a pro rata portion of the amount of any projected increase to be credited or decrease to be charged to the account during such period." Therefore, Public Service used the IRS proration for the ADIT in its MYP and did not use IRS proration for its HTY, since the HTY was based on a historical period.

Q. HOW ARE THE ANNUAL DEFERRED TAXES PRORATED?

A. Proration is required to ensure that the current year tax benefits of accelerated depreciation will not be flowed through to customers faster than they will be recognized by the utility. The IRS assumes that such benefits are received on the last day of the period over which the deferred amount is recognized. The pro rata portion of any change during a future period is determined by multiplying the change by a fraction, where:

- The numerator is the number of days remaining in the period at the time the change is to be accrued; and
- The denominator is the total number of days in the future period.

Because Public Service closes its books on the last day of each month, the proration calculation must also be done on a monthly basis. For instance, if a forecasted increase to Public Service's ADIT balance during a test year period was $1.2 million, the proration adjustment would reflect that that ADIT balance was accumulated incrementally over the course of the entire test year ($100,000 per month). However, the proration assumes that each monthly expense is

recognized on the last day of the month. Assuming a 365-day year, January's expense would increase the ADIT by 335/365th (335 = 365 minus 30 days in January assuming January 31st is not included in the total days for January) or $91,781, instead of $100,000. Each subsequent month the numerator is decreased by the number of days in the month less one for the last day of the month. Table MLO-D-4 walks through each month's hypothetical example:

Table MLO-D-4 Proration of ADIT

Month	Year 2016 Monthly Change	Days to Prorate	Calendar Days in Future Test Period	Monthly Change Prorated Test Year	Cumulative Prorated Balance	Cumulative Balance (without Proration)
	(A)	(B)	(C)	(D=A*B/C)	(Sum Col. D)	(Sum Col. A)
Annual Increase	1,200,000					
Dec-17					0	0
Jan-18	100,000	335	365	91,781	91,781	100,000
Feb-18	100,000	307	365	84,110	175,890	200,000
Mar-18	100,000	276	365	75,616	251,507	300,000
Apr-18	100,000	246	365	67,397	318,904	400,000
May-18	100,000	215	365	58,904	377,808	500,000
Jun-18	100,000	185	365	50,685	428,493	600,000
Jul-18	100,000	154	365	42,192	470,685	700,000
Aug-18	100,000	123	365	33,699	504,384	800,000
Sep-18	100,000	93	365	25,479	529,863	900,000
Oct-18	100,000	62	365	16,986	546,849	1,000,000
Nov-18	100,000	32	365	8,767	555,616	1,100,000
Dec-18	100,000	1	365	274	555,890	1,200,000
Total	1,200,000				4,807,671	7,800,000

Accordingly, the tax benefit is flowed through to customers as it is accrued over time. For forecast purposes, the Company calculates an annual deferred tax expense and then divides by 12 to get the monthly deferred tax expense, resulting in an even monthly deferred tax expense throughout the year. As a result, the proration calculation can be converted mathematically as an annual factor. Using the example presented in Table MLO-D-4, the annual proration factor can be calculated as the Dec-18 Prorated Balance of $555,890 divided by

the Dec-18 Balance without Proration of $1,200,000 for a factor of 46.3 percent.

Q. HOW DOES THE IRS PRORATION ALIGN WITH USING AN AVERAGE RATE BASE METHODOLOGY FOR A FORWARD TEST YEAR?

A. The answer depends on whether the Commission would allow the Company to forego the use of the Commission's averaging method for its ADIT in rate base and to use instead the IRS proration method, which is in essence an averaging method. This is what the Company recommends because if we could not substitute the proration method for the Commission's averaging method, then we would have to apply both methods. The Commission requires a 13-month average method for rate base items; however for ADIT the Commission has allowed the Company to use a beginning of year, end of year (BOY/EOY) average. Since the monthly deferred amounts are constant throughout the year, a 13-month average and a BOY/EOY average result in the same amount. To demonstrate the effects of proration, we have used the 13-month average method in the numbers below. The IRS recently provided in PLR 201717008 that its method may be used instead of the state utility commission defined method in calculating rate base. However, in prior PLRs, the IRS required its method to first be used and then the state utility commission's averaging method to be applied if the commission's averaging method must be used in rate making for ADIT. PLR 201717008 is included in Attachment MLO-6.

