Decision No. C24-0240-I

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 24AL-0049G

IN THE MATTER OF ADVICE LETTER NO. 1029 - GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO P.U.C. 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, TO BECOME EFFECTIVE FEBRUARY 29, 2024.

**INTERIM COMMISSION DECISION
DIRECTING PUBLIC SERVICE TO FILE
SUPPLEMENTAL DIRECT TESTIMONY**

Mailed Date: April 17, 2024
Adopted Date: April 10, 2024

I. BY THE COMMISSION

A. Statement

1. On January 29, 2024, Public Service Company of Colorado (Public Service or Company) filed Advice Letter No. 1029-Gas with tariff sheets to revise base rate revenue for all natural gas sales and transportation services in the Company's Colorado P.U.C. No. 6-Gas Tariff along with certain other changes to this tariff. Public Service seeks a net annual increase in base rate revenue; the proposed General Rate Schedule Adjustment would generate an approximate $171 million increase in the Company's base rate revenues as compared to the revenue requirement calculated in Company's last gas rate case in Proceeding No. 22AL-0046G. Public Service proposes to make its new base rates effective November 1, 2024, but to delay billing customers on this new rate until after the Extraordinary Gas Cost Recovery Rider expires in February 2025.

2. By Decision No. C24-0129, issued on February 28, 2024, the Commission set for hearing and suspended the effective date of the tariff sheets filed with Advice Letter No. 1029-Gas

for 120 days, to June 28, 2024, pursuant to § 40-6-111(1), C.R.S. By the same decision, the Commission established a 30-day notice and intervention period ending on March 29, 2024.

3. By Decision No. C24-0235-I, issued April 16, 2024, the Commission suspended the effective date of the tariff sheets filed with Advice Letter No. 1029-Gas for an additional 130 days, to November 5, 2024, pursuant to § 40-6-111(1), C.R.S. By the same decision, the Commission established the parties to the Proceeding, set a prehearing conference for April 29, 2024, and required Public Service to confer with the parties and file a proposed procedural schedule by April 19, 2024. The Commission directed that the proposed procedural schedule should accommodate the filing of Supplemental Direct Testimony, which would be ordered by separate decision. In addition, the Commission granted the Company's first motion for protective order and referred to an administrative law judge any discovery disputes in this matter and any further motions for protective orders filed by any party.

4. By this Decision, the Commission directs Public Service to file Supplemental Direct Testimony addressing the 19 discrete requests for information or analysis outlined in the discussion below.

B. Supplemental Direct Testimony

1. Credit Metric Scenarios

5. We appreciate that the Company provided credit metric scenarios in this Proceeding consistent with what we have requested in previous proceedings. However, we request that the Company provide the following additional analysis to aid the record in this Proceeding:

1) An analysis of key financial metrics as if the base rate revenue requirement in this Proceeding were established consistent with the return on equity and capital structure as approved in Proceeding No. 22AL-0046G.

2. Capital Additions

a. Consistency of cost information

6. In Direct Testimony in this Proceeding, Public Service witness Gardner notes that the capital additions in this Proceeding cannot be directly compared to capital costs or expenditures in other proceedings because this Proceeding considers assets placed in service, while planning proceedings provide capital costs as expenditures over time.[1]

7. However, understanding the linkage between planning proceedings such as the Gas Infrastructure Plan (GIP) and Clean Heat Plan (CHP), is essential for the Commission's understanding of how costs are appropriately planned for and approved and then ultimately reflected in customer rates. Recognizing that direct comparisons within categories of capital additions might not be possible, we direct the Company to:

2) Provide a comparison of how the Company substantiates, across categories, its revenue requirement in this Proceeding with what has been communicated or presented by the Company in other proceedings, including the recent GIP and CHP proceedings.

8. Mr. Gardner also indicates total gas operations capital additions since the end of the 2021 historic test year (HTY) at just over $1 billion, with some $567 million associated with System Safety and Integrity (SSI),[2] or about $283 per year for two years. In the Company's last Pipeline System Integrity Adjustment (PSIA) case, PSIA and post-PSIA capital expenditures averaged about $150 million per year from 2022 to 2025.[3] Additionally, in the Company's last gas rate case, System Safety and Integrity investments between 2022 and 2024 averaged less than $170 million per year.[4]

[1] Hrng. Exh. 105 Gardner Direct at 17:13-18:9.
[2] Hrng. Exh. 105 Gardner Direct, p. 13 Table ARG-D-1.
[3] Proceeding No. 21A-0071G, Hrng. Exh. 102, Att. LAL-5.
[4] Proceeding No. 22AL-0046G, Hrng. Exh. 102, p. 29 Table SPB-D-6.

