2020 ANNUAL REPORT REVENUE DECOUPLING ADJUSTMENT PILOT

PROCEEDING NO. 16A-0546E

CONTENTS

INTRODUCTION AND BACKGROUND

Public Service Company of Colorado ("Public Service" or the "Company") submits to the Colorado Public Utilities Commission ("Commission") this annual compliance report regarding the Company's Revenue Decoupling Adjustment ("RDA") pilot program ("RDA Pilot") for 2020 ("2020 Annual Report" or "Report").[1] This Report is being provided pursuant to Decision No. R17-0337 in Proceeding No. 16A-0546E,[2] as modified on Exceptions by Decision No. C17-0557.[3] The RDA Pilot and associated RDA Pilot Tariff were implemented effective April 1, 2020 in compliance with Decision No. C20-0096 issued in Proceeding No. 19AL-0268E (the Company's most recent Phase I Electric Rate Case).[4]

The RDA Pilot is a four-year pilot for our Residential and Small Commercial customers effective April 1, 2020 through December 31, 2023. The RDA compares differences between a baseline of fixed cost recovery authorized by the Commission and actual fixed costs recovered in base rates. Over or under recovery of fixed costs is then translated into a surcharge or credit for Residential and Small Commercial customers, as applicable. The RDA Rate is subject to a symmetrical three percent soft cap of the forecasted base rate revenue over the applicable recovery period for the respective rate schedule (defined as a "Soft Cap"). The cap is considered "soft" because amounts exceeding the cap that are not recovered or refunded through the current year's RDA are deferred for up to two (2) years and may be passed through a future year's RDA during that two year period. There is no carrying charge on the RDA deferral. The RDA calculations are based on calendar years (except for the 2020 RDA Period) and the surcharges and credits are implemented the following June. A full copy of the currently effective RDA Pilot Tariff, updated to include the RDA Rates proposed to go into effect on June 1, 2021 through a separate Advice Letter filing made contemporaneously herewith, is included with this Report as Attachment A.

Pursuant to the RDA Decision, the Company is required to provide the following information in each required annual report:[5]

- Total over- or under-collection of allowed revenues by customer class or group;
- Total collection of prior deferred revenue;

[1] The initial implementation period under the RDA Pilot is April 1, 2020 through December 31, 2020 ("2020 RDA Period").
[2] Proceeding No. 16A-0546E will be referred to herein as the "RDA Proceeding."
[3] Unless otherwise noted, these Decisions are referred to, collectively, as the "RDA Decision."
[4] On March 17, 2020 the Company filed Advice No. 1821 – Electric in Proceeding No. 20AL-0106E, to place into effect the RDA Pilot Tariff. Through that Advice Letter, as amended, the RDA Pilot Tariff went into effect on April 1, 2020 by operation of law.
[5] RDA Decision, ¶137.

- Calculations of the RDA deferral amounts;
- The number of customer complaints;
- The amount of revenues stabilized and how the stabilization impacted Xcel's overall risk profile; and
- A comparison of how revenues under traditional regulation would have differed from those collected under partial and full decoupling.

The Company is also working with the parties to the RDA Proceeding regarding a customer outreach program explaining decoupling and how it will affect customers.[6]

This 2020 Annual Report is the first compliance report for the Company's RDA Pilot for our Residential and Small Commercial customers that began in April 2020. For the 2020 RDA Period, the RDA results in $51.1 million in fixed cost recovery above the Baseline[7] for the Residential Class. For Small Commercial customers, the RDA results in $3.5 million in fixed cost recovery below the Baseline.

In accordance with the RDA Tariff and application of the Soft Cap, $9.6 million is subject to refund in the first recovery period, which is the four months beginning June 1, 2021, for Residential[8] customers and $3.4 million is subject to surcharge for the Small Commercial customers, for the 12 months beginning June 1, 2021, until the RDA is next adjusted effective June 1, 2022. Calculation of the 2020 RDA totals, refund/surcharge amounts, and deferred amounts are addressed later in this Report. Pursuant to the RDA Pilot Tariff, amounts exceeding the Soft Cap that are not recovered or refunded through the current year's RDA are deferred for up to two years and may be passed through a future year's RDA for up to two years. Subsequent year refunds or surcharges are calculated each year based on respective fixed cost recovery, applicable prior period deferrals, and, in total, are subject to the Soft Cap.

