

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 22AL-0046G

IN THE MATTER OF ADVICE NO. 993 - GAS OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO PUC NO. 6-GAS TARIFF TO INCREASE JURISDICTIONAL BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL GAS RATE SCHEDULES, AND MAKE OTHER PROPOSED TARIFF CHANGES EFFECTIVE FEBRUARY 24, 2022.

**COMMISSION DECISION
ADDRESSING APPLICATIONS FOR REHEARING,
REARGUMENT, OR RECONSIDERATION OF
DECISION NO. C22-0642 AND AUTHORIZING FURTHER
ADJUSTMENTS TO BASE RATES**

Mailed Date: December 13, 2022

Adopted Date: December 7, 2022

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I. BY THE COMMISSION

A. Statement

1. Through Decision No. C22-0642 (Rate Case Decision), the Commission established new base rates for utility natural gas service provided by Public Service Company of Colorado (Public Service or Company).

2. Through this Decision, the Commission addresses the four applications for rehearing, reargument, or reconsideration of the Rate Case Decision (RRR Applications) filed on November 14, 2022 by Public Service, by Staff of the Colorado Public Utilities Commission (Staff), by the Colorado Office of the Utility Consumer Advocate (UCA), and jointly by Western Resources Advocates, Natural Resources Defense Council, and Southwest Energy Efficiency Project Conservation Advocates (Conservation Advocates).

3. Consistent with the discussion below, we either deny or grant, in part and deny, in part, the RRR Applications. We further direct Public Service to make a compliance tariff filing to implement further adjustments to base rates.

B. Procedural Background

4. On January 24, 2022, Public Service filed Advice Letter No. 993-Gas with supporting attachments and pre-filed testimony of 23 witnesses as a combined Phase I and Phase II rate proceeding.

5. The Rate Case Decision provides a full procedural background from the initial advice letter filing through the issuance of the Rate Case Decision on October 25, 2022.

6. On October 27, 2022, Public Service filed Advice Letter No. 1004-Gas in Proceeding No. 22AL-0466G with the compliance tariffs setting for the new base rates effective November 1, 2022, in accordance with the Rate Case Decision.

7. On November 14, 2022, Public Service, Staff, UCA, and Conservation Advocates filed their RRR Applications. Each party noted that they support many aspects of the Rate Case Decision, but each also sought material changes to certain findings and directives as discussed below.

C. Legal Standard

8. As acknowledged by the Commission in its Rate Case Decision, the setting of just and reasonable rates goes to the very essence of the Commission's constitutional and statutory authority and duty under public utilities law.¹ The Rate Case Decision more fully addresses the foundational principles that underly the Commission's ratemaking authority and determinations in this Proceeding,² underscoring the interrelated considerations necessary to make its final decisions. The Rate Case Decision stresses that the Commission must exercise reasoned judgment in setting rates,³ and that ratemaking is a legislative function⁴ and an inexact process affected by many factors.⁵ Accordingly, the Commission "may set rates based on the evidence as a whole" and "need not base its decision on specific empirical support in the form of a study or data."⁶

9. As summarized in the Rate Case Decision, under the just and reasonable standard, the Commission has the primary responsibility for balancing "the investors' interest in avoiding confiscation and the consumer's interest in prevention of exorbitant rates"⁷ and for setting rates that protect both: (1) the right of the public utility company and its investors to earn a return reasonably sufficient to maintain the utility's financial integrity; and (2) the right of consumers to pay a rate which accurately reflects the cost of service rendered.⁸ The utility's right to

¹ *Colorado-Ute Electric Association v. Pub. Utils. Comm'n*, 760 P.2d 627, 638 (Colo. 1988).

² Rate Case Decision, at ¶¶ 45-54.

³ See *Mountain States Tel. & Tel. Co. v. Pub. Utils. Comm'n*, 513 P.2d 721, 726 (Colo. 1973).

⁴ *City and County of Denver v Pub. Utils. Comm'n*, 226 P.2d 1105 (Colo. 1954).

⁵ *Pub. Utils. Comm'n. v. Northwest Water Corporation*, 551 P.2d 266 (Colo. 1963); see also *Colo. Office of Consumer Counsel v. Pub. Utils. Comm'n*, 752 P.2d 1049, 1058-59 (Colo. 1988); *Montrose v. Pub. Utils. Comm'n*, 629 P.2d 619, 623 (Colo. 1981); *Colorado Ute Elec. Ass'n*, 602 P.2d at 864; *Public Util. Comm'n. v. Northwest Water Corp.*, 451 P.2d 266 (Colo. 1969).

⁶ *Colorado Office of Consumer Counsel v. Pub. Utils. Comm'n*, 275 P.3d 656, 660 (Colo. 2012); see also *Colorado Municipal League v. Pub. Utils. Comm'n*, 473 P.2d 960, 971 (Colo. 1970).

⁷ *Colorado Municipal League v. Public Utilities Commission*, 687 P.2d 416, 418 (Colo. 1984).

⁸ *Public Service Company of Colorado v. Public Utilities Commission*, 644 P.2d 933, 939 (Colo. 1982).

earn a reasonable return incorporates the principle that the Commission-authorized rate-of-return is not a guaranteed return, but instead, is a return that the utility has a reasonable opportunity to realize.

10. In the context of ratemaking, the Colorado Supreme Court recently reiterated that “it is the result reached, not the method employed, which determines whether a rate is just and reasonable.”⁹

D. Establishment of Base Rates

11. In addition to setting forth the legal foundation for the Commission’s establishment of new base rates in this Proceeding, the Rate Case Decision explains in detail that the Commission establishes rates in consideration of the utility’s annual revenue requirements as calculated by over a Commission-selected test year. The revenue requirement is the total revenues sought by the utility to cover both its expenses and to have a fair or reasonable opportunity to earn a fair rate-of-return, and in return, to provide safe, reliable service to its customers.¹⁰ The revenue requirement is determined by examining the utility’s costs of providing service using a cost-of-service study (COSS).

