BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

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IN THE MATTER OF ADVICE LETTER NO. 791 FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO INCREASE THE RATES FOR ALL NATURAL GAS SALES AND TRANSPORTATION SERVICES BY IMPLEMENTING A GENERAL RATE SCHEDULE ADJUSTMENT ("GRSA") IN THE COMPANY'S COLORADO P.U.C. NO. 6 GAS TARIFF TO BECOME EFFECTIVE JANUARY 17, 2011.	)	PROCEEDING NO. 10AL-963G

PARTIES' RESPONSES TO THE ALJ'S QUESTIONS REGARDING STIPULATION AND AGREEMENT FILED FEBRUARY 25, 2014

TABLE OF CONTENTS

Exhibits:

#1 – <u>ISSUES RAISED BY STAFF AND OCC BUT NOT SPECIFICALLY ADDRESSED IN THE STIPULATION</u>

1. <u>Stipulation at para. 18 and para. 34</u>: In these paragraphs, the Settling Parties state that, if an issue raised by OCC or Staff is not addressed specifically in the Stipulation, the Settling Parties have not reached specific agreement on that issue; that those issues are no longer contested in this Proceeding; and that those issues may be considered withdrawn for purposes of this Proceeding.

Identify the issues raised by OCC that are not specifically addressed in the Stipulation and that are considered to be withdrawn. Provide citations to the testimony of OCC witness Skluzak.

The issues raised by the OCC that are not specifically addressed in the Stipulation are as follows:

- The suggestion that a review of the costs underlying the Projects Base Amount should be included as part of this prudence review proceeding, as discussed at page 1, lines 15-20 of Mr. Skluzak's Answer Testimony;
- The recommendation that the Company should develop a system to track denials of change order requests, as discussed at page 5, lines 7-14 of Mr. Skluzak's Answer Testimony; and
- Concerns regarding competitive bidding, as discussed at page 5, lines 15-19 of Mr. Skluzak's Answer Testimony.

Does the Stipulation preclude OCC from raising the identified-but-not-addressed issues, assuming they are present, in a future review of the prudence of PSIA capital expenditures and O&M expenses? Explain the response.

The Stipulation does not preclude the OCC from raising the above issues in a future review of PSIA capital expenditures and O&M expenses. With respect to the Projects Base Amount issue, the OCC now understands and accepts the Company's explanation of what the Projects Base Amount represents and how it affects the costs to be reviewed. Its concern is resolved. With respect to the other two concerns, the OCC still has concerns and reserves its right to further investigate and raise the issues in future prudence reviews. The OCC withdraws the issues without prejudice for purposes of this prudence review proceeding.

Identify the issues raised by Staff that are not specifically addressed in the Stipulation and that are considered to be withdrawn. Provide citations to the testimony of Staff witness Moreno.

The issues raised by Staff that are not specifically addressed in the Stipulation are as follows:

- General concerns that the Company's PSIA program did not have the appropriate structure, guidance, and transparency, as discussed at page 4, line 18 through page 5, line 10 of Mr. Moreno's Second Corrected Answer Testimony (to be adopted by Staff witness Marna Steuart); and

- General concerns regarding the scope of review in the instant proceeding, as discussed at page 9, line 11 through page 10, line 5 of Mr. Moreno's Second Corrected Answer Testimony (to be adopted by Staff witness Marna Steuart).

Does the Stipulation preclude Staff from raising the identified-but-not-addressed issues, assuming they are present, in a future review of the prudence of PSIA capital expenditures and O&M expenses? Explain the response.

The Stipulation does not preclude Staff from raising the above issues in a future review of PSIA capital expenditures and O&M expenses; however, Staff represents that it is reasonably satisfied that its immediate concerns have been or will be addressed elsewhere or in the future. Staff's concerns regarding the scope of the instant proceeding were primarily related to the unique circumstances of the Company's 2012 PSIA Annual Report and this initial PSIA review proceeding, which covered certain expenditures incurred prior to 2012. With respect to Staff's concerns regarding structure, guidance, and transparency of the PSIA programs, the Joint Comments filed in Proceeding No. 13M-0915G, as well as the Stipulation in this proceeding, largely address its concerns.

#2 – MEANING OF "DECISIONS AFFECTING [RELEVANT PSIA] COSTS ARE UNOPPOSED"

2. Stipulation at para. 18: The Settling Parties agree that, "[t]o the extent that an issue has not been addressed specifically in th[e] Stipulation, ... Public Service's 2012 actual PSIA [Pipeline System Integrity Adjustment] costs and 2011 deferred O&M [Operations and Maintenance] costs at issue in this proceeding and decisions affecting those costs are unopposed." Stipulation at para. 18 (emphasis supplied).

Explain the meaning of the emphasized phrase, and provide examples of the referenced decisions.

Please note that the use of the term "decisions" was not meant to reference this Commission's decisions, but rather the decisions of Company management that result in the incurrence of PSIA-related costs. The reference to "decisions affecting those costs" acknowledges the distinction between determinations that certain costs are reasonable for their intended purposes and determinations that the underlying management decisions which gave rise to those costs were prudent. The types of management decisions giving rise to certain project or program costs would include the basic decisions to initiate, plan and execute the project or program, as well as the day-to-day management of the project or program.

#3 – QUOTATION OF CHANGE ORDER POLICY IN STIPULATION

3. Stipulation at para. 21: The language is a partial, an incomplete, or an edited quotation from the rebuttal testimony of Company witness Campbell (Campbell rebuttal testimony at 30:12-31:14).

Presumably, Company witness Campbell's testimony accurately presents the current Public Service contract change order approval process; and, presumably, this is the existing process that the "Company represents, and Staff accepts, ... is in place and is followed by the Company."

Are the two stated presumptions correct?

Yes. See explanatory statement below.

If they are not correct, identify each way in which each presumption is not correct.

They are correct as explained below.

Why is the language in the Stipulation at para. 21 not a complete adoption of Company witness Campbell's rebuttal testimony at 30:12-31:14?

See explanatory statement below.

On what basis/for what reason was the sentence at Campbell rebuttal testimony at 30:14-16 omitted from para. 21?

See explanatory statement below.

On what basis/for what reason was the sentence at Campbell rebuttal testimony at 30:20-22 omitted from para. 21? (Note: the reference to Passport in the Stipulation at para. 21 does not describe Passport in the same way as Company witness Campbell's rebuttal testimony at 30:20-22 describes Passport.)

See explanatory statement below.

Company witness Campbell's rebuttal testimony at 30:20-22 states: "All requisitions for contracts and change orders are approved and documented in the internal work management and purchasing system, known as 'Passport.'"

What does "documented" mean in the quoted testimony?

See explanatory statement below.

Does the information in Passport include the reason(s)/basis(es) for an approved change order? If it does not, explain why.

Yes, as explained below.

On what basis/for what reason was the sentence at Campbell rebuttal testimony at 31:12-14 omitted from para. 21?

See explanatory statement below.

Does Public Service object to including the entire discussion from Company witness Campbell rebuttal testimony at 30:12-31:14 in the Stipulation at para. 21? If there is an objection, explain the reason(s)/basis(es) for the objection.

No, as explained below.

Does Staff object to including the entire discussion from Company witness Campbell rebuttal testimony at 30:12-31:14 in the Stipulation at para. 21? If there is an objection, explain the reason(s)/basis(es) for the objection.

No, as explained below.

Does OCC object to including the entire discussion from Company witness Campbell rebuttal testimony at 30:12-31:14 in the Stipulation at para. 21? If there is an objection, explain the reason(s)/basis(es) for the objection.

No, as explained below.

Does Climax Molybdenum Company (CMC) object to including the entire discussion from Company witness Campbell rebuttal testimony at 30:12-31:14 in the Stipulation at para. 21? If there is an objection, explain the reason(s)/basis(es) for the objection.

No, as explained below.

EXPLANATORY STATEMENT:

The two presumptions stated are correct, with certain qualifications, as explained below. The change order approval processes, as described in Ms. Campbell's Rebuttal Testimony and in paragraph 21 of the Stipulation, are essentially the same. Both are accurate descriptions of the current policy and neither was intended to be a verbatim recitation of a black letter policy. The Settling Parties are not proposing to change the existing policy through this Stipulation. The differences in the wording of the two descriptions are not material to the agreement between Public Service and Staff as set forth in paragraphs 22 and 23. Public Service and Staff are comfortable that either or both renditions are accurate articulations of the Company's existing change order policy.

The sentence at page 30, lines 14-16 of Ms. Campbell's Rebuttal Testimony that was omitted from paragraph 21 of the Stipulation was a general introductory statement of applicability of the policy, and was not intended to be part of the description of the actual policy itself. Public Service and Staff are comfortable adding this sentence to the beginning of the italicized and indented text reflected in paragraph 21 of the Stipulation.

The term "documented" in the context of the sentence at page 30, lines 20-22 of Ms. Campbell's Rebuttal Testimony means that the information related to such requisitions and approvals are regularly tracked and maintained by the Company in the Passport system and can be retrieved upon inquiry. The information in Passport includes a brief description of the reason(s) for the change order request. The referenced sentence from Ms. Campbell's Rebuttal Testimony was omitted from paragraph 21 of the Stipulation because it was considered superfluous by the parties in light of the modification in the Stipulation of the sentence appearing several lines later in Ms. Campbell's Rebuttal Testimony at line 2 of page 31. That sentence was modified, as reflected in the last sentence in the first paragraph of the italicized and indented text in paragraph 21 of the Stipulation, to read: "These levels are maintained in and controlled by the Company's internal work management and purchasing system (Passport)." Staff and Public Service do not object to adding the omitted sentence back into the italicized and indented text in paragraph 21 of the Stipulation.

In sum, Public Service and Staff have no objection to including the entire discussion from page 30, line 12 through page 31, line 14 of Ms. Campbell's Rebuttal Testimony in the Stipulation at paragraph 21.

Although not taking a position on this section of the Stipulation, neither the OCC nor CMC objects to including the entire discussion from page 30, line 12 through page 31, line 14 of Ms. Campbell's Rebuttal Testimony in the Stipulation at paragraph 21.

#4 – IRC APPROVAL REQUIREMENT

4. Stipulation at para. 22: "Staff agrees that the requirement of the Company's Investment Review Committee ('IRC') approval shall remain the same and continue to be applied on an overall project (and not single contractor) basis." (Emphasis supplied.)

The requirement shall remain the same as what?

See explanatory statement below.

Is there testimony that explains the referenced requirement of IRC approval? If so, identify that testimony (witness, type of testimony, page(s), and lines).

Yes, as explained below.

Is the referenced requirement of IRC approval discussed in an exhibit attached to testimony? If so, identify the exhibit.

No, as explained below.

