

**NOTICE OF CONFIDENTIALITY**  
**A PORTION OF THIS TESTIMONY AND ATTACHMENT  
HAS BEEN FILED UNDER SEAL**

**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- ) PROCEEDING NO. 19AL-\_\_\_\_\_E  
ELECTRIC TARIFF TO IMPLEMENT )  
RATE CHANGES EFFECTIVE ON )  
THIRTY-DAYS' NOTICE. )

**CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH**

**ON**

**BEHALF OF**

**PUBLIC SERVICE COMPANY OF COLORADO**

**NOTICE OF CONFIDENTIALITY**  
**A PORTION OF THIS TESTIMONY AND ATTACHMENT  
HAS BEEN FILED UNDER SEAL**

**Confidential:** Confidential Attachment NK-1  
Redactions on Page 44, 49, 50, 51, 57, 61, 62

**May 20, 2019**

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**TABLE OF CONTENTS**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
I. INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND RECOMMENDATIONS .....	6
II. ACCOUNTING FOR INCOME TAXES.....	9
A. CALCULATION OF INCOME TAXES AND ADIT .....	9
B. ADIT RELATED TO PENSION.....	14
C. FEDERAL AND STATE INCOME TAX RATES .....	16
III. THE ROLE OF NORMALIZATION IN UTILITY RATEMAKING .....	19
IV. EFFECTS OF RECENT TAX LEGISLATION.....	23
V. EFFECTS OF THE TCJA ON PUBLIC SERVICE.....	27
A. FEDERAL CORPORATE INCOME TAX RATE CHANGE.....	28
VI. COLORADO DIRECT PAYMENT PERMIT ISSUE.....	36
VII. PROPERTY TAXES .....	40
A. PROPERTY TAX OVERVIEW .....	40
B. PROPERTY VALUATION.....	44
C. PROPERTY TAX EXPENSES AND THE DRIVERS AFFECTING INCREASED PROPERTY TAX EXPENSE.....	56
D. ACCURACY OF THE COMPANY’S PROPERTY TAX EXPENSE CALCULATIONS .....	62
VIII. CONCLUSION.....	66

**LIST OF ATTACHMENTS**

Confidential Attachment NK-1	Public Service Property Tax Calculation used for the 2018 HTY
Public Attachment NK-1	Public Service Property Tax Calculation used for the 2018 HTY

**GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
ADIT	Accumulated Deferred Income Taxes which are sometimes also referred to as Deferred Tax Assets and Deferred Tax Liabilities
ADMS	Advanced Distribution Management System
AFUDC	Allowance for Funds Used During Construction
AGIS	Advanced Grid Intelligence & Security
ARAM	Average Rate Assumption Method
ASC 740	Financial Accounting Standards Board's Accounting Standards Codification Topic 740 Income Taxes
ASOP	Annual Statement of Property
C.R.S.	Colorado Revised Statute
Commission	Colorado Public Utilities Commission
CWIP	Construction work in progress
DTA	Deferred Tax Asset
DTL	Deferred Tax Liability
DPT	Division of Property Taxation
ECA	Electric Commodity Adjustment
FAS 112	Employers' Accounting for Postemployment Benefits
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
HTY	Historical Test Year

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
IRC	Internal Revenue Code
IRS	Internal Revenue Service
ITC	Investment Tax Credit
kWh	Kilowatt hour
MACRS	Modified Accelerated Cost Recovery System
NOI	Net Operating Income
NOL	Net Operating Loss
PATH Act	Protecting Americans from Tax Hikes Act
PLR	Private Letter Ruling
PTA	Property Tax Administrator
PTC	Production Tax Credit
Public Service or the Company	Public Service Company of Colorado
R&E	Research and Experimentation
TCJA	Tax Cuts and Jobs Act
Treasury	United States Department of the Treasury
WACC	Weighted Average Cost of Capital
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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**CONFIDENTIAL DIRECT TESTIMONY AND ATTACHMENTS OF NAOMI KOCH**

1 I. **INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND**  
2 **RECOMMENDATIONS**

3 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

4 A. My name is Naomi Koch. My business address is 401 Nicollet Mall, Minneapolis,  
5 Minnesota 55401.

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

7 A. I am employed by Xcel Energy Services Inc. ("XES") as Manager, Tax Reporting.  
8 XES is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel Energy"), and  
9 provides an array of support services to Public Service Company of Colorado  
10 ("Public Service" or the "Company") and the other utility operating company  
11 subsidiaries of Xcel Energy on a coordinated basis.