12. The Rate Case Decision further explains that, due to the numerous and variable inputs and assumptions required to complete a COSS, to calculate billing determinants, and to establish base rates, the evidentiary record in a base rate proceeding can support a continuum of just and reasonable rates as final outcomes. Such a range is recognized by the foundational

⁹ *Glustrom v. Colorado Public Utilities Commission*, 280 P.3d 662, 669 (Colo. 2012).

¹⁰ See e.g., *Public Service Company of Colorado v. Pub. Utils. Comm’n.*, 644 P.2d at 939.

selection of the test year¹¹ as well as the “matching principle.”¹² However, for practical purposes—such as for customer billing—specific values for rates and charges within the reasonable range must be set forth on the utility’s tariff schedules. The results of a utility’s COSS are thus further allocated to each of the Company’s base rate customer classes (*e.g.*, Residential, Small Commercial, Firm Transportation) using another cost-of-service study, or the class-allocated cost-of-service study (CCOSS). The necessary precision required to establish the specific rates set forth on a utility’s base rate tariff sheets conceal the spread of alternative revenue outcomes that the Commission can support as just and reasonable with respect to the COSS and CCOSS inputs and assumptions as well as billing determinants within a given rate case evidentiary record.

13. In paragraph 66 of the Rate Case Decision, the Commission concludes that the findings, conclusions, and directives that address components of the underlying COSS and CCOSS only provide general guidance so that the Company may implement the rates within what we have deemed just and reasonable. The Commission also states that it is establishing just and reasonable rates, not adopting the components of the COSS or CCOSS.

14. As explained in the Rate Case Decision, Public Service proposed a base rate revenue increase of approximately \$202 million in its Rebuttal Testimony. At the technical conference conducted on October 7, 2022 (Technical Conference), Public Service demonstrated that the Commission’s decisions reduced the base rate revenue increase by approximately \$33.7 million. When adjusting these amounts to account for the roll-in of costs recovered through

¹¹ “Ultimately, the choice of test year is a matter of choosing regulatory policy; this choice is not fact-dependent.” Decision No. R13-1307, issued October 22, 2013, Proceeding No. 12AL-1268G at p. 49 (¶ 134).

¹² See Rate Case Decision, at ¶ 62 (citing Decision No. R19-1033, issued December 27, 2019, Proceeding No. 19AL-0075G at p. 32 (¶ 70)(internal citations omitted).

the Company's PSIA, the result of the Commission's oral deliberations would be a net increase in base rate revenue of \$64.2 million.

15. Whereas the base rate values on the tariff sheets Public Service filed with Advice Letter No. 993-Gas reflect a net increase of \$107.1 million, the base rate values presented at the Technical Conference correspond to the recalculated net increase of \$64.2 million. For residential customers, the total bill impact on annualized rates corresponding to the \$64.2 million increase in base rate revenues is 2.9 percent, or a monthly bill increase of approximately \$2.09. This compares to the \$4.16 monthly increase for residential customers shown in Advice Letter No. 993-Gas. For small commercial customers, the total bill impact on annualized rates from the updated cost of service studies presented at the Technical Conference would be 3.1 percent, or a monthly bill increase of approximately \$12.95. This compares to the \$19.09 monthly increase for small commercial customers shown in Advice Letter No. 993-Gas.

E. Commission Review of Rate Case Decision RRR Applications

16. In considering the RRR, we hold to the same principles as applied when establishing rates through the Rate Case Decision. Our evaluation of the various requests set forth in the RRR Applications is therefore made upon consideration of the record as a whole. Discrete decision points on numerous issues, in sum, amount to just and reasonable rates overall. Should any one material finding or conclusion change, we must reconsider whether the material revision effects the entirety of the case and make revisions accordingly.

II. BASE RATES

A. **Weighted Average Cost of Capital (WACC)**

17. Through the Rate Case Decision, the Commission established a reasonable range for the authorized return on equity (ROE) extending from 9.2 percent to 9.5 percent. The Commission also established a range for the equity ratio extending from 52 percent to 55 percent. Both the ROE and equity ratios ranges established by the Commission reflect the lack of precision and far greater range of positions presented by the Parties on this record. The Commission further determined that, consistent with these ranges for the authorized ROE and equity ratio, the weighted average cost of capital to be used in the COSS is set at 6.7 percent. The Commission concluded that a 6.7 percent WACC, in combination with the ranges for the ROE and the equity ratio, would allow Xcel Energy to satisfy financial metrics and preserve the Company's credit quality.

18. In its RRR Application, Public Service states that it has concerns about the Commission establishing a WACC without specified components and that is a reduction from the outcome approved in the Company's 2020 rate case "at a time when interest rates, Treasury rates, and inflation are all rising."¹³ Public Service specifically requests that the Commission reconsider the setting of the WACC at 6.7 percent given the range of equity ratios of 52 to 55 percent and an authorized ROE between 9.2 and 9.5 percent, and instead set the WACC at 6.76 percent, which the Company argues allows it "to manage to the full range of capital structure and ROE outcomes identified by the Commission."¹⁴

19. Public Service also asks that the Commission confirm or clarify its directive in deliberations to establish the quantity of short-term debt in the capital structure at 0.70 percent, as

¹³ Public Service RRR Application, pp. 5-6.

¹⁴ Public Service RRR Application, p. 5.

reflected in the Company's COSS presented at the Technical Conference. Public Service states that during deliberations, the Commission set a 0.70 percent proportion of short-term debt in the ratio of debt to equity, but Decision No. C22-0642 only discusses the quantity of equity.

20. We deny Public Service's request to modify the authorized WACC. The Rate Case Decision is clear as to the balance we struck in determining a number of issues in this Proceeding and we decline to disturb that balance. We further disagree with Public Service that it is necessary to set the WACC to accommodate the entire ranges established for the authorized ROE and equity ratio.