EXPLANATORY STATEMENT:

The reference to the Company's IRC approval requirement is to the existing requirement that IRC approval be obtained for project costs and variances of project costs of certain magnitude. Essentially, Staff and the Company agreed to leave existing processes in place for now but that Staff be informed when the approval limits are reached for any project and the Company seeks executive management approval to spend more dollars for that particular project. The IRC approval requirement is described in Mr. Phibbs' Rebuttal Testimony, commencing at page 8 and continuing through the table at the top of page 11. As discussed in the responses to the ALJ's questions in the next subject area below, the agreement that the requirement of the IRC approval shall remain the same was not intended to restrict the Company from modifying the parameters of executive management governance, including the IRC, in the ordinary course of its internal affairs. Thus, the parties were not agreeing to any specific dollar thresholds requiring IRC, Financial Council and Board of Director approvals. The referenced requirement of IRC approval is not discussed in an exhibit attached to testimony.

#5 – REPORTING REQUIREMENTS REGARDING CHANGES IN APPROVED PROJECT COSTS AND CHANGE ORDER POLICY

5. Stipulation at para. 23: This paragraph is found in the portion of the Stipulation entitled "Internal Controls Regarding Contract Change Orders." The language in the Stipulation at para. 23 that is pertinent here is: "The Company agrees to identify in its annual PSIA reports filed on or about April 1 of each year all changes in PSIA project costs that required approval of the IRC, Financial Council or Board of Directors during the previous year and if and when such approvals were sought and obtained."

In her rebuttal testimony at 31:18-22, Company witness Campbell states: Company witness "Phibbs addresses the requirements and processes regarding IRC approval of projects in his Rebuttal Testimony. As he explains, the IRC approves capital projects of a certain size and certain changes to those projects. The IRC does not approve contract changes, which are managed as described" in Company witness Campbell's rebuttal testimony at 30:12-31:14. (Emphasis supplied.) The referenced Campbell rebuttal testimony does not identify the IRC, the Financial Council, or the Board of Directors as being involved in approval of contract change orders.

In his rebuttal testimony at 9:16 to the table on 11, Company witness Phibbs describes the Company's project governance requirements. He describes the involvement of the IRC, of the Financial Council, and of the Board of Directors in approval of "the annual capital budget, new major projects and previously approved major projects that have exceeded their previously authorized amounts more than the approved thresholds, as reflected in the table below." Id. at 9:20-22. Previously-approved major projects that require review and approval because they have exceeded their previously-authorized amounts are said to have exceeded the Allowable Variance ranges. Major projects that have exceeded the Allowable Variance ranges are "reviewed with the IRC and the Financial Council prior to going back to the Xcel Board of Directors for approval." Id. at 10:9-10. The table on 11 of Company witness Phibbs's rebuttal testimony sets out the thresholds for Board of Directors approval of major projects' variances. There are three categories of variances that require Board of Directors approval.

With this background, explain the relationship (if any) between the contract change order approval process discussed in Company witness Campbell's rebuttal testimony and the major project variance approval process discussed in Company witness Phibbs's rebuttal testimony.

The two processes are separate and distinct, as explained below

Against this background, explain the quoted Stipulation at para. 23 language. Include the dollar amounts that necessitate the IRC review, the Financial Council review, and the Board of Directors approval of major project variances. Include an explanation of

the reason(s)/basis(es) for the decision to adopt the major project variance approval amounts as the condition precedent (or trigger) for the reporting requirements.

See explanatory statement below.

Did Public Service and Staff consider as the reporting requirements condition precedent (or trigger) a lower dollar amount (for example, the supervisor/team lead contract change order amount of up to $50,000)?

The Company did not consider this, as explained below.

Given that it appears that each contract change order is considered and approved separately, explain Public Service's rationale (including consideration of the public interest) for the decision -- as reflected in the Stipulation -- that the condition precedent (or trigger) for the reporting requirement should be set at the IRC, Financial Council, and Board of Directors variance approval amounts rather than at a lower amount.

See explanatory statement below.

If the premise of the question (i.e., each contract change order is considered and approved separately) is incorrect from Public Service's perspective, explain how the premise is incorrect; and explain whether that affects Public Service's rationale for the selection of the condition precedent (or trigger) for the para. 23 reporting requirement.

See explanatory statement below.

Given that each contract change order is considered and approved separately, explain Staff's rationale (including consideration of the public interest) for the decision -- as reflected in the Stipulation -- that the condition precedent (or trigger) for the reporting requirement should be set at the IRC, Financial Council, and Board of Directors variance approval amounts rather than at a lower amount.

See explanatory statement below.

If the premise of the question (i.e., each contract change order is considered and approved separately) is incorrect from Staff's perspective, explain how the premise is incorrect; and explain whether that affects Staff's rationale for the selection of the condition precedent (or trigger) for the para. 23 reporting requirement.

See explanatory statement below.

EXPLANATORY STATEMENT:

The contract change order process described in Ms. Campbell's Rebuttal Testimony and the executive management project cost/major variance approval process described in Mr. Phibbs' Rebuttal Testimony are two entirely separate and distinct processes. The contract change order approval process is accomplished through the PassPort system and is described in paragraph 21 of the Stipulation and in Ms. Campbell's Rebuttal Testimony at page 31, line 12 through page 31, line 14, whereas the project cost/major variance approval process is a function of the Company's executive management governance and is described in Mr. Phibbs' Rebuttal Testimony at page 9, line 16 through the table at the top of page 11.

The quoted language from paragraph 23 of the Stipulation provides that the Company will disclose in future PSIA annual reports all instances where executive management approvals, including approvals by the IRC, Financial Council and Board of Directors, were required during the preceding calendar year for costs of PSIA projects. The Company and Staff are not tying this requirement to specific dollar amounts that necessitate the IRC review, the Financial Council review, and the Board of Directors approval of major project variances. It is not the parties' intention in this Stipulation to restrict the Company from modifying the parameters of executive management governance in the ordinary course of its internal affairs. The current threshold dollar amounts are identified in Mr. Phibbs' Rebuttal Testimony at page 9, line 16 through the table at the top of page 11, but excluding the second column of such table relating to threshold amounts applicable in a prior period. The parties are not adopting the current threshold amounts as the condition precedent for purposes of this Stipulation, but merely acknowledge their existence.

The premise of the ALJ's questions directed to Public Service and Staff (i.e., that each contract change order is considered and approved separately) is correct; however, as explained above: (1) the contract change order process is accomplished through PassPort and is a separate and distinct process from the project cost/major variance approval process for which dollar amount thresholds apply; and (2) the Settling Parties are not agreeing to specific dollar thresholds as "triggers" for IRC, Financial Council and Board of Directors approvals in the Stipulation.

Staff sought a meaningful and efficient review process in this proceeding, something which serves the public interest well. If the Company seeks project cost approval or a variance at the IRC, Financial Council, and Board of Directors level, this will trigger an indication to Staff that it should more closely examine what the Company is doing. If this occurs, Staff can exercise its audit power to gather more detailed information.

#6 – PROJECT COST AND CHANGE ORDER POLICY REPORTING REQUIREMENTS FOR ANNUAL PSIA REPORTS

***6. Stipulation at para. 23:** As pertinent here, this paragraph requires Public Service to provide specific types of information in its annual PSIA reports.*

Will Public Service include the information in the annual PSIA reports that it files in April of each year? If not, in what annual report will Public Service include the information?

The specific information required by paragraph 23 of the Stipulation will be included in the Company's PSIA annual reports filed on or about April 1 of each year and is in addition to the additional content set forth in the Joint Comments filed in Proceeding No. 13M-0915G, if approved.

Proceeding No. 13M-0915G pertains to reporting requirements for Public Service for pipeline system integrity expenditures. On 24 January 2014, the parties in that Proceeding (i.e., Public Service, Colorado Natural Gas, Inc., OCC, and Staff) filed Joint Comments in which they agreed to the required content for Public Service's annual PSIA advice letter and for PSCo's other report filings, including the annual April filing. (On 27 February 2014, the parties in Proceeding No. 13M-0915G filed a Supplemental Joint Comment.)

Is the information identified in Stipulation at para. 23 information to be provided in addition to the information required to be filed as stated in the Joint Comments filed in Proceeding No. 13M-0915G?

Yes, as explained above.

With respect to disclosure of "any and all changes made to the Company's contract change order authorization policy": (a) will disclosure include each change made during the previous calendar year; (b) will disclosure include a statement of the date on which Public Service implemented each change; (c) will disclosure include an explanation of the reason(s)/basis(es) for each change; and (d) if a change is documented, will disclosure include appending a copy of the documentation to the annual PSIA report? Explain the response to each subpart.

With respect to disclosure of "any and all changes made to the Company's contract change order authorization policy," Public Service provides the following explanation for each subpart:

(a) The disclosure will include each change made during the previous calendar year.

(b) The disclosure will include a statement of the date on which Public Service implemented each change.

(c) The disclosure will include an explanation of the reason(s)/basis(es) for each change.

(d) If a change is documented, the disclosure will include appending a copy of the documentation to the annual PSIA report.

#7 – TERMINATION OF CROSS BORE INSPECTION PROGRAM

7. Stipulation at para. 24: "[T]he Company represents, and Staff accepts, that the Company currently plans to terminate its cross bore inspection program in 2014, subject to specific circumstances arising in the future that may warrant a change." (Emphasis supplied.)

Is the referenced cross bore inspection program a project within the Distribution Integrity Management Program?

The cross bore inspection program relates to gas distribution facilities and is a project within the Distribution Integrity Management Program.

Explain the meaning of the emphasized phrase, and identify the referenced specific circumstances.

The phrase "specific circumstances arising in the future that may warrant a change" refers to any risk that may be identified that warrants additional cross bore inspections. Specific circumstances, such as finding an incorrect mapping record in the GIS system, or the discovery of a sewer line conflict(s) that did not meet the typical criteria for the probability of a conflict occurring, are examples that may warrant performing additional inspections.

With respect to the identified specific circumstances, are they intended to be an exhaustive list of circumstances that may warrant a change? Are they intended to be examples of circumstances that may warrant a change?

These circumstances are examples and not intended to be an exhaustive list.

Assume that the Company decides to continue the program past 2014. Explain when and how the Company will inform the Commission of that decision. The Settling Parties will give two responses: one that assumes the Commission adopts the proposals filed in Proceeding No. 13M-0915G and one that assumes that the Commission does not adopt those proposals.

The Company will inform the Commission of any decision to continue the cross bore inspection program after 2014 in the first applicable November 15 PSIA advice letter filing or quarterly presentation/report if the proposals filed in Proceeding No. 13M-0915G are adopted. The Company will inform the Commission of any decision to continue the cross bore inspection program after 2014 in the first applicable October 1 PSIA advice letter filing if the proposals filed in Proceeding No. 13M-0915G are not adopted. In addition, Public Service will inform the Commission Staff and the OCC of any decisions to continue the cross bore inspection program in our ongoing quarterly presentations/meetings irrespective of whether the proposals in the Joint Comments are adopted in Proceeding No. 13M-0915G.

