Decision No. R15-1204

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 15AL-0135G

IN THE MATTER OF THE ADVICE LETTER NO. 876-GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO INCREASE RATES FOR ALL NATURAL GAS SALES AND TRANSPORTATION SERVICES TO BECOME EFFECTIVE APRIL 3, 2015.

RECOMMENDED DECISION OF
ADMINISTRATIVE LAW JUDGE
PAUL C. GOMEZ
PERMANENTLY SUSPENDING TARIFF
SHEETS REQUIRING COMPLIANCE
FILINGS; AND SHORTENING RESPONSE
TIME FOR FILING EXCEPTIONS

Mailed Date: November 16, 2015

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I. STATEMENT

A. Summary of Findings

1. This Decision adopts the utilization of the 2014 historic test year (HTY) with known and measurable adjustments in order to establish base rates. The rate base will be calculated using the 13-month average method, except for the net investment in the Cherokee Pipeline, which will be calculated on a year-end basis.

2. Regarding the Cost of Capital, the authorized return on equity (ROE) will be established within the range of 9.2 percent to 9.8 percent. An ROE of 9.5 percent will be used to calculate rates. The cost of long-term debt of 4.50 percent consistent with the calculation advanced by Trial Staff of the Public Utilities Commission (Staff) will be adopted.

3. Public Service Company of Colorado's (Public Service, Company, or PSCo) capital structure for the 2014 test year of 56.51 percent equity and 43.49 percent debt based on the calculation in Public Service's 2014 test year cost of service will be approved.

4. The Weighted Average Cost of Capital (WACC) value for the 2014 test year is approved as follows: As indicated above, Public Service's capital structure ratio between equity

and debt for the 2014 test year is adopted; a cost of equity of 9.5 percent and a cost of debt of 4.5 percent will be adopted; and a weighted component of 5.37 percent equity and 1.96 percent debt is adopted for a total rate of return (ROR) on rate base of 7.33 percent.

5. Energy Outreach Colorado's (EOC) proposal for a two-part application of the General Rate Schedule Adjustment (GRSA) for the residential customer class will be denied; therefore, no changes to the GRSA calculation are approved.

6. Public Service's updates to its Cost Assignment and Allocation Manual (CAAM) and its new Full Distributed Cost Study (FDC) are approved without modification.

7. The Company's Pipeline System Integrity Adjustment (PSIA) will be extended for only three additional years. In addition, several projects proposed to be included in the PSIA cost recovery will be excluded, as proposed by Staff.

8. Staff's proposed criteria requiring medium and high risk projects in Public Service's Transmission Integrity Management Program (TIMP) and its Distribution Integrity Management Program (DIMP) to qualify for PSIA recovery will be adopted.

9. Public Service's proposed acceleration of two DIMP projects: the Accelerated Main Replacement Program (AMRP), and the Programmatic Risk-Based Pipe Replacement Program will be approved.

10. All PSIA-related Operations and Maintenance (O&M) costs are to be transferred to base rates. In addition, no further O&M expenses will be authorized in the PSIA.

11. Public Service's proposal to shift the Cellulose Acetate Butyrate Replacement Program (CAB) Gas Service Replacement Program and Edwards-to-Meadow Mountain Transmission Project from PSIA to base rates will be approved. However, the Company's

proposal to shift "Projects Base Amount," from base rate recovery to PSIA recovery will be denied.

12. Staff's recommendation to continue the three-document PSIA reporting process as set forth in Decision No. R14-0694 in Proceeding No. 13M-0915G issued June 25, 2014, will be adopted. Staff's other detailed reporting requirements regarding the 5 Year Forecast reporting will also be adopted in part.

13. The implementation of a carrying charge on over- or under-collected amounts in the PSIA will be approved. The ROR on capital investments whose associated costs are recovered through the PSIA, as well as the PSIA carrying charge on over- or under-collected amounts in the PSIA will be set at the after-tax WACC.

14. Public Service's request to remove outdated tariff language from the PSIA tariff will be approved.

15. The adjustments requested by Public Service for the Cherokee Pipeline, including the capacity to serve the electric department needs, the additional capacity to meet gas department needs, and the allocation of costs to the electric department will be approved. The full revenue requirement of the Cherokee Pipeline is to be included in the calculation of Public Service's revenue deficiency using 2014 HTY year-end rate base, along with offsetting revenues from the Company's electric department.

16. Public Service's request to include the Inside Meter Replacement Project within the PSIA will be denied.

17. Public Service's request to include *pro forma* adjustments for the Regulator Station Improvement Project, and the upgrade for the SCADA/Gas Monitoring Project will be denied.

18. The Staff recommendation to approve the enhanced emergency response program, allowing the 2014 HTY *pro forma* adjustment of $1.6 million, and allowing Public Service to defer and establish a regulatory asset for the additional costs of this program in 2016 and 2017, with a requirement for tracking and meeting certain metrics, including achieving an average emergency response time of 60 minutes or less will be adopted.

19. Staff's recommendation to approve the proposed Damage Prevention Program costs and allow Public Service to establish a regulatory asset to defer the difference between the actual costs incurred and those approved in base rates will be approved.

20. Public Service's Enhanced Leak Management Program and proposed costs, as well as the Gas Storage Filed Maintenance Program will be approved without modification.

21. Public Service's General Ledger (GL) and Work Asset Management (WAM) systems Replacement Projects will be approved. The Colorado Office of Consumer Counsel's (OCC) recommendation will be approved, and Public Service may place the capital costs associated with the GL and WAM Replacement Projects into a regulatory asset to be deferred to the next gas rate for a determination of prudency of those costs.

22. Public Service may continue using its long-term cost of debt as the rate it earns on pre-paid pension assets. In addition, several proposals by Staff which were unopposed will be adopted, including, the designation of a "Legacy Prepaid Pension Asset" of $59,641,230 which is the requested prepaid pension asset adjusted for deferred income taxes; the authorization of a $3,976,082 15-year amortization to accelerate elimination of the account, and use of a pension tracker; and, Staff's proposal to implement the same annual pension reporting requirements for the gas side that Public Service agreed to undertake as part of the settlement agreement in the Company's most recent electric rate case, Proceeding No. 14AL-0660E.

23. Staff's proposal to defer the amount of property taxes included in the Cost of Service since an HTY is adopted in this Proceeding will be approved. Public Service will be required to implement a property tax tracker, consistent with the adoption of the 2014 test year for setting the Company's base rates.

24. Public Service's request to recover $727,704 in rate case expenses recovered annually in the amount of $335,863 is approved. In addition, the Company's proposal to recover labor costs for vacant positions is approved without modification.

25. Staff and OCC's proposal to limit cost recovery of AIP compensation to 15 percent of base salary will be adopted. Staff's adjustment for the impact on pension costs for incentive pay above the target amount will also be approved.

26. The equity portion of the Board of Directors' compensation of $122,760 in the 2014 HTY revenue requirement as proposed by Public Service will be approved.

27. 8.55 percent of Public Service's aviation expenses for its corporate aircraft will be approved for inclusion in its revenue requirement calculation.

28. Public Service's forecasts for sales and customer counts will be adopted.

B. Procedural Background

29. On March 3, 2015, Public Service filed Advice Letter No. 876-Gas with supporting testimony and exhibits. The proposed effective date of the tariffs filed with Advice Letter No. 876 (Attachment A) is April 3, 2015. The Company states the intent of this filing is to increase rates for its natural gas sales and transportation services.

30. Public Service proposed a multi-year rate plan (MYP) covering calendar years 2015 through 2017. The request is based on an HTY that ended June 30, 2014 and was adjusted

for known and measurable expenses and capital additions for each of the subsequent periods in the MYP.

31. Public Service originally sought to increase its base rate revenues by $66.2 million during the three-year MYP period. Additionally, the Company requested an increase of $42.9 million through its PSIA mechanism for a total rate increase of $109.1 million. Public Service estimated the impact to a typical residential customer will be an increase of 3.41 percent in 2015, 2.04 percent in 2016, and 2.87 percent in 2017. The estimated impact to a typical small commercial customer would be an increase of 3.24 percent in 2015, 2.08 percent in 2016, and 2.87 percent in 2017.[1]

32. Public Service originally stated that the proposed increase in base rates would result in a GRSA rider of 18.77 percent for 2015; 20.77 percent for 2016; and 25.49 percent for 2017. The Company calculated its revenue requirement based on a proposed ROE of 10.1 percent, which results in an overall ROR of 7.66 percent in 2015. For 2016 the proposed ROE remains at 10.1 percent with the resulting ROR being 7.66 percent. In 2017 the Company requested an ROE of 10.3 percent and an ROR of 7.78 percent.

33. The Company asserted that the proposed increase in revenues would allow it to recover approximately $1.02 billion of new capital investments that will go into service during the period July 1, 2014 through December 31, 2017, as well as associated expenses such as property taxes.

[1] Direct Testimony of Alice K. Jackson, p. 28, line 19 through page 29, line 4.

34. In addition to the revenue increases through the GRSA and PSIA, Public Service requested an extension of the PSIA rider through December 31, 2020. The Company sought accelerated cost recovery for certain pipeline replacement projects and approval for two new programs – the Gas Storage Field Maintenance Program and the Enhanced Leak Management Program. Further, the Company seeks to implement an Inside Meter Replacement Plan to replace approximately 18,000 gas meters located inside the residences and businesses of its customers.

35. On March 3, 2015, the Company filed the direct testimony and attachments of 15 witnesses in support of the Company's proposals and proposed tariffs. Those witnesses include the following: Ms. Alice Jackson, Ms. Cheryl Campbell, Mr. Luke Litteken, Mr. Robert Hevert, Ms. Mary Schell, Ms. Janet Schmidt-Petree, Ms. Jannell Marks, Mr. John Phibbs, Ms. Kimberly Locker, Ms. Lisa Perkett, Mr. Paul Simon, Mr. Richard Schrubbe, Ms. Ruth Lowenthal, Ms. Deborah Blair, and Mr. Steven Wishart. Additionally, three additional Company rebuttal witnesses filed testimony and attachments including: Mr. Tim Sheesley, Ms. Amy Stitt, and Mr. Scott Brockett.

36. On March 19, 2015, by Decision No. C15-0255, the Commission set this Proceeding for hearing and suspended for a period of 120 days, or until August 1, 2015, the effective date of the proposed tariffs that accompanied the Advice Letter. In Decision No. C15-0255, the Commission referred this Proceeding to an Administrative Law Judge (ALJ).

37. On April 21, 2015, and pursuant to § 40-6-111(1), C.R.S., Interim Decision No. R15-0362-I suspended, for an additional 90 days, or until October 30, 2015, the effective date of the proposed tariffs that accompanied Advice Letter 876-Gas. That Interim Decision also established a pre-hearing conference date of May 6, 2015.

38. On May 6, 2015, the ALJ held the prehearing conference as scheduled. A transcript of the prehearing conference has been filed. As of the date of the prehearing conference, the following had intervened as of right or had been granted leave to intervene by permission: City and County of Denver; Staff; OCC; Federal Executive Agencies (FEA); and SourceGas Distribution LLC.

39. On May 19, 2015, Public Service filed an Amended Advice Letter No. 876 - Gas (Amended Advice Letter). Proposed tariffs accompanied the Amended Advice Letter. The proposed tariffs filed on May 19, 2015 had an effective date of June 24, 2015. In all other respects, the proposed tariffs filed on May 19, 2015 were identical to the proposed tariffs filed on March 3, 2015. Filing the Amended Advice Letter and proposed tariffs with a modified effective date was part of the negotiated package of agreements that resulted in the Parties' proposed procedural schedule in this Proceeding. The Amended Advice Letter and accompanying proposed tariffs supersede in their entirety the original Advice Letter filing and accompanying proposed tariffs.

40. By Interim Decision No. R15-0512-I, issued June 1, 2015, ALJ Mana Jennings-Fader granted the petitions to permissively intervene of: WoodRiver Energy, LLC; Climax Molybdenum Company (Climax); Colorado Gas Transporters, a group of customers taking gas transportation service from PSCo; and EOC.

41. Interim Decision No. R15-0512-I also noted the statements of the Parties at the pre-hearing conference that none would raise the legal issues addressed in Decision No. R15-0202, issued March 4, 2015 in Proceeding No. 14M-0241EG.[2]

42. Interim Decision No. R15-0512-I granted the Parties' Unopposed Joint Motion to Place Interim Rates Into Effect on October 1, 2015. This allows Public Service to put into effect as interim rates, subject to refund with interest, the GRSA increase for 2015 contained in the tariffs appended to the Amended Advice Letter. Additionally, on October 1, 2015, Public Service put into effect the tariffs necessary to effectuate the interim rates.

43. Interim Decision No. R15-0512-I granted the Parties' Unopposed Motion to Extend the PSIA for Six Months, which was also part of the negotiated package of agreements that resulted in the Parties' proposed procedural schedule. The grant of this motion extended the current PSIA through June 30, 2016.[3]

44. Interim Decision No. R15-0512-I also adopted a procedural schedule, which among other things, established an evidentiary hearing scheduled for August 18 through 21, 24 through 28, and 31, 2015. Closing Statements of Position were due on September 14, 2015. Importantly, the Parties agreed to shorten response time to exceptions to seven calendar days from the date of service of exceptions.

[2] Decision No. R15-0202 addressed the issue of whether in a rate proceeding where Public Service requested three separate rate increases, the Commission may suspend the base rate increases proposed for 2014 and 2015 for a total of up to 210 days after the increases otherwise would go into effect; or, whether the Commission is limited to a single suspension period for all base rate increases set forth on the tariff sheet.

[3] The Parties believed that procedurally, under Commission Rule 4 *Code of Colorado Regulations* 723-1-1502(d) Rules of Practice and Procedure, it was most appropriate for the ALJ to issue an Interim Decision approving the request to extend the PSIA and then certify the Interim Decision as immediately appealable to the full Commission for its approval to extend the PSIA, since the Commission itself had entered the order regarding the termination of the PSIA in Decision No. C13-1568 in Proceeding No. 12AL-1268G issued December 23, 2013.

45. Interim Decision No. R15-0512-I suspended the proposed effective date of June 24, 2015 for the tariffs attached to Amended Advice Letter No. 876-Gas 120 days, or until October 22, 2015.

46. Interim Decision No. R15-0512-I scheduled several Public Comment hearings as follows: (a) June 16, 2015 in Grand Junction, Colorado; (b) June 17, 2015 in Pueblo, Colorado; and (c) June 18, 2015 in Denver, Colorado. At the Public Comment hearings, members of the public offered their opinions and comments regarding the proposed rate increases as a result of the increase in revenue requirements proposed by Public Service before ALJ Jennings-Fader.

47. In addition to the three scheduled Public Comment hearings, members of the public were invited to submit written comments regarding the proposed rate hikes associated with this gas rate case. Fifty-nine comments were submitted to the Commission through e-mail or through U.S. Mail.

48. The comments at the Public Comment hearings, as well as the written comments submitted to the Commission are made part of the record and are considered in reaching the decision points discussed below.

49. Intervenors offering answer, surrebuttal, or sur-cross-answer testimony in this proceeding included Staff, OCC, FEA, and the EOC.

50. Staff offered the testimony of Mr. Gene Camp; Mr. Charles B. Hernandez; Mr. Karlton Kunzie; Mr. Richard Reis; Ms. Fiona Sigalla; Mr. William Harris; and, Ms. Marianne Ramos.

51. OCC offered the testimony of Ms. Cindy Schonhaut; Mr. Ronald Fernandez; Mr. Chris Neil; Dr. Scott E. England; Mr. Cory Skluzak; and Mr. David Peterson.

52. The FEA offered the testimony of Mr. Michael Gorman, while the EOC offered the testimony of Mr. William Marcus.

53. The evidentiary hearing was held as scheduled on August 18, 19, 20, 21 and 25, 2015. At the close of the hearing the ALJ closed the evidentiary record. The evidentiary record is comprised of the testimony and exhibits from the five-day evidentiary hearing.

54. Public Service, Staff, OCC, EOC, FEA, and Climax each filed a Statement of Position (SOP).

C. Framework for Preparing this Decision

55. This Decision is organized in the sequence of topics generally set forth in the common briefing outline utilized by the parties in this Proceeding. Since evidence and arguments in this Proceeding are voluminous, the Decision focuses discussion on the major points of contention and does not summarize every nuance of each party's positions.

56. Similarly, due to the volume of the record and issues, this Decision has not explicitly described every single issue raised during the Proceeding. To do so would have increased the size of this Decision even beyond its current length. That does not mean, however, that the issues raised by Parties have been overlooked. The undersigned ALJ reviewed the record, as well as the arguments made, and considered all issues raised in deciding matters related to the PSIA, revenue requirements, and the related directives adopted herein.

57. Pursuant to § 40-6-109, C.R.S., the Administrative Law Judge transmits to the Commission the record of this proceeding, this Recommended Decision containing findings of fact and conclusions therefore, as well as a recommended order.

II. <u>LEGAL FOUNDATION AND BURDENS OF PROOF</u>

A. Commission Jurisdiction

58. Pursuant to § 40-3-101(1), C.R.S., "[a]ll charges made, demanded, or received by any public utility for any rate, fare, product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable." In interpreting that statute, the Colorado Supreme Court has held that it is the primary purpose of utility regulation to ensure that the rates charged are not excessive or unjustly discriminatory. *Cottrell v. City & County of Denver*, 636 P.2d 703 (Colo. 1981).

59. Further, under § 40-3-102, C.R.S., "[t]he power and authority is hereby vested in the public utilities commission of the state of Colorado and it is hereby made its duty to adopt all necessary rates, charges, and regulations to govern and regulate all rates, charges, and tariffs of every public utility of this state to correct abuses; to prevent unjust discriminations and extortions in the rates, charges, and tariffs of such public utilities of this state …"

60. As has been oft stated in previous Commission rate case decisions it is well established that ratemaking is a legislative function (*City and County of Denver v Public Utilities Commission*, 129 Colo. 41, 226 P.2d 1105 (1954)) and not an exact science (*Public Utilities Commission v. Northwest Water Corporation*, 168 Colo. 154, 551 P.2d 266 (1963)). As a consequence, 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." *Colorado Office of Consumer Counsel v. Colorado Public Utilities Commission*, 275 P.3d 656, 660 (Colo. 2012).

61. Under the just and reasonable standard, the Commission has the primary responsibility for balancing "the investor's interest in avoiding confiscation and the consumer's interest in prevention of exorbitant rates" (*Colorado Municipal League v. Public Utilities*

Commission, 687 P.2d 416, 418 (Colo. 1984)) 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." *Public Service Company of Colorado v. Public Utilities Commission*, 644 P.2d 933, 939 (Colo. 1982). The utility's right to earn a reasonable return encompasses the principle that the Commission-authorized ROR is a return that the utility has a reasonable opportunity to realize and is not an ROR that the utility is guaranteed to realize.

62. In the context of ratemaking, the Colorado Supreme Court in a more recent case "reiterated that 'it is the result reached, not the method employed, which determines whether a rate is just and reasonable.'" *Glustrom v. Colorado Public Utilities Commission*, 280 P.3d 662, 669 (Colo. 2012), quoting *Colorado Ute Electric Association, Inc., v. Public Utilities Commission*, 198 Colo. 534, 602 P.2d 861, 864 (Colo. 1979) (citing *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591, 602 (1944)).[4]

63. The Commission establishes rates to recover the utility's revenue requirements as determined by using the Commission-selected test year. The revenue requirement is the total revenues required by the utility to cover both its expenses and to have a fair or reasonable opportunity to earn a fair ROR.

