

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

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IN THE MATTER OF THE VERIFIED)
APPLICATION OF PUBLIC SERVICE)
COMPANY OF COLORADO FOR)
APPROVAL TO EXTEND THE) PROCEEDING NO. 21A-0071G
COMPANY'S PIPELINE SYSTEM)
INTEGRITY ADJUSTMENT ("PSIA"))
RIDER FOR CERTAIN PROJECTS)
THROUGH 2024, WITH SUBSEQUENT
WIND-DOWN OF THE RIDER.

COMPREHENSIVE SETTLEMENT AGREEMENT

I. Introduction and Identification of Parties

This Comprehensive Settlement Agreement ("Settlement Agreement" or "Agreement") is a full and complete resolution of Public Service Company of Colorado's ("Public Service" or the "Company") Application for Approval to Extend the Company's Pipeline System Integrity Adjustment ("PSIA") Rider for Certain Projects Through 2024, with Subsequent Wind-Down of the Rider. Along with Public Service, this Settlement Agreement is joined by Commission Trial Staff ("Staff"), and the Colorado Energy Office ("CEO") (collectively, the "Settling Parties").

II. Background

A. Public Service's PSIA Proceedings

1. The PSIA is a rider established to give the Company accelerated cost recovery for work completed to comply with federal regulations governing the safety and integrity of natural gas pipeline systems. Specifically, it was developed in 2010 in response to the Pipeline Safety Improvement Act of 2002 and subsequent federal regulations governing Distribution Integrity Management Programs ("DIMP") and Transmission Integrity Management Programs ("TIMP"). Ongoing state and federal regulations continue to require capital and operations and maintenance ("O&M") investments in pipeline safety and integrity, and such investments provide benefits to customers in the form of a safer and more reliable natural gas pipeline system.

2. The PSIA was first established, effective January 1, 2012 through December 31, 2014, via an approved settlement agreement in Public Service's 2010 Phase I gas rate case (Proceeding No. 10AL-963G). The PSIA initially included capital costs and O&M expenses associated with six pipeline system integrity initiatives: DIMP, TIMP, the Accelerated Main Replacement Program ("AMRP"), the Edwards-to-Meadow Mountain Transmission Pipeline Replacement initiative ("EMM"), the West Main Transmission Pipeline Replacement initiative ("West Main"), and the Cellulose Acetate Butyrate ("CAB") Services Replacement initiative. The PSIA was subsequently extended one year, to December 31, 2015, via an approved settlement agreement in Public Service's 2012 Phase I gas rate case (Proceeding No. 12AL-1268G).

3. Public Service requested and received a third extension of the PSIA through December 31, 2018 in its 2015 Phase I gas rate case filing (Proceeding No. 15AL-0135G),

in order to recover the continuing costs of TIMP, DIMP, AMRP, and West Main. In the 2015 case, the revenue requirements for the CAB and EMM initiatives were removed from the PSIA and moved into base rates for cost recovery. Additionally, the Colorado Public Utilities Commission (“Commission”) ordered the Company to: use a quantitative risk assessment program to evaluate PSIA project eligibility in future annual PSIA reports; provide granular five-year PSIA forecasts annually; and remove all O&M costs from the PSIA.

4. On June 27, 2018, Public Service filed an Application for Approval to Extend the Company’s Pipeline System Integrity Adjustment Through 2020 and to Terminate No Later than 2024 in Proceeding No. 18A-0422G. On October 1, 2018, the parties to that proceeding filed a proposed comprehensive settlement that addressed all issues in the proceeding (“2018 PSIA Settlement”). Specifically, under the terms of the 2018 PSIA Settlement, the PSIA would be extended for three years through December 31, 2021, with an option for Public Service to file a request for Commission approval of a second, up to three-year extension to December 31, 2024. In Decision No. C18-0983 (mailed date Nov. 6, 2018), the Commission approved the Settlement.