#8 – CAB SERVICES PROGRAM INFORMATIONAL REQUIREMENT IN 2015 PSIA TARIFF FILING

8. Stipulation at para. 25: This paragraph identifies information that Public Service will include in 2015 PSIA tariff filing, expected to be filed in mid-November 2014. Is this information in addition to the information required to be filed as stated in the Joint Comments filed in Proceeding No. 13M-0915G?

Yes. The information required is in addition to the additional content set forth in the Joint Comments filed in Proceeding No. 13M-0915G.

#9 - EMM PROJECT CAPITAL EXPENDITURES

9. Stipulation at paras. 26-27 (capital expenditures): These paragraphs address the Edwards to Meadow Mountain (EMM) transmission pipeline replacement/construction project capital expenditures and O&M expenses. These questions address the Stipulation with respect to the EMM capital expenditures.

In paragraph 26, Public Service and Staff "agree that the cost overruns identified by Staff amounting to $3.7 million in capital expenditures were necessary expenditures and reflect costs that could not have been avoided through better pre-construction planning." Identify the testimony and exhibits that provide the factual basis for a Commission finding that the cost overruns were prudent, were prudently incurred, and should be approved.

In addition to the books and records of the Company reflecting the proper accounting for the EMM project costs, the following testimony and exhibits provide the factual basis for a Commission finding that the EMM project cost overruns were prudent, were prudently incurred, and should be approved:

Direct Testimony of Cheryl F. Campbell filed on November 5, 2013:

- page 28, line 13-23;
- page 29, lines 4-12;
- page 33, lines 15-19;
- Exhibit No. CFC-13, Section VI, pages 15-16
- Exhibit No. CFC-14, Section 4.3, pages 23-25, and Section 6.3, pages 32-33; and
- Exhibit No. CFC-20.

Rebuttal Testimony of Cheryl F. Campbell filed on February 6, 2014:

- page 10, line 14 through page 24, line 8;

Stipulation and Agreement, filed February 25, 2014.

In paragraph 27 at note 1, the Stipulation states: "it is the Settling Parties' intention that this settlement does not and will not trigger the condition established by the Commission" in Decision No. C13-1568 at para. 60, issued in Proceeding No. 12AL-1268G.

Explain the referenced condition and its relationship to this Proceeding.

The condition referenced in footnote 1 in paragraph 27 was set forth in paragraph 60 of Commission Decision No. C13-1568, "Decision Addressing Exceptions, Establishing Rates Effective January 1, 2014, and Requiring Compliance Filings," mailed December 23, 2013, in the Company's most recent gas rate case in Proceeding No. 12AL-1268G. In paragraphs 54-60 of Decision No. C13-1568, the Commission discussed and granted the Company's exception to the findings in the ALJ's Recommended Decision, Decision No. R13-1307, that the "upsize" costs related to the West Main and Edwards to Meadow Mountain projects (as distinguished from the like-size replacement costs recovered through the PSIA) should not be included as part of the rate base in the test year revenue requirements adopted in that case for determining rates. In approving rate base treatment for the upsize costs related to these projects, the Commission recognized in paragraph 58 that "there may be questions regarding the prudency of Public Service's EMM and West Main investments in Proceeding No. 10AL-963G." Paragraph 60 of Decision No. C13-1568 summarizes the Commission's ruling and the condition referenced in footnote 1 of paragraph 27 of the Stipulation:

> 60. We therefore grant Public Service's exceptions on this point and allow the Company to include in the HTY rate base the upsized portion of the EMM and West Main projects. [Footnote omitted] Should the Commission find in Proceeding No. 10AL-1063G that an applicable portion of the total cost of the projects is disallowed, cost recovery at this initially-approved level will be subject to a refund in accordance with Public Service's offer to reconcile such cost differences. Also, in the event of such disallowance, Public Service shall make an appropriate filing for approval to implement the associated refund. Such filing shall be submitted no later than 90 days following a final Commission decision regarding the 2012 PSIA prudency review in Proceeding No. 10AL-963G.

The reference to "Public Service's offer to reconcile such cost differences" is to the following paragraph at pages 24-25 of the Company's Brief on Exceptions filed November 1, 2013, in Proceeding No. 12AL-1268G:

> The ALJ's secondary rationale for disallowing the EMM and West Main upsized facility costs in this proceeding was her view that the costs should not be allowed until the prudence review of the integrity portion of the project had been completed in Docket No. 10AL-963G. Rather than disallow costs of a project that are already in service pending the completion of this review, for the reasons stated above, we urge the Commission to allow us to include the upsizing portion of these facilities in rate base now since they are already being used to provide service to customers, and *leave to the pending prudence review any necessary*

> *reconciliation if the construction of this project is later determined to have been imprudent in any way.* [Emphasis added.]

The settlement of the EMM issue as between Public Service and Staff as set forth in the Stipulation is specifically not a determination of imprudence regarding the construction of the EMM project. Although providing for a one-time decrease of $118,660 to the actual 2012 PSIA revenue requirement, the parties clarified that "[s]uch reduction is an agreed-upon one-time revenue reduction for the 2012 PSIA revenue requirements and is neither associated with nor reflects any reduction in total capital expenditures or plant in-service balances related to the EMM project." With respect to Staff's specific recommended disallowance of $3.7 million of EMM capital costs, as set forth in the Second Corrected Answer Testimony of Mr. Moreno, the parties agree that these "were necessary expenditures and reflect costs that could not have been avoided through better pre-construction planning." By the reference in footnote 1 of paragraph 27 of the Stipulation, Public Service and Staff were stating their interpretation and affirmative intention that the Stipulation does not establish that the construction of the EMM project was imprudent in any way. As such, the condition set forth by the Commission in paragraph 60 of Decision No. C13-1568 has not been satisfied as a consequence of the resolution of the EMM issue under the Stipulation.

Assume that the ALJ approves the Stipulation. Provide the language (if any) that the Settling Parties recommend that the ALJ include in the recommended decision in this Proceeding to address the condition precedent established in Decision No. C13-1568 at para. 60.

For purposes of the ALJ's recommended decision, assuming the ALJ approves the Stipulation, the Settling Parties believe the following statement is all that is necessary to address the condition established by the Commission in Decision No. C13-1568 at paragraph 60:

> The Stipulation notes the belief and stated intention of the Settling Parties that the above resolution of the issues regarding the EMM project does not satisfy the condition established by the Commission at paragraph 60 of Decision No. C13-1568 in Proceeding No. 12AL-1268G. That condition provides for Public Service to file to make a refund of an appropriate share of upsize costs related to the EMM project included in the revenue requirements in that case in the event a determination is made in this proceeding that the construction of the EMM project was imprudent in any way.

Assume that the ALJ approves the Stipulation. What, if any, action should the ALJ take to inform the Commission and the parties in Proceeding No. 12AL-1268G that the condition precedent established in Decision No. C13-1568 at para. 60 has not been met/triggered? What, if any, action should Public Service take to inform the Commission and the parties in Proceeding No. 12AL-1268G that the condition precedent established in Decision No. C13-1568 at para. 60 has not been met/triggered?

Other than the above statement noting the provision of the Stipulation addressing the rate case condition, the parties do not believe any other action is required of the ALJ or Public Service to inform the Commission and the parties in Proceeding No. 12AL-1268G that the condition precedent established in Decision No. C13-1568 at paragraph 60 has not been met/triggered. The Commission's Decision No. C13-1568 serves as sufficient legal notice to the parties in Proceeding No. 12AL-1268G and the public of this potential crossover issue.

In paragraph 27, Staff "agrees not to advance or pursue any disallowances of capital expenditures related to the EMM project that the Company presented in its April 2013 report ... in any proceeding before the Commission." In the next sentence, Public Service "represents and agrees that there are no additional capital costs related to the EMM project except for possible incidental post-construction expenditures." (Emphasis supplied.)

Assume that, in fact, there are incidental post-construction EMM-related capital expenditures. Will Public Service seek to recover those capital expenditures through the PSIA? Explain the response.

Public Service does not intend to seek, and hereby commits that it will not seek, recovery through the PSIA of any additional capital costs related to the EMM project, including any incidental post-construction expenditures. As the EMM project has been completed and in-service for two years, the Company believes that the administrative burden of seeking recovery of such incidental capital costs through the PSIA likely outweighs any benefit. Moreover, the Company believes such commitment is consistent with the Company's original proposal in Proceeding No. 12AL-1268G to remove the EMM project from PSIA recovery and include the entire cost of the project in base rates.

Assume that there are incidental post-construction EMM-related capital expenditures and that Public Service seeks to recover those capital expenditures through the PSIA. Will the Staff agreement in para. 27 (quoted above) preclude Staff from advocating disallowance of some or all of those capital expenditures? Explain the response.

Inasmuch as Staff's agreement in the quoted provision not to pursue disallowances of capital expenditures related to the EMM project relates only to those EMM capital expenditures presented in the Company's 2013 PSIA Annual Report, there would be no preclusive effect as to any additional capital expenditures not reflected in the 2013 PSIA Annual Report.

#10 - EMM O&M EXPENSES

10. Stipulation at para. 27 (O&M expenses): This paragraph addresses the EMM transmission pipeline replacement/construction project capital expenditures and O&M expenses. These questions address the Stipulation with respect to the EMM O&M expenses.

Public Service and Staff agree to reduce the 2012 revenue requirement "by an expense amount of $118,660, which is equal to one-half of the calculated 2012 revenue requirement reduction related to the EMM Project recommended by Staff witness Abel Moreno in his Answer Testimony." (Emphasis supplied.) Public Service and Staff state that this is a "one-time revenue reduction for the 2012 PSIA revenue requirements[.]"

Assume that the ALJ approves the Stipulation. State the 2012 EMM-related O&M expense (i.e., amount) that the ALJ will find to have been prudently incurred. State the overall 2012 O&M expense (i.e., amount) that the ALJ will find to have been prudent and prudently incurred.

Assuming the ALJ approves the Stipulation, there will be no change to the specific 2012 O&M expense amount reflected in Exhibit No. DAB-17, page 8 of 12, in the Direct Testimony of Ms. Deborah Blair. The $118,660 expense amount reduction is not related specifically to EMM-related O&M expenses. The PSIA revenue requirement for the EMM project is based on the investment costs related to the EMM plant in-service, including a return on investment, depreciation expense and income tax expense.

Assume that the ALJ approves the Stipulation. Provide an exhibit, in the same format as the 12-page Exhibit No. DAB-17 in the direct testimony of Company witness Deborah A. Blair, that shows the calculation of the PSIA 2012 true-up amount and shows how/where O&M amounts change as a result of the Stipulation.

