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

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RE: IN THE MATTER OF ADVICE NO. 1797-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO P.U.C. NO. 8-ELECTRIC TARIFF TO IMPLEMENT RATE CHANGES EFFECTIVE ON THIRTY-DAYS' NOTICE.	**) PROCEEDING NO. 19AL-______E**

**DIRECT TESTIMONY AND ATTACHMENTS OF
RICHARD R. SCHRUBBE**

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

May 20, 2019

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
ADIT	Accumulated Deferred Income Taxes
ALJ	Administrative Law Judge
Commission	Colorado Public Utilities Commission
Company, or Public Service	Public Service Company of Colorado
COSS	Cost of Service Study
CWC	Cash Working Capital
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
HDHP	High Deductible Health Plan
HTY	Historical Test Year
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
O&M	Operation and Maintenance
NCE	New Century Energies

Acronym/Defined Term	**Meaning**
PBGC	Pension Benefit Guaranty Corporation
TCJA	Tax Cuts and Jobs Act
Total Company	Public Service Company of Colorado electric jurisdiction as a whole, without any other Xcel Energy affiliates.
VEBA	Volunteer Employee Beneficiary Association
WACC	Weighted Average Cost of Capital
Willis	Willis Towers Watson
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment RRS-1	December 31, 2018 Disclosure Information for Xcel Energy Inc. from Willis Towers Watson
Attachment RRS-2	February 2019 Willis Towers Watson Actuary Report
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Attachment RRS-4	O&M Calculations for the Requested Amount of Active Health Care
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DIRECT TESTIMONY AND ATTACHMENTS OF RICHARD R. SCHRUBBE

I. INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND RECOMMENDATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard R. Schrubbe. My business address is 401 Nicollet Mall, Minneapolis, Minnesota 55401.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by Xcel Energy Services Inc. ("XES") as the Area Vice-President of Financial Analysis and Planning. XES, which is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel Energy"), provides an array of support services to Public Service Company of Colorado ("Public Service" or the "Company") and the other utility operating company subsidiaries of Xcel Energy.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?

A. I am testifying on behalf of Public Service.

Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

A. As Area Vice-President of Financial Analysis and Planning, I am responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations and Corporate Services with respect to budget planning, reporting, and analysis. I oversee the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also responsible for coordinating the benefits operations and maintenance ("O&M") budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. A description of my qualifications, duties, and responsibilities is set forth after the conclusion of my testimony in my Statement of Qualifications.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My testimony addresses four topics related to the Company's current employee pension expense and other non-cash employee benefit expense:

1. I support Public Service's request to recover its reasonable and necessary actuarially determined pension and benefit expense, which is composed of:
    - qualified pension expense calculated under Statement of Financial Accounting Standard ("FAS") 87;[1]
    - non-qualified pension expense calculated under FAS 87;
    - retiree medical expense calculated under FAS 106; and
    - self-insured long-term disability ("LTD") expense calculated under FAS 112;

[1] In 2009, FAS 87 was renamed Accounting Standards Codification 715-30, but for the sake of simplicity and continuity with prior cases, I will continue to refer to it in this testimony as "FAS 87." Similarly, I will refer to the other applicable accounting standards by their former FAS designations.

2. I support the Company's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;
3. I support the Company's request to recover the reasonable and necessary costs incurred for workers' compensation benefits; and
4. I support the Company's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation.

I quantify the amounts of those expenses for 2013, which was the test year in Proceeding No. 14AL-0660E,[2] and for 2018, which is the Historical Test Year ("HTY") in this case. I also discuss various adjustments for specific items, and I describe the factors that have caused the costs to change since 2013. In addition, I quantify the known and measurable adjustments to the HTY amounts, if any, that lead to the requested amounts of pension and benefit expense in this case.

I also explain that Public Service has accrued a prepaid pension asset, and I describe the Company's request to include that prepaid pension asset in rate base and to earn a return on it at the Company's Weighted Average Cost of Capital ("WACC"). As part of that discussion, I:

- explain what a prepaid pension asset is and how it arises;
- describe the prior Colorado Public Utilities Commission ("Commission") proceedings that affected the balance of the prepaid pension asset;

[2] *In the Matter of Advice Letter No. 1672 – Electric of Public Service Company of Colorado to Revise the General Rate Schedule Adjustment (GSRA) Rider Applicable to All Electric Base Rate Schedules and Revise the Transmission Cost Adjustment (TCA) to Remove Costs that Have Been Shifted to Base Rates to Become Effective July 18, 2014*, Proceeding No. 14AL-0660E, Decision: (1) Granting Joint Motion to Approve Settlement Agreement; (2) Granting Application to Decommission Plant; (3) Permanently Suspending Tariff Sheets; and (4) Establishing Rates (Feb. 24, 2015).

- discuss the rationale for allowing a WACC return on the prepaid pension asset and demonstrate mathematically that, even with a WACC return, customers are economically better off than they would be if the prepaid pension asset were disregarded altogether for ratemaking purposes;

- explain that, until recently, the Commission's standard practice was to allow the Company to include the prepaid pension asset in rate base and to earn a WACC return on that asset;[3]

- explain that the Commission's rationales in recent cases for allowing no return or a reduced return on the Company's prepaid pension asset do not withstand scrutiny; and

- describe the Company's proposed alternative calculation of qualified pension expense if the Commission excludes the prepaid pension asset from rate base and rejects Public Service's request to earn a WACC return on the asset.

Finally, I explain that the Company also has a prepaid retiree medical asset balance, and that it seeks to include that asset in rate base and to earn a WACC return on it. The justification for including that asset in rate base and allowing it to earn a WACC return is identical to the justification for allowing the prepaid pension asset to be included in rate base—both assets produce earnings that reduce the current benefit expense on a dollar-for-dollar basis. In fact, the earnings on the assets in the Company's Voluntary Employee Beneficiary Association ("VEBA") trust, which includes the prepaid retiree medical asset, produce negative current retiree medical expense.

[3] *See, e.g., In the Matter of Advice Letter No. 830-Gas of Public Service Company of Colorado, with Accompanying Tariff Sheets Concerning Implementing a General Rate Schedule Adjustment (GRSA), to be Effective January 12, 2013*, Decision No. R13-1307 at 72-73 (Mailed Oct. 22, 2013) ("The ALJ finds no changed circumstances sufficient to warrant a change in the treatment of the prepaid pension asset. The prepaid pension asset will remain in rate base for the purpose of calculating the revenue requirement. The ALJ will not adopt Staff's recommended adjustment to rate base.").

Q. WHAT ARE YOUR RECOMMENDATIONS IN THIS CASE?

A. I recommend that the Commission approve the pension and benefits amounts discussed in my testimony for inclusion in the cost of service for Public Service. I further recommend that the Commission authorize the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a return on those assets at the Company's WACC.

Q. DOES ANY OTHER COMPANY WITNESS ADDRESS ISSUES RELATED TO COMPENSATION AND BENEFITS?

A. Yes. Four other Company witnesses address compensation and benefit issues in their Direct Testimonies:

- Brooke A. Trammell discusses the Commission's prior treatment of the prepaid pension asset and prepaid retiree medical asset, and she explains why the Company continues to seek a return on those assets;
- Michael T. Knoll supports the Company's request to recover cash compensation paid to employees, including both base pay and incentive compensation, and he explains the plan design changes that the Company has made in recent years to control pension and benefit costs;
- Naomi Koch supports the accumulated deferred income tax ("ADIT) balances associated with the Company's pension and benefit-related balances; and
- Deborah A. Blair's Cost of Service Study ("COSS") includes the current pension and benefit-related expense, and it reflects the prepaid pension asset and prepaid retiree medical asset amounts that the Company seeks to include in rate base.

Q. ARE YOU SPONSORING ANY ATTACHMENTS AS PART OF YOUR DIRECT TESTIMONY?

A. Yes, I am sponsoring the following attachments:

- Attachment RRS-1, which is the 2018 year-end Willis Towers Watson ("Willis") disclosure report that presents final 2018 total company expense;
- Attachment RRS-2, which is a February 2019 Willis actuarial report;
- Attachment RRS-3, which contains the requested amount of Electric Utility O&M amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD expense;
- Attachment RRS-4, which includes the requested amount of Electric Utility O&M calculations for active health care;
- Attachment RRS-5, which summarizes the prepaid pension asset calculations;
- Attachment RRS-6, which reflects a 13-month average of the prepaid retiree medical asset balance;
- Attachment RRS-7, which is a pension tracker schedule;
- Attachment RRS-8, which provides pension and benefit O&M expense by Cost Element; and
- Attachment RRS-9, which provides pension and benefit O&M expense by Federal Energy Regulatory Commission ("FERC") account.

II. PENSION AND BENEFITS OVERVIEW

Q. PLEASE SUMMARIZE THE PENSION AND OTHER BENEFITS THAT THE COMPANY OFFERS TO ITS ELIGIBLE EMPLOYEES.

A. In addition to the cash compensation discussed by Mr. Knoll, Public Service provides the following non-cash benefits to its employees:

- Pension and other post-employment benefits, which include:
  - a defined-benefit qualified pension plan that provides eligible employees with a defined-benefit amount upon retirement;
  - a non-qualified pension restoration benefit that allows Public Service to attract and retain employees who would otherwise be disadvantaged by the restrictions imposed under the qualified pension plan;
  - a retiree medical plan available to certain employees or former employees; and
  - LTD benefits;
- Active health and welfare benefits, which include medical, dental, pharmaceutical, vision, life insurance, and other miscellaneous benefits;
- Workers' compensation benefits; and
- Other types of benefits, including a 401(k) defined-contribution plan and certain types of deferred compensation.

Q. WHAT ARE THE 2013, 2018, AND REQUESTED AMOUNTS OF EXPENSE AMOUNTS FOR EACH OF THE ELEMENTS OF NON-CASH COMPENSATION OFFERED BY THE COMPANY?

A. Table RRS-D-1 (on the next page) sets forth the Electric Utility O&M pension and benefit expense amounts for 2013 and 2018, as well as the amounts that Public Service is requesting in the 2018 HTY COSS in this case:

1 **Table RRS-D-1**

Benefit	2013	2018[4]	Adjustments	Requested Amount
Qualified Pension	$29,711,543	$18,841,422	(2,271,848)	16,569,574
FAS 88 Qualified Pension Settlement	-	5,974,918	(5,974,918)	-
Nonqualified Pension[5]	1,007,054	781,667	(124,873)	656,793
FAS 106 Retiree Medical	1,624,151	(3,322,748)	1,484,192	(1,838,555)
Proposed FAS 106 Retiree Medical to Zero	-	-	1,838,555	1,838,555
FAS 112 Long-Term Disability (Self-Insured)	49,554	(27,794)	49,975	22,181
Active Health Care[6]	22,713,254	20,190,180	847,264	21,037,444
Long-Term Disability (Third-Party-Insured)	887,894	871,951	-	871,951
Life Insurance	412,408	327,010	-	327,010
Miscellaneous Benefit Programs and Costs	1,070,184	1,126,902	-	1,126,902
401(k) Match	5,557,132	6,441,176	188,918	6,630,094
Benefit	**2013**	**2018[7]**	**Adjustments**	**Requested Amount**
Miscellaneous Retirement-Related Costs	435,430	421,682	-	421,682
Workers' Compensation	1,884,515	1,123,014	(218,544)	904,470
Joint Venture Benefit Costs	2,777,244	1,104,173	-	1,104,173
Total Pension and Benefits Expense	**$68,130,363**	**$53,853,553**	**$(4,181,279)**	**$49,672,274**

2 **Q. DO THE ELECTRIC UTILITY O&M AMOUNTS INCLUDE COSTS**
3 **ATTRIBUTABLE TO BOTH PUBLIC SERVICE AND XES EMPLOYEES?**

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[4] The HTY is calendar year 2018 with adjustments to reflect the amounts on an incurred basis.

[5] The 2013 per book amount for non-qualified pension costs was adjusted to remove $363,302 related to a one-time FAS 88 settlement cost in order to provide a consistent year-over-year comparison.

[6] The 2018 per book amount for active health care in the HTY is $19,844,866. That amount is an estimate, as explained in Section V of my Direct Testimony, and it must be adjusted to reflect health care claims that were incurred near the end of the HTY but not reported until after the end of the HTY. Adding the incurred-but-not-reported ("IBNR") amount of $345,314 to the $19,844,866 of per book expense leads to an adjusted HTY amount of $20,190,180 for active health care expense. In addition, there was a $1,335,229 IBNR adjustment that was added to the 2013 per book expense of $21,378,025 to arrive at the adjusted amount of $22,713,254.

[7] The HTY is calendar year 2018 with adjustments to reflect the amounts on an incurred basis.

A. Yes. The Electric Utility O&M amounts include the pension and benefit expense attributable to Public Service employees, and they also include an allocated share of the pension and benefit expense incurred by XES employees.[8]

Q. DO YOU HAVE ANY OVERARCHING COMMENTS ABOUT THE ELECTRIC UTILITY O&M EXPENSE THAT PUBLIC SERVICE IS REQUESTING APPROVAL OF IN THIS PROCEEDING?