21. We confirm that the short-term debt ratio in the capital structure is 0.7 percent.

B. Valuation of Test Year Rate Base

22. In the Rate Case Decision, the Commission explained that, after evaluating the COSS provided in Rebuttal Testimony and at the Technical Conference, and the evidence presented in the case as a whole, a year-end valuation of rate base is appropriate in this Proceeding. Additionally, the Commission determined that the year-end valuation appropriately mitigates the regulatory lag inherent in the use of the historical test year (HTY), which the Commission had authorized.

23. In its RRR Application, UCA requests the Commission reconsider its decision adopting a year-end rate base, arguing that the record in this Proceeding does not support the use of a year-end rate base methodology. UCA states that the Commission has historically approved a 13-month average rate base but acknowledges that the Commission is not bound by *stare decisis*. UCA claims that: (1) the year-end rate base is inconsistent with the matching principle of utility regulation; (2) there is no evidence of extraordinary circumstances, such as earnings attrition, to

support the use of a year-end rate base; and (3) the use of a year-end rate base increases rates by about \$24 million. UCA voices concern that this decision will set a precedent for future rate cases.

24. We deny UCA's request. As with the WACC, we considered through our deliberations the balance of many components of this Proceeding and arrived at a final determination on just and reasonable rates. The Rate Case Decision provides sufficient discussion of our deliberations on this balance and the inter-relatedness of the various financial components at issue, including the appropriate valuation of the test year rate base.

C. Gas Gathering Assets

25. The Commission denied Staff and UCA requests to exclude some \$424,000 in costs associated with the Company's Gas Gathering, Gas Production, and Gas Products (Gas Gathering Assets) in the Rate Case Decision. The Commission stated that the disposition of these assets is being addressed in Proceeding No. 22A-0140G and concluded that addressing the same issues or making exclusions from the COSS in this Proceeding would be premature and misplaced. The Commission further stated that it expects that the outcomes from Proceeding No. 22A-0140G to be reflected in the costs reviewed in a future rate proceeding and noted that Public Service refutes Staff and UCA by declaring that the disputed assets are used and useful because they currently provide, or could provide, transportation service.

26. In its RRR Application, Staff again requests that the Commission order Public Service to remove the gas gathering assets from the rate base in the COSS, arguing that, given the Commission's recent approved of the sale of the disputed assets in Proceeding No. 22A-0140G, the Commission should remove the assets from rate base as a known and measurable out-of-period for the purpose of ratemaking in this proceeding.

27. In its RRR Application, UCA likewise requests that the Commission reverse, change, or modify its decisions with respect to the inclusion of the costs associated with the gas gathering systems. UCA argues that the Commission’s “four-sentence analysis in ¶ 115 of the Decision” is arbitrary and capricious, is a finding that is not supported by substantial evidence in the record, and results in a ratepayer cost that is unjust and unwarranted.¹⁵

28. UCA states that the regulatory concept of “used and useful” is a fundamental principle of ratemaking. In accordance with this principle, UCA argues that utility assets must be “used and useful in the provision of utility service to current ratepayers before those ratepayers can be asked to pay the costs associated with those assets.”¹⁶

29. UCA further argues that the Commission erred when it concluded that Proceeding No. 22A-0140G would resolve whether the gas gathering costs should be included in rate base in this rate case. Specifically, UCA contends the Commission erred when it assumed that it should not address the issue of the assets’ used and usefulness in this case because the issue would be resolved in the gas gathering case.

30. We again decline to modify the Rate Case Decision on this point and deny the requests of Staff and UCA in relation to the Gas Gathering Assets. While we do not wish to create any incentive to the Company to maintain assets that should be sold or otherwise be disposed of for the benefit of ratepayers, we conclude, given the complete record in this Proceeding, that the “used and useful” arguments put forward by Staff and UCA are too simplistic and fall short of any finding of imprudence to support an immediate disallowance. The inclusion of the assets in the

¹⁵ UCA RRR Application, p. 7.

¹⁶ UCA RRR Application, pp. 7-8.

HTY rate base was also one of the many factors we considered in establishing just and reasonable rates through the Rate Case Decision.

31. These types of cost recovery issues may increasingly be a source of dispute as we continue with efforts to reduce greenhouse gas emissions in the retail natural gas sector, as required by state law. As many intervenors argued within this Proceeding, ongoing capital investments could ultimately become stranded assets, including because tighter emission reduction requirements may be a significant concern in future proceedings. Given this reality, the Commission has expressed interest in better understanding risk allocation between ratepayers and the Company regarding potentially stranded assets. While we decline to revise our decision here, particularly given the timing of this case and Proceeding No. 22A-0140G, cost recovery issue will continue to come before us in future proceedings. Going forward, to develop an approach for addressing these potential stranded asset concerns, we expect future filings to address comprehensively ratemaking and performance incentive options regarding treatment of cost recovery for assets that have been retired or sold with significant undepreciated balances.

D. Rate Case Expenses

32. As part of its consideration of the evidence as of whole in this Proceeding and, consistent with its determination of an appropriate WACC, the Commission authorized recovery of rate case expenses to not exceed \$2.0 million, amortized over three years, in the Rate Case Decision. The Commission also encouraged Public Service to better manage its rate case expenses, as advocated by Staff and UCA.

33. In its RRR Application, Public Service requests reconsideration of the limit of \$2.0 million for rate case expense recovery, arguing that the Company estimated \$2.2 million for rate case expenses in its initial case and contending it will be unable to recover its full costs with

the \$2.0 million limit. The Company acknowledges that § 40-3-101(1), C.R.S. allows the Commission to determine the reasonableness of rate case expenses and to disallow expenses it finds imprudent, but the Company also contends that the Commission made no findings as to specific expenses that were imprudently incurred. Addressing the Commission's discussion that the Company better manage its rate case expenses, Public Service contends that the three-year amortization period with no return is sufficient direction to the Company to manage rate case expenses.