[6] RDA Decision, ¶125.
[7] Per the RDA Pilot Tariff, with the initial implementation period of April 1, 2020 through December 31, 2020, the baseline is represented as follows: The months of April 2020 through August 2020 will be compared against the months of April 2019 through August 2019, and the months of September 2020 through December 2020 will be compared against the months of September 2018 through December 2018; ("Baseline").
[8] The RDA Rate for the RD-TDR Pilot is applied for 12 months beginning June 1, 2021.

ORGANIZATION OF REPORT

This Annual Report is organized as follows:

I. Revenue Decoupling Adjustment Overview
II. Calculation of the Revenue Decoupling Amounts
III. Customer Feedback
IV. Revenue Stabilization
V. Comparison of Traditional Regulation to Partial- and Full-Decoupling
VI. Customer Communication Plan

In addition, the following Attachments and Schedules are included:

Attachment	Description	Rate Schedule
Attachment A - Tariff		
A	RDA Pilot Tariff	As applicable
Attachment B - RDA Deferral Amounts by Rate Schedule		
B1	Full Decoupling	Schedule R
B2	Full Decoupling	Schedule RE-TOU (Trial)
B3	Full Decoupling	Schedule RD-TDR (Pilot)
B4	Full Decoupling	Schedule C
B5	Soft Cap & RDA Rate Calculation	All Schedules
Attachment C – RDA Deferral Amounts by Rate Schedule – Partial Decoupling		
C1	Partial Decoupling	Schedule R
C2	Partial Decoupling	Schedule C
Attachment D – Communication and Education Plan		
D	Communication and Education Plan	All Schedules

REVENUE DECOUPLING ADJUSTMENT OVERVIEW

The Company’s approved RDA is a four-year full revenue decoupling mechanism that includes sales impacts for all sources. The RDA focuses primarily on measuring Lost Fixed Cost Recovery (“LFCR”) associated with decreased sales. LFCR is defined as the change in sales times the base kilowatt or kilowatt-hour charge, inclusive of any General Rate Schedule Adjustments (“GRSA” or “GRSA-E”) for base rates, minus the component of the charge designated as recovery of Variable Operations and Maintenance (“VOM”) expenses. Once LFCR is determined, the Company subtracts Commission-approved Demand-Side Management (“DSM”) Disincentive Offset amounts for Residential and Small Commercial customers that are collected through DSM recovery mechanisms, if any, and adds over-recovery or under-recovery of RDA amounts from two years prior (also known as the RDA True-up). The RDA True-up consists of the difference between the revenues the RDA Rate was designed to recover, and the actual revenue dollars collected under the RDA Rate. In 2020 and 2021 the RDA True-up value will be $0. The Residential Class RDA then incorporates LFCR from the RE-TOU Trial that concluded on December 31, 2020 and the RD-TDR Pilot. LFCR from the RE-TOU Trial and RD-TDR Pilot measure the difference between what was collected under the Trial and Pilot versus what would have been collected under Schedule R tiered base rates.

The RDA Rate is applied to customer bills beginning on June 1st – and either adds-to or subtracts-from each customer’s energy charges during the recovery period. For Schedule R, Schedule RE-TOU and Schedule R-OO, the recovery period is the four summer months beginning June 1 of the year subsequent to the current year for which the RDA was being calculated (here, 2020). For Pilot Schedule RD-TDR and Schedule C, the recovery period is the twelve months beginning June 1.

The Company is required to file an advice letter with the Commission by May 1 of each year to adjust the RDA Rates applicable to the R, RE-TOU, R-OO, RD-TDR Pilot, and C Schedules to recover from or credit customers the difference in fixed cost recovery. The rate adjustment is subject to the Soft Cap.

The RDA Pilot terminates on December 31, 2023. As noted earlier, in this initial implementation period, the RDA is being calculated for 2020 RDA Period (April 1, 2020 - December 31, 2020). Subsequently, the RDA will be calculated for calendar years 2021, 2022, and 2023. The recovery periods will annually thereafter be June 1 through September 30 or May 31 (depending on the rate schedule), 2022, 2023, 2024, and 2025, subject to the RDA True-up that will occur through two additional recovery period years through May 31, 2027.