A. Yes. I believe it is important to recognize that the overall Electric Utility O&M expense for pension and benefits has declined by approximately $18.5 million since 2013. Some of that decline is due to the reduced amortization of 2008 market losses, which I will discuss below in connection with qualified pension expense, but a significant portion of the expense reduction is due to initiatives by the Company to reduce costs. The declines in qualified pension expense, non-qualified pension expense, retiree medical expense, and active health care expense are due in whole or in part to plan design changes that the Company has undertaken in an effort to curb costs. Mr. Knoll discusses those changes in his Direct Testimony.

[8] The O&M amounts by Cost Element and by FERC account are set forth in Attachment RRS-8 and Attachment RRS-9 respectively.

III. RECOVERY OF CURRENT PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. I discuss the actuarially determined amounts requested for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits.

Q. WHAT DO YOU MEAN WHEN YOU REFER TO "ACTUARIALLY DETERMINED AMOUNTS" FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS?

A. Instead of being generated by the Company, the forward-looking amounts for qualified pension expense, non-qualified pension expense, retiree medical expense, and self-insured LTD benefits are calculated by Xcel Energy's outside actuary, Willis, based on the application of well-established accounting and actuarial standards to Public Service's specific circumstances. For example, Willis calculates Public Service's pension costs using the methods prescribed by Generally Accepted Accounting Principles ("GAAP") and the Actuarial Standards of Practice, but Willis applies an expected return on assets that is based upon the assets in Public Service's own investment portfolio, and it incorporates prior-period gains and losses that reflect Public Service's own investment experience. Willis also uses mortality tables and salary increase assumptions that are tailored to the Company's specific employee population.

A. Qualified Pension

Q. PLEASE DESCRIBE THE COMPANY'S QUALIFIED PENSION PLAN AND THE NATURE OF THE COSTS OF THE PLAN.

A. The qualified pension plan is a traditional defined-benefit pension plan, which promises bargaining-unit employees monthly pension annuity payments based upon their level of pay and years of service. The pension plan promises non-bargaining employees a choice of either a lump sum payout or a monthly pension annuity based upon their level of pay and years of service. Under a defined-benefit pension plan, the promised pensions are a commitment by Public Service.

Q. DO ACCOUNTING RULES AND LAWS DETERMINE THE COST FOR PUBLIC SERVICE'S PENSION PLAN?

A. Yes. As I testified earlier, Public Service accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP.[9] However, FAS 87 does not dictate how a company must fund the plan. The funding of a qualified pension plan is determined based upon prudent business practices, with the following constraints imposed by the requirements of the Internal Revenue Code ("IRC") and the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended by the Pension Protection Act of 2006:

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[9] FAS 87 is one of the Generally Accepted Accounting Principles. Because regulatory accounting must follow specific accounting standards unless superseded by regulatory requirements, FAS 87 is used for regulatory accounting by the vast majority of utility companies.

- There are minimum required contributions;
- There are maximum contributions that can be deducted for tax purposes; and
- The Company has a fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under ERISA, the IRC, and the Pension Protection Act use accrual methodologies, but they are different from the methodology used under FAS 87 to determine pension expense. Over the long run, the cumulative employer cash contributions made to a plan and the cumulative annual pension expense amounts should be equal. But in the short and intermediate runs, there can be significant differences.

Q. WHY ARE THE ANNUAL PENSION COST AND THE ANNUAL FUNDING REQUIREMENTS ESTABLISHED IN ACCORDANCE WITH DIFFERENT STANDARDS?

A. The requirements for funding pension plans differ from the requirements for calculating annual pension costs primarily because FAS 87 is designed to present an accurate picture of a company's annual pension expense for financial accounting purposes, whereas the pension funding requirements reflect different (and sometimes conflicting) goals of the United States Congress. On the one hand, the members of Congress want to ensure that the pension plans affecting their constituents are adequately funded. On the other hand, Congress wants to limit the level of tax deductions by employers to avoid worsening the national budget deficit. Over the years, Congress has addressed its two conflicting goals at different times to address specific short-term needs, which has resulted in the following effects:

- Employers of adequately funded plans (as defined in Section 430 of the IRC, as amended by the Pension Protection Act of 2006) generally have flexibility in the amount that can be contributed in any one year so long as the cash contribution falls in the range between the minimum amount required and the amount that is deductible for tax purposes.
- For employers who slip below the threshold of funding adequacy in a given year, a large minimum required contribution can be triggered and benefit restrictions may apply.

Given the differences between FAS 87 and the IRC funding rules, the cumulative accounting expenses and the cumulative cash contributions are rarely equal. As I will explain in more detail later in my testimony, cumulative cash contributions in excess of the cumulative accounting expenses result in a prepaid pension asset.[10] The prepaid pension asset represents the employer's cash contributions that will be recognized under GAAP as annual pension expense at some time in the future, but that have not been recognized to date.

1. Determination of Annual Pension Costs

Q. HOW IS ANNUAL PENSION COST DETERMINED UNDER FAS 87?

A. Under FAS 87, annual pension expense is composed of the following elements of cost:

(1) the present value of pension benefits that employees will earn during the current year (service cost);

(2) increases in the present value of the pension benefits that plan participants have earned in previous years (interest cost);

(3) investment earnings on the pension plan assets that are expected to be earned during the year (expected return on assets or "EROA");

(4) recognition of costs (or income) from experience that differs from the assumptions, such as discount rate changes and actual investment

[10] If the annual pension expense recognized under FAS 87 exceeds the pension contributions in a given year, the prepaid pension asset will decline; if the annual pension expense is less than the pension contributions in a given year, the prepaid asset will increase.

earnings that differ from assumptions (amortization of unrecognized gains and losses); and

(5) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of unrecognized prior service cost).

Q. TAKING EACH OF THESE FIVE COMPONENTS IN ORDER, HOW IS THE SERVICE COST COMPONENT CALCULATED?

A. The service cost component recognized in a period is the actuarial present value of benefits attributed by the pension benefit formula to current employees' service during that period. Actuarial assumptions are used to reflect the time value of money (the discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Q. NEXT, HOW IS THE INTEREST COST COMPONENT CALCULATED?

A. The interest cost component recognized in a fiscal year is determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an interest cost at a rate equal to the assumed discount rate. Essentially, the interest cost identifies the time value of money by recognizing that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. HOW IS THE THIRD COMPONENT, THE EROA, CALCULATED?

A. The EROA is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets. The market-related value of plan assets can be either fair (market) value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.

Q. WITH REGARD TO THE FOURTH COMPONENT, WHAT ARE THE UNRECOGNIZED GAINS AND LOSSES?

A. Gains and losses are categorized as asset gains or losses, which result from changes in the value of the plan assets, or as liability gains or losses, which result from changes in the amount of the projected benefit obligation. Both types of changes result from experience that differs from what was assumed in a prior year or from changes in assumptions. FAS 87 does not distinguish between the sources of gains and losses.

Q. PLEASE DESCRIBE IN MORE DETAIL THE DIFFERENCE BETWEEN ASSET GAINS AND LOSSES, ON THE ONE HAND, AND LIABILITY GAINS AND LOSSES, ON THE OTHER.

A. Asset gains and losses are the differences between the actual return on assets during a period and the EROA for that period. Suppose, for example, that the Company uses an EROA of 6.5 percent as the expected return on the pension trust assets in a particular year, but the actual return during that year is 8.0 percent. Because the actual return exceeded the EROA, the plan has an asset gain of 1.50 percent in this example. In contrast, if the actual return is less than the EROA, the plan experiences an asset loss.

Similarly, liability gains and losses are the differences between the actual liability of the pension plan at the end of a measurement period and the expected liability at the end of a measurement period. For example, the plan may assume the discount rate will be 4.0 percent at the end of a period, but it is actually 5.0 percent. In that instance, the plan will experience a liability gain because the higher discount rate means less money must be set aside today to pay tomorrow's pension obligations.

Q. ARE THE ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES RECOGNIZED IMMEDIATELY UNDER FAS 87?

A. No. Because gains and losses may reflect refinements in estimates as well as real changes in economic values, and because the gains in one period may be offset by losses in another or vice versa, FAS 87 does not require recognition of the entire amount of gains and losses as a component of net pension cost in the period in which they arise. Instead, they may be phased-in and amortized over a period of years. For example, a plan may phase-in a gain or loss over a five-year period, and the portion of the gain or loss that is phased-in may also be amortized over a period of years.

Q. HOW ARE UNRECOGNIZED GAINS AND LOSSES AMORTIZED?

A. At a minimum, amortization of unrecognized net gains or losses must be included as a component of net periodic pension cost for a year if, as of the beginning of the year, the unrecognized net gain or loss exceeds a "corridor" that is 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If amortization is required, the amortization amount is equal to the amount of the unrecognized gain or loss in excess of the corridor divided by the average remaining future service of the active participants in the plan.

Q. TURNING NOW TO THE FIFTH COMPONENT OF THE QUALIFIED PENSION EXPENSE CALCULATION, WHAT IS PRIOR SERVICE COST AMORTIZATION?

A. Plan amendments can change benefits based on services rendered in prior periods. FAS 87 does not generally require the cost of providing such retroactive benefits (prior service cost) to be included in net periodic pension cost entirely in the year of the amendment, but instead provides for recognition over the future years.

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

A. Unrecognized prior service cost is amortized in the same manner as unrecognized gains and losses, with the exception of the 10 percent corridor.

Q. PLEASE SUMMARIZE THE CALCULATION THAT IS REQUIRED TO BE USED UNDER FAS 87 TO QUANTIFY ANNUAL PENSION COST.

A. Annual pension cost is quantified using the five elements of cost listed in Table RRS-D-2:

TABLE RRS-D-2

	Current service cost
+	Interest cost
+/-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+/-	Amortization of prior service cost
=	Annual pension expense

Q. IS THE ANNUAL PENSION COST PRODUCED BY THIS FORMULA ALWAYS A POSITIVE NUMBER?

A. No. In some years, the EROA and the gains resulting from the difference between expected and actual experience from prior periods can be larger than the combination of the service cost and interest cost, which means that the annual pension expense in that year is *negative*. If that occurs in a test year, customers pay no pension expense at all in rates during the time the rates are in effect, and in fact they receive a credit to the overall cost of service equal to the amount of the negative pension expense.

2. Comparison of Qualified Pension Expense Amounts

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING 2013?

A. During 2013, the Company's qualified pension expense was $29,711,543 (Electric Utility O&M).

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR DURING THE 2018 HTY?

A. The 2018 HTY qualified pension expense was $24,816,341 (Electric Utility O&M). That amount was based on the 2018 year-end disclosure report provided by Willis, which is Attachment RRS-1 to my Direct Testimony. The $24,816,340 was broken down into two parts, $18,841,422 and $5,974,918. The $5,974,918 portion represents the amount associated with the 2018 FAS 88 pension settlement.

Q. PLEASE EXPLAIN WHAT A FAS 88 PENSION SETTLEMENT IS?

A. In addition to the five components of pension cost described above, a sixth component, FAS 88 settlement accounting, can be required provided certain criteria are met during the year. Settlement accounting is required if lump-sum payments to employees in a year are greater than the sum of the service cost and interest cost components recognized for that year. This criterion for settlement accounting was met in 2018 for two pension plans that affect Public Service, the Xcel Energy Pension Plan and the former New Century Energies ("NCE") Non-Bargaining Pension Plan. When settlement accounting is triggered, the Company is required to recognize immediately a portion of unrealized losses currently deferred as a regulatory asset. When settlement accounting is not triggered, the unrecognized loss is amortized over a much longer period of time. Thus, settlement accounting is not an increase in the overall pension expenses, but rather an acceleration of the timing of when the pension expense will be recognized. Because the 2018 FAS 88 settlement is part of the total 2018 recognized pension cost, it was compared to the tracker baseline and deferred along with the other elements of qualified pension expense. The tracker is described in more detail below.

Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF IN THIS CASE?

A. The Company is requesting that the Commission approve $16,569,574 (Electric Utility O&M) of qualified pension expense. That amount is based upon Willis's February 2019 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHAT FACTORS CONTRIBUTED TO THE OVERALL DECREASE IN QUALIFIED PENSION EXPENSE BETWEEN 2013 AND THE REQUESTED AMOUNT?

A. The primary reasons for the decrease in qualified pension costs from 2013 to the Requested Amount are:

- a reduction in the asset and liability gain/loss amortization;
- plan design changes; and
- contributions to the plans, which increased the asset base upon which the Company earns returns.

These three reasons for reduced pension expense are offset to some extent by the difference between expected and actual returns from 2013 to 2018 and mortality table updates.

Q. PLEASE DESCRIBE THE DECREASE TO THE LOSS AMORTIZATION AND EXPLAIN WHY IT IS LEADING TO REDUCED PENSION EXPENSE FROM 2013 TO THE REQUESTED AMOUNT.

A. The asset and liability gain/loss amortization component has declined due to a number of factors. One reason was the recognition of past losses, including lump sum settlement accounting, which reduced the amortization in the test year. Also, the amortization periods, which are the average years of future service for active employees, have increased since 2013. The amortization period increased:

- from 10.3 years to 11.3 years for Xcel Energy Services employees;
- from 8.3 years to 9.9 years for Public Service Non-Bargaining employees; and
- from 11.3 years to 13.7 years for Public Service Bargaining employees.