34. Public Service states that it used \$2.0 million for rate case expenses to set rates in the technical conference model filed by the Company on October 6, 2022 and presented at the Technical Conference and requests authorization to employ a tracker so that actual expenses in this case to be addressed in the next gas rate case.

35. UCA also addressed rate case expenses in its RRR Application, but contrary to Public Service, UCA requests that the Commission revise the \$2.0 million amount downward. UCA contends that Public Service failed to satisfy its burden of proof regarding rate case expenses and that the Commission's Decision provides no findings of fact to support its allowance of \$2.0 million. UCA states that the majority of Public Service rate case expenses are for attorneys' fees, which, based on the information in the record, could not be examined for reasonableness because the invoices submitted contain only a description of activities and total cost for each activity. UCA states that the Commission erred in awarding attorneys' fees based on this evidence. Additionally, UCA contends that the Company provided no evidence supporting rate case expenses incurred after May 2022.

36. UCA also asserts that the Commission's decision denying WACC on the unamortized rate case expenses is insufficient to encourage the Company to reduce expenses,

because the Commission has historically denied WACC earnings on these balances and doing so has not resulted in slower rate case expense growth.

37. We deny the requests of both Public Service and UCA. The new base rates we establish in this Proceeding, by the Rate Case Decision and the rate increase in this Decision as discussed below, result in rates set at levels adequate for Public Service to recover its prudently-incurred rate case expenses and to earn a reasonable return based on the whole of the record.¹⁷ A tracker for additional rate case expenses is thus unnecessary.

E. Failed Meter Program

38. Through the Rate Case Decision, the Commission approved the inclusion of the costs associated with the Failed Meter Program in the COSS but expressed concern about the cost of the large backlog of replacements and that the program has not been reviewed since its approval in 2008. The Commission directed Public Service to confer with Staff and UCA on a review and potential update of the Failed Meter Program and on a process for future meter replacements. Public Service was also directed to file, within six months, an application for the continuation of the Failed Meter Program.

39. Staff requests clarification of the Commission's decision as to the amount authorized for recovery and the filing on the failed meters. If the Decision was intended to approve replacement, Staff requests reconsideration in its RRR Application. Staff states that it does not support replacement of 280,000 meters for next eight years but nonetheless supports recovery of costs incurred in the approved HTY. Staff also requests clarification as to the Commission's directive requiring Public Service to file an application for the currently approved Meter Sampling

¹⁷ See Rate Case Decision, at ¶¶ 166-174.

program¹⁸ or the continuation of the failed meter lots of exchange which the Company began in 2021.

40. We clarify that Public Service is authorized to recover costs for Failed Meter Program consistent with the authorized HTY ended December 31, 2021, by virtue of the inclusion of such costs in the COSS. We again direct the Company to confer with Staff and UCA on the Meter Sampling and process for Failed Meter Program and make the appropriate filing in accordance with the Rate Case Decision. We reiterate that Public Service is directed to file an application for the continuation of the Failed Meter Program within six months of the effective date of the Rate Case Decision.

F. Recovery of Manufactured Gas Plant (MGP) Costs

41. In the Rate Case Decision, the Commission granted Public Service's request to amortize the deferred manufactured gas plant (MGP) costs over 18 months and earn a WACC return.

42. Public Service explains in its RRR Application that as part of the \$64.2 million overall calculation of the COSS revenue requirement presented at the Technical Conference, that version of the COSS reflected the amortization of the deferred MGP costs over 18 months but with no return. Public Service asks whether it is required to update the COSS presented at the Technical Conference to account for the allowances of a return on the MGP costs. The Company states that the impact of including the deferred MGP costs in rate base with a WACC return is an increase in the revenue requirement of \$473,000 compared to the COSS presented at the Technical Conference.

¹⁸ Proceeding No.08A-280G, Application for PSCo – Gas Selective Meter Sampling Program, filed July 1, 2008.

43. We acknowledge that the Company erred in not including a WACC return in the COSS presented at the Technical Conference. We address this oversight by authorizing Public Service to further adjust base rates, as discussed below.

G. Long-Term Incentive

44. The Commission denied Public Service's request for \$566,000 for Time-Based Long-Term Incentive (LTI) and \$311,000 for environmental LTI compensation, agreeing with Staff's recommendation in the Rate Case Decision. Staff contended that no other Xcel Energy jurisdiction allows recovery of LTI costs and that the Commission has previously denied Environmental LTI. Additionally, Staff asserted that no evidence was provided to show that LTI improves employee performance or benefits ratepayers.

45. In its RRR Application, Public Service requests the Commission reconsider its denial of LTI expense, arguing that the Commission's rationale for disallowance is flawed. Public Service claims that by denying LTI, the Commission disallows part of the Company's market-based compensation and asserts that no evidence was presented to show that the Company's overall compensation levels are unreasonable. Public Service argues that the Commission is not bound by its own decisions nor by the decisions of other Xcel Energy jurisdictions.

46. Public Service also refutes Staff's argument to deny LTI because the Commission denied Environmental LTI in a previous decision. Public Service characterizes as arbitrary and capricious the reliance on prior decisions for one part of LTI but ignoring precedent for another part of LTI.

47. Public Service also objects to Staff's conclusion that LTI does not improve employee performance or benefit ratepayers, stating that it should not have to show that its compensation levels create "some extraordinary benefit."¹⁹ The Company argues that if it moved all of its compensation to base pay, there could be no argument that any of it should be disallowed.

48. We deny Public Service's request. We again find that Public Service has not supported its proposal to include LTI expenses in the COSS consistent with positions of the intervening parties, especially with regard to Environmental LTI, which does not appear to be tied in any way to Colorado's statutes and environmental goals.

H. Tracker Baselines

49. Public Service requests clarification of the baselines for the trackers approved in Rate Case Decision, stating that the following values were used in the COSS presented at the Technical Conference:

Damage Prevention	\$23,384,995
Qualified Pension Expense	\$4,343,836
Non-Qualified Pension Expense	\$228,680
Property Tax	\$62,784,917
Commission Administration Fees	\$3,797,021

50. We confirm that the baseline amounts as presented by Public Service in its RRR Application are the authorized baseline values.