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

13 A. I am testifying on behalf of Public Service.

1 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.**

2 A. As Manager, Tax Reporting, I am responsible for overseeing federal and state  
3 income tax compliance and accounting for all Xcel Energy group companies,  
4 including Public Service. A description of my qualifications, duties, and  
5 responsibilities is set forth after the conclusion of my testimony in my Statement  
6 of Qualifications.

7 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

8 A. The purpose of my Direct Testimony is to address the impacts of income taxes, a  
9 specific issue related to sales tax, and property taxes on the cost of service in  
10 this proceeding. I explain how these items are accounted for in the 2018  
11 Historical Test Year (“HTY”) used by the Company. In addition, I address how  
12 the Tax Cuts and Jobs Act (“TCJA”) affects Public Service generally. This latter  
13 issue has been addressed in prior proceedings, but I provide a brief overview to  
14 provide a clear record in this proceeding.

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

17 A. Yes, I am sponsoring the Confidential and Public versions of Attachment NK-1  
18 (Public Service Property Tax Calculation used for the 2018 HTY), which was  
19 prepared under my supervision.

1 **Q. WHAT RECOMMENDATIONS ARE YOU MAKING IN YOUR DIRECT**  
2 **TESTIMONY?**

3 A. First, regarding income taxes, I recommend that the Commission calculate Public  
4 Service's income tax expense as though Public Service had depreciated its  
5 assets on a straight-line book basis. Second, I recommend that the Commission  
6 allow excess accumulated deferred income taxes ("ADIT") to be returned to  
7 customers following the method discussed in both my Direct Testimony and that  
8 of Company witness Ms. Laurie J. Wold. Third, I recommend that the  
9 Commission allow Public Service to defer and amortize the costs associated with  
10 Public Service's direct pay permit issue. Finally, I recommend that the  
11 Commission allow Public Service to recover the property tax expense, including  
12 the adjustments for changes to the 2018 HTY, and allow the continuation of the  
13 property tax deferral as discussed in Company witness Ms. Brooke A. Trammell's  
14 Direct Testimony.





1 **Q. PLEASE DESCRIBE THE GENERAL PROCESS USED TO CALCULATE**  
2 **PUBLIC SERVICE'S INCOME TAX EXPENSE FOR RATEMAKING**  
3 **PURPOSES.**

4 A. Public Service calculates its income tax expense through a multi-step process:

5 1. As discussed in greater detail in Ms. Blair's Direct Testimony, Public  
6 Service determines its taxable income by summing its operating  
7 expenses, including interest payments and straight-line book depreciation  
8 expense, and then subtracting those operating expenses from total  
9 revenues to arrive at the net income before income taxes.

10 2. Public Service next calculates the additions to or deductions from net  
11 income that result from temporary and permanent tax differences. These  
12 amounts are then added to the net income calculated above to arrive at  
13 taxable income. If the taxable income is negative, it indicates a net  
14 operating loss ("NOL") that can be carried forward (or backward) to offset  
15 future taxable income.

16 3. Public Service's federal and state income tax rates are then applied to the  
17 taxable income calculated above to arrive at current tax expense. Current  
18 income tax expense and deferred income tax expense are added together  
19 and then adjusted by reductions for the federal research and  
20 experimentation ("R&E") credit and the Company's historical investment  
21 tax credit ("ITC").

