

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 14AL-0660E

IN THE MATTER OF ADVICE LETTER NO. 1672 - ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE THE GENERAL RATE SCHEDULE ADJUSTMENT (GRSA) RIDER APPLICABLE TO ALL ELECTRIC BASE RATE SCHEDULES AND REVISE THE TRANSMISSION COST ADJUSTMENT (TCA) TO REMOVE COSTS THAT HAVE BEEN SHIFTED TO BASE RATES TO BECOME EFFECTIVE JULY 18, 2014.

PROCEEDING NO. 14A-0680E

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS ARAPAHOE DECOMMISSIONING AND DISMANTLING PLAN.

DECISION: (1) GRANTING JOINT MOTION TO APPROVE SETTLEMENT AGREEMENT; (2) GRANTING APPLICATION TO DECOMMISSION PLANT; (3) PERMANENTLY SUSPENDING TARIFF SHEETS; AND (4) ESTABLISHING RATES

Mailed Date: March 31, 2015
Adopted Date: February 24, 2015

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I. BY THE COMMISSION

A. Statement

1. Public Service Company of Colorado (Public Service or Company) filed Advice Letter No. 1672 in Proceeding No. 14AL-0660E on June 17, 2014. The Company proposed to increase its base rate revenues by \$157.6 million and to revise its Transmission Cost Adjustment (TCA) to remove costs that would be shifted to base rates. In addition, Public Service sought approval of a rider for recovering the incremental costs of projects undertaken pursuant to the Company’s emission reduction plan under the Clean Air Clean Jobs Act (CACJA). Public Service requested approval of a revenue decoupling mechanism for its residential and

small commercial rate classes. Public Service also sought approval of an incentive mechanism associated with the performance of certain generating units on the Company's system.

2. On June 23, 2014, Public Service filed an Application for Approval of Arapahoe Decommissioning and Dismantling Plan (Arapahoe Application) in Proceeding No. 14A-0680E. Public Service requested final authorization to decommission and dismantle its Arapahoe Generating Station and to remediate and restore the plant site at an estimated cost of \$34.8 million.

3. On January 23, 2015, Public Service filed a Settlement Agreement and Joint Motion to Approve the Settlement Agreement on behalf of the Settling Parties.¹ The Settlement Agreement, attached to this Decision as Exhibit A, is intended to resolve the disputed issues in these consolidated proceedings.

4. By this Decision, we grant the Joint Motion to Approve the Settlement Agreement and adopt the Settlement Agreement without modification. Consistent with the terms of the Settlement Agreement, we also approve the Arapahoe Application and direct Public Service to make various filings to implement the rates and tariff sheets approved by this Decision. We further direct Public Service to file, no later than April 1, 2016, an application for approval of depreciation and amortization rates for its plant and regulatory assets for retired facilities and to file in 2017 another electric base rate proceeding for rates to be in effect no earlier than January 1, 2018.

¹ The Settling Parties include Public Service; Staff of the Colorado Public Utilities Commission (Staff); the Colorado Office of Consumer Counsel (OCC); Colorado Energy Consumers (CEC); Climax Molybdenum Company and CF&I Steel, LP, doing business as Evraz Rocky Mountain Steel (Climax/Evraz); the Federal Executive Agencies (FEA); Colorado Healthcare Electric Coordinating Council (CHECC); Wal-Mart Stores, Inc. and Sam's West, Inc. (Wal-Mart); Kroger Co. (Kroger); and Energy Outreach Colorado.

B. Procedural Background

5. By Decision No. C14-0807, issued July 15, 2014, we set the tariff sheets filed with Advice Letter No. 1672 for hearing and suspended their effective date for 120 days under § 40-6-111(1), C.R.S.

6. By Decision No. C14-1043, issued August 28, 2014, we set the Arapahoe Application for hearing and granted a motion to consolidate the two proceedings. We also suspended the effective date of the tariff sheets filed with Advice Letter No. 1672 for an additional 90 days under § 40-6-111(1), C.R.S.

7. By Decision No. C14-1130-I, issued September 16, 2014, the Commission allowed the proposed rates and tariffs filed with Advice Letter No. 1672 to go into effect on February 13, 2015, subject to a refund condition. That condition required the Company to refund customers the amounts charged under the Advice Letter that exceed the rate amounts eventually adopted in a final Commission decision. The Commission also set the deadline for settlement agreements for January 14, 2015, and scheduled hearings in this matter to begin on January 26, 2015, and to conclude on February 4, 2015.