B. Burden of Proof and Burden of Going Forward

64. Interim Decision No. R15-0512-I noted that Public Service, as previously required, provided an HTY for informational purposes and as the starting point for the development of test years which were the basis for Public Service's requested rate increase.

[4] *See*, Decision No. R13-1307, issued October 22, 2013, Proceeding No. 12AL-1268G, *In The Matter of Advice Letter No. 830 –Gas of Public Service Company of Colorado, with Accompanying Tariff Sheets Concerning Implementing a General Rate Schedule Adjsutment (GRSA), to be Effective January 12, 2013*, at ¶ 56.

Public Service stated that the filed HTY contains all the adjustments it would have made to its booked numbers if the Company had relied on the HTY as the basis for its revenue requirement in this Proceeding.[5]

65. With regard to Public Service's MYP proposal, it was determined in Interim Decision No. R15-0512-I that the burden of proof and burden of going forward as established by the Commission in the Company's 2012 Gas Rate Case would apply here. There, the Commission held that:

> *Public Service, as the proponent of a rate increase, shall have* the burden of going forward *and* the burden of proof as to the FTY case it has filed. *Intervenors shall have* the burden of going forward on any adjustment to the FTY sponsored by Public Service. *Intervenors shall have* the burden of going forward *and* the burden of proof if an HTY is the result sought. *Public Service does not have* the burden of disproving an HTY in order to prevail on its FTY.

Decision No. C13-0064 in Proceeding No. 12AL-1268G issued January 11, 2013 at ¶ 15 (emphasis supplied by ALJ)

66. Regarding the use of an HTY, it was clarified that although it does not advocate adoption of its March 3, 2015 HTY as the basis of its revenue requirement, Public Service relies on that HTY as the foundation for some of the numbers and adjustments that appear in one or more of the FTYs that Public Service advocates as the basis for its revenue requirement. As a result, to the extent of its reliance on the March 3, 2015 HTY, Public Service has the burden of going forward and the burden of persuasion as to the numbers and adjustments in the March 3, 2015 HTY.

[5] In the Company's view, the filed HTY has two principal roles in this Proceeding: (a) the filed HTY is the foundation for the Forecasted Test Years that PSCo advocates be used to determine its revenue requirement in 2015, 2016, and 2017; and (b) in the event an Intervenor advocates that an HTY be used to determine PSCo's revenue requirement, the filed HTY is available for the Intervenor either to use as the Intervenor's advocated HTY or to use as the starting point for that Intervenor's advocated HTY. *See*, ¶¶ 68-72, Interim Decision No. R15-0512-I.

67. Regarding the Intervenors' burden of proof, the ALJ clarified that if an Intervenor advocates the use of an HTY and elects to rely on one of Public Service's HTYs without proposing an adjustment, the Intervenor has available to it the Company's testimony and attachments on the issue of the accuracy of the HTY. When admitted into evidence, the Public Service testimony and attachments should establish that the HTY is fully-developed, contains all appropriate adjustments, and is accurate. The Company's case that contains and supports the HTY should provide a sufficient evidentiary basis to meet the Intervenor's burden with respect to the accuracy of the HTY that the Intervenor advocates as the basis for Public Service's revenue requirement.

68. Additionally, if an Intervenor relies on an HTY filed by PSCo but proposes adjustments to that Public Service-filed HTY, the Intervenor may rely on the Company's testimony and attachments concerning the HTY except to the extent of the Intervenor-proposed adjustments. As to each proposed adjustment, the Intervenor has the burden of proof.[6]

69. In establishing the burdens of proof in this Proceeding, the ALJ allowed Intervenors to file surrebuttal testimony and sur-cross-answer testimony since a party will have the burden of proof on the type of test year to utilize (Forecasted Test Year (FTY) or HTY) and the final revenue requirement that will be ordered. The ALJ also found that as a matter of fairness, an Intervenor advocating the use of an HTY is entitled to rebut the evidence presented by parties opposing the use of an HTY, which could only occur with surrebuttal or

[6] The Intervenor also has the burden of proof to establish that the Commission should use an HTY to determine the Company's revenue requirement. This discussion about the Public Service clarifications does not address this aspect of the Intervenor's burden of proof.

sur-cross-answer testimony. At the request of OCC, the ALJ ordered Public Service to file another HTY, this one for the 12-month period ending December 31, 2014.[7]

III. FINDINGS OF FACT AND CONCLUSIONS

A. Public Service's Proposed Changes in Gas Rates

70. Public Service notes in its SOP that it "has been improving its business practices by planning and operating its gas system in an increasingly more proactive and predictive manner."[8] Public Service submits that "[t]he questions to be answered in this proceeding are whether the pace of the Company's response to [an industry shift from detect and repair to a more preventative stance] provides a reasonable level of service to gas customers, and what rates for that level of service are just and reasonable."[9]

71. Public Service describes its proposals in this Proceeding as consisting of two primary elements. First, Public Service seeks authorization to extend its existing PSIA for another four years through December 31, 2019. According to Public Service, the PSIA provides for the recovery of costs for pipeline integrity projects undertaken to comply with the Pipeline Safety Improvement Act, which created national rules for the safe and reliable operation of natural gas pipelines.[10] Second, Public Service requests a base rate increase pursuant to a three-year MYP that consists of three partially FTYs with rates to take effect initially on

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[7] Public Service agreed to provide the information ordered in Decision No. R13-1307 in Proceeding No. 12AL-168G issued October 22, 2013, at ¶ 155 with two exceptions: (a) due to time constraints, the Company will not provide testimony explaining deviations between the FTYs and the CY 2014 HTY; and (b) the Company will not update the ten years of historical data filed on March 3, 2015 in the Company's direct testimony and attachments.

[8] *Post-Hearing Statement of Position of Public Service Company of Colorado*, Proceeding No. 15AL-0135G, September 14, 2015, p.1.

[9] *Id.*

[10] *Id.*

October 1, 2015, and then January 1 of 2016 and 2017.[11] Public Service notes that the requested base rate amounts reflect some transfer of costs between the PSIA and base rates, but will also recover additional capital costs the Company expects to incur over the next three years, as well as known and anticipated O&M expense changes.[12]

72. Public Service requested the following amounts in this rate case:

MYP Year	Requested Incremental Base Rate	Estimated Incremental PSIA Rider	Estimated Average Residential Customer Total Bill Impact
2015	$40,481,886	$(51,424)	3.38%
2016	$13,450,323	$15,863,316	2.15%
2017	$15,663,548	$22,833,229	2.77%

In addition to its proposed MYP, Public Service proposes a stay-out commitment and an earnings sharing mechanism which it claims will provide consumer protections.

73. Public Service represented that the MYP, coupled with a proposed extension of the PSIA, is intended to align rate recovery with the comprehensive plan for investments and programs it proposes in this Proceeding. This, according to the Company, would allow it to operate in a proactive and predictive manner, as well as provide predictable rates, while avoiding the uncertainty associated with the rate case it would otherwise be required to file during the MYP period.

74. While Public Service noted that the Commission previously determined that extending the PSIA would improve the Company's cash flow and reduce regulatory lag, it nonetheless contended that absent base rate relief, an unreasonable level of earnings attrition will result from the implementation of its proposed plan due to the significant level of plant to be

[11] *Id*. at pp.1-2.

[12] *Id*. at p. 2.

placed in service that is not recovered through the PSIA. Public Service maintained that it had developed the MYP and its test years with sufficient transparency which will enable the Commission to ensure that the MYP will result in just and reasonable rates.

75. Public Service pointed out that given the significant capital investment the Company proposes during the MYP period to improve the safety and reliability of its system, it is important that the Commission grant the Company an adequate ROE and set its overall ROR based on its actual capital structure.

B. Multi Year Plan (MYP) and Pipeline System Integrity Adjustment (PSIA)

76. The test years in Public Service's proposed gas MYP reflect incremental capital additions expected to be placed in service from July 1, 2014 through December 31, 2017 combined with historical levels of utility expenses with adjustments for certain known and estimated changes.

77. The Company's proposed MYP is premised on cost of service calculations for each year. The specific increases in base rate revenues are based on an HTY ended June 30, 2014 adjusted for known and measurable expenses and capital additions for each of the subsequent periods in the MYP.

78. Public Service argues that, although in the 2012 gas rate case the Commission set rates using an HTY, the Commission was nonetheless supportive of the MYP concept, stating that there can be benefits for both customers and the Company such as reduced rate case expenses and the stability and predictability of rate increases that an MYP provides.[13]

[13] Hearing Exhibit 634, Decision No. C13-1568, Proceeding No. 12AL-1268G, issued December 23, 2015, at p. 11.

Public Service contends that if its MYP is denied in this rate case, the Company may file another rate case in early 2016, resulting in rates that are both less predictable and less stable.

79. Public Service also requests to continue its PSIA mechanism. Public Service states that the PSIA provides for the recovery of costs for pipeline integrity projects undertaken to comply with the Pipeline Safety Improvement Act, which created national rules for the safe and reliable operation of natural gas pipelines.[14]

80. For 2015, the first year of the proposed MYP, Public Service intends to shift PSIA-related costs from recovery through the PSIA rate adjustment mechanism, to recovery through base rates. The base rate increase Public Service proposes for 2015 as a result, includes incremental costs that, had this rate case not been filed, would have otherwise been recovered through the PSIA.[15] Public Service projects the PSIA revenue requirement would increase as of January 1, 2016 by approximately $15.86 million and would again increase by $22.8 million as of January 1, 2017.

81. Public Service's proposed MYP and PSIA would together collect an increase of approximately $108.3 million through December 31, 2017. The Company represents that its proposed increase in revenues will allow it to recover approximately $1.02 billion of new capital investments as well as associated expenses, such as property taxes.

82. Public Service argues that the combination of the MYP and the continuation of the PSIA will enhance the safety of customers and the public as well as its gas system operations. According to Public Service witness Ms. Jackson, if the Company's request is not granted, its

[14] Post-Hearing Statement of Position of Public Service Company of Colorado, p.1.

[15] By Decision No. C15-0759, issued July 27, 2015, the Commission extended the PSIA to operate through June 30, 2016. The PSIA would have otherwise expired on December 31, 2015.

goals to enhance the safety and reliability of its gas system will be "seriously hampered." The Company also asserts that it is more probable that the MYP and PSIA will provide Public Service with a reasonable opportunity to achieve its authorized return.

83. Climax opposes the approval of the MYP and instead recommends the use of the HTY. Climax notes that while the Company should be applauded for using an HTY as a starting point, nonetheless, the result is still multi-year revenue increases built on budget estimates, which is the same issue that caused the Commission to reject FTYs in Proceeding No. 12AL-1268G. Climax also disputes the issue of earnings attrition, arguing that the Company has not demonstrated this is a legitimate issue.

84. Staff, through the answer testimony of Mr. Kunzie, urges the Commission to reject the MYP and instead use an HTY based on the 12 months ending December 31, 2014. It is Staff's opinion that the test year ending December 31, 2014, adjusted for known and measurable changes, will provide Public Service with an opportunity to effectively manage the Company's investments and operations, recover its costs, and earn its allowed ROR. Staff is confident that with effective management, the Company can control regulatory lag and earnings attrition. Additionally, Staff expresses concern that the consequence of an MYP will be a preapproval of the non-PSIA programs and projects proposed by Public Service.

85. Staff argues that the forecasted costs, both capital and O&M, that go along with those programs and projects, would receive a presumption of prudence. Staff maintains that this is neither appropriate nor necessary, since the non-PSIA programs and projects as described by the Company in its direct testimony are not required by specific federal or state mandates.

86. Staff explains that when it supported an MYP in Proceeding No. 11AL-947E it was primarily due to the economic conditions at that time. Staff perceives a significant

difference between the economy now, as opposed to the time negotiations that were ongoing in Proceeding No. 11AL-947E. Staff concludes that there is no evidence provided by Public Service to necessitate the use of an MYP at this time.

87. OCC, through the answer testimony of Mr. Peterson, also supports an HTY (adjusted for known and measurable changes) for the 12-month period ending December 31, 2014. OCC takes the position that a recently completed HTY, adjusted for known and measurable changes, is a more accurate, reliable, and verifiable indicator of Public Service's average unit cost of service, since the HTY reflects confirmable, current service costs. OCC argues that Public Service failed to offer a compelling justification for the Commission to abandon its long-standing practice of setting rates using an HTY adjusted for known and measurable changes. According to OCC, Public Service's FTY revenue requirement determinations are speculative and unverifiable, rendering them unreasonable to use for establishing rates.[16] OCC further requests that the Commission require Public Service to calculate any HTYs filed in future rate proceedings with specific criteria, such as using average rate base.

88. OCC argues that the speculative nature of the Company's forecasted information used to create its MYP was demonstrated by the Company itself in this Proceeding through its increase in cost estimates to the entire Company for software replacement from approximately $100 million to $165 million, which represents a nearly 65 percent increase.[17] OCC couples its software cost estimate concerns with Public Service's gas revenue forecasting, which OCC characterizes as unreliable because, as OCC argues, it appears designed to increase purported

[16] Answer and Direct Testimony of David E. Peterson, Hearing Exhibit 306, p.6, lines 14-16.
[17] *SOP of the OCC*, p.8.

deficiencies which the OCC argues do not exist. OCC concludes that the MYP proposed by Public Service here is virtually the same proposal considered and rejected by the Commission in the Company's 2012 gas rate case. OCC contends that Public Service has added nothing additional in this Proceeding to justify a different outcome from what the Commission held in the 2012 gas rate case.

89. The analysis of whether to adopt Public Service's MYP begins with the established advisement provided in prior Commission decisions regarding the selection of a test year. The selection of a test year is within the Commission's discretion and is a policy decision that the Commission makes in every rate case. The choice of test year depends on the circumstances that exist at the time the record is made in the rate case. As ALJ Mana Jennings-Fader stated in Decision No. R13-1307, "[r]ecognizing that there is no one 'correct' standard, the ALJ uses a mix of the standards and concepts and does not select one to the exclusion of the others. Ultimately, the choice of test year is a matter of choosing regulatory policy; this choice is not fact-dependent." *Id*. at ¶ 134.

1. Findings

90. The rationale advocated by Public Service for adoption of its MYP is very similar to its position in its prior gas rate case in Proceeding No. 12AL-1268G, to wit: that regulatory lag must be reduced to ensure the Company's financial health; that the Company is experiencing earnings attrition as a result of sizeable capital investment concurrent with declining revenue growth; and, that the forecasts underlying its proposed FTYs are reliable and accurate. Public Service presents nothing new to support the use of an MYP here.

91. Staff advocates for an HTY as a means to protect ratepayers by empirically determining and establishing the utility's cost of service to implement rates using known and

measurable expenses with an allowance for just and reasonable rates. It is agreed that in this particular case, Public Service's speculative projections and forecasts, especially in the later years of the MYP do little to protect ratepayers.

92. Had Public Service approached this gas rate case without the PSIA rider currently in place, or should the rider have expired, there may have been adequate support for the adoption of the proposed MYP. Here however, as discussed in more detail below, the PSIA will be extended an additional three years. Consequently, Public Service should not suffer the earnings attrition or a lag in revenue it anticipates as the projects it proposes are undertaken. Nor is there evidence that the use of an HTY renders the Company's gas system unsafe or unreliable.

93. OCC provides persuasive argument that Public Service itself views the PSIA and the MYP similarly. OCC notes the testimony of Public Service witness Mr. Scott Brockett in Proceeding No. 10AL-963G, in advocating for an adjustment clause to recover costs relating to gas PSIAs. Mr. Brockett, discussed the policy criteria he believed relevant in the approval of the PSIA there. Mr. Brockett stated that as a policy consideration, the Commission should consider that the proposed adjustment clause there would smooth out rate and bill impacts of recovering the increasing costs anticipated by the Company. Mr. Brockett then goes on to state that "[w]hile a [MYP] could accomplish the same goal, there is … inadequate time to develop such a plan in [Proceeding No. 10AL-963G]."[18]

94. Public Service provides no compelling or persuasive evidence that its business practices have changed significantly since its last gas rate case, or that it is suffering from any adverse situations outside of its control such as high inflation, high interest rates, or rapid

[18] *Direct Testimony and Exhibits of Scott B. Brockett*, Proceeding No. 10AL-963G.

expansion in utility facilities. Public Service provides little information to support a finding that implementation of its proposed MYP would serve the public interest and benefit ratepayers. Most importantly, however, is the evidence provided by OCC and Staff that the Company has a recovery mechanism in the PSIA for capital costs and expenses related to its current infrastructure spending which protects Public Service from the harm it claims the MYP would protect against.

95. There is additionally no evidence that the use of an HTY would harm Public Service by impeding its ability to raise capital or to remain financially stable. As Staff points out, Public Service's own evidence shows that under an HTY, Fitch and Moody's upgraded Public Service's credit rating. Its current credit rating remains at least at an "A-" corporate credit rating with Standard & Poor's, as well as, Moody's and Fitch.[19] As one of the reasons for the Company's strong credit rating, Ms. Schell mentions the implementation of the PSIA. It is apparent that many of the ills Public Service contemplates under an HTY are mitigated by the PSIA.

96. Additionally, an MYP involves setting rates based on planned capital expenditures rather than reimbursing the Company for investments already made. Consequently, Public Service must be prepared to provide more detailed information than what has been required in the past. Public Service must be able to show that investments were made according to the plan submitted at the time of the filing. The Company must demonstrate its ability to budget properly and execute projects according to plan, and show that investments were made according to the plan submitted at the time of filing. That level of transparency was not evident in this Proceeding.

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[19] Hearing Exhibit 12, Mary P. Schell Direct Testimony, p.11.

97. As a result, it is found that Public Service has not met its burden of proof regarding the implementation of its proposed MYP. Staff, OCC, and Climax have met their respective burdens of proof regarding the implementation of an HTY in this Proceeding. Therefore, the 2014 HTY, with known and measurable adjustments will be adopted in this Proceeding.

2. Extension of the PSIA

98. While Public Service initially requested that the PSIA be extended for a minimum of five years, or until December 31, 2020; in its rebuttal case, the Company capitulated and proposed to extend the PSIA for four years, through December 31, 2019 in response to the concerns raised by Staff and OCC in their respective answer testimony. Public Service argues that although it has made significant progress on its pipeline integrity work, not all related projects are at stages where they are easily identifiable and measurable. The Company contends that extending the PSIA an additional four years will allow it to continue to meet PSIA objectives and recover the additional costs and burdens imposed by the federally mandated rules. Public Service identifies those additional costs and burdens as pipeline safety inspection and repair directives which are moving the gas utility industry from a "detect and repair" mode to a more preventative stance.

99. Staff recommends continuing the PSIA for only three years from 2016 through 2018, which coincides with Public Service's next rate case filing, while OCC opposes extension of the PSIA altogether.

100. Staff witness Mr. Camp expresses several concerns with Public Service's proposed extension of the PSIA, particularly the concern that it appears that the Company is proposing to expand the scope and reach of the PSIA at a time when it is more appropriate to

scale the rider program back and plan for its eventual discontinuance. Staff also raises the concern that Public Service appears to now seek PSIA recovery of any cost that is generically related to safety, regardless of whether it is volatile, significant, increasing, or beyond the Company's control. It appears to Staff, that Public Service seeks to recover through the PSIA, many O&M expenses that would generally be characterized as "normal course of business" activities, such as vegetation management.