Basically, both methods provide for the same overall intention of representing the current changes ratably over the year rather than allowing a full

year effect into rate base (i.e. setting rates using end of year future balances). The 13-month average of the annual deferreds allows 50 percent of the change in deferreds to be added to the beginning balance when calculating the average ADIT that is in rate base. This can be seen in Table MLO-D-4 above which calculates a 13-month average on the sum of the ending balances without proration, or $7.8 million, and dividing by 13 months to get $600,000 or 50 percent of the annual deferred taxes of $1.2 million. Using just proration for the averaging results in an annual change of $555,890 or 46.324 percent of the annual deferred taxes of $1.2 million,

If the Commission did not allow the Company to substitute the proration method for the 13-month average method, the Company would have to average twice. Applying proration first and then the 13-month average to the $1.2 million annual deferred taxes would reduce the annual deferred tax amount to $369,821, or 30.818 percent of the original amount. This is calculated by taking the $4,807,671 sum of prorated balances and dividing by 13 months. A comparison of the result of these averaging methods is shown in Table MLO-D- 5.

Table MLO-D- 5 Comparison of Averaging Methods

		% of ADIT
Change in ADIT	1,200,000	
Prorated Change in ADIT	555,890	46.324%
13-month Average of Change in ADIT	600,000	50.000%
13-month Average of Prorated Change in ADIT	369,821	30.818%

To further illustrate the impact of these averaging methods on the plant ADIT adjustments included in the MYP, a comparison of the adjustment to the plant

ADIT using just the IRS proration method as compared to the adjustment using both the IRS proration method and the beginning of year-end of year averaging required by the Commission is presented in Attachment MLO-5.

Q. WAS PRORATION USED IN PRIOR RATE CASES FILED BY PUBLIC SERVICE THAT PROPOSED A FUTURE TEST YEAR?

A. No. Proration was not used to calculate the ADIT in those cases and that was an incorrect assumption that the 13-month averaging was representative of the intent of the IRS regulation. We now know that was not correct. Since no rate case previously resulted in a future test year being approved, there was no violation of normalization rules. Like many others in the industry, Public Service was not aware of the distinction that required the use of the proration rule until late 2015. However, since we are now aware of how the rule is applied at this time, we must abide by it and file the Test Year in this case correctly. Accordingly, we used proration for the change in ADIT for the MYP and request that this IRS averaging be applied instead of the 13-month averaging method.

Q. WHAT IS PUBLIC SERVICE'S ACTUAL PROJECTED ADIT BALANCE FOR THE FORWARD TEST YEARS?

A. Please refer to the Direct Testimony of Company witness Mr. Berman for Public Service's projected ADIT balance and corresponding calculations. Attachment MLO-5 also presents the adjustments to projected ADIT balances due to application of the applicable IRS proration factor.

Q. ARE PUBLIC SERVICE'S DEFERRED TAXES IN THIS CASE CALCULATED TO COMPLY WITH ALL IRS REGULATIONS?

A. Yes. Since this case includes a Forward Test Year, ADIT balances have been prorated in accordance with Treasury Regulations. Failure to follow the proration procedures required by Treasury Regulations would result in a violation of normalization rules, the penalty for which is an inability to claim accelerated tax depreciation methods.

C. Affiliate Charges in Capital Additions

Q. PLEASE DESCRIBE THE AFFILIATE COSTS INCLUDED IN CAPITAL ADDITIONS

A. Affiliate costs included in capital additions are those costs charged either by XES or another Operating Company to a PSCo-specific capital work order for construction of an asset owned and utilized entirely by Public Service where the construction has been closed to plant in service before the end of the HTY or MYP period. The terms "affiliate cost" and "XES charge" are synonymous in this discussion and are defined to include costs from all Xcel Energy legal entities other than Public Service.

Q. CAN YOU GIVE AN EXAMPLE OF AN AFFILIATE COST IN A CONSTRUCTION WORK ORDER?

A. Yes. As an example, if an XES employee worked one hour on a construction project and a Public Service employee worked one hour on the same project, there would be two labor hours charged. Assuming both employees have a labor

rate of $25 per hour, the work order would contain $50 in labor. Adding $100 of materials purchased by the Public Service employee and installed, the work order total would be $150. Assuming the work order was closed to plant in service during the MYP, the charges would be part of rate base. Thus, $150 would be in rate base in this case and $25 of this $150 total would be the affiliate costs included in rate base.