Another reason is specific to the asset loss amortization, which has declined significantly since 2013, which was the high point of the 2008 market loss amortization. The financial turmoil in 2008 caused nearly all pension trusts to lose a significant part of their value, and Public Service's pension trusts were no exception. Public Service's pension plans lost approximately 26 percent of their value as a result of the severe recession in 2008. Public Service did not, however, reflect all of those losses in its annual pension cost immediately. Instead, as allowed by FAS 87, Public Service phased the asset losses in over a five-year period, beginning in 2009, and Public Service also amortized those amounts in accordance with FAS 87. Because the 2008 asset losses were fully phased in by 2013, the loss amortization amounts have been declining since that time.

Q. PLEASE DESCRIBE HOW PLAN DESIGN CHANGES CONTRIBUTE TO THE DECREASED PENSION EXPENSE.

A. There have been two significant changes that have affected non-bargaining employees and lowered pension cost for Public Service and Xcel Services employees.

- New hires on or after January 1, 2012 are participants in the 5 percent cash balance plan rather than the Pension Equity Plan.
- In 2017, the company eliminated future Retirement Savings Account contributions as well as the Social Security Supplement for participants that are not retirement eligible by December 31, 2022.

Also, employees hired, rehired or transferring on or after February 21, 2018, into a Public Service bargaining position are participants in the 5 percent cash balance plan rather than the traditional pension formula. As new bargaining employees are hired each year, the Company will continue to see lower costs as new employees are enrolled in the lower pension benefit plan, resulting in lower service cost each year.

Q. PLEASE DESCRIBE THE INCREASED ASSET BASE RESULTING IN HIGHER ASSET EARNINGS AND EXPLAIN WHY IT DECREASED PENSION EXPENSE.

A. Because of funding requirements mandated by the Pension Protection Act of 2006, the Company has made significant contributions to the pension trust funds in recent years. Those contributions increase assets upon which the Company earns a return, and those returns are an offset to annual pension cost. Thus, the increase in asset base helps to reduce annual pension cost.

Q. PLEASE DESCRIBE THE MORTALITY TABLE UPDATES AND EXPLAIN WHY THEY LED TO AN INCREASE IN QUALIFIED PENSION EXPENSE FROM 2013 TO THE REQUESTED AMOUNT.

A. In October 2014, the Society of Actuaries' Retirement Plans Experience Committee published updated base mortality table and mortality improvement scales. These tables reflect longer lives, and thus longer periods in which former employees are likely to collect pensions and other retirement benefits. The improvement to life expectancy led to an increase of pension cost.

Q. YOU TESTIFIED EARLIER THAT UNFAVORABLE ASSET PERFORMANCE IN 2018 OFFSET THE DECREASES IN QUALIFIED PENSION EXPENSE TO SOME EXTENT. PLEASE EXPLAIN WHAT YOU MEANT.

A. Unfavorable asset performance occurs when actual returns are lower than the EROA for a particular year. That leads to higher pension expense in subsequent years because asset losses are phased in over a five-year period. In 2018, the Company's actual returns were lower than the EROA. Table RRS-D-3 summarizes the 2018 actual returns compared to the expected return for the three pension plans that affect Public Service.

Table RRS-D-3

Pension Plan	2018 Expected Return on Assets	2018 Actual Return on Assets
PSCo Bargaining	6.50%	(4.44%)
NCE Non-Bargaining	6.90%	(4.51%)
Xcel Energy	7.10%	(4.51%)

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS QUALIFIED PENSION EXPENSE AMOUNTS REQUESTED?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the qualified pension expense amounts requested. The source document for the numbers in Attachment RRS-3 is Attachment RRS-2.

B. <u>Non-Qualified Pension</u>

Q. WHAT IS THE PURPOSE OF A NON-QUALIFIED PENSION PLAN?

A. A non-qualified pension plan is designed to provide comparable benefits to certain employees whose compensation exceeds the limits provided by tax law for deducting pension-related expense.

Q. HOW DOES A NON-QUALIFIED PENSION PLAN DIFFER FROM A QUALIFIED PENSION PLAN?

A. Qualified plans are those that “qualify” under Section 400 of the IRC, which confers significant tax advantages on both the employer and employee. Those advantages include:

- The employer receives a current tax deduction for contributions to the plan;
- The employee is not taxed on the contributions, but instead is taxed only when he or she receives benefits;
- The plan assets accumulate tax-free until they are distributed; and
- The plan assets are placed in a trust that is beyond the reach of creditors.

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined-benefit plan to $220,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $275,000.

In contrast, there is no statutory restriction on the amount of the benefit that may be offered under a non-qualified pension plan, which is used to restore the amount of retirement benefits that employees lose as a result of the limitations on the qualified plans.

Q. HOW ARE NON-QUALIFIED PENSION COSTS DETERMINED?

A. Non-qualified pension costs are determined under the same standard as qualified pension costs, which is FAS 87. Unlike the qualified pension, however, the non-qualified pension plan does not have trust assets set aside for the payment of the benefit. Therefore, it does not have an EROA. It also does not have prior-period asset gains or losses, although it may have prior-period liability gains and losses.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING 2013 FOR NON-QUALIFIED PENSION EXPENSE?

A. The non-qualified pension expense in 2013 was $1,007,054 (Electric Utility O&M).

Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE DID THE COMPANY INCUR IN 2018?

A. The 2018 HTY non-qualified pension expense was $781,667 (Electric Utility O&M).

Q. WHAT IS THE REQUESTED AMOUNT OF NON-QUALIFIED PENSION EXPENSE?

A. The Electric Utility O&M non-qualified pension expense that Public Service is requesting is $656,793.

Q. WHY HAS THE AMOUNT OF NON-QUALIFIED PENSION EXPENSE DECREASED FROM 2013 TO THE REQUESTED AMOUNT?

A. The primary drivers for the decrease in expense are plan design changes, a decline in the number of employees who are eligible to receive non-qualified pension benefits, and lower loss amortizations. I discussed the non-bargaining plan design changes and lower loss amortizations in connection with the qualified pension discussion.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS NON-QUALIFIED PENSION EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the non-qualified pension expense requested amounts. Attachment RRS-2 contains the source document for those calculations.

C. Retiree Medical

Q. HOW ARE RETIREE MEDICAL COSTS DETERMINED?

A. Retiree medical costs are determined under FAS 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions. The components and calculation of retiree medical expense are identical to the components and calculation of qualified pension expense under FAS 87, with one exception: The qualified pension asset gains and losses are phased into the loss amortization calculation by 20 percent each year, whereas retiree medical asset gains and losses are not.

Q. PLEASE DESCRIBE PUBLIC SERVICE'S RETIREE MEDICAL PLAN AND THE PLAN EXPENSES.

A. The Company's plan consists primarily of retiree medical and pharmacy benefits, but it also includes retiree life and dental insurance. The Company eliminated those benefits for all active non-bargaining employees more than 10 years ago. Moreover, only bargaining employees hired, rehired or transferred to a Public Service bargaining position prior to July 1, 2003 get subsidized retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR IN 2013?

A. In 2013, the Company's retiree medical expense was $1,624,151 (Electric Utility O&M).

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE DID THE COMPANY INCUR DURING THE 2018 HTY?

A. The Company's retiree medical expense was $(3,322,748) (Electric Utility O&M) for the 2018 HTY.

Q. WHAT IS THE ADJUSTED AMOUNT OF RETIREE MEDICAL EXPENSE?

A. Public Service is expecting to recognize $(1,838,555) of retiree medical expense in 2019. The amount is based on an actuarial calculation provided by Willis to reflect the most recent assumptions for 2019 costs. The Electric Utility O&M amount is reflected in Attachment RRS-3.

Q. WHY HAS THE AMOUNT DECREASED SINCE 2013?

A. The major driver for the decrease in expense is due to the plan design changes I discussed earlier, which reduced the number of employees eligible for retiree medical benefits.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS RETIREE MEDICAL EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the retiree medical expense amounts it is seeking to recover in this case. Attachment RRS-2 contains the source document for those calculations.

Q. WHAT AMOUNT OF RETIREE MEDICAL EXPENSE IS PUBLIC SERVICE REQUESTING APPROVAL OF IN THIS CASE?

A. Public Service is requesting approval of $0 of retiree medical expense in this case.

Q. WHY IS PUBLIC SERVICE REQUESTING $0 OF RETIREE MEDICAL EXPENSE IN THIS CASE?

A. When the annual retiree medical expense is negative in a particular year (i.e., when the EROA and gains from prior periods exceed the other elements of annual retiree medical cost), it reduces the cumulative recognized expense. That increases the difference between the cumulative cash contributions and the cumulative recognized retiree medical expense, which increases the balance of the retiree medical prepaid asset. Public Service acknowledges that prepaid assets have been a contentious issue over the last several years and has worked with the Commission to mitigate the size of the prepaid assets. Recognizing zero retiree medical expense would further this cause and reduce the size of the retiree medical prepaid asset by creating a regulatory liability, which is a reduction to rate base by serving as an offset. The retiree medical prepaid asset is discussed in more detail later in my testimony.

D. <u>Self-Insured Long-Term Disability</u>

Q. PLEASE DESCRIBE SELF-INSURED LTD IN MORE DETAIL AND EXPLAIN HOW IT IS ACCOUNTED FOR.

A. The LTD costs are attributable to benefits provided by the Company to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment.

The Company has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, Public Service provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, Public Service is required to accrue for LTD costs under FAS 112, Employers' Accounting for Postemployment Benefits. The FAS 112 accrual represents the forecasted disability benefit payments for employees that are not expected to return to work.

Q. WHICH GROUPS OF EMPLOYEES ARE COVERED UNDER THE SELF-INSURED PLAN AND WHICH GROUPS ARE COVERED UNDER THE THIRD-PARTY-INSURED PLAN?

A. Within the LTD benefit, all employees disabled before January 1, 2008 are covered under the self-insured plan, and all employees disabled on and after January 1, 2008 are covered under a third-party-insured plan.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR IN 2013 FOR SELF-INSURED LTD BENEFITS?

A. The self-insured LTD benefit cost in 2013 was $49,554 (Electric Utility O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COST DID THE COMPANY INCUR IN THE 2018 HTY?

A. The self-insured LTD benefit cost in the 2018 HTY was $(27,794) (Electric Utility O&M).

Q. WHAT AMOUNT OF SELF-INSURED LTD BENEFIT COSTS IS THE COMPANY ASKING THE COMMISSION TO APPROVE IN THIS CASE?

A. The Company is requesting that the Commission approve $22,181 of self-insured benefit costs. That amount is based upon Willis's February 2019 actuarial report, which is Attachment RRS-2 to my Direct Testimony, to reflect the most recent pension assumptions.

Q. WHY HAS THE SELF-INSURED LTD BENEFIT COSTS DECREASED SINCE 2013?

A. The primary cause of the decrease is lower projected liabilities in 2019 compared to 2013. This is primarily due to favorable experience and fewer participants receiving payments from the plan in 2019 compared to 2013.

Q. HAVE YOU PROVIDED THE NUMBERS AND ASSUMPTIONS THAT THE COMPANY USED TO DETERMINE ITS SELF-INSURED LTD EXPENSE AMOUNTS REQUESTED IN THIS CASE?

A. Yes. Attachment RRS-3 contains the Electric Utility O&M calculations of the self-insured LTD expense amounts requested. Attachment RRS-2 contains the source document for those calculations.

E. Reasonableness of Public Service's Pension and Other Post-Employment Benefits Expense

Q. ARE THE AMOUNTS OF THE COMPANY'S PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE REASONABLE?

A. Yes. The Company follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other retirement benefits expense amounts. The assumptions and the actuarially calculated total cost amounts are reflected in Attachments RRS-1 and RRS-2, which are the actuarial attachments for the 2018 HTY and the requested amount. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment benefits, is discussed in Mr. Knoll's Direct Testimony.

IV. ACTIVE HEALTH AND WELFARE COSTS

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. I discuss four types of active health and welfare costs, which are: (1) active health care costs; (2) third-party-insured LTD costs; (3) life insurance costs; and (4) miscellaneous benefit costs.

A. Active Health Care

Q. WHAT TYPES OF COSTS ARE INCLUDED IN ACTIVE HEALTH CARE?

A. Active health care costs are all costs associated with providing health care coverage to current employees. The costs include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account contributions, transitional reinsurance fees, trustee fees, and interest income.

Q. WHAT AMOUNT OF ACTIVE HEALTH CARE EXPENSE DID THE COMPANY INCUR IN 2013?

A. The active health care expense in 2013 was $22,713,254 (Electric Utility O&M).

Q. WHAT WAS THE 2018 HTY AMOUNT OF ACTIVE HEALTH CARE EXPENSE?

A. The 2018 HTY amount of active health care expense was $20,190,180 (Electric Utility O&M).

Q. DOES THE 2018 HTY AMOUNT MATCH THE PER BOOK AMOUNT OF ACTIVE HEALTH CARE COSTS FOR CALENDAR YEAR 2018?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when Public Service receives a bill for that care.[11] Therefore, the actual amount of active health care expense was not available at the time Public Service recorded its per book amount at year-end 2018. Because Public Service needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through the end of the year and estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred but not Reported ("IBNR") reserve. During the following year, Public Service receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO THE 2018 PER BOOK AMOUNT?