5. On February 9, 2021, Public Service filed a Verified Application in this Proceeding that requested the following:

- a. Extend the PSIA rider from January 1, 2022 through December 31, 2024, allowing for five specific, existing PSIA Projects to continue to be undertaken in those years as part of the PSIA, continuing to limit cost recovery in the PSIA to capital costs only;

- b. Maintain the same scope of the PSIA in terms of program, Project, and Sub-Project eligibility (such that there is no change to eligibility criteria), as well as the same overall risk ranking approach and the existing reporting requirements, including those for both the November Filing and the April Annual Report;
 - c. Approve the Company's proposal to wind-down PSIA cost recovery, allowing the PSIA rider mechanism itself to remain in place until PSIA costs can be transferred to base rates through a rate case, with any subsequent true-ups addressed through the Gas Cost Adjustment ("GCA") (if the Commission does not approve an extension and the PSIA is closed to new investment as of December 31, 2021, the Company requested authorization to implement the same PSIA wind-down process); and
 - d. Remove the requirement to file a Phase I base rate case every three years so long as the PSIA remains in effect, as established by operation of a settlement approved by Decision No. R11-0743 in Proceeding No. 10AL-963G.
6. In its Verified Application, Public Service stated that this would be its final request to extend the PSIA and the PSIA would be closed to new costs at the end of 2024 and kept open solely to recover historical investments and manage an orderly true-up of annual PSIA costs until transition to base rates could occur. The Company also noted that extension of the PSIA was necessary to continue support for the Company's integrity management programs under the PSIA, which continue to address federal regulations and associated, significant investments due to regulatory requirements largely outside

the Company's control that ensure the safety and reliability of Public Service's system, protect customers and communities, and reduce methane emissions.

B. Procedural History Relevant to Settlement

7. By Decision No. C21-0271-I (mailed date May 4, 2021), the Commission issued an interim decision setting the matter on for hearing, establishing parties to this proceeding, setting a prehearing conference, requiring supplemental testimony, and requiring a proposed procedural schedule. The Commission determined that parties to the proceeding are Public Service, Staff, CEO, and the Office of the Utility Consumer Advocate ("UCA"). The Commission also determined that the matter would be heard *en banc* and scheduled a prehearing conference for May 12, 2021. The Commission also required Public Service to file supplemental direct testimony to address certain issues.

8. By Decision No. C21-0299-I, the Commission adopted the parties' Unopposed Joint Motion to adopt a procedural schedule, scheduled prehearing dates for filing testimony and other filings, and scheduled an evidentiary hearing for September 13-15, 2021.

9. On June 2, 2021, Public Service filed Supplemental Direct Testimony that addressed certain supplemental issues ordered by the Commission's Decision No. C21-0271-I.

10. On July 13, 2021, Staff, CEO, and UCA filed Answer Testimony, which set forth a variety of positions opposing the PSIA extension and proposing specific conditions if the Commission approves a PSIA extension.

11. On August 16, 2021, Public Service filed Rebuttal Testimony, continuing to support the PSIA extension and proposing a deferral alternative in the event the Commission declined to extend the PSIA rider.

III. Settlement Terms

12. The Settling Parties enter this Agreement based on their mutual agreement that certain continuing investments in pipeline system integrity, particularly as required by current Federal Pipeline and Hazardous Materials Safety Administration (PHMSA) regulations, are in the public interest. The Settling Parties therefore agree as follows for settlement purposes:

A. December 31, 2021 PSIA Rider Closure

13. The Settling Parties agree that the PSIA Rider will be closed to new investment as of December 31, 2021, and the Company will implement the wind-down process outlined in Section VIII(2) of the 2018 PSIA Settlement.