101. Mr. Camp notes in his answer testimony that the PSIA was initially designed to recover only incremental costs for pipeline safety measures. He points to the Hearing Commissioner's Decision No. R11-0743 in Proceeding No. 10AL-963G, issued July 8, 2011, in which Commissioner Baker explicitly stated that the PSIA provided Public Service the ability to recover costs "that are incremental, either positive or negative, to those O&M and capital costs associated with the Company's TIMP, AMRP, CAB, and DIMP programs, and the Edwards to Meadow Mountain and West Main Pipeline Projects." *Id.* at ¶ 41.

102. In addition, Commissioner Baker noted that routine pipeline capital expenditures and maintenance costs were to be included in base rates, "but the prudent additional costs *due only to the additional cost burdens imposed by the federally mandated rules* could be captured in the rider." *Id.* at ¶ 52 (emphasis added). Consequently, Staff represents that it was made very clear that the PSIA was designed to recover incremental costs, and routine capital and maintenance expenses were to be recovered through base rates.

103. OCC is of the opinion that the PSIA has served its purpose because the time and place in which it was created, and the immediate crisis the PSIA was intended to address has passed. OCC argues that an extension of the PSIA to facilitate Public Service's compliance with

safety mandates does not rise to a demonstration of need, and the Company has failed to show any continued need beyond conclusory assertions.

a. Findings

104. The evidence in this Proceeding demonstrates that Public Service has met its burden of proof to authorize the PSIA, but Staff has met its burden of proof to limit it to another three years through 2018, if adequate steps are taken to control the scope of the PSIA and prudence of PSIA expenditures. Public Service met its burden to show that significant capital expenditures for Commission approved PSIA projects will occur over this period, without corresponding revenue increases. It is reasonable to assume that continued rate increases would be required if the PSIA was not extended. These factors support cost recovery through an adjustment mechanism.

105. A fair and equitable method of base rate recovery of significant costs associated with necessary but non-revenue-producing investments made in the ordinary course of business may be different from the traditional approaches to ratemaking that served the public interest in the past. However, as specified by Commissioner Baker, the PSIA was not intended to be used to recover costs for routine and ordinary activities, as the Company proposed.

106. The level of risk and the project types proposed in the PSIA will continue to change and evolve as Public Service completes projects. Continuation of the PSIA program will only be approved with fundamental improvements to the method of qualifying projects for PSIA treatment. For example, when the PSIA was first extended there was significant consensus between parties that cast iron distribution pipe was a critical safety threat requiring swift action.[20]

[20] Hearing Exhibit 5, Campbell Corrected Direct Testimony Exhibit CFC-6, shows that in 2013 cast iron had 1.11 leaks per mile compared with bare steel at 0.53 and coated steel at 0.060.

Now that all cast iron pipe has been successfully replaced in Public Service's system, other degraded materials remain to be replaced, but the remaining projects generally have a lower leak risk than cast iron pipe.

107. As would be expected, the facilities most in need of repair were attended to first, so intuitively, as the PSIA continues, the remaining projects should be expected to have a lower risk factor. Public Service's PSIA risk assessment compares the relative risk between projects, but does not determine what overall level of risk qualifies for PSIA treatment as opposed to those projects characterized as being in the ordinary course of business.

108. It is found that the PSIA has evolved to the point that it should now have an adequate ranking system in place to determine what level of project risk warrants PSIA treatment. As discussed in more detail below, Staff's risk criteria to identify which projects warrant cost recovery through the PSIA will be adopted as a prerequisite to extending the PSIA an additional three years.

109. Similarly, the existing tracking and prudence review process for the PSIA must also be re-examined in light of the evolving PSIA environment. As discussed in more detail below, Staff's additional reporting requirements will be adopted as a prerequisite for the extension of the PSIA. Only with the tracking of PSIA expenses coupled with a prudence review process, in addition to Staff's reporting requirements support the continuation of the PSIA for an additional three-year period.

110. In limiting the PSIA to only an additional three years, the factors cited by Staff and OCC were carefully weighed. The PSIA should not become a permanent fixture on customer bills in addition to the Gas Cost Adjustment (GCA). At the same time, the termination of the PSIA as abruptly as suggested by the OCC is not in the public interest. Staff makes

several suggestions for the Commission to implement to begin "winding down" the PSIA, including removing O&M costs.

111. Consistent with Decision No. R11-0743, Commissioner Baker's decision initially approving the PSIA, Public Service must demonstrate any continued need for extraordinary cost recovery through a rate adjustment mechanism as a part of its next gas rate case.[21] Any such request for further extension of the PSIA is to include a plan stating how the PSIA will be terminated in the future, including: 1) a thorough analysis of all projects to be included in an ongoing PSIA; 2) the criteria used to determine whether future projects qualify for PSIA treatment;[22] 3) a timeline for all PSIA projects to be completed; and, 4) a plan stating how remaining projects in the PSIA and other future pipeline replacements or significant safety expenditures will be addressed through the ordinary course of business when the PSIA is terminated.

C. Proposed Modifications to the PSIA

1. Additional PSIA Projects

112. The PSIA recovers costs associated with Public Service's TIMP and its DIMP. Public Service states[23] that its current TIMP program includes:

8" Fraser to Frisco Pipeline Reroute,
In Line Inspection (ILI),
Vegetation Management Right-of-Way (ROW),
Maximum Allowable Operating Pressure (MAOP) Validation, and
ASV/RCV (Automatic Shutoff Valve/Remote Control Valve).

[21] Decision No. R11-0743 requires a rate case to be filed every three years while the PSIA is in effect.

[22] At a minimum Public Service shall propose a quantitative risk assessment system that resolves its concerns about the lack of defined objective criteria in Staff's proposal.

[23] Campbell Corrected Direct testimony, Hearing Exhibit 5, p. 48,

The Company also states[24] that its current DIMP program includes:

Programmatic Pipe Replacement Program,
Distribution Valve Replacements,
PDP (Pipeline Data Project) Distribution asset records,
IP (Intermediate Pressure) Line assessments,
Indirect Survey,
Bridge Crossings/Exposed Pipes,
Accelerated Leak Survey,
Federal Code Mitigation,
Shorted Casing,
Unprotected Pipe, and
Above Ground Facility Protection.

113. Staff asserts that several of the programs that Public Service characterizes as being within the current PSIA have not been approved by the Commission. Although Public Service included these additional projects in Exhibits 6 and 7 in Proceeding No. 14AL-1113G, the Commission has not approved the inclusion of these projects within the PSIA.

114. From Staff's perspective, Public Service is now proposing to include the following projects as additional projects within the PSIA: the 8" Fraser to Frisco pipeline repair and reroute project; the Vegetation Management Right of Way (ROW) Clearing initiative project; Federal Code Mitigation project, that includes projects such as meter set painting, repair of risers due to corrosion or sleeve requirement, installation of ice shields on meter sets, installation of pipeline markers, relocation of meters due to inaccessibility, and lowering of mains and services due to depth of coverage; the Shorted Casing project, which tests and repairs pipelines in casings; and, the Unprotected Pipes project, which will identify, field test, field troubleshoot, field protect, and digitize in the mapping software approximately 420 miles of unprotected distribution coated steel pipe.

[24] Campbell Direct testimony pp. 37-38

115. Staff opposes inclusion of these additional projects in the PSIA, asserting that they are more appropriately characterized as being within the established normal course of utility business, and Public Service has not adequately demonstrated that the incremental PSIA costs can be separated from base rates.[25]

2. Findings

116. Public Service failed to meet its burden of proof to include these projects in the PSIA. Staff met its burden of proof regarding the elimination of several of these projects, and as a result, the following projects shall not be included in PSIA cost recovery: 8" Fraser to Frisco pipeline repair and reroute; Vegetation Management Right-Of-Way Clearing; Federal Code Mitigation; Shorted Casing; and Unprotected Pipes. It is found that these projects are within the normal course of utility business, and Public Service failed to distinguished incremental PSIA costs from those contained in base rates.

3. Establish PSIA Criteria, Include Moderate and High Risk Projects

117. Staff proposes a quantitative risk assessment and prioritization by risk for PSIA projects. Under Staff's proposed criteria, only those programs that are designed to mitigate public exposure to high or moderate risk conditions will qualify for PSIA recovery.

118. In its SOP, Staff provides a table summarizing its recommendations regarding which programs and initiatives should require quantitative risk assessment. (Staff SOP, p. 31)

[25] Hearing Exhibit No. 200, Camp Answer Testimony pp. 6-18

For example, Staff suggests that, under the TIMP: the West Main Transmission Line Replacement Project and the 8" Frazer to Frisco Pipeline Reroute Project should have quantitative risk assessments. Likewise, under the DIMP Staff recommends that: the Programmatic Pipe Replacement Program, the Distribution Valve Replacements, the Shorted Casings, and the Above Ground Facility Protection programs should have quantitative risk assessments. In addition, Staff indicates that the Federal Code Mitigation also should have a quantitative risk assessment. Staff allows that exceptions to these criteria are appropriate under certain circumstances.[26]

119. OCC supports establishing PSIA criteria, but opposes Staff's proposal to allow "moderate" risk costs. Instead, OCC recommends allowing only high risk programs. As indicated above, OCC's arguments against continuing the PSIA focused on its concerns regarding the "mission creep" aspect of the PSIA, citing the vegetation management program to the TIMP and Federal Code Mitigation costs to the DIMP as examples. OCC also expressed concern with the "blank check" aspect of the PSIA given OCC's mission creep examples. OCC also noted that given the description of the Company's proposed programs under the PSIA, it is apparent that those projects that were initially deemed as "extraordinary", now appear to be more in the realm of ordinary when it comes to pipeline integrity issues.

120. Public Service opposes Staff's proposed risk-based criterion. The Company argues that such screening lacks defined objective criteria for the three levels of risk; it creates complexity and would add costs to the existing PSIA process; and subjects the Company to risks because it would be applied retroactively.

[26] Staff SOP pp. 28-31.

121. The Company addresses Staff's recommended risk information through the rebuttal testimony of Ms. Campbell and Mr. Brockett. It is the Company's assertion that Staff's proposed materiality screen lacks defined objective criteria for the three levels of risk, which creates uncertainty. Public Service argues that the risk criteria also create complexity since no one model can be used to assess the Max Risk of Failure. In addition Public Service argues that the risk screening would add costs to the existing PSIA process to consultants to correlate integrity project risk levels with common risks, and would expose the Company to needlessly high risks of incomplete cost recovery since it would be applied retroactively, and could lead to protracted litigation over the risk level of certain initiatives.

122. Public Service argues that the better proposal would be to jettison any low-value initiatives regardless of the vehicles through which their costs might or might not be recovered. According to the Company, the best way to implement a risk evaluation would be on a prospective basis, before the Company commits to pursuing the initiatives. Applying such a screening retroactively may effectively punish the Company be denying cost recovery on a temporary or permanent basis.

123. If Staff's risk assessment is adopted, Public Service offers some suggested conditions. Public Service recommends that the Commission first decide in this preceding whether the integrity initiatives the Company proposes here meet Staff's criteria. Public Service argues that a more prospective approach would be more productive. Second, Public Service recommends that the risk assessment criteria should not apply to initiatives specifically required under statues, rules, or regulations, since such initiatives are already deemed to be of high priority. Third, the criteria should not be applied to any integrity activities undertaken and costs incurred prior to January 1, 2016 so that the standards would apply prospectively. Finally, Public

Service urges that the Commission require and specify more objective guidance for determining whether an integrity initiative addresses the risk factors.

a. Findings

124. Staff's proposed criteria requiring medium and high risk projects to qualify for PSIA recovery will be adopted. Establishing criteria for project inclusion in the PSIA is an important step in determining the projects that are appropriate for the PSIA at this stage. Given the current point in the evolution of the PSIA, this quantitative risk assessment is essential for the extension of the PSIA, as discussed above. However, Public Service expresses some valid concerns regarding Staff's proposed criteria. Therefore, it is determined that Staff's selective basis for the integrity initiatives the Company proposes here for inclusion in Staff's proposed risk assessment, are sufficient to find that those integrity initiatives specified by Staff meet its selection criteria. Staff's criteria will therefore apply only to integrity activities undertaken, and costs incurred subsequent to January 1, 2016. Additionally, Public Service's recommendation will be adopted in-part regarding initiatives required under statutes, rules, or regulations. Those integrity initiatives will be categorized as high priority. The Company will work with Staff to identify the guidance the Company seeks with regard to determining whether an integrity initiative addresses the risk factors.

4. Accelerate Certain PSIA Projects

125. Public Service requests acceleration of two DIMP projects: the AMRP, which addresses the poorest performing pipe types of cast iron, bare or black steel, and polyvinyl chloride plastic within the distribution system; and the Programmatic Risk-Based Pipe Replacement Program, which addresses natural gas lines that have a higher relative risk to public

safety than other distribution main and service segments.[27] The Company proposes to double the $34 million amount filed in the Company's 2015 PSIA Plan in Proceeding No. 14AL- 1113G to remove these types of pipes. Public Service states that it is not increasing the estimated costs associated with these programs, but will complete them sooner.

126. OCC opposes the acceleration of these projects, generally asserting that the costs are within the utility's control and Public Service has not demonstrated that the benefits exceed the costs.[28] According to OCC, these proposals are simply Public Service's attempt to further accelerate the cost recovery of pipeline integrity work. OCC further notes that these proposals were previously made in the Company's 2012 gas rate case where Public Service sought to obtain guidance on the advisability of speeding up the timing of its work plan, which was rejected in that gas rate case as impermissibly requesting the Commission for its guidance.

a. Findings

127. The Commission previously approved the inclusion of the AMRP and Programmatic Risk-Based Pipe Replacement Program within the PSIA, so they represent valid safety initiatives, and the overall estimated cost level for these projects will not increase as a result of the acceleration. While OCC is correct that the timing of the work is within Public Service's control, the level of risk to customers is reduced by replacing the problematic facilities more expeditiously. It is found that accelerating the projects will reduce the overall risk to customers without increasing the overall costs. Therefore, Public Service's proposed acceleration of the AMRP and Programmatic Risk-Based Pipe Replacement Programs will be approved.

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[27] Campbell Direct Testimony, pp. 40-47.

[28] Hearing Exhibit 307, Corrected Skluzak Answer Testimony, p.44-47.

5. Remove O&M Expense Recovery from the PSIA

128. Public Service's position is that the PSIA should continue to collect some O&M expenses because those expenses are expected to fluctuate significantly, are quite large, and are volatile. The Company uses as an example, the O&M expenses attributable to the Maximum Allowable Operating Pressure Validation Project, which Public Service represents are expected to increase from $4,893,794 in 2015 to $10,900,000 in 2018. Public Service is also concerned with the cost variability in TIMP and DIMP assessments which it maintains is impacted by the quantity, miles, and specific pipelines being assessed each year. Public Service cites pipeline depth, permitting requirements, and uncertainties that may be encountered during an assessment or repairs that could result in cost volatility.

129. The Company acknowledges that certain O&M costs are predictable, but asserts that others are not. Public Service requests that O&M costs for certain projects remain with the PSIA. Public Service specifically requests that the Commission find that recovery of O&M expenses through the PSIA be continued for a subset of DIMP and TIMP initiatives. Recovery is sought by Public Service through the PSIA of the O&M expenses for the following DIMP initiatives:

1.) Coupled Intermediate Pressure (IP) Pipeline Replacement Program;
2.) Accelerated Lead Survey
3.) Close Interval Survey/Direct Current Voltage Gradient ("DCVG") Survey;
4.) Bridge Crossing/Exposed Pipe Inspection;
5.) Labor & Employee Expenses and Transportation;
6.) Distribution IMP/Labor DIMP;
7.) Shorted Casings Leak Survey;
8.) Shorted Casing Test Leads Installation and Pipe Isolation; and
9.) Cathodic Protection ("CP") Unprotected Pipe.

Recovery is sought by Public Service through the PSIA of the O&M expenses for the following TIMP initiatives:

1.) Line Assessments – TIMP;
2.) TIMP – Labor, Employee Expenses, Transportation; and
3.) MAOP Validation Transmission.

130. Public Service indicates that it is willing to transfer some O&M expenses from recovery through the PSIA to base rates, effective January 1, 2016 for the following DIMP projects:

1.) AMRP Services;
2.) AMRP – Labor, Employee Expense and Transportation;
3.) Coated Steel Main Replacement Program ("CSMRP");
4.) Coated Steel – Mains;
5.) Aldyl-A Main Replacement;
6.) IP Line Assessments; and,
7.) Federal Code Mitigation.

131. Public Service is willing to transfer O&M expenses from the PSIA to base rates for the TIMP – Vegetation Management Right of Way Clearing project.

132. Staff proposes that the Commission require Public Service to remove all O&M expenses from the PSIA. Staff asserts that the PSIA cost recovery mechanism should recover only the revenue requirement for capital expenditures because the associated O&M costs are not volatile or outside the Company's control.[29] Staff provides estimated expenses for 2014 through 2019 based on information from Proceeding No. 13AL-1047G with Vegetation Management and Federal Code Mitigation removed, that Staff contends indicates that these expenses are relatively

[29] Camp Answer Testimony pp. 8-10, and Exhibit 203, Reis Answer Testimony p. 19.

stable. Staff proposes a transfer of $20,520,827 from PSIA cost recovery treatment to base rate treatment beginning January 1, 2016.

133. OCC's conditional position is that if some PSIA extension is granted, that all O&M expenses be removed from PSIA cost recovery and placed into base rates.

a. Findings

134. It is found appropriate to transfer all PSIA-related O&M costs to base rates. In addition, no further O&M expenses will be authorized in the PSIA. Though Public Service lists O&M costs from certain PSIA projects that are larger or smaller from year to year, the Company has not demonstrated that these costs are so volatile or outside its control to warrant recovery through the PSIA. Staff's argument that Public Service has had ample time to be able to manage the O&M aspect of its safety and integrity operations in the conventional manner is compelling. Further, as it is appropriate to begin winding down the PSIA wherever possible, removing all O&M costs from the PSIA to base rates indicates the initiation of that winding down process.

6. Public Service Proposal to Shift Projects from PSIA to Base Rates

135. Public Service proposes to shift two projects from PSIA to base rates. The Company indicates that the CAB Gas Service Replacement Program, and the Edwards-to-Meadow Mountain Transmission Project will be completed by the end of 2015.[30] Public Service requests that recovery of all costs for these projects be moved from the PSIA to base rates as of January 1, 2016.

136. EOC opposes shifting the PSIA costs to base rates, arguing that it results in an increased customer charge under the Phase I rider.

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[30] Public Service also proposes to shift West Main to base rates as a part of its MYP, but the project will not be fully complete by 2016.

137. OCC notes that Public Service confirmed that the "beyond control" standard from the Commission's rider eligibility criteria, no longer applies to these two projects or buckets. According to OCC, the only remaining issue is Public Service's position that the CAB should not be shifted into base rates if its proposed MYP is not approved. OCC finds this position should be rejected as untenable.

a. Findings

138. Public Service has met its burden here and as a result, its proposal to shift the CAB Gas Service Replacement Program and Edwards-to-Meadow Mountain Transmission Project from PSIA to base rates will be approved. Public Service provided sufficient evidence to show that the two projects will be completed by the end of 2015. Though the Phase I rider changes somewhat by this shift to base rates, it is appropriate to shift costs to base rates when the projects are completed.

7. Public Service Proposal to Shift Project Base Amount from Base Rates to PSIA

139. Public Service proposes to shift the approximately $13.8 million revenue requirement portion of the PSIA, the "Projects Base Amount," from base rate recovery to PSIA recovery effective January 1, 2016 to promote regulatory efficiency and transparency. The Company also represents that the proposed shift would mitigate the potential for double-counting of PSIA costs or revenues.[31]

140. Staff supports the exclusion of the PBA from base rates and to incorporate that adjustment into the GRSA calculation, in addition to the inclusion of the EMM and CAB projects in base rates.