8. By Decision No. C14-1331-I, issued November 5, 2014, we dismissed from the proceedings the revenue decoupling mechanism proposed by Public Service in Advice Letter No. 1672, concluding that the consideration of a decoupling mechanism in a separate proceeding will serve the public interest and enable the Commission to consider the broad implications of a fundamental change for Colorado in rate regulation, including the effects of revenue decoupling on related proceedings.

9. On January 14, 2015, several of the parties filed a joint motion requesting an extension of the January 14, 2015, deadline for the filing of any settlement agreement as established by Decision No. C14-1130-I.

10. On January 16, 2015, Public Service filed a status report stating that it had reached an agreement in principle resolving most of the issues raised in the proceeding. The status report also included a motion for an order vacating procedural deadlines during the week of January 19, 2015, other than the prehearing conference scheduled for January 21, 2015.

11. By Decision No. C15-0075-I, issued January 21, 2015, we directed the parties to file the settlement agreement no later than January 23, 2015; scheduled a prehearing conference for January 28, 2015; and vacated the hearing dates scheduled the week of January 26, 2015.

12. On January 23, 2015, in addition to filing a Settlement Agreement and Joint Motion to Approve the Settlement Agreement, the Settling Parties filed a Joint Motion for Commission Decision Authorizing Settlement Rates to go into Effect on February 13, 2015, Subject to Refund and Other Conditions (Motion for Settlement Rates).

13. By Decision No. C15-0126-I, issued February 4, 2015, we granted, in part, the Motion for Settlement Rates, which supplanted the higher rates under the terms of the Advice Letter that otherwise would have been effective on February 13, 2015. We agreed with the Settling Parties that granting the request would allow customers to avoid paying higher rates and also avoid potential customer confusion if rates were required to be changed within a relatively short timeframe. However, we declined to adopt the additional conditions proposed by the Settling Parties in the event the Commission materially altered or denied the Settlement Agreement. In addition, we required the parties to clarify and elaborate on certain aspects of the

terms in the Settlement Agreement by answering several questions. The Settling Parties filed a joint response to the questions on February 11, 2015 (attached to this Decision as Exhibit B).

14. We conducted a hearing on the Settlement Agreement on February 13, 2015.² The parties stipulated to the admission of all of the pre-filed written testimony of the witnesses.³ Hearing Exhibits Nos. 1 through 74 were offered and admitted into the evidentiary record.⁴

15. Finally, no party filed a response to the Joint Motion to Approve the Settlement Agreement. The approval of the Settlement Agreement is therefore unopposed.⁵

C. Settlement Agreement

16. The Settlement Agreement states that it is a comprehensive, uncontested settlement, proposing a resolution of all issues that have been raised or could have been raised in these consolidated proceedings.

1. Base Rate Reduction

17. As explained in the Settlement Agreement and shown in its Attachment A, approval of the agreement would cause a reduction in Public Service's base rates and reduce the Company's annual base rate revenues by \$39.4 million.

² Various parties, including Kroger, The Alliance for Solar Choice (TASC), Western Resource Advocates (WRA), Southwest Energy Efficiency Project (SWEEP), and CHECC, filed petitions for leave to be excused from the evidentiary hearing. By this Decision, we construe these filings as notice to the Commission of non-attendance and as representations that non-attending parties have no objection to the stipulation of pre-filed written testimony or exhibits offered and admitted into the record at the February 13, 2015 hearing.

³ Public Service filed written direct testimony in support of its requested rate increase and in support of the Arapahoe Application on June 17, 2014 and June 23, 2014, respectively. Answer testimony was filed by Staff, the OCC, CEC, CHECC, Climax/Evraz, FEA, and Wal-Mart on November 7, 2014. Public Service filed rebuttal testimony on December 17, 2014. CEC and CHECC also submitted cross-answer testimony.

⁴ The Settlement Agreement was marked as Hearing Exhibit 69 and includes corrections to Attachment B. The filing containing the joint responses to the Commission's questions on the Settlement Agreement was marked as Hearing Exhibit 70.

⁵ The City and County of Denver does not oppose the Settlement Agreement. SWEEP, TASC, the City of Boulder, and CEA take no position on the Settlement Agreement. WRA neither opposes nor supports the Settlement Agreement.

