

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 15AL-0135G

IN THE MATTER OF 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.

**DECISION ADDRESSING EXCEPTIONS,
PERMANENTLY SUSPENDING TARIFF
SHEETS, ESTABLISHING RATES,
AND REQUIRING COMPLIANCE FILINGS**

Mailed Date: February 16, 2016
Adopted Date: January 27, 2016

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I. BY THE COMMISSION

A. Statement

1. This Decision addresses exceptions to Decision No. R15-1204 (Recommended Decision) issued by Administrative Law Judge (ALJ) Paul C. Gomez on November 16, 2015. We uphold the Recommended Decision with certain modifications. We grant, in part, and deny, in part, the exceptions filed by Public Service Company of Colorado (Public Service or Company). We grant, in part, and deny, in part, the exceptions filed by the Colorado Office of Consumer Counsel (OCC) and by Energy Outreach Colorado (EOC).

2. As discussed below, we authorize Public Service to increase its base rate revenues by \$38,365,598 through the implementation of a General Rate Schedule Adjustment (GRSA) of 18.34 percent. We also approve the extension of the Pipeline Safety Integrity Adjustment (PSIA) through 2018. Public Service is authorized to file PSIA tariff sheets for effect in 2016, consistent with the terms of the Recommended Decision and this Decision.

B. Discussion

3. On March 3, 2015, Public Service filed Advice Letter No. 876 – Gas. Public Service sought to increase its gas revenues through a combination of proposed increases in base rates and proposed increases in the level of costs eligible for recovery through its PSIA. The proposed increases in base rate revenues would be accomplished through a multi-year plan with three step increases in the GRSA for 2015, 2016, and 2017. 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.

4. On March 19, 2015, the Commission set the matter for hearing before an ALJ and suspended, for a period of 120 days, or until August 1, 2015, the effective date of the proposed tariffs filed under Advice Letter No. 876 – Gas.¹

5. On April 21, 2015, pursuant to § 40-6-111(1), C.R.S., the ALJ suspended, for an additional 90 days, or until October 30, 2015, the effective date of the proposed tariffs filed under Advice Letter No. 876 – Gas.²

6. On May 19, 2015, Public Service filed an Amended Advice Letter No. 876 – Gas with proposed tariffs with 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. The Amended Advice Letter and accompanying proposed tariffs superseded in their entirety the original advice letter filing of March 3, 2015 and accompanying proposed tariffs.

¹ Decision No. C15-0255, issued March 19, 2015, Proceeding No. 15AL-0135G.

² Decision No. R15-0362-I, issued April 21, 2015, Proceeding No. 15AL-0135G.

7. On September 28, 2015, Public Service filed Advice Letter No. 884 – Gas³ to revise the GRSA effective October 1, 2015, in accordance with Decision No. R15-0512-I.⁴ The GRSA was increased on an interim basis from 8.17 percent to 18.77 percent. Consistent with Decision No. R15-0512-I, the rates that took effect on October 1, 2015 are subject to refund, with interest, relative to the final rates established by the Commission.

8. On November 16, 2015, the ALJ issued the Recommended Decision. The ALJ rejected the Company’s proposed multi-year plan and adopted base rates derived from a cost of service study for calendar year 2014 (2014 Test Year). The ALJ also approved a three-year extension of the PSIA through 2018. However, the ALJ did not approve all of the projects Public Service had proposed for PSIA cost recovery. The ALJ also rejected the recovery of any operations and maintenance (O&M) costs through the PSIA, but he instead allowed for the recovery of these costs through base rates.

9. On November 16, 2015, Public Service filed Advice Letter No. 890 – Gas⁵ to implement new PSIA rates, effective January 1, 2016 (2016 PSIA), as required by the Company’s tariff Sheet Nos. 47 through 47B and Decision No. C11-0946.⁶

10. On December 23, 2015, we granted Public Service’s request to withdraw its Advice Letter No. 890 – Gas filing to allow the Company to file a revised 2016 PSIA consistent with the Commission’s final decision in this proceeding.⁷

³ Advice Letter No. 884 – Gas was assigned Proceeding No. 15AL-0767G.

⁴ Decision No. R15-0512-I, issued June 1, 2015, Proceeding No. 15AL-0135G.

⁵ Advice Letter No. 890 – Gas was assigned Proceeding No. 15AL-0905G

⁶ Decision No. C11-0946, issued September 1, 2011, Proceeding No. 10AL-963G.

⁷ Decision No. C15-1348, issued December 23, 2015, Proceeding No. 15AL-0905G.

11. On December 7, 2015, Public Service, the OCC, and EOC filed exceptions to the Recommended Decision.

12. On January 27, 2016, at our Commissioners' Weekly Meeting, we deliberated on the exceptions to the Recommended Decision and adopted this Decision.