CALCULATION OF 2020 REVENUE DECOUPLING ADJUSTMENT AMOUNTS

RESIDENTIAL

In 2020, Residential sales volumes were higher than in the 2018/19 Baseline test year for a variety of reasons, including weather, new customer additions, and the effects of the COVID-19 pandemic, and more customers working from home. For Schedule R, Tier 1 sales were about 6.2 percent above the Baseline and Tier 2 sales were 22.5 percent higher than the Baseline. The following figures illustrate the difference in sales volumes between the Baseline and 2020 actuals. These figures are based on billing data, so some summer volumes are reflected in winter months as a result of cycle billing.

FIGURE 1

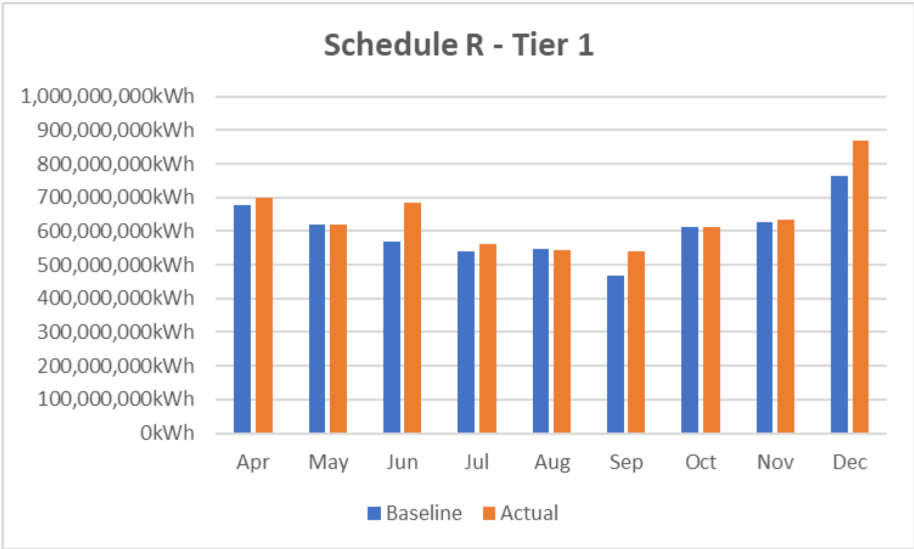
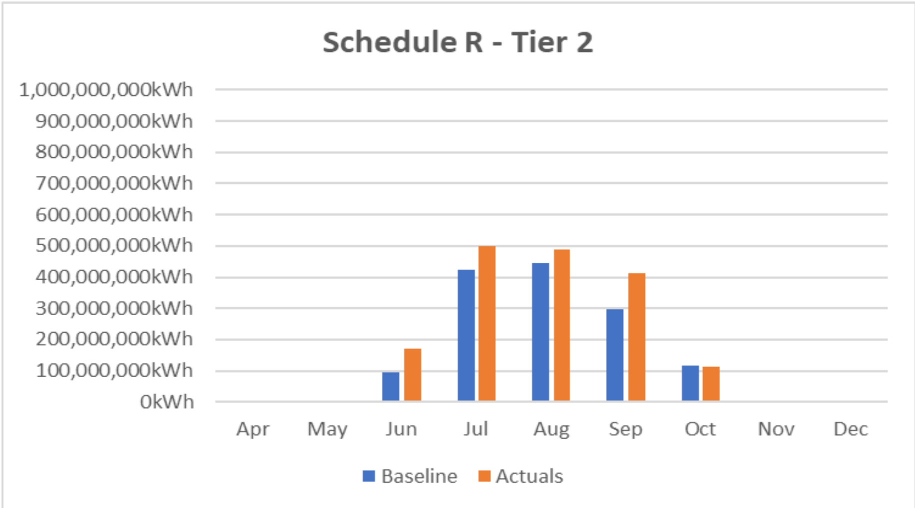


FIGURE 2



The Fixed Cost Rate ("FCR") applied to Schedule R is different for Tier 1 and Tier 2. The FCR also changed in mid-August when the Residential GRSA-E was changed. The following table presents the derivation of the FCR applied to 2020 Residential sales volumes.