18. The Settling Parties compromised on numerous issues relating to the Company's cost of service, including, but not limited, to: the test year, rate case expenses; the Ponnequin Wind Farm (Ponnequin); the Metro Ash Facility; Oil and Gas Royalty Revenues; Western Electricity Coordinating Council Fees; aviation expenses; generation overhaul expenses; legal expenses; employee compensation; and employee incentive pay. The Settlement Agreement states that Public Service foregoes its request to implement proposed changes to its depreciation rates and amortization expenses in this rate proceeding. The Settlement Agreement further states that, without the Settling Parties agreeing to any specific adjustments or assigning any values for these issues on an individual basis in the development of settled rates, they have agreed to a reduction in the Company's 2013 historic test year revenue requirement of approximately \$31.7 million.

19. Base rates would be reduced through the Company's General Rate Schedule Adjustment (GRSA). The Settling Parties state that the GRSA resulting from the stipulated revenue requirement is a negative 2.88 percent, which, when netted against the Company's existing GRSA, results in a 14.19 percent GRSA, as set forth in the GRSA tariff sheet in Attachment L to the Settlement Agreement.

2. 2017 Rate Case Filing

20. Under the terms of the Settlement Agreement, the Company agrees that it will not seek any further changes in its base rates for retail electric service, except as specifically provided in the Settlement Agreement, prior to a rate case filing to be made in 2017 for rates to go into effect no earlier than January 1, 2018 (2017 Rate Case).

Likewise, the Company will propose no new riders applicable to the provision of electric service to take effect before the 2017 Rate Case.⁶

21. In addition, the Settling Parties represent that in the 2017 Rate Case and in relation to certain other future filings, the Settling Parties would “support the Settlement Agreement in any subsequent pleadings of filings” and that parties would not take “positions contesting [] rates that contravene [settlement] principles.”

22. In our decision posing questions on the Settlement Agreement, we asked the Settling Parties to clarify the extent that future parties may contest future proceedings and to clarify which future proceeding and principles settling parties agree to through the Settlement Agreement. In response to those questions, the Settling Parties stated the specific items that the Settling Parties or Public Service agree to adhere to in the filing and processing of the 2017 Rate Case. The Settling Parties further represent that no party is “bound to the principles” proposed in any electric rate cases filed after the 2017 Rate Case.⁷

3. Clean Air Clean Jobs Act (CACJA) Rider

23. In its initial Advice Letter No. 1672 filing, Public Service explained that it filed this rate case primarily to recover investments associated with the Company’s emission reduction plan approved by the Commission pursuant to the CACJA.⁸ Public Service explained that, under the multi-year rate plan approved in the Company’s last base rate proceeding,⁹ the Company deferred significant costs associated with the CACJA to this rate case.

⁶ Settlement Agreement, at 18-21.

⁷ Responses to Settlement Questions Issued In Decision No. C15-0126-I, filed February 11, 2015, at 4.

⁸ Proceeding No. 10M-245E.

⁹ Proceeding No. 11AL-947E.

24. Public Service initially proposed recovering approximately \$94.2 million of CACJA costs through base rates. The Company then increased its requested CACJA revenue requirement to \$100.9 million in an amended filing. Through its rebuttal testimony and in response to suggestions from intervening parties, Public Service modified its position and proposed to recover CACJA-related costs through a new rate adjustment mechanism, the CACJA Rider, rather than through base rates.

25. Concerning the return Public Service would receive on CACJA-related construction work in progress (CWIP), Public Service proposed to use the weighted average cost of capital (WACC) approved for establishing the base rates in this proceeding. For 2016 and 2017, however, the Company proposed to recalculate the WACC for application in the CACJA Rider, by applying the return on equity (ROE) established here and forecast measures of the Company's cost of long-term debt and capital structure. Public Service argued that the CACJA statute allows the Commission to decide whether its capital structure or cost of debt can be updated for special cost recovery purposes. Public Service also argued that the CACJA statute explicitly provides for a current return on CWIP at the WACC. According to the Company, the accrual of the Allowance for Funds Used During Construction (AFUDC) is not a reasonable substitute for collecting a return on CWIP.