13. On January 28, 2016, we directed Public Service and the intervening parties to participate in a Technical Conference to assist us in establishing the approved increase in Public Service's gas utility base rate revenues, the associated GRSA, and the 2016 PSIA consistent with our deliberations on the exceptions to the Recommended Decision.⁸

14. On February 8, 2016, Public Service presented at the Technical Conference its cost of service model, updated to reflect the Commission-approved adjustments to the 2014 Test Year, as discussed during the deliberations on the exceptions to the Recommended Decision held on January 27, 2016. Public Service derived the approved increase in gas base rate revenues and the GRSA to be set forth in the Company's tariffs. In addition, Public Service presented the calculation of the 2016 PSIA revenue requirement and the PSIA rates consistent with our deliberations on the exceptions. Public Service also presented information on bill impacts associated with the approved rate increases.

C. Multi-Year Plan

15. The Recommended Decision rejects Public Service's proposed multi-year plan. The ALJ concluded that Public Service had not met its burden of proof regarding the implementation of its proposed multi-year plan, and that, in contrast, Staff of the Colorado Public Utilities Commission (Staff), OCC, and Climax Molybdenum Company had met their respective

⁸ Decision No. C16-0075-I, issued January 28, 2016, Proceeding No. 15AL-0905G.

burdens of proof regarding the implementation of the 2014 Test Year, with known and measurable adjustments.

16. The ALJ found that Public Service provided no compelling or persuasive evidence that its business practices have changed significantly since its last gas rate case, or that the Company is suffering from any adverse situations outside of its control such as high inflation, high interest rates, or rapid expansion in utility facilities not otherwise addressed. He concluded that Public Service provided little information to support a finding that the implementation of its proposed multi-year plan would serve the public interest and benefit ratepayers.

17. The Recommended Decision states that, had Public Service approached this gas rate case without the PSIA currently in place, or should the PSIA have expired, there may have been adequate support for the adoption of the proposed multi-year plan. The ALJ extended the PSIA for an additional three years through 2018, finding that Public Service should not suffer the earnings attrition or a lag in revenue it anticipates as the projects it proposes are undertaken.

18. The ALJ found no evidence that the use of the 2014 Test Year would render the Company's gas system unsafe or unreliable. He also found no evidence that the use of the 2014 Test Year would harm Public Service by impeding its ability to raise capital or to remain financially stable. He stated that the evidence provided by OCC and Staff demonstrates that the PSIA will protect Public Service from the harm it claims the multi-year plan would protect against. He similarly concluded that many of the concerns Public Service contemplates under rates based on the 2014 Test Year are mitigated by the PSIA.

19. In its exceptions, Public Service argues that the ALJ erred in rejecting the Company's proposed multi-year plan because he failed to take into consideration the significant level of projected capital expenditures for projects that are ineligible for cost recovery through the PSIA.

20. Public Service states that it followed the Commissioners' directive in their 2013 oral deliberations in the Company's last gas rate case (Proceeding No. 12AL-1268G) to present in future filings a comprehensive plan for its gas utility business. Public Service explains that its testimony describes the Company's new and existing projects and programs that are intended to improve business practices during the 2015 to 2017 period. Public Service argues that significant capital additions and expenditures are associated with these efforts and that, absent approval of the multi-year plan, earnings attrition will cause Public Service to file yet another rate case in short order. Public Service further argues that the ALJ failed to factor into his analysis any benefits of a multi-year plan.

21. In response, Staff argues that the ALJ agreed with Staff's position that rates based on a cost of service study for the 2014 Test Year will provide Public Service the ability to manage its investments and operations, recover its costs, and the opportunity to earn its allowed return. Staff states it is confident that, with effective cost control and project management, Public Service can manage any regulatory lag and earnings attrition. In addition, Staff states that it remains concerned that a multi-year plan entails Commission preapproval of non-PSIA programs and projects. Staff takes the position that the non-PSIA programs and projects Public Service has proposed in this case are required by neither federal nor state mandates.

22. The OCC posits that the Company is asking the Commission to change decades of sound regulatory policy by abandoning traditional rate making methods in favor of speculative, unreliable, and unverifiable future test years, which underlie the proposed multi-year plan. The OCC states that there is no Commission decision that directed Public Service to develop a new business strategy or to file for approval of a multi-year plan.

23. We deny Public Service's request to adopt its proposed multi-year plan and instead uphold the ALJ's directive to Public Service to establish rates using the 2014 Test Year. We also approve the three-year extension to the PSIA, consistent with the Recommended Decision.

24. Public Service will be making significant investments in its system through its PSIA-eligible projects. The Recommended Decision achieves the proper balance between current cost recovery of essential investment through the PSIA and for disciplined non-PSIA investment beyond what is necessary in the ordinary course of business.

25. The ALJ fully considered Public Service's business plan for its gas operations as put forward by the Company. We agree that Public Service has failed to carry its burden for approval of base rate increases to support the non-PSIA-eligible projects presented through testimony. The ALJ properly rejected the components of that plan for which the Company proposed current cost recovery through base rates.

26. In accordance with the Recommended Decision, we find that the adoption of the 2014 Test Year for setting rates does not prohibit Public Service from making investments or from otherwise incurring costs that it determines are necessary to provide safe and reliable service to customers. The Commission will consider whether rate increases are warranted to support non-PSIA-eligible projects in future rate cases.

