

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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IN THE MATTER OF THE)
APPLICATION OF PUBLIC SERVICE)
COMPANY OF COLORADO FOR)
APPROVAL OF ITS COST RECOVERY) PROCEEDING NO. 22A-0515E
PROPOSAL ASSOCIATED WITH THE)
EARLY RETIREMENTS OF COAL)
GENERATION ASSETS CRAIG 2,)
HAYDEN, 1 AND HAYDEN 2 AND THE)
RETIRING COAL PORTION OF)
PAWNEE)

UNOPPOSED COMPREHENSIVE SETTLEMENT AGREEMENT

INTRODUCTION AND IDENTIFICATION OF PARTIES

This Unopposed Comprehensive Settlement Agreement (“Settlement Agreement” or “Agreement”) is filed on behalf of Public Service Company of Colorado (“Public Service” or the “Company”), Trial Staff (“Staff”) of the Colorado Public Utilities Commission (“Commission”), the Colorado Office of the Utility Consumer Advocate (“UCA”), the Colorado Energy Consumers (“CEC”); the Natural Resources Defense Council (“NRDC”) and Sierra Club (collectively, the “Conservation Coalition”) (each a “Settling Party” and collectively the “Settling Parties”). Climax Molybdenum Company (“Climax”) does not join, but also does not oppose, this Settlement Agreement. This Settlement Agreement is intended to represent a comprehensive resolution of Commission Proceeding No. 22A-0515E, which addresses Public Service’s Application

Colorado PUC E-Filings System

to determine how the Company will recover the remaining net book values (“NBVs”) and decommissioning costs associated with the early retirements of units Craig 2, Hayden 1, Hayden 2, and the retiring coal portion of Pawnee as it converts to natural gas generation.

SETTLEMENT AGREEMENT

The following terms comprise the Settlement Agreement reached by the Settling Parties.

I. Coal Plant Cost Recovery Approval.

The Settling Parties agree the Commission should approve cost recovery of the NBVs and prudently incurred decommissioning costs associated with the early retirement of coal generating assets Craig 2, Hayden 1, Hayden 2, and the retiring coal portion of Pawnee as it converts to natural gas generation through regulatory assets (“Coal Assets”).

Estimated Remaining NBV and Decommissioning Costs

(\$ millions)	Original Retirement Date	Early Retirement Date	NBV & Future Decommissioning Costs
Craig Unit 2	2039	2028	\$32.2
Hayden Unit 1	2030	2028	\$35.4
Hayden Unit 2	2036	2027	\$45.0
Pawnee Retired Portion	2041	2025	\$209.7

II. Approval to Create Regulatory Assets and Establishment of Amortization Periods.

The Settling Parties agree that the Commission should approve the creation of a separate regulatory asset for each of the Coal Assets, as applicable (the “Coal Regulatory Assets”). In addition, the Settling Parties agree that the amortization period for each of the Coal Regulatory Assets shall be set at eight years, with the exception of Pawnee, for which the amortization period will be set at 12 years.

III. Future Bundled Securitization Evaluation.

The Settling Parties agree that the Company will present a bundled securitization, including the Coal Regulatory Assets together with amounts related to Comanche 3, as a part of the financing order application pursuant to paragraph 35 of the Updated Non-Unanimous Partial Settlement Agreement (“USA”) in Proceeding No. 21A-0141E,¹ to be filed no later than April 1, 2030. The bundled securitization would be compared to regulatory asset recovery for the Coal Regulatory Assets, with the above discussed amortization periods and a return at the long-term cost of debt after 2030. The Company will provide a robust and transparent analysis of overall customer benefits, including the present value of revenue requirements (“PVR”) analysis and other relevant quantifiable impacts to customers including analysis of total bill and rate impacts. The Company will also provide a robust and transparent analysis of additional relevant economic considerations, including, but not limited to, the availability of state and federal funding, capital market conditions, and credit metric considerations. The Settling Parties agree to support the option that produces the lowest PVR and lowest bill and rate impacts unless

¹ Notably, not all Settling Parties in this proceeding are parties to the USA in Proceeding No. 21A-0141E, and this provision does not constitute an endorsement of the referenced provisions of the USA by Settling Parties here that did not join the USA.

it can be demonstrated there are material customer benefits or avoidance of material harm to customers based on additional economic or other considerations. The Settling Parties will work in good faith to present a unified position to the Commission for approval, whether a bundled securitization or return on the Coal Regulatory Assets at the long-term cost of debt.