A. The adjustment to the 2018 per book amount is $345,314 (Electric Utility O&M). This adjustment is necessary to reflect the claims costs on an incurred basis. As mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred

[11] The difference between the estimated amount and the actual amount is generally not material enough to restate Public Service's GAAP books when the actual amount becomes known.

adjustments to per book amounts are necessary so that the amount reflects the actual claims incurred and not the estimated claims that were accrued in the period.

Q. WHY DID ACTIVE HEALTH CARE COSTS DECREASE BETWEEN 2013 AND 2018?

A. The active health care costs decreased between 2013 and 2018 primarily due to plan design changes that the Company initiated. For example, prior to 2016, non-bargaining employees had a high deductible health plan ("HDHP"), while the Public Service bargaining employees had a non-HDHP plan. Beginning on January 1, 2016, both the bargaining and non-bargaining employees were on an HDHP plan. That helped reduce active health care costs relative to what they would have otherwise been. Mr. Knoll discusses those changes in more detail. The cost reductions have been offset to some extent by the normal trend of increasing health care costs.

Q. WHAT AMOUNT IS PUBLIC SERVICE PROPOSING FOR 2019 ACTIVE HEALTH CARE COSTS?

A. For 2019, Public Service is requesting that the Commission approve $21,037,444 for active health care expense. Please refer to Attachment RRS-4.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE ACTIVE HEALTH CARE AMOUNTS FOR 2019.

A. The Company first took the 2018 per book amounts after making the IBNR reserve adjustments described above and then applied three known and measurable adjustments to arrive at the 2019 active health care amount:

1. The Company applied a 5.50 percent increase to the 2018 incurred medical amount, which increased costs by $934,620.
2. The Company applied a 12.60 percent increase to the 2018 incurred pharmacy amount, which increased costs by $497,390.
3. The Company switched medical providers in 2019, which resulted in lower administrative fees. As a result, the 2018 medical administrative fees were reduced by $584,746.

The three adjustments result in a net increase of $847,264 to the overall amount.

Q. WHAT IS THE COMPANY'S BASIS FOR USING THE MEDICAL AND PHARMACY HEALTH CARE TREND ASSUMPTIONS FOR 2019 DESCRIBED ABOVE?

A. The assumptions reflect Willis's overall expectation of health care cost increases based on survey averages, carrier information, and an analysis of the broad health care market.

B. <u>Third-Party-Insured Long-Term Disability</u>

Q. PLEASE DESCRIBE THE THIRD-PARTY-INSURED LTD COSTS THAT THE COMPANY INCURS.

A. As explained earlier, the Company offers LTD coverage that provides benefits to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment. In a third-party-insured plan, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk. The cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year, along with any other miscellaneous costs.

Q. WHAT GROUPS OF EMPLOYEES ARE COVERED UNDER THE THIRD-PARTY-INSURED BENEFIT?

A. As noted earlier, all employees disabled on and after January 1, 2008 are covered under the third-party-insured plan.

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR IN 2013 FOR THIRD-PARTY-INSURED LTD BENEFITS?

A. In 2013, the third-party-insured LTD benefit expense was $887,894 (Electric Utility O&M).

Q. WHAT AMOUNT OF EXPENSE DID THE COMPANY INCUR DURING THE 2018 HTY FOR THIRD-PARTY-INSURED LTD BENEFITS?

A. The Company incurred $871,951 (Electric Utility O&M) in third-party-insured LTD expense during the 2018 HTY.

Q. WHY DID THE THIRD-PARTY-INSURED LTD AMOUNT DECREASE FROM 2013 TO 2018?

A. As explained earlier, the third-party-insured LTD expense is based on the cost of the premium paid to the third-party insurer. The insurer does not disclose its reasons for setting the premium at a particular level.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE 2018 EXPENSE FOR THIRD-PARTY-INSURED LTD?

A. No. Public Service is requesting that the Commission approve the 2018 HTY amount of third-party-insured LTD.

C. Life Insurance

Q. PLEASE DESCRIBE THE LIFE INSURANCE COST THAT THE COMPANY INCURS.

A. The life insurance category consists of life insurance premiums and offsetting employee life insurance withholdings. Life insurance is provided to non-bargaining employees at 100 percent of base pay and to Company bargaining unit employees at 50 percent of base pay. Employees also have the option to purchase additional life insurance.

Q. WHAT LIFE INSURANCE BENEFIT EXPENSE DID PUBLIC SERVICE INCUR DURING 2013?

A. In 2013, the Company incurred $412,408 (Electric Utility O&M) of life insurance expense.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2018 HTY FOR LIFE INSURANCE BENEFITS?

A. During the 2018 HTY, Public Service incurred $327,010 (Electric Utility O&M) for life insurance benefits.

Q. WHAT FACTORS CONTRIBUTED TO THE DECREASE IN LIFE INSURANCE EXPENSE BETWEEN 2013 AND 2018?

A. Life insurance expense decreased between 2013 and 2018 due mainly due to the fact that new rates went into effect in 2014, which were lower than the rates that were in effect in 2013. These lower rates were partially offset by increasing wage and salary levels.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE 2018 EXPENSE FOR LIFE INSURANCE?

A. No. Public Service is requesting that the Commission approve the 2018 HTY amount for life insurance.

D. <u>Miscellaneous Benefits</u>

Q. WHAT TYPES OF MISCELLANEOUS BENEFIT PROGRAMS DOES PUBLIC SERVICE OFFER TO ITS EMPLOYEES?

A. The types of costs included in the miscellaneous benefit programs and costs category are:

- Tuition reimbursement;
- Employee Assistance Program costs;
- Wellness program costs;
- Costs incurred by the Human Resources Service Center to answer employee retirement or benefit questions;
- Health and welfare plan actuarial and audit fees;
- Administrative fees for short-term and long-term disability plans; and
- Administrative fees for employee flexible spending and health savings accounts.

Q. WHAT AMOUNT DID THE COMPANY INCUR IN 2013 FOR MISCELLANEOUS BENEFITS?

A. In 2013, the Company incurred $1,070,184 (Electric Utility O&M) in miscellaneous benefit costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2018 HTY FOR MISCELLANEOUS BENEFITS?

A. Public Service incurred $1,126,902 (Electric Utility O&M) for miscellaneous benefits during the 2018 HTY.

Q. WHAT FACTORS CAUSED THE COST TO INCREASE BETWEEN 2013 AND THE 2018 HTY?

A. The miscellaneous benefit costs increased between 2013 and the 2018 HTY because employees increased their usage of the miscellaneous benefits during the period and because of general inflation during that time.

Q. IS THE COMPANY REQUESTING ANY KNOWN AND MEASURABLE ADJUSTMENT TO THE 2018 EXPENSE FOR MISCELLANEOUS BENEFITS?

A. No. Public Service is requesting that the Commission approve the 2018 HTY amount of miscellaneous benefits.

E. <u>Reasonableness of Health and Welfare Costs</u>

Q. ARE THE AMOUNTS OF PUBLIC SERVICE'S HEALTH AND WELFARE EXPENSE REASONABLE?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. As Mr. Knoll explains in more detail, Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

V. WORKERS' COMPENSATION EXPENSE

Q. IS PUBLIC SERVICE SEEKING RECOVERY OF THE COSTS ASSOCIATED WITH WORKERS' COMPENSATION BENEFITS?

A. Yes. Public Service is seeking recovery of expense associated with third-party-insured workers' compensation benefits.

Q. PLEASE BRIEFLY DESCRIBE PUBLIC SERVICE'S THIRD-PARTY-INSURED WORKERS' COMPENSATION PROGRAM.

A. For employees who are injured on or after August 1, 2001, all workers' compensation benefits are covered under an insured program. The cost to Xcel Energy for this benefit cost is the insurance premium. In a third-party-insured plan, Public Service purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year, along with any other miscellaneous costs.

Q. HOW MUCH DID THE COMPANY INCUR IN 2013 FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. In 2013, the Company incurred $1,884,515 (Electric Utility O&M) in third-party-insured workers' compensation benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2018 HTY FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. During the 2018 HTY Public Service incurred $1,123,014 (Electric Utility O&M) for third-party-insured workers' compensation benefits.

Q. WHAT FACTORS CONTRIBUTED TO THE DECREASE IN THIRD-PARTY-INSURED WORKERS' COMPENSATION EXPENSE BETWEEN 2013 AND THE 2018 HTY?

A. The workers' compensation insurance costs are calculated by actuaries of the vendor from whom Public Service purchases the insurance.

Q. WHAT AMOUNT OF EXPENSE IS PUBLIC SERVICE REQUESTING FOR THIRD-PARTY-INSURED WORKERS' COMPENSATION BENEFITS?

A. Public Service is requesting $904,470 of third-party-insured workers' compensation expense.

Q. WHY HAS THE REQUESTED AMOUNT DECREASED SINCE THE 2018 HTY?

A. When the premiums are being calculated, the insurer's actuaries look at three years of loss history. The most recent premium renewal received at the end of 2018 reflected a decrease in the three-year loss history, thus resulting in lower premiums. This most recent premium renewal is the basis for the 2019 level of costs.

Q. IS IT REASONABLE FOR THE COST OF SERVICE TO INCLUDE THE THIRD-PARTY-INSURED WORKERS' COMPENSATION COSTS INCURRED BY PUBLIC SERVICE?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's workers' compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

VI. OTHER BENEFIT COSTS

Q. IS PUBLIC SERVICE SEEKING RECOVERY OF ANY RETIREMENT BENEFITS IN ADDITION TO THE ONES DISCUSSED EARLIER?

A. Yes. Public Service is also seeking recovery of 401(k) match costs and miscellaneous retirement-related costs.

A. 401(k) Match

Q. PLEASE BRIEFLY DESCRIBE PUBLIC SERVICE'S 401(K) MATCH PLAN.

A. Public Service's retirement income plan is based on a combination of a defined-benefit pension plan and a 401(k) plan, which is a defined-contribution plan. Unlike some defined-benefit pension plans, Public Service's defined-benefit pension plan is not intended to provide an employee's total retirement income. Rather, the defined-benefit pension plan and 401(k) plan are designed so that the two plans in combination provide retirement income to Public Service and XES employees.

Q. HOW ARE THE 401(K) MATCH COSTS DETERMINED?

A. The 401(k) plan is a defined-contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary, with a maximum match of four percent. For the majority of Public Service's workforce, the employee must contribute eight percent of eligible income for Public Service to contribute the maximum match of four percent of eligible income. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. HOW MUCH DID PUBLIC SERVICE INCUR FOR 401(K) MATCH COSTS IN 2013?

A. In 2013, the Company incurred $5,557,132 (Electric Utility O&M) in 401(k) match costs.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2018 HTY FOR 401(K) MATCH BENEFITS?

A. During the 2018 HTY, Public Service incurred $6,441,176 (Electric Utility O&M) for 401(k) benefits.

Q. WHY DID THE 401(K) MATCH COSTS INCREASE BETWEEN 2013 AND THE 2018 HTY?

A. The costs increased primarily because 401(k) costs are based on amounts that employees contribute as a percentage of salary. Because salaries increased from 2013 to 2018, the 401(k) match amounts increased as well.

Q. WHAT AMOUNT OF 401(K) EXPENSE IS PUBLIC SERVICE SEEKING TO RECOVER IN THIS CASE?

A. Public Service is seeking recovery of $6,630,094.

Q. PLEASE DISCUSS THE PROCESS THAT THE COMPANY UNDERTOOK TO DETERMINE THE 401(K) AMOUNT REQUESTED IN THIS CASE

A. The Company first took the 2018 per book amount of $6,441,176 and then applied an $188,918 known and measurable adjustment below to arrive at the proposed amount of $6,630,094. Because the 401(k) match is based on the amount that employees contribute as a percentage of their salary, escalation factors of 3 percent and 2.8 percent have been applied to 2018 actual non-bargaining and bargaining employee costs, respectively. For justification of the merit increase, please refer to Mr. Knoll's Direct Testimony.

B. <u>Miscellaneous Retirement-Related Costs</u>

Q. WHAT COSTS ARE INCLUDED IN MISCELLANEOUS RETIREMENT-RELATED COSTS?

A. This category includes costs such as 401(k) plan administration fees, compensation consulting and survey costs, retirement plan actuarial and audit fees, and a small amount for the deferred compensation plan.

Q. WHAT AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DID THE COMPANY INCUR IN 2013?

A. In 2013, the Company incurred $435,430 (Electric Utility O&M) in miscellaneous retirement-related benefits.

Q. WHAT AMOUNT OF EXPENSE DID PUBLIC SERVICE INCUR DURING THE 2018 HTY FOR MISCELLANEOUS RETIREMENT-RELATED BENEFITS?

A. For miscellaneous retirement-related benefits, Public Service incurred $421,682 (Electric Utility O&M) during the 2018 HTY.

Q. WHY DID THE AMOUNT OF MISCELLANEOUS RETIREMENT-RELATED BENEFITS DECREASE BETWEEN 2013 AND THE 2018 HTY?

A. The miscellaneous retirement-related benefits decreased during that time because the Company's use of third-party consultants declined in 2018 as compared to 2013.