9. In order for the Commission to understand these changes in spending, Public Service is directed to:

> 3) Provide an explanation of the 75 percent increase in SSI capital spending over the last two years and provide detail as to the specific investments that comprise the increase. Additionally, provide any information on the Company's expectations for annual capital expenditures in SSI for the next five years.

b. Comparison of forecasted and actual costs

10. Mr. Gardner provides a cost comparison of the West Metro Project, indicating the final cost of the project and the estimated cost from the project's certificate of public convenience and necessity. This type of comparison is helpful to the Commission but is not provided for the other discrete projects included in the New Business category. However, references with Mr. Gardener's testimony indicate that project costs for other projects have increased, although without baseline information upon which to understand such changes. So that we can better evaluate these projects, we direct Public Service to:

> 4) Provide the cost estimates or internal budgets for the New Business discrete projects, as they were set prior to execution of work, in this Proceeding with a comparison as to the actual costs for each project.

c. Service to new customers

11. Table ARG-D-5 of Mr. Gardner's Direct Testimony, indicates nearly $10 million in capital investment for two new developments[5] and Table ARG-D-11[6] shows $14.4 million in capital spending in Douglas County driven by forecasted peak demand growth that would otherwise exceed the available system capacity by the 2022-2023 heating season.[7]

[5] Hrng. Exh. 105 Gardner Direct, p. 48 Table ARG-D-5.
[6] Hrng. Exh. 105 Gardner Direct, p. 97.
[7] Hrng. Exh. 105 Gardner Direct, 94:14-18.

12. Given these figures, we continue to be concerned that customers with limited economic means could be to some degree subsidizing new development and expansion of the gas system. To better understand this issue, we direct the Company to provide:

5) An evaluation as to whether the non-commodity, non-overhead, applicable base rate revenues arising solely from each of these new customers that cause each of these three investments offsets the annual carrying cost on the investment. The Company shall do this analysis with the current depreciation rate and an assumed 30-year depreciation rate. In providing this information, we request that the Company provide detail as to how it determines the inputs as to capacity and annual usage for individual customers.

d. Impact of statutory change to line extension policy

13. At page 16 of his Direct Testimony, Mr. Gardner notes that investment in new business will be impacted by the statutory elimination of new line-extension allowances.[8] With the understanding that this change does not affect the projects included in this Proceeding, we seek to understand how the Company expects this statutory change to impact future revenue requirements. Therefore, we direct the Company to:

6) Provide the percent of new business projects that are in the Company's electric service territory.

7) Identify which categories of routines shown in Table ARG-D-6 are expected to be impacted by changes to the line extension policy that is currently being litigated in Proceeding No. 23AL-0636G, assuming that the changes represented in the Company's pending settlement agreement are accepted.

8) Identify, for each Routine Description category listed in Table ARG-D-6, the impact to estimated annual expenditures, if any, that will likely result from the change in line extension policy and, more broadly, the statutory prohibition of any incentive for new customers to join the gas system, and provide a description of the possible changes.

[8] § 40-3.2-104.3, C.R.S., enacted in 2023, directs gas utilities to file updated tariffs with the Commission to remove incentives, including line extension allowances, for establishing gas service to a property.

9) With regard to New Business discrete projects, elaborate on what portion of the costs would be borne by the Company if the projects were completed in compliance with statutory requirements eliminating incentives to connect to the gas system.

10) With regard to the New Business discrete projects included in this Proceeding, identify the basis upon which Public Service assesses the cost allocation to customers and to the Company of offsite infrastructure upgrades and the underlying rationale for that cost allocation.

11) Provide a detailed explanation of how the Company has applied the line extension policy in discrete projects in order to provide context for the implementation of the statutory change to line extension allowances.

3. Net Salvage Value

14. In this Proceeding, Public Service witness Moeller indicates that the Company retires gas pipelines either by fully removing the pipeline or by leaving it in place and capping it. Mr. Moeller further explains that the relative cost of retiring a pipeline in place versus removing the pipeline depends on the circumstances of each pipe.[9] Recognizing that retirements now might look different from the past, when pipelines might have been more likely to be replaced, we seek a better understanding of the costs and trends of retiring pipeline, particularly in light of State of Colorado policies regarding natural gas and electrification. To provide more context for this issue, we direct Public Service to:

12) Provide the average cost per project of retiring a pipeline in place versus fully removing the pipeline over the previous five years.

13) Provide a demonstration of the trend of retiring pipeline in place and of fully removing pipeline based on available data, but ideally over a timeline of ten years or more.

