Decision No. C23-0146-I

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 22AL-0530E

IN THE MATTER OF ADVICE LETTER NO. 1906 - ELECTRIC FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO P.U.C. NO. 8 - ELECTRIC TARIFF TO INCREASE BASE RATE REVENUES, IMPLEMENT NEW BASE RATES FOR ALL ELECTRIC RATE SCHEDULES, AND MAKE OTHER TARIFF CHANGES, TO BECOME EFFECTIVE DECEMBER 31, 2022.

PROCEEDING NO. 22AL-0478E

IN THE MATTER OF ADVICE LETTER NO. 1902 - ELECTRIC FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO P.U.C. NO. 8 - ELECTRIC TARIFF TO INCREASE THE TRANSMISSION COST ADJUSTMENT RIDER, TO BECOME EFFECTIVE JANUARY 1, 2023.

INTERIM COMMISSION DECISION
DIRECTING PUBLIC SERVICE TO FILE
SUPPLEMENTAL DIRECT TESTIMONY

Mailed Date: March 1, 2023
Adopted Date: February 15, 2023

TABLE OF CONTENTS

I. BY THE COMMISSION

A. Statement

1. On November 1, 2022, Public Service Company of Colorado (Public Service or Company) filed Advice Letter No. 1902-Electric in Proceeding No. 22AL-0478E with tariff sheets setting forth the applicable charge for its Transmission Cost Adjustment (TCA) for effect January 1, 2023.

2. On November 30, 2022, Public Service filed Advice Letter No. 1906-Electric in Proceeding No. 22AL-0530E with tariff sheets for its base rate schedules for electric utility service provided to Colorado customers.

3. By Decision No. C22-0833, issued on December 23, 2022, the Commission set for hearing and suspended the effective date of the tariff sheets filed with Advice Letter Nos. 1902-Electric and 1906-Electric for 120 days pursuant to § 40-6-111(1), C.R.S. The decision also established a notice and intervention period ending on January 20, 2023.

4. This Decision directs Public Service to file Supplemental Direct Testimony in accordance with the discussion below.[1]

[1] At the February 15, 2023, Commissioners' Weekly Meeting, we adopted a separate decision establishing the parties in this Proceeding and directing Public Service to confer with the parties on the development and filing of a proposed procedural schedule. *See* Decision No. C23-0110-I, issued February 16, 2023. The proposed procedural schedule would include a filing deadline for the Supplemental Direct Testimony required by this Decision.

B. Supplemental Direct Testimony

1. Rate and Revenue Requirement Projections

5. Table SPB-D-1 in the Direct Testimony of Public Service witness Steve Berman summarizes the Company's capital additions, net of retirements, from 2021 through the end of 2023. The investments comprise mostly new distribution, transmission, production, and common plant.[2]

6. Given the pace of investment shown for this recent period and our interest in understanding how ongoing and future investments cause rate increases over time, we direct Public Service to provide in Supplemental Direct Testimony 15-year projections[3] of base rate revenue requirements and total retail revenue requirements (broken out by costs and offsetting revenues) and the associated projected overall average rates and residential rates.[4]

7. For context and comparison purposes, the Company shall also provide base rate revenue requirements, total retail revenue requirements, overall average rates, and residential rates for 2021 and 2022. In addition, the Company shall break out revenues projected to be recovered through rate riders.

8. With the Supplemental Direct Testimony described above, Public Service shall provide the 15-year projections in the form of an MS Excel spreadsheet that allows the user to apply different input assumptions (*e.g.*, sales, rate base growth, weighted average depreciation life, authorized return on equity (ROE), debt and equity ratios, and expense growth) in a manner that

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[2] Hearing Exhibit 101, Berman Direct Testimony, p. 28.

[3] Public Service may provide the projections in the form used in its recent electric and gas rate cases. (*See, e.g.*, Proceeding No. 22AL-0046G, Hearing Exhibit 129, Wishart Supplemental Direct Testimony, Confidential Attachment SWW-6C.)

