

ELECTRIC RATES  
CLEAN-AIR CLEAN-JOBS ACT RIDER

APPLICABILITY

All rate schedules for electric service are subject to a Clean-Air Clean-Jobs Act Rider (CACJA Rider) designed to recover both the capital and operations and maintenance costs associated with Eligible Clean-Air Clean-Jobs Act Projects in accordance with the Settlement Agreement approved by the Commission in Decision No. C15-XXXX in Proceeding No. 14AL-0660E.

The CACJA Rider for all applicable rate schedules is as set forth on Sheet No. 112E. The CACJA Rider shall be calculated for each service schedule and for customers subscribing for Standby Service.

DEFINITIONS

Clean-Air Clean-Jobs Act (CACJA)  
House Bill HB10-1365 required Public Service to work with the Colorado Department of Public Health and Environment to submit a plan to the Public Utilities Commission to reduce nitrogen oxide emissions at Front Range coal plants by 70 to 80 percent by December 31, 2017. The plan, which was approved by the Commission in 2010, includes the retirement of five aging coal plants, their replacement with a new natural gas combined cycle plant, the addition of pollution control equipment at three other coal plants, and the conversion of one coal plant to a natural gas fuel source.

Eligible CACJA Projects

The approved projects included in this CACJA Rider are as follows:

1. Cherokee 5, 6, and 7 -- a natural gas combined cycle (CC) plant, including interconnection equipment.
2. Pawnee selective catalytic reduction and particulate scrubber.
3. Hayden 1 selective catalytic reduction.
4. Hayden 2 selective catalytic reduction.

Eligibility Window: To be eligible to be included in the Rider a cost must be incurred and associated with an investment that went into service between August 1, 2014 and December 31, 2017.

CACJA Revenue Requirement

The forecasted or actual costs associated with Eligible CACJA Projects, including the following:

1. Variable non-fuel Operation and Maintenance (O&M) expenses, including chemical and water expenses. The 2015 CACJA Base Costs will include the variable non-fuel O&M for the existing Cherokee 3 coal unit. After that unit is retired at the end of 2015, subsequent CACJA rider calculations will reflect the variable O&M savings from Cherokee 3's retirement.

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DEFINITIONS - Cont'd

CACJA Revenue Requirement - Cont'd

2. Depreciation expense, which will be calculated monthly.
3. State and federal current and deferred income tax expense. This income tax expense shall recognize the impacts of depreciation expense and any other tax deductions including the Domestic production Activities Tax Deduction - Section 199.
4. Return on net plant for projects that have been placed into service, including the accumulated allowance for funds used during construction (AFUDC) for capital expenditures incurred before January 1, 2015.
5. Return on construction work in progress (CWIP) for capital expenditures incurred on or after January 1, 2015.

CACJA Forecasted Revenue Requirements (FRR)

Forecast of the CACJA Revenue Requirement for the subsequent calendar year, based on the best available estimates of capital expenditures, O&M expenses, taxes, and the cost of capital.

CACJA Actual Revenue Requirements (ARR)

The actual CACJA Revenue Requirement for the previous calendar year.

CACJA Rider Revenues (RR)

The actual amount collected from customers in a given year through the CACJA Rider.

Allowance for Funds Used During Construction (AFUDC)

An account that tracks the accumulating costs to the Company to fund large construction projects. The account includes the financing cost of the capital invested in the construction project. These costs are tracked until the project is placed into service, at which point the accumulated AFUDC is included as part of the gross plant placed in service.

Construction Work In Progress (CWIP)

The capital expenditures the Company incurs for a project prior to its in-service date.

Return on CWIP

The Return on CWIP will be the Company's weighted average cost of capital (WACC) times the average monthly CWIP balance for the relevant period.

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DEFINITIONS - Cont'd

Weighted Average Cost of Capital (WACC)

The costs of debt and common equity weighted by the relative proportions of each in the Company's balance sheet. For the purpose of developing the FRR, a forecast of the debt cost and capital structure for the following calendar year will be used. For the purpose of developing both the FRR and ARR, the return on equity shall be the latest return on equity approved by the Commission for the Company's electric department.

CACJA Rider True-up

The over-recovery or under-recovery of CACJA costs from two years previous. In 2015 and 2016 the CACJA Rider True-up value shall be \$0. The CACJA Rider True-up consists of three components. The first is an adjustment that reconciles the difference between the forecasted revenue requirements (FRR) and the prudently incurred actual revenue requirements (ARR) from two years prior that are demonstrably tied to specific CACJA projects for which the Company has a CPCN. The second component accounts for the difference between the revenues the rider was designed to recover from customers and the actual dollars collected. The third component is an adjustment for interest expenses on the monthly over- or under-recovery from two years prior. For each month the interest component shall be the after-tax WACC applied to the monthly over- or under-collection from the mid-point of the month to the date on which the Company will begin crediting or collecting the over- or under-collection through the CACJA Rider True-up.