C. <u>Reasonableness of Other Benefit Costs</u>

Q. IS IT REASONABLE FOR THE COST OF SERVICE TO INCLUDE THE 401(K) MATCH AND MISCELLANEOUS RETIREMENT-RELATED COSTS INCURRED BY PUBLIC SERVICE?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for Public Service customers. Without these benefits, Public Service and XES would have to pay significantly higher current compensation to attract employees.

VII. PREPAID PENSION ASSET

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. I describe how a prepaid pension asset is established, and I explain the Company's request in this case to include the prepaid pension asset in rate base and to earn a return at the Company's WACC. I also explain that, until recently, the Commission allowed the Company to include its prepaid pension asset in rate base because the Commission expressly recognized that customers benefit from the prepaid pension asset. I further discuss the Commission's justifications in recent cases for allowing no return or a reduced return in recent cases, and I explain that those explanations do not justify the disallowances the Commission has ordered. Finally, I present an alternative proposal for the calculation of qualified pension expense if the Commission decides not to allow Public Service to include the prepaid pension asset in rate base and earn a WACC return on it.

A. Creation of a Prepaid Pension Asset

Q. WHAT IS A PREPAID PENSION ASSET?

A. A prepaid pension asset represents the difference between: (1) the cumulative actuarially determined annual pension expense calculated in accordance with FAS 87 since the plan's inception, and (2) the cumulative cash amounts contributed by the Company to the pension trust fund since the plan's inception.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE DIFFERENCE ARISES?

A. Yes. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of the five years has been $100 million, whereas the annual pension expense calculated in accordance with

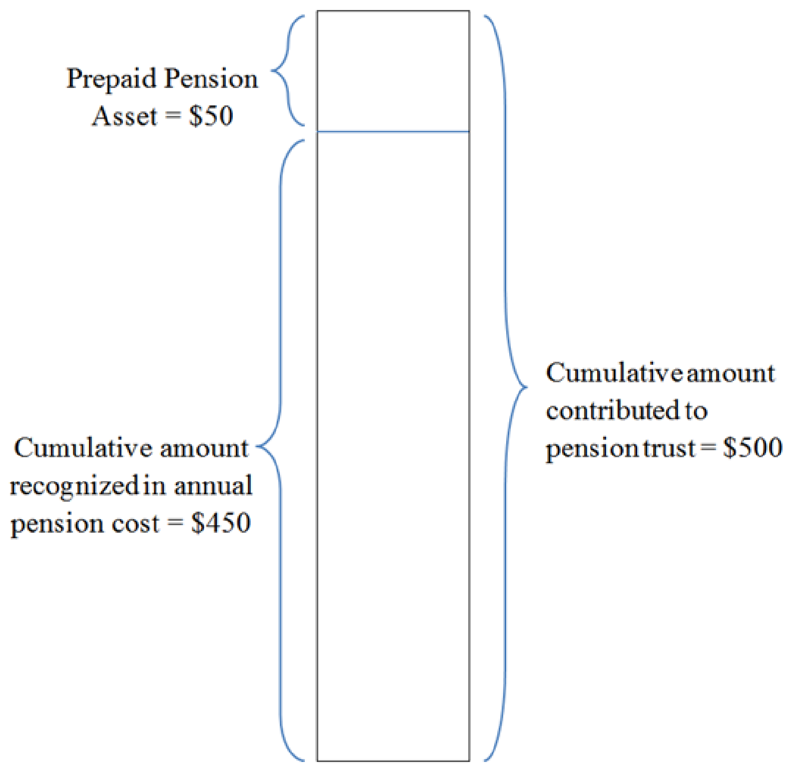
FAS 87 has been $90 million in each of those five years. Table RRS-D-4 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

Table RRS-D-4 (amounts in millions)

Year	Pension Contribution	Annual Pension Expense	Cumulative Prepaid Pension Asset
1	$100	$90	$10
2	$100	$90	$20
3	$100	$90	$30
4	$100	$90	$40
5	$100	$90	$50
Total	**$500**	**$450**	**$50**

At the end of the five year period, the utility has made cumulative cash contributions of $500 million and has recognized cumulative annual pension expense of $450 million under GAAP, which produces a prepaid pension asset of $50 million, as shown in Figure RRS-D-1 (next page):

Figure RRS-D-1[12]



Q. CAN A UTILITY WITHDRAW THE PREPAID PENSION ASSET AND USE IT TO FUND CAPITAL REQUIREMENTS OR TO PAY FOR O&M EXPENSE?

A. No. Federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. After the contributions are made, they are essentially locked away**.**

[12] The amounts in this figure and the other figures in my testimony are illustrative only. They do not represent Public Service's actual pension trust fund balances or its prepaid pension asset balance.

Q. IS IT ALSO POSSIBLE FOR THE CUMULATIVE RECOGNIZED ANNUAL PENSION EXPENSE TO BE HIGHER THAN THE CUMULATIVE CONTRIBUTIONS?

A. Yes. That leads to an accrued pension liability, which would be subtracted from rate base. In fact, Public Service currently has an accrued pension liability for its non-qualified pension plan, and that liability is used to reduce rate base.

B. <u>Rationale for Allowing WACC Return on Prepaid Pension Asset</u>

Q. PLEASE EXPLAIN PUBLIC SERVICE'S REQUEST REGARDING ITS PREPAID PENSION ASSET.

A. Public Service is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on that portion of the rate base at the 7.68 percent WACC that Public Service is asking the Commission to approve.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF THE PREPAID PENSION ASSET IT SEEKS TO INCLUDE IN RATE BASE?

A. Yes. Attachment RRS-5 provides a detailed calculation of the 2018 and 2019 year end balances of the Legacy Prepaid Pension Asset and New Prepaid Pension Asset for the electric jurisdiction. Attachment RRS-5 also shows a summary of the Legacy and New Prepaid Pension Asset balances that the Company is seeking to include in rate base. The amount the Company is seeking to include in rate base is the net of the Legacy Prepaid Pension Asset, which has an asset balance, and the New Prepaid Pension Asset, which has an accrued liability balance.

Q. WHY IS PUBLIC SERVICE REQUESTING THAT THE PREPAID PENSION ASSET BE INCLUDED IN RATE BASE AND EARN A WACC RETURN?

A. The general ratemaking practice is for utility prepayments to be added to rate base and for customer prepayments to be subtracted from rate base. In both instances, the prepayment amount earns a return at the utility's WACC. For example, the cash working capital ("CWC") balance represents working capital advanced by either shareholders or customers. If the CWC balance is positive, the positive amount is added to rate base, and Public Service earns a return on the balance at its WACC. If the CWC balance is negative, the negative amount is subtracted from rate base, and thus Colorado retail customers effectively avoid paying a WACC return on the portion of rate base that is offset by the negative CWC balance.

Customers also receive the benefit of a reduced rate base attributable to ADIT. ADIT represents a prepayment by customers of taxes that the utility does not yet owe the federal government, so the ADIT amount is reduced from rate base.

The prepaid pension asset is no different. It represents a prepayment by the utility of an amount that will eventually be recognized as annual pension expense. Moreover, it is reasonable and equitable to include the prepaid pension asset in rate base and for the Company to earn a WACC return on it because customers pay lower rates as a result of the prepaid pension asset.

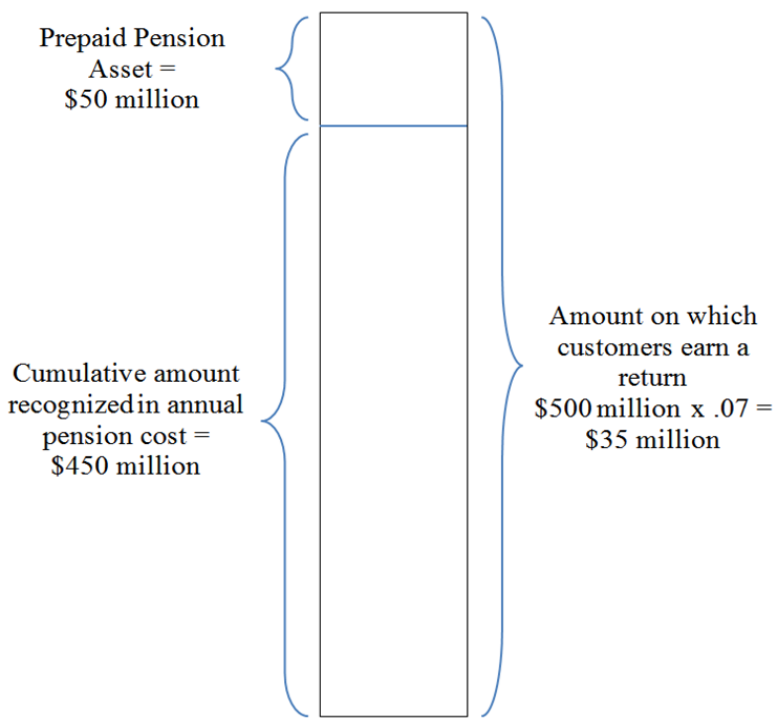
Q. WHAT DO YOU MEAN WHEN YOU STATE THAT CUSTOMERS ARE PAYING LOWER RATES AS A RESULT OF THE PREPAID PENSION ASSET?

A. As I explained in an earlier part of my Direct Testimony, one of the components of the annual pension expense calculation is the EROA, which is the return that the pension trust is expected to earn on the assets in the trust in a given year. Suppose, for example, that a pension trust has assets of $500 million and is expected to earn a return of seven percent in the current year. Under those assumptions, $35 million ($500 million x 7 percent) would be included in the annual pension expense calculation as the EROA. As I explained in the previous section, the EROA is offset against the positive elements of the pension expense calculation, such as service cost and interest cost. Therefore, in this example, the return on the pension trusts would reduce current annual pension expense by $35 million, thereby allowing customers to avoid paying $35 million of pension expense in utility rates.

Q. DOES THE TRUST FUND AMOUNT THAT IS MULTIPLIED BY THE EROA INCLUDE THE ENTIRE TRUST FUND BALANCE, INCLUDING THE PREPAID ASSET?

A. Yes. As shown in Figure RRS-D-2, customers are receiving a return on all of the assets in the pension trust, not just the dollars that have been recognized in annual pension expense during the prior years.

Figure RRS-D-2



That means all of the assets in the trust, including the assets that comprise the prepaid pension asset, are used for the calculation that lowers pension expense, which lowers rates paid by customers.

Q. DOES THE FACT THAT CUSTOMERS ARE RECEIVING A RETURN ON THE ENTIRE PREPAID PENSION ASSET JUSTIFY INCLUDING THE PREPAID ASSET IN RATE BASE AND ALLOWING THE COMPANY TO EARN A RETURN ON IT?

A. Yes. As I have explained, the return on the prepaid pension asset reduces annual pension expense on a dollar-for-dollar basis, which causes customers to pay lower rates. Consider, for example, the scenario depicted in Figure RRS-D-

2, in which customers are earning a seven percent return on a $50 million prepaid pension asset. That reduces annual pension expense by $3.5 million, which means that customers pay $3.5 million less in rates.

Q. PLEASE TURN NOW FROM THE HYPOTHETICAL SCENARIOS YOU HAVE BEEN DISCUSSING TO PUBLIC SERVICE'S ACTUAL PREPAID PENSION ASSET. HAS THE COMPANY QUANTIFIED THE REDUCTION IN ANNUAL PENSION EXPENSE THAT CUSTOMERS EXPERIENCED AS A RESULT OF THE PREPAID ASSETS?

A. Yes. As shown in Table RRS-D-5, Public Service's qualified pension expense was reduced by $4.6 million in 2018 on an electric basis because of earnings on the prepaid pension asset:

Table RRS-D-5

Pension Plan	Date	Prepaid Pension Asset	EROA	Cost Reduction from Prepaid Pension Asset
NCE Non-Bargaining	12/31/2018	$5,517,538	6.90%	$380,710
Public Service Bargaining	12/31/2018	$64,551,777	6.50%	$4,195,865
Total		**$70,069,314**		**$4,576,576**

Although the earnings reduced the Company's revenue requirement by nearly $4.6 million in 2018 and will continue to reduce the revenue requirement by at least that amount going forward, Public Service cannot withdraw the earnings from the trust.

Q. WILL THE RETURN EARNED BY THE COMPANY ON THE PREPAID PENSION ASSET BE HIGHER THAN $4.6 MILLION IF THE COMMISSION APPROVES THE COMPANY'S PROPOSED TREATMENT OF THE PREPAID PENSION ASSET?

A. Yes. The return earned by Public Service will be higher than $4.6 million because the WACC is somewhat higher than the EROA. As noted earlier, Public Service's requested WACC is 7.68 percent, whereas the weighted average of the EROA for the Public Service Bargaining Plan and the NCE Non-Bargaining Plan is 6.84 percent. But even with that disparity in returns, Public Service's customers are better off paying a WACC return on the prepaid pension asset than they would be if the prepaid pension asset were disregarded for ratemaking purposes.

Q. WHY DO YOU SAY CUSTOMERS ARE BETTER OFF PAYING A WACC RETURN ON THE PREPAID PENSION ASSET THAN THEY WOULD BE IF THE PREPAID PENSION ASSET WERE DISREGARDED FOR RATEMAKING PURPOSES?