D. Cost of Capital**1. Authorized Return on Equity (ROE)**

27. The Recommended Decision sets the authorized ROE for Public Service to be within the range from 9.2 percent to 9.8 percent and directs Public Service to use an authorized ROE of 9.5 percent for calculating rates. The ALJ concluded, based on the record and the Commission's recent decisions in fully-litigated rate cases, that the results from the Multi-Stage Discounted Cash Flow (DCF) model should be given considerable weight in the determination of an authorized ROE for Public Service. The Recommended Decision states that the ALJ thoroughly considered all of the Multi-State DCF results presented by the parties and determined that they lend greater support to a reduction in the Company's proposed ROE of 10.1 percent.

28. Public Service requests in its exceptions that the Commission establish an authorized ROE that is no less than 9.73 percent. Public Service suggests that the Commission look only to the Company's calculations from the Multi-State DCF Model which ranged from 9.69 percent to 9.91 percent for an average of 9.8 percent. Public Service argues that all of the other Multi-Stage DCF results presented by the intervening parties should not be considered because they are flawed and unreliable. Public Service also argues that if the 9.5 percent ROE is upheld, the Company will have more difficulty securing financing on reasonable terms.

29. In response, Staff argues that the ALJ's decision is well-supported and refutes Public Service's proposition that the Company's financial strength and credit rating may be harmed with an ROE below what the Company has requested. The OCC similarly argues that the ALJ's decision to set the authorized ROE at 9.5 percent is supported by the evidentiary record and is based on a detailed and well explained discussion in the Recommended Decision.

30. We uphold the ALJ's proposed range of 9.2 to 9.8 percent for the authorized ROE as well as the 9.5 percent point value for calculating rates. The ALJ correctly examined the full record, including all of the various models and results put forward by Public Service as well as the intervening parties, and properly arrived at findings that are reasonable and in the public interest. The approved range for the authorized ROE includes the 9.73 percent requested in Public Service's exceptions.

2. Flotation Costs

31. The Recommended Decision acknowledges that Xcel Energy, the parent company of Public Service, incurs certain direct costs when issuing new shares of common stock. However, the ALJ concluded that the Company had not carried its burden to show that its proposed adjustment of 0.13 percent to its authorized ROE for the purpose of recovering such "flotation costs" is in the public interest. The ALJ also agreed with the OCC's position that flotation costs have no relevance to the amount an investor is willing to receive by purchasing a share and therefore should not be a component of the authorized ROE.

32. In its exceptions, Public Service again asks the Commission to increase its authorized ROE by 0.13 percent to recover flotation costs. The Company alleges that the Commission has recently endorsed a flotation adder for the purpose of recovering flotation costs. Public Service also reiterates its position that a 0.13 percent adder to its authorized ROE will give investors an opportunity to earn a return on the full amount of equity they invested.

33. We deny Public Service's request. Contrary to the Company's assertions, we are not prohibiting the recovery of a reasonable level of known and measurable flotation costs. We conclude that the ALJ correctly rejected the 0.13 percent adder to Public Service's authorized ROE because it is a flawed mechanism for cost recovery. We agree with the ALJ and the

Federal Executive Agencies that Public Service's proposal for flotation cost recovery cannot be reviewed for reasonableness and cannot be confirmed as costs actually incurred on behalf of Public Service.

3. Cost of Debt

34. The Recommended Decision adopts Staff's proposal to use 4.5 percent as the measure of Public Service's cost of long-term debt. The ALJ stated that this calculation reflects the Commission's long-standing practice of using the "par value approach" and incorporates a reasonable *pro forma* adjustment to the 2014 Test Year to reflect the impact of an issuance of \$250 million, 2.90 percent first mortgage bonds in May 2015.

35. In its exceptions, Public Service requests that the Commission overturn the ALJ's finding that 4.5 percent is a reasonable measure of the Company's cost of long-term debt. Public Service requests that the Commission adopt either 4.58 percent, which is the Company's measure of the actual cost of debt during the 2014 Test Year, or 4.53 percent, which is the Company's preferred *pro forma*-adjusted amount for the 2014 Test Year based on the bond issuance in May 2015. Public Service argues that the 4.5 percent cost of debt proposed by Staff and adopted by the ALJ is flawed because it applies the lower-cost bond measure issued in May 2015 for all of 2015 instead of only the seven months after the issuance.

36. In response, Staff states that the question before the Commission is how best to capture the known and measurable impact of the bonds issued in May 2015 on the calculation of the Company's cost of debt. Staff states that the bond issuance was made within 12 months of the end of the 2014 Test Year and thus qualifies as a known and measurable change, consistent with longstanding Commission practices.

37. We deny Public Service's request to modify the cost of debt established in the Recommended Decision for establishing rates. Public Service's position on the alleged invalidity of Staff's proposed *pro forma* adjustment was fully considered by the ALJ. We agree with the ALJ and Staff that the 4.5 percent reasonably represents the Company's cost of debt when rates from this Proceeding will be put in effect.

4. Weighted Average Cost of Capital (WACC)

38. In accordance with our findings above, we make no modifications to the ALJ's calculation of the authorized Weighted Average Cost of Capital (WACC) for Public Service's gas operations. The WACC shall be 7.33 percent consistent with the calculations in the Recommended Decision.