22 **Q. IN THE SECOND STEP OF THAT PROCESS, YOU REFER TO "TEMPORARY**  
23 **DIFFERENCES." PLEASE EXPLAIN HOW TEMPORARY DIFFERENCES**  
24 **ARISE.**

25 A. Generally speaking, temporary differences arise when Public Service collects tax  
26 expense from customers in one period, but pays the associated tax expense to  
27 the IRS in a different period. The most common example involves depreciation  
28 expense, which is typically accelerated for tax purposes, but not for ratemaking  
29 purposes. The use of accelerated depreciation reduces Public Service's taxable

1 income, which defers taxes until a later time. For purposes of setting rates,  
2 however, Public Service calculates its tax expense as though it had used a  
3 straight-line book depreciation method. Thus, Public Service recovers income  
4 tax expense from customers on a “normalized” basis, which results in Public  
5 Service collecting income tax expense that are not paid to the IRS until a later  
6 time. That leads to the ADIT balance that I referenced earlier in my Direct  
7 Testimony.

8 **Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE ADIT BALANCE ACCRUES.**

9 A. Suppose a utility had taxable income of \$1,000 and a federal income tax rate  
10 of 21 percent. In the absence of any other factors, the utility would collect \$210  
11 from its customers as federal income tax expense, and it would pay the IRS \$210  
12 in federal income taxes.

13 Now suppose the same facts, except that accelerated depreciation has  
14 given the utility enough depreciation expense to offset the entire \$1,000 of  
15 taxable income. The utility still collects the \$210 from its customers because of  
16 normalization rules, but the tax laws allow the Company to defer payment of that  
17 amount to the IRS until some later date. In effect, the utility is given an interest-  
18 free loan from the federal government, but the utility must record that \$210  
19 interest-free loan as a deferred income tax liability, or ADIT.

1 **Q. DOES PUBLIC SERVICE EXPERIENCE TEMPORARY DIFFERENCES IN ANY**  
2 **CONTEXT OTHER THAN ACCELERATED DEPRECIATION?**

3 A. Yes. Public Service experiences a number of non-plant temporary differences,  
4 such as costs associated with pension expense, fuel expense, and many other  
5 types of expenses or revenues. Some of these temporary differences result in a  
6 deferred tax asset (“DTA”), a prepayment of tax, and some result in a deferred  
7 tax liability (“DTL”), a deferred payment of tax. The net cumulative amount  
8 represents Public Service’s ADIT balance.

9 **Q. HOW IS THE ADIT BALANCE REFLECTED IN RATE BASE?**

10 A. The DTL balance will eventually have to be paid to the IRS and corresponding  
11 state agencies because accelerated depreciation creates only a temporary timing  
12 difference. That is why the DTL balance is considered to be a deferral of tax  
13 liability, not a reduction of tax liability. Until the DTL balance is paid back to the  
14 IRS and corresponding state agencies, it is used as a dollar-for-dollar reduction  
15 of rate base. As discussed above, in effect the utility is receiving an interest-free  
16 loan from the federal government in the form of the DTL balance; therefore, it  
17 does not need a return on an equivalent amount of rate base.

18 A similar adjustment is made for DTAs. Until Public Service receives the  
19 deferred tax benefit from the IRS and corresponding state agencies, the DTA is  
20 used as a dollar-for-dollar increase to rate base.

1 **Q. IN THE THIRD STEP OF THE PROCESS YOU MENTION TWO FEDERAL TAX**  
2 **CREDITS. DOES PUBLIC SERVICE EARN ANY STATE TAX CREDITS?**

3 A. Yes. Per § 39-30-104, C.R.S., Public Service has earned a \$20,657,362  
4 Colorado Renewable Energy ITC for its Rush Creek Wind Project investment.<sup>1</sup>  
5 This credit is refundable (*i.e.*, Public Service need not have a Colorado tax  
6 liability in order to utilize), is limited to \$750,000 of utilization each year, but may  
7 be carried forward until the credit has been fully refunded. Under the Financial  
8 Accounting Standards Board's Accounting Standards Codification Topic 740  
9 Income Taxes ("ASC 740"), because the renewable credit is refundable, it is not  
10 accounted for in income tax expense. Instead, Public Service records the  
11 \$750,000 annual benefit as a reduction to Taxes Other Than Income Taxes.