Attached to these Joint Responses is Exhibit No. PSCO-1, which has been prepared in the same format as Exhibit No. DAB-17 attached to the Direct Testimony of Ms. Deborah Blair, and shows the calculation of the PSIA 2012 true-up amount and shows how/where the $118,660 adjustment is made as a result of the Stipulation. As reflected in the "Edwards to Meadow Mountain" tab, the $118,660 adjustment is made to reduce the calculated 2012 PSIA revenue requirement for the EMM project. The adjusted EMM revenue requirement then rolls up to the overall PSIA revenue requirement reflected in line 1 of the Summary tab of Exhibit No. PSCO-1.

Explain why the O&M expense reduction will be a reduction to the projected 2015 PSIA revenue requirement.

The $118,660 expense reduction will be credited to customers in the form of a reduction to the projected 2015 PSIA revenue requirement, because the next opportunity for the Company to change the PSIA revenue requirements and PSIA rates is the fall 2014 PSIA advice letter filing (to be filed either October 1, 2014 or November 15, 2014) that includes the projected 2015 PSIA revenue requirement and provides for new PSIA rates to be effective January 1, 2015.

Is this treatment different from the treatment of the PSIA 2012 true-up amount discussed in Public Service's testimony?

This treatment is not any different procedurally from the treatment of the PSIA 2012 true-up amount discussed in Public Service's testimony; in particular, the treatment described at page 6, lines 18-20, of Ms. Blair's Direct Testimony and page 5, lines 12-15 of Mr. Brockett's Direct Testimony. The Settling Parties note, however, that the original 2012 PSIA true-up amount, as calculated and reflected in the October 1, 2013 annual PSIA advice letter filing, was applied as an adjustment to the projected 2014 PSIA revenue requirement.

If the treatment is different, explain each difference in the treatment and the reason(s)/basis(es) for the different treatment.

See explanation above.

#11 – <u>EMM LESSONS LEARNED</u>

11. <u>Stipulation at para. 27 (general)</u>: The last two sentences address how the Company will incorporate and use the "lessons learned" from the EMM project in future construction of transmission pipelines in Colorado.

What are the referenced "best practices guidelines"?

See explanatory statement below.

How does Public Service use the referenced "best practices guidelines"?

See explanatory statement below.

Are the referenced "best practices guidelines" incorporated (either as an attachment/appendix or by reference) into Public Service construction contracts?

No, as explained below.

If the referenced "best practices guidelines" are contained in a document, by what date will Public Service update that document to include the "lessons learned" from the EMM project?

See explanatory statement below.

<u>EXPLANATORY STATEMENT</u>:

There is no definitive "best practices guidelines" document. The best practices guidelines refer generally to the knowledge base and internal processes and procedures followed by the Gas Engineering and Operations department in planning, designing, engineering, constructing, and managing large gas transmission pipeline projects. Some of the key elements added as a result of the EMM project are outlined in the section entitled "Lessons Learned," beginning at page 8, of Exhibit No. CFC-20 attached to the Rebuttal Testimony of Ms. Cheryl F. Campbell. These lessons learned from the Edwards to Meadow Mountain project have already been incorporated into the knowledge base and internal processes and procedures followed by the Gas Engineering and Operations department.

Lessons learned and changes to best practices may include, but are not limited to, the following:

- Placing added emphasis on project scope definition and cultivating a competitive bidding environment for elements of the project.
- Assigning dedicated project managers to capital intensive and/or complex projects. A project manager is primarily focused on managing the scope, schedule, cost and risks.
- Assigning a dedicated project controls analyst that oversees contractor billings and publishes progress reports utilizing techniques such as earned value.
- Increased emphasis on financial forecasting and forecasting project "estimate at complete" while a project is in progress.

Although best practices help determine the work covered by contracts entered into by the Company in connection with transmission pipeline projects, there is no list of best practices guidelines that are incorporated into contracts as an attachment/appendix or by reference. Many best practices are shared and generally recognized in the gas utility industry through benchmarking studies conducted by organizations like the American Gas Association.

#12 – SPECIFIC TIMP AND DIMP PROJECTS EVALUATED IN ACCORDANCE WITH APPENDIX A TO SUPPLEMENTAL REPORT

12. Stipulation at para. 29: "The Company represents that the TIMP [Transmission Integrity Management Program] and DIMP [Distribution Integrity Management Program] projects at issue here were evaluated in accordance with the procedures described in its Supplemental Report filed in this proceeding on June 10, 2013 [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14], which in turn incorporate requirements contained in the federal regulations at 49 CFR [Code of Federal Regulations] Part 192, Subpart O (TIMP) [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14 at Appendix B] and Subpart P (DIMP) [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14 at Appendix C], which have been adopted by the Commission for purposes of the pipeline safety regulation and enforcement."

Identify the referenced TIMP projects.

The referenced TIMP projects at issue in this proceeding are comprised of the following:

- Transmission Pipeline Assessments
- Pipeline Data Project – Transmission
- MAOP Validation

Identify the referenced DIMP projects.

The referenced DIMP projects at issue in this proceeding are comprised of the following:

- Intermediate Pressure (IP) Assessments
- Bridge Crossing Inspections
- Coated Steel Main Renewal
- Leak Geographic Placement
- Cross Bore Inspections
- Accelerated Leak Surveys
- Close Interval / DCVG Surveys
- Cathodic Protection (CP) Data Project

The above-listed TIMP and DIMP projects are discussed at pages 10-15 of the Company's 2012 PSIA Annual Report, included as Exhibit No. CFC-13 to Ms. Campbell's Direct Testimony.

Does OCC agree with, disagree with, or take no position with respect to the quoted Company representation? Explain the response.

The OCC agrees with this Company representation. The Company representation in the Stipulation incorporates the elements that were presented in the Supplemental Report filed in this proceeding on June 10, 2013 (i.e., Direct Testimony of Company witness Ms. Campbell at Exhibit No. CWC-14, specifically pages 25-26]. What was provided in the June 10 Supplemental Report was that the Company's TIMP and DIMP projects were incorporated into its holistic approach to public and employee safety as depicted in its "Wheel of Public Safety." In turn, the Company's TIMP and DIMP projects were evaluated in accordance with the requirements contained in the federal regulations at 49 CFR 192, Subparts O and P. See Sections 5.0 and 2.0 of the June 10, 2013 Supplemental Report.

Does Staff agree with, disagree with, or take no position with respect to the quoted Company representation? Explain the response.

Staff agrees with the quoted Company representation. The statement simply indicates that in order for the Company to adhere to Commission rules, it must already be in compliance with applicable federal guidelines.

Does CMC agree with, disagree with, or take no position with respect to the quoted Company representation? Explain the response.

CMC takes no position. CMC takes no position because, although it has no reason to dispute the Company's representation, it has not independently verified the Company's evaluation.

#13 – <u>SELECTION, RISK RANKING AND PRIORITIZATION OF TIMP AND DIMP PROJECTS</u>

13. <u>Stipulation at para. 29</u>: "In future April 1 prudence report filings, the Company agrees to provide factual information demonstrating that its TIMP and DIMP programs and projects and associated costs, for which it seeks recovery through the PSIA, correlate with the elements that are consistent with the federal regulations and described in Appendix A ('Risk Ranking and Prioritization') to its June 10 Supplemental Report [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14], as may be updated from time to time." (Emphasis supplied.)

At present, does Public Service consider all options (for example, repair, replacement) available to address an identified pipeline integrity risk?

At present, the Company considers all options available to address an identified pipeline integrity risk. Within that context, the probability and the consequence of the risk are taken into account. Measures to address risk include repair, replacement, and in some cases, the temporary or permanent reduction in operating pressure.

How does Public Service select the appropriate option to address an identified pipeline integrity risk?

The Company considers various factors in selecting the appropriate option to address an identified pipeline risk, including: operating history of the pipe, number of past leaks, age of the pipe, cathodic protection history, extent of corrosion, size and location of third-party damage, type of construction, and the physical environment.

- There are several different categories of situations when a repair versus a replace decision needs to be made, and this decision process is applicable to both transmission and distribution pipe. The four primary categories are as follows: The first category is damage or deterioration (localized corrosion) to relatively short stretches of pipe. If the surrounding material is healthy, a repair is the correct decision.

- The second category consists of those cases in which the material has deteriorated or been damaged to such an extent that no repair is feasible or possible. For transmission pipelines, this includes severely corroded steel. Although mostly pertinent to distribution pipelines, materials with known cracking or other flaws are also in this category. These materials include cast iron, PVC, CAB, Aldyl-A (particularly the pre-1973 polymer).

- The third category is material that may be able to continue in service at a lower pressure service. For instance, cast iron pipe was originally at a higher pressure service. As you decrease the pressure, you lose capacity in the pipe. Therefore, at some point, reinforcements of the system are required to maintain service capability.

- The fourth category relates to a more proactive approach. The material may be suspect (e.g., 1940's vintage steel of unknown strength), the welds may be suspect (e.g., no x-rays, no modern welding techniques, acetylene welding), the maintenance of the material over time may be suspect (e.g., lack of continuous corrosion protection). Modern inspection tools can provide some insight into the health and condition of these assets. However, experience also tells us that the failure rate for these assets is higher than modern materials, construction techniques, etc. The trade off is monitoring and assessing the asset, potentially at more frequent intervals than required. While providing valuable information about changes to the integrity of the asset over time, each cycle of subsequent assessments will likely result in additional substantive repairs. The coordination, permitting, cost, and impact to communities and the environment associated with on-going repairs is often less desirable than the systematic approach of planning for outright replacement.

Is this selection process discussed in Appendix A to its June 10 Supplemental Report?

The above-described selection process is discussed at a high level in Appendix A to the Company's June 10, 2013 Supplemental PSIA Report. The threat (risk) identification and evaluation process is outlined in Appendix A, and includes elements that are consistent with the requirements of the federal requirements for a DIMP and TIMP. The discussion relative to TIMP is found on page A-2 under the heading "Measures to Address Risk", and the discussion relative to DIMP is found on pages A-2 through A-3.

If it is, state where the discussion is found.

See above explanation.

If it is not, where in the record of this Proceeding is the selection process discussed?

See above explanation.

Is the para. 29 factual information to be provided in addition to the information required to be filed as stated in the Joint Comments filed in Proceeding No. 13M-0915G?

Yes, the factual information required to be included in the Company's PSIA annual reports pursuant to paragraph 29 of the Stipulation will be provided in addition to the additional content set forth in the Joint Comments filed in Proceeding No. 13M-0915G.

Within the context of para. 29, how do the Settling Parties define: (a) "correlate with"; (b) "the elements"; and (c) "consistent with"? Explain the response to each subpart.

From a definitional standpoint, the following phrases have the following meanings within the context of the requirement in the Stipulation that "the Company agrees to provide factual information demonstrating that its TIMP and DIMP programs and projects and associated costs, for which it seeks recovery through the PSIA, correlate with the elements that are consistent with the federal regulations and described in Appendix A ('Risk Ranking and Prioritization') to its June 10 Supplemental Report [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14], as may be updated from time to time."