I. Rates, Terms, and Conditions Approved

51. Staff requests in its RRR Application that Commission order Public Service to specifically identify any such rates, terms, and conditions for service that were approved by

¹⁹ Public Service RRR Application, pp. 15-16.

Paragraph 390 in the Rate Case Decision.²⁰ Staff states that Public Service has superior knowledge of such matters and that, in the absence of ordering Public Service to do this, Staff and other intervenors are left to do a lengthy comparison between Public Service's initial advice letter and the compliance tariffs that it filed, and it is not always possible to identify utility recommendations in testimony.

52. We agree with Staff that an additional filing where Public Service identifies the rates, terms, and conditions for service that were approved by paragraph 390 of the Rate Case Decision would be useful as part of the compliance tariff process to conclude this Proceeding. We therefore direct Public Service to confer with Staff on the form and contents of such a filing and then to submit the filing in this Proceeding. As part of that conferral, Public Service and Staff shall also discuss the necessary process for compliance tariff filings that are submitted upon the conclusion of rate proceedings such as this case. That process should be described in the filing submitted by the Company to identify the approved rates, terms, and conditions as suggested by Staff.

J. Further Adjustment to Base Rates

53. Advice Letter No. 1004-Gas that Public Service filed on October 27, 2022, in Proceeding No. 22AL-0466G to implement the new base in accordance with the Rate Case Decision included Sheet No. 48 that sets forth a General Rate Schedule Adjustment (GRSA). The GRSA adjusts by a percentage amount the charges for gas service under the Company's base rate schedules.

²⁰ Paragraph 390 of the Rate Case Decision states: "The rates, terms, and conditions for service not specifically discussed in this Decision are just and reasonable and are approved as well."

54. In light of the discussion above regarding the requests made by the parties in their RRR Applications, we authorize Public Service to modify the GRSA set forth on Sheet No. 48 to cause base rates to continue to be adjusted by the percentage listed on Sheet No. 48 for effect November 1, 2022 as well as to be further adjusted by an incremental percentage to cause the base rates established pursuant to the Rate Case Decision to reach a collection target of \$64.5 million instead of the \$64.2 million level approved in our prior decision and as generally presented at the Technical Conference.²¹ A collection target adjusted to \$64.5 million permits reasonable recovery balancing our considerations of the record overall, including the RRR requests and recognition of the Company's oversight in calculation of the MGP. The modified GRSA shall be included in the compliance tariff filing authorized by this Decision.

III. DEPRECIATION

55. At paragraph 163 of the Rate Case Decision, the Commission directed Public Service to recalculate its depreciation expense for the HTY using the Equal Life Group (ELG) approach. The Commission emphasized that a move to using the ELG approach for setting depreciation rates will cause a \$15.8 million increase in revenue requirements based on the HTY.

56. In its RRR Application, Staff asks the Commission to clarify how it wants Public Service to calculate depreciation expense in future rate cases. Because the Commission ordered Public Service to use the ELG approach to calculate depreciation expense in this rate case, Staff suggests the Commission should order Public Service to use the ELG approach to calculate depreciation expense in its next rate case as well. Staff states that this will create consistency and be aligned with the gradualism the Commission seeks to foster. Additionally, Staff suggests the

²¹ Commissioner John Gavan disagrees with the decision to permit Public Service to further modify base rates.

Commission should order Public Service to use the ELG approach in its internal accounting to achieve the matching principle.

57. In its RRR Application, Conservation Advocates ask the Commission to direct Public Service to complete a new depreciation study to be submitted after the conclusion of Public Service's first Clean Heat Plan (CHP) proceeding.²² Conservation Advocates argue that the "post-Clean Heat systemwide depreciation study" should consider the near- and long-term trajectory of the gas sector, Colorado's emission reduction goals under S.B. 21-264 and H.B. 19-1261, state and federal policies like beneficial electrification plan filings and the Inflation Reduction Act, which will all increase the uptake in electric appliances, and new local and state building codes that incentivize all-electric construction."²³

58. Conservation Advocates further state that, because Public Service estimates six months to fully complete a new depreciation study, it is vital that the Company be prepared to initiate and complete the study as soon as possible after a Commission decision is issued on the Company's inaugural CHP. Conservation Advocates also note that both the record in this Proceeding and the Rate Case Decision highlight an interest in understanding how the net salvage values of gas system assets are impacted by changes in pace of investment in the system and the retirement of assets, as well as the interrelationship with shortened useful lives.

59. We are persuaded by Conservation Advocates regarding the merits of a new depreciation study that addresses the factors identified in its RRR Application. We therefore direct Public Service to file for approval a new depreciation study no later than six months after the conclusion of the Company's first CHP proceeding.

²² § 40-3.2-108(4)(a), C.R.S.

²³ Conservation Advocates RRR Application, p. 3.

60. While we anticipate the Company's Clean Heat Plan filing in mid-2023 pursuant to the August 1, 2023, deadline established by statute,²⁴ we do not know when the Company will file its next gas rate case. This complicates the ruling on Staff's request to direct Public Service to apply the ELG method for depreciation in the Company's next gas rate case. As explained in the Rate Case Decision and as suggested by our deliberations and our questions at the evidentiary hearing, we support a move by Public Service to more accelerated depreciation of its gas infrastructure investments as compared to what was proposed by Public Service in this rate case. Our main interest is in the depreciation study contemplated in Conservation Advocates RRR Application, and we therefore decline to require Public Service to use the ELG method for its next gas rate case. We instead direct the Company more generally to employ an appropriate methodology, which could be the ELG method, in its next gas rate case filing that is in line with the move toward more accelerated depreciation should the next gas rate case be filed before the post-CHP proceeding study is available.