26. Public Service proposed to collect \$98.7 million through the 2015 CACJA Rider with rates effective in compliance with the Commission's decision in this proceeding. The revenue requirement would recover CWIP after December 31, 2014, without an offset in the AFUDC. The revenue requirement calculations would be based on a 13-month average of CWIP and plant in service balances for the eligible CACJA projects. Public Service also stated that the Company was not seeking approval of the specific 2016 and 2017 CAJCA Rider revenue

requirements at this time but instead requested approval of the rate mechanism and the method for calculating the incremental revenue requirement to be collected.

27. In addition, Public Service proposed to establish class-specific CACJA Rider rates, calculated by allocating the annual CAJCA Rider revenue requirement to rate classes using the electric generation production allocator established in the Company's last Phase II rate case.¹⁰ Public Service argued that class allocation of costs is more equitable than an across-the-board proportional rate surcharge such as a GRSA because rate class cost allocation better assigns cost responsibilities to the customers who cause them. The Company also explained that, while it is proposing to use a specific type of cost allocator, the actual allocation factors would be updated using more recent measures of customer class loads.

28. Prior to settlement in this proceeding, most intervening parties supported or did not oppose approval of a CACJA Rider similar to that proposed in Public Service's rebuttal testimony. CEC and CHECC recommended the Commission reject the CACJA Rider proposed by Public Service. For example, CHECC suggested that the rate be computed more like the GRSA, arguing that the design of the CACJA Rider should be kept simple to reduce the time required for preparation and review. CHECC also stated that the Company did not provide a current class cost-of-service study demonstrating that its proposed allocation method would be consistent with setting rates that reflect each class's cost of providing service.

¹⁰ Proceeding No. 09AL-299E.

29. Through the Settlement Agreement, the Settling Parties including, without limitation, CEC and CHECC that initially opposed the rider in this proceeding, propose that the Commission approve the CAJCA Rider starting with calendar year 2015. The Settlement Agreement states that the CACJA Rider will provide for current recovery of costs for eligible projects through a 13-month average of forecasted costs. The CAJCA Rider will be subject to a true-up such that only actual costs are recovered from ratepayers. To be eligible to be included in the CACJA Rider, a cost must be incurred and associated with a CACJA investment that has either gone into service or will go into service between August 1, 2014 and December 31, 2017. The eligible CACJA projects include: the new natural gas combined cycle plant at Cherokee station, including interconnection equipment; the selective catalytic reduction (SCR) and particulate scrubber at Pawnee; and the SCR equipment at Hayden.¹¹

30. Under the terms of the Settlement Agreement, the return on CWIP for CACJA projects will be the Company's weighted average cost of capital multiplied by the average monthly CWIP balance for the relevant period. The weighted average cost of capital will change over time based on a forecast of the Company's debt cost and capital structure. However, the return on equity component shall be the ROE approved by the Commission in this proceeding.

31. The CACJA Rider will collect approximately \$97 million in 2015. As indicated in the responses to the Commission's questions on the Settlement Agreement, this revenue requirement is calculated in accordance with the proposed CACJA Rider tariff sheets attached to the Settlement Agreement in Attachment L.

¹¹ Settlement Agreement, Attachment L, p. 1, CACJA Act Rider, Tariff Sheet 112.

32. Public Service projects the CACJA Rider will cause rates to increase again in 2016 by approximately \$17.7 million to collect \$114.7 million. The CACJA Rider is projected to collect approximately \$111.5 million in 2017.

33. Finally, under the terms of the Settlement Agreement, the CACJA Rider rates will be allocated to rate classes based on the production demand allocator approved in the Company's latest Phase II rate case.¹² Based on this cost allocation approach, residential demand, secondary general, primary general, transmission general, special contracts, and standby customers will be billed the CACJA Rider on a demand basis; all other customers will be billed on an energy basis.¹³

4. Cost of Capital

a. Return on Equity

34. Public Service's authorized ROE is currently 10.0 percent as established in Proceeding No. 11AL-947E.¹⁴

35. Public Service requested in its June 2014 advice letter filing that the Commission approve an authorized ROE of 10.35 percent. The Company lowered its request to 10.25 percent upon filing its rebuttal testimony.

36. Witnesses for the intervening parties recommended that the Commission adopt an authorized ROE of approximately 100 basis points lower than the Company's proposal. The recommended values for Public Service's authorized ROE were broad, ranging from a low of 8.7 percent to a high of the Company's requested 10.25 percent.

¹² Proceeding No. 09AL-299E.