(a) "correlate with" – means "matches up with."

(b) the elements" – means "the integrity program elements of know your assets, identify threats and rank risks, and proactively mitigate risks," as stated at Section 5.3 in the Supplemental Report filed in this proceeding on June 10, 2013 (*i.e.*, Exhibit No. CWC-14 to the Direct Testimony of Company witness Ms. Campbell].

(c) consistent with" – means "in agreement or in accordance with" the federal pipeline safety regulations.

The basic elements required by the federal TIMP and DIMP regulations are know your assets, identify the threats and rank the risks against your assets, and proactively mitigate these risks. Particular aspects of the Company processes regarding risk ranking and prioritization are described in Appendix A. All of these "elements" are referred to in paragraph 24 of the Stipulations as "elements that are consistent with the federal regulations" and were meant to include the risk ranking and prioritization aspects described in the Appendix A to the June 10 PSIA Supplemental Report. In this context, "consistent with" means adhering to the same principles, order or pattern as the federal TIMP and DIMP regulations. To show how the Company's TIMP and DIMP programs and projects "correlate with" these elements is to provide program-specific information that establishes an orderly connection between each program or project and those elements.

Does the para. 29 language quoted above mean that the factual information will demonstrate that the TIMP and DIMP programs and projects and associated costs, for which Public Service seeks recovery through the PSIA, correlate with the elements (a) that are consistent with federal regulations and (b) that are described in the Appendix A? If not, what does the language mean with respect to where one should look for the elements?

The paragraph 29 language was intended to require information that demonstrates that the TIMP and DIMP programs and projects and their related costs correlate with all of the elements that are consistent with the federal TIMP and DIMP regulations – *i.e.*, know your assets, understand the risks and threats against those assets, and proactively mitigate those risks – some of which concerning risk ranking and prioritization are more specifically discussed in the Appendix A. The Company has the ability and can provide factual information showing how it has applied these common elements for each of its TIMP and DIMP projects and programs, thereby establishing a correlation with the federal regulations. Additionally, to further demonstrate such correlation, the Company can provide references to PHMSA Advisory Bulletins and Alert Notices, PHMSA Gas Distribution and Transmission Frequently Asked Questions, and other industry or regulatory policies or reports that provide guidance and should be taken into consideration when developing TIMP and/or DIMP projects.

With respect to "Appendix A ('Risk Ranking and Prioritization') to its June 10 Supplemental Report [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14], as may be updated from time to time[,]" assume that the Risk Ranking and Prioritization is updated.

Explain when and how the Company will inform the Commission of that update. The Settling Parties will give two responses: one that assumes the Commission adopts the proposals in Proceeding No. 13M-0915G and one that assumes that the Commission does not adopt those proposals.

The Company will notify the Commission of any update to its Risk Ranking and Prioritization by providing an update to its "Appendix A," which will include an explanation or table assessment of the priorities that informed the Company's business plan/forecast, in the first applicable November 15 PSIA advice letter filing if the proposals filed in Proceeding No. 13M-0915G are adopted. The Company will notify the Commission of any update to its Risk Ranking and Prioritization by providing a similar update in the first applicable October 1 PSIA advice letter filing if the proposals filed in Proceeding No. 13M-0915G are not adopted.

Will the Company provide a copy of the updated Risk Ranking and Prioritization?

Yes, as explained above.

If yes, explain when and how.

See explanation above.

If no, explain why it will not.

See explanation above.

With respect to federal regulations [i.e., Direct Testimony of Company witness Campbell at Exhibit CWC-14 at Appendices B and C], "as may be updated from time to time[,]" assume that the federal regulations are updated.

Explain when and how the Company will inform the Commission of the update to the federal regulations. The Settling Parties will give two responses: one that assumes the Commission adopts the proposals in Proceeding No. 13M-0915G and one that assumes that the Commission does not adopt those proposals.

The modifying phrase "as may be updated from time to time" in paragraph 27 of the Stipulation was intended to apply only to the "Appendix A" Risk Ranking and Prioritization and not to the federal regulations. Accordingly, the Stipulation does not expressly require Public Service to inform the Commission of updates to the applicable federal regulations. Although the Stipulation does not require Public Service to provide copies of available public versions of the TIMP and DIMP regulations, the Settling Parties do not oppose Public Service being directed to file publicly-available copies of the federal regulations (as may be updated at that time) at the same time it files its updated Appendix A. This would be in the first applicable November 15 PSIA advice letter filing if the proposals filed in Proceeding No. 13M-0915G are adopted and in the first applicable October 1 PSIA advice letter filing if the proposals filed in Proceeding No. 13M-0915G are not adopted.

Will the Company provide a copy of the updated federal regulations?

As explained above, the Company is willing to provide updated copies of the federal regulations to the Commission if directed to do so by the Commission, but the terms of the Stipulation do not require it.

If yes, explain when and how.

See explanation above.

If no, explain why it will not.

The reasons the Stipulation does not specifically require Public Service to file updated versions of the regulations include the following. The federal TIMP and DIMP regulations are part of the public record. Moreover, the Commission has incorporated by reference as part of its own regulations governing gas pipeline operators, in Rule 4902(a), the federal requirements set forth in 49 Code of Federal Regulations ("CFR") Part 192. As stated in Commission Rule 4902(a), the Commission does not automatically incorporate subsequent amendments to 49 CFR Part 192 after it acts to incorporate those regulations by reference, and therefore must periodically act through subsequent rulemakings to incorporate any updates or modifications to the TIMP and DIMP regulations that its elects to adopt. As such, the Commission has its own internal processes of monitoring changes to the federal regulations and does not need to enlist Public Service to provide it with notice of such changes.

#14 – REPORTING REQUIREMENTS REGARDING SELECTION AND PRIORITIZATION OF TIMP AND DIMP PROJECTS

14. Stipulation at para. 29: "[I]n future April 1 report filings, the Company agrees to provide specific explanations regarding why a particular project and its incurred costs were necessary to address risks and why such project was prioritized."

Is this information in addition to the information required to be filed as stated in the Joint Comments filed in Proceeding No. 13M-0915G?

Yes. As stated in the response to Question #13 above, the factual information required to be included in the Company's PSIA annual reports pursuant to paragraph 29 of the Stipulation will be provided in addition to the additional content set forth in the Joint Comments filed in Proceeding No. 13M-0915G.

Does the phrase "a particular project" mean each listed project? If not, explain what that phrase means.

The phrase "a particular project" was intended to distinguish that this information would be provided at a project level of detail, rather than at a work order level of detail. The commensurate level of detail would be consistent with the list of projects identified in the response to Question #12 above, with the understanding that this list of projects will likely evolve over time.

Assume that the Commission approves the proposals filed in Proceeding No. 13M-0915G, in particular the quarterly reporting. Joint Comments filed in Proceeding No. 13M-0915G at Attachment A at 2-3. For TIMP projects, the quarterly report must "[e]xplain if this is a new project or [is] part of an ongoing project" (id. at 3). At the evidentiary hearing held on 10 February 2014 in Proceeding No. 13M-0915G, the parties agreed to the addition of the same reporting requirement for DIMP projects.

With this background, explain why the Settling Parties agreed in the Stipulation at para. 29 to provide the quoted information in the 1 April filings and did not reference quarterly report filings.

The Settling Parties agreed to provide for the "specific explanations" in the April filings and not in the quarterly report filings provided for in the Joint Comments filed in Proceeding No. 13M-0915G, because the type of explanations referenced are not required as part of the quarterly filings. A requirement to provide "specific explanations regarding why a particular project and its incurred costs were necessary to address risks and why such project was prioritized" is applicable only to the PSIA annual reports. This requirement applies to all projects, not just new projects. In the event a new project is created, certain information will be reflected in the quarterly report in accordance with the requirements set forth in the Joint Comments filed in Proceeding No. 13M-0915G, to the extent approved therein. However, the Settling Parties maintain that any review would occur if and when the Commission exercises its discretion to conduct a review after the Company files its April 1 PSIA annual report.

What is the Settling Parties' understanding with respect to the effect of including a new DIMP project in an 1 April PSIA prudence filing? Explain the impact of the Commission's approval of an April PSIA prudence filing that includes a new DIMP project. (For example, would Commission approval of the filing be approval of the new DIMP project?)

See explanatory statement below.

The May 2011 Settlement Agreement, approved by the Commission and appended as Attachment 1 to Decision No. C11-0946 in this Proceeding, states (at 12): "No other major pipeline projects are permitted to be included in the PSIA without obtaining prior Commission approval."

Is this May 2011 Settlement Agreement provision applicable to DIMP projects?

See explanatory statement below.

If it is, does Commission approval of an April PSIA prudence filing that includes a new DIMP project constitute prior Commission approval within the meaning of the quoted May 2011 Settlement Agreement language? Explain the response.

See explanatory statement below.

What is the Settling Parties' understanding with respect to the effect of including a new TIMP project in an 1 April PSIA prudence filing? Explain the impact of the Commission's approval of an April PSIA prudence filing that includes a new TIMP project. (For example, would Commission approval of the filing be approval of the new TIMP project?)

See explanatory statement below.

The May 2011 Settlement Agreement, approved by the Commission and appended as Attachment 1 to Decision No. C11-0946 in this Proceeding, states (at 12): "No other major pipeline projects are permitted to be included in the PSIA without obtaining prior Commission approval."

See explanatory statement below.

Is this May 2011 Settlement Agreement provision applicable to TIMP projects?

Yes. See explanatory statement below.

If it is, does Commission approval of an April PSIA prudence filing that includes a new TIMP project constitute prior Commission approval within the meaning of the quoted May 2011 Settlement Agreement language? Explain the response.

No. For major pipeline projects within the meaning of the quoted provision of the May 2011 Settlement Agreement, the Company will file a separate application. See explanatory statement below regarding other TIMP projects.

EXPLANATORY STATEMENT:

In the course of attempting to develop joint responses to the ALJ's questions, a dispute among the parties was discovered regarding the proper interpretation of the provision at Section 4, page 12, of the May 2011 Settlement Agreement in Proceeding No. 10AL-963G -- that "[n]o other major pipeline projects are permitted to be included in the PSIA without obtaining prior Commission approval." Public Service and Staff understand this provision to apply only to individual projects involving the replacement or repair of a major pipeline, similar to the Edwards to Meadow Mountain and West Main projects, which would include only transmission pipeline projects arising under TIMP and would not include distribution-related projects arising under DIMP. The OCC on the other hand, believes the provision is broadly worded and covers any major project involving the repair or replacement of pipelines arising under either TIMP or DIMP. These two divergent interpretations have not resulted in any previous litigation among the parties and the Settling Parties are hopeful that the practical limitations associated with projects arising under the DIMP program will not give rise to any major dispute in the future. For purposes of responding to the ALJ's questions, the responses below are worded in a manner that takes into account both interpretations. The Settling Parties do not believe there is any need to resolve the aforementioned dispute regarding the interpretation of the provision from the May 2011 Settlement Agreement regarding "major pipeline projects" for purposes of this proceeding, and that the evidence supports a finding that the Stipulation is just and reasonable under either interpretation.