Q. DO THE CAPITALIZED AFFILIATE CHARGES REASONABLY APPROXIMATE THE COST OF PROVIDING THE SERVICE?

A. Yes. XES and Public Service's other affiliates provide their services at cost. There is no component for profit in the capitalized affiliate charges. Additionally, the charges from XES and Public Service's other affiliate are at the same price per unit as the charges made to the other Xcel Energy affiliates for the same services.

Q. HOW WERE THESE AFFILIATE COST COMPONENTS BILLED TO SPS?

A. The construction affiliate charges were assigned in two direct manners: (1) costs charged directly to the Public Service work order, as described above; or (2) direct to a work order that is further allocated to Public Service. Costs allocated to a Public Service work order relate only to certain software projects.

Q. HOW ARE COSTS ALLOCATED TO PSCO SOFTWARE PROJECTS?

A. Software is an intangible asset and, as such, is the only asset that is broken down into each operating company owner's fractional share in the construction process. These costs represent the only fixed asset where a percentage of the

total installation is placed on each operating company's books. This is accomplished through a controlled and systematic process. For the vast majority of software projects, affiliate costs are allocated each month from a special allocating work order to each of the four Operating Companies, including Public Service. Each software project is given an allocating work order. Charges recognized each month are allocated to the Operating Company's construction work order based on predetermined percentages. A similar process is followed to develop the forecasted plant additions included in the MYP. Allocation percentages are applied to the total forecasted software project costs to calculate the total software addition to include in the forecast for Public Service.

Q. HOW ARE THE ALLOCATIONS ESTABLISHED FOR THE FIVE-DIGIT WORK ORDERS?

A. Each allocation table is established based on the nature and use of the software system. The allocations methods are selected to reflect the underlying utilization of the system that is being allocated.

III. DEPRECIATION EXPENSE

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

A. I present proposed depreciation rates for gas and common utility assets. Public Service is proposing changes to the approved depreciation rates for the transmission and distribution gas mains accounts. The Company also is proposing to align the depreciation rates for gas general assets with the currently approved depreciation parameters for the similar electric general assets from the 2016 Depreciation Settlement. In addition, we are proposing to use the approved common depreciation rates from the 2016 Depreciation Settlement for the common assets in this case. The accounts for which we are either proposing new depreciation rates in this proceeding or using the rates from the 2016 Depreciation Settlement constitute approximately 58 percent of the Company's gas and common allocated plant.

Q. WHAT IS THE OVERALL IMPACT TO DEPRECIATION EXPENSE OF THE DEPRECIATION RATES BEING PROPOSED IN THIS CASE?

A. Please see Table MLO-D-6 below which summarizes the depreciation expense impacts presented in the MYP.

Table MLO-D-6 Proposed Change in Depreciation Expense Summary

	2018	2019	2020
Gas Mains	174,608	141,368	105,900
Gas General and Intangible	(3,672,397)	(2,105,283)	(3,104,529)
Total Gas	(3,497,788)	(1,963,915)	(2,998,629)
Total Common	(10,968,573)	(12,001,891)	(5,865,072)
Percent of Common Allocated to Gas	28.46%	28.46%	28.46%
Common Allocated to Gas	(3,121,579)	(3,415,654)	(1,669,158)
Total Gas and Common Allocated to Gas	(6,619,367)	(5,379,569)	(4,667,788)

A. Proposed Depreciation Rates for Gas Mains

Q. DID PUBLIC SERVICE PERFORM A DEPRECIATION STUDY?

A. The Company directed Alliance Consulting Group to perform a depreciation study limited to the gas mains accounts, FERC Account 367, Transmission Mains and Account 376, Distribution Mains. We limited the depreciation study to these two FERC Accounts because depreciation rates for gas assets were approved recently, in Proceeding No. 12AL-1268G; however, due to the significant work being done on integrity management of the pipelines, we felt that the transmission and distribution mains accounts may have experienced a change in parameters since the last study. The current depreciation rates for these accounts were approved in Proceeding No. 12AL-1268G. A copy of the depreciation study report provided by Alliance Consulting Group is included as Attachment MLO-7.