A. Customers are better off with the prepaid pension asset being included in rate base and earning a WACC return than they would be with no prepaid pension asset because customers are earning a return on a balance that the Company is not seeking to include in rate base. Public Service's annual pension cost includes costs for three different pension plans – the Public Service Bargaining

Plan, the NCE Non-Bargaining Plan, and the XES Plan. All three of those plans have prepaid pension assets, and customers earn a return on all three plans, which reduces the annual pension expense attributable to those plans. See Table RRS-D-6 for inclusion of all these prepaid pension assets. However, Public Service does not include the XES Plan portion of the prepaid pension asset in rate base because that asset belongs to Xcel Energy Services Inc., not to Public Service. Therefore, Public Service's customers are receiving a return on the XES Plan portion of the prepaid pension asset, but they do not pay a return on that asset.

Q. WHAT IS THE BALANCE OF THE XES PLAN PREPAID PENSION ASSET?

A. The balance of the XES Plan prepaid pension asset associated with Public Service's electric retail jurisdiction as of December 31, 2018 was $20.5 million. With an EROA of 7.10 percent for the XES Plan, Public Service's electric retail customers received the benefit of approximately $1.5 million (electric retail) of return in 2018 on an asset on which they pay no return. That reduced annual pension expense by an equal amount.

Q. CAN YOU DEMONSTRATE MATHEMATICALLY THAT PUBLIC SERVICE'S COLORADO ELECTRIC RETAIL CUSTOMERS ARE BETTER OFF AS A RESULT OF THE PREPAID PENSION ASSET?

A. Yes. Multiplying the prepaid pension asset of $70.1 million by the 7.68 percent WACC, requested by the Company, results in a return of $5.4 million on an electric O&M basis.[13] Table RRS-D-6, on the next page, however, shows that customers receive approximately $4.6 million of benefit on an electric O&M basis as a result of EROA that is applied to the prepaid pension asset. In addition, they receive an additional $1.5 million of return on the XES prepaid pension asset, even though they pay no return on that asset. Thus, even when customers pay a WACC return on the prepaid pension asset, they realize a net benefit of approximately $652,000 on an electric basis as compared to a situation in which there was no prepaid pension asset.

[13] For purposes of these calculations, I have used the prepaid pension amounts net of ADIT because customers do not pay a return on ADIT.

Table RRS-D-6

Prepaid pension asset balance (excluding the XES prepaid pension asset)		$70,069,314	
Weighted average EROA for Public Service Bargaining and NCE Non-Bargaining plans	x	6.84%	
Initial return benefit to customers	=		$4,576,576
Balance of XES prepaid pension asset		$20,518,703	
EROA for XES prepaid pension asset	x	7.10%	
Return on XES prepaid pension asset	=		$1,456,828
Total Pension Benefit			$6,033,404
Return on prepaid pension asset at WACC	-		$5,381,323
Net benefit to customers from prepaid pension asset	=		$652,081

Q. DOES THE PREPAID PENSION ASSET BENEFIT CUSTOMERS IN ANY OTHER WAY?

A. Yes. The contributions that helped create the prepaid pension asset allow the Company to avoid incurring Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be included within the annual pension cost charged to customers.

Q. PLEASE EXPLAIN WHAT THE PBGC IS.

A. The PBGC is a federal agency established by Congress as part of ERISA to insure pension benefits under private sector defined benefit pension plans. If a pension plan is terminated without sufficient money to pay all benefits, PBGC's insurance program will pay employees the benefits promised under the pension plan, up to the limits set by law. The funding for the PBGC comes partly from premiums charged to pension sponsors and partly from returns on assets held by the PBGC.

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

A. The PBGC charges two types of premiums: (1) a per capita premium that is charged to all single-employer defined-benefit plans, and (2) a variable premium charged to underfunded plans. The amounts of the premiums are set by Congress and must be paid by sponsors of defined-benefit plans, such as Public Service.

Q. DO PUBLIC SERVICE AND ITS CUSTOMERS AVOID THE PAYMENT OF PBGC PREMIUMS BECAUSE OF THE CONTRIBUTIONS THAT HELPED CREATE THE PREPAID PENSION ASSET?

A. Yes. Colorado customers received the benefit of reduced PBGC premiums in the HTY, and Public Service projects that it will have additional PBGC savings in the future. The Company has not attempted to quantify the savings for purposes of this case, but the avoidance of incremental PBGC premiums produces actual savings. Thus, my earlier calculation of $652,000 of net benefits actually understates the amount of net benefits customers realize as a result of the prepaid pension asset.

Q. IF PUBLIC SERVICE HAD AN ACCRUED PENSION LIABILITY INSTEAD OF A PREPAID PENSION ASSET WOULD YOU BE RECOMMENDING THAT AMOUNT BE SUBTRACTED FROM RATE BASE?

A. Yes. That is the situation with Public Service's non-qualified pension plan. For that plan, the cumulative pension expense recognized under FAS 87 has exceeded cumulative contributions and therefore Public Service has forecasted a corresponding accrued pension liability on its balance sheet. Public Service has made a corresponding reduction in rate base in this case based on the amounts shown below.

Q. DOES PUBLIC SERVICE HAVE ANY OTHER ACCRUED LIABILITIES THAT SHOULD BE SUBTRACTED FROM RATE BASE?

A. Yes. That is the situation with Public Service's FAS 112 workers' compensation and LTD plans. Public Service has forecasted a corresponding accrued liability on its balance sheet related to these plans, as such Public Service has made a corresponding reduction in rate base in this case based on the amounts shown below.

C. <u>Commission Precedent on Prepaid Pension Asset</u>

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SUBSECTION OF YOUR DIRECT TESTIMONY?

A. I describe the way the Commission has treated the prepaid pension asset in the past, and I explain that its recent decisions to allow no return or a reduced return on the prepaid pension asset are both anomalous and poorly reasoned.

Q. HOW HAS THE COMMISSION TRADITIONALLY TREATED THE PREPAID PENSION ASSET?

A. Until recently, the Commission routinely allowed Public Service to include its prepaid pension asset in rate base and to earn a WACC return on it. The Commission first approved the inclusion of the prepaid pension asset in rate base in 1993, in Proceeding No. 93S-001EG, and in subsequent years the Commission approved numerous settlements that included the prepaid pension asset in rate base. To my knowledge, Staff never disputed the inclusion of the prepaid pension asset in rate base until Proceeding No. 12AL-1268G. In that proceeding, the Administrative Law Judge expressly rejected Staff's challenge to Public Service's request to include its prepaid pension asset in rate base, and the Commission upheld that decision.[14]

Q. HOW WAS THE PREPAID PENSION ASSET TREATED IN THE COMPANY'S LAST COMPLETED ELECTRIC RATE CASE, WHICH WAS PROCEEDING NO. 14AL-0660E?

A. As part of the settlement in Proceeding No. 14L-0660E, the parties agreed that Public Service would be allowed to earn a return on the prepaid pension asset at the Company's embedded cost of debt until the Company's next rate case, at

[14] *In the Matter of Advice Letter No. 830 – Gas of Public Service Company of Colorado, with Accompanying Tariff Sheets Concerning Implementing General Rate Schedule Adjustment (GRSA), to be Effective January 12, 2013,* Proceeding No. 12AL-1268G, Decision No. R13-1307 at 72-73 (mailed Oct. 22, 2013).

which time parties would be free to argue for a different return going forward, including none.

Q. WERE THE TERMS IN THE PROCEEDING NO. 14AL-0660E SETTLEMENT AGREEMENT INTENDED TO BE PRECEDENTIAL FOR FUTURE CASES?

A. No. In fact, the Settlement Agreement provided that "[e]xcept as expressly stated herein, nothing in this Settlement Agreement shall resolve any principle or establish any precedent or settled practice."[15] Nothing in the Settlement Agreement provided that the rate of return on the prepaid pension asset would be precedential.

Q. WHEN DID THE COMMISSION NEXT HAVE OCCASION TO CONSIDER THE TREATMENT OF ONE OF THE COMPANY'S PREPAID PENSION ASSETS?

A. In the Company's 2015 gas rate case, Proceeding No. 15AL-0135G, the Company asked to include its prepaid pension asset in rate base and to earn a WACC return on the asset. In contrast, Staff argued that the return should be limited to the cost of long-term debt. The Administrative Law Judge ("ALJ") concluded that it was "reasonable to require Public Service *to continue* using its cost of debt as the rate for which it earns as return on the prepaid pension asset."[16] The ALJ was evidently not aware that the only time the cost of debt had ever been used as the return on the prepaid pension asset was in the

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[15] Proceeding No. 14AL-0660E Settlement Agreement at 27.

[16] *In the Matter of the Advice Letter No. 876-Gas Filed by Public Service Company of Colorado to Increase Rates for All Natural Gas Sales and Transportation Services to Become Effective April 3, 2015,* Decision No. R15-1204 at 71 (Mailed Nov. 16, 2015) (emphasis added).

Proceeding No. 14AL-0660E settlement, which was expressly intended to be non-precedential.

Q. DID THE COMMISSION ADDRESS THE PREPAID PENSION ASSET IN A RATE CASE AFTER THAT?

A. Yes. In Proceeding No. 17AL-0363G, the Commission found that the prepaid pension asset should not earn any return at all.[17] With all due respect, however, the reasoning in that order is illogical and internally inconsistent. Accordingly, Public Service has appealed the Commission's decision in that case to state district court.

Q. WHY DO YOU SAY THAT THE REASONING IN DECISION NO. C18-0736-I IS ILLOGICAL AND INTERNALLY INCONSISTENT?

A. The Commission articulated three reasons for denying a return on the prepaid pension asset: (1) the return on the asset does not improve the funded status of the pension plan; (2) the return does not fund the pension benefit for employees; and (3) other Colorado utilities are not allowed to earn a return on their prepaid pension assets. In the Company's view, those reasons do not justify denying a return on the prepaid pension asset.

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[17] *In the Matter of Advice No. 912-Gas Filed by Public Service Company of Colorado to Roll the Pipeline System Integrity Adjustment ("PSIA") Costs into Base Rates Beginning in 2019 and Increase 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 July 3, 2017,* Decision No. C18-0736-I at 36 (Mailed Aug. 29, 2018). On March 11, 2019, the Commission denied Public Service's Application for Rehearing, Reargument, and Reconsideration of that order. *See* Decision No. C19-0232 at 15-16 (mailed March 11, 2019).

Q. WHY DO YOU STATE THAT THOSE REASONS DO NOT JUSTIFY DENYING A RETURN ON THE PREPAID PENSION ASSET?

A. I make that statement for numerous reasons. First, while it is true that "the return on the asset does not improve the funded status of the pension plan,"[18] shareholders' actual prepayments to the pension trust (i.e., the amounts that comprise the prepaid pension asset) do, in fact, improve the funded status of the plan. Without the prepaid pension asset, the Company's pension fund would be underfunded by an additional $31 million as of December 31, 2019 as shown on Attachment RRS-5.

Second, the underlying premise of the argument—that the return on the asset *should* improve the funded status of the plan—is simply wrong. As Ms. Trammell notes in her Direct Testimony, it is akin to saying that a bondholder should not earn interest on the bond because the interest does not increase the face value of the bond. The purpose of the interest is not to increase the value of the bond. Instead, the purpose of the interest is to provide an incentive for the bondholder to purchase and hold the bond by compensating the bondholder for the use of the money. Similarly, the purpose of allowing a return on the prepaid pension asset is to incentivize shareholders to make contributions to the pension trust and to compensate them for the use of their money. This is no different than providing a WACC return on a shareholder's investment in a transmission

[18] Proceeding No. 17AL-0363G, Decision No. C18-0736-I ¶102, (Mailed August 29, 2018).

line, which compensates the shareholder for the use of his or her money and incentivizes the shareholder to invest in future transmission lines.

If the Commission wants the funded status of the plan to improve, the most effective way to improve the funded status is to allow the Company a return on the prepaid pension asset so it has a financial incentive to contribute to it. In contrast, disallowing a return or allowing only a debt return removes the incentives for Public Service to fund the plan beyond the bare minimum. This would cause the trust's funded status to fall even lower, and would increase the pension expense that customers pay.

The Commission's statement that the return on the prepaid pension asset does not fund the pension benefit for employees is also misguided. The return on the prepaid pension asset is not intended to fund the pension benefit for employees, but instead is intended to incentivize shareholders to make contributions to the pension trust, as noted earlier. However, the assets in the trust, including the prepayments themselves, are intended to fund the pension benefit for employees. Thus, if the Commission wants to ensure that the pension trust is adequately funded for the benefit of employees, the most effective way to do that is to provide an incentive for shareholders to fund the plan adequately by allowing a return on prepayments.

Finally, the mere fact that other utilities are not allowed a return on their prepaid pension assets is not a valid reason to deny Public Service a return. To Public Service's knowledge, the only other Colorado utility with a prepaid pension asset is Atmos, and in Atmos's most recent case the Commission relied on the same flawed arguments put forth by Staff in that case as it did in Public Service's case to disallow a return on the prepaid pension asset.[19] Furthermore, the Xcel Energy operating companies earn a WACC return on their prepaid pension assets in all of the other jurisdictions where Xcel Energy operates.