12 **Q. DOES PUBLIC SERVICE EARN ANY OTHER STATE INCOME TAX**  
13 **CREDITS?**

14 A. No. Through 2017, Public Service had been earning an annual \$750,000  
15 Enterprise Zone Contribution Credit. However, the \$750,000 annual limitation  
16 referenced above applies to the combination of the Renewable ITC and  
17 Enterprise Zone credits. In order to realize the cash benefit sooner, Public  
18 Service is opting to recognize the Renewable ITC, so it can no longer recognize  
19 the Colorado Enterprise Zone Contribution credit.

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<sup>1</sup> The Rush Creek Wind Project provided \$860,723,406 of ITC-eligible basis, which was multiplied by the 3 percent Colorado Renewable Energy ITC rate, then reduced by 20 percent because Public Service will elect to treat the ITC as refundable, resulting in a net \$20,657,362 Colorado Renewable Energy ITC.

1        **B.     ADIT Related to Pension**

2        **Q.     IN THE PREVIOUS SECTION YOU PROVIDE PENSION AS AN EXAMPLE OF**  
3        **NON-PLANT ADIT. HOW IS PENSION ADIT CALCULATED?**

4        A.     Similar to the process used for calculating regulatory taxable income that was  
5        discussed earlier in my Direct Testimony, federal corporate income tax returns  
6        start with book net income. Net income is then adjusted by temporary and  
7        permanent tax adjustments in order to arrive at taxable income. Included in  
8        Public Service's net income is an adjustment for pension which, for book  
9        purposes, is expensed over the employee's service life. For tax purposes,  
10       pension is deducted as cash is paid to the pension trust. This difference in timing  
11       of the deduction results in a temporary tax difference, thus a DTA or DTL.

12       **Q.     DOES PUBLIC SERVICE HAVE A DTA OR A DTL RELATED TO PENSION?**

13       A.     As it relates to pension, Public Service has a net DTL.

14       **Q.     HOW DID THIS DTL ARISE?**

15       A.     Company witness Mr. Richard R. Schrubbe discusses the timing of pension  
16       expense and pension funding in greater detail in his Direct Testimony, but as of  
17       December 31, 2018, Public Service has been required to fund the pension trust  
18       in advance of having to record the related pension expense, resulting in a  
19       prepaid pension asset. Due to the timing of the pension deductibility discussed  
20       above, Public Service has been allowed a deduction for tax purposes, sooner  
21       than what has been recognized for book purposes, resulting in a DTL. Public  
22       Service effectuates this tax adjustment by adding back the pension expense

1 reflected in net income, and deducting the amount of cash paid to the pension  
2 trust. The sum of this add-back and deduction has resulted in a net deduction  
3 and DTL, which will reverse as pension expense is recorded for book purposes.

4 **Q. HOW DO PUBLIC SERVICE'S PENSION REGULATORY OFFSETS AFFECT**  
5 **ITS ADIT?**

6 A. As presented by Mr. Schrubbe in Attachment RRS-5, Public Service's prepaid  
7 pension asset for regulatory purposes is net of several regulatory offsets. These  
8 regulatory offsets were taxable to Public Service at the time they were recorded,  
9 which reduced Public Service's pension-related DTL.

10 **Q. USING THE "REGULATORY AMORTIZATION" AS AN EXAMPLE, PLEASE**  
11 **PROVIDE CONTEXT AS TO WHY THE REGULATORY OFFSETS ARE**  
12 **TAXABLE.**

13 A. As discussed in Mr. Schrubbe's Direct Testimony, the settling parties in  
14 Proceeding No. 14AL-0660E agreed Public Service would be allowed to amortize  
15 the Legacy Prepaid Pension Asset over a 15-year period. As Public Service has  
16 received the amortization from customers, it has been recorded as a regulatory  
17 liability. The receipt of this amortization was considered income for tax purposes,  
18 reducing Public Service's pension-related DTL. This reduction to the DTL will  
19 reverse as the regulatory liability unwinds.