15. Additionally, in the Company's 2022 gas rate case, the issue of depreciation of assets to the point of a negative rate base was raised.[10] Specifically, if the Company applies a

[9] Hrng. Exh. 114 Moeller Direct, 23:16-24:4.
[10] Proceeding No. 22AL-0046G, Hrng Tr. 08-26-22, 39:3-7.

higher depreciation rate in the early years to pay for end-of-life decommissioning, then reduces rates in later years, there is a point where rate base could become a negative value. In order for the Commission to have the information in this Proceeding that it needs to better understand this issue, the Company shall:

14) Recalculate the depreciation schedules for the New Capital investments in the 2023 Test Year in this Proceeding with the assumption that the Commission will not allow a negative rate base.

15) Demonstrate how a reserve fund could be created to offset any future decommissioning liability so that a negative rate base would not result. In asking for this proposal, the Commission is not indicating that it would accept such a reserve fund in the future but is rather seeking foundational information should such a proposal be made in a future proceeding.

4. 15-Year Forecast

16. In this Proceeding the Company indicates that investments from 2022 through 2023 were some $1 billion.[11] In order to help the Commission understand how the Company's ongoing investments pancake into customer rates over time, the Company shall:

16) Provide15-year rate projections (through 2038) of overall average rates and residential retail rates[12] under the Company's forecast assumptions in this Proceeding. Additionally, the Company shall provide 2021 and 2022 data for historical context. This shall be in the form of an Excel spreadsheet that allows for varying input assumptions (*e.g.*, sales, rate base growth, weighted average depreciation life, allowed return on equity (ROE), debt to equity ratios, and expense growth) in order to calculate the cumulative impact of the input changes on revenue requirement and average rates over the 15-year forecast horizon.

5. Customer Disconnection Information

17. During 2023, which is the Test Year proposed in this Proceeding, some 5,000 gas customers were permanently disconnected. In order to structure support programs for customers who are unable to pay their gas utility bills, the Commission requires as much information about

[11] Hrng. Exh. 105 Gardner Direct, p. 13 Table ARG-D-1.
[12] Calculated as total revenue requirements, including all rate riders and adjustment clauses, divided by sales.

these customers as is possible. Toward that end, and subject to Commission Rules regarding customer data confidentiality, Public Service shall:

17) Provide the following information for each customer disconnected in 2023:
 a) Billing ZIP code
 b) Average annual usage
 c) Length of time in arrearage
 d) Billing amount of arrearage that led to disconnection
 e) Number of assistance requests
 f) History of bill assistance support

6. Affordability Metrics

18. We continue to be concerned about equity within the Residential rate class. As a result, we direct the Company to provide the following affordability analysis, which is similar what has been requested in previous rate cases:[13]

18) An Affordability Ratio (AR) metric that quantifies the percentage of a representative household's income that would be used to pay for a gas utility service, after non-discretionary expenses such as housing and other essential utility service charges are deducted from the household's income. At a minimum, Public Service shall present the AR metric with and without the proposed Phase I increase, for a residential customer with average annual usage and for a residential customer with median annual usage. If Public Service is unable to present this metric as directed, it should present a reasonable approach that enables the Commission to consider the impact of the proposed Phase I increase on residential customers via the AR metric.

19) An Hours at Minimum Wage (HM) metric that quantifies the hours of earned employment at the city minimum wage necessary for a household to pay for electric utility service charges. At a minimum, Public Service shall present the HM metric with and without the proposed Phase I increase, for both the state minimum wage and the local minimum wage applied by the City and County of Denver.

[13] The California Public Utilities Commission provides a reference for determining AR and HM metrics at https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability.

7. System Capacity Considerations

19. Although we do not request supplemental direct testimony, we wish to express interest in the subject of a potential change in customer cost causation caused by customers who adopt beneficial electrification, but continue to use natural gas as a backup, driving system capacity without a significant volume of throughput. In Proceeding No. 23M-0092G, utilities provided information indicating that design day conditions, which drive significant cost causation on the natural gas system, occur with relatively predictable timing, with the amplitude of the peak determined largely by outdoor temperature. We are concerned that this change could lead to equity issues associated with the typical rates, which are purely volumetric, particularly for the Residential rate class, and are open to further information about considerations for cost causation and alternative rate design that might address this issue. We flag this issue for further consideration as the parties develop their testimony in this Proceeding.

II. ORDER

A. It Is Ordered That:

1. Public Service Company of Colorado shall file Supplemental Direct Testimony in this Proceeding, consistent with the discussion above.

2. The deadline for the filing of Supplemental Direct Testimony shall be established within the procedural schedule to be adopted by separate decision.

3. This Decision is effective upon its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING April 10, 2024.

(S E A L)

ATTEST: A TRUE COPY

Rebecca E. White,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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Commissioners