[31] Hearing Exhibit 26, Wishart Corrected Direct Testimony, p.10.

141. OCC opposes the shift and provided five reasons that it was opposed to shifting the PBA from base rates to the PSIA. OCC's primary reason to oppose the shift was that Public Service itself initially proposed the PBA concept and the rationale which was to recover costs through base rates at the level of test-year costs. OCC argues that the PSIA was designed to recover only incremental costs, or those costs in addition to or above a certain level of routine costs.

142. Additionally, OCC noted Commission Baker's Decision specifically pointed out that the PBA captured the incremental nature of the PSIA, and was a critical component of his Decision. OCC takes umbrage with Public Service witness Mr. Wishart's assertions that the PSIA rider would not afford the Company "extraordinary" recovery of routine pipeline costs, and that the PSIA cost recovery treatment helps to ensure that Public Service is not financially "punished," as well as that none of the PSIA recovery is guaranteed. OCC points out that Public Service has collected 99.8975 percent of its PSIA costs since the inception of the rider on January 1, 2012.

a. Findings

143. After weighing the positions of the parties carefully, it is found that Public Service's proposal to shift the PBA from base rates to PSIA will not be approved. OCC provides persuasive reasoning to deny the request. OCC notes that the PSIA, by design, affords cost recovery beyond the ordinary and traditional base rate recovery and is therefore by definition itself "extraordinary."

144. Nothing in Mr. Wishart's testimony provides a compelling reason to approve the shift of PBA from base rates to the PSIA. The Company maintains that in order to simplify the PSIA tariff's administration it proposes shifting the PBA from base rates to the PSIA. Public

Service goes on to argue that moving the $13.8 million PBA to the PSIA rider in conjunction with other proposed tariff changes will eliminate the recovery of any single integrity project through two separate mechanisms.

145. The Company, through Mr. Wishart's testimony argues that limiting cost recovery to one mechanism will mitigate the potential for double-counting of PSIA costs or revenues.[32] However, Mr. Wishart then states that "the Company is confident that we have an accurate system to track all PSIA costs and that no costs are being collected twice from customers …"[33]

146. Consequently, Public Service's request to shift the $13.8 million from base rate to PSIA will be denied.

8. PSIA Reporting Requirements

147. Staff recommends continuing the three-document PSIA process as set forth in Decision No. R14-0694.[34] This includes a five-year forecast filed annually with the November filings; the November PSIA Cost Recovery Request; and the April PSIA Cost Recovery Prudence Review filing. The core of Staff's proposal is the rolling five-year plan, which is revised every year to reflect the most current information. Staff generally recommends increasing the granularity of the information in the five-year plan to better correspond with the annual November filing details.

148. Staff, through its witness Ms. Ramos, sees Public Service's reporting obligations as an opportunity for the Commission and all stakeholders to preview all the individual projects for which Public Service intends to seek PSIA rate treatment. Staff contends that these

[32] Hearing Exhibit No. 26, Corrected Direct Testimony of Mr. Wishart.
[33] *Id*.
[34] Hearing Exhibit No. 206, Ramos Answer Testimony, pp. 17-26.

obligations should be reflected in the Company's list of proposed PSIA projects provided within its 5 Year Forecast, and the subset list of PSIA projects Public Service plans to construct during the next construction season.

149. Staff recommends a methodology as to how the Company can re-structure and maintain its 5 Year Forecast so that it dovetails well with the submittal requirements of the annual November PSIA Cost Recovery Request and the annual April PSIA Cost Prudency Review. Staff also provides information on how its proposed restructuring of the 5 Year Forecast will help the Commission determine when the extraordinary rate treatment associated with the PSIA capital rider is no longer needed and the costs associated with the Company's on-going pipeline integrity management activities can revert in their entirety back to the standard rate recovery process.

150. Staff also sets out specific details it would like to see Public Service provide in its modified PSIA 5 Year Forecast and offers that such information should be well defined and granular to ensure PSIA projects can be developed, constructed, and reimbursed within the 5-Year Forecast in which each project was submitted. Staff also wants to ensure that Public Service has included only capital expenditures and excluded all O&M expenses, as well as whether all submitted projects are directly correlated to Public Service's PSIA activities as they are associated with the Company's DIMP, TIMP, or other federal or state mandates. Staff further recommends requiring Public Service to numerically evaluate and rank projects for risk and categorize them accordingly as discussed in more detail below, as well as prioritizing those projects so that only high and moderate risk projects are being reimbursed through base rates or deferred accounting.

151. Public Service, through Mr. Wishart's rebuttal testimony at Table SWW-R-1, provides which reporting recommendations the Company agrees with, and which it opposes for various reasons. Public Service agrees to the following Staff reporting recommendations: 5 Year Forecasts of individual project, as much as that data is available; to bifurcate its single 5 year forecasts into a transmission piping section and a distribution piping section; to list explicit expense programs based on the respective PHSMA code requirements; Public Service states that it already provides individual projects under the 5 Year Forecast; include specific information for each project or subproject listed in the 5 Year Forecast;[35] the title of the 5 Year Forecast will reflect the five year rolling time span that the planning document covers; and, move certain information already included in the PSIA reports into the 5 Year Forecast document.[36] Regarding Staff's recommendation for specific information regarding individual projects or subprojects, the information Public Service agrees to provide is limited to a one year time horizon, rather than the five years requested by Staff.

152. Public Service asserts that the information required in Staff's proposed reporting requirements may not be available, and is excessive given the recent proceedings addressing PSIA procedures concluded in June of 2014. The Company recommends that parties continue to discuss modified PSIA reporting as proposed by Staff witness Ms. Ramos. The Company would be amenable to a re-organization and enhancement of the PSIA reporting in the five-year forecast

[35] Including, project name; project scope; estimate of construction completion if applicable to the project; cost estimate for work; PHMSA code reference for recommended actions; one line diagrams of location and changes; change of right-of-way with explanation; change of pipeline capacity with explanation; status updates.

[36] This includes an overview of the PSIA process; a five year business plan discussion; a summary of TIMP and West Main projects; summary of DIMP, AMRP, and CAB projects; a list and discussion of PSIA efforts completed in the April PSIA filing; a list and discussion of projects that will be included in the November PSIA filing; and, an electronic copy of the Company's most recent TIMP and DIMP programs as provided to the Commission's Gas Pipeline Safety Staff.

document as detailed in Table SWW-R-1, as long as the other parties which participated in other proceedings agree.[37]

a. Findings

153. Staff's proposed reporting requirements, including its proposals for the 5-year Forecast Reports as detailed in Ms. Ramos' answer testimony will be adopted. It is agreed that this information should be available as a part of the Company's ongoing management of the PSIA projects. Given the magnitude of costs recovered through the PSIA and the importance of reviewing the prudence of this exceptional and generous cost recovery mechanism, the work for Public Service to compile the report is not excessive. And, as Staff recommends, if Public Service is not able to provide details as specified, the Company can explain why it cannot provide the information in its report. Further, as discussed above, the increased reporting requirements are essential if the PSIA is to be extended, given the changing nature of the assessment of PSIA programs.

9. Return on PSIA Rate Base and PSIA Carrying Charge

a. Return on PSIA Rate Base

154. OCC argues that if the PSIA is extended, that Public Service be allowed to earn at its weighted average cost of debt, rather than its WACC on its new PSIA investments to promote safety and recognize lower risks.[38] According to OCC, using the weighted average cost of debt provides Public Service guaranteed recovery of these costs, but at a lower rate, which in turn, provides the Company with an incentive to address safety issues in the normal course of

[37] Hearing Exhibit 6, Campbell Revised Rebuttal and Answer Testimony, pp. 69-74, Exhibit 27, Wishart Corrected Rebuttal and Answer Testimony, pp 20-26.

[38] Hearing Exhibit 301, Fernandez Corrected Answer Testimony, pp. 7-8.

business, rather than seek special and accelerated recovery of safety related costs on terms that are favorable to the Company.[39] OCC further explains that upon completion of the particular safety project, and when Public Service files its next gas rate case, the safety related projects would roll into rate base, at which time the Company would earn its full WACC.

155. OCC takes the position that its proposal is in the public interest because it will promote safety by encouraging companies to address safety issues on a regular basis in the normal course of business. According to OCC, companies should not be rewarded with better regulatory treatment for not addressing safety issues on a timely basis, or addressing them prematurely. OCC also points out that in Public Service's most recent electric rate case in Proceeding No. 14AL-0660E, the Company agreed to use its weighted average cost of debt to calculate interest on the pension asset, so some precedent exists for OCC's proposal.

156. Public Service responds that utilizing the weighted average cost of debt would not represent a fair return on new PSIA investments, since the Company's 4.53 percent requested cost of debt is more than 300 basis points below its requested WACC.[40] The Company is of the opinion that adopting OCC's position would penalize Public Service for investing in what it deems critical infrastructure updates that improve the safety and reliability of its gas pipeline system.

157. Public Service goes on to argue that the PSIA mechanism does not justify any adjustment to the return on PSIA investments. The Company urges that when considering Public Service's cost recovery mechanisms it is important to assess their risk-mitigating effects relative to effects that similar mechanisms have on the proxy companies represented here. Since cost

[39] *Id*. at p. 8
[40] Hearing Exhibit 15, Hevert Corrected Rebuttal Testimony Rev. 1, p. 77.

tracking mechanisms similar to the PSIA are prevalent among the proxy group companies, Public Service maintains that there is no reason to believe that it should earn less than its WACC on PSIA-related investments.[41]

158. By the Company's analysis, it has concluded that the PSIA rider, which went into effect in 2012, has not provided the Company with above average cash flow strength. Rather, Public Service notes that a reduction of the allowed return earned on PSIA-related investments would serve to make the Company incrementally more risky than the proxy group.

(1) PSIA Carrying Charge

159. Public Service proposes to apply carrying charges and include interest on over- or under- collected amounts in the PSIA. The Company contends that accounting for the time value of money associated with over- or under-collections is fairer for all parties.[42] As an example, Public Service refers to its 2014 PSIA programs where it expects that final costs and revenues will show that its collections closely match its costs, but the Company will over collect for the year. The true-up to return those funds to customers will not be implemented until January 1, 2016. According to the Company, applying a carrying charge to over-collections is a reasonable enhancement to the current tariff. Similarly, Public Service finds it reasonable that the same carrying charge, or interest be applied to any under-collections in a given year.[43]

160. The Company proposes to use the WACC, which it proposes to update regularly to reflect the most recently approved ROE for the gas department, the capital structure, and cost of debt during the period between the accrual of the over- or under-collection and its recovery

[41] *Id*. at pp. 77-78.
[42] Hearing Exhibit 26, Wishart Corrected Direct Testimony, pp. 13-14.
[43] *Id*. at p. 14.

through rates. Because Public Service applies the WACC to under- or over-collections in the Gas Demand-Side Management Cost Adjustment rider and the Clean Air-Clean Jobs Act (CACJA) rider, it maintains that it would promote consistency among riders to use the same after-tax WACC for the PSIA.[44]

161. Staff supports including an "interest" component in the PSIA calculation applied to the over- and under-revenue balance going forward as "an appropriate remedy promoting equity between the Company and ratepayers."[45] According to Staff, instituting a charge for the Company's holding of excess revenues is a proper method of balancing the interests of ratepayers and the Company. Staff does offer a position on whether the interest applied should be at the WACC or at the cost of debt.

162. OCC takes the same position with regard to PSIA carrying charges as it does with the ROR of capital investments whose associated costs are recovered through the PSIA, namely that any carrying charge interest should be calculated at the cost of debt, and recommends setting the PSIA revenue requirement at the cost of debt as well.

(a) Findings

163. Neither Staff nor OCC opposed the implementation of a carrying charge on over- or under-collected amounts in the PSIA. Consequently, the Company's proposals will be approved. However, OCC recommends applying the cost of debt rather than the WACC to both the ROR on capital investments whose associated costs are recovered through the PSIA, and to carrying charges on over- or under-collected amounts in the PSIA.

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[44] *Id*.

[45] Hearing Exhibit 203, Reis Answer Testimony, p. 9.

164. A review of the testimony finds that it is appropriate to set the ROR on capital investments whose associated costs are recovered through the PSIA, as well as the PSIA carrying charge on over- or under-collected amounts in the PSIA at the after-tax WACC.

10. Removing Language from the PSIA Tariff

165. Public Service through the testimony of Mr. Wishart, proposes to remove outdates and "irrelevant language from the Company's PSIA tariff language, as detailed in red-line form in Attachment SWW-1 to Mr. Wishart's direct testimony.

166. Staff concurs that a rate case is the proper regulatory forum regarding modifications to the PSIA Tariff for cost issues to be moved back and forth from the PSIA Rider to base rates. Staff supports Public Service's proposed tariff changes, which include a carrying charge and deleting outdated language.

a. Findings

167. Public Service's proposed PSIA tariff language revisions will be approved as set forth in Attachment SWW-1 to Public Service witness Mr. Wishart's direct testimony.

D. Base Rate Revenue Requirement

1. Rate Base Calculation

168. In the event that the Commission rejects Public Service's proposed MYP, the Company requests that its rate base value be calculated using a year-end methodology. In support of a year-end calculation, the Company maintains it has been a long-standing past policy of this Commission in setting base rates for Public Service to use an HTY with a year-end rate base. The Company argues that the use of a year-end methodology more closely reflects the plant in service during the period rates are in effect.

169. However, Staff and OCC recommend using an average rate base, calculated over 13 months, with the exception of the known and measurable adjustment for the Cherokee Pipeline. OCC states that because the Cherokee Pipeline was placed in service in October 2014, only one-quarter of the Company's investment in this asset would be included in rate base and earning a return if a 13-month average is used.

170. Staff contradicts Public Service's position regarding the use of year-end rate base and instead argues that the use of a 13-month average rate base is consistent with the long-standing Commission policy, unless extraordinary circumstances exist. Staff takes the position that Public Service has not met its burden to show why use of a year-end calculation is necessary, with the exception of the Cherokee Pipeline.

2. Findings

171. Both Staff and OCC offer compelling arguments for adoption of a 13-month average rate base. Public Service provided no evidence to show that extraordinary conditions such as earnings attrition exist here for the Commission to adopt a year-end rate base calculation. It is therefore found that the rate base will be calculated using the 13-month average method except for the net investment in the Cherokee Pipeline, which should be calculated on a year-end basis.

3. Cherokee Pipeline

172. In its direct testimony, Public Service provided little information regarding cost recovery of the Cherokee Pipeline. However, in its rebuttal testimony and SOP, the Company explains that the Cherokee Pipeline as a 24-inch diameter gas transportation pipeline which was placed in service in October, 2014 to serve Public Service's gas and electric customers. According to Public Service, the pipeline was authorized through the CACJA, and the

Commission recognized that the Cherokee electric generation plant needed gas service and as a result, authorized the pipeline's construction.

173. Public Service explains that the pipeline meets the current gas department distribution system capacity and reliability needs and serves as a cost-effective solution to provide service to the electric department, while solving a longer term supply issue for the Denver metropolitan area.[46] According to Public Service, by upsizing the pipeline, for roughly the same cost as building the Cherokee Alternative Pipeline Project (a proposed 16-inch diameter pipeline)[47] the Company was able to meet the needs of the Denver Metro area without having to construct a second 16-inch pipeline. Public Service maintains that the Cherokee Pipeline provides gas customers with increased reliability now.[48]

174. Public Service explains that the Company's gas department would only incur a portion of the Cherokee Pipeline costs in rate base, because electric utility revenues associated with the Cherokee generating facility would offset the full costs included in the test year revenue requirement calculation.

175. Staff raises concerns that the Company's gas department customers will be paying an unreasonable portion of the costs for the Cherokee Pipeline, particularly in the early years. Both Staff and OCC recommend adjustments for the Cherokee Pipeline, generally reflecting the level of revenues that the electric department would pay the gas department. Staff also

[46] Public Service SOP, pp. 15-16.

[47] According to Public Service witness Ms. Campbell in her rebuttal testimony (Hearing Exhibit 6), the Company determined that the Cherokee Pipeline could be upsized from the original 20-inch diameter pipeline required for the 2x1 Combined Cycle unit at Cherokee as a result of the CACJA, to a 24-inch diameter pipeline to meet Public Service's gas customer's forecasted needs at the same time.

[48] Public Service SOP at p. 17 and Campbell redirect examination at Tr. Vol. 2, p. 44, ll.19-22.

recommends using the 2014 Test Year value for the pipeline in the Company's rate base calculation.

176. In response to Staff's and OCC's concerns, Public Service argues that it followed its normal practices of considering other competitive alternatives when designing the rates for its customer - the electric department. Specifically, Public Service estimated the cost of service to serve the electric department needs through a Colorado Interstate Gas (CIG) pipeline. The Company's gas department provided a discounted rate for the electric department to match the CIG alternative. Public Service contends that under the agreement, the gas department pays a share for the project that is $16.8 million of the $113.8 million capital cost of the project. Under this assignment of costs, the electric department will pay 55 percent of the annual Cherokee Pipeline revenue requirement in 2015, but as the revenue requirement declines over the next 30 years, the electric department will ultimately pay for 85 percent of the total revenue requirement.

177. Staff and OCC initially requested that the Commission disregard evidence for the Cherokee Pipeline that Public Service presented in rebuttal and redirect examination. OCC asserted that Public Service did not meet its burden to show that the full costs for the pipeline are justified in its direct case and it is improper for Public Service to supplement its justification in rebuttal and redirect examination. OCC further argued that Public Service estimated the costs for the CIG alternative pipeline without inviting CIG to provide a competitive bid, and used these estimated and unverified values to derive discounted rates for the electric department. OCC also alleged that Public Service "double-charged" costs related to Fuel, Loss, and Unaccounted for Gas (FLU) to the detriment of gas customers in the electric department rate calculation.

a. Findings

178. The request to disregard the evidence Public Service presented on its Cherokee Pipeline will be denied. No party successfully moved to strike such record evidence in pre-hearing motions or during the evidentiary hearing. Further, OCC provided sur-rebuttal testimony specifically addressing the issue. Although Public Service's direct case included little testimony in support of the Cherokee Pipeline which resulted in Staff and OCC expending additional time and resources to address the matter, the full evidentiary record stands and will be considered here.[49]

179. Public Service has met its burden to justify the adjustments for the Cherokee Pipeline, including the capacity to serve the electric department needs, the additional capacity to meet gas department needs, and the allocation of costs to the electric department.

180. Public Service sufficiently addressed OCC allegations regarding double-charging FLU. The Company states that if it builds the line it will charge FLU, but the CIG alternative would be an extension to an existing contract, no additional FLU would apply in that case. Further, it was reasonable for Public Service to estimate the cost of the CIG alternative rather than soliciting bids in this situation. Public Service has demonstrated significant economies of scale between the gas and electric needs, rendering it in the best interests of all customers for the pipeline to be owned by Public Service for service within its certificated territory. It was not necessary to solicit bids from a competitive pipeline service provider for the purpose of an

[49] Because the Intervenors did not have the opportunity to respond to the system reliability issue raised in re-direct examination, the evidence will be assigned the weight deemed appropriate under the circumstances.

inter-department cost allocation, especially where the competitor has essentially no chance of providing service to the customer.[50]

181. The Cherokee Pipeline is necessary to meet the electric department needs for the Cherokee station. Public Service followed its established practice of discounting costs to match a competitive alternative. Public Service provided a reasonable analysis of the costs of a viable competitive alternative and calculated a rate based on a ten-year net present value analysis. In addition, Public Service increased the pipeline capacity to 24 inches in order to provide system capacity for the gas department to meet forecasted needs. The extra gas department capacity will meet ten years of forecast system growth at a lower cost than building stand-alone pipelines. The Commission encourages utilities to accommodate anticipated future capacity in such a manner, where economies of scale can minimize costs by reducing pipeline installations.