[4] Rates may be calculated as the total applicable revenue requirements, including all rate riders and adjustments, divided by sales.

calculates the cumulative impact of the input changes on revenue requirement and average rates over the 15-year horizon.

9. Public Service's projections are expected to be highly dependent on the underlying assumptions, particularly with respect to sales and rate base growth. Accordingly, the Company shall fully describe these and all of the other primary assumptions for the forecast in the submitted testimony. In addition, Public Service shall present at least three scenarios. The first scenario shall reflect the Company's "base case assumptions" consistent with its presentations of similar projections in its previous electric and gas base rate proceedings. The second scenario shall address high penetration of electrification which will impact both the costs and offsetting revenues in the projected revenue requirements. For that second scenario, Public Service may rely on the *GHG Pollution Reduction Roadmap* developed under the direction of the Colorado Energy Office (CEO).[5] The third scenario should highlight expanded demand response programs amounting to double the amount of annual incremental additions currently planned in its current capacity goals, including programs to reduce peak demand on the system, and highlighting avoided costs and savings to the Company's customers. One purpose of this third scenario is to inform the examination of the benefits to the system and to the relevant rate classes in the upcoming Phase II rate case addressed below.

2. Affordability Metrics

10. By Decision No. C22-0724, issued in November 2022, the Commission granted Public Service's request to file its next electric Phase II rate case no later than May 15, 2023. The Commission directed Public Service to work with the parties to its upcoming Phase I and Phase II

[5] Accessed on February 16, 2023 at https://energyoffice.colorado.gov/climate-energy/ghg-pollution-reduction-roadmap.

rate cases to account for, in the procedural schedules for both proceedings, a supplemental filing in the Phase II rate case that would address the outcomes of this Phase I rate case initiated by the filing of Advice Letter No. 1906-Electric.

11. In anticipation of the pending Phase II electric rate case to be filed in May 2023, we direct Public Service to submit Supplemental Direct Testimony proposing an affordability analysis that it will present and implement in that upcoming proceeding, supported by the calculation of affordability metrics appropriate for the case. The focus should be on assessing affordability issues within its residential rate class. Specifically, we direct Public Service to address three metrics in addition to any testimony it elects to provide regarding an assessment of affordability issues.

12. First, Public Service shall present a metric of the energy cost burden consistent with the approach described in the January 2022 report *Pathways to Energy Affordability in Colorado* prepared by Physicians, Scientists, and Engineers for Healthy Energy and the Institute for Energy and Environmental Research for the Colorado Energy Office.[6] At a minimum, Public Service shall present the impact of the proposed Phase I increase on residential electric customers by showing the anticipated change in the distribution of customers within a reasonable number of tranches of energy burden from 2 percent to over 20 percent.

13. Second, Public Service shall present an Affordability Ratio (AR) metric that quantifies the percentage of a representative household's income that would be used to pay for an electric utility service, after non-discretionary expenses such as housing and other essential utility

[6] Accessed on February 16, 2023, at https://climate.colorado.gov/pathways-to-energy-affordability-in-colorado.

service charges are deducted from the household's income.[7] At a minimum, Public Service shall present the AR metric with and without the proposed Phase I increase, for a residential customer with average annual usage and for a residential customer with median annual usage. If Public Service is unable to present this metric as directed, it should present a reasonable approach that enables the Commission to consider the impact of the proposed Phase I increase on residential customers via the AR metric.

14. Third, Public Service shall present an Hours at Minimum Wage (HM) metric that quantifies the hours of earned employment at the city minimum wage necessary for a household to pay for electric utility service charges.[8] At a minimum, Public Service shall present the HM metric with and without the proposed Phase I increase, for both the state minimum wage and the local minimum wage applied by the City and County of Denver.

15. We further direct Public Service to address the application of at least these three metrics in the context of the upcoming Phase II proceeding, including additions or modifications to the proposed metrics to promote clarity and usability.