D. Alternative Recommendations on Prepaid Pension Asset

Q. THUS FAR YOU HAVE DISCUSSED YOUR RECOMMENDATION THAT THE COMMISSION ALLOW THE COMPANY TO INCLUDE THE PREPAID PENSION ASSET IN RATE BASE AND TO EARN A WACC RETURN ON IT. DO YOU HAVE AN ALTERNATIVE RECOMMENDATION IF THE COMMISSION DOES NOT ACCEPT YOUR PRIMARY RECOMMENDATION?

A. Yes. If the Commission decides to exclude the prepaid pension asset from rate base, or if it decides to allow the Company to earn only a debt return on the prepaid pension asset, I recommend parallel treatment with respect to pension expense.

Q. PLEASE EXPLAIN WHAT YOU MEAN BY "PARALLEL TREATMENT."

A. By "parallel treatment," I mean that the Commission should treat customers and the Company the same with respect to the prepaid pension asset. Thus, if the Commission decides to exclude the prepaid pension asset from rate base, the earnings on the prepaid pension asset should not be included in the calculation

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[19] *In the Matter of Advice Letter No. 530 Filed by Atmos Energy Corporation to Increase the Base Rates and the Proposed Recovery of Rate Case Expenses to be Effective July 27, 2017*, Proceeding No. 17AL-0429G, Decision No. C18-0311 at 24-25 (Mailed May 3, 2018).

of annual pension expense, which would cause the expense to be higher. It would be inequitable to deny the Company a return on the prepaid pension asset while providing to customers all the benefits arising from the existence of this asset. The entire prepaid pension asset produces investment income to offset pension expenses, regardless of when the amounts were contributed or realized.

Similarly, if the Commission allows the Company to earn only a debt return on the prepaid pension asset, the annual pension expense used for ratemaking for Public Service should be calculated using a debt return as the expected return for the prepaid portion of the pension asset balance. There is no rational basis to give customers the benefit of the higher EROA return if the Company is limited to a debt return.

Q. ARE YOU RECOMMENDING THAT THE COMMISSION EXCLUDE THE RETURN ON THE PREPAID PENSION ASSET FROM RATE BASE, OR THAT THE COMMISSION REQUIRE ANNUAL PENSION EXPENSE TO BE CALCULATED USING A DEBT RETURN FOR THE EROA?

A. No. My primary recommendation is that the Commission allow the Company to earn a WACC return on the prepaid pension asset and to allow annual pension expense to be calculated by applying the EROA to the prepaid portion of the pension assets. For the reasons I discussed earlier, customers are better off with the prepaid pension asset being included in rate base and with it being allowed a WACC return than they would be if the prepaid pension asset were disregarded for ratemaking purposes. But if the Commission decides to exclude the prepaid pension asset from rate base, it should also exclude the return on the prepaid asset from the calculation of annual pension expense. And if the Commission restricts the Company to a debt return on the prepaid pension asset, the EROA used for purposes of calculating pension expense used for ratemaking for Public Service should be limited to a debt return as well.

VIII. PENSION-RELATED REQUIREMENTS FROM PRIOR ORDERS

Q. WHAT TOPICS DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. In this section of my Direct Testimony, I discuss three separate issues. First, I describe the agreements by the parties and the approvals by the Commission in Proceeding No. 14AL-0660E with respect to the Company's prepaid pension asset balance.[20] I also explain how that balance was affected by the Commission's approval of the signatories' Settlement Agreement in Proceeding No. 18M-0074EG to use part of the tax savings produced by the Tax Cuts and Jobs Act of 2017 ("TCJA") to reduce the balance of the Company's prepaid pension asset.[21]

Second, I describe the regulatory trackers created in Proceeding No. 14AL-0660E for qualified pension expense and non-qualified pension expense.[22] I quantify the tracker balance as of December 31, 2018, and I explain that the Company proposes to continue using the tracker for the rates set in this proceeding.

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[20] In the next section of my testimony, I will explain how a prepaid pension asset is created and how the Company's prepaid pension asset balance affects the cost of service in this case.

[21] *In the Matter of the Commission's Consideration of the Impact of the Federal Tax Cuts and Jobs Act of 2017 on the Rates of Colorado Investor-Owned Electric and Natural Gas Utilities*, Proceeding No. 18M-0074G, Revised Stipulation and Settlement Agreement of Public Service Company of Colorado, Trial Staff of the Colorado Public Utilities Commission, and the Office of Consumer Counsel Regarding Incorporating TCJA Impacts into Public Service's Rates, and Motion to Approve Settlement on Expedited Basis at 7-8 (Apr. 27, 2018).

[22] *In the Matter of Advice Letter No. 1672-Electric Filed by Public Service Company of Colorado PUC No. 7-Electric Tariff to Implement a General Rate Schedule Adjustment and Other Changes Effective July 18, 2014*, Proceeding No. 14AL-0660E, Settlement Agreement (Jan. 23, 2015).

Third, I describe the reporting requirements approved by the Commission in Proceeding No. 14AL-0660E, and I explain that the Company has complied with those reporting requirements.

A. <u>Prepaid Pension Asset Balances</u>

Q. WHAT AGREEMENTS DID THE PARTIES REACH WITH RESPECT TO THE TREATMENT OF THE COMPANY'S PREPAID PENSION ASSET IN PROCEEDING NO. 14AL-0660E?

A. In Proceeding No. 14AL-0660E, the settling parties reached several agreements with respect to the treatment of the prepaid pension asset on a going-forward basis.

First, the settling parties agreed to create what they labeled as the "Legacy Prepaid Pension Asset," and they agreed that the balance of the Legacy Prepaid Pension Asset as of December 31, 2014 would be $139,137,447, which was the Company's actual prepaid pension asset balance of that date after accounting for the offset of ADIT associated with qualified pension expense.[23] The settling parties further agreed that Public Service would be allowed to amortize the Legacy Prepaid Pension Asset over a 15-year period, with $9,275,830 being included in the Company's annual revenue requirement in each of those years.[24] In this testimony, I refer to that 15-year amortization as the "Proceeding No. 14AL-0660E Legacy Prepaid Pension Asset Amortization."

[23] As I will explain below, the actual amount of the prepaid pension asset on that date was $226.4 million. The offsetting ADIT balance was approximately $87.3 million.
[24] Proceeding No. 14AL-0660E, Settlement Agreement at 8.

Second, the settling parties agreed that the Company would be allowed to include the unamortized balance of the Legacy Prepaid Pension Asset in rate base for purposes of the earnings test established as part of the Settlement Agreement. The parties also agreed that from January 1, 2015 until the date on which the rates set in the Company's 2017 electric rate case become effective, the Legacy Prepaid Pension Asset balance would earn a return at the Company's cost of debt, which was 4.67 percent. However, the parties also agreed that in the 2017 electric rate case and afterwards, Public Service and other settling parties will be free to argue for a different going-forward rate of return for the remaining balance of the Legacy Prepaid Pension Asset.[25]

Third, the settling parties agreed that Public Service should be allowed to record "prudently incurred amounts for pre-paid pension assets or liabilities accumulating on or after January 1, 2015." The settling parties also agreed that the new balance, which was labeled as the "New Prepaid Pension Asset," would be treated as a regulatory asset or liability. Finally, they agreed that "[u]ntil such time as new rates are put into effect following the 2017 Rate Case, Public Service shall not earn a return or otherwise apply carrying charges on the New Pre-Paid Pension Asset balance."[26]

Fourth, the settling parties agreed that the Company will seek to recover the amounts accumulated in the New Prepaid Pension Asset balance at the earlier of the Company's next rate case or in a stand-alone case filed within a

[25] *Id.*
[26] *Id.* at 9.

reasonable time after the balance of the New Prepaid Pension Asset exceeds $50 million. The parties agreed that, in the subsequent filing, the Company could propose the manner in which the New Prepaid Pension Asset would be recovered, but other parties were free to challenge the recovery of the amounts and the method proposed for recovery of them.[27]

Q. DID THE COMMISSION APPROVE THE PARTIES' PENSION-RELATED AGREEMENTS?

A. Yes. The Commission approved those agreements in Decision No. C15-0292.

Q. DID THE COMPANY COMPLY WITH THE "LEGACY PREPAID PENSION ASSET" AMORTIZATION REQUIREMENT?

A. Yes. The Company began the Proceeding No. 14AL-0660E Legacy Prepaid Pension Asset Amortization in 2015, and the Company amortized the following amounts in accordance with the Proceeding No. 14AL-0660E Settlement Agreement:

TABLE RRS-D-7

Year	Amortization Amount
2015	$8,171,564[28]
2016	$9,275,830
2017	$9,275,830
2018	$9,275,830

[27] *Id.*

[28] The 2015 amortization amount is lower because the amortization began in February, rather than at the beginning of the year.

Q. DID ANY SUBSEQUENT EVENTS AFFECT THE BALANCE OF THE LEGACY PREPAID PENSION ASSET?

A. Yes. In December 2017, Congress enacted the TCJA, which reduced the federal corporate tax rate from 35 percent to 21 percent. In response, the Commission opened Proceeding No. 18M-0074EG to determine how the tax savings produced by the lower tax rate should be reflected in customer rates. As part of that proceeding, Public Service and Staff, among others, entered into a Settlement Agreement in which they agreed to use a portion of the tax savings to expedite the amortization of the Legacy Prepaid Pension Asset. In particular, the signatories agreed that $59.2 million would be applied to reduce the Legacy Prepaid Pension Asset in 2018, and an additional $33.7 million would be applied to reduce the Legacy Prepaid Pension Asset in 2019. I refer to this agreed-upon amortization as the "TCJA Legacy Prepaid Pension Asset Amortization."

Q. HOW HAS THE COMBINATION OF THE PROCEEDING NO. 14AL-0660E LEGACY PREPAID PENSION ASSET AMORTIZATION AND THE TCJA LEGACY PREPAID ASSET AMORTIZATION AFFECTED THE BALANCE OF THE LEGACY PREPAID PENSION ASSET BALANCE?

A. The combination of the two amortizations will extinguish the Legacy Prepaid Pension Asset balance as of July 2019, but as I explained earlier, the term "Legacy Prepaid Pension Asset" was defined to include only the December 31, 2014 prepaid pension asset balance net of ADIT, which was $139.1 million. Without the offset provided by ADIT, the prepaid pension asset balance on that date was $226.4 million. Thus, the TCJA savings did not extinguish the entire prepaid pension asset. Ms. Koch discusses this issue in more detail in her Direct Testimony.

Q. WILL THE COMPANY CEASE ALL AMORTIZATIONS RELATED TO THE PREPAID PENSION ASSET IN JULY 2019, WHEN THE LEGACY PREPAID PENSION ASSET IS EXTINGUISHED?

A. No. Until the new rates established in this rate review proceeding become effective, Public Service will continue to apply the Proceeding No. 14AL-0660E Legacy Prepaid Pension Asset Amortization amounts to reduce the remaining prepaid pension asset balance. That will cause the net prepaid pension asset to be smaller than it otherwise would have been. Ms. Blair also discusses this issue in her Direct Testimony.

Q. YOU TESTIFIED EARLIER THAT THE PARTIES IN PROCEEDING NO. 14AL-0660E ALSO AGREED THAT THERE WOULD BE A "NEW PREPAID PENSION ASSET" FOR AMOUNTS ACCRUED AFTER JANUARY 1, 2015. DOES PUBLIC SERVICE HAVE A NEW PREPAID PENSION ASSET?

A. Yes, although the label "New Prepaid Pension Asset" is somewhat misleading. That balance was actually an unfunded pension liability of $(59,753,386) as of December 31, 2018. The accrued liability was created because cash contributions have been less than recognized expense since the New Prepaid Pension Asset period began. That liability balance also causes the net prepaid pension asset to be smaller than it otherwise would have been.

Q. HAS THE COMPANY CREATED A DOCUMENT SHOWING HOW THOSE PENSION-RELATED BALANCES HAVE EVOLVED OVER TIME?

A. Yes. My Attachment RRS-5 presents a roll-forward showing the changes in the pension-related asset and liability balances. After accounting for the beginning balances, the Legacy Prepaid Pension Asset amortizations, and the activity that has created the New Prepaid Pension Asset (i.e., contributions and recognized expense since January 1, 2015), the prepaid pension asset balance will be $31,346,213 as of December 31, 2019.[29] That is the amount Public Service seeks to include in rate base.

B. Pension Tracker

Q. DID THE PARTIES IN PROCEEDING NO. 14AL-0660E AGREE ON A PENSION EXPENSE TRACKING MECHANISM?

A. Yes. The parties agreed to baselines for qualified and non-qualified pension expense, and they agreed that on an annual basis, amounts incurred above or below the baselines would "be deferred in an accounting regulatory asset" for inclusion in the Company's next rate case.[30]

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[29] *See* Attachment RRS-5. The December 31, 2019 balance does not include any ADIT offsets. Ms. Koch quantifies the ADIT associated with the December 31, 2019 balance, and Ms. Blair includes that ADIT balance in the Company's Cost of Service Study, which effectively reduces the amount on which Public Service seeks a return.

[30] Proceeding No. 14AL-0660E Settlement Agreement at 11.