By including a new TIMP or DIMP project in an April 1 PSIA annual report, the Company would be presenting such new project as a reasonable and prudent addition to its TIMP or DIMP program, as the case may be. The Settling Parties note that, in the event that a new TIMP or DIMP project is created, it will be reflected in a preceding quarterly report or the preceding November 15 advice letter filing and would be subject to a review after the Company files its subsequent April 1 annual report. To the extent the Commission determines that the PSIA costs reflected in an April 1 PSIA annual report are reasonable and prudently-incurred, any new TIMP or DIMP project reflected in such April 1 report that is not a "major pipeline project" requiring pre-approval under the May 2011 Settlement provision referenced above would carry with it a determination of prudence. However, the specific costs incurred with respect to such project in subsequent years would still be subject to prudence review in those years.

The Settling Parties note some concern regarding the phrase in the above questions "the Commission's approval of an April PSIA prudence filing." The Settling Parties understood that when the Commission initiated this PSIA review proceeding, the purpose of the proceeding was to examine the 2012 PSIA activities and expenditures as reflected in the April 1 PSIA annual report. The Settling Parties agree that this Commission-initiated review proceeding is not an application for approval of the April 1 PSIA annual report.

#15 - DOUBLE COUNTING OF PSIA COSTS

15. Stipulation at para. 30: "Based on the agreement below relating to internal audits for PSIA-related costs, Mr. Phibbs' Direct Testimony concerning accounting controls, the clarification below with regard to the Projects Base Amount and its relationship to the annual PSIA revenue requirements, the OCC's concerns regarding the possibility of double counting of PSIA-related costs are reasonably mitigated for purposes of this proceeding."

Provide citation to the pages and lines of the referenced direct testimony of Company witness Phibbs.

The reference in paragraph 30 of the Stipulation to Mr. Phibbs' Direct Testimony concerning accounting controls is to page 13, line 15, through page 16, line 5, of his Direct Testimony.

Identify where in the Stipulation is found the referenced "clarification below with regard to the Projects Base Amount and its relationship to the annual PSIA revenue requirements[.]"

The reference in paragraph 30 of the Stipulation to "clarification below with regard to the Projects Base Amount and its relationship to the annual PSIA revenue requirements" is erroneous. The phrase "clarification below" should be corrected to read "Mr. Brockett's Rebuttal Testimony." See page 8, line 1, through page 10, line 3, of Mr. Brockett's Rebuttal Testimony.

Explain how the referenced materials and information "reasonably mitigate" OCC's concerns about "the possibility of double counting of PSIA-related costs ... for purposes of this proceeding."

In Answer Testimony, the OCC raised concerns that the Company had not performed any internal audits to determine double-counting of PSIA-related costs. In his Rebuttal Testimony, Mr. Phibbs explained the accounting controls that the Company has in place that would detect and correct a double counting or double inclusion of PSIA-related costs and that the very nature of the Projects Base Amount ("PBA") would render a double-counting of PSIA-related costs as between the PBA and the PSIA highly unlikely for this proceeding. Further, the Company's acknowledgement that it has the responsibility to demonstrate that its internal controls are being consistently implemented and will conduct a specific internal audit of the 2013 PSIA-related costs will provide continuing assurance that double-counting is not occurring.

Did Staff address, and raise concerns about, "the possibility of double counting of PSIA-related costs"?

No. Although Staff raised an issue about the Company's internal accounting review (see Second Corrected Testimony of Mr. Moreno, page 10, lines 11 through 17) regarding PSIA costs, which was addressed in this Stipulation, Staff did not view the presentation of the Projects Base Amount ("PBA") in the PSIA Rider as being a "double counting" of PSIA-related costs. Staff does not view the issue raised by the OCC as one of double counting. PBA is a revenue amount recoverable in base rates that is deducted from the PSIA revenue requirement to calculate the PSIA rider request.

If it did, does the Stipulation address/mitigate Staff's concerns for purposes of this Proceeding?

See explanation above.

If it did, are Staff's concerns about the possibility of double-counting an issue that, because it is not specifically addressed in the Stipulation, is no longer contested and is to be considered withdrawn (in accordance with the Stipulation at para. 34)?

See explanation above.

#16 – <u>CONSISTENT IMPLEMENTATION OF INTERNAL CONTROLS</u>

16. <u>Stipulation at para. 30</u>: "The Company agrees that it has the responsibility to demonstrate that it is consistently implementing these internal controls."

Identify the referenced "internal controls."

The internal controls referenced in the last sentence of paragraph 30 of the Stipulation refers to the Company's internal controls against double counting of costs discussed by Mr. Brockett in his Rebuttal testimony (page 8, line 1 through page 10, line 3) and by Mr. Phibbs in his Direct Testimony (page 13, line 15 through page 16, line 5), and including Mr. Phibbs further discussion in his Rebuttal Testimony (page 23, line 13 through page 27, line 21).

Explain under what circumstances, and in what document(s), the Company will "demonstrate that it is consistently implementing these internal controls."

The reference to the Company's responsibility to demonstrate that it is consistently implementing its internal controls was intended to include formal proceedings, such as prudence review proceedings and rate cases, where a question is raised regarding the adequacy of the Company's internal accounting controls.

Assume that the referenced "internal controls" change in form or in substance (or both) from the "internal controls" described in the documents and information cited in the Stipulation at para. 30.

Will the Company inform the Commission of those changes; and, if it will, how will it do so? Explain the response.

No, as explained below.

If the Company will not inform the Commission of those changes, why will the Company not do so?

The Settling Parties did not agree to require Public Service to make any formal filings documenting all of its internal accounting controls and to file updates as necessary to such information. As with any large, publicly-held company, a public utility needs to be free to establish its own internal accounting controls as it sees fit from time to time, as necessary, to comply with applicable laws and to protect itself and its directors and officers from potential liability. Imposing a requirement that all changes to the Company's internal controls be filed with the Commission would present an unwarranted burden and potentially inhibit the adoption of reasonable changes, thereby hindering the effectiveness of such controls.

#17 – 2013 INTERNAL AUDIT CONCERNING THE PSIA

17. Stipulation at para. 31: This paragraph contains Public Service's agreement that its internal audit department will perform an audit of all CY 2013 PSIA-related costs, however recovered, and will issue a report on that audit not later than 30 April 2014.

Is this the same audit discussed in the Public Service testimony? Provide citations to the testimony where the audit is discussed.

The internal audit of calendar year 2013 PSIA-related costs referenced in paragraph 31 of the Stipulation is the same internal audit discussed in Public Service's testimony and, in particular, at page 4, line 9 through page 8, line 8 of Mr. Phibbs' Rebuttal Testimony.

If it is not the same audit, explain the difference(s) between the audit discussed in the testimony (provide citations to testimony) and the audit agreed-to in the Stipulation.

It is the same audit, as stated above.

Is the audit described in para. 31 a process audit?

The audit is both a process and financial audit.

Is the audit described in para. 31 a financial audit?

Yes, as stated above.

Is the audit described in para. 31 a combined process and financial audit?

Yes, as stated above.

If the audit described in para. 31 is not a process audit, a financial audit, or a combined process and financial audit, explain what the audit described in para. 31 is.

As stated above, the audit is both a process and financial audit.

To what audit does the phrase "such audit" in the last sentence of para. 31 refer?

The phrase "such audit" appearing in the last sentence of paragraph 32 refers to the internal audit of 2013 PSIA-related costs discussed in paragraph 31 and "such audit report" refers to the audit report to be issued by April 30, 2014.

#18 – FORMAL CAPITALIZATION POLICY DETERMINATIONS

18. Stipulation at para. 32: This paragraph pertains to how the Company resolves issues as to whether a PSIA-related cost should be treated as a capital expenditure or should be treated as an expense.

This paragraph refers to "the Company's Capitalization Policy."

Is that policy contained in a document?

The Capitalization Policy is in electronic form on an internal website (intranet) maintained by Capital Asset Accounting and consists of many individual documents.

Is the "Company's Capitalization Policy," as that phrase is used in the Stipulation at para. 32, discussed in the testimony filed in this Proceeding in 2013 or 2014 (or both)? If it is, provide citations to that testimony.

The 15-page Capitalization Policy Overview is included as an attachment to a discovery response attached at Exhibit No. JJP-4 to the Rebuttal Testimony of Mr. Phibbs. The Capitalization Policy, as that phrase is used in paragraph 33 of the Stipulation, is discussed by Mr. Phibbs in his Rebuttal Testimony at page 12, line 15 through page 19, line 22.

If it is not discussed in the testimony filed in this Proceeding in 2013 or 2014 (or both), explain the "Company's Capitalization Policy," as that phrase is used in the Stipulation at para. 32.

See explanation above.

This paragraph states that, when asked, "the Asset Analysis Team issues a formal determination" with respect to the treatment of a PSIA-related cost.

Is the request for an Asset Analysis Team formal determination made in writing?

Both the request for a formal determination by the Asset Analysis Team of the Capital Asset Accounting department and the formal determination itself are made in writing.

Is the Asset Analysis Team's formal determination made in writing?

Yes, as stated above.

Is an Asset Analysis Team formal determination binding on the requesting person/party with respect to the treatment of a PSIA-related cost?

The Asset Analysis Team's formal determination is binding on the requesting person/party with respect to the treatment of the particular cost.

May the requesting person/party treat the Asset Analysis Team's formal determination as an advisory opinion? If so, under what circumstances may the requesting person/party treat the Asset Analysis Team's formal determination as an advisory opinion?

The Asset Analysis Team's formal determination is a final ruling made by Capital Asset Accounting and the determination must be followed. It may not be treated as an advisory opinion. If circumstances change and a new determination is warranted, a new determination will be requested.

Public Service agrees to provide, in its April 1 PSIA Annual Report, specified information about Asset Analysis Team formal determinations. Is this information in addition to the information required to be filed as stated in the Joint Comments filed in Proceeding No. 13M-0915G?

The information required by paragraph 33 of the Stipulation to be provided in the Company's April 1 PSIA annual reports will be provided in addition to the additional content set forth in Joint Comments filed in Proceeding No. 13M-0915G.

#19 – <u>IDENTIFICATION OF EVIDENCE ESTABLISHING PRUDENCE</u>

19. <u>General Issue</u>: What documents constitute the evidentiary record on which the ALJ should rely in determining whether the costs at issue here are prudent, were prudently-incurred, and should be recovered through the PSIA?