3. Financial Integrity and Credit Metrics

16. As explained in Decision No. C22-0833, Public Service is seeking to increase its base rates in this Proceeding supported, in part, on a proposed weighted average cost of capital (WACC) of 7.45 percent. The requested WACC comprises a capital structure with an equity component of 55.7 percent and an authorized ROE of 10.25 percent.

[7] Public Service may use as reference the AR metric established by the California Public Utilities Commission. https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability.

[8] Public Service may use as reference the HM metric established by the California Public Utilities Commission. https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability

17. Public Service argues that rising interest rates are driving up the cost of both long-term and short-term debt necessary to finance the Company's business. Public Service also argues that the changes in Treasury Rates, interest rates, and other market conditions are driving the need for a higher ROE. Public Service states that inflation is currently at its highest level seen in approximately 40 years and that interest rates have also increased significantly from pandemic-related lows seen in 2020, and are expected to continue to increase in direct response to the Federal Reserve's activities.

18. In order to evaluate Public Service's request for a higher ROE and the Company's overall financial condition, and to prompt the perspective of the intervening parties on the underlying issues, we direct Public Service to file Supplemental Direct Testimony addressing the Company's financial integrity and credit metrics.

19. First, the Company shall provide Public Service's and Xcel Energy's latest credit ratings from S&P, Moody's, and Fitch, the principal credit rating entities.

20. Second, Public Service shall provide its understanding of the precise methodology, in executable MS Excel spreadsheet form, that these rating agencies use for calculating key cash flow metrics, such as "CFO pre-W/C / Debt" as calculated by Moody's and the "FFO / Debt", as calculated by S&P linking the inputs back to the Company's publicly available financial statements. The Company shall explain how these metrics are determined for existing and forecasted debt levels.

21. Third, the Company shall provide both Xcel Energy's 2022 Year End Earnings Report Presentation and its most recent investor presentation made at an investor conference.

22. Fourth, the Company shall provide a forecast of key financial metrics used by Moody's and S&P to determine credit ratings, similar to the analysis conducted in Hearing Exhibit

125, Rebuttal Testimony of Paul Johnson, Attachment PAJ-7, in Proceeding No. 21AL-0317E, but as an executable MS Excel spreadsheet and for the years 2021 through 2025, for the following five scenarios:

- As if Advice Letter 1906-Electric and this rate case did not exist;
- As if the base rate revenue requirement in this case was approved without modification, including the Company's proposed authorized ROE and capital structure;
- As if the base rate revenue requirement in this case was established consistent with the ROE and capital structure as approved in Proceeding No. 21AL-0317E;
- As if the base rate revenue requirement in this case was established based on the ROE approved in Proceeding No. 21AL-0317E, with an equity ratio of 50 percent; and
- As if the base rate revenue requirement in this case was established based on the ROE approved in Proceeding No. 21AL-0317E, with an equity ratio equal to that of the Company's holding company (Xcel Energy).

23. Fifth, the Company shall provide a discussion of whether the Commission should evaluate credit ratings, and specifically, quantitative metrics as applied by credit rating agencies, in establishing a utility's overall revenue requirement. In such a discussion, Public Service shall address:

- The appropriate credit rating the Commission should be targeting;
- The appropriate credit rating metric and value of such metric the Commission should be targeting, including any appropriate buffer; and
- The appropriate way to evaluate Public Service's electric and gas operations, either in combination or as separate entities, if relying upon credit metrics to inform revenue requirements.

24. Sixth, the Company shall provide an executable model similar to Hearing Exhibit 151 offered by Public Service in Proceeding No. 22AL-0046G (generally referred to as the "Levers Model") that examines the impact of capital structure, ROE, regulatory lag, depreciation expense, and other factors as the Company deems appropriate, on the Company's CFO pre-WC/debt as measured by Moody's. Public Service shall explain all inputs and calculations.

25. Finally, the Company shall calculate the ROE it is *currently* providing investors as measured by the current stock price, dividend yield, and its most recent growth expectations as represented in the most recent investor presentation, as inputs to the Discounted Cash Flow model, explaining all inputs and adjustments.