Q. WHAT DEPRECIATION PROCEDURES AND TECHNIQUES WERE USED TO DERIVE DEPRECIATION RATES?

A. Annual and accrued depreciation were calculated in this study by the straightline, vintage group, remaining-life depreciation system. In addition, an actuarial analysis approach was used, consistent with the approach approved in Proceeding No. 16A-0231E. The depreciation study procedure and techniques are described in more detail in Attachment MLO-7, pages 5 to 10.

Q. WHAT DEPRECIATION PARAMETERS DOES PUBLIC SERVICE PROPOSE FOR THE GAS MAINS ACCOUNTS?

A. Table MLO-D- 7 shows the changes proposed for the average service life, Iowa curves, and net salvage rates for these assets. The proposed parameters were recommended by Alliance Consulting in the depreciation study presented as Attachment MLO-7. I have reviewed the analysis and assumptions that formed the basis for these conclusions and find the recommendations to be reasonable and appropriate.

Table MLO-D- 7 Gas Mains Depreciation Parameters

FERC Account	Account Description	Present Average Life	Present Curve	Present Net Salvage	Proposed Average Life	Proposed Curve	Proposed Net Salvage	Difference Life	Difference Net Salvage
Transmission									
367	Mains	65	R3	-10%	72	R3	-25%	7	-15%
Distribution									
376	Mains - Valves and Vaults	65	R3	-35%	60	R0.5	-50%	-5	-15%
376.1	Mains - Metallic	65	R3	-35%	72	R3	-50%	7	-15%
376.2	Mains - Plastic	65	R3	-35%	68	R3	-35%	3	0%

Q. WHAT ARE THE CHANGES RECOMMENDED TO AVERAGE SERVICE LIVES?

A. All the average service lives, except for the Distribution Mains – Valves and Vaults, are recommended to be longer than the lives that resulted from the last approved study.

For Account 376 Distribution Mains – Valves and Vaults, I recommend that the approved life for this account be shortened from 65 years to 60 years. The Company has undertaken a large effort to replace valves that are not operable and anticipates that valves will have a shorter life than the pipe. There are times when valves are replaced without replacing the pipe, but pipe is never replaced without replacing the valve.

For Account 376.1 Distribution Mains – Metallic, I recommend that the approved life for this account be lengthened from 65 years to 72 years, due to improvements in construction methods and the Company's replacement of much of the older pre-1950s pipe that lacked cathodic protection and was subject to a higher prevalence of leaks.

For Account 376.2 Distribution Mains – Plastic, I recommend that the

approved life be lengthened from 65 to 68 years. Actuarial life analysis is indicating a slightly longer life than is currently approved.

For Account 367 Transmission Mains, I recommend that the approved life be lengthened from 65 to 72 years. The operation of this equipment is very similar to Account 376.1 Distribution Mains - Metallic. Gas Transmission Integrity Rules impacted operations in this account beginning in 2002, requiring the Company to assess 50 percent of areas defined as “high consequence” by 2007 and 100 percent of high consequence areas by 2012. Capital replacement related to this effort should taper down some over time. The largest replacement effort driven by the integrity findings was the West Main project which wrapped up in 2016. The West Main project replaced approximately 80 miles of pipe, much of which is older than 65 years. The Company anticipates that the life of this account will increase slightly. Some of the 1950s gas transmission pipe is still in reasonably good condition. However, some of the 1960s and 1970s coatings have not fared as well.

Q. EXPLAIN THE CHANGES RECOMMENDED TO NET SALVAGE RATES?

A. As seen in Table MLO-D- 7 above, except for Distribution Mains – Plastic, the proposed net salvage percentages are more negative than the currently approved rates. The primary reasons that the net salvages are more negative are due to change in requirements to monitor which pipelines need replacing (resulting in more retirement activity), increased costs to abandon in place, and increased costs to restore the site.

The Pipeline and Hazardous Materials Safety Administration ("PHMSA") has issued Advisory Bulletins and a Notice of Proposed Rule Making that would require operators to replace or test gas transmission pipelines in certain instances. Xcel Energy has started this work and will be replacing older existing gas transmission pipelines as a result of this rule.