TABLE 1

Residential Fixed Cost Rates

			Apr 1 - Aug 18		Aug 19 - Dec 31
Tier 1	Base Rate	$	0.05461	$	0.05461
	GRSA-E	$	0.00746	$	0.00789
	VOM	$	(0.00461)	$	(0.00461)
Tier 1 Fixed Cost Rate		**$**	**0.05746**	**$**	**0.05789**
			Apr 1 - Aug 18		**Aug 19 - Dec 31**
Tier 2	Base Rate	$	0.09902	$	0.09902
	GRSA-E	$	0.00746	$	0.00789
	VOM	$	(0.00461)	$	(0.00461)
Tier 2 Fixed Cost Rate		**$**	**0.10187**	**$**	**0.10230**

The next step in the derivation of the decoupling amounts is to apply the FCR to the Baseline and actual volumes for 2020. The following table illustrates how the 2020 volumes are split before and after August 19, 2020, when the GRSA-E was changed for the Residential customers.

TABLE 2

Baseline

	Volumes	FCR	Total
Tier 1 - Apr 1-Aug 18	2,726,918,541	$0.05746/kWh	$156,688,739
Tier 1 - Aug 19 - Dec 31	2,699,281,963	$0.05789/kWh	$156,261,433
Tier 2 - Apr 1-Aug 18	777,889,510	$0.10187/kWh	$79,243,604
Tier 2 - Aug 19 - Dec 31	599,495,735	$0.10230/kWh	$61,328,414
		Total	**$453,522,190**

Actuals

	Volumes	FCR	Total
Tier 1 - Apr 1-Aug 18	2,882,055,033	$0.05746/kWh	$165,602,882
Tier 1 - Aug 19 - Dec 31	2,881,700,255	$0.05789/kWh	$166,821,628
Tier 2 - Apr 1-Aug 18	955,027,926	$0.10187/kWh	$97,288,695
Tier 2 - Aug 19 - Dec 31	732,173,506	$0.10230/kWh	$74,901,350
		Total	**$504,614,554**

The final step in deriving the Residential decoupling amount for 2020 is to calculate the differences between Baseline and actual total FCR and then to add in the adjustments for the Medical Exemption rate, the RE-TOU Trial, the RD-TDR Pilot, and the DSM Disincentive Offset. The calculation of the Medical Exemption FCR followed the same methodology as Schedule R, but because there are only a few hundred customers utilizing the medical exemption to tiered rates, the total FCR amount is much smaller. For the RE-TOU Trial and RD-TDR Pilot, the Company conducted a customer level analysis for both rates to compare actual base rate revenue to what those customers' base rate revenues would have been under Schedule R. Base rate revenues for the RE-TOU Trial were within one percent of what they would have been under Schedule R. There was a larger deviation for the RD-TDR Pilot, with base rate revenues about five percent above what they would have been under Schedule R, resulting in a small additional refund to customers. Finally, in 2020 the DSM Disincentive Offset was eliminated for the Residential and Small Commercial classes. As a result, that line item in the calculation is zero. The total 2020 Residential decoupling amount is just over $51 million, as shown on the table below.

TABLE 3

2020 Residential Total Decoupling Amount

Baseline	$453,522,190
Actual	$504,614,554
Surcharge (Refund)	($51,092,364)
Medical Exemption	$22,400
RE-TOU Adjustment	$16,912
RD-TDR Adjustment	($37,389)
DSM Disincentive Offset	$0
Residential RDA Total	($51,090,441)

The collection of prior deferred revenue for 2020 was zero because the refund period beginning June 1, 2021 is the initial refund period. Attachments B1 to B3 to this Report show the 2020 RDA deferral calculations by class by month.

As previously discussed, the RDA is subject to a symmetrical three percent soft cap based on forecasted base rate revenue during the recovery period. Because Residential customers will be receiving an RDA refund, the rate will be applied to Tier 1 volumes during the summer season. This is reflected in the RDA Pilot Tariff, and is consistent with the Commission's RDA Decision, which adopted the Tucson method for applying RDA rates, intending to amplify the price differentials between Tier 1 and Tier 2 charges in the summer. The following table illustrates the forecasted average Residential bill during the summer season, and the derivation of the maximum refund rate that results in a base rate charge reduction of three percent.