1           **C.     Federal and State Income Tax Rates**

2   **Q.     IS PUBLIC SERVICE USING THE SAME INCOME TAX RATE THAT IT USED**  
3           **IN CALCULATING THE TAX EXPENSE IN THE COMPANY’S RECENT RATE**  
4           **REVIEW PROCEEDINGS?**

5    A.     No.

6   **Q.     WHAT INCOME TAX RATE ARE YOU USING?**

7    A.     Public Service is using a 21 percent federal corporate income tax rate and  
8           a 3.6805 percent composite state income tax rate.

9   **Q.     IS THIS A CHANGE FROM THE TAX RATES PUBLIC SERVICE HAS USED IN**  
10           **ITS PRIOR RATE CASES?**

11   A.     Yes. In December 2017, the TCJA was signed into law by the United States  
12           Congress. Among other things, the TCJA reduced the federal corporate income  
13           tax from 35 percent to 21 percent. I discuss the impacts of the TCJA later in my  
14           testimony. Additionally, Public Service’s composite tax rate now includes a small  
15           percentage for California related to its energy trading in that state.

16   **Q.     WHY IS IT APPROPRIATE TO COLLECT STATE INCOME TAXES FOR**  
17           **STATES OTHER THAN COLORADO?**

18   A.     Public Service began trading energy in California in 2016, which requires Public  
19           Service to file and pay taxes in California. Because trading margin benefits are  
20           shared with customers through the Electric Commodity Adjustment (“ECA”), it is  
21           appropriate for Public Service to reflect this tax in the cost of service and rate  
22           base adjustments in this case.



1 **Q. HOW WAS THE 3.6805 PERCENT COMPOSITE STATE INCOME TAX RATE**  
2 **CALCULATED?**

3 A. Public Service has calculated its composite rate based on the state income tax  
4 returns it must file. State income tax returns generally require multi-state  
5 companies to apportion their income between states. For Colorado and  
6 California, the apportionment rates are based on a ratio of Public Service's sales  
7 in to each state compared to Public Service's sales everywhere. These  
8 apportionment rates are then applied to the respective states' income tax rates.  
9 Because state income taxes are deductible for federal purposes, this apportioned  
10 state income tax rate is reduced by the associated federal benefit. The  
11 apportioned state income tax rates are then added together to arrive at Public  
12 Service's composite state income tax rate.

13 For the 2018 HTY, Public Service is using its last filed returns, *i.e.*, its  
14 2017 income tax returns, to estimate its apportionment and tax rate. Based on  
15 these returns, 99.1856 percent of Public Service's taxable income should be  
16 apportioned to Colorado, 0.7537 percent to California.

17 Public Service's federal plus composite state income tax rate can be  
18 reconciled as follows:

1

**Table NK-D-1:  
 Composite State Income Tax Rate**

	A.	B.	C.	D.	E.
	State Apportionment	Jurisdictional Tax Rate	Apportioned Tax Rate (columns A x B)	Federal Deduction for State Taxes (column Cx- 21 percent)	Composite Income Tax Rate (column C + D)
Federal	N/A	21%	21%	N/A	21%
California	0.7537%	8.84%	0.0666%	-0.0140%	0.0526%
Colorado	99.1856%	4.63%	4.5923%	-0.9644%	3.6279%
Total State Income Tax Rate					<u>3.6805%</u>
<b>Total Composite Income Tax Rate</b>					<u><b>24.6805%</b></u>

1           **III.   THE ROLE OF NORMALIZATION IN UTILITY RATEMAKING**

2   **Q.   WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

3   A.   In this section, I explain the steps that Public Service took as part of its federal  
4       income tax calculation to avoid violating tax normalization rules. These steps are  
5       necessary to avoid normalization violations.