The majority of the construction and reconstruction projects are in urban areas where work permits are often required. These permits may impose limitations on the closure of roads during high traffic times, requiring construction or removal to occur in the evening, or on weekends necessitating the incurrence of overtime labor costs. Additionally, municipalities are requiring Public Service to repave more of the road than just the paving disturbed by excavation activity. For example, the City of Aurora requires the entire block to be repaved if the amount of disturbed paving exceeds a certain criteria.

In the last decade, investment in utility gas main renewal projects has increased substantially across the country. In addition, the same skills and resources are needed in the larger oil and gas industry. This has created a high demand for the limited number of qualified resources available to construct the work. The increases in capital expenditures are such that utilities now have to augment their internal workforces with external contract construction providers and the cost of external contracts has increased due to supply and demand factors. Over 90 percent of Xcel Energy gas renewal construction and removal is performed by contractors.

The industry and specifically the Company have strived to provide a very high level of safe working practices. The equipment and provisions required today have increased substantially from 60 years ago. Xcel Energy uses excavation and trenching work practices that align with modern industry practice. These policies have increased the cost of doing business, but are an important part of the strong safety principles at Xcel Energy.

All of the factors described above result in either additional retirement and removal activity or increased costs of performing removal activities, which accounts for the change in proposed net salvage rates.

Q. WHAT IS THE PROPOSED CHANGE IN DEPRECIATION RATES FOR THE GAS MAINS ACCOUNTS?

A. The proposed average remaining life depreciation rates for these accounts are shown in Table MLO-D-8.

Table MLO-D-8 Gas Mains Average Remaining Life Depreciation Rates

FERC Account	Account Description	Depreciation Rate as Approved in 12AL-1268G	Proposed Depreciation Rate	Increase (Decrease)
Transmission				
367	Mains	1.5760%	1.7310%	0.1550%
Distribution				
376	Mains - Valves and Vaults	2.3929%	2.6007%	0.2078%
376.1	Mains - Metallic	2.2432%	2.2582%	0.0150%
376.2	Mains - Plastic	2.1614%	2.0395%	-0.1219%

Q. APPLYING THESE PROPOSED DEPRECIATION RATES TO THE PLANT BALANCES FORECASTED IN THE MYP, WHAT IS THE EXPECTED CHANGE TO DEPRECIATION EXPENSE FOR THE GAS MAINS ACCOUNTS?

A. The change in depreciation when comparing approved to proposed depreciation rates is approximately $175,000 increase for 2018 Forward Test Year, $141,000 for 2019 Forward Test Year and $106,000 for 2020 Forward Test Year. Table MLO-D- 9 details the change in depreciation for 2018-2020.

Table MLO-D- 9 Proposed Change in Depreciation Expense Gas Transmission and Distribution Mains

	2018	2019	2020
Transmission Mains	1,056,714	1,129,091	1,195,352
Distribution Mains	(882,105)	(987,723)	(1,089,452)
Total Transmission and Distribution Mains	174,608	141,368	105,900

Attachment MLO-10 provides calculations for the depreciation expense changes proposed in this proceeding.

B. <u>Proposed Depreciation Rates for Gas General and Intangible Plant</u>

Q. WHAT IS PUBLIC SERVICE RECOMMENDING FOR GAS GENERAL AND INTANGIBLE PLANT?

A. Public Service recommends applying the depreciation parameters used in the 2016 Depreciation Settlement for the electric and common general and intangible plant to the gas assets. This is a reasonable approach because the assets in the Electric and Common General accounts are the same in nature and kind as the gas general assets.

Q. WHAT ARE THE PROPOSED PARAMETERS FOR EACH GAS GENERAL AND INTANGIBLE ACCOUNT AND THE RESULTING DEPRECIATION RATES?

A. The proposed parameters for gas general and intangible accounts and the resulting depreciation rates are provided in Attachment MLO-8.

Q. WHAT IS THE IMPACT TO DEPRECIATION EXPENSE BY INCORPORATING THIS CHANGE?

A. The impacts of the changes to gas intangible and gas general depreciation rates are shown in the Table MLO-D-10 below:

Table MLO-D-10 Proposed Change in Depreciation Expense Gas Intangible and Gas General Plant

	2018	2019	2020
Gas Intangible	(1,633,233)	(117,618)	(909,254)
Gas General	(2,039,164)	(1,987,665)	(2,195,275)
Total	(3,672,397)	(2,105,283)	(3,104,529)

The calculation of the depreciation rates is included in Attachment MLO-8 and the estimated impacts to depreciation expense for 2018 through 2020 are included in Attachment MLO-10.