¹³ Settlement Agreement, Attachment C.

¹⁴ Decision No. C12-0494, Proceeding No. 11AL-947E issued May 9, 2012.

37. The Settling Parties propose the Commission approve an ROE of 9.83 percent for purposes of determining the revenue requirement in this proceeding. As shown in Attachment A to the Settlement Agreement, the reduction of the ROE from 10.25 percent as proposed by the Company in its rebuttal testimony to 9.83 percent per the Settlement Agreement results in a reduction in annual revenue requirements of approximately \$21.7 million.

b. Cost of Debt

38. Public Service requested a cost of long-term debt for the 2013 Test Year of 4.67 percent. The Company arrived at this cost figure using the “capital employed” method which included interest charges, issuance and underwriting expenses, hedge gains or losses, and up-front fees related to the credit facility.¹⁵

39. Staff, the OCC, and CHECC objected to the proposed application of the capital employed method, arguing that the Company’s cost of debt should be recovered at the Company’s actual incurred cost, which is its par value.

40. The cost of debt established in Public Service’s last electric rate proceeding was 5.63 percent.¹⁶

41. The Settling Parties propose that the Commission approve a cost of long-term debt for Public Service of 4.67 percent as of December 31, 2013. The Settling Parties agree that this measure is determined using the par value method as shown on Sheet 1 of Attachment No. MPS-7 to the Direct Testimony and Attachments of Mary P. Schnell.¹⁷

¹⁵ Attachment No. MPS-7 to the Direct Testimony of Mary P Schell, Hearing Exhibit No. 5, indicates that the calculated cost of long-term debt including an annual amortization of upfront fees of \$683,406 equals 4.67 percent.

¹⁶ Decision No. C12-0494.

¹⁷ Settlement Agreement, at 8.

c. Capital Structure

42. Public Service requested to maintain its current capital structure of 56 percent equity to 44 percent debt. The intervening parties proposed equity levels as low as 51.24 percent with corresponding debt levels as high as 48.76 percent.

43. The Settling Parties propose that the Commission retain Public Service's current capital structure of 56 percent equity to 44 percent debt.¹⁸ Under the terms of the Settlement Agreement, Public Service commits to attempting to reduce the equity component such that it will be lower than 56 percent when rates become effective pursuant to its next electric base rate proceeding.

d. Weighted Average Cost of Capital

44. The weighted average cost of capital established for Public Service in its most recent electric base rate proceeding was 8.08 percent.¹⁹

45. The weighted average cost of capital proposed by the Settling Parties is 7.55 percent as of January 1, 2015.

5. Pension Assets and Expenses

46. Public Service included a prepaid pension regulatory asset in its retail cost of service study for establishing rates in this proceeding. That balance represents the cumulative difference between the Company's contributions to the pensions and the amounts expensed.

47. Witnesses for Staff and the CEC raised several issues surrounding Public Service's pension plans and the associated costs. For instance, Staff recommended that the pension asset be removed from rate base by amortizing it over a period of ten years.

¹⁸ Decision No. C12-0494.

¹⁹ Decision No. C12-0494.

Staff also recommended that certain balances be reduced or disallowed and that the Commission require Public Service to make an annual filing reporting certain metrics surrounding the pension plan.

48. The Settlement Agreement defines Public Service's contributions to its pension plans recorded as a regulatory asset through December 31, 2014 as a "Legacy Pre-Paid Pension Asset." The Settling Parties propose amortizing this balance over a 15-year period, which, as shown in Attachment A to the agreement, results in an increase of \$9.5 million in annual base rate revenue requirements.

49. The Settling Parties also propose that the Commission allow Public Service to record prudently incurred amounts for pre-paid pension assets or liabilities accumulating on or after January 1, 2015. If the Company makes contributions to the pension plans in excess of the annual pension expense, the amount will be recorded as a "New Pre-Paid Pension Asset." The Settling Parties explain that the Company will make a filing to recover any New Pre-Paid Pension Asset either in a future rate case or in a stand-alone case if the New Pre-Paid Pension Asset becomes more than \$50 million.