1. Evidence from the existing evidentiary record in the underlying gas rate case in Proceeding No. 10AL-963G:[1]

    - Hearing Exhibit 5, Direct Testimony and Exhibits of Cheryl F. Campbell:
        - Direct Testimony: page 3, line 9 through page 31, line 10;
        - Direct Testimony: page 62, line 18 through page 63, line 8;
        - Exhibit Nos. CFC-1, CFC-2 and CFC-3.
    - Hearing Exhibit 6, Rebuttal Testimony and Exhibits of Cheryl F. Campbell:
        - Rebuttal Testimony: page 3, line 10 through page 21, line 20;
        - Exhibit No. CFC-10.

2. Public Service's direct testimony and exhibits filed November 5, 2013:

    - Direct Testimony of Cheryl F. Campbell, with attached Exhibits Nos. CFC-12 through CFC-20;
    - Direct Testimony of Deborah A. Blair, with attached Exhibit Nos. DAB-17 and DAB-18;
    - Direct Testimony of John J. Phibbs, with attached Exhibit No. JJP-1; and
    - Direct Testimony of Scott B. Brockett, as corrected pursuant to notice filed February 13, 2014, with attached Exhibit Nos. SBB-5 through SBB-8.

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[1] In accordance with the ALJ's directives in Decision No. R13-1216-I, Public Service gave notice on November 5, 2013 that it was designating the above-identified PSIA-related evidence from the existing evidentiary record in the underlying gas rate case in Proceeding No. 10AL-963G that it wished to have the Commission consider as part of the Company's direct case in this 2012 PSIA prudence review proceeding.

3. Second Corrected Answer Testimony and Exhibits of Staff Witness Abel L. Moreno), filed January 29, 2014 (to be adopted by Staff Witness Marna Steuart).

4. Answer Testimony and Exhibits of OCC Witness Cory Skluzak, filed January 7, 2014.

5. Public Service's rebuttal testimony and exhibits filed February 6, 2014:

   - Rebuttal Testimony of Cheryl F. Campbell;
   - Confidential Exhibit No. CFC-21 (to Ms. Campbell's Rebuttal Testimony);
   - Rebuttal Testimony of John J. Phibbs, with attached Exhibits Nos. JJP-4 through JJP-7, Exhibit No. JJP-9, and Corrected Exhibit No. JJP-8 filed February 13, 2014;
   - Confidential Exhibit Nos. JJP-2 and JJP-3 (to Mr. Phibbs' Rebuttal Testimony);
   - Rebuttal Testimony of Scott B. Brockett.

6. Stipulation and Agreement filed February 25, 2014.

7. These Joint Responses to the ALJ's Questions, filed March 19, 2014.

In the event that the Administrative Law Judge does not conduct an evidentiary hearing on the Stipulation, Public Service respectfully requests that she take administrative notice pursuant to Rule 1501(c) of the materials listed above that are documents in the Commission's files and not already included in the evidentiary record in Proceeding No. 10AL-963G. In the event that the Administrative Law Judge conducts an evidentiary hearing on the Stipulation, the materials listed above that are not already included in the evidentiary record in Proceeding No. 10AL-963G will be introduced into evidence.

Public Service Company of Colorado
Pipeline System Integrity Adjustment (PSIA)
2012 Actual PSIA

Exhibit No. PSCO-1
Page 1 of 12

Line No.	Description		2012 PSIA Estimate Amount		2012 PSIA Actual Amount	
1	Annual Revenue Requirements	$	37,384,077	$	34,703,767	(2)
2	Plus: 2011 TIMP Deferred Amount (1)	$	8,362,823	$	8,362,823	
3						
4	Total Costs	$	45,746,900	$	43,066,590	
5						
6	Revenue Requirements in Base	$	14,249,527	$	14,249,527	
7						
8	Net Revenue Requirements in PSIA (Ln 4 - Ln 6)	$	31,497,373	$	28,817,063	
9						
10	Net Revenue Requirements in 2012 Estimated PSIA			$	31,497,373	
11						
12	PSIA 2012 True-Up - Under/(Over) (Ln 8 - Ln 10)			$	(2,680,310)	

Note 1: Includes 2011 TIMP Deferred Costs from January 1, 2011 through August 2011, net of monthly amortization, to be recovered only in 2012 PSIA. The amount is carried over in the true-up column to indicate it is not being trued up.
Note 2: The 2012 Actual amount includes the adjustment according to Section II.D of the Stipulation ar by the parties on February 25, 2014

Public Service Company of Colorado **Exhibit No. PSCO-1**
Revenue Requirement related to Pipeline System Integrity Adjustment **Page 2 of 12**
All PSIA Projects
2012 Actual PSIA

Line No.	Description	2012 Total Gas	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**			
2	Gas Plant in Service	216,495,637	(1)	199,913,747
3	Less: Gas Accumulated Reserve for Depreciation	2,007,619	(1)	1,868,106
4	Net Plant	214,488,018		198,045,640
5				
6	Accumulated Deferred Income Taxes	69,568,983	(1)	63,690,401
7				
8	Net Rate Base (ln 4 - ln 6)	144,919,035		134,355,240
9				
10	**Income Tax Expense**			
11	Net Rate Base	144,919,035		134,355,240
12	Rate of Return on Rate Base	7.85%		7.85%
13	Earnings before Interest	11,376,144		10,546,886
14				
15	Net Rate Base	144,919,035		134,355,240
16	Cost of Debt	2.11%		2.11%
17	Interest Expense	3,057,792		2,834,896
18				
19	Additions and Deductions for Taxes	(39,589,314)	(1)	(37,977,815)
20				
21	State Taxable Amount (ln 13 - ln 17 + ln 19)	(31,270,961)		(30,265,824)
22	State Income Tax Rate	4.63%		4.63%
23	State Income Taxes	(1,447,846)		(1,401,308)
24				
25	Net Federal Taxable Amount (ln 21 - ln 23)	(29,823,116)		(28,864,516)
26	Federal Income Tax Rate	35.00%		35.00%
27	Federal Income Taxes	(10,438,091)		(10,102,581)
28				
29	Deferred Income Taxes	15,047,898	(1)	14,435,367
30				
31	Total Income Taxes (ln 23 + ln 27 + ln 29)	3,161,962		2,931,478
32	Tax Gross Up Factor	1.613163		1.613163
33	Total Income Tax Expense	5,100,761		4,728,954
34				
35	**O&M and Payroll Expenses**			
36	Transmission	12,115,470	(1)	12,107,353
37	Distribution	3,417,014	(1)	3,417,014
38	Depreciation Expense	4,271,381	(1)	4,022,220
39	Total Operating Deductions (ln 33 through ln 36)	24,904,626		24,275,541
40				
41	Return on Rate Base (line 13)	11,376,144		10,546,886
42	**Stipulation and Agreement Adjustment (2) EMM Adjustment**			**(118,660)**
43	Revenue Requirements (line 39 + ln 41 + ln 42)	36,280,770		34,703,767

Note 1: Retail Allocation recoverable through the PSIA

Public Service Company of Colorado **Exhibit No. PSCO-1**
Revenue Requirements related to Pipeline System Integrity Adjustment **Page 3 of 12**
Cellulose Acetate Butyrate (CAB)
2012 Actual PSIA

Line No.	Description	2012 Total Gas	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**			
2	Gas Distribution Plant in Service	14,585,629	100.00%	14,585,629
3	Less: Gas Distribution Accumulated Reserve for Depreciation	(10,445)	100.00%	(10,445)
4	Net Plant	14,596,074		14,596,074
5				
6	Accumulated Deferred Income Taxes	4,499,913	100.00%	4,499,913
7				
8	Net Rate Base (ln 4 - ln 6)	10,096,161		10,096,161
9				
10	**Income Tax Expense**			
11	Net Rate Base			10,096,161
12	Rate of Return on Rate Base			7.85%
13	Earnings before Interest			792,549
14				
15	Net Rate Base			10,096,161
16	Cost of Debt			2.11%
17	Interest Expense			213,029
18				
19	Additions and Deductions for Taxes	(5,398,483)	100.00%	(5,398,483)
20				
21	State Taxable Amount (ln 13 - ln 17 + ln 19)			(4,818,963)
22	State Income Tax Rate			4.63%
23	State Income Taxes			(223,118)
24				
25	Net Federal Taxable Amount (ln 21 - ln 23)			(4,595,845)
26	Federal Income Tax Rate			35.00%
27	Federal Income Taxes			(1,608,546)
28				
29	Deferred Income Taxes	2,051,963	100.00%	2,051,963
30				
31	Total Income Taxes (ln 23 + ln 27 + ln 29)			220,299
32	Tax Gross Up Factor			1.613163413
33	Total Income Tax Expense			355,379
34				
35	**O&M and Payroll Expenses**	843,245	100.00%	843,245
36	Depreciation Expense	431,352	100.00%	431,352
37	Total Operating Deductions (ln 33 through ln 36)			1,629,976
38				
39	Return on Rate Base (ln 13)			792,549
40				
41	Revenue Requirements (ln 37 + ln 39)			2,422,524

Public Service Company of Colorado **Exhibit No. PSCO-1**
Revenue Requirements related to Pipeline System Integrity Adjustmen **Page 4 of 12**
Distribution Integrity Management Program (DIMP)
2012 Actual PSIA

Line No.	Description	2012 Total Gas	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**			
2	Gas Transmission Plant in Service	1,702,976	100.00%	1,702,976
3	Less: Gas Transmission Accumulated Reserve for Depr.	(56,538)	100.00%	(56,538)
4	Net Plant	1,759,514		1,759,514
5				
6	Accumulated Deferred Income Taxes	415,277	100.00%	415,277
7				
8	Net Rate Base (ln 4 - ln 6)	1,344,237		1,344,237
9				
10	**Income Tax Expense**			
11	Net Rate Base			1,344,237
12	Rate of Return on Rate Base			7.85%
13	Earnings before Interest			105,523
14				
15	Net Rate Base			1,344,237
16	Cost of Debt			2.11%
17	Interest Expense			28,363
18				
19	Additions and Deductions for Taxes	(1,361,515)	100.00%	(1,361,515)
20				
21	State Taxable Amount (ln 13 - ln 17 + ln 19)			(1,284,356)
22	State Income Tax Rate			4.63%
23	State Income Taxes			(59,466)
24				
25	Net Federal Taxable Amount (ln 21 - ln 23)			(1,224,890)
26	Federal Income Tax Rate			35.00%
27	Federal Income Taxes			(428,712)
28				
29	Deferred Income Taxes	517,512	100.00%	517,512
30				
31	Total Income Taxes (ln 23 + ln 27 + ln 29)			29,335
32	Tax Gross Up Factor			1.613163413
33	Total Income Tax Expense			47,322
34				
35	**O&M and Payroll Expenses**	1,210,045	100.00%	1,210,045
36	Depreciation Expense	72,707	100.00%	72,707
37	Total Operating Deductions (ln 33 through ln 36)			1,330,073
38				
39	Return on Rate Base (ln 13)			105,523
40				
41	Revenue Requirements (ln 37 + ln 39)			1,435,596