14. As outlined in Section VIII(2) of the 2018 PSIA Settlement, the Company will file a compliance advice letter in a new proceeding by December 1, 2021. This advice letter will allow the Company to recover through a General Rate Schedule Adjustment (“GRSA”) the forecasted 2021 PSIA revenue requirement¹ with rates effective January 1, 2022 (inclusive of the 2020 revenue requirement and 2020 revenue true-up). Likewise, consistent with the 2018 PSIA Settlement, the GRSA effective January 1, 2022 will be subject to the April 2022 annual reporting on 2021 actuals, with the GRSA adjusted effective January 1, 2023 to reflect any true-up amounts. The advice letter will be revenue

¹ As filed on November 1, 2020 in Proceeding No. 20AL-0503G.

neutral to the Company. In the event the movement of PSIA costs to base rates is delayed due to any regulatory action, the costs will remain in the PSIA until they are moved to base rates or another form of cost recovery is established.

15. The compliance advice letter to be filed by December 1, 2021 will also reflect elimination of the PSIA rider in the Company's tariffs. Notice of the compliance advice letter filing will be filed in this Proceeding and in Proceeding No. 18A-0422G.

16. The Settling Parties agree they will not contest the filing of the compliance advice letters or implementation of the GRSA or adjustments thereto contemplated by this Settlement, subject to confirmation of accuracy of the filing data and GRSA calculation.

B. 2022 PSIA Investment Deferral

17. The Settling Parties agree that a PSIA deferral mechanism ("PSIA Deferral") will be implemented on January 1, 2022 as follows:

- a. The Company will track the depreciation expense associated with any new capital investments (i.e., not forecasts or O&M) in PSIA Projects and Sub-Projects (i.e., Projects and Sub-Projects within the scope of the PSIA and associated criteria as set forth in the 2018 PSIA Settlement, but excluding all new moderate risk projects) placed in-service during the period of January 1, 2022 through December 31, 2022, and defer these expenses for review and recovery in a future Phase I rate case.
- b. The Company will defer monthly depreciation expense on the plant in service balances, consistent with the Company's proposed capital spend under the rider in its Direct case in this Proceeding. However, the capital

expenditure amount to be included in the rider will be capped at \$143.1 million for 2022, which is the total amount proposed in the Direct Testimony of Luke Litteken for only high-risk projects to be completed over the one-year extension. The Projects listed in the Table below are authorized to be included in the PSIA Deferral, subject to the \$143.1 million aggregate cap amount identified herein. Project amounts over this cap, if any, may be brought forward for recovery in the ordinary course of business.

Table 1

<u>Project</u>
DIMP
DIMP - PPRP - Coupled IP & Vintage Steel
DIMP - AMRP
TIMP
TIMP - ASV/RCV
TIMP - MAOP
TIMP - Pipeline Assessments & Repairs

- c. Unlike PSIA rider costs that earn a return at the weighted average cost of capital, the Company will earn a return on the net plant in service in the PSIA Deferral equal to the Company's actual average cost of long-term debt, with the return to be deferred monthly along with the depreciation expense for future recovery.

C. Future System Integrity Cost Recovery

18. The Company agrees to file a Phase I gas rate case by the end of the first quarter of 2022 (i.e., by March 31, 2022). Any existing PSIA Deferral balance would not

be included for amortization in base rates in this Q1 2022 rate case; however, the Settling Parties agree that the Company may continue the deferral beyond that rate case or cases, subject to closing the PSIA Deferral to new Projects and Sub-Projects as of December 31, 2022. Any PSIA Deferral costs not transferred to base rates through the next Phase I gas rate case (Q1 2022 or otherwise) would continue to be deferred until the Company's subsequent Phase I gas rate case.

19. The Settling Parties recognize that due to past PSIA settlements and Commission decisions, as well as the scope of this Agreement, the past, current, and future PSIA rider and PSIA Deferral Projects and Sub-Projects represent a subset of total system integrity work that the Company is undertaking to support public safety. The Settling Parties further recognize that system integrity work will continue beyond the PSIA rider and PSIA Deferral set forth in this Agreement, as described by Public Service witness Mr. Luke A. Litteken in his Direct, Supplemental Direct, and Rebuttal Testimony in this Proceeding. This Agreement is not intended to foreclose the Company from seeking other cost recovery for ongoing pipeline work, which may include but is not limited to work in the ordinary course of business proposed for recovery as part of a base rate case filing. The Settling Parties are free to take any positions they may choose with respect to such a filing, except that no party may claim cost recovery is foreclosed by this Agreement or the separate existence of the PSIA rider or the PSIA Deferral.