50. Concerning the Company's pension expense and reporting, the Settlement Agreement proposes a pension expense tracker relative to baseline amounts (\$883,950 for non-qualified deferred compensation²⁰ and \$21,086,171 for qualified deferred compensation). Expenses in amounts above or below the baseline value will receive deferred accounting treatment and be included in the Company's next electric base rate proceeding. In addition, pursuant to the terms of the Settlement Agreement, Public Service agrees to file annual reports

²⁰ "Non-qualified plans" are for highly compensated employees and are separated from the deferred compensation plans for most rank-and-file employees because they do not qualify for the same favorable tax treatment as "qualified plans." (Hearing Exhibit 42, Answer Testimony of David G. Pitts, Attachment DGP-7, p. 9).

each April 30th providing actual and forecasted information for the three qualified pension plans that impact Public Service. Reporting requirements are set forth in Attachment F to the Settlement Agreement.

6. Decommissioning and Depreciation

51. Public Service requested that the Commission find the depreciation rates in its depreciation study to be reasonable for calculating the depreciation expenses and accruals and to find the results of its decommissioning cost study also to be reasonable for use as the basis for the cost of removal estimates in the development of the depreciation rates for its generation plants.

52. Several of the intervening parties took issues with these studies. In addition, the OCC argued that it would be better for the Commission to wait until the decommissioning costs for the Company's retiring generating units are better known in order to avoid charging customers what would likely end up being inaccurate costs. The OCC also argued that delaying the recovery of the retiring units would help mitigate the overall impact of this rate case. Climax/CF&I similarly argued that there was no immediate need for Public Service to reflect the proposed decommissioning costs in the rates from this proceeding and instead recommended that the Commission defer recovery of certain costs until the Commission has reviewed the Company's decommissioning and site restoration plans in a separate proceeding.

53. The Settling Parties propose that Public Service continue to use the depreciation rates currently in effect and to accrue annual amortization expenses at current levels for the retired generating units. In addition, the Settlement Agreement commits Public Service to filing a comprehensive depreciation and amortization application no later than April 1, 2016 (2016 Depreciation Case). The Settling Parties propose that the 2016 Depreciation Case will

address proposed changes to the depreciation rates, including removal costs, net salvage, and amortization periods for its electric and common utility plant and the proposed amortization of the regulatory assets established for the retiring generating units.

54. The Settling Parties further agree that the approved changes resulting from the 2016 Depreciation Case will be reflected in its next electric rate case filing and they, the Settling Parties, will not contest the implementation of any such approved changes in that future rate proceeding.

55. With respect to the Arapahoe Application, the Settling Parties state that they accept Public Service's proposed decommissioning plan and recommend that the Commission authorize the Company to proceed with decommissioning and begin incurring costs. The Settling Parties propose that the recovery of these costs be addressed in the 2016 Depreciation Case and the Company's next rate proceeding.

7. Ponnequin Wind Farm

56. Ponnequin is a 25 MW facility built in phases between 1999 and 2001. According to Public Service, the facility will soon reach the end of its 15-year useful life. Public Service stated in this proceeding that the capital investments and ongoing operations and maintenance costs necessary to continue the operation of the facility are not justified. The Company also states that, due to the vintage of the turbines, spare parts are costly and difficult to source. Public Service therefore requested that the Commission approve a year-end 2015 retirement of the wind farm.

57. Prior to settlement, the OCC opposed the Company's proposal to retire Ponnequin, arguing that Public Service first should be required to obtain a Certificate of Public Convenience and Necessity (CPCN). Public Service responded that the proposed retirement of

Ponnequin at the end of its useful life should be deemed to be in the “ordinary course of business” and therefore does not require a CPCN.

58. The Settlement Agreement states that the Settling Parties accept Public Service’s proposed retirement of Ponnequin and will not assert that Public Service is required to obtain a CPCN for the retirement of Ponnequin under Commission Rule 3103 of the Rules Regulating Electric Utilities, 4 *Code of Colorado Regulations* 723-3. In response to the Commission’s questions on this provision of the agreement, the Settling Parties request that the Commission make a ruling that no CPCN is required for the facility.

8. Performance Mechanism for Generation Facilities

59. In its initial filing of Advice Letter No. 1672, Public Service proposed a generation benchmarking plan for Company-owned coal and combined cycle gas plants for 2016 and 2017. The proposed plan would compare actual operations of certain plants to a benchmark derived from historic operations from 2009 through 2013.

60. Many of the intervening parties opposed Public Service’s initial proposal, generally asserting that the performance metrics used to set the reward and penalty triggers were too low because the historic years used for comparison had unusually low availability. They also argued that the costs and benefits of the Company’s proposal were not adequately investigated.