182. Additionally, it is found that the overall allocation of costs to the electric department is reasonable. As indicated by Public Service, the gas department will pay 45 percent of the costs in 2015,[51] ramping down to 15 percent over 30 years for 42 percent of the capacity. While the gas department will pay a higher percentage in the early years, it obtains future capacity at a much lower stand-alone cost. There is no concern regarding this arrangement as such "lumpy" expenditures for system capacity are typical for such utility investments.

[50] Utilities are expected to solicit bids for pipeline construction to ensure that utility facilities are built at the lowest reasonable cost; however, that is different from soliciting bids from a competitive pipeline service provider for allocation purposes. The prudence of the overall Cherokee Pipeline costs is uncontested.

[51] Staff states on p. 46 of its SOP that the Gas Department will be responsible for 55 percent of revenue requirement in 2015 and receives 42 percent of the capacity. Hearing Exhibit 27, Wishart Corrected Rebuttal and Answer Testimony, p. 8, ll.20-22 states that the **electric** department will pay 55 percent of the revenue requirement in 2015. Staff did not refute this testimony.

183. Public Service has met its burden of proof to adequately justify the Cherokee Pipeline. The full revenue requirement of the Cherokee Pipeline will be included in the calculation of the Company's revenue deficiency using the 2014 HTY year-end rate base, along with the offsetting revenues from the electric department as proposed by Public Service. The adjustments proposed by Staff and OCC will be denied.

4. Non-PSIA Projects

a. Inside Meter Replacement

184. Public Service proposes to replace approximately 19,000[52] inside meters at an estimated cost of $74 million through its Inside Meter Replacement Project (IMRP). This program will work in conjunction with other PSIA programs such as service line replacements, and is expected to be complete in seven years. The forecasted capital expenditures are $6.1 million for 2015, $12.3 million for 2016, and $12.3 million for 2017. Public Service initially proposed that the IMRP be completed and costs associated with the project be collected through base rates. However, in Staff's answer testimony, it proposed that costs for the IMRP should be collected through the PSIA. In Public Service's rebuttal case, it agrees with Staff's recommendation.

185. Along with Staff's recommendation to include the IMRP as a part of the PSIA, Staff also suggests that Public Service should perform some type of qualitative risk analysis for this program to ensure that the appropriate prioritization is established.

186. OCC opposes specific cost recovery for Inside Meter Replacement, in base rates or PSIA, asserting this should be in the ordinary course of business. OCC argues that there is no

[52] Of the total 19,000 inside meters, 18,000 are part of the IMRP and approximately 1,000 meters are included in other PSIA programs. Public Service SOP, p.33, fn.137.

Commission or Federal rule or mandate requiring inside meters to be relocated outside. OCC points out that the Denver Building Code which Public Service witness Mr. Litteken relied on in his testimony, allows inside meters on new structures if the meters are in their own dedicated and adequately ventilated vaults.

187. OCC takes the position that moving inside meters outside creates different safety concerns such as vehicle impacts, weather-related problems, and vandalism. OCC argues that Public Service failed to provide any evidence concerning the potential safety issues from leaving meters inside.

(1) Findings

188. Public Service's request to include inside meters within PSIA will be denied. It does not appear that the IMRP is the type of project contemplated for PSIA recovery. Public Service's request seems to be an afterthought, only agreeing to move IMRP costs out of base rates and into the PSIA after Staff proposed it in its answer testimony. There is no mandate to move inside meters outside, and as Public Service witness Mr. Litteken conceded, moving inside meters outside is a low priority safety issue since there is no imminent danger of a catastrophic event regarding inside meters. However, rather than denying the IMRP outright, the project will be approved with recovery of 2015 costs through base rates.

b. Regulator Station Improvement Project

189. According to Public Service, its proposed Regulator Station Improvement Project consists of: replacing about 1,200 obsolete regulators; establishing a five-year cycle for internal inspection and rebuild of regulator stations; and, installing redundancy at about 300 critical

locations.[53] The capital expenditure for this project is estimated to be approximately $2 million per year over ten years, plus an O&M cost of $500,000 per year. Public Service asserts that the project will ensure system safety and reliability. The Company references the recent Niwot outage as an example of when a redundant regulator may have prevented an outage.

190. Staff recommends the Commission deny the *pro forma* adjustments proposed by Public Service. It is Staff's opinion that these adjustments are more in line with normal course of business activities, and do not rise to the same level of safety as do the Damage Prevention and Advanced Emergency Response Programs.[54]

191. OCC opposes the Regulator Station Improvement Project. OCC maintains that without a cost benefit analysis, the benefits of the program are speculative. OCC argues that Public Service did not provide evidence that demonstrates that redundant parallel runs at various Company regulatory stations are necessary. OCC believes that any repair work should be undertaken as a normal course of business activity.[55]

(1) Findings

192. Public Service's proposed *pro-forma* adjustments for the regulator station improvement project costs will be denied. Public Service has failed to provide sufficient evidence to show that redundant parallel runs at various Public Service regulatory stations are necessary; nor did the Company show that the repair work is outside the ordinary course of business. Therefore, Public Service failed to show that these proposed adjustments are in the public interest.

[53] Public Service SOP, p. 10, *citing*, Public Service witness Littiken Corrected Direct Testimony, Hearing Exhibit 7; and, Littiken Rebuttal Testimony, Hearing Exhibit 8.

[54] Hearing Exhibit 202, Kunzie Answer Testimony, p. 24.

[55] Hearing Exhibit 305, England Answer Testimony, pp. 27-34.

193. Public Service notes in its SOP "[t]he proposed incremental initiatives strike the right balance between achieving a higher level of service and maintaining reasonable rates"[56] It is essential to conduct a thorough cost benefit analysis when evaluating programs designed to achieve a "higher level of service." In an era when unprecedented costs are incurred for pipeline safety and customer rates are impacted accordingly, the Company must be all the more attentive to ensure that all other system improvements are cost effective. The replacement of these aging facilities should be addressed in the ordinary course of business.

(2) SCADA/Gas Control Monitoring

194. Public Service seeks to add a total of 1,100 additional pressure monitoring points to its SCADA system, in order to augment the existing 350 monitoring points. In 2014, Public Service added 300 monitoring points at a capital expenditure cost of about $1.7 million. Public Service estimates the cost per unit to be $7,500 and seeks to add another 400 monitoring points per year in 2015 and 2016 at a cost of roughly $3.2 million in each of those years.

195. Public Service asserts that the SCADA Program will detect impacts to operating pressure due to third party damage or other outside forces, human error, and equipment failure at regulator stations. In addition, an additional benefit will be to monitor operating pressure during extreme cold weather events or loss/curtailment of gas supply. The Company notes recent examples of SCADA avoided outages at the Town Border Station, Coal Creek Canyon, the Williams Fork Compressor Station, and argues that at Niwot a monitoring device would have alerted the Company of the pressure issue providing opportunity to prevent the outage.

[56] PSCo SOP p. 10. The [initiatives] are the Regulator Station Improvement Project, the SCADA/Gas Control Monitoring Improvement Program, the Enhanced Emergency Response Program, the Damage Prevention Program, the Gas Storage Field Maintenance Program, and the Enhanced Leak Management Program. Fn. 28

196. According to the Company, the SCADA Program and the Regulatory Project are complimentary, working together to prevent failure and to mitigate consequences. Public Service maintains that the Regulator Project mitigates risk by improving mechanical operability, while the SCADA Program gives the Company the visibility to see if the mechanical system is failing or in trouble.[57] Public Service maintains that these initiatives are necessary and prudent to comply with the Federal mandate to prevent failure and mitigate consequences.

197. Staff recommends the Commission deny the proposed *pro forma* adjustments. It is Staff's opinion that these adjustments are more in line with normal course of business activities.[58]

198. OCC opposes the SCADA/Gas Control Monitoring Improvement Program as well. It argues that the project is not warranted since it would be a 314 percent increase in monitoring, and is not required by Federal or State rules. Further, OCC is concerned that Public Service has not performed a cost/benefit analysis. OCC recommends denying future cost proposals, and finding the 2014 costs were not prudent so Public Service witness Blair's adjustments to the HTY for this issue should be reversed.[59]

(a) Findings

199. Public Service's proposed SCADA upgrade *pro-forma* adjustment will be denied. Public Service failed to meet its burden to show that a 314 percent increase in monitoring is warranted, as the Company provided little economic justification or cost-benefit analysis. While Public Service provides examples of how SCADA monitoring has or could have impacted outage

[57] Hearing Exhibit 8, Litteken Rebuttal Testimony, pp. 35-37.
[58] Kunzie Answer Testimony, p. 24.
[59] England Answer Testimony, pp.35-39, OCC SOP p19.

events in the past, it provides no analysis of the potential cost savings of the proposed SCADA project. For example, the Company made no attempt to investigate the cost of the outage events it listed; how many of such outages would be required to be avoided in order to justify the proposed level of investment; or, how many outages have occurred on its system over time.

200. Further, if Public Service's examples come to fruition and the proposed SCADA investment would reduce outages in the future, it is nevertheless inappropriate to include a *pro forma* rate adjustment for the costs without an adjustment for the corresponding savings (*e.g*., the average annual savings associated with the reduced outages). It is determined that the projects are better addressed as being in the ordinary course of business.

201. Additionally, OCC's capital and O&M adjustments to disallow 2014 costs will be approved. As discussed above, it is imperative that Public Service be particularly vigilant to ensure that system improvements are cost effective in light of the large rate impacts of pipeline safety initiatives.

(3) Enhanced Emergency Response Program

202. Public Service utilized the results of an American Gas Association Specialized Oilfield Software Study to determine that the Company should add 58 emergency responders. Public Service however, proposes adding 18 field responders over three years. The Company also proposes a 2014 HTY *pro forma* adjustment of $1.6 million. Public Service forecasts O&M costs to be $0.80 million in 2015, $2.56 million for 2016, and $3.58 million for 2017. In addition, Public Service forecasts capital expenditures to be $0.45 million each year.[60]

[60] Litteken Corrected Direct Testimony7, p. 26.

203. OCC concludes that the addition of 18 new employees is excessive for the goal of reducing overall response time by 11 minutes. OCC recommends instead that Public Service should be authorized to hire a total of six additional emergency response team members in 2015.[61]

204. Staff recommends approving the enhanced emergency response program, allowing the 2014 HTY *pro forma* adjustment of $1.6 million, and allowing Public Service to defer and establish a regulatory asset for the additional costs of this program in 2016 and 2017, with a requirement for tracking and meeting certain metrics, including achieving an average emergency response time of 60 minutes or less. Staff argues that the metric is an essential part of the deferred recovery as it provides an incentive for public service to achieve improved results.

205. In response to Staff's proposal, Public Service asserts that Staff's metric is not reasonable as it is based on an average emergency response time of 60 minutes or less, which would require an increase of 58 responders rather than the proposed increase of 18 responders. The Company states that it supports Staff's proposal without the proposed metric. Public Service also disagrees with the OCC recommendation of hiring only six additional employees. Public Service argues that allowing only six employees is not reasonable from a safety or economic standpoint.

(a) Findings

206. Staff's proposal for the enhanced emergency response program, including Staff's proposed metric, is reasonable under these circumstances and will be approved. The regulatory asset provides a significant benefit to Public Service, consequently it is found that Staff's metric will be an essential part of the program to ensure that customers also receive adequate benefit

[61] England Answer Testimony, pp. 39-44.

from the program through reduced emergency response times. While Public Service claims the metric is unreasonable, the Company provided no alternative.

(4) Damage Prevention Program

207. Public Service proposes its Damage Prevention Program to address escalating costs associated with damage to its underground gas facilities by third parties, which it identifies as its number one cause of system leaks.[62] The Company proposes to include in the 2014 HTY, a *pro forma* adjustment of O&M expenses and an additional $4.5 million in base rates. The Company also forecasts increased costs in 2016 and 2017. Since the costs vary with the volume of requested work, it proposes to defer O&M costs that are greater or less than costs in base rates to the next gas rate case.

208. Staff recommends approving the proposed Damage Prevention Program costs and allowing Public Service to establish a regulatory asset to defer the difference between the actual costs incurred and those approved in base rates.[63] Staff also recommends that the amortization period and recovery be addressed in the next gas rate case.

209. For the Damage Prevention Program, OCC accepts the additional *pro forma* amount of $4,477,681 within the updated HTY ending December 31, 2014 as an accurate reflection of the existing Damage Prevention Program, but recommends rejecting the regulatory asset for deferred costs.[64]

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[62] Campbell Corrected Direct Testimony, pp. 17-18.
[63] Kunzie Answer Testimony, p.23.
[64] England Answer Testimony, p. 44.

(a) Findings

210. Staff's proposal that allows a *pro forma* adjustment of an additional $4.5 million to the 2014 HTY, and allow a regulatory asset for costs that differ from the level approved in base rates will be approved. The damage prevention program is an important part of public safety, and the proposed adjustment and cost deferral are reasonable. Public Service will be directed to work with Staff to establish 2014 costs against which the deferral will be measured.

(5) Enhanced Leak Management Program

211. This program was initiated to survey, pinpoint leaks, repair leaks, and perform safety re-checks on identified leaks, according to Public Service. The Company proposes a *pro forma* adjustment to increase the HTY 2014 O&M expense for this program by $2.2 million. No party opposed this program.

(a) Findings

212. As it is unopposed, the enhanced leak management program and proposed costs will be approved without modification as indicated above.

(6) Gas Storage Field Maintenance Program

213. Public Service represents that it initiated the Gas Storage Field Maintenance Program which improved gas storage field maintenance and to test the integrity of gas wells associated with the Company's gas storage fields. The Company states that it has also initiated a regular and systematic program of bottom hole testing to monitor the health of its gas storage fields and ensure continued reliable deliverability. Public Service proposes a *pro forma* adjustment to increase test year O&M expense by $1.5 million. No party opposed this program.

(a) Findings

214. Since the Gas Storage Field Maintenance Program is unopposed, the program and associated costs will be approved without modification as indicated above.

5. General Ledger (GL) and Work Asset Management (WAM) Replacement Projects

215. Public Service requests recovery of $45.3 million in costs and $2.3 million of O&M expenses for the replacement of the General Ledger (GL) and Work Asset Management (WAM) systems. In direct testimony from Public Service witness Mr. Phibbs and rebuttal testimony from Public Service witness Ms. Stitt, it was asserted that the key driver of the project is the risk of existing system failure. Public Service maintains that due to the fact that the current systems are 10 to 15 years old, there is substantial risk for reliability and security failures. Public Service represents that the GL and WAM Project is intended to replace outdated technology that is vulnerable to cyber-attacks, is no longer supported by the original vendors, and is not integrated across business areas or utility functions. The Company maintains that it has increasing demands for improved data to meet customer, regulatory, security, and operational requirements.

216. Public Service argues that the selection and costs of the GL and WAM Projects are appropriately supported by a risk assessment; a benchmarking process; a Request for Information process; a Request for Proposal process; completion of the architectural design phase of the WAM project and build phase of the GL project; and, an appropriate cost-determination process.

217. OCC, on the other hand, recommends excluding $305,000 of O&M expense and $55,000 in capital costs from the 2014 HTY. Noting that the GL and WAM software replacement project would generate costs mostly in 2015 through 2017, OCC takes the position

that Public Service's rationale for the significant costs is unconvincing and lacks sufficient basis to support the request. OCC expresses concern that cost approval would essentially result in pre-approval of the project and the creation of a presumption of prudence for these costs for both capital and O&M in excess of $113 million for Public Service on a total company basis and not just for the Colorado gas department.

218. OCC conditionally recommends that should the Commission find that these software replacement projects have merit, Public Service should be allowed to place the capital costs in a regulatory asset to be deferred to the next gas rate case, in order that this issue and the prudency of the costs can be more thoroughly investigated and determined. Additionally, OCC is of the opinion that a certificate of public convenience and necessity (CPCN) would be required for this project.

219. Public Service responds that the Commission has never required a CPCN prior to acquisition and installation of its computer hardware and software purchases. The Company notes that information technology upgrades and replacement investments are undertaken in the ordinary course of business, while software is accounted for as common plant. Public Service argues that, contrary to OCC's assertion, it is not seeking pre-approval or an advance prudence determination for the project. Rather, it requests only the recovery of costs allocated to the gas utility for the MYP.

a. Findings

220. Based on the evidence of record in this proceeding, OCC's conditional recommendation will be adopted. OCC recommends that if the Commission decides that these replacement projects have merit, Public Service should be ordered to place the capital costs associated with this project in a regulatory asset to be deferred to the next gas rate case in order

that this issue and the prudency of such costs can be more thoroughly investigated and determined.

221. Public Service did not present substantive evidence as to the reasonableness of the costs until its rebuttal case, and then failed to provide sufficient evidence to allow recovery of the project's costs in rates. While the Company provided testimony regarding the risk of system failure of its current system, given the considerable costs associated with the project, it is found that OCC's proposal has merit and will be adopted. Therefore, Public Service may place the capital costs associated with the GL and WAM Replacement Projects into a regulatory asset to be deferred to the next gas rate for a determination of prudency of those costs.

222. Despite OCC's arguments to the contrary, no CPCN is necessary for this project. As Public Service points out, the scope of the project does not meet the criteria established in § 40-5-101, C.R.S.

6. Prepaid Pension Asset

223. Two contested issues relate to recovery of pension costs, first, the ROR to allow Public Service to earn on its prepaid pension asset, and second, the timing of crediting ratepayers for the return on the amortized portion of the prepaid pension asset. The prepaid pension asset is the cumulative difference between what has been contributed to the pension plan by the Company and what has been recovered from ratepayers through the pension expense. Since the cumulative contributions exceed the cumulative pension expense, a prepaid asset has been created, which is included as a component of rate base. For the HTY ending December 31, 2014, Public Service's net balance of the prepaid pension asset is $59,641,232 (gas retail jurisdiction gross balance of $94,326,560 minus $34,685,328 of pension related Accumulated Deferred Income Tax).

224. As part of the settlement in Proceeding No. 14AL-0660E, the Company's most recent electric rate case, all parties agreed that the balance of the prepaid pension asset at the time would be designated as the "Legacy Prepaid Pension Asset." Additionally, as part of that settlement, all parties agreed that the prepaid pension asset would earn no more than the Company's cost of debt. The settlement provided for a 15-year amortization of the prepaid pension asset. Annual reporting requirements were also established.

225. Public Service, through the direct and rebuttal testimony of its witness Mr. Schrubbe, supports an ROR at the Company's WACC. The Company argues that when all factors are considered, retail customers are better off as a result of the prepaid pension asset, even if the Company is allowed to earn a return on that asset at the WACC. Those factors, according to Public Service, include that the WACC is consistent with the Commission's prior treatment of the Company's prepaid pension; that customers are currently earning a return on the prepaid pension asset at a rate that approaches or even exceeds the WACC through the calculation of annual pension cost; and, that the existence of the prepaid pension asset allows customers to avoid approximately $2.4 million per year in incremental costs attributable to Pension Benefit Guaranty Corporation premiums.