4. Transmission Cost Adjustment (TCA)

26. As stated above and explained more fully in previous decisions in this Proceeding, the Commission suspended the effective date of the Public Service's TCA for effect January 1, 2023, and set it for hearing in this consolidated matter. Staff of the Colorado Public Utilities Commission (Staff) filed a protest to the 2023 TCA arguing that Public Service is seeking TCA recovery of costs associated with projects that are not extension or construction of transmission facilities and, as such, ineligible for recovery through the TCA pursuant § 40-5-101(4), C.R.S.

27. In light of the incorporation of the 2023 TCA within this base rate case, we direct Public Service to file Supplemental Direct Testimony to fully support the 2023 TCA revenue requirement and, to the extent necessary, to adjust the Company's requests for relief.

28. Staff's protest to the 2023 TCA further provides an opportunity for the Commission to review Public Service's TCA more generally. Such a review is timely and appropriate because the Commission has recently granted Public Service a Certificate of Public Convenience and Necessity (CPCN) for its Colorado Power Pathway (CPP). The project comprises 560 miles of 345 kV, double-circuit transmission lines connecting the Front Range to areas with solar and wind potential in northeastern, eastern, and southeastern Colorado. Public Service plans to construct the project in three major phases: Segments 2 and 3 will be placed in service by the end of 2025; Segment 1 is planned to be in service by the end of 2026; and Segments 4 and 5 will be in service by the end of 2027. The overall cost estimate for the CPP presented by the Company in 2021 is

approximately $1.695 billion. Recovery of the CPP costs will initiate through the Company's TCA.[9]

29. We therefore direct Public Service to address in Supplemental Direct Testimony not only Staff's allegations that the Company is improperly using the TCA to recover certain types of transmission investment costs but also the merits of the design and operation of the TCA as a forward-looking cost recovery. We note that in 2016, after Public Service's TCA was approved in its current form, the Commission determined that § 40-5-101(4), C.R.S., does not require the adoption of forward-looking cost recovery of transmission investments through the TCA.[10] We also note that Public Service's TCA was a provision of a settlement agreement and has not been addressed specifically by any Commission decision.[11]

5. Energy Trading and Maximizing Benefits to Ratepayers

30. In a recently concluded proceeding, the Commission authorized Public Service to recover certain costs associated with its decision to join an energy imbalance market, specifically the Southwest Power Pool, Inc.'s (SPP) Western Electric Imbalance Service (WEIS) market.[12] The SPP WEIS market is a real-time bulk power trading market that allows participants to buy, sell, and dispatch unscheduled energy at the lowest possible cost to service the market's combined customer demand.[13] The request to recover the costs associated with participation in the SPP WEIS market followed the Commission's determinations, pursuant to the Colorado Transmission

[9] *See* generally Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E.

[10] Decision No. C16-01140, issued December 19, 2026, Proceeding No. 16AL-0326E.

[11] *See* generally Decision No. C15-0292, issued March 31, 2015, Proceeding No. 14AL-0660E.

[12] *See* generally Decision No. R22-0826, issued December 20, 2022.

[13] *See* generally Decision No. R22-0826, issued December 20, 2022, ¶19, p. 7.

Coordination Act of 2019, §§ 40-2.3-101 and 102, C.R.S., (2019), that electric utility participation in such markets is generally in the public interest.[14]

31. In this Proceeding, Public Service is seeking to update the tariff sheets for its Electric Commodity Adjustment (ECA) and its base rate revenue requirements to sustain its energy trading operations.