The following principles apply to the presentation of the bundled securitization:

- The securitization costs, i.e., the Colorado Energy Impact Property as defined in Colorado law, will be recovered through Colorado Energy Impact Charges consistent with the Colorado Energy Impact Bond Act, § 40-41-101, C.R.S. *et seq.*, which allows regulated utilities to voluntarily seek Commission authorization to pursue securitization in connection with the early retirement of coal plant assets.
- The Company will not seek to securitize any amount of equity return after the closing date of the securitization financing.
- The Company will only seek to securitize the NBVs, estimated decommissioning and removal costs (including actual costs incurred and estimates of remaining costs with such costs transparently identified as actual versus estimated (based on Commission-approved decommissioning and removal costs), other Commission-approved pre-tax costs as defined by § 40-41-102(7)(a), C.R.S., issuance costs, and ongoing reasonable administrative servicing costs associated with the bundled securitization of the Coal Assets.
- The Company agrees to unwind ADIT with a return paid to customers as the ADIT unwinds, which return shall be symmetrical to the return earned by the Company. For example, if the WACC returns on the regulatory assets associated with the Coal Assets are approved until the time of either a bundled securitization or a conversion of regulatory asset recovery to a return at the long-term cost of debt as discussed in this Settlement Agreement, and bundled securitization is ultimately approved for the Coal Assets and Comanche 3, the Company agrees to unwind ADIT with a WACC return paid to customers as the ADIT unwinds.

IV. Return Level.

The Settling Parties agree that the Commission should establish returns at the Company's Commission-approved weighted average cost of capital ("WACC") for the

Coal Regulatory Assets until the earlier of January 1, 2031 or the time of a bundled securitization bond issuance pursuant to a final, non-appealable financing order resulting from the Company's financing order application in accordance with paragraph 35 of the USA in Proceeding No. 21A-0141E. To the extent the Commission approves a bundled securitization for the Coal Assets, any period between January 1, 2031 and the bond issuance date shall have a return on the Coal Regulatory Assets at the Company's long-term cost of debt for that period only. If the Commission instead orders the continuation of regulatory asset recovery, the Settling Parties agree that, beginning January 1, 2031, the Commission should establish and the Company will utilize a long-term cost of debt for the carrying cost associated with the Coal Regulatory Assets and earn at this return as opposed to the WACC.

V. Protections Against Double Recovery.

The Settling Parties agree that Public Service will initiate revenue requirements for the Coal Regulatory Assets and remove all revenue requirements previously related to the retired plant in the same rate case. Accordingly, once the regulatory asset goes into rate base, base rates will be adjusted to ensure that the dollars are not collected by the Company twice. Alternatively, if cost recovery for the Coal Regulatory Assets will occur through a rider, *e.g.*, the Clean Energy Plan Rider or another similar rider, Public Service will first calculate the revenue requirement of the new regulatory asset and then credit the related base rate revenue in the same rider. This results in the rider recovering only the net change in revenue requirements; the Company would offset the revenue requirement in any rider to account for Coal Asset dollars, if any, remaining in base rates. This ensures

that the dollars are not recovered twice, i.e., once through the rider and once through base rates, in a rider recovery scenario.

VI. Approval of Phase II Modeling Assumptions for Coal Cost Recovery.

The Settling Parties agree that the Commission should approve cost recovery assumptions in the Phase II modeling in Proceeding No. 21A-0141E that provide for the Company to recover remaining NBVs and decommissioning costs associated with the Craig Unit 2, Hayden Unit 1, and Hayden Unit 2 regulatory assets amortized over eight years from the retirement or conversion of each unit and earning a return at the Company's Commission-approved WACC. The Pawnee Retired Portion regulatory asset modeling will utilize a 12-year amortization period with a return at the Company's Commission-approved WACC. In addition, bundled securitization will be assumed in the Phase II modeling of the Coal Regulatory Assets and Comanche 3, following the retirement of Comanche 3 no later than January 1, 2031. These assumptions shall be used solely for modeling purposes, with actual and prudently incurred costs recovered through the cost recovery approach set forth in the Settlement Agreement.

VII. Litigation Expense Deferral Authorization.

The Settling Parties agree that the Commission should authorize Public Service to track, record, and defer all costs incurred to prepare and litigate this proceeding in a non-interest-bearing regulatory asset account until they are presented for review and recovery in a future cost recovery proceeding. The Settling Parties reserve rights to take any position on the recovery of such deferred litigated expense in future rate or other proceedings.

VIII. Reporting on Federal Funding Status.

The Settling Parties agree that the Company will file a report in Proceeding No. 23M-0053ALL to update the Commission and interested stakeholders on its eligibility to recover costs at issue in this proceeding through the Energy Infrastructure Reinvestment Program, or other relevant funding opportunities made available by the passage of the Inflation Reduction Act of 2022, as further agency guidance develops. The Company will file this report within 120 days of a final Commission decision in this proceeding, and update its filing as appropriate based on the availability of new or improved information. Moreover, the Company would look at federal funding opportunities for each Coal Asset individually and the Coal Assets collectively, and commits to pursuing federal funding if the Coal Assets, individually or collectively, are eligible based on federal agency guidance developed for program implementation and provided such federal funding provides value to customers.

To the extent that federal funding for recovering the NBVs and prudently incurred decommissioning costs for one or all Coal Assets is secured, the Company would make an appropriate filing with the Commission to incorporate any federal funding into the cost recovery for the relevant Coal Asset(s). The Settling Parties reserve rights to take any position on such a filing in the future with regard to how any federal funding is incorporated into the cost recovery structure set forth in this Settlement Agreement.