226. Public Service contends that the settlement agreement in Proceeding No. 14AL-0660E does not apply to this issue. Public Service points out that in its last gas rate case, Proceeding No. 12AL-1268G, the WACC was determined to be the rate at which the Company would earn a return on the prepaid pension asset.

227. Staff, witness Ms. Sigalla argues for the use of the Company's cost of debt as the appropriate ROR for the prepaid pension asset, stating that it is not appropriate for these dollars to earn a return that is equivalent to investing in infrastructure. Staff's proposal results in a

$1,258,430 reduction to the cost of service. Regardless of the source of the funds used to finance the prepaid pension asset initially, Staff asserts that Public Service can issue debt now at favorable rates to fund the prepaid asset, and that the outcome of this issue will not affect pension benefits that employees receive.

228. Staff argues that Public Service should not be allowed to profit from providing employee benefits. According to Staff, the Company is asking ratepayers to pay over $4 million annually for return on the prepaid asset because Public Service pension plans are underfunded. Key to this concern is that revenues received by the Company for return on the prepaid asset do not contribute to improving the funded status of the pension plan; nor do they help fund the pension benefit for employees. Rather, Staff maintains that the revenues received by Public Service for the return on the prepaid asset only serve to increase the Company's earnings.

229. Staff also recommends a credit for ratepayers equal to the return on the amortized portion of the prepaid pension asset. Because the amount of the prepaid pension asset is fixed by each rate case, but the amortization of the asset causes the prepaid asset to decline each year, Staff posits that ratepayers will be paying the Company a return on the dollars being paid to Public Service through the amortization. Staff's position is that Public Service should credit ratepayers for the return on the amortized dollars so the Company does not earn a profit on the amortization. The annual amount of the amortization is $3,976,082.

230. The Company agrees with Staff that during the 15-year amortization period, the unamortized balance of the prepaid pension asset is reduced annually. However, Public Service opposes Staff's recommendation to credit ratepayers that amount unless it is part of an MYP. Public Service asserts that if the HTY is used, an adjustment should not be made until its next gas rate case to reflect the amortization that has occurred at that time.

231. OCC advocates for the use of the Company's cost of debt as a just, reasonable, and appropriate return on the prepaid pension asset. Through the testimony of its witness Mr. Skluzak, OCC describes Public Service's position on the use of the WACC as a "this is the way we did it in the past" approach. Further, OCC argues that the treatment of the Company's prepaid pension asset and pension expense that parties agreed to in the settlement agreement in Proceeding No. 14AL-0660E certainly applies to the Company's gas department. The OCC recommends an adjustment of $1,414,000 to the HTY revenue requirement.

a. Findings

232. A review of the testimony and evidence regarding this issue leads to the conclusion that it is reasonable to require Public Service to continue using its cost of debt as the rate for which it earns a return on the prepaid pension asset. Public Service did not provide sufficient evidence as to why the cost of debt is not a reasonable ROR for the Prepaid Pension Asset.

233. In addition, several proposals by Staff which were unopposed will be adopted, including, the designation of a "Legacy Prepaid Pension Asset" of $59,641,230 which is the requested prepaid pension asset adjusted for deferred income taxes. As a result, any new prepaid pension asset balance will be referred to as the "New Prepaid Pension Asset." In addition, Staff's proposal to authorize a $3,976,082 15-year amortization to accelerate elimination of the account, and use a pension tracker to ensure ratepayers pay no more and no less than the costs of the pension will be approved. The baseline for the tracker will be $9,629,711. Finally, Staff proposed to implement the same annual pension reporting requirements for the gas side that

Public Service agreed to undertake as part of the settlement agreement in the Company's most recent electric rate case, Proceeding No. 14AL-0660E.[65]

7. Property Taxes

234. Public Service requests approximately $107 million in cost recovery for the property taxes allocated to gas operations.[66]

235. Staff, through the answer testimony of its witness Mr. Kunzie, proposes to establish a regulatory asset that would be in place until the next gas rate case. Staff recommends that the Commission direct Public Service to implement a property tax tracker where the Company will defer and establish a regulatory asset for each year until the next gas rate case for costs that differ, above or below, the actual property tax costs incurred, and the amount of property tax costs in the cost of service for the 2014 HTY. Staff also recommends that the Commission address the amortization period for the recovery of the deferred property tax cost in the next gas rate case.

236. In the rebuttal testimony of Public Service witness Ms. Jackson, the Company rejects Staff's proposal to defer the amount of property taxes included in the cost of service. However, the Company states that it would accept this position if an HTY is used in this proceeding.

a. Findings

237. Given Public Service's statement that it would accept Staff's proposal to defer the amount of property taxes included in the cost of service if an HTY is adopted here, Staff's

[65] Hearing Exhibit 22, Schrubbe Rebuttal Testimony, p. 3, *see also*, Hearing Transcript, Vol. 3, p. 20, ll.13-15.

[66] Hearing Exhibit 9, Blair Direct Testimony, p. 92.

proposal will be adopted. In addition, Public Service will be required to implement a property tax tracker, consistent with the adoption of the 2014 test year for setting the Company's base rates.

8. Rate Case Expenses

238. In the rebuttal testimony of Public Service witness Ms. Jackson, the Company requests expense recovery of $727,704 associated with this rate case. The amount consists of $419,403 in actual expense incurred through June 2015 and an estimate of $308,301 for costs for the remainder of this proceeding. Public Service proposes to amortize these total expenses over 26 months beginning November 1, 2015 by including $335,863 in its 2015 test year.[67]

239. OCC argues for a $236,240 reduction to the Company's request focusing on the costs of two consulting firms – ScottMadden, Inc. and Sussex Economics. OCC notes that the Company did not request competitive bids for the work done by ScottMadden, Inc. which constitutes a lack of evidentiary basis for determining whether bill rates and overall costs are just and reasonable. OCC recommends disallowing the entire cost of $191,790 from the cost of service.

240. Additionally, OCC maintains that it is not just and reasonable for the Company to continue paying outside ROE experts and failing or deliberately choosing not to develop and use internal resources for this type of testimony. OCC recommends disallowing one-half of the expense of Sussex Economics or $44,450.

241. Public Service takes the position that because it had to prepare for multiple rate cases simultaneously, it is reasonable to hire consultants for assistance in this Proceeding. The

[67] Hearing Exhibit 11, Blair Rebuttal Testimony, Revised Attachment DAB-1, Schedule 51.

Company also notes that the Colorado Supreme Court and this Commission have found that rate case expenses are a legitimate cost of providing utility service.[68]

a. Findings

242. Weighing the testimony and evidence regarding this issue, it is found reasonable and appropriate to approve the Company's proposal to recover $335,863 of rate case expenses annually. The Commission typically allows such recovery, and Public Service's reduction of its rate case expenses from its initial proposal provides good cause to approve its rate case expenses of $727,704, along with the Company's proposed treatment of those expenses.

9. Labor Costs

243. For both the MYP and 2014 HTY, Public Service proposed a *pro forma* adjustment for O&M expenses that represents the labor costs related to vacant positions that are expected to be filled within 12 months of the test year period applicable to both the proposed MYP and the 2014 HTY. Public Service represents that at the time rebuttal testimony was filed all positions were filled except for ten Xcel Energy Services Inc. positions.

244. Staff disagrees with Public Service's position and recommends an adjustment of $1,035,525 for the vacant labor positions and $39,558 for the associated payroll taxes. Staff argues that Public Service seeks approval for the inclusion of these costs by including them in the 2014 HTY as a *pro forma* adjustment, when in fact, those costs should be classified as regular activities performed in the normal course of conducting a utility business. Further, Staff argues that those costs do not rise to the same level of safety as the Damage Prevention and Advanced Emergency Response Programs.

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[68] *Citing*, *Mountain States Tel. & Tel. Co. v. Public Utils. Comm'n.*, 576 P.2d 544, 547 (Colo. 1978).

245. Public Service responds that Staff's arguments are without merit, as *pro forma* adjustments are generally comprised of normal course of business expenses that are known and measurable expenses occurring within 12 months of the end of the test year. Public Service also points out that the Commission recently approved a *pro forma* adjustment for vacancies in Proceeding No. 14AL-0393E (Black Hills/Colorado Electric Utility Company LP's electric rate case).

a. Findings

246. Public Service's proposal for the amount of cost recovery proposed by Public Service as described above will be adopted.

10. Annual Incentive Plan Compensation

247. Public Service seeks to recover the target amount of its Annual Incentive Plan (AIP) compensation. The Company provides cash compensation to its non-bargaining employees via a base salary and incentive compensation. Public Service explains that the use of incentive compensation is common in the utility industry and is necessary to allow employees to earn a market-competitive level of compensation. Public Service represents that each employee eligible for incentive compensation has a target annual incentive that is a percentage of base salary. Without the incentive compensation, Public Service maintains that its employees would receive less than a competitive market salary.

248. Staff supports limiting AIP compensation to 15 percent of an employee's base salary noting that it is consistent with past Commission decisions as well as decisions in other Xcel Energy jurisdictions. Staff points out that the AIP largely affects reimbursement for highly paid employees. Staff has adjusted the HTY cost of service by reducing it $1,182,256.

249. Staff also recommends a cost of service reduction for the pension impact of incentive payments above the target level. Staff acknowledges that Public Service is not requesting reimbursement of incentive pay above target; however, this does not take into consideration the impact that incentive pay has on the pension plan. Staff notes that in Proceeding No. 14AL-0660E an adjustment was made for the impact on pension costs for incentive pay above the target amount.

250. OCC witness Mr. Fernandez recommends that Public Service's AIP compensation be limited to 15 percent of base salary for the HTY. The recommendation results in a $709,951 reduction to the HTY cost of service. OCC emphasizes that no Company witness opposed the HTY adjustment in rebuttal testimony.

251. Public Service argues that the intervenors' recommendation to limit cost recovery of AIP to 15 percent of base salary is without merit. Public Service refers to studies that show its compensation is comparable to the market and therefore, is reasonable. Public Service makes the case that Commission decisions in other Xcel Energy jurisdictions are not relevant to this proceeding; nor are past settlement agreements such as Proceeding No. 14AL-0660E. Public Service argues for the full recovery of all compensation costs as proposed in its MYP.

a. Findings

252. Staff's and OCC's proposal to limit cost recovery of AIP compensation to 15 percent of base salary will be adopted. Public Service did not take a position as to the Parties' AIP O&M adjustment to the 2014 HTY. Staff's adjustment for the impact on pension costs for incentive pay above the target amount will also be approved.

11. Board of Directors' Compensation

253. Public Service includes $122,760 of cost recovery in its revenue requirement for the HTY equity compensation expense for Xcel Energy's Board of Directors (BOD). Equity compensation is non-cash compensation that represents a form of ownership interest in a company. It is directly tied to or based on the company's equity. Public Service asserts that since Xcel Energy is required to have a BOD, compensation for the BOD is a necessary part of its business and it should be allowed to recover reasonable operating expenses.

254. OCC argues that the equity portion of the BOD's compensation be disallowed as there is no benefit to customers. In addition, OCC states that there is no performance measure required of the BOD, each member is simply given this compensation. OCC recommends a reduction of $122,760 to remove the equity compensation expense from the HTY cost of service.

a. Findings

255. It is found to be reasonable to include the equity portion of the BOD's compensation of $122,760 in the 2014 HTY revenue requirement. Xcel Energy is required to have a BOD and it is reasonable to assume that compensation for board members is part of the Company's business.

12. Aviation Expenses

256. Public Service seeks the inclusion of 50 percent, or $185,494, of its aviation expenses for the corporate aircraft in the revenue requirement calculation in each proposed test year, as well as the HTY. Public Service enumerates several benefits of using corporate aviation services as opposed to commercial air travel, including time savings, increased in-flight

productivity, reduced stress and fatigue, and security.[69] Public Service refers to a 2013 study for another Xcel Energy operating company (Northern States Power – Minnesota) that found 68 percent of corporate aviation expenses were justified compared to commercial air travel.[70]

257. OCC recommends a reduction to the revenue requirement of $185,494 which reflects a complete disallowance of the corporate aircraft expense. OCC opposes the inclusion of aviation expenses because of "subjective and ambiguous" testimony from the Company. Regarding the aviation study Public Service provided in its Rebuttal Testimony, the OCC notes that it provided for another Xcel Energy jurisdiction. OCC points out the only study that has been done specifically for Public Service resulted in an 8.55 percent factor. That study, and corresponding factor, was used in the Company's previous gas rate case in Proceeding No. 12AL-1268G.

a. Findings

258. It is found that it is reasonable to include 8.55 percent of the Company's aviation expenses for the corporate aircraft in the revenue requirement calculation, since it is based on Public Service's business activity. The reasons enumerated by Public Service as to the benefits of the use of private aircraft do not justify including 50 percent of the aviation costs in the revenue requirement calculation. The costs of executive comfort and reduced stress should not have to be borne by ratepayers, save a minimal amount. As a result, 8.55 percent or $31,720 will be approved to be included in the cost of service for aviation expenses.

[69] Public Service SOP p. 52.

[70] Hearing Exhibit 4, Jackson Corrected Rebuttal Testimony Rev.1.

13. Revenue Forecast

259. Public Service, through the direct and rebuttal testimony of its witness Ms. Marks, provides sales and customer count forecasts used in the revenue requirement calculation, and the requested rates in this Proceeding. The Company argues for a 2015 Test Year retail base revenue of $413,296,035, as well as a 2016 Test Year retail base revenue of $414,756,104, and a 2017 Test Year retail base revenue of $415,807,200.

260. Public Service reasons that accurate sales and customer forecasts are critical to its planning and operational needs, as well as for ratemaking. Public Service represents that it relies on well-known and proven methodologies that accommodate the use of predictor variables such as economic and demographic indicators. Public Service further represents that it conducts rigorous statistical analyses to assure the accuracy of its forecasting methodology. The Company's economic and demographic inputs are provided by Global Insight, a well-known economic forecasting firm relied upon by forecasting professionals. According to the Company, Global Insight's forecasts provide independently derived and unbiased inputs. Public Service indicates that the Colorado Gross State Product (GSP) increased 2.5 percent in 2014, and the Company's forecast is consistent with that growth, with GSP forecast at 2-7 percent in 2015, 2.6 percent in 2016, and 2.8 percent in 2017.

261. Public Service takes the position that usage growth in 2013 and 2014 does not support a finding of continued growth in sales. Rather the Company forecasts a continued decline in usage per customer. Public Service claims that its forecast is supported by the U.S. Energy Information Administration's forecast of an average decline in residential use per customer of 1.8 percent over the next five years. Additionally, the Company states that the variance of 0.08 percent between its forecasted and actual customer counts is insignificant.

262. Public Service also contends that its third party gas transportation forecast is accurate. According to the Company, there is no evidence that these customers would change operations in the short run to benefit from lower gas costs.

263. Additionally, Public Service argues that its elasticity of demand is reasonable. The Company uses fixed-price elasticity as an input into its statistically adjusted end-use model. Public Service asserts that its price elasticity, combined with the other explanatory variables in the model result in regression models with very high R-Squared statistics. As an example, Public Service states that its residential sales model demonstrates an R-Squared value of .991, meaning that 99.1 percent of the variation in historical sales can be explained by the functional relationship between the historical sales and the explanatory variables.

264. Staff takes the position that the Commission should adjust the HTY revenue upward by $1,653,840. The majority of this adjustment, according to Staff, is due to discrepancies between Staff and Public Service in weather-normalization calculations and deviations from normal weather or heating degree days. Staff argues that the Company used a deviation from normal weather that is lower than published by the National Oceanic and Atmospheric Administration (NOAA) and chose not to adjust some weather-sensitive tariffs. Additionally, Staff argues that the FTY revenue projections are unreasonably low. Finally, Staff requests an adjustment to transportation tariffs TFS Firm Service (Small) and TF Firm Service (Large) because they have weather dependent demand.

265. Public Service recommends rejecting Staff's position, maintaining that Staff's proposed weather adjustments are unsupported and outdated. Further, Public Service asserts that there is no evidence to validate Staff's claim that there is a relationship between throughput in the transportation classes and deviations in weather. Additionally, Public Service argues that

Staff's proposal to use NOAA data is inappropriate because: NOAA uses monthly data that does not align with the Company's billing month sales; and, NOAA weather is only updated every 10 years, while the Company calculates normal weather every year based on the most recent rolling 30 years of historical data.

266. OCC contends that the Company's forecasts are too uncertain to be used in its proposed MYP. OCC states that the information and data provided by Public Service in this case discloses that gas sales have been so uncertain recently that it is difficult to determine whether sales will increase or decrease in the next few years, much less the ability to determine their precise level. OCC concludes that this uncertainty in the sales forecast is another reason that an HTY is the appropriate methodology for the Commission to use in this Proceeding. Further, the OCC states it has identified problems in Public Service's modeling.

267. Public Service responds that the OCC's analysis is flawed and should be rejected in its entirety. For example, the Company argues that OCC has not provided competent evidence supporting claims about problems with the Company's forecasting models. Finally, the Company states that even if sales are greater than expected and its forecasts are inaccurate, the Earnings Sharing mechanism (proposed in conjunctions with the MYP) will protect customers.

a. Findings

268. Having reviewed the evidence and arguments pertaining to this issue, it is found that there will be no adjustments made to the HTY revenues. The two adjustments proposed by Staff will not be adopted because it has not shown that the calculations utilizing different inputs produce a more accurate outcome.

IV. COST OF CAPITAL

A. Return on Equity (ROE)

269. Public Service requests that the Commission establish an authorized return on equity (ROE) of 10.10 percent for 2015 and 2016 and 10.30 percent for 2017 for calculating rates in the Company's proposed MYP. Public Service argues that these ROE values are consistent with the results of Company witness Mr. Hevert's various ROE analyses as well as with recently authorized returns of other natural gas utilities. Public Service states that its proposed ROEs account for market expectations of increasing interest rates. Public Service also argues that its proposed ROEs will allow the Company a reasonable opportunity to compete for capital with other utilities over the course of the MYP.[71]

270. Mr. Hevert suggests that his analyses support an authorized ROE in the range of 10.0 percent to 10.5 percent.[72] He presents the results from a Constant Growth Discounted Cash Flow (DCF) model, a Multi-Stage DCF model, a Capital Asset Pricing Model (CAPM), and a Bond Yield Plus Risk Premium analysis. Mr. Hevert's various calculations rely on a proxy group of publicly-traded companies covered by equity analysts consisting of combination electric and gas utilities and natural gas-only utilities. He considers alternative scenarios for expected growth rates for earnings and various measures of the relative risks associated with equity holdings in the proxy group utilities.

271. Although the Company relies principally on the results from the Multi-Stage DCF approach, Mr. Hevert presents the results from the alternative methods so as not to depend exclusively on any single approach.[73] Mr. Hevert argues that "no one financial model is more

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[71] Public Service SOP, p. 38.

[72] Hearing Exhibit 15, Hevert Corrected Rebuttal Testimony, p. 2.