E. Pipeline System Integrity Adjustment (PSIA)

1. Fraser to Frisco and Shorted Casings Projects

39. The Recommended Decision denied Public Service's request for PSIA cost recovery for the eight-inch Fraser to Frisco pipeline repair and reroute project and for the Shorted Casings Project.

40. In its exceptions, Public Service requests that the Commission allow PSIA cost recovery for these two projects. The Company argues that Staff's proposed prioritization and ranking mechanism for PSIA eligibility supports cost recovery through the PSIA for these two projects. The Company asserts these projects also are required by statutes, rules, or regulations.

41. We agree with Public Service that these projects are included in Staff's proposed risk ranking as otherwise adopted in the Recommended Decision and should be eligible for PSIA cost recovery. We grant Public Service's exceptions on this issue.

2. Return on PSIA Investments

42. The Recommended Decision declined to adopt the OCC's recommendation to use Public Service's cost of debt (4.5 percent) for determining the return on PSIA-eligible investments instead of the WACC (7.33 percent).

43. OCC recommends in its exceptions that the Commission overturn the ALJ. According to the OCC, the lower rate of return would reflect the virtual absence of any risk associated with expenditure recovery through the PSIA.

44. We deny the OCC's proposal to use the average cost of debt for the PSIA return on investment. The ALJ fully considered this issue and the WACC is a reasonable rate of return to use for PSIA capital investments.

3. Carrying Charge for PSIA Over- and Under-Recoveries

45. Ordering ¶ 53 of the Recommended Decision states: "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." In its exceptions to the Recommended Decision, Public Service requests clarification that the carrying charge for over- and under-collections of the PSIA is the Company's after-tax WACC, but that the WACC will not be used to set the rate of return on capital investments recovered through the PSIA. Public Service explains that it proposed to apply the after-tax WACC to the carrying charges on over- and under-collected amounts in the PSIA, but that it did not propose to change the return on capital investments recovered through the PSIA.

46. We agree with Public Service and grant its exceptions on this issue. We clarify that the after-tax WACC applies only to the carrying charge for under- or over-recoveries in the PSIA deferred account and that the after-tax WACC will not be used in the annual revenue requirement calculation for the PSIA. Evidence in this Proceeding addressed only the application of the after-tax WACC to over- or under-collections in the PSIA deferred account and did not address the return on capital investments recovered through the PSIA.

4. Risk Criteria for PSIA Qualification

47. The Recommended Decision generally adopts Staff's proposal for determining the eligibility of projects for PSIA cost recovery using a quantitative risk assessment. However, the ALJ exempted from such risk assessment those projects required by statutes, rules, or regulations, as it is assumed that such projects would be categorized as high priority automatically.

48. The OCC asserts in its exceptions that the ALJ erred by automatically exempting from the risk assessment the initiatives required by statutes, rules, or regulations. The OCC states that essentially none of the projects proposed for the PSIA would require a quantitative risk assessment because one could argue they are all federally-mandated.

49. In response to the OCC's exceptions, Staff agrees that the Recommended Decision's blanket exclusion of all required initiatives from the risk criteria is too broad. Staff recommends that the Commission adopt the specific exceptions as provided in Staff's Statement of Position. (The table showing Staff's recommended exceptions to the risk criteria is attached to this Decision as Attachment A.)

50. We agree with OCC and Staff that the exemption from risk assessments set forth in the Recommended Decision is overly broad. We remove the risk assessment exclusion for initiatives required by statutes, rules, or regulations and instead approve Staff's specific exclusions, as listed in Attachment A.

51. In its exceptions, the OCC further recommends that only high risk projects as identified through the Commission-approved risk assessments should be eligible for PSIA rate recovery. The OCC objects to allowing PSIA recovery for moderate risk projects as adopted in the Recommended Decision. The OCC argues that the inclusion of moderate risk projects is an expansion of the original intent of the PSIA and that it interjects ambiguity into the risk evaluation.

52. We deny OCC's request to limit PSIA recovery only to high risk projects. The ALJ fully considered this issue and it is reasonable for the Commission to allow PSIA cost recovery for projects addressing either moderate or high risks.

5. Acceleration of Accelerated Main Replacement Project (AMRP) and Programmatic Risk-Based Replacement Projects

53. The Recommended Decision approves Public Service's proposed acceleration in the implementation of the Accelerated Main Replacement Project (AMRP) and the Programmatic Risk-Based Pipe Replacement Projects. The ALJ determined that such acceleration would reduce the overall risk to customers and without increasing the overall costs.

54. The OCC recommends that the Commission overturn the ALJ's approval of the acceleration of these projects, arguing that the time value of money imposes an increased cost to customers. According to the OCC, the Commission previously declined to approve such

accelerations in Decision No. R13-1307⁹ because the Company was impermissibly requesting Commission “guidance.”

55. We deny the OCC’s request to overturn the ALJ’s approval of the acceleration of the AMRP and the Programmatic Risk-Based Pipe Replacement Projects. The ALJ fully considered the projects, and their acceleration is reasonable.