Q. HAS THE COMPANY COMPLIED WITH THE PENSION TRACKER REQUIREMENT IN THE SETTLEMENT AGREEMENT?

A. Yes. As shown in Attachment RRS-7, the Company has been tracking its qualified and non-qualified pension costs against the $21,970,121 baseline established in Proceeding No. 14AL-0660E.[31]

Q. WHAT IS THE CUMULATIVE BALANCE OF THE PENSION TRACKER?

A. As shown in Attachment RRS-7, the cumulative balance of the tracker as of the end of 2018 was a $3,320,547 regulatory asset that is owed to Public Service. That indicates actual pension expense was more than the baseline established in the previous rate case. This cumulative balance is made up of $3,012,970 related to qualified pension expense and $307,577 related to non-qualified pension expense. The Company proposes to amortize this balance over 36 months. This proposed amortization is further explained in Ms. Blair's Direct Testimony.

Q. DOES THE COMPANY PROPOSE TO CONTINUE THE PENSION TRACKER AFTER THE RATES ESTABLISHED IN THIS CASE TAKE EFFECT?

A. Yes. The Company is proposing to continue the tracker going forward for both qualified and non-qualified pension expense. The baselines that Public Service proposes are $16,569,574 for qualified pension expense and $656,793 for non-qualified pension expense, which are the requested amounts in this case.

[31] The baselines established in the settlement were $21,086,171 for qualified pension expense and $883,950 for non-qualified pension expense.

C. <u>Pension-Related Reporting Requirements</u>

Q. DID THE SETTLING PARTIES IN PROCEEDING NO. 14AL-0660E AGREE ON PENSION REPORTING REQUIREMENTS FOR THE COMPANY?

A. Yes. The parties agreed that Public Service would file annual reports providing actual and forecasted information for the three qualified pension plans that affect Public Service employees.[32]

Q. DID THE COMPANY COMPLY WITH THE ANNUAL PENSION REPORTING REQUIREMENTS THAT WERE AGREED TO AS PART OF THE SETTLEMENT IN PROCEEDING NO. 14AL-0660E?

A. Yes. The Company filed the annual pension reports, including the most recent one on April 30, 2019.

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[32] *Id.*

IX. PREPAID RETIREE MEDICAL ASSET

Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

A. I address the Company's request to include its prepaid retiree medical asset in rate base and to earn a WACC return on that asset.[33]

Q. WHAT IS A PREPAID RETIREE MEDICAL ASSET?

A. A prepaid retiree medical asset is similar to a prepaid pension asset, except that it represents the difference between: (1) the cumulative annual retiree medical expense calculated under FAS 106 since the inception of FAS 106 accounting requirements starting in 1993;[34] and (2) the cumulative cash outlays to fund benefits under the plan, either through contributions made to the FAS 106 trust by the Company or direct payment of plan benefits over the same period of time.[35] The Company has accrued a retiree medical asset because its direct payments of benefits and its cumulative cash contributions to the VEBA trust collectively exceed the cumulative retiree medical expense recognized under FAS 106 since the inception of the retiree medical plan.

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[33] Retiree medical expense calculated under FAS 106 is sometimes referred as Other Post-Employment Benefits, or "OPEB." To minimize the acronyms in my testimony, I will use the phrase "retiree medical" rather than "OPEB."

[34] Prior to 1992, retiree medical plans were accounted as a "pay-as-you-go" expense, where the annual expense was equal to the cash outlay for the benefits.

[35] The assets of a retiree medical plan are typically held in a Voluntary Employee Beneficiary Association ("VEBA") trust, although benefits are not required to be funded exclusively through a trust.

Q. WHAT WAS THE PREPAID RETIREE MEDICAL ASSET BALANCE IN THE 2018 HTY?

A. In the 2018 HTY, the thirteen-month average of the Company's prepaid retiree medical asset balance on a Public Service electric retail basis was $26,287,002. That is the amount the Company seeks to include in rate base. Please refer to Attachment RRS-6.

Q. DO CUSTOMERS BENEFIT FROM THE RETIREE MEDICAL ASSET?

A. Yes. The return on the assets in the VEBA trust reduces the retiree medical expense included in the cost of service. In fact, as I testified earlier, the retiree medical expense was negative in the 2018 HTY, and it is expected to be negative going forward. Therefore, it is reasonable to include the retiree medical asset in rate base and for the Company to earn a WACC return on it.

Q. IN YOUR PREVIOUS ANSWER, YOU STATED THAT THE PREPAID RETIREE MEDICAL ASSET RESULTS FROM NEGATIVE RETIREE MEDICAL EXPENSE. PLEASE EXPLAIN WHAT NEGATIVE RETIREE MEDICAL EXPENSE IS.

A. Similar to pension expense, the annual retiree medical expense is the net of five cost components:

1. Current service cost;
2. Interest cost;
3. EROA;
4. Amortization of loss/(gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods; and
5. Amortization of prior service cost/(credit).

Negative retiree medical expense refers to the circumstance in which the combination of the EROA, the prior-period gains (if any) and the amortization of prior service credit is greater than the combination of the current service cost, the interest cost, and the prior-period losses (if any). In the Company's case, the amortization of prior service cost/(credit) is an offset to expense due to changes the Company has made to reduce benefit levels.

Q. HAS THE COMPANY HAD NEGATIVE RETIREE MEDICAL EXPENSE IN RECENT YEARS?

A. Yes. Public Service has had negative retiree medical expense since 2014. Prior to that, Public Service had positive retiree medical expense.

Q. WHAT HAS CAUSED THE RETIREE MEDICAL EXPENSE TO BE NEGATIVE?

A. The negative retiree medical expense for Public Service is primarily due to two reasons:

1. The Company has reduced the retiree medical benefit levels over time, resulting in reduced liabilities and lower retiree medical expense. However, the Company continued to fund the benefits as required under a 1991 rate order. In that order, the Company was required to fund the amounts recovered in rates into the trust. Contributions to the trust have been $0 since the retiree medical expense became negative; and
2. Due to the funding of the plan, the expected return on the retiree medical assets has been greater than the sum of the other components of retiree medical cost. Stated simply, the combination of the amortization of prior service credit due to the reduced benefits and the assumed investment return on the plan assets was greater than the cost elements in the plan's expense.

Q. HOW IS THE NEGATIVE RETIREE MEDICAL EXPENSE TREATED FOR RATEMAKING PURPOSES IN THE COMPANY'S COST OF SERVICE?

A. The negative retiree medical expense is credited to customers as a reduction to the cost of service.

Q. FOR RATEMAKING PURPOSES, DOES IT MAKE A DIFFERENCE WHETHER THE PREPAID RETIREE MEDICAL ASSET IS DERIVED FROM PUBLIC SERVICE CONTRIBUTIONS OR FROM NEGATIVE RETIREE MEDICAL EXPENSE?

A. No. Similar to a prepaid pension asset, there is no question that customers reap the benefit of that prepaid retiree medical asset because it remains in the trust and customers earn a return on it. That return is used to lower annual retiree medical expense, reducing the retiree medical expense included in the cost of service.

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S REQUEST TO INCLUDE THE PREPAID RETIREE MEDICAL ASSET IN RATE BASE?

A. Yes. The reasons that I discussed in connection with the prepaid pension asset also apply to the retiree medical asset:

- The negative retiree medical expense is currently reducing the cost of service, thereby lowering the rates paid by customers;
- The retiree medical asset is a prepayment by the Company, and it should be treated consistently with other prepayments, such as CWC and ADIT; and
- Customers effectively earn a return on the retiree medical asset because the EROA reduces current annual retiree medical expense.

Moreover, when the VEBA trust had an unfunded liability, Public Service reduced rate base to reflect the unfunded liability. It would be inequitable to include the FAS 106 balance in rate base only when it benefits customers.

Q. IN PROCEEDING NO. 17AL-0363G, THE COMMISSION REJECTED THE COMPANY'S REQUEST TO INCLUDE THE PREPAID RETIREE MEDICAL ASSET IN RATE BASE. SHOULD THE COMMISSION FOLLOW THAT PRECEDENT IN THIS CASE?

A. No. In Decision No. C19-0232, the Commission offered two reasons for denying the Company a return on the prepaid retiree medical asset: "The program is no longer being offered to new employees and there is more money in the trust than is required to pay benefits."[36] The first reason is illogical, and the second reason is factually wrong.

Q. WHY DO YOU STATE THAT THE FIRST REASON IS ILLOGICAL?

A. Regardless of whether the program is being offered to new employees, Public Service still provides retiree medical benefits to retirees and to certain current employees that are eligible for the program. Therefore, the retiree medical costs are reasonable and necessary costs of service.

Moreover, the earnings on the prepaid retiree medical asset reduce current retiree medical expense on a dollar-for-dollar basis, as I have explained. If the Commission is going to treat the prepaid retiree medical asset as if it does not exist because retiree medical benefits are no longer being offered to new

[36] Decision No. C19-0232 at 16, ¶ 62.

employees, the earnings on that asset should not be included in the calculation of current retiree medical expense.

Q. WHY DO YOU STATE THAT THE SECOND REASON IS FACTUALLY WRONG?

A. The Company's VEBA trust does not have more money than is required to pay benefits. To the contrary, it is underfunded. The Commission relied on Staff's testimony in Proceeding No. 17AL-0363G that the VEBA trust is overfunded, but that testimony was based on the mistaken assumption that the existence of a prepaid retiree medical asset means the VEBA trust is overfunded. In fact, a VEBA trust can be underfunded at the same time that there is a prepaid retiree medical asset, because they measure different things.[37] As I have explained, the prepaid retiree medical asset represents the difference between cumulative contributions to the VEBA trust and retiree medical expense recognized under GAAP. In contrast, the funded status of the VEBA trust represents the difference between the value of the assets in the trust and the retiree medical obligations of the retiree medical plan.

Q. DO YOU HAVE ANY ALTERNATIVE RECOMMENDATIONS WITH RESPECT TO THE PREPAID RETIREE MEDICAL ASSET?

A. Yes. As with the prepaid pension asset, I recommend that the Commission treat the prepaid retiree medical asset consistently from both the customers' and the

[37] Similarly, it would be possible for the Company to have an unfunded liability at the same time the VEBA trust was overfunded.

Company's view. If the Commission disallows the prepaid retiree medical asset from rate base, it should also eliminate the return on the prepaid asset when calculating annual retiree medical expense. And if the Commission allows the Company to earn only a debt return on the prepaid retiree medical asset, it should order that a debt return be applied to the prepaid portion of the VEBA trust for purposes of calculating Public Service's annual retiree medical expense for purposes of ratemaking in Colorado.

X. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING REMARKS REGARDING THE PENSION AND BENEFIT COSTS THAT YOU SUPPORT IN THIS CASE?

A. Yes. The pension and benefit requested amounts that I am supporting are reasonable and necessary costs of providing service to Public Service's customers, and therefore they should be included in the Company's revenue requirement. As I explained earlier in my testimony, the Company's overall pension and benefit expense has declined significantly since 2013, in large part because of the many steps the Company has taken to modify its pension and benefit programs.

The Commission should also allow the Company to include its prepaid pension asset and prepaid retiree medical asset in rate base and to earn a return on those assets at the Company's WACC. Prepayments are routinely added to rate base, and there is no valid reason to treat the prepaid pension asset and prepaid retiree medical asset differently. In addition, customers realize a benefit from the assets in the form of returns that reduce pension and retiree medical expense, and it would be inequitable to allow them to retain that benefit without paying any return on the asset.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications

Richard R. Schrubbe

I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996.

From 2000 to 2005, I was employed by the Do ALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst.

In 2007, I joined Xcel Energy as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. In 2017, I was promoted to the Area Vice President responsible for oversight of the Business Area Finance groups. My current role includes overseeing the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also familiar with the applicable laws, regulatory rules, and ratemaking practices regarding Xcel Energy's recovery of pension and benefits costs and assets in its many jurisdictions.

I testified in Public Service's last two gas base rate cases before the Colorado Public Utilities Commission, Proceeding Nos. 17AL-0363G and 15AL-0135G, on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. I have also submitted pre-filed direct and rebuttal testimony in the Company's last Phase II electric rate case in Colorado, Proceeding No. 14AL-0660E. I have also testified before the Minnesota Public Utilities

Commission, the Public Utility Commission of Texas, and the New Mexico Public Regulation Commission on pension and benefit issues.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

RE: IN THE MATTER OF ADVICE NO. 1797-ELECTRIC OF PUBLIC SERVICE COMPANY OF COLORADO TO REVISE ITS COLORADO P.U.C. NO. 8-ELECTRIC TARIFF TO IMPLEMENT RATE CHANGES EFFECTIVE ON THIRTY-DAYS' NOTICE.	**) PROCEEDING NO. 19AL-______E**

AFFIDAVIT OF RICHARD R. SCHRUBBE
ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO

I, Richard R. Schrubbe, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony orally and would present the same attachments if asked under oath.

Dated at Minneapolis, Minnesota, this 3rd day of May, 2019.

____
Richard R. Schrubbe
Area Vice-President, Financial Analysis and Planning

Subscribed and sworn to before me this 3 day of May, 2019.

AMY JO LARKIN
Notary Public
State of Minnesota
My Commission Expires
January 31, 2023

Amy Jo Larkin
Notary Public

My Commission expires 1/31/2023