CLEAN AIR CLEAN JOBS ACT RIDER AMOUNT

The CACJA Rider Amount shall consist of the current year's Forecasted Revenue Requirement plus the CACJA Rider True-up.

The following formula is used to determine the total annual costs to be collected through the CACJA Rider.

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CLEAN AIR CLEAN JOBS ACT RIDER AMOUNT - Cont'd

$$\begin{aligned} \text{CACJA Rider} &= \text{Forecasted Rev.Reg.} + \text{True-up}_1 + \text{True-up}_2 + \text{True-up}_3 \\ &= \text{FRR}_y + (\text{ARR}_{y-2} - \text{FRR}_{y-2}) + (\text{FRR}_{y-2} - \text{RR}_{y-2}) + \text{Int}_{y-2} \end{aligned}$$

- FRR<sub>y</sub> = Forecasted CACJA revenue requirements in year 'y', the current year
- FRR<sub>y-2</sub> = Forecasted CACJA revenue requirements in year 'y-2', two years previous
- ARR<sub>y-2</sub> = Actual revenue requirements for CACAJA projects in year 'y-2', two years previous
- RR<sub>y-2</sub> = Actual revenues collected through the CACJA Rider in year 'y-2', two years previous
- Int<sub>y-2</sub> = Accumulated interest expense in year 'y-2', two years previous. Interest shall be calculated monthly by applying the Company's after-tax WACC applied to each months average over or under recovered balance.

The FRR used to set 2015 rates will be \$96,968,401.

The True-up component of the 2017 rates will be based on the ARR for the entire year of 2015.

RATE DESIGN

The costs of approved Clean-Air Clean-Job initiatives will be allocated to rate classes based on the production demand allocator approved in the Company's latest Phase II rate case. The allocation factors will be updated based on a projection of energy use by customer class for the forecast year. Rates shall be designed by dividing the costs allocated to each class by the projected class billing determinants. The rates for all years will be based on 12 months of projected class billing determinants. Residential Demand, Secondary General, Primary General, Transmission General, Special Contracts and Standby customers shall be billed the CACJA Rider on a demand basis; all other customers will be billed on an energy basis.

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INFORMATION TO BE FILED WITH THE PUBLIC UTILITIES COMMISSION

Each revision to the CACJA Rider will be accomplished by filing an advice letter no later than November 1<sup>st</sup> of each year to take effect on the next January 1 and will be accompanied by such supporting data and information as the Commission may require.

The Company shall submit an additional annual filing on or around April 15, 2016, April 15, 2017 and April 15, 2018. In this filing the Company will: discuss the types and levels of expenditures incurred for Eligible CACJA Projects during the previous calendar year; and compare the FRR and ARR for the previous calendar year and explain material deviations. At a minimum, the Company will include in its filing the materials and data consistent with the Settlement reached in Proceeding No. 14AL-0660E.

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RATE TABLE

<u>Rate Schedule</u>	<u>Applicable Charge</u>	<u>Monthly Rider Rate</u>
<u>Residential Service</u>		
R, RTOU, RPTR, RCPP	Energy Charge	\$0.00392/kWh
RD	Demand Charge	0.42/kW-Mo
<u>Small Commercial Service</u>		
C	Energy Charge	0.00387/kWh
NMTR	Energy Charge	0.00387/kWh
<u>Commercial &amp; Industrial General Service</u>		
SGL	Energy Charge	0.01605/kWh
SG, STOU, SPVTOU	Demand Charge	1.28/kW-Mo
PG, PTOU	Demand Charge	1.19/kW-Mo
TG, TTOU	Demand Charge	1.11/kW-Mo
<u>Special Contract Service</u>		
SCS-7	Production Demand Charge	1.19/kW-Mo
<u>Standby Service</u>		
SST	Gen & Trans Standby Capacity Reservation Fee	0.15/kW-Mo
	Usage Demand Charge	1.13/kW-Mo
PST	Gen & Trans Standby Capacity Reservation Fee	0.14/kW-Mo
	Usage Demand Charge	1.05/kW-Mo
TST	Gen & Trans Standby Capacity Reservation Fee	0.13/kW-Mo
	Usage Demand Charge	0.98/kW-Mo
<u>Lighting Service</u>		
RAL, CAL, PLL, MSL, ESL, SL, SSL, COL, SLU	Energy Charge	0.00192/kWh
TSL, MI	Energy Charge	0.00192/kWh