F. Base Rates

1. Calculation of the Value of Base Rates

56. The Recommended Decision values the investments and other items in rate base in the cost of service study using a 13-month average method for the 2014 Test Year, with the exception of the net investment in the Cherokee Pipeline, which is allowed to be valued on a 2014 year-end basis. The ALJ stated that Staff and the OCC offered compelling arguments for the adoption of a 13-month average rate base. Additionally, the ALJ concluded that Public Service did not provide any evidence to show that extraordinary conditions (such as earnings attrition) exist to warrant the adoption of a year-end rate base calculation.

57. In its exceptions, Public Service maintains that it has been a long-standing Commission policy to set rates using a year-end rate base when a historic test year is adopted, such as the 2014 Test Year. The Company argues that the use of a year-end methodology more closely reflects the plant-in-service amounts during the period rates are in effect.

58. In response, both Staff and the OCC agree with the Recommended Decision and argue for the use of an average rate base, calculated over 13 months, with the exception of the known and measurable adjustment for the Cherokee Pipeline. The OCC states that, because the Cherokee Pipeline was placed in service in October 2014, only one-quarter of the Company’s

⁹ Decision No. R13-1307, issued October 22, 2013, Proceeding No. 12AL-1268G.

investment in this asset would be earning a return if a 13-month average is used. Staff contradicts Public Service's position regarding the Commission's alleged long-standing preference for year-end rate base valuations and argues that the use of a 13-month average rate base is more consistent with Commission policy. Staff argues 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.

59. We agree with the Recommended Decision. Staff and OCC offered persuasive arguments for the adoption of a 13-month average rate base. Further, we conclude that the record does not provide evidence of extraordinary conditions that would warrant the adoption of a year-end rate base calculation. Consistent with the Recommended Decision, the Company shall use a 13-month average method to value rate base for the 2014 Test Year, with the exception of the net investment in the Cherokee Pipeline, which is to be calculated on a 2014 year-end basis.

2. Return on Pre-Paid Pension Asset

60. The Recommended Decision finds it reasonable to require Public Service to apply its cost of debt (4.5 percent) as the rate of return on the prepaid pension asset included in the 2014 Test Year rate base.

61. In its exceptions, Public Service asserts that allowing only the debt return on the asset will not adequately compensate the Company for the equity capital it has advanced in the form of prepayments to the pension trust. Further, according to the Company, using the WACC (7.33 percent) for calculating the return on the prepaid pension asset is consistent with the ratemaking treatment of other prepayments. Public Service also argues that, when all factors are

considered, retail customers realize a significant net benefit as a result of the prepaid pension asset, even if the Company is allowed to earn a return on that asset at the WACC.

62. In response, the OCC notes that the return Public Service receives on its prepaid pension asset does not have an effect on its employees' pension benefits and that the issue is instead how much money the Company and its shareholders should earn. The OCC argues that the Company provided no additional information to upset the ALJ's decision to use the cost of debt as the return on the prepaid pension asset. The OCC states that, due to the accelerated repayment of the pension asset provided by the Recommended Decision along with the introduction of a pension expense tracker, Public Service is guaranteed timely and whole recovery of costs. The associated lower risk, according to the OCC, supports a return less than the WACC.

63. Staff argues that Public Service should not be allowed to profit from providing pension benefits to employees. Staff argues that it would be reasonable for the Commission to provide no return to Public Service on the prepaid pension asset and that, if the Commission allows a return, it should not be equivalent to the return for investing in infrastructure (*i.e.*, not the WACC). Staff also notes that, since 2000, gas ratepayers have paid Public Service nearly \$40 million in earnings on the prepaid pension asset with no guarantee that ratepayers will benefit from it.

64. We find merit in the positions of Staff and OCC and concur with the Recommended Decision. Public Service shall earn a return on its prepaid pension asset at a rate equal to its cost of debt.

3. Pension Tracker

65. In its initial case filing, Public Service requested authorization to implement a tracker for its future pension expenses. Staff also advocated for the adoption of a pension expense tracker to ensure ratepayers pay no more and no less than the costs of the Company's pension. The Recommended Decision approved the tracker and found that the baseline amount would be \$9,629,711.

66. In its exceptions, the Company requests an increase in the baseline amount to \$10,226,875 to account both for the nonqualified pension expense and for the incremental pension expenses associated with the new programs approved in the Recommended Decision. At the Technical Conference on February 8, 2016, Public Service explained that our decision to allow for recovery of 2014 costs associated with the Supervisory Control and Data Acquisition (SCADA)/Gas Monitoring Program (discussed below) also required an adjustment to the baseline amount.

67. We authorize Public Service to implement a tracker for its future pension expense with a baseline amount of \$10,312,925, consistent with the amount presented at the Technical Conference. The Company's request is a reasonable addition to the revenue requirement calculation for its pension expense.

4. Annual Incentive Plan (AIP)

68. Public Service's Annual Incentive Program (AIP) is a performance-based bonus paid in addition to the employee's base salary. According to the record in this Proceeding, bonuses are targeted at between 6 percent and 100 percent of base salary for budgeting purposes but are often paid in amounts higher than those targets. The AIP is paid to employees if Xcel Energy's earnings per share exceed a threshold amount. The magnitude of an

individual employee's bonus is based on individual, business area, and corporate goals. The AIP program is only for exempt, non-bargaining employees.