61. Although Staff raised a number of criticisms of Public Service’s proposal, it generally asserted that a benchmarking plan for the Company’s generation plants would provide an incentive for the Company to maintain the generation plants for optimum availability in order to achieve a cost effective unit dispatch. Staff also argued that a benchmarking plan would lend a measure of discipline in future proceedings where utility self-build proposals are considered. Accordingly, Staff recommended various modifications to Public Service’s proposed approach.

62. The Settling Parties propose that the Commission adopt the approach advocated by Staff. Specifically, they suggest the Commission adopt an Equivalent Availability Factor Performance Mechanism (EAFPM) starting in 2015. The mechanism will measure the availability performance of: Cherokee 4; Comanche 1, 2, and 3; Hayden 1 and 2; Pawnee; Fort St. Vrain 1, 2, 3, and 4; and Rocky Mountain Energy Center 1, 2, and 3. If the Company's actual 2015 capacity weighted average EAF is at or above 86.19 percent, the Company will receive an incentive payment of \$3 million. If the Company's actual EAF is at or below 83.7 percent, the Company will be assessed a penalty of \$3 million. In 2016 and 2017, when the new gas units at Cherokee will be included in the measures (Cherokee 5, 6, and 7), the bonus threshold will be 86.57 percent and the penalty threshold will be 84.49 percent. Under the terms of the Settlement Agreement, on or before April 1 of each year, Public Service will file an application to report its performance results and for approval of any incentive payment or penalty.

9. Other Provisions of Settlement Agreement

a. Property Tax

63. The Settling Parties agree that the property tax expense in the base rates that result from the approval of the Settlement Agreement total \$137,334,694, including \$109,506,702 of retail allocated actual property tax expense incurred by the Company in 2013 and \$27,827,992, which is the 2015 amortization of property tax expenses deferred during 2012 through 2014 calculated in accordance with the Settlement Agreement entered into in Proceeding No. 11AL-947E.

64. Settling Parties also propose that the Commission permit Public Service to defer as a regulatory asset any difference in allocated property tax expense and property tax

amortization from the amount actually incurred, as determined on an annual basis, beginning with calendar year 2015 until the rates approved in the 2017 Rate Case go into effect. In addition, Public Service will propose in the 2017 Rate Case that any such additional deferred tax amounts will be amortized over the same number of annual periods they were accrued.

b. Transmission Cost Adjustment (TCA)

65. The Settlement Agreement proposes that the Company's TCA rate mechanism be adjusted upon the effective date of the base rates approved in this proceeding. The modified TCA will collect \$15,610,346 annually, reduced from the currently effective TCA of \$31,660,232. A modified TCA tariff as stipulated by the Settling Parties is also included in the Settlement Agreement in Attachment L. Public Service agrees under the terms of the Settlement Agreement to operate under the terms of the revised TCA tariff sheets until the effective date of new rates from the 2017 Rate Case.

c. Earnings Test

66. The Settling Parties agree to an extension of the earnings test approved in Proceeding No. 11AL-947E for calendar years 2015, 2016, and 2017 but with modified sharing thresholds and percentages. For earnings less than or equal to the stipulated 9.83 percent ROE, no sharing is required with customers. For earnings between a 9.84 percent ROE and a 10.48 percent ROE, 50 percent of the excess earnings will be shared with customers. For earnings above of a 10.48 percent ROE, all excess earnings will be provided to customers. The implementation of the proposed earnings test will be governed by the principles set forth in Attachment E and the Earnings Sharing Adjustment rider in Attachment L to the Settlement Agreement

67. Public Service will file earnings test information on or before April 30 of each year beginning April 30, 2016 and continuing through April 30, 2018. In the event that the Company's earnings during the prior year exceed a 9.83 percent ROE, the Company will also file an advice letter seeking to put into effect, subject to true-up, a revised GRSA sufficient to refund to customers the proposed earnings sharing.

68. In their response to our questions regarding the earnings test, the Settling Parties state that its purpose is to protect customers through a sharing of earnings in the event sales volumes grow or other factors positively affect Public Service's ROE occur, including reductions in costs.

10. Street Lighting and Charges for Rendering Service

69. The Settling Parties agree that the tariffs filed with Advice Letter No. 1672 for Maintenance Charges for Street Lighting Service and Schedule of Charges for Rendering Service should be allowed to go into effect as originally proposed.