C. Depreciation Rates Included for Common General and Intangible Plant

Q. IS THE COMPANY PROPOSING ANY CHANGES TO ITS DEPRECIATION ACCRUAL RATES FOR COMMON UTILITY PLANT IN THE HTY OR IN THE MYP PERIOD?

A. No. The Company included the Common General and Intangible Plant depreciation rates that were approved in the 2016 Depreciation Settlement in Proceeding No. 16A-0231E. These assets are allocated to both the electric and gas utilities.

Q. WHAT IS THE IMPACT TO DEPRECIATION EXPENSE IN THIS PROCEEDING?

A. The impact of depreciation rate changes for common utility plant is shown in Table MLO-D-11 below. This table includes the total Company impact of depreciation expense for common utility plant. The allocation of common intangible and common general plant to the gas utility is presented by Mr. Berman within the revenue requirements study.

Table MLO-D-11 Proposed Change in Depreciation Expense Common Intangible and Common General Plant

	2018	2019	2020
Common Intangible	(7,195,660)	(6,652,440)	(3,480,523)
Common General	(3,772,913)	(5,349,451)	(2,384,549)
Total	(10,968,573)	(12,001,891)	(5,865,072)

The approved depreciation rates are set forth in Attachment MLO-9 and the estimated impacts to depreciation expense are included in Attachment MLO-10.

Q. ARE THERE ANY CHANGES IN HOW SOFTWARE IS BEING AMORTIZED IN THIS PROCEEDING?

A. No, we have not changed our methodology in this case. However, in Proceeding No. 16A-0023E, we agreed to provide a recommendation on which accounting approach, individual or group depreciation, we would recommend in the next Electric Phase I Rate case, which we plan to include when we file that proceeding.

D. <u>Other Depreciation Changes</u>

Q. WHAT DEPRECIATION RATES ARE PROPOSED FOR THE REMAINING GAS UTILITY ASSETS?

A. For the remaining gas accounts, the gas depreciation rates that were approved by the Commission in Decision No. C13-1568 in the 2012 Gas Rate Case, Proceeding No. 12AL-1268G, were used. Given that these revised depreciation accrual rates have only been in effect since the conclusion of the 2012 Gas Rate Case proceeding, the Company proposes to maintain the current depreciation rates for gas plant assets during the term of the MYP period and not address any depreciation rate changes for the Company's gas plant assets until the Company's next rate case. If the MYP is approved in this case, the Company anticipates proposing in its next gas rate case to update its depreciation accrual rates for gas plant assets and submitting a new depreciation study as support.

IV. MISCELLANEOUS ITEMS

Q. WHAT DO YOU DISCUSS IN THIS SECTION?

A. I discuss two remaining items related to asset accounting. The first one is in regards to the deferral of depreciation for the gas utility jurisdiction for the two SAP software assets, GL and WAM, since these assets were placed in-service. The second item is the reserve adjustment made for the like-kind exchange program.

A. SAP GL and WAM Depreciation Deferral

Q. WHY WAS DEPRECIATION FOR THE GAS UTILITY JURISDICTION DEFERRED?

A. In Decision No. C16-0123 in the Company's last Gas Phase I rate case, Proceeding No. 15AL-0135G, the Commission required Public Service Gas to defer the depreciation expense associated with the GL and WAM in a regulatory asset. The Commission's Decision stated that it wished to more thoroughly investigate these costs, and found that the costs should be deferred to the next gas rate case for a determination of the prudency of those costs.

Q. WHEN DID SAP GL AND WAM GO INTO SERVICE AND HOW WERE THE DEFERRED AMOUNTS DETERMINED?

A. The majority of SAP GL investment went into service in December 2015. Smaller investments went into service January through October 2016. The majority of the WAM investment went into service November 2016, February 2017, and April 2017, and more investment is forecasted to go into service in October 2017. In

addition, smaller amounts of investment are forecasted to go into service in November and December 2017. Each of these investments is being depreciated over 15 years, as approved in Proceeding No. 16A-0231E.