69. The Recommended Decision limits the recovery of costs associated with the AIP to 15 percent of base salary consistent with the recommendations of Staff and OCC. The ALJ also grants Staff's proposed adjustment to pension costs associated with bonuses that exceed "target" levels.

70. In its exceptions, Public Service faults the ALJ's reliance on Staff's and the OCC's positions and requests that the Commission overturn the Recommended Decision to allow for recovery of its proposed AIP costs. Public Service argues that the Company's cash compensation of employees is comparable to market levels only if the AIP is included. Public Service further argues that the Commission should not rely on decisions in other Xcel Energy jurisdictions, as Staff had suggested, and that the Company's 2014 Electric Rate Case, which was a settled matter, is not precedential. The Company also states that if the ALJ's finding is upheld, the associated amount for the 2014 Test Year would need to be recalculated using the method the Company had used for its test years in the multi-year plan, because the calculation methods proposed by Staff and the OCC are flawed.

71. In response, the OCC argues that Public Service failed to provide evidence demonstrating how the 15 percent limitation would hinder its ability to attract or retain employees or its ability to provide safe and reliable service. Staff argues that it is neither just nor reasonable to ask Colorado ratepayers to pay a larger share of bonuses for Xcel Energy Services employees than amounts paid by ratepayers in other states.

72. Staff and Public Service also disagree on the method for calculating incentive pay limited to 15 percent of salary. According to Staff, Public Service wants to compute the

15 percent amount using all employee salaries combined. Staff asserts that this method, which would allow the Company to pay more than 15 percent to some employees as long as the aggregate is no more than 15 percent, favors business vice presidents and executives. Staff argues that it is common for Public Service to provide incentive compensation in amounts greater than its targets. Staff explains that large bonuses, particularly those paid near retirement, permanently boost pension payments for the lifetime of the employee. Staff advocates for an adjustment to the test year cost of service to account for the impact on pension expenses associated with the AIP.

73. We uphold the ALJ's directive to limit cost recovery of AIP compensation to 15 percent of an employee's base salary. The ALJ fully considered the issues surrounding the AIP, and the 15 percent cap for cost recovery purposes is reasonable. We instruct Public Service to calculate the recoverable costs based on each employee's base salary rather than an aggregate amount. In addition, consistent with these limits, we require Public Service, on our own motion, to eliminate from the revenue requirement the pension expense impacts associated with bonuses that exceed the 15 percent threshold.

5. Rate Case Expenses

74. The Recommended Decision approves \$727,704 in rate case expenses, which was Public Service's requested amount in its rebuttal testimony.

75. In its exceptions, the OCC requests disallowance of a consulting fee paid to ScottMadden in the amount of \$191,700. The OCC argues that the Company did not request competitive bids for the work done by ScottMadden and that the Company hired that expensive consultant for work the Company should do itself in the ordinary course of business.

76. In response, Public Service argues that, because the Company had to prepare for multiple rate cases simultaneously, it was reasonable to hire consultants for assistance in this Proceeding. Additionally, because ScottMadden has done work for other Xcel Energy jurisdictions in the past, Scott Madden was already familiar with the Company's systems and therefore was able to work shorter hours resulting in an overall lower total cost than another consultant could have.

77. We uphold the ALJ's decision to include \$727,704 for rate case expenses in the Company's cost of service. The OCC's exceptions are denied.

6. General Ledger/Work Asset Management Replacement Program

78. The Recommended Decision adopts the OCC's proposal to require Public Service to place the capital costs associated with the replacement of its General Ledger and Work Asset Management applications into a regulatory asset to be deferred to the next gas rate case for a determination of the prudence of those costs.

79. In its exceptions, Public Service states that it understands the ALJ's directive to place the total capital costs, including related depreciation expenses, for the entire project into the regulatory asset. However, Public Service seeks clarification that the asset would include capital costs incurred in 2014.

80. The OCC requests in its exceptions that the Commission exclude all 2014 costs from the rates established in this Proceeding and from the regulatory asset approved by the ALJ. The OCC notes that the Recommended Decision is silent with respect to the treatment of 2014 O&M costs.

81. We agree with the ALJ that the software costs should be more thoroughly investigated, and we uphold the Recommended Decision's directive that Public Service establish

a regulatory asset for these costs to be deferred to the next gas rate case. The regulatory asset may include total capital costs beginning in 2014, including the related depreciation expense, however, Public Service may not place the associated 2014 O&M expenses in that asset. The Commission will determine O&M expenditures to be recovered through base rates in the same future rate proceeding when the deferred capital costs are addressed. None of the software costs incurred in 2014 will be included in the calculation of the revenue requirement that is based on the 2014 Test Year.

7. Regulator Station Program

82. The Recommended Decision rejected Public Service's *pro forma* adjustments to the 2014 Test Year related to its proposed Regulator Station Program. The ALJ found that the Company failed to show that the project is necessary and that the project is outside the ordinary course of business.