TABLE 4

Customer Class	**Current Rates**	**RDA 3% Soft Cap**	**Monthly Average Summer**	**Monthly Current Bill**	**Monthly Proposed Bill**	**Monthly Difference $**	**Monthly Difference %**
Residential - Schedule R							
Service and Facility Charge	$ 5.47	$ 5.47		$ 5.47	$ 5.47	$ -	
Energy Charge - Tier 1	$ 0.05461 /kWh	$ 0.05461 /kWh	399 kWh	21.76	21.76	-	
Energy Charge - Tier 2	$ 0.09902 /kWh	$ 0.09902 /kWh	279 kWh	27.62	27.62	-	
Subtotal			677 kWh	$ 54.85	$ 54.85	$ -	0.00%
GRSA-E	$0.00876	$0.00876		5.93	5.93	-	
RDA	**$0.00000 /kWh**	**-$0.00458 /kWh**	**399 kWh**	**-**	**(1.83)**	**$ (1.83)**	
Base Rate Amount				$ 60.78	$ 58.96	$ (1.83)	**-3.00%**

The Schedule R RDA rate of ($0.00458)/kWh is forecasted to result in a total refund of $9,490,320 in the summer of 2021. The other Residential rate schedules (Schedules RE-TOU, R-OO, and Pilot RD-TDR) have similar RDA rates that are limited by the Soft Cap.

Attachment B5 to this Report presents the calculation of the 2020 RDA Soft Cap, resulting RDA Rate, bill impacts, and two year roll forward for each Residential rate schedule. The following table lists the RDA rates and forecasted total refund amounts for the upcoming recovery period.[9]

TABLE 5

Schedule	RDA Rate	Total RDA Revenues
R	($0.00458)/kWh	($9,490,320)
RE-TOU	($0.00641)/kWh	($46,672)
R-OO	($0.00272)/kWh	($106)
RD-TDR	($0.00298)/kWh	($41,877)
	Total	**($9,578,975)**

Because the 2020 Residential refund amount is limited by the Soft Cap, there will be a residual amount, reflected on the table below, that will be deferred for up to two years and may be passed through a future year's RDA.

TABLE 6

2020 Residential Decoupling Amount	($51,090,441)
2021 Residental RDA Refund	($9,578,975)
2 Year Roll Forward	($41,511,466)

[9] For Schedule R, Schedule RE-TOU and Schedule R-OO, the Recovery Period is the four months beginning June 1. For Pilot Schedule RD-TDR, the recovery period is the is the twelve months beginning June 1.

SMALL COMMERCIAL

Small Commercial revenue decoupling calculations are very similar to the Residential calculations but without the complications introduced by the Residential Pilot/Trial rates. In contrast to the Residential class, Small Commercial sales were below the Baseline at least partially due to the COVID-19 pandemic and its impact on the business community. Again, the following figures are based on billing data and reflect the volumes charged through the Company's billing cycles.

FIGURE 3

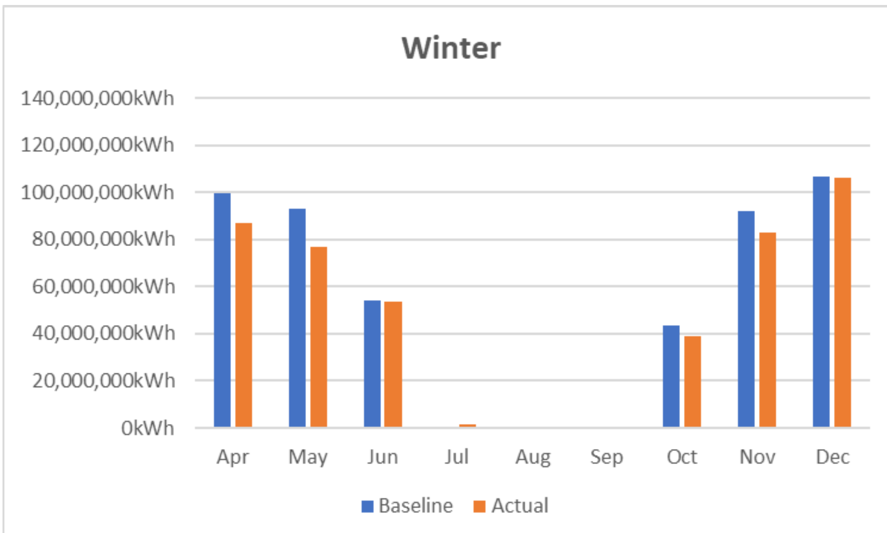
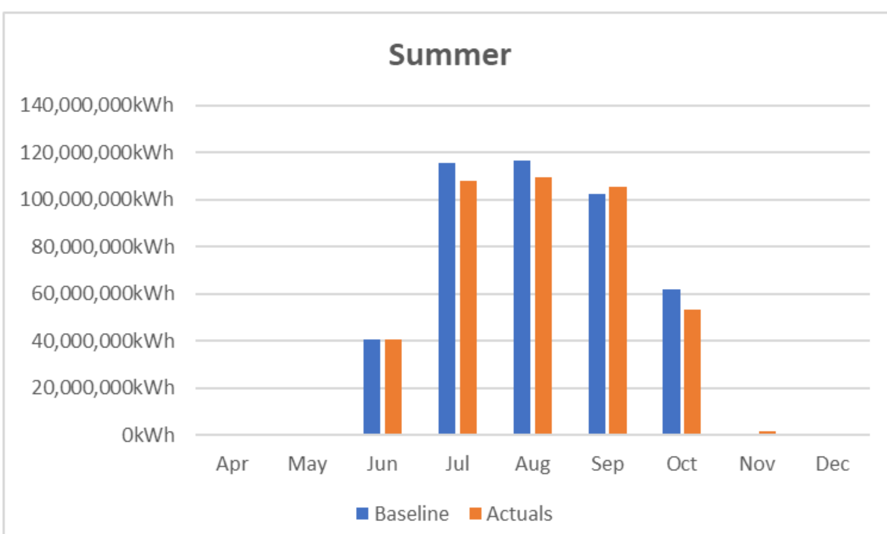