IV. REVENUE DECOUPLING

61. In its Advice Letter No. 993-Gas filing, Public Service proposed a Revenue Decoupling Adjustment (RDA) for its Residential (RG) and Small Commercial (CSG) gas customers. Public Service made the request pursuant to House Bill (HB) 21-1238, as codified at § 40-3.2-103(5)(b)(I), C.R.S., that states:

Upon petition by a regulated gas utility, the commission shall remove disincentives to the implementation of effective gas DSM programs through the adoption of a rate adjustment mechanism that ensures that the revenue per customer approved by the commission in a general rate case proceeding is recovered by the gas utility without regard to the quantity of natural gas actually sold by the gas utility after the date the rate took effect. The commission shall separately calculate, for the rate class or classes to which a rate adjustment mechanism applies, the regulatory

²⁴ § 40-3.2-108(4)(a), C.R.S.

disincentives removed through that mechanism and collected or refunded by the gas utility through a tariff rider.

62. In the Rate Case Decision, the Commission authorized Public Service to put into effect an RDA as modified to address revenue impacts solely attributed to DSM implementation. The Rate Case Decision ordered that the RDA should not be weather normalized and should not include a “k-factor,” as proposed by Conservation Advocates.²⁵ The Commission concluded that approval of the RDA, as modified, was consistent with the proper implementation of HB 21-1238. Additionally, the Commission found that Public Service is ineligible to recover demand-side management related acknowledgement of lost revenues (DSM-ALR) upon implementation of an RDA, consistent with the recommendations of Staff and Conservation Advocates.

63. In its RRR Application, Public Service argues that the Commission’s modification to the Company’s proposed RDA is based on a flawed legal analysis. Public Service asks the Commission either to approve the Company’s proposed RDA or “forgo decoupling altogether because the existing DSM ALR effectively removes disincentives associated with DSM programs.”²⁶ Public Service states that either of those approaches “is preferable to the path outlined in the [Rate Case] Decision.”²⁷

64. More specifically, if the Commission intends to approve a decoupling mechanism that is strictly focused on DSM, Public Service recommends in its RRR Application that the current DSM-ALR be retained and the new RDA compliance tariff implemented on November 1, 2022 be canceled.²⁸ Public Service further states that in the tariff sheets filed to implement the modified

²⁵ Rate Case Decision, pp. 76-77.

²⁶ Public Service RRR Application, p. 7.

²⁷ Public Service RRR Application, p. 7.

²⁸ Public Service RRR Application, p. 8.

RDA pursuant to Decision No. C22-0642 effective November 1, 2022, the RDA tariff is the mathematical replication of the DSM-ALR. Public Service notes that several aspects of the DSM-ALR obviate features of the modified RDA; however, unlike the modified RDA set by the Commission, the DSM-ALR is uncapped.

65. Public Service also requests that the Commission modify the language in Decision No. C22-0642 to specify that the RDA account for the revenue impacts attributed to DSM implementation and beneficial electrification. Public Service states that if the Commission is going to limit decoupling “to the issues addressed in HB 21-1238, it should at least clarify that the mechanism accounts for revenue impacts attributed to DSM implementation and beneficial electrification.”²⁹

66. In its RRR Application, Conservation Advocates ask the Commission to approve “full decoupling” as proposed by Public Service but also adopt the “k-factor adjustment” as proposed in Conservation Advocates’ Answer Testimony. Conservation Advocates argue that under the RDA approved by the Rate Case Decision, the Company will continue to collect more revenues if it can increase sales, which runs counter to the throughput reductions that will be required to achieve greenhouse gas emission reduction targets. Conservation Advocates state that the Company’s proposed RDA instead attempted to address significant declines in gas throughput. Furthermore, the k-factor advanced by Conservation Advocates is intended to remove the financial incentive to Public Service to add new customers and to avoid the loss of existing customers between rate cases. Accordingly, Conservation Advocates argue that the k-factor adjustment would better align the Company’s proposed RDA with Colorado’s building electrification and decarbonization goals.

²⁹ Public Service RRR Application, p. 9.

67. We do not find the Company's RRR Application persuasive and therefore decline to readdress our legal analysis set forth in the Rate Case Decision. We further find it unnecessary to amplify the Rate Case Decision by adopting language that separately identifies the effects of beneficial electrification to be addressed by the approved RDA, when the definition of "Demand-side management programs" under Colorado statute explicitly includes beneficial electrification.³⁰ We further reiterate our reluctance to approve the RDA given that the design of revenue decoupling proposed by the Company may cause Public Service to focus its financial growth on maintaining and adding customers, which may be fundamentally incompatible with Colorado's policy direction for decarbonizing the retail natural gas sector and maintaining affordable rates. We therefore permit Public Service to withdraw the tariff sheets implementing the RDA approved by the Rate Case Decision and as requested by Public Service, maintain the DSM-ALR in place on October 31, 2022. This can be accomplished through the advice letter compliance tariff filing required by this Decision.

68. We also grant Public Service's request to retain use of the DSM-ALR conditioned on the withdrawal of the RDA tariff sheets. We note, however, that the continued implementation of the DSM-ALR is under review in Proceeding No. 22A-0309EG and that the DSM-ALR may also be potentially altered by the modifications to the Commission's Rules Regulating Gas Utilities, 4 *Code of Colorado Regulations* (CCR) 723-4, in Proceeding No. 21R-0449G (Gas Rulemaking).

³⁰ § 40-1-102(6)(d), C.R.S.

V. LINE EXTENSION POLICY**A. Off-Site Credits**

69. In the Rate Case Decision, the Commission required Public Service to cease the payment of the off-site distribution main extension credit, an up-front credit a new customer receives that reduces the cost of an off-site main extension, effective November 1, 2022. The Commission stated that it was persuaded by Staff's arguments set forth in Answer Testimony that the credit serves as an unsupported subsidy to new customers and builders.