[73] Hearing Exhibit 14, Hevert Direct Testimony, p. 24.

reliable than others at all times and under all market conditions" and therefore determining the authorized ROE is "not a strictly mathematical exercise."[74] Mr. Hevert also discusses how monetary policy, interest rates, and the associated risks to the utility industry affect the model results and also should influence the Commission's consideration of the underlying data and analyses.[75]

272. Public Service explains that the requested ROEs include an adjustment intended to recover "flotation costs" incurred when shares are issued, such as expenditures for the preparation, filing, underwriting, and other issuance costs of common stock.[76] Mr. Hevert likens flotation costs to the costs associated with the issuance of long-term debt and argues that an adjustment to the authorized ROE allows for the costs to be treated as "paid in capital."[77] Public Service adjusts its DCF calculations by approximately 13 basis points to account for the effect of flotation costs based on direct underwriting discount and offering expenses associated with two of Xcel Energy's common stock issuances in 2013 and 2014.[78]

273. With respect to the proposed ROE values proposed by the intervening parties, Mr. Hevert takes the position that the intervening parties use growth rates that are inappropriately low or are constrained by an unreasonable and unsupported view as what is "sustainable." He also contends that the intervening parties have used recently high utility stock valuations in their analyses, which have caused the results of the ROE models to skew downwards. He argues that

[74] Hevert Corrected Rebuttal Testimony, p. 4.
[75] Hevert Direct Testimony, p. 71.
[76] *Id*. at p. 37.
[77] *Id*. at p. 38.
[78] *Id.* at pp. 40-41.

recent high stock prices will not persist in perpetuity and that high utility stock valuations are inconsistent with the low growth rates the intervening parties have used in their analyses.

274. Mr. Hevert further states the intervening parties give considerable weight to DCF results significantly below a 9.7 percent ROE and warns that such results should be viewed with "considerable caution." He argues that: "[o]ther regulatory authorities have been reluctant to give undue weight to models and methods that produce unreasonably low results."

275. FEA argues that Public Service's proposed ROEs are excessive because they are based on flawed methods and imbalanced or inaccurate data.[79] FEA contends that the Company's Multi-Stage DCF relies on a long-term growth rate estimate that is far higher than that expected by the current market participants.[80] FEA further argues that Public Service's assumptions regarding projected dividends are unsupported and result in inflated results.[81]

276. FEA recommends the Commission adopt an ROE within the range of results presented by its witness Mr. Gorman, as well as Staff's and the OCC's witnesses who testify on cost of capital issues.[82] Specifically, FEA recommends an ROE in the range from 9.1 percent to 9.6 percent with a midpoint of 9.35 percent for ratemaking purposes.[83] FEA applies Standard & Poor's methods and credit metrics and concludes that, with adjusted debt ratios of 47.6 percent, 48.8 percent, and 48.3 percent for 2015, 2016, and 2017, respectively, 9.35 percent will support an investment grade bond rating.[84] FEA also posits that its DCF analyses (Constant Growth DCF

[79] FEA SOP, p. 2.
[80] FEA SOP, pp. 15-16.
[81] *Id.*, p. 16.
[82] *Id.*, p. 2.
[83] Hearing Exhibit 400, Gorman Answer Testimony, p. 2.
[84] *Id.* at p. 43.

with analysts' growth rates, Constant Growth DCF with sustainable growth rate, and Multi-Stage DCF) support an ROE of 9.1 percent within a range of 8.9 percent to 9.3 percent.[85]

277. FEA argues that a reasonable long-term sustainable growth rate for a utility stock cannot exceed the growth rate of the economy as a whole.[86] FEA thus accepts the observations of the U.S. Energy Information Administration that utility sales growth tracks growth in Gross Domestic Product, but at a lower level. FEA also argues that "sustainability" in growth requires some earnings to be earnings retained and reinvested in plant.[87]

278. With respect to Public Service's proposal for the recovery of flotation costs, FEA takes the position that Mr. Hevert's suggested 0.13 percent adjustment to the Company's authorized ROE cannot be reviewed for reasonableness and confirmed that they were actually incurred.[88]

279. The OCC recommends an ROE in the range of 9.0 percent to 9.5 percent based on results of a Constant Growth DCF model, a Multi-Stage DCF model, and a CAPM analysis.[89] The OCC also bases its recommendation on the ROEs established by the Commission and by regulatory commissions in other states in recent years.[90]

280. The OCC states that its recommendation of a 9.5 percent ROE derives from the application of the Commission's most recently approved Multi-Stage DCF model and argues that the results are unrebutted and uncontested. The OCC further argues that Public Service failed to carry its burden of proof regarding why modifications to the previously approved approach to

[85] *Id*. at p. 28.
[86] *Id*. at p. 17.
[87] *Id*. at p. 18.
[88] FEA SOP, p. 20.
[89] OCC SOP, pp. 28-29.
[90] Hearing Exhibit 301, Fernandez Corrected Answer Testimony, p. 51.

deriving ROE values from a Multi-Stage DCF model are warranted and suggests that the Company's ROE analyses be disregarded as a consequence.

281. OCC witness Mr. Fernandez argues that Public Service's ROE from this "gas rate case should be lower than the 9.72 percent ROE that the Commission authorized in the last Public Service gas rate case (12AL-1268G), and certainly lower than the 9.83 percent authorized ROE for the Company's electric department."[91] He states that Public Service's stock has had "stellar performance" over the past five years and that there is no risk with the majority of Public Service's revenues, due to the GCA, fixed monthly base rate charges, and the PSIA. He further suggests that flotation costs "have no bearing on the price that an investor is willing to pay for a stock, which is what the various cost of equity methods are designed to measure."[92]

282. Staff suggests a reduction in Public Service's ROE to 9.0 percent from the Company's current authorized return of 9.72 percent, because, according to Staff, current market conditions signal a downward trend in the cost of common equity.[93] Although it states that its own analyses indicate that the Company's authorized ROE should be below 9 percent, Staff recommends that the Commission "take a step down… to allow investors the opportunity to adjust to the changing market conditions." Staff also suggests that the Commission consider, when establishing the Company's authorized ROE, that Public Service's financial strength and credit rating have improved as indicated by its March 2014 bond issuance being oversubscribed.

283. With respect to flotation costs, Staff witness Ms. Sigalla suggests that, if the Commission allows the Company to recover them through rates, they should be quantified,

[91] *Id*., p. 53.
[92] *Id*. at p. 55.
[93] Staff SOP, p. 12.

allocated to Public Service, and amortized over a ten-year period.[94] Staff argues that Public Service's proposed 0.13 percent adjustment to its authorized ROE will result in a $1.1 million annual windfall to the Company.

284. In response to the intervening parties, Public Service argues that the intervening parties' proposed ROEs are unreasonably low and irreconcilable with market data.[95] For instance, the Company disputes the form of and inputs to Staff's application of the Multi-Stage DCF model. Mr. Hevert states that Staff's model relies on data from mismatched time periods and on unreasonably low long-term growth rates.[96] Mr. Hevert also states that the OCC's Mr. Fernandez mistakenly assumes that natural gas sales growth is indicative of long-term earnings growth. Public Service also disputes the validity of the OCC's use of a measure for projected growth in cash flows for its DCF models instead of a measure for the growth in earnings.

285. Mr. Hevert also objects to the growth rates that FEA used in the third stage of its Multi-Stage DCF analysis, arguing that FEA used a short-term growth forecast that is well below historical long-term growth rates.[97] In addition, Public Service objects to the implicit assumption in FEA's form of the Multi-Stage DCF model with respect to when dividends are paid out during the course of future years.

1. Findings

286. Public Service's gas utility operations are capital-intensive, which makes the determination of the Company's authorized ROE of critical significance to its cost of service.

[94] Hearing Exhibit 204, Sigalla Answer Testimony, p. 54.
[95] Public Service SOP, p. 38.
[96] Hevert Corrected Rebuttal Testimony, p. 18.
[97] *Id.*, at pp. 92-96.

The authorized ROE must be sufficient to support the Company's capital requirements, since necessary investments are made to provide adequate and reliable service.

287. The Commission must satisfy the standards articulated in *Bluefield Waterworks and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) and *Federal Power Commission v. Hope Natural Gas Co*., 320 U.S. 591 (1944) when determining a fair ROR for Public Service's shareholders. The Company's authorized ROE must be similar to the returns to investors who own shares in other businesses having comparable financial characteristics and business risks. *Bluefield* and *Hope* further require that the established ROE supports Public Service's financial integrity, including its credit rating which serves as a basis for securing debt at reasonable rates.

288. The underlying theory behind the DCF model, whether in its Constant Growth or Multi-Stage forms, is that a stock price can be calculated by summing the present value of expected future cash flows discounted at ROR satisfying investors' requirements. Inputs to a DCF model include a measure of the initial stock price, expected dividend amounts, and an expected growth rate in dividends.

289. The Multi-Stage DCF model assumes that a stock will be sold in the future and that the ROR derived from that sale, combined with the dividends received while holding the shares, sums to the investors' required return. It also addresses the possibility that rates of growth may change over time.

290. The form of the Multi-Stage DCF models presented in this proceeding includes three stages and incorporates: a growth rate for the short term, or the next five years of the first stage; a growth rate for the long-term, where the final stage begins 25 years into the future; and a "transitional growth rate" that bridges the initial and long-term rates of the first and third stages.

The selection of potentially different growth rates for the initial and final stages of the model offers greater flexibility in the Multi-Stage DCF model as compared to the Constant Growth DCF model.[98]

291. In at least two recent Phase I rate cases, the Commission has established authorized ROEs for jurisdictional utilities by examining results from the Multi-Stage DCF model as applied to the proxy groups of utilities proposed by the parties to those proceedings. In October 2013, the Commission approved the current 9.72 percent ROE for Public Service's gas department pursuant to Decision No. R13-1307 in Proceeding No. 12AL-1268G. The ALJ found the Multi-Stage DCF model to be the better model and analysis offered by the parties for establishing an authorized ROE in that proceeding. (Decision No. R13-1307, Proceeding No. 12AL-1268G, ¶ 313).[99] In December 2014, the Commission again established an authorized ROE using results from a Multi-Stage DCF model, which the assigned ALJ determined to be the preferred approach because it best reflected the equity marketplace and resulted in the most just and reasonable rates. (Decision No. C14-1504, Proceeding No. 14AL-0393E issued December 22, 2014) In both rate cases, the Multi-Stage DCF model results were not the only analyses considered by the Commission. The Multi-Stage DCF model results instead were viewed in the context of results from alternative approaches such as the CAPM and the Bond Yield Plus Risk Premium analyses.

292. Staff correctly points out that, if the authorized ROE is set unreasonably high, ratepayers will be burdened with excessive costs and current investors could receive a windfall.

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[98] Hevert Corrected Direct Testimony, p. 33.

[99] The Commission upheld the ALJ regarding the Company's authorized ROE by Decision Nos. C13-1568, issued December 23, 2013 and C14-0152, issued February 10, 2014 in Proceeding No. 12AL-1268G.

If the authorized ROE is set too low, service quality may be jeopardized, because Public Service will not be able to raise new capital on reasonable terms.[100]

293. Public Service correctly observes that, because the cost of equity is not directly discernable, it must be estimated based on models and other analyses. However, all of the approaches for estimating an authorized ROE suffer from limiting assumptions or other practical shortcomings. Public Service's witness Mr. Hevert warns that the strict adherence to any single approach, or to the specific results of any single approach, can lead to flawed or misleading conclusions.[101]

294. Public Service presented the results of several methods for deriving an authorized ROE. The Company's presentation showed results of certain methods and models using different inputs and assumptions. Mr. Hevert prepared and included in testimony hundreds of calculations to support its analysis. He dismissed many categories of results, while he emphasized other results to bolster his recommendation that the Commission increase the Company's ROE from 9.72 percent to at least 10.1 percent.

295. The intervening parties provided comprehensive responses to the Company's extensive presentation. The Intervenors proposed alternative inputs, assumptions, and results using the same methods as Mr. Hevert. Their analyses and calculations significantly contributed to the available information for consideration here. The record reveals considerable disagreement over the composition of the proxy group companies; the historic periods over which to calculate representative share prices; the sources of data on market, and investor expectations, and the indicators of short-term and long-term industry growth; earnings growth;

[100] Sigalla Answer Testimony, p. 17.
[101] Hevert Direct Testimony, p. 23.

and, general economic growth. On the whole, the results reported by the Intervenors are substantially lower than the results reported by Public Service.

296. With respect to the Multi-Stage DCF approach, Public Service acknowledges that the determination of the stock price input to the model has a significant impact on the results.[102] The Company also acknowledges that the selection of the growth rate used in the third-stage also strongly affects the results.[103] In addition, Mr. Hevert concedes that recent periods of high stock prices have caused share price-to-earnings ratios in the utility sector to undergo an abnormal expansion that is unsustainable and inconsistent with the underlying assumptions of the DCF model.[104]

297. Based on the record here and the Commission's recent decisions in fully-litigated Phase I rate cases, results from the Multi-Stage DCF model should be given considerable weight in the determination of the authorized ROE for Public Service. The movement from Constant Growth DCF to Multi-Stage DCF represents an evolution in the preferred methods of the Commission. The Multi-Stage DCF model addresses some, but not all, of the intrinsic imperfections in the Constant Growth DCF model. But these improvements in the model come with increased complexity due to the increase in inputs and assumptions required. Multiple inputs and assumptions explain, in part, the large number of results presented in the record in this proceeding.

298. Three factors tend to explain much of the differences in the Parties' ROEs as derived from their Multi-Stage DCF analyses: assumed growth rates in the third stage, share

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[102] Public Service SOP, p. 41.
[103] *Id*. at p. 42.
[104] Hevert Rebuttal, p. 90.

prices inputs, and future payout ratios. Compelling arguments regarding these factors have been made by all parties. The selection of one set of results over another requires considerable judgment on the part of the Commission.

299. All of the results from the ROE analyses presented by the parties in the context of explanations of their proponents and the assessments of their critics have been given thorough consideration. The wide range of results and the divergence of positions on inputs and assumptions confirm the inherent problems with the methods and the need for the Commission to exercise its judgment in considering the various factors that explain the differences in the calculations. The Multi-Stage DCF results lend greater support to a reduction in the Company's authorized ROE than to an ROE at the levels proposed by Public Service. Therefore, the authorized ROE for Public Service will be established within the range from 9.2 percent to 9.8 percent, and an authorized ROE of 9.5 percent will be used for calculating rates.

300. The Multi-Stage DCF results ensure that the adopted range for the authorized ROE will satisfy the *Hope* and *Bluefield* standards. The witnesses testifying on the issues surrounding the establishment of an authorized ROE conducted their analyses and applied their models using information for other utilities considered to have comparable financial characteristics and risks as compared to Public Service. The use of market data for a proxy group of other investor-owned utilities helps to ensure results that are consistent with the standards in *Bluefield* and *Hope*.

301. The performance of Public Service's share price over the past several years demonstrates that it will be able to maintain access to equity capital with an ROE less than the 10.1 percent it has requested. Public Service has sustained a stable and strong credit rating that has afforded it reasonable access to capital at its current authorized ROE of 9.72 percent. As

Public Service witness Ms. Schell notes in her direct testimony, Public Service's 2014 bond issuance achieved an interest rate that was significantly better than the average of utilities with similar credit ratings. Notably, just prior to the Company's debt issuance in May 2015 in which it achieved another low rate of 2.9 percent, Public Service's electric operations were authorized an ROE of 9.83 percent,[105] a reduction from its then currently authorized 10.0 percent as established in Proceeding No. 11AL-947E.[106]

302. It is agreed with the view expressed by the OCC that flotation costs have no relevance on what an investor is willing to receive by purchasing a share in Public Service, which is what the authorized ROE is designed to measure. Staff's concern that the recovery of flotation costs through an ROE adjustment could result in a windfall to the Company is also well taken. While it is acknowledged that Xcel Energy incurs direct costs to issue the shares where the proceeds then are used, in part, by Public Service to provide service to customers, the Company has not carried its burden to show that its proposed adjustment of 0.13 percent to the authorized ROE is in the public interest.

2. Cost of Debt

303. Public Service proposes a cost of debt of 4.53 percent for each of the three test years of its proposed MYP. The proposal is based on Ms. Schell's updated calculation for the actual cost of debt for the 2015 test year which includes a May 2015 debt issuance of $250 million at a rate of 2.9 percent.

304. Ms. Schell confirms that the Company's calculation of its cost of debt is based on the "par value" method previously approved by the Commission and includes issuance and

[105] Decision No. C15-0292. issued March 31, 2015, Proceeding No. 14AL-0660E.

[106] Sigalla Answer Testimony, Attachment FDS-20; Decision No. C15-0292, at ¶ 34.

underwriting expenses consistent with that approach. She also explains that while the 4.53 percent value for the 2017 test year is the same as the 2015 and 2016 test year values, the 2017 test year value nonetheless incorporates a forecasted interest rate of 4.5 percent on the planned first mortgage bond offering that year. Public Service states that the 2014 historic test year long-term debt costs would be 4.52 percent.

305. Staff proposes a cost of debt of 4.50 percent, arguing that this value is the Company's current actual cost of debt after accounting for a known and measurable change to the 2014 test year. Staff explains that the main difference between its suggested cost of debt and Public Service's proposed cost of debt of 4.53 percent is the impact of the Company's most recent bond offering. Staff alleges that Public Service has chosen to ignore the impact of this offering for purposes of establishing the 2014 test year cost of service.

306. Public Service responds that Staff's proposed cost of debt is erroneous, because Staff witness Ms. Sigalla understated the cost of long-term debt by assuming a 2015 bond issuance was outstanding for the entire year when instead it was outstanding for only 7.5 months of 2015.

307. The OCC recommends that the Commission adopt a cost of debt of 4.51 percent. The OCC explains that its calculation reflects actual debt issues outstanding as of December 31, 2014. Mr. Fernandez makes clear that he calculated the Company's cost of debt without including the costs associated with the Company's credit facility. He argues that most companies use credit facilities for short-term borrowing or as a back stop for other borrowing programs such as a commercial paper program or a letter of credit program and therefore should not be included in determining the cost of long-term debt. Mr. Fernandez also argues that Public Service

consistently overestimates the cost of debt when developing forecasts for future test years used in an MYP.

308. Public Service contends that the OCC's proposed cost of debt should be rejected, because the underlying notes associated with the credit facility are considered long-term notes and the costs associated with such long-term notes are typically folded into the cost of debt. Public Service also argues that there has been no showing of changed circumstances since the Company's last gas rate case, where the ALJ found that credit facility fees should be included in the cost of long-term debt.

a. Findings

309. A cost of long-term debt of 4.50 percent consistent with the calculation advanced by Staff is appropriate here and will be adopted. Staff's calculation reflects the Commission's long-standing practice of calculating the cost of long-term debt using the par value approach and incorporates a reasonable *pro forma* adjustment to the 2014 test year to reflect the impact of the May 2015 debt issuance on an annual basis. Staff's calculation also includes the costs of Public Service's credit facility, consistent with the cost of debt adopted in the Company's last rate case.

3. Capital Structure

310. Public Service seeks approval of a capital structure of 56 percent equity and 44 percent debt for the determination of rates for each year of its proposed MYP.[107] Public Service suggests that if the Commission adopts an HTY, the capital structure should be

[107] Public Service SOP, p. 43.