FIGURE 4



The FCR for the Small Commercial rate (Schedule C) is calculated using the summer and winter base rates plus applicable GRSA-E, which also changed on August 19, 2020, less the VOM component embedded in base rates.

TABLE 7

Small Commercial Fixed Cost Rates

		Apr 1 - Aug 18	Aug 19 - Dec 31
Winter	Base	$ 0.04256	$ 0.04256
	GRSA	$ 0.00723	$ 0.00763
	VOM	$ (0.00461)	$ (0.00461)
Winter Fixed Cost Rate		**$ 0.04518**	**$ 0.04558**
		Apr 1 - Aug 18	**Aug 19 - Dec 31**
Summer	Base	$ 0.08512	$ 0.08512
	GRSA	$ 0.00723	$ 0.00763
	VOM	$ (0.00461)	$ (0.00461)
Summer Fixed Cost Rate		**$ 0.08774**	**$ 0.08814**

The next step in the derivation of the decoupling amounts is to apply the FCR to the Baseline and actual volumes for 2020. The following table illustrates how the 2020 volumes are split before and after August 19, 2020, when the GRSA-E was changed. The following tables show that in 2020, Small Commercial fixed cost recovery was below the established Baseline.

TABLE 8

Small Commercial Baseline

	Volumes	FCR	Total
Winter - Apr 1-Aug 18	246,559,396	$0.04518/kWh	$11,139,553
Winter - Aug 19 - Dec 31	242,365,409	$0.04558/kWh	$11,047,015
Summer - Apr 1-Aug 18	223,470,353	$0.08774/kWh	$19,607,289
Summer - Aug 19 - Dec 31	212,814,873	$0.08814/kWh	$18,757,503
		Total	**$60,551,361**

Small Commercial Actuals

	Volumes	FCR	Total
Winter - Apr 1-Aug 18	219,599,440	$0.04518/kWh	$9,921,503
Winter - Aug 19 - Dec 31	228,102,823	$0.04558/kWh	$10,396,927
Summer - Apr 1-Aug 18	212,033,918	$0.08774/kWh	$18,603,856
Summer - Aug 19 - Dec 31	205,739,373	$0.08814/kWh	$18,133,868
		Total	**$57,056,154**

The final step in derivation of the Small Commercial decoupling amount for 2020 is to calculate the differences between Baseline and actual total FCR. There are no adjustments for pilot rates (as there were none) and there was no DSM disincentive offset associated with Small Commercial customers in 2020. The resulting 2020 Small Commercial decoupling total is approximately $3.5 million. Attachment B4 presents the 2020 Small Commercial RDA deferral calculations by month.