83. In its exceptions, Public Service argues that ¶192 of the Recommended Decision could be interpreted to state that the Company should undertake the same work as proposed for the project as normal course of business, but if it does so, the future recovery of the cost of this work would be barred. Public Service requests clarification that the project elements can be undertaken in the normal course of business and that the Company will have an opportunity to seek recovery of these costs in an appropriate proceeding.

84. We clarify that Public Service is not barred from future cost recovery of regulator station program costs made in the ordinary course of business. However, we agree with the ALJ that, when Public Service considers expenditures on regulatory station improvements to achieve a "higher level of service," the Company must conduct a thorough quantitative cost benefit analysis for project justification.

8. SCADA/Gas Monitoring Program

85. The Recommended Decision denies Public Service's *pro forma* adjustments to the 2014 Test Year for its proposed SCADA/Gas Monitoring Program. The ALJ disallows the 2014 costs, stating that the Company did not justify the economics of the 314 percent increase in monitoring and did not provide a cost-benefit analysis.

86. Similar to the Regulator Station Project, Public Service argues that the Recommended Decision could be interpreted to state that the Company should undertake the work as normal course of business and if it does so, future cost recovery would be barred. Public Service requests clarification that the project elements can be undertaken in the normal course of business and that it will have an opportunity to seek recovery of these costs in an appropriate proceeding. In addition, Public Service asserts that it evaluated the costs and benefits of all of its initiatives on a qualitative basis, but there is no clear way to quantify the safety and reliability of integrity work such as the SCADA Program.

87. We clarify that Public Service is not barred from future cost recovery of SCADA project costs incurred in the ordinary course of business.

88. We are also concerned that the disallowance of the 2014 costs may send a negative signal to the Company about upgrading its utility infrastructure. Therefore, on our own motion, we overturn the Recommended Decision's disallowance of the 2014 costs. Public Service's proposed *pro forma* adjustments to the 2014 Test Year for the SCADA/Gas Monitoring Program are allowed. Nevertheless, we find that the ALJ properly determined that the Company's qualitative analysis for this proposed project was inadequate. Public Service must conduct a thorough quantitative cost benefit analysis for project justification for future cost recovery of any additional upgrades.

G. Phase II Rate Case Filing Requirement

89. In its case in chief, EOC argued that, because a GRSA effectively increases the monthly fixed charges on residential customer bills, low-income customers are harmed and energy efficiency policies are undermined by the adoption of a GRSA. EOC had proposed that any GRSA approved by the Commission for the residential rate class in this Phase I rate case should apply only to the usage charge. EOC argued that customer-related costs that are recovered through the fixed monthly Service and Facilities charge have not risen to a level that justifies the rate increase caused by a GRSA.

90. The Recommended Decision denies EOC's request for a two-part application of the GRSA for residential customers, finding that such a request should be considered in a Phase II rate case. However, the ALJ also declined to order Public Service to file a Phase II rate case, and the Recommended Decision is silent on that aspect of EOC's case.

91. In its exceptions, EOC requests that the Commission modify the Recommended Decision to direct Public Service to file and implement a Phase II rate design application prior to filing any advice letter or application for its next Phase I rate case.

92. Given that we have largely upheld the Recommended Decision and require the use of the 2014 Test Year to establish a single new GRSA which is substantially below the cumulative GRSA amounts proposed by the Company in its multi-year plan, we conclude that it is not necessary to direct Public Service to file a Phase II rate case prior to its next Phase I rate filing. We disagree with the EOC that the GRSA approved by this Decision will cause an unreasonable distortion in rate design or bill impacts for residential customers. EOC's exceptions to the Recommended Decision are denied.

H. Technical Conference

93. At the Technical Conference held on February 8, 2016, Public Service presented its cost of service model, updated to reflect the Commission-approved adjustments to the 2014 Test Year, as discussed during our deliberations on the exceptions to the Recommended Decision at the January 27, 2016 Commissioners' Weekly Meeting. After its presentation, Public Service conferred with the intervening parties in attendance and amended its cost of service calculations in accordance with our decision on the pension impact calculation associated with the AIP as discussed above.

94. On February 10, 2016, Public Service filed updated exhibits in the same form as presented at the Technical Conference showing the results of the amended and agreed upon cost of service calculations.

95. The exhibits filed on February 10, 2016 show that, based on our deliberations on the exceptions to the Recommended Decision, the approved increase in gas base rate revenues is \$38,365,598 and the corresponding GRSA is 10.17 percent. This GRSA value would be combined with the Company's existing GRSA of 8.17 percent for a new GRSA value of 18.34 percent to be set forth in Public Service's tariffs.

96. In addition, Public Service presented the calculation of the 2016 PSIA revenue requirement and the PSIA rates for effect consistent with our deliberations on the exceptions to the Recommended Decision. Despite the multiple changes required to the PSIA by the Recommended Decision and this Decision, such as the transfer of all PSIA-related O&M costs from the PSIA to base rates, the 2016 PSIA rates are similar to 2015 PSIA rates due to the projected increase in eligible investments. In addition, the Recommended Decision rejects Public Service's proposal to shift an approximately \$13.8 million portion of the PSIA revenue

requirement from base rate recovery to PSIA. However, Public Service presented in its February 10, 2016 filing an adjusted Project Base Amount of \$4,263,979, which reflects the various transfers of costs between base rates and the PSIA.