Q. WHAT AMOUNTS WERE DEFERRED?

A. The deferred amounts represent the allocation to the gas utility of the depreciation on this common plant investment. The common depreciation expense was allocated to the gas utility according to the method approved in Proceeding No. 02S-315EG. As of December 31, 2016, approximately $0.5 million has been deferred and an additional $2.1 million is forecasted to be deferred prior to the start of the 2018 Forward Test Year.

Q. WHICH WITNESS ADDRESSES THE PRUDENCE OF THE SAP GL AND WAM INVESTMENTS?

A. Mr. Tim Brossart addresses the prudence issues.

Q. WHAT DOES PUBLIC SERVICE RECOMMEND FOR THE REGULATORY ASSET FOR THIS DEPRECIATION DEFERRAL?

A. Public Service is recommending that the regulatory asset for this depreciation deferral be amortized over a period of 24 months beginning January 1, 2019. The forecasted balance of $2,630,188 divided by 24 months results in a monthly amortization of $109,591. This amortization is shown on Attachment MLO-12. If the Commission chooses to set rates based on a HTY, Public Service proposes that the regulatory asset be amortized over 18 months beginning with the effective date of rates in this proceeding.

B. Like-Kind Exchange Depreciation Reserve Adjustment

Q. IS PUBLIC SERVICE PROPOSING AN ADJUSTMENT TO ACCUMULATED DEPRECIATION RELATED TO THE LIKE-KIND EXCHANGE PROGRAM?

A. Yes.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE LIKE-KIND EXCHANGE PROGRAM.

A. Public Service participated in, along with the other Xcel Energy Operating Companies ("Operating Companies"),[2] a like-kind exchange program from 2006 through 2014. This program was a mechanism for Public Service to defer paying current tax on the salvage value of retired distribution meters, line transformers, and fleet vehicles which fully complied with IRS rules.

Q. WHAT HAPPENED TO THE LIKE-KIND EXCHANGE PROGRAM?

A. In July 2014, the Operating Companies terminated the like-kind exchange program with the program vendor, Pacific Exchange Group, Inc. ("Pacific"). Prior to termination, XES had asked Pacific for an accounting of the exchange funds as it appeared that not all funds were accounted for, but Pacific refused to cooperate. In the midst of XES's discussions with Pacific, Pacific abruptly terminated the Agreement. XES, as agent for the Operating Companies, subsequently sued Pacific in September 2014 to get an accounting of the exchange funds and the return of any remaining exchange funds.

[2] The Xcel Energy Operating Companies include Public Service, Northern States Power Company, a Minnesota corporation, Northern States Power Company, a Wisconsin corporation, and Southwestern Public Service Company.

During the course of litigation with Pacific, XES subpoenaed and ultimately obtained Pacific bank records in late March and April 2015. After reviewing those records, XES suspected that Pacific and a former XES employee may have fraudulently taken money from the bank account that was supposed to contain only the Operating Companies' exchange funds.

Q. HOW MUCH WAS TAKEN FROM PUBLIC SERVICE?

A. In connection with the civil litigation, XES, on behalf of the Operating Companies, hired a third-party consultant to conduct an independent analysis of the data XES had available from the bank records. XES believes that, between 2006 and 2014, approximately $1,234,259 was wrongfully taken from the exchange funds that relates to Public Service. This equates to $1,234,259 of salvage proceeds that were taken and therefore, not recognized to Public Service's accumulated depreciation when the assets were retired. Of this total amount, $148,416 relates to the Gas utility assets and $99,976 relates to Common utility assets in the case.

Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO PUBLIC SERVICE'S TEST YEAR DEPRECIATION RESERVE FOR THIS ISSUE?

A. The Company proposes to adjust the accumulated depreciation for the salvage proceeds that it would have had but for this apparent fraud that was perpetrated. This adjustment increases the accumulated depreciation by $248,392 and reduces rate base by this same amount, reducing the overall return on rate base. Although Public Service does not have to record an entry for its financial books,

Public Service will recognize this entry for ratemaking purposes and has included this adjustment in the HTY, and the MYP.