TABLE 9

2020 Small Commercial Total Decoupling Amount

Baseline	$60,551,361
Actual	$57,056,154
Surcharge (Refund)	$3,495,207
DSM Disincentive Offset	$0
Small Commercial RDA Total	$3,495,207

The Small Commercial RDA rate is also subject to a Soft Cap. Pursuant to the RDA Pilot Tariff, the RDA adjustment is applied to all kWh throughout the year. The following table illustrates the forecasted average monthly Small Commercial bill and the derivation of the maximum surcharge rate that results in a base rate charge increase of three percent.

TABLE 10

Customer Class	Current Rate	DRA 3% Soft Cap	Monthly Average Usage	Monthly Current Bill	Monthly Bill With RDA	Monthly Difference $	Monthly Difference %
Commercial - Schedule C							
Service and Facility Charge	$10.50	$10.50		$10.50	$10.50	$0.00	
Winter Energy Charge	$0.085120 /kWh	$0.085120 /kWh	606 kWh	$51.58	$51.58	$0.00	
Summer Energy Charge	$0.04256 /kWh	$0.04256 /kWh	309 kWh	$13.13	$13.13	$0.00	
Subtotal			915	$75.21	$75.21	$0.00	0.00%
GRSA-E	$0.00865	$0.00865	915 kWh	$7.91	$7.91	$0.00	
RDA	**$0.00000**	**$0.00273**	**915 kWh**	**$0.00**	**$2.50**	**$2.50**	
Base Rate Amount				$83.12	$85.62	$2.50	**3.00%**

The maximum RDA Small Commercial surcharge of $0.00273 per kWh results in forecasted total surcharge revenue of $3,404,695, which is slightly less that the calculated total decoupling amount of $3,495,207. As a result, there is a residual $90,511 that will be deferred for up to two years and may be passed through a future year's RDA. Attachment B5 presents the calculation of the 2020 RDA Soft Cap, resulting RDA Rate, bill impact, and two year roll forward for Schedule C.

CUSTOMER FEEDBACK

The Company has implemented a decoupling category in our customer complaint tracking process. There have been zero customer complaints or inquiries thus far related to decoupling for Residential and Small Commercial customers.

REVENUE STABILIZATION

The credit rating agencies generally have a favorable view of revenue decoupling mechanisms because they stabilize cash flows and revenues. However, the Company's Commission-approved decoupling mechanism is unique in that it is based on total revenue instead of average use per customer, which is the more common formulation. The Colorado version of decoupling effectively removes the incremental revenue associated with new customer growth. Because our service territory is experiencing customer growth, the existence of a decoupling mechanism that removes this incremental revenue may not be seen as favorably as other decoupling mechanisms.

COMPARISON OF TRADITIONAL REGULATION TO PARTIAL- AND FULL-DECOUPLING

The Company's RDA is a full decoupling mechanism that measures actual sales to a baseline – so it captures all differences in sales levels that occur for any reason, including the effects of weather. This compares to a partial decoupling mechanism, which excludes the effects of weather.

The table below shows a summary of revenue impacts under full decoupling versus partial decoupling scenarios for Residential (Schedule R) and Small Commercial (Schedule C). Schedules RE-TOU (Trial) and RD-TDR (Pilot), were not compared to a weather-normalized value due to the fact that their LFCR calculation is compared to what would have been charged under Schedule R tiered rates. Therefore, this comparison was not appropriate.

Total Over- or Under-Collection of Allowed Revenues by Customer Class
April 1, 2020 – December 31, 2020 Actual Sales vs Weather-Normalized

TABLE 11

LFCR	Residential	Small Commercial
Full Decoupling	$(51,069,964)	$ 3,495,207
Partial Decoupling	$(36,937,810)	$ 4,412,348
Difference	$ (14,132,155)	$ (917,141)

The Company provides the monthly calculations by rate schedule under the partial decoupling scenario in Attachments C1 and C2. As noted previously, our full decoupling results for Schedule R and Schedule C are provided in Attachments B1 and B4.

CUSTOMER EDUCATION

As mentioned earlier, in the RDA Proceeding, the Company agreed to work with parties to create a customer education program explaining decoupling and how it will affect customers. The Company has been coordinating with Parties from that proceeding regarding the Company's Decoupling Communications Plan included as Attachment D. In the meantime, the Company will request Commission approval to provide an alternative form of notice to its customers as part of its concurrent Advice Letter filing to change the RDA Rates.