Public Service Company of Colorado
Proceeding No. 14AL-0660E

Earnings Test Sharing Mechanism
Calculation Methodologies and Adjustments
for 2015 – 2017 Calendar Year Reports

RATE BASE

1. Rate Base will be calculated using year-end plant balances except for Cash Working Capital, the coal, oil and natural gas used for electric generation inventory balances.

2. Coal, oil and natural gas used for electric generation inventory will be calculated using the average of the 12 monthly average balances during the calendar year.

3. Materials and supplies inventory and other non-plant rate base items, such as customer deposits will be calculated using a thirteen-month average of month-end balances.

4. The Accumulated Deferred Income Tax (“ADIT”) balances are calculated using year-end balances and will incorporate the effects of bonus depreciation as applicable.

5. The ADIT reserve is a reduction to rate base, as opposed to a cost-free component in the capital structure. The ADIT balances will be functionalized. Adjustments to ADIT include eliminating amounts that are not included in the cost of service calculation and including adjustments related to plant adjustments.

6. The Company will calculate its earnings for purposes of the Earnings Test, using full tax normalization, allowing the Company to provide for deferred taxes on all book/tax timing differences, including any offset to ADIT for net operating losses (“NOL”) or NOL carry forward applicable to the Company’s electric department for income tax purposes.

7. Adjustments to rate base and specific assignment of plant to either CPUC or FERC jurisdictions will be made using the year-end plant balances.

8. An adjustment is made to eliminate from Construction Work in Progress and Plant in Service costs otherwise reflected in the CACJA rider.

9. Construction Work In Progress (“CWIP”) will be included in rate base with an Allowance for Funds Used During Construction (“AFUDC”) addition to earnings based on the year-end balance. The Company will annualize the AFUDC addition to earnings.

10. Pre-Funded AFUDC associated with the Comanche project and the transmission assets recovered through the Transmission Costs Adjustment (“TCA”) that is included the plant in-service balances, is included as a reduction to rate base.

11. Eliminate contractor retentions from CWIP.

12. Adjustments to any rate base item for changes after the end of the calendar year being reviewed are not included.

13. Intangible plant in service will be functionalized in order to properly allocate to the retail jurisdiction.

14. Common plant is allocated to the electric, gas, thermal energy and non-regulated departments based on an annual study of all common plant assets and assigning an allocation method for each type of asset. A copy of the common plant study will be included with the earnings test sharing mechanism report when the report is filed with the Commission.

15. An adjustment is made to eliminate from plant in service fifty percent of the investment in specific distribution substations serving Holy Cross Rural Electric Association (“HCE”).

16. An adjustment is made to eliminate from plant in service the amount of cost associated with the Pawnee turbine blade project that exceeded the Commission-ordered expenditure cap.

17. An adjustment is made to eliminate from plant in service the costs associated with the Ponnequinn wind assets.

18. Capital lease assets are not included in rate base.

19. The acquisition premium associated with the acquisition of the Calpine assets, is recorded in the following FERC Accounts and will be included in the Earnings Test calculation: Account 114 – Acquisition Adjustment, Account 115 – Accumulated Amortization of Acquisition Adjustment, and Account 407- Amortization of Acquisition Adjustment.

20. Southeast Water Rights recorded in Plant Held for Future Use ("PHFU") without amortization, and will continue to be included in rate base at a debt-only return.

21. The amounts recorded in PHFU associated with ash disposal site in Bennett, Colorado (known as "Metro Ash Disposal site") are excluded from rate base. In the event the Company sells this property in the future, any proceeds or losses incurred will be retained by the Company and excluded from the earning sharing calculation.

22. Regulatory assets will be included in rate base that are associated with the early plant retirements and cost of removal of Cameo units 1 and 2; Arapahoe units 3 and 4; and Cherokee 1 and 2. The amortization of these regulatory assets will continue to be based on the depreciation rates approved in Proceeding No. 11AL-947E.

23. An adjustment is made to eliminate a portion of the materials and supplies inventory balance allocated to construction-related projects.

24. Cash working capital components consist of fuel costs, purchased power costs, operation and maintenance expenses ("O&M expense"), both directly incurred by the Company and charges from Xcel Energy Services, Inc., paid time off, taxes other than income (payroll taxes, property taxes, sales and use taxes), federal and state income taxes and franchise fees and sales taxes paid. The cash working capital factors used shall be based on the lead-lag study presented in Proceeding No. 14AL-0660E in Attachment No. DAB-10.

25. The Legacy Pre-Paid Pension Asset balance will be incorporated into the Earnings Test as described in Section *I*.C.6(i) of the Settlement Agreement. The Legacy Pre-Paid Pension Asset and related accumulated deferred income tax balance that is included in rate base for purposes of the earnings test shall be equal to the unamortized balances of the Legacy Pre-Paid Pension Asset and the associated ADIT as of the end of the year to which the earnings test applies.