Q. DOES PUBLIC SERVICE HAVE RECOURSE AGAINST PACIFIC?

A. Yes. Public Service has pursued more than one avenue to try to recover the money it believes was wrongfully taken. As previously indicated, XES, on behalf of Public Service and the other Operating Companies, filed a civil lawsuit in fall 2014. In addition, XES also filed an insurance claim on behalf of the Operating Companies.

XES pursued and was successful in securing a civil judgment against Pacific. The court issued that order September 30, 2016. XES has since recorded the judgment in the states that it believes Pacific may still have assets in hopes of recovering some portion of that judgment. However, given Pacific's history of filing for bankruptcy and the current state of the company (it has essentially stopped operating), it is doubtful that any material portion of the judgment will be collectable from Pacific. XES is still waiting for a final decision from its insurer on our previously filed insurance claim.

Regardless of the outcome of these efforts, Public Service is proposing that its customers not have to wait to see whether its recovery efforts are successful by making this rate case adjustment now. If Public Service recovers any of this lost salvage proceeds through the various avenues it is pursuing, then the rate case adjustment will be reduced as the funds recovered will be booked

to accumulated depreciation (but the net effect on rate base would be as Public Service has adjusted it in this case).

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Statement of Qualifications

Melissa L. Ostrom

PROFESSIONAL EXPERIENCE

XCEL ENERGY

DIRECTOR CAPITAL ASSET ACCOUNTING 2016-Present

- Establish corporate capitalization policies and the development, enhancement, and maintenance of the Corporate Continuing Property Record process for all of the plant assets of the Corporation.

- Manage capital investment cost recovery process, which includes the development of detailed actuarial analysis, regulatory filings with the various state and federal rate regulatory commissions, and expert testimony to support recovery levels in rate proceedings.

- Direct nuclear plant decommissioning funding process, which includes the development of detailed engineering cost studies combined with a complete financial and economic analysis to develop detailed regulatory filings, which establish the rate payer funding levels necessary to accumulate to the total future decommissioning cost requirement.

- Maximize corporate income tax deductions from the computation and support of accelerated income tax depreciation expenses and provide for the computation and support of deferred income taxes, which normalize the impact of these accelerated deductions for ratemaking and book accounting purposes.

- Maintain the plant asset related ratemaking forecast process, which supports the Company's rate filings for all retail and wholesale jurisdictions. This process provides the information which supports the vast majority of rate base (plant investment net of depreciation reserve and deferred taxes) as well as all capital investment related cost of service information (book depreciation, tax depreciation deductions, deferred taxes and deferred investment tax credits).

- Oversee capital asset reporting and information process necessary to disseminate capital asset information as required by various regulatory authorities (FERC, SEC, state commissions) as well as meeting all internal information requirements necessary to sustain efficient and effective business operations.

Melissa L. Ostrom

MANAGER CAPITAL ASSET ACCOUNTING	2013-2016
MANAGER, BUDGETING & FORECASTING FOR ENERGY SUPPLY	2012-2013
SENIOR ACCOUNTING ANALYST	2010-2012

DELOITTE & TOUCHE, LLP

AUDIT & ASSURANCE SENIOR ANALYST	2009-2010
AUDIT & ASSURANCE ANALYST	2007-2009

EDUCATION/PROFESSIONAL LICENSES

University of Wisconsin - B.A. Degree, Major-Accounting
University of Wisconsin – Master of Accountancy Degree
Certified Public Accountant, Inactive

BUSINESS/INDUSTRY ACTIVITIES:

American Gas Association Accounting Services Committee
Edison Electric Institute Property Accounting and Valuation Committee

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

RE: IN THE MATTER OF ADVICE LETTER NO. 912-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO IMPLEMENT A GENERAL RATE SCHEDULE ADJUSTMENT AND OTHER RATE CHANGES EFFECTIVE ON 30-DAYS NOTICE.	)	PROCEEDING NO. 17AL-____G

AFFIDAVIT OF MELISSA L. OSTROM
PUBLIC SERVICE COMPANY OF COLORADO

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

Dated at Minneapolis, Minnesota, this twenty third day of May 2017.

Melissa L. Ostrom
Director, Capital Asset Accounting

Subscribed and sworn to before me this 23RD day of MAY, 2017.

VIRGINIA J SAILOR
NOTARY PUBLIC - MINNESOTA
MY COMMISSION EXPIRES 01/31/2021

Notary Public

My Commission expires 1/31/21