D. Conclusions and Findings

70. We grant the Joint Motion to Approve the Settlement Agreement and approve the Settlement Agreement without modification. We appreciate the efforts of the Settling Parties in reaching compromises that serve the public interest. We conclude that approval of the Settlement Agreement will result in just and reasonable rates. The various terms of the Settlement Agreement, including the agreed upon authorized ROE of 9.83 percent, will also maintain the Company's ability to attract capital consistent with the returns of businesses facing similar or comparable risks.

71. The CACJA Rider will allow Public Service to recover the significant investment costs of nearly \$1 billion the Company has incurred to implement its approved emission

reduction plan and yet result in a relatively modest overall increase in rates through 2017 as shown in Attachment B to the Settlement Agreement. The proposed Settlement Agreement balances the benefits of the Company's recent investments, including reductions in carbon emissions made pursuant to the CACJA, with modest, incremental costs to customers. The average residential customer will experience approximately a 96 cent monthly increase in 2015; 49 cents in 2016; and an 8 cent monthly decrease in 2017.²¹ We find these rate changes reasonable and in the public interest, particularly given the benefits of the CACJA investments.

72. Certain aspect of the Settlement Agreement also reflect elements of a multi-year rate plan such as the one the Commission approved in Public Service's last Phase I electric rate case, Proceeding No. 11AL-447E. These terms will provide a degree of rate certainty to customers for the next three years.

73. Consistent with the terms of the Settlement Agreement, we direct Public Service to file the 2016 Depreciation Case and the 2017 Rate Case for base rates to be in effect no sooner than January 1, 2018. We are adequately assured, based on the Settling Parties' responses to our questions in Decision No. C15-0126-I and the oral testimony offered at hearing, that the proposed terms of the Settlement Agreement will not cause an unreasonable deferral of costs for recovery in the Company's 2017 Rate Case.

74. We find good cause to grant the Arapahoe Application. Public Service's plans for the decommissioning of the site are reasonable.

75. Concerning Ponnequin, we approve the year-end 2015 retirement of the facility and find that no additional application for a CPCN is required.

²¹ Settlement Agreement, Corrected Attachment B, at 1.

76. Finally, we find the proposed performance mechanism for generation facilities in the form of the EAFPM to be in the public interest because it begins to address the lower than expected availability of certain plants which reduced their efficiency and resulted in higher overall fuel costs.²² Although the \$3 million incentive or penalty is but a fraction of the costs borne by ratepayers as a result of poor plant performance, it will encourage Public Service's management and plant operators to focus on plant availability and work to avoid more significant remedies still available to the Commission to address substandard plant operations, such as cost disallowances. We also conclude that the reporting requirements associated with the proposed EAFPM will provide improved clarity regarding generation unit availability and tracking.

II. ORDER

A. The Commission Orders That:

1. The Joint Motion for Approval of Settlement Agreement filed on January 23, 2015, is granted. The Settlement Agreement filed on January 23, 2015, is approved, consistent with the discussion above.

2. The Application for Approval of Arapahoe Decommissioning and Dismantling Plan filed by Public Service Company of Colorado (Public Service) on June 23, 2014 in Proceeding No. 14A-0680E is granted, consistent with the discussion above.

3. The effective date of the tariff sheets filed with Advice Letter No. 1672 on June 17, 2014, in Proceeding No. 14AL-0660E is permanently suspended and shall not be further amended.

4. Public Service is authorized to file the tariff sheets as set forth in Attachment L to the Settlement Agreement to implement the approved rates, consistent with the discussion above.

²² Proceeding No. 13I-0215E.

Public Service shall file an advice letter compliance filing in a separate proceeding and on not less than two business days' notice.

5. Public Service shall file no later than April 1, 2016, a comprehensive depreciation and amortization application, consistent with the discussion above.

6. Public Service shall file an electric base rate case in 2017 for rates to be in effect no sooner than January 1, 2018, consistent with the discussion above.

7. The 20-day time period provided by § 40-6-114, C.R.S., to file an application for rehearing, reargument, or reconsideration shall begin on the first day after the effective date of this Decision.

8. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
February 24, 2015.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JOSHUA B. EPEL

PAMELA J. PATTON

GLENN A. VAAD

Commissioners