32. Public Service witness Arthur Freitas explains in Direct Testimony that the Company is proposing to continue the sharing margins from its trading operations through the ECA. He explains that the Company has been allowed to recover one-half of its retail jurisdictional share of trading expenses from the "Generation and Proprietary Books" prior to sharing gross margins with retail customers, and to recover the remaining half of trading expenses through base rates.[15]

33. In the Direct Testimony of Michael Remington, Public Service further explains that more than $1 million of capital additions being placed into service in 2023 and 2023 is an upgrade to the SAS Book Runner Energy Trading Risk Management application, which the vendor is no longer offering. Public Service argues that it is a critical application to measure, manage, and report risk for energy trades. The project is to implement a new solution that will provide continued capabilities necessary to support the Commercial Operations to optimize risk management for Xcel Energy's trading.[16]

34. Public Service witness Michael Deselich further states in Direct Testimony that the Company is requesting recovery of $427,000 for a projected 2023 expense associated with its Supplemental Incentive Program (SIP). The SIP is designed to provide certain eligible employees

[14] Decision No. C21-0755, issued December 1, 2023, Proceeding No. 19M-0495E, ⁋⁋ 1 and 4.
[15] Hearing Exhibit 120, Freitas Direct Testimony, pp. 90-91.
[16] Hearing Exhibit 113, Remington Direct Testimony, pp. 27-28.

who work in wholesale energy trading activities with compensation opportunities that are competitive with compensation practices in the wholesale energy trading sector. Mr. Deselich argues that the incentive is designed to motivate trading employees to seek out trades and to achieve the maximum possible margins.[17]

35. Public Service's trading operations therefore appear to be an ever more important utility function and, there are several components of this rate proceeding that relate to the Company's energy trading operations. We therefore direct Public Service to file Supplemental Direct Testimony addressing: (1) the Company's trading operations; (2) the roles of the Generation and Proprietary Books in organized wholesale markets such as the SPP WEIS market, including the regulatory accounting for the costs and the determination of margins for each book; and (3) the incentive structures that are intended to ensure benefits to ratepayers from the Company's energy trades in current and emerging wholesale markets, including the SPP WEIS market.

6. Rate Riders and Adjustment Mechanisms

36. In Public Service's most recent electric rate case, Proceeding No. 21AL-0317E, Fiona Sigalla, a witness for the Staff, addressed Public Service's request for a rate of return and specifically the authorized ROE to be established by the Commission. She specifically highlighted that Public Service used eight rate riders and adjustment mechanisms in 2021 recovering approximately 35 percent of its total retail revenue. She further noted that credit rating agencies take notice of such rate adjustment mechanisms because they help to reduce regulatory lag and other risks to the Company.[18]

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[17] Hearing Exhibit 113, Deselich Direct Testimony, pp. 37-38.

[18] Proceeding No. 21AL-0317E, Hearing Exhibit 401, Sigalla Answer Testimony, p. 24.

37. Likewise, witness Ronald Fernandez for the Colorado Office of the Utility Consumer Advocate argued in that same rate case that the number of riders on most of Public Service's customers' electric bills has significantly increased with a net impact of significantly reduced risk for the Company.[19] He recommended that the Commission reduce the Public Service's authorized ROE to reflect the amount of risk that riders pass on to ratepayers due to their positive cumulative impacts to the Company.[20]

38. In this Proceeding, Public Service witness Anne Bulkley, who supports the Company's request for an authorized ROE of 10.25 percent, presents an analysis of the Company's regulatory risk, acknowledging that Public Service has cost recovery riders "which are generally consistent with the operating subsidiaries of the proxy group"[21] she uses to estimate Public Service's cost of equity because they are comparable to the Company in certain fundamental business and financial respects.[22]

39. In light of the impact that riders have on Public Service's revenues, financial integrity, credit metrics, and regulatory risk, we direct Public Service to submit Supplemental Direct Testimony identifying the percentage of annual revenue recovered through riders for the utilities in Ms. Bulkley's proxy group over the past five years and providing a comparable history for Public Service.

7. Performance Incentive Mechanism Impacts

40. In Decision No. C22-0270, the order approving the CPP, the Commission concluded that in certain instances, performance-based mechanisms can be important tools to

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[19] Proceeding No. 21AL-0317E, Hearing Exhibit 500, Fernandez Answer Testimony, pp. 79 and 80.

[20] Proceeding No. 21AL-0317E, Hearing Exhibit 500, Fernandez Answer Testimony, p. 81.