Public Service Company of Colorado **Exhibit No. PSCO-1**
Revenue Requirements related to Pipeline System Integrity Adjustment **Page 5 of 12**
Transmission Integrity Management Program (TIMP)
2012 Actual PSIA

Line No.	Description	2012 Total Gas	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**			
2	Gas Transmission Plant in Service	85,663,366	99.93%	85,605,972
3	Less: Gas Transmission Accumulated Reserve for Depr.	1,318,550	99.93%	1,317,667
4	Net Plant	84,344,816		84,288,305
5				
6	Accumulated Deferred Income Taxes	26,634,709	99.93%	26,616,864
7				
8	Net Rate Base (ln 4 - ln 6)	57,710,107		57,671,441
9				
10	**Income Tax Expense**			
11	Net Rate Base			57,671,441
12	Rate of Return on Rate Base			7.85%
13	Earnings before Interest			4,527,208
14				
15	Net Rate Base			57,671,441
16	Cost of Debt			2.11%
17	Interest Expense			1,216,867
18				
19	Additions and Deductions for Taxes	(13,411,483)	99.93%	(13,402,497)
20				
21	State Taxable Amount (ln 13 - ln 17 + ln 19)			(10,092,157)
22	State Income Tax Rate			4.63%
23	State Income Taxes			(467,267)
24				
25	Net Federal Taxable Amount (ln 21 - ln 23)			(9,624,890)
26	Federal Income Tax Rate			35.00%
27	Federal Income Taxes			(3,368,711)
28				
29	Deferred Income Taxes	5,097,705	99.93%	5,094,289
30				
31	Total Income Taxes (ln 23 + ln 27 + ln 29)			1,258,311
32	Tax Gross Up Factor			1.613163413
33	Total Income Tax Expense			2,029,861
34				
35	**O&M and Payroll Expenses**	12,115,470	99.93%	12,107,353
36	Depreciation Expense	1,819,148	99.93%	1,817,929
37	Total Operating Deductions (ln 33 through ln 36)			15,955,143
38				
39	Return on Rate Base (ln 13)			4,527,208
40				
41	Revenue Requirements (ln 37 + ln 39)			20,482,351

Public Service Company of Colorado
Revenue Requirements related to Pipeline System Integrity Adjustment
West Main
2012 Actual PSIA

Exhibit No. PSCO-1
Page 6 of 12

Line No.	Description	2012 Total Gas	2012 Amount Recoverable PSIA Costs (1)	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**				
2	Gas Transmission Plant in Service	11,469,167	8,842,728	99.93%	8,836,803
3	Less: Gas Transmission Accumulated Reserve for Depr.	101,377	78,162	99.93%	78,110
4	Net Plant	11,367,790	8,764,566		8,758,694
5					
6	Accumulated Deferred Income Taxes	3,297,318	2,542,232	99.93%	2,540,529
7					
8	Net Rate Base (ln 4 - ln 6)	8,070,472	6,222,334		6,218,165
9					
10	**Income Tax Expense**				
11	Net Rate Base				6,218,165
12	Rate of Return on Rate Base				7.85%
13	Earnings before Interest				488,126
14					
15	Net Rate Base				6,218,165
16	Cost of Debt				2.11%
17	Interest Expense				131,203
18					
19	Additions and Deductions for Taxes	(6,056,063)	(4,669,225)	99.93%	(4,666,097)
20					
21	State Taxable Amount (ln 13 - ln 17 + ln 19)				(4,309,174)
22	State Income Tax Rate				4.63%
23	State Income Taxes				(199,515)
24					
25	Net Federal Taxable Amount (ln 21 - ln 23)				(4,109,659)
26	Federal Income Tax Rate				35.00%
27	Federal Income Taxes				(1,438,381)
28					
29	Deferred Income Taxes	2,301,910	1,774,772	99.93%	1,773,583
30					
31	Total Income Taxes (ln 23 + ln 27 + ln 29)				135,687
32	Tax Gross Up Factor				1.613163413
33	Total Income Tax Expense				218,886
34					
35	**O&M and Payroll Expenses**	-	-	99.93%	-
36	Depreciation Expense	158,767	122,409	99.93%	122,327
37	Total Operating Deductions (ln 33 through ln 36)				341,213
38					
39	Return on Rate Base (ln 13)				488,126
40					
41	Revenue Requirements (ln 37 + ln 39)				829,339

(1) - Percentage attrbutable to base costs: 77.10%
Per CPUC Docket No. 10AL-963G Settlement Agreement

Public Service Company of Colorado **Exhibit No. PCSO-1**
Revenue Requirements related to Pipeline System Integrity Adjustment **Page 7 of 12**
Accelerated Main Replacement Program (AMRP)
2012 Actual PSIA

Line No.	Description	2012 Total Gas	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**			
2	Gas Distribution Plant in Service	50,944,816	100.00%	50,944,816
3	Less: Gas Distribution Accumulated Reserve for Depreciation	221,785	100.00%	221,785
4	Net Plant	50,723,031		50,723,031
5				
6	Accumulated Deferred Income Taxes	15,569,401	100.00%	15,569,401
7				
8	Net Rate Base (ln 4 - ln 6)	35,153,630		35,153,630
9				
10	**Income Tax Expense**			
11	Net Rate Base			35,153,630
12	Rate of Return on Rate Base			7.85%
13	Earnings before Interest			2,759,560
14				
15	Net Rate Base			35,153,630
16	Cost of Debt			2.11%
17	Interest Expense			741,742
18				
19	Additions and Deductions for Taxes	(12,564,195)	100.00%	(12,564,195)
20				
21	State Taxable Amount (ln 13 - ln 17 + ln 19)			(10,546,377)
22	State Income Tax Rate			4.63%
23	State Income Taxes			(488,297)
24				
25	Net Federal Taxable Amount (ln 21 - ln 23)			(10,058,079)
26	Federal Income Tax Rate			35.00%
27	Federal Income Taxes			(3,520,328)
28				
29	Deferred Income Taxes	4,775,650	100.00%	4,775,650
30				
31	Total Income Taxes (ln 23 + ln 27 + ln 29)			767,025
32	Tax Gross Up Factor			1.613163413
33	Total Income Tax Expense			1,237,337
34				
35	**O&M and Payroll Expenses**	1,363,724	100.00%	1,363,724
36	Depreciation Expense	995,758	100.00%	995,758
37	Total Operating Deductions (ln 33 through ln 36)			3,596,819
38				
39	Return on Rate Base (ln 13)			2,759,560
40				
41	Revenue Requirements (ln 37 + ln 39)			6,356,379

Public Service Company of Colorado
Revenue Requirements related to Pipeline System Integrity Adjustment
Edwards to Meadow Mountain Loop
2012 Actual PSIA

Exhibit No. PSCO-1
Page 8 of 12

Line No.	Description	2012 Total Gas	2012 Amount Recoverable PSIA Costs (1)	2012 Retail Allocation	2012 Retail Jurisdiction
1	**Rate Base**				
2	Gas Transmission Plant in Service	52,129,683	38,263,187	99.93%	38,237,551
3	Less: Gas Transmission Accumulated Reserve for Depr.	432,890	317,741	99.93%	317,528
4	Net Plant	51,696,793	37,945,446		37,920,023
5					
6	Accumulated Deferred Income Taxes	19,152,365	14,057,836	99.93%	14,048,417
7					
8	Net Rate Base (ln 4 - ln 6)	32,544,428	23,887,610		23,871,605
9					
10	**Income Tax Expense**				
11	Net Rate Base				23,871,605
12	Rate of Return on Rate Base				7.85%
13	Earnings before Interest				1,873,921
14					
15	Net Rate Base				23,871,605
16	Cost of Debt				2.11%
17	Interest Expense				503,691
18					
19	Additions and Deductions for Taxes	(797,575)	(585,420)	99.93%	(585,028)
20					
21	State Taxable Amount (ln 13 - ln 17 + ln 19)				785,202
22	State Income Tax Rate				4.63%
23	State Income Taxes				36,355
24					
25	Net Federal Taxable Amount (ln 21 - ln 23)				748,848
26	Federal Income Tax Rate				35.00%
27	Federal Income Taxes				262,097
28					
29	Deferred Income Taxes	303,158	222,518	99.93%	222,369
30					
31	Total Income Taxes (ln 23 + ln 27 + ln 29)				520,820
32	Tax Gross Up Factor				1.613163413
33	Total Income Tax Expense				840,168
34					
35	**O&M and Payroll Expenses**	-	-	99.93%	-
36	Depreciation Expense	793,649	582,538	99.93%	582,148
37	Total Operating Deductions (ln 33 through ln 36)				1,422,316
38					
39	Return on Rate Base (ln 13)				1,873,921
40	**Stipulation and Agreement Adjustment (2)**				**$ (118,660)**
41	Revenue Requirements (ln 37 + ln 39 + ln 40)				3,177,577

(1) - Percentage attrbutable to base costs: 73.40%
Per CPUC Docket No. 10AL-963G Settlement Agreement

(2) - This is the adjustment according to Section II.D of the Stipulation and Agreement filed by the parties on February 25, 2014

Public Service Company of Colorado
PSIA Costs in Base Rates

Line No.	PSIA Program	Rev Req
1	CAB	$ 789,397
2	TIMP	$ 9,311,741
3	WestMain	$ 280,996
4	AMRP	$ 3,867,393
5	Edwards	$ -
6	Total	**$14,249,527**

(1) Source is CPUC Docket No. 10AL-963G, Settlement Agreement, Exhibit D

Public Service Company of Colorado
Operating and Maintenance Expense
2012 Actual PSIA

Exhibit No. PSCO-1
Page 10 of 12

Line No.	Project	Total O&M
1	AMRP Total	$ 1,363,724
2		
3	CAB Total	$ 843,245
4		
5	DIMP Total	$ 1,210,045
6		
7	TIMP Total	$ 12,115,470
8		
9	West Main Total	$ -
10		
11	Edwards Total	$ -
12		
13	Total PSIA O&M	$ 15,532,484

Public Service Company of Colorado
Transmission Demand Allocation Factor
2012 Actual PSIA

Description	Allocator Name	2012 Retail	2012 Wholesale	2012 Total
Transmission Demand	TRDMD	99.9330%	0.0670%	100.0000%

Public Service Company of Colorado
Tax Rates & Capital Structure
2012 Actual PSIA

Line No.				
1	Total Colorado Composite Tax Rate			38.01%
2	Total Corporate Composite Tax Rate			38.01%
3	Colorado State Tax Rate			4.63%
4	Federal Rate			35.00%
5	Revenue Conversion Factor			1.613163
6				
7				
8		2012		
9		Rate	Ratio	Cost
10	Long Term Debt	4.89%	43.19%	2.11%
11	Preferred Stock	0.00%	0.00%	0.00%
12	Common Equity	10.10%	56.81%	5.74%
13	Return on Rate Base			7.85%