26. The New Pre-Paid Pension Asset balance, as defined in Section *I*.C.6(ii) of the Settlement Agreement shall be excluded from the Earnings Test calculation. Except to the extent the New Pre-Paid Pension Asset becomes reflected in the GRSA as described in Section *I*.H.2 of the Settlement Agreement.

27. Deductions from rate base include customer deposits, Qualifying Facilities ("QF") deposits (net of accrued interest), and customer advances for construction.

28. The unamortized balance of the regulatory liability associated with the gain on the sale of rail cars will not be included in rate base.

29. The retiree medical liability FAS 106 balance will be included in rate base.

<u>REVENUES</u>

30. Retail Base Rate Revenue does not include revenues billed through the following rider and fuel recovery mechanisms: ECA, PCCA, DSMCA, ISOC, CACJA, ESA, and RESA. Any costs or incentives associated with these recovery mechanisms are eliminated from the Earnings Test calculation and the supporting adjustment will be disclosed in the earnings test report. Unbilled revenues are not included in the Earnings Test calculation.

31. The revenues collected for the low-income program that are included in the Service & Facility monthly charge, will not be included in base rate revenue in the Earnings Test calculation. These revenues are tracked on the balance sheet along with the program expenditures.

32. No adjustments are included to account for customer additions or losses to the calendar year sales or base rate revenues.

33. Electric sales will be normalized for weather. The weather normalization method will be based on the methodology filed in Proceeding No. 11AL-947E. The Company will reflect a weather normalization adjustment equal to 50% of the value of weather normalized for demand and 100% of value weather normalized sales. A description of the weather normalization methodologies applied to sales and demand is provided in Exhibit 1 to Attachment E.

34. Adjustments will be made to Miscellaneous Revenue to eliminate the rate refunds, Quality of Service Plan bill credits, DSM incentives, Joint Operating Agreement revenue, wholesale related transmission and ancillary service revenues, unbilled transmission revenues, ISOC, deferred fuel revenues, Hybrid Renewable Energy Credits, and discounts given to certain contract customers under §40-3-104.3(2)(a).

35. The earnings test calculation will include a revenue credit equal to 50% of the oil and gas royalty revenues recorded as non-utility revenue. As included in the Settlement Agreement in Section *II.*C.3.

36. Residential late payment revenues will be excluded from the cost of service calculation. The Company will continue to donate the residential late payment revenues to Energy Outreach Colorado, and will exclude the donation from the Earnings Test calculation.

EXPENSES

37. Fuel expenses, purchased power energy expenses and purchased wheeling expenses recovered through the fuel and purchased power recovery mechanisms are eliminated from the determination of revenue requirements.

38. The earnings test calculation will eliminate amounts that are booked in calendar years 2015, 2016 or 2017 that are applicable to periods prior to 2012. These adjustments are known as out-of-period accounting entries.

39. An adjustment is made to eliminate O&M expenses otherwise reflected in the CACJA rider from the Earnings Test calculation.

40. The earnings test calculation will eliminate all O&M associated with incremental wholesale sales.

41. The earnings test calculation will eliminate the margins associated with the Company's trading activities that are returned to customers through the ECA mechanism.

42. Eliminate 50% of the expenses associated with the Company's trading activities as set forth in 2nd Revised Attachment No. DAB-3, Schedule 52 filed in Proceeding No. 14AL-0660E.

43. Interest on QF deposits is included in Production O&M.

44. The Calpine acquisition costs will be amortized over ten (10) years beginning in December 2010, and will be included in the Earnings Test calculation.

45. The Legacy Pre-Paid Pension Asset balance net of the associated ADIT will be amortized over a period of 15 years beginning on the date on which rates are effective as a result of a final Commission order in Proceeding No. 14AL-0660E, resulting in a net annual amortization expense equal to $9,275,830 which amount shall be included in the Earnings Test. Any amortization of the New Pre-Paid Pension Asset balance net of the ADIT which becomes reflected in the GRSA as described in Section *I.*H.2 of the Settlement Agreement shall also be included in the Earnings Test calculation.

46. Interest on customer deposits is included in Customer Operations expense.

47. Lease expense associated with the Dark Fiber assets is included in the Earnings Test calculation.

48. Demand Side Management ("DSM") costs are included in base rates at the level of $89,263,631 as set in Proceeding No. 09AL-299E.

49. Advertising expense related to specific energy conservation, safety, and customer programs and services are included in the Earnings Test calculation.

50. Advertising expense related to marketing, promotion, community relations, image and political ads are eliminated.

51. All lobbying expenses and donations are excluded from the Earnings Test calculation.

52. Executive long-term incentive pay, other than the portion attributable to environmental goals, is excluded in the Earnings Test calculation.

53. Discretionary pay is not included in the Earnings Test calculation.

54. Any amounts paid to employees for their Annual Incentive Pay ("AIP") above a 15% cap, as described in the Settlement Agreement in Section *II.*C.1, shall be excluded from the Earnings Test calculation.