IX. Electric Rate Case Affordability Considerations.

This Settlement Agreement provides a financial bridge in the form of return levels at the Company's Commission-approved WACC on the Coal Regulatory Assets from the early Coal Asset retirements until the earlier of January 1, 2031 or the time of a bundled

securitization bond issuance. When this is coupled with the ability to leverage newly available cash flow through a potential resolution of Proceeding No. 22AL-0555E, it enables the Company to examine potential approaches regarding existing regulatory assets for units that have previously retired or are set to retire and/or rider recovery mechanisms related to retired asset cost recovery. Accordingly, the Company commits to commence settlement negotiations in the Electric Rate Case in consolidated Proceeding Nos. 22AL-0530E and 22AL-0478E and intends to propose an approach to alleviate near-term affordability concerns that will include the treatment of unamortized balances for retired and/or retiring coal plants, including Coal Assets at issue in this proceeding, along with the treatment of cost recovery for previously retired units and attendant cost recovery mechanisms for those units, and other relevant coal related costs. Any settlement negotiations will seek to add value and address near-term affordability concerns for customer benefit to the cost recovery structure set forth in this Settlement Agreement.

GENERAL PROVISIONS

1. This Agreement is made for settlement purposes only. No Settling Party concedes the validity or correctness of any regulatory principle or methodology directly or indirectly incorporated in this Agreement. Furthermore, this Agreement does not constitute agreement, by any Settling Party, that any principle or methodology contained within or used to reach this Agreement may be applied to any situation other than the above-captioned proceeding, except as expressly set forth herein. No binding precedential effect or other significance, except as may be necessary to enforce this Agreement or a Commission order concerning the Agreement, shall attach to any

principle or methodology contained in or used to reach this Agreement, except as expressly set forth herein.

2. The Settling Parties agree the provisions of this Settlement Agreement, as well as the negotiation process undertaken to reach this Settlement Agreement, are just, reasonable, and consistent with and not contrary to the public interest, and should be approved and authorized by the Commission.

3. The discussions among the Settling Parties that produced this Settlement Agreement have been conducted in accordance with Rule 408 of the Colorado Rules of Evidence.

4. Nothing in this Settlement Agreement shall constitute a waiver by any Settling Party with respect to any matter not specifically addressed in this Settlement Agreement.

5. The Settling Parties agree to support, or not oppose, all aspects of the Settlement Agreement embodied in this document in any hearing conducted to determine whether the Commission should approve this Settlement Agreement, and/or in any other hearing, proceeding, or judicial review relating to this Settlement Agreement or the implementation or enforcement of its terms and conditions. Each Settling Party also agrees that, except as expressly provided in this Settlement Agreement, it will take no formal action in any administrative or judicial proceeding that would have the effect, directly or indirectly, of contravening the provisions or purposes of this Settlement Agreement. However, except as expressly provided herein, each Settling Party expressly reserves the right to advocate positions different from those stated in this Settlement

Agreement in any proceeding other than one necessary to obtain approval of, or to implement or enforce, this Settlement Agreement or its terms and conditions.

6. The Settling Parties do not believe any waiver or variance of Commission rules is required to effectuate this Settlement Agreement but agree jointly to apply to the Commission for a waiver of compliance with any requirements of the Commission's Rules and Regulations, if necessary, to permit all provisions of this Settlement Agreement to be approved, carried out, and effectuated.

7. This Settlement Agreement is an integrated agreement that may not be altered by the unilateral determination of any Settling Party. There are no terms, representations or agreements among the parties which are not set forth in this Settlement Agreement.

8. This Settlement Agreement shall not become effective until the Commission issues a final decision addressing the Settlement Agreement. In the event the Commission modifies this Settlement Agreement in a manner unacceptable to any Settling Party, that Settling Party may withdraw from the Settlement Agreement and shall so notify the Commission and the other Settling Parties in writing within ten (10) days of the date of the Commission order. In the event a Settling Party exercises its right to withdraw from the Settlement Agreement, this Settlement Agreement shall be null and void and of no effect in this or any other proceeding.

9. There shall be no legal presumption that any specific Settling Party was the drafter of this Settlement Agreement.

10. This Settlement Agreement may be executed in counterparts, all of which when taken together shall constitute the entire Agreement with respect to the issues

addressed by this Settlement Agreement. This Settlement Agreement may be executed and delivered electronically and the Settling Parties agree that such electronic execution and delivery, whether executed in counterparts or collectively, shall have the same force and effect as delivery of an original document with original signatures, and that each Settling Party may use such facsimile signatures as evidence of the execution and delivery of this Settlement Agreement by the Settling Parties to the same extent that an original signature could be used.

Dated this 24th day of March 2023.

Agreed on behalf of:

PUBLIC SERVICE COMPANY OF COLORADO

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