56.51 percent equity and 43.49 percent debt.[108] Public Service states that all of its calculated capital structures use the par value method for long-term debt.[109]

311. Public Service states that it is well-settled that the Commission should use the utility's actual capital structure in calculating rates unless there is a substantial showing that customers are materially prejudiced by that capital structure, citing the same Colorado Supreme Court decision as the ALJ relied upon in the Company's last gas rate case.[110] Public Service also points out that a capital structure with 56 percent equity and 44 percent debt is the same as was approved by the Commission in the Company's last gas rate case (Proceeding No. 12AL-1268G) and in its last two electric rate cases (Proceeding Nos. 11A-947E and 14AL-0660E).[111]

312. Public Service states that a regulated equity ratio of 56 percent is intended to promote the Company's continued financial strength.[112] Public Service argues that its customers have benefited from an actual capital structure that is weighted toward equity because it has contributed to a strong credit rate fostering lower costs of long-term debt.[113]

313. Staff recommends the Commission set rates using a capital structure of 49.4 percent debt and 50.6 percent equity.[114] Staff refutes Public Service's calculation of its actual capital structure, arguing that the Company improperly excluded short-term debt, capital leases, and other off balance sheet debt. Staff takes the position that the Company's actual

[108] Hearing Exhibit 13, Schell Rebuttal Testimony, p. 4.
[109] Hearing Exhibit 12, Schell Direct Testimony, p. 5.
[110] Public Service SOP, p. 43.
[111] Schell Direct Testimony, p. 5.
[112] *Id*. at p. 9.
[113] Schell Rebuttal, p. 7.
[114] Staff SOP, p. 16.

capital structure is what credit rating agencies calculate when establishing the Company's credit ratings, because, unlike Public Service, the credit rating agencies account for all of the types of financing used for its utility operations. Staff portrays the regulated capital structure proposed by Public Service as a hypothetical construct that distorts the Company's selection of financing instruments to the harm of ratepayers.[115]

314. Public Service responds that Staff's proposed equity ratio of 50.6 percent does not represent the actual level of equity that the Company uses to finance utility operations.[116] The Company explains that a *regulated* capital structure containing 56.0 percent equity is necessary to maintain an *economic* capital structure of 50.6 percent equity according to Standard and Poor's formula when establishing the Company's credit ratings. Rebutting Staff, Ms. Schell explains that the Company's capital structure is intended to reflect all financial obligations, including debt-like liabilities and imputed debt, and that, when those obligations are accounted for, Public Service's economic equity ratio is 51.8 percent for 2015.[117] She notes that the Company's proposed debt ratios for the MYP are within Standard & Poor's debt range of 45 percent to 50 percent for a company with "significant" financial risk and "excellent" business risk.[118] She further argues that, since 2007, the Company's economic equity ratio has been relatively stable while the regulated equity ratio has declined.

315. The OCC recommends a capital structure of 52.7 percent equity and 47.3 percent debt based on the average capital structure of Xcel Energy and Xcel Energy's regulated

[115] *Id*. at p. 18.
[116] Public Service SOP, p. 45.
[117] Schell Direct Testimony, p. 22.
[118] *Id*. at p. 22.

subsidiaries.[119] Mr. Fernandez argues that a 52.7 percent equity level will fit within credit rating agencies' parameters for the Company's current favorable rating.[120] He also argues that Public Service should take advantage of inexpensive debt capital to the benefit of ratepayers.[121]

316. The OCC alleges that Public Service's proposed capital structure is hypothetical rather than actual because it is calculated differently for credit reporting agencies and is "manipulated for financial reporting purposes."[122]

317. Public Service argues that the OCC's proposed capital structure should be rejected, because OCC has argued only that equity capital is more expensive than debt capital, which does not suffice as a showing that the Company's actual capital structure materially prejudices customers.[123]

a. Findings

318. The motivations for suggesting a capital structure with a lower equity ratio than calculated by the Company are understood—lower equity ratios result in lower rates, all else being equal, because equity is a more expensive form of financing than debt.

319. The Commission must determine whether an actual capital structure materially prejudices ratepayers in light of the authorized ROE established by the Commission and the overall change in rates that result from its decisions, because the cost of equity is almost always greater than the cost of debt. When *Peoples Natural Gas v. Public Utilities Commission* governs the calculation of the actual capital structure used to finance Public Service's operations, the

[119] OCC SOP, p. 34.
[120] Hearing Exhibit 301, Fernandez Answer Testimony, p. 20.
[121] *Id*. at p.20.
[122] OCC SOP, p. 34.
[123] Public Service SOP, p. 46.

authorized ROE established by the Commission helps, in part, to ensure just and reasonable rates, provided that the authorized ROE also satisfies the standards of *Bluefield* and *Hope*.

320. The OCC has failed to show why deviation from long-standing practices for calculating the Company's capital structure for ratemaking purposes is warranted in this case. The OCC's proposal to apply the average capital structures among the Xcel Energy family of reported companies also is unsupported by the record.

321. Staff's last minute acceptance of Standard & Poor's method and its allegations of distorted financial management absent the Commission's adoption of Standard & Poor's method are unconvincing.[124] For more than a decade, the Commission has recognized that Standard & Poor's and perhaps other credit rating agencies relate equity to debt differently than the calculated capital structure the Colorado Supreme Court considered in 1977 for regulatory purposes. Staff's late proposal regarding capital structure also appears inconsistent with its approach for deriving the Company's cost of long-term debt, which appears to exclude capital leases and other off-balance sheet debt. Staff provides no guidance on how a 49.4 percent debt ratio that includes capital leases and other off balance sheet debt should be used to calculate the Company's ROR.

322. Based on the foregoing, Public Service's capital structure for the 2014 test year of 56.51 percent equity and 43.49 percent debt based on the calculation in Public Service's 2014 test year cost of service will be approved.[125]

[124] Transcript, Vol. 4, pp. 99-100 and 143-148; Transcript, Vol. 5, p. 164.
[125] Blair Rebuttal Testimony, Revised Attachment DAB-16, Schedule 2.

4. Weighted Average Cost of Capital (WACC) and Return on Rate Base (ROR)

323. Public Service's requested ROEs, cost of debt figures, and proposed capital structure combine into the following calculation for the weighted average cost of capital (WACC), or the rate of return (ROR), to be applied to its calculated rate base under the MYP:

Public Service WACC/ROR

2015 and 2016	Equity	Debt	Total ROR
Ratio	56.00%	44.00%	
Cost	10.1%	4.53%	
Weighted Component	5.66%	2.0%	7.66%

2017	Equity	Debt	Total ROR
Ratio	56.00%	44.00%	
Cost	10.3%	4.53%	
Weighted Component	5.77%	2.99%	7.76%

Public Service confirmed these calculations at the October 8 Technical Conference.

324. Based on a 9.0 percent ROE, the OCC recommends a WACC of 6.87 percent.

325. The OCC recommends a WACC of 7.14 percent Based on a 9.5 percent ROE.

OCC WACC/ROR

2015 and 2016	Equity	Debt	Total ROR
Ratio	52.7%	47.3%	
Cost	9.0%	4.51%	
Weighted Component	4.74%	2.13%	6.87%

2017	Equity	Debt	Total ROR
Ratio	52.7%	47.3%	
Cost	9.5%	4.51%	
Weighted Component	5.01%	2.13%	7.14%

The OCC confirmed these calculations at the October 8 Technical Conference.

326. Staff recommends an ROR of 6.77 percent:

Staff WACC/ ROR

	Equity	Debt	Total ROR
Ratio	50.6%	49.4%	
Cost	9.0%	4.50%	
Weighted Component	4.55%	2.22%	6.77%

Staff confirmed these calculations at the October 8 Technical Conference.

a. Findings

327. Based on the findings and conclusions above, a WACC value for the 2014 test year is approved as follows:

	Equity	Debt	Total ROR
Ratio	56.51%	43.49%	
Cost	9.5%	4.50%	
Weighted Component	5.37%	1.96%	7.33%

V. GRSA RATE DESIGN

328. EOC proposes that the GRSA approved in this Proceeding be implemented as a uniform percentage surcharge on rates for all rate classes, except that, for the residential rate class (RG), the GRSA would apply only to the classes' usage charge. EOC argues customer-related costs recovered through the monthly Service and Facilities (S&F) fixed charge have not risen to the level justifying a rate increase to residential customers as recovered through this charge. EOC argues that increasing the monthly S&F fixed charge via a GRSA would disproportionately affect low-income customers and undermine energy efficiency policy and spending.

329. Additionally, EOC requests a Commission decision for the Company to file a Phase II rate design application before the Company's next Phase I rate case is filed. Specifically, EOC asks that the Phase II filing be made in conjunction with a proposal to move costs from the PSIA to base rates.

330. Public Service insists that the EOC proposal would result in a higher GRSA to the RG base usage charge to generate the revenue shortfall that results from not applying the GRSA to the RG S&F charge.

331. Public Service contends the EOC's position is unlawful, is bad public policy, and deviates from the Low-Income Energy Assistance Act and the Commission's Low-income Rules. Additionally, because this is a Phase I rate case it is not the appropriate rate proceeding to consider new rate designs. Finally, Public Service argues that OCC's reliance on a Settlement Agreement in an Atmos Energy (Atmos) Phase I proceeding is not precedent.[126]

A. Findings

332. EOC's request for a two-part application of the GRSA for the RG customer class will be denied. The appropriate place to review rate design is a Phase II proceeding. Further, the Atmos Settlement Agreement referred to by EOC does not dictate policy in this proceeding. It is noted that in the Atmos rate proceeding, the settling parties propose an increase in the S&F charges for residential customers, but the percentage increase to the monthly fixed charge is not as large as the increase applied to the volumetric portion of the residential rates. That result is in contrast to what the EOC requests here, that is, to have a zero percent increase in the RG S&F charge.

VI. UPDATED CAAM AND NEW FDC STUDY

333. Through witness Ms. Schmidt-Petree, Public Service introduced into evidence an updated CAAM)and a new FDC Study. Among other things, the CAAM describes the Company's methodology for assigning or allocating costs in the gas division for the HTY. The

[126] Public Service SOP pp. 57-59.

FDC Study shows the results of the Company's assignment and allocation of the major categories of revenues, expenses, and investment among the gas, electric, and thermal utility divisions, and the nonutility divisions for the HTY.

A. Findings

334. The CAAM and FDC Study provided by Public Service will be approved. No intervenor contested either the CAAM or FDC Study. After reviewing both the CAAM and the FDC Study it appears that the Company has complied with cost allocation principles (Commission Rule 4502 of the Rules Regulating Gas Utilities and Pipeline Operators, 4 *Code of Colorado Regulations* 723-4). Further, there appears to be no evidence of subsidization of non-regulated activities by the use of ratepayer funds.

335. In accordance with § 40-6-109, C.R.S., it is recommended that the Commission enter the following order.

VII. ORDER

A. The Commission Orders That:

1. The effective date of the tariff sheets filed with Amended Advice Letter No. 876 - Gas on May 19, 2015 is permanently suspended and shall not be further amended.

2. The tariff sheets filed with Amended Advice Letter No. 876 - Gas on May 19, 2015, are permanently suspended and shall not be further amended.

3. Within 10 days of the date on which this Recommended Decision becomes a decision of the Commission, Public Service Company of Colorado (Public Service) shall file a revised 2014 Historic Test Year (HTY) study calculated using the information provided at the Technical Conference based on its witness Ms. Blair's exhibits and spreadsheets, as adjusted in accordance with this Decision.

4. Public Service shall file a General Rate Schedule Adjustment (GRSA) calculated based on the revenue requirement that is calculated using the revised 2014 HTY.

5. Public Service shall file new tariff sheets containing the changes set out in this Decision.

6. Within 10 days after Public Service files its revised 2014 HTY, Intervenors may file comments regarding Public Service's compliance with this Decision including comments regarding whether Public Service's revised GRSA is calculated correctly. Failure to file comments within the ten-day period shall be deemed to assent to, and agreement with, the Public Service filing.

7. Public Service, Office of Consumer Counsel (OCC), and Staff of the Commission (Staff) shall work together to ensure that Public Service's filing is consistent with the directives contained in this Decision.

8. Subsequent to Public Service's filing and the Intervenors' comments, the Commission will issue an Order on Compliance indicating whether Public Service's revised 2014 HTY, GRSA, and tariffs comply with the Commission's directives.

9. Upon receipt of the Commission's Order on Compliance, Public Service shall make, on not less than 10 business days' notice, a compliance advice letter filing that complies with the Order on Compliance. This compliance filing shall be made in a separate Proceeding.

10. Public Service shall also file an updated Cost of Service Study within 10 days of the Order on Compliance.

11. A technical conference is to be held where Public Service will explain the revised 2014 HTY, the GRSA, and the tariff changes required as a result of the directives contained in this Decision. The Commission will determine the date for the technical conference.

12. If the GRSA calculated in accordance with this Decision is lower than the GRSA put into effect on October 1, 2015, then, no later than February 20, 2015, Public Service must calculate the resulting over-recovery in accordance with the Refund Condition established in this Proceeding and must make, no later than March 20, 2015, the appropriate filing to refund the over-collection to ratepayers.

13. The request of Public Service to extend the Pipeline Safety Integrity Adjustment (PSIA) rider an additional four years is denied consistent with the discussion above.

14. Staff's proposal to extend the PSIA an additional three years from 2016 through 2018, is granted consistent with the discussion above.

15. Staff's proposal is adopted and the following projects shall not be included in PSIA cost recovery: 8" Fraser to Frisco pipeline repair and reroute; Vegetation Management Right-Of-Way Clearing; Federal Code Mitigation; Shorted Casing; and Unprotected Pipes projects, consistent with the discussion above.

16. Staff's proposed criteria requiring medium and high risk projects to qualify for PSIA recovery shall be adopted consistent with the discussion above.

17. Public Service's request to accelerate two Distribution Integrity Management Program projects: the Accelerated Main Replacement Program and the Programmatic Risk-Based Pipe Replacement Program will be approved consistent with the discussion above.

18. Public Service shall transfer all PSIA-related O&M costs out of the PSIA and into base rates. Further no further O&M expenses will be authorized in the PSIA, consistent with the discussion above.

19. Public Service's proposal to shift the CAB Gas Service Replacement Program and Edwards-to-Meadow Mountain Transmission Project from PSIA to base rates shall be approved, consistent with the discussion above.

20. Public Service's proposal to shift its Project Base Amount from base rates to PSIA shall be denied consistent with the discussion above.

21. Staff's proposal to continue the PSIA reporting process as adopted in Recommended Decision No. R14-0694, issued June 25, 2014 shall be approved in part consistent with the discussion above.

22. Public Service shall continue to file the five year forecast filed annually with the November filings; the November PSIA Cost Recovery Request; and the April PSIA Cost Recovery Prudence Review filing consistent with the discussion above.

23. Public Service's proposal to remove outdated tariff language from its PSIA tariff sheets is approved consistent with the discussion above.

24. Public Service's proposals for the adjustments to the Cherokee Pipeline, including the capacity to serve the electric department needs, the additional capacity to meet gas department needs, and the allocation of costs to the electric department are approved consistent with the discussion above.

25. Public Service's Inside Meter Replacement Project shall be approved consistent with the discussion above.

26. Public Service's request to include the Inside Meter Replacement Project within the PSIA is denied consistent with the discussion above.

27. Recovery of 2015 costs for the Inside Meter Replacement Project shall be through base rates.

28. Public Service's proposed *pro forma* adjustments for its Regulator Station Improvement Project and its Supervisory Control and Data Acquisition (SCADA)/Gas Control Monitoring Improvement Program are denied, consistent with the discussion above.

29. Public Service's proposal to add 18 field responders to its Enhanced Emergency Response Program shall be approved consistent with the discussion above.

30. Staff's recommendation to approve the Enhanced Emergency Response Program with a HTY *pro forma* adjustment for 2015 costs, and 2016 and 2017 costs deferred in a regulatory asset shall be approved consistent with the discussion above.

31. Public Service's proposed Enhanced Leak Management Program and associated costs shall be approved.

32. Public Service's proposed Gas Storage Field Maintenance Program and associated costs shall be approved.

33. Public Service's General Ledger and Work Asset Management Replacement Projects shall be approved consistent with the discussion above.

34. OCC's recommendation that costs associated with this project be placed in a regulatory asset to be deferred to Public Service's next gas rate case shall be approved.

35. Public Service shall continue to use its cost of long-term debt as the rate for which it earns a return on its Prepaid Pension Asset.

36. Staff's proposal to designation a Legacy Prepaid Pension Asset of $59,641,230 shall be approved consistent with the discussion above.

37. Staff's proposal to authorize a $3,976,082 15 year amortization to accelerate elimination of the account, and use a pension tracker shall be approved consistent with the discussion above.

38. Staff's proposed annual pension reporting requirements shall be approved.

39. Staff's proposal to establish a regulatory asset for Public Service's cost recovery of property taxes which would be in place until Public Service's next gas rate case shall be approved consistent with the discussion above.

40. Public Service shall be required to implement a property tax tracker, consistent with the adoption of the 2014 test year for setting its base rates.

41. Public Service's proposal to recover $727,704 in gas rate case expenses, with recovery of $335,863 annually shall be approved.

42. Public Service's proposed *pro forma* adjustment for O&M expenses that represents the labor costs related to vacant positions expected to be filled within twelve months of the test year period shall be approved.

43. Public Service's cost recovery of Annual Incentive Plan compensation shall be limited to 15 percent of base salary.

44. Staff's recommendation for a cost of service reduction for the pension impact of incentive payments above the target level shall be adopted consistent with the discussion above.

45. Public Service's proposal to include the equity portion of its Board of Director's compensation of $122,760 in the 2014 HTY revenue requirement shall be approved.

46. 8.55 percent of Public Service's aviation expenses for its corporate aircraft shall be included in the revenue requirement calculation.

47. The authorized Return on Equity will be 9.5 percent, while the cost of long-term debt will be 4.50 percent, consistent with the discussion above.

48. The capital structure will be 56.51 percent equity and 43.49 percent debt.

49. The Weighted Average Cost of Capital will be 5.37 percent equity and 1.96 percent for long term debt, consistent with the discussion above, consistent with the discussion above.

50. The total Rate of Return on Rate Base will be 7.33 percent, consistent with the discussion above.

51. The updated Cost Assignment and Allocation Manual and new Fully Distributed Cost Study provided by Public Service will be approved.

52. Public Service's proposal to implement a carrying charge on over- or under-collected amounts in the PSIA shall be approved.

53. Public Service's proposal to set the rate of return on capital investments whose associated costs are recovered through the PSIA, as well as the PSIA carrying charge on over- or under-collected amounts in the PSIA at the after-tax WACC shall be approved.

54. The rate base shall be calculated using the 13-month average method, except for the net investment in the Cherokee Pipeline, which shall be calculated on a year-end basis.

55. Pursuant to the Parties' Agreement as approved in Interim Decision No. R15-0512-I response time to exceptions is shortened to seven calendar days from the date of service of exceptions.

56. This Recommended Decision shall be effective on the day it becomes the Decision of the Commission, if that is the case, and is entered as of the date above.

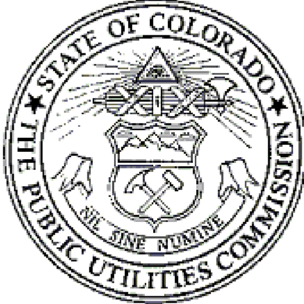
57. As provided by § 40-6-109, C.R.S., copies of this Recommended Decision shall be served upon the parties, who may file exceptions to it.

a) If no exceptions are filed within 20 days after service or within any extended period of time authorized, or unless the Decision is stayed by the Commission upon its own motion, the Recommended Decision shall become the Decision of the Commission and subject to the provisions of § 40-6-114, C.R.S.

b) If a party seeks to amend, modify, annul, or reverse basic findings of fact in its exceptions, that party must request and pay for a transcript to be filed, or the parties may stipulate to portions of the transcript according to the procedures stated in § 40-6-113, C.R.S. If no transcript or stipulation is filed, the Commission is bound by the facts set out by the administrative law judge and the parties cannot challenge these facts. This will limit what the Commission can review if exceptions are filed.

58. If exceptions to this Decision are filed, they shall not exceed 30 pages in length, unless the Commission for good cause shown permits this limit to be exceeded.

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

PAUL C. GOMEZ

Administrative Law Judge