70. In its RRR Application, Public Service acknowledges that the Commission relied on Staff's Answer Testimony arguments to eliminate the off-site credits but argues that Staff's position was more nuanced than advocacy for a total elimination of off-site distribution credits. Public Service states that Staff recommended that the Company return to the "open extension" policy that was replaced with the off-site credit approach in Proceeding No. 18AL-0862G.

71. Public Service seeks clarification that some mechanism (either the off-site distribution credit or the open extension policy) must be in place to address excess capacity that can be utilized by future customers. Public Service argues that retaining the off-site distribution credit is the superior approach, because it was the result of significant stakeholder input and recent Commission proceedings, and that the approach is clearer, more transparent, and easier to administer. The Company further argues that the move to the credit from an open extension policy was a change the General Assembly expressly wanted.

72. Public Service also requests, if the Commission does not authorize continuation of the off-site distribution credit, that the change in the credit become effective with applications dated on or after November 1, 2023, not for applications dated on or after November 1, 2022, in

the interest of promoting transition and gradualism for those who have previously relied on the availability of the credit.

73. We clarify that the Rate Case Decision terminates the implementation of the off-site credit without a replacement mechanism given the inconclusive record evidence about the costs and benefits of new customer growth. The need for any such credit will be determined separately as part of Public Service's implementation of line extension policies in accordance with the modified Gas Rules adopted in the Gas Rulemaking. In order to implement change on a gradual basis and with plenty of advance notice, we are persuaded, to modify the Rate Case Decision to delay the termination of the credit to November 1, 2023, unless it is terminated at an earlier date pursuant to a separate Commission decision rendered in another proceeding. Public Service shall accomplish this directive by restoring the credit in the compliance tariff authorized by this Decision and, as necessary, terminating the credit pursuant to the 2023 compliance tariff filing explained and required by the Rate Case Decision.

B. Standardized Cost Updates

74. In the Rate Case Decision, the Commission required Public Service to update the standardized construction costs contained in the Company's gas tariff reflect current costs. The Commission found that while the standardized construction costs add certainty and administrative efficiency to the benefit of builders and to the Company, they place the burden of increased construction costs on existing ratepayers, rather than on new customers.

75. In its RRR Application, Public Service requests that the Commission modify the Rate Case Decision so that updates to the Company's tariff sheets setting forth standardized construction costs be made in future Phase II gas rate case proceedings instead of each year. The

Company argues that this would better align with oral Commission deliberations in the Gas Rulemaking, wherein the Commission does not appear to intend to require annual updates.

76. We grant Public Service’s request, in part. Updates to line extension costs shall not be required annually. Instead, updates shall be made with each base rate proceeding and not only in Phase II proceedings. This approach aligns with the rules adopted by Decision No. C22-0760 issued in the Gas Rulemaking on December 1, 2022 and considers that Public Service is not obligated to make Phase II rate case filings with the same frequency as it tends to file Phase I base rate cases.

VI. QUALITY OF SERVICE PLAN

77. In its RRR Application, Staff states that the Rate Case Decision is silent as to what happens to Public Service’s Quality of Service Plan (QSP) after December 31, 2024. Staff posits that the Commission did not intend for Public Service to operate without a QSP after that date and therefore asks that the Commission order the Company to propose a new QSP no later than 2024, with an effective date of January 1, 2025.

78. We grant Staff’s request, because the suggested timing conforms with the expected consideration of issues necessary for the more holistic review of the QSP as contemplated in the Rate Case Decision.

VII. TRANSPORTATION AND INTERRUPTIBLE SERVICE TARIFFS

A. Single CCOSS Class for IG and TI

79. Public Service requests clarification of the Commission’s direction to Public Service in paragraph 251 in the Rate Case Decision to consolidate its Schedules IG and TI into a “single tariff.” Public Service asks the Commission to confirm that it does not intend to approve

a new single set of tariff sheets to apply to both interruptible gas sales (Schedule IG) and interruptible transportation customers (Schedule TI) but instead approves the Company's unopposed proposal to combine these customers into a single "Interruptible General" class within the CCOSS in order to better align cost allocation and rate design.

80. We confirm that our intent is for Schedules IG and TI to be consolidated for the purposes of the CCOSS but with each maintaining its respective tariff sheets in PUC No. 6.

B. Service Agreements (Primary Receipt Points)

81. In the Rate Case Decision, the Commission provided an approved definition of "Primary Receipt Point(s)." The Company implemented the modified definition through its compliance tariff filing with Advice Letter No. 1004-Gas at Tariff Sheet No. T11.

82. In its RRR Application, Public Service seeks authorization to revise the first portion of the Primary Receipt Point(s) definition on Sheet No. T11 so that it reads: "Receipt Point(s) specified in the Service Agreement or amendments thereto as Primary Receipt Point(s) . . ."

83. We agree with Public Service on this point and authorize the Company to make the proposed revision to the definition of Primary Receipt Point(s) on Sheet No. T11.

C. Written Notice

84. In its proposed tariff changes filed with Advice Letter No. 993-Gas, Public Service deleted the word "written" or "in writing" in a number of instances because it was redundant to the Notice provision on Sheet No. T54, which specifies the ways Notice may be provided to Shippers.

85. Public Service states in its RRR Application that the Commission did not address these proposed changes in the Rate Case Decision but notes that Tiger Natural Gas disputed the

changes.³¹ Public Service thus requests clarification that it is allowed to delete “written” or “in writing,” as applicable, on several tariff sheets listed in its RRR Application.

86. We confirm that the Company may delete “written” or “in writing” from the tariff sheets listed in the Company’s RRR Application.

D. Capacity Interruption and Priority of Service

87. Public Service seeks clarification as to whether it is authorized to implement the following change, under the “Capacity Interruption and Priority of Service” heading on Sheet No. T37, which was not addressed in the Rate Case Decision:

Among customers taking Firm Transportation Service and among customers taking Interruptible Transportation Service, it is within Transporter’s reasonable discretion to prioritize curtailments.