[21] Hearing Exhibit 104, Bulkley Direct Testimony, p. 65 and Attachment AEB-11.

[22] Hearing Exhibit 104, Bulkley Direct Testimony, p. 34.

incentivize utility action to reduce greenhouse gases and ensure timely and cost-efficient completion of generation and transmission building projects.[23] The Commission further determined that a performance incentive mechanism (PIM): "should establish penalties or incentives that scale symmetrically with the degree of success or failure in achieving the pre-defined metrics, but should be neither excessively punitive nor lucrative and must be in conformance with existing law."[24]

41. The Commission established a PIM for the completion of the CPP, explaining that such a PIM "provides the Commission with an additional tool to align utility incentives with the interests of ratepayers at the onset of Project development" and that it was appropriate to establish a PIM for the CPP "to encourage the Company to maintain adequate cost control and meet its intended in-service dates. The circumstances of this Project require a PIM structure that appropriately balances risks between ratepayers and shareholders."[25]

42. As further explained in Decision No. C22-0270, the Commission rejected certain components of the PIM proposed for the CPP by Public Service and Staff in Proceeding No. 21A-0096E, finding that their proposed penalties and incentives were of insufficient magnitude "to supersede other factors that could influence Company behavior."[26] The Commission therefore modified that proposed PIM to uphold the Commission's duty to "to protect ratepayers and ensure the cost expectations around the need finding are met, while appropriately balancing risk between ratepayers and shareholders of the Company." The Commission strengthened the incentive of the PIM proposed by the Company and Staff by adopting a framework for 25, 50, and 75 basis point

[23] Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E, ¶ 80, p. 39.

[24] Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E, ¶ 81, p. 40.

[25] Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E, ¶ 82, pp. 40-41.

[26] Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E, ¶ 83, p. 41.

adjustments to the equity component of the rate of return on the entire investment for the CPP line segment and substation groupings planned for completion in 2025, 2026, and 2027.[27]

43. This Proceeding is the first electric base rate case filed by Public Service since the Commission established the PIM for the CPP in Proceeding No. 21A-0096E. This Proceeding also precedes the filing of applications for CPCNs for significant new generation plant Public Service will pursue to develop as utility-owned investment as it implements its Clean Energy Plan pursuant to § 40-2-125.5(5)(b), C.R.S.[28] This Phase I electric rate case therefore provides a timely opportunity for the Commission and the parties to examine the magnitude of penalties and incentives that will influence Public Service's behavior while appropriately balancing risks between ratepayers and shareholders.

44. We therefore direct Public Service to submit Supplemental Direct Testimony that addresses the proportionality of financial rewards and penalties for PIMs to ensure that they are not too high or too low relative to customer benefits or utility costs. The testimony shall address the totality of the financial awards and penalties available to the Company through current PIMs to allow the Commission to better understand the potential impacts of PIMs on the Company's overall opportunity for a return related to its rate base. The testimony shall also address the potential magnitude and impacts of future penalties and incentives relative to the typical components of a Phase I electric rate case, such as authorized returns, revenues, and earnings per share. Such testimony will then enable the Commission and the intervening parties to examine the impacts of an increased focus on performance-based regulation, and alternative designs of such performance based regulation, in the context of a full electric base rate proceeding.

[27] Decision No. C22-0270, issued June 2, 2022, Proceeding No. 21A-0096E, ¶ 93, pp. 45-46.

[28] Decision No. C22-0459, issued August 3, 2022, and Decision No. C22-0559, issued September 21, 2022, Proceeding No. 21A-0141E.

II. ORDER

A. It Is Ordered That:

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

2. The deadline for the filing of the Supplemental Direct Testimony shall be established within the procedural schedule to be adopted in accordance with a separate decision adopted at the Commissioners' Weekly Meeting on February 15, 2023.

3. This Decision is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING February 15, 2023.

(S E A L)

ATTEST: A TRUE COPY

G. Harris Adams,
Interim Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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MEGAN M. GILMAN

TOM PLANT

Commissioners