D. Reporting

20. For 2022 PSIA Deferral Projects, the Settling Parties agree that the Company will continue the PSIA reporting it currently provides in November to forecast the coming year, via periodic interim updates, and in April to provide actuals, through an

April 2023 actuals report. Such reporting will be informational only, and may be slightly modified where appropriate given the PSIA costs would be deferred rather than subject to rider recovery. In general, the forecast submittal in November 2021 will be filed in this proceeding, and will include the PSIA capital amounts the Company anticipates incurring and the associated expense the Company anticipates deferring, with actual amounts deferred reported in the April 2023 submittal subject to prudence review when the Company brings forward the costs for recovery.

21. Subject to any changes in the Commission Rules that may require different reporting related to these topics, in the April 2022 actuals report the Company will include the following information for the utility's entire gas system, with appropriate confidentiality protections, for the period 2022-2026 ("Reporting Period"):

- a. A forecast of gas utility Transmission and Distribution capital spend by category;
- b. A discussion of any New Business projects, including a description and geographic breakdown; and
- c. A forecast of gas (in dekatherms) to be delivered to customers and customer count, by class, over the Reporting Period.

The April 2022 filing will be filed in Proceeding No. 20AL-0503G, with additional notice filed in this Proceeding.

22. With respect to future short and long-term planning rulemaking before the Commission, the Company agrees not to oppose a Commission rule requiring gas utilities to include safety and integrity investments for Commission evaluation and approval in future short and/or long-term gas system infrastructure plans. However, the Company

reserves all rights to take any position regarding how system and integrity investments are factored into future short and/or long-term planning proceedings or rules.

IV. GENERAL PROVISIONS

The Settling Parties agree:

1. This Settlement 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. Each Settling Party understands and agrees that this Settlement Agreement represents a negotiated resolution of all issues the Settling Party either raised or could have raised in this Proceeding. The Settling Parties agree the provisions of 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. In the event this Settlement Agreement becomes null and void or in the event the Commission does not approve this Settlement Agreement, it, as well as the negotiations or discussions undertaken in conjunction with the Settlement Agreement, shall remain inadmissible into evidence in these or any other proceedings in accordance with Rule 408 of the Colorado Rules of Evidence.

5. The Settling Parties will support 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. The Settling Parties will provide a witness or witnesses able to summarize the settlement and to answer Commissioner questions at a hearing in support of the Settlement Agreement, and will provide pre-filed testimony if so requested by the Commission. Each Settling Party also agrees that, except as expressly provided in this Settlement Agreement, it will take no action in any administrative or judicial proceeding, or otherwise, which would have the effect, directly or indirectly, of contravening the provisions or purposes of this Settlement Agreement.

6. The Settling Parties waive cross-examination as to each other's witnesses but reserve the right to cross-examine witnesses for non-settling parties to the extent those parties oppose the Settlement Agreement.

7. Approval by the Commission of this Settlement Agreement shall constitute a determination that this resolution of the matters in this Proceeding represents a just,

equitable, and reasonable resolution of issues that were contested among the parties in this Proceeding. The Settling Parties state that reaching agreement as set forth herein by means of a negotiated settlement rather than through a formal adversarial process is in the public interest and that the results of the compromises and settlements reflected in this Settlement Agreement are in the public interest.

8. 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.

9. 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.

10. 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.

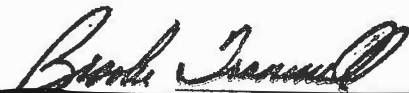
11. There shall be no legal presumption that any specific Settling Party was the drafter of this Agreement.

12. 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 3rd day of September, 2021.

Agreed on behalf of:

**PUBLIC SERVICE COMPANY OF
COLORADO**

By: 

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