97. Public Service also presented information on bill impacts associated with the approved rate increases. Had there been no interim base rate increase on October 1, 2015, the approved increase in base rate revenues combined with the 2016 PSIA would cause an increase in residential bills of 4 percent, or roughly \$1.63 per month. Bills for small commercial gas customers would increase by 3.85 percent or \$6.28 per month. These bill impacts are slightly below the bill impacts caused by the GRSA that took effect on October 1, 2015 when the 2015 PSIA was also in place. From the customer's perspective, there will be little change in bills following the issuance of this Decision relative to the initial bill impacts caused by the interim rate increase on October 1, 2015.

I. General Rate Schedule Adjustment (GRSA) and the 2016 PSIA

98. We approve an increase of base rate revenues for Public Service of \$38,365,598. Public Service is authorized to implement a new GRSA of 18.34 percent to become effective in accordance with the procedures set forth in this Decision.

99. We authorize Public Service to implement the 2016 PSIA in accordance with the calculations presented at the Technical Conference. The 2016 PSIA shall become effective in accordance with the procedures set forth in this Decision.

J. Rate Implementation Procedures

100. In its exceptions, Public Service states that it conferred with Staff and the OCC on the process by which the final base rate increase and the 2016 PSIA rate should be implemented in accordance with the Commission's decision on exceptions. They propose that, regardless of

when the new base rates and the 2016 PSIA take effect: (1) January 1, 2016 will serve the effective date of all Commission-approved transfers between the PSIA and base rates; (2) the 2016 PSIA costs and calculations in the PSIA filing would be for the entirety of 2016; and (3) the future “true up” of 2016 PSIA costs vis-à-vis revenues would account for all costs in the entire 12 months of 2016.

101. Public Service also stated that the Company, Staff, and the OCC agreed upon certain terms governing the refund mechanism associated with the interim rates that took effect on October 1, 2015. The parties specifically proposed a method for calculating a refund amount.

102. We find the rate implementation proposals set forth in Public Service’s exceptions to be reasonable. Public Service shall apply these procedures in accordance with the advice letter compliance filings required by this Decision.

II. ORDER

A. The Commission Orders That:

1. The effective date of the tariff sheets filed by Public Service Company of Colorado (Public Service) on May 19, 2015 under Amended Advice Letter No. 876 - Gas is permanently suspended and shall not be further amended.

2. The tariff sheets filed under Amended Advice Letter No. 876 - Gas are permanently suspended and shall not be further amended.

3. The Exceptions to Decision No. R15-1204 filed by Public Service on December 7, 2015 are granted, in part, and denied, in part, consistent with the discussion above.

4. The Exceptions to Decision No. R15-1204 filed by the Colorado Office of Consumer Counsel on December 7, 2015 are granted, in part, and denied, in part, consistent with the discussion above.

5. The Exceptions to Decision No. R15-1204 filed by the Energy Outreach Colorado on December 7, 2015 are denied, consistent with the discussion above.

6. Decision No. R15-1204, issued on November 16, 2015, shall become the decision of the Commission except as modified by this Decision.

7. Public Service is authorized to increase base rate revenues by \$38,365,598, consistent with the discussion above. Public Service shall file base rate tariff sheets to implement the increase in base rate revenues, including a General Rate Schedule Adjustment of 18.34 percent, consistent with the discussion above. Public Service shall file an advice letter compliance filing with the base rate tariff sheets in a separate proceeding and on not less than two business days' notice for effect no sooner than March 1, 2016. The tariff sheets in the base rate advice letter compliance filing shall replace the rates that went into effect on an interim basis on October 1, 2015 as filed by Public Service under Advice Letter No. 884 - Gas on September 28, 2015 in Proceeding No. 15AL-0767G.

8. Public Service shall return to customers on their gas utility bills, for the period subject to the refund condition approved by Decision No. R15-0512-I, the difference between the total amount of revenues collected under rates effective October 1, 2015 and the total amount that would have been collected under the rates established by this Decision, adjusted as necessary to exclude costs received through the Pipeline System Integrity Adjustment (PSIA). The refund shall include interest calculated at the average bank loan prime rate reported by the Federal Reserve, in accordance with Decision No. R15-0512-I. The refund amounts shall be calculated in accordance with the procedures adopted by this Decision.

9. Public Service is authorized to file tariff sheets for the PSIA consistent with Decision No. R15-1204 and this Decision. Public Service shall file an advice letter compliance filing with the tariff sheets to implement the PSIA in 2016 in a separate proceeding (and distinct from the base rate advice letter compliance filing) and on not less than two business days' notice for effect no sooner than March 1, 2016.

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

11. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
January 27, 2016.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JOSHUA B. EPEL

GLENN A. VAAD

Commissioners

COMMISSIONER FRANCES A. KONCILJA
NOT PARTICIPATING.