55. Employee expenses that do not meet corporate guidelines will not be included in the Earnings Test calculation. The amounts and accounts used of these expenses will be provided in a report in the Earnings Test.

56. Regulatory commission expenses associated with the Commission fees as booked in the calendar year will be included in the Earnings Test calculation without adjustment.

57. For the purposes of the Earnings Test Calculation, rate case expenses of $1,700,000 will be amortized over a three year period (2015 through 2017) as referenced in the Settlement Agreement in Section *I.*G.

58. Aviation expenses associated with the corporate aircraft will be excluded from the Earnings Test calculation.

59. Cost allocation between regulated and non-regulated business activities is based on the Cost Allocation Manual and the Fully Distributed Cost Allocation Study filed in Proceeding No. 14AL-0660E. The Company will identify and provide the basis for any changes to cost allocation methodologies with the annual Earnings Test filing.

60. Depreciation expense is based on the currently effective depreciation rates provided in Exhibit 2 to Attachment E.

61. The Mountain Pine Beetle amortization expense as described pursuant to the Settlement Agreement in Section *I.*G shall be included in the Earnings Test calculation.

62. Adjustments to depreciation and amortization expense are made to correspond with adjustments made to plant and accumulated depreciation, or to exclude amounts not included in the Earnings Test calculation.

63. The retail property tax expense will be equal to $109,506,702 annually for the Earnings Test calculations for calendar years 2015, 2016 and 2017. In addition property taxes deferred in 2012, 2013 and 2014 will be amortized consistent with the provisions of the Settlement Agreement entered into in Proceeding No. 11AL-947E but will be included in the earnings test calculation in the amount of $27,827,992. Beginning January 1, 2015, the difference between the actual property tax expense incurred each year and $109,506,702 and between the actual property tax amortization and $27,827,992 will be deferred and accounted for as a regulatory asset or liability which asset or liability will be amortized over a period of three years beginning no earlier than January 1, 2018 and included in the cost of service filed in the 2017 rate case.

64. The retail electric qualified pension expense will be equal to $21,086,171 and the retail electric non-qualified pension expense will be equal to $883,950. Pension expenses above or below the above-stated amounts of qualified and non-qualified pension expense will be deferred beginning January 1, 2015 and accounted for as a regulatory asset or liability. Such deferred amounts will be excluded from the earnings test.

65. Adjustments to payroll taxes are made to correspond to labor adjustments made to O&M expense, e.g., trading O&M costs, aviation expenses, executive long-term incentive costs.

66. Current federal and state income taxes are calculated as follows: taxable income is derived by starting with revenue less expenses and then synchronized interest expense is deducted and taxable additions/deductions are added, then stated and federal income taxes are applied.

67. Adjustments to current and deferred income tax expense are made to correspond with adjustments made to plant or to exclude amounts not included in the Earnings Test calculation.

68. Income tax expenses are reduced for the Manufacturing Production Tax deduction.

69. Gain on the disposition of emission credits (SO_2 allowances) due to the Department of Energy auction is included as a credit to the Earnings Test calculation.

70. Gain on the sale of steel railcars, net of actual one-time 2006 costs, are amortized over ten (10) years beginning January 1, 2007. There will be no amortization associated with the gain on the sale of steel railcars included in the 2017 earnings test.

CAPITAL STRUCTURE

71. The capital structure ratio will be based on year-end actual balances, subject to a cap of 56% equity. Adjustments are made to the capital structure to eliminate the following items: 1) notes payable/receivable with subsidiaries; 2) investment in subsidiaries; 3) subsidiary retained earnings; 4) net non-utility plant; 5) other investments at cost; 6) other funds; and 7) other comprehensive income.

72. Cost of Debt is the actual cost as of the end of the year calculated using the par value method, and includes bond premiums or discounts, underwriting expenses, other expenses of issue, and amortization of the long-term credit facility.

73. The return on equity for measuring any sharing under the Earnings Test calculation is 9.83%. If the Company earns in excess of a 9.83%, earnings will be shared with customers using the following structure:

Earned Return on Equity	Sharing Percentages	
	Customers	Company
≤ 9.83%	0%	100%
> 9.83% ≤ 10.48%	50%	50%
> 10.48%	100%	0%

JURISDICTIONAL ALLOCATION FACTORS AND DIRECT ASSIGNMENTS

74. The allocation between the retail and wholesale jurisdictions is performed on a line-by-line basis for both rate base and earnings based on either a fundamental allocator or a derived allocator. The fundamental allocators are either demand or energy related. The demand fundamental allocation factors are calculated based on the calendar year 12 Coincident-Peak method.

75. Direct assignment of any costs of service item to either retail or the wholesale jurisdiction is identified, consistent with the Company's 2nd Revised Attachment No. DAB-3 in Proceeding No. 14AL-0660E.

76. Rent expense in FERC Account 923 will be analyzed to determine direct assignments to retail or allocated to retail based on labor.

77. The earnings test calculations will directly assign EEI dues and EPRI to retail jurisdiction.