88. Public Service notes that Tiger Natural Gas also opposed this addition.³² Public Service argues that its proposed tariff change is only intended to provide the Company with flexibility to prioritize transportation customer curtailments within the group of customers taking firm transportation service and within the group of customers taking interruptible transportation service. Thus, this change has no bearing on supply customers or priority of curtailment as between transportation and supply customers.

89. We agree with Public Service on this point and authorize the Company to implement the proposed change under the “Capacity Interruption and Priority of Service” heading on Sheet No. T37.

³¹ Public Service RRR Application, p. 21.

³² Public Service RRR Application, p. 22.

VIII. OTHER REQUESTS**A. Carrying Costs on Gas Storage Inventory**

90. In the Rate Case Decision, the Commission authorized the Company's cost of short-term debt for return on gas storage inventories (GSIC), because of the temporary and volatile nature of the gas storage inventory.

91. In its RRR Application, Public Service disputes the finding that GSIC inventory costs are temporary. Public Service states that Company regularly carries gas in storage. Public Service also argues that the cost of short-term debt is actually a cost of borrowing, rather than a return. The Company argues that the Commission should not deny the Company a return on the GSIC asset that is held and deployed for customer use. Public Service further argues that GSIC is financed with a combination of long-term and short-term debt and equity and not solely via short-term debt.

92. We deny Public Service on this point and reiterate that the cost of debt is appropriate for calculating the GSIC based on the evidence in this record and for the reasons set forth in the Rate Case Decision. Although the GSIC is a constant element in the calculation of the Company's Gas Cost Adjustment because the Company continually maintains some level of gas inventories, the dollar value the GSIC fluctuates primarily on gas commodity costs and any given value of the asset is thus temporary and thus best addressed by short-term debt as argued by Staff. Moreover, a key feature of ratemaking for gas utilities in Colorado is that they earn no return on gas commodity costs.

B. Gas Quality

93. Public Service requests authorization to implement its proposed changes to the Gas Quality provisions on Sheet No. R24D related to the existing tariff's hazardous waste landfills provision. Public Service argues the proposed changes are appropriate because they are intended to: (1) clarify that "hazardous waste" is as defined by federal statutes and (2) permit biomethane from landfills that are not or have not previously been designated a hazardous waste landfill, so long as the biomethane gas meets the Gas Quality Specifications in the tariff sheets in Colorado PUC No. 6.

94. We agree with Public Service on this point and authorize it to implement the proposed changes to the Gas Quality provisions on Sheet No. R24D.

C. Net-Zero Vision

95. Conservation Advocates request a Commission finding that Public Service's "Net-Zero Vision" should carry no evidentiary weight as a technical document in this or any subsequent proceeding. Conservation Advocates are concerned that Public Service will continue to use the Net-Zero Vision to justify investments and gas system planning.

96. As was clear in our questioning during the evidentiary hearing in this Proceeding, we have significant concerns with the Company's Net-Zero Vision as presented in this Proceeding.³³ It is further notable that the Commission did not address the "Net Zero Vision" nor did the Commission support any of its findings in the Rate Case Decision by referencing the Company's testimony on its Net-Zero Vision. There is nothing further for the Commission to address in the context of this rate case related to the Net-Zero Vision. If raised, the Commission

³³ Hrg. Ex. 105, Attachment JRL-1.

will attach the appropriate evidentiary weight to the Net-Zero Vision as warranted in any future proceeding.

IX. ORDER

A. The Commission Orders That:

1. The Application for Rehearing, Reargument, or Reconsideration of Decision No. C22-0642 filed by Public Service Company of Colorado on November 14, 2022, is granted, in part, and denied, in part, consistent with the discussion above.

2. The Application for Rehearing, Reargument, or Reconsideration of Decision No. C22-0642 filed by Staff of the Colorado Public Utilities Commission (Staff) on November 14, 2022, is granted, in part, and denied, in part, consistent with the discussion above.

3. The Application for Rehearing, Reargument, or Reconsideration of Decision No. C22-0642, filed by the Colorado Office of the Utility Consumer Advocate on November 14, 2022, is denied.

4. The Application for Rehearing, Reargument, or Reconsideration of Decision No. C22-0642, filed jointly by Western Resources Advocates, Natural Resources Defense Council, and Southwest Energy Efficiency Project on November 14, 2022, is granted, in part, and denied, in part, consistent with the discussion above.

5. In accordance with the discussion above, Public Service shall file advice letter compliance filings to modify the tariff sheets in Colorado PUC No. 6 consistent with the findings, conclusions, and directives in this Decision. Public Service shall file the compliance tariff sheets in a separate proceeding and on not less than two business days' notice. The advice letter and tariff sheets shall be filed as a new advice letter proceeding and shall comply with all applicable rules.

In calculating the proposed effective date, the date the filing is received at the Commission is not included in the notice period and the entire notice period must expire prior to the effective date. The advice letter and tariff must comply in all substantive respects to this Decision in order to be filed as a compliance filing on shortened notice.

6. Public Service shall confer with Staff and submit a filing that identifies the rates, terms, and conditions for service that were approved by paragraph 390 of Decision No. C22-0462 and that also addresses the necessary process for future compliance tariff filings submitted upon the conclusion of base rate proceedings, consistent with the discussion above.

7. In accordance with the discussion above, Public Service shall timely file for approval of a new depreciation study following the Commission's approval of its inaugural Clean Heat Plan filed in accordance with § 40-3.2-108(4)(a), C.R.S., consistent with the discussion above.

8. Public Service shall timely file for approval of a Quality-of-Service Plan with an effective date January 1, 2025, consistent with the discussion above.

9. The 20-day period provided for in § 40-6-114, C.R.S., within which to file applications for rehearing, reargument, or reconsideration, begins on the first day following the effective date of this Decision.

10. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
December 7, 2022.**

(S E A L)



ATTEST: A TRUE COPY

G. Harris Adams,
Interim Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

ERIC BLANK

JOHN GAVAN

MEGAN M. GILMAN

Commissioners