6   **Q.   PLEASE EXPLAIN WHAT “NORMALIZATION” MEANS IN THE CONTEXT OF  
7       UTILITY ACCOUNTING.**

8   A.   Normalization refers to a method of accounting in which the tax benefits  
9       associated with depreciation of utility assets are spread over the same period  
10      that the costs of those assets are recovered from customers. For example, if  
11      rates are set based on straight-line book depreciation, the federal income tax  
12      expense included in those rates must also be calculated as though the utility  
13      used straight-line book depreciation. The difference between the federal income  
14      tax expense calculated using accelerated depreciation and the federal income  
15      tax expense calculated using straight-line book depreciation is recorded as a  
16      DTL. The cumulative DTL balance serves as an offset to rate base. Customers  
17      are paid a return at the Company’s weighted average cost of capital (“WACC”)  
18      for any DTL included in the Company’s rate base.

19   **Q.   WHAT IS THE SOURCE OF THE TAX NORMALIZATION RULES?**

20   A.   Tax normalization rules come from various sources including the IRC, Treasury  
21      Regulations, and related guidance provided by the IRS, such as a Private Letter  
22      Ruling (“PLR”). Specifically, Congress mandated normalization for public utilities

1 in IRC § 168(i)(9)-(10), which provides that in order to use a normalization  
2 method of accounting with respect to public utility property:

3 [T]he taxpayer must, in computing its tax expense for purposes of  
4 establishing its cost of service for ratemaking purposes and  
5 reflecting operating results in its regulated books of account, use a  
6 method of depreciation with respect to such property that is the  
7 same as, and a depreciation period for such property that is no  
8 shorter than, the method and period used to compute its  
9 depreciation expense for such purposes.

10 The rule requiring a utility to calculate federal income tax expense on a  
11 normalized basis is Section 1.167(l)-1 of the Treasury Regulations.

12 **Q. EARLIER YOU REFERENCED STRAIGHT-LINE DEPRECIATION. WHAT IS**  
13 **STRAIGHT-LINE DEPRECIATION?**

14 A. Straight-line depreciation is a method of depreciation that recovers the cost of an  
15 asset in equal amounts each year over the asset's expected productive life. As  
16 is the case in most jurisdictions, the Commission uses straight-line book  
17 depreciation for the purpose of computing a utility's depreciation expense in  
18 Colorado.

19 **Q. WHAT IS YOUR UNDERSTANDING OF WHY CONGRESS ENACTED THE**  
20 **NORMALIZATION REQUIREMENTS?**

21 A. It is my understanding that Congress's primary purpose in allowing accelerated  
22 depreciation was to stimulate investment in capital assets, such as electricity  
23 production, transmission, and distribution assets. If a utility were required to  
24 immediately pass through all tax benefits resulting from accelerated depreciation  
25 using flow-through accounting, utilities would have decreased incentives to invest

1 in the capital assets that give rise to accelerated depreciation. Additionally, using  
2 flow-through accounting would create intergenerational inequity because current  
3 customers would receive a benefit that should be spread over the life of the  
4 asset. Accordingly, Congress mandated normalization treatment, which requires  
5 that federal income tax expense be calculated for ratemaking purposes as  
6 though the utility had depreciated its assets on a straight-line book basis.

7 **Q. DID PUBLIC SERVICE RECOGNIZE ACCELERATED DEPRECIATION IN THE**  
8 **CALCULATION OF FEDERAL INCOME TAX EXPENSE INCLUDED IN THE**  
9 **TEST YEAR COST OF SERVICE?**

10 A. No. To remain in compliance with the normalization rules, Public Service  
11 calculated the federal income tax expense included in its cost of service using  
12 straight-line book depreciation.

13 **Q. IS A REGULATORY COMMISSION REQUIRED BY LAW TO FOLLOW THE**  
14 **NORMALIZATION RULES FOR RATEMAKING PURPOSES?**

15 A. No. Congress does not prohibit regulators from using other methods to set rates,  
16 but if a utility were to receive a regulatory order that led to a violation of the  
17 normalization rules, both the utility and its customers would be adversely  
18 affected. When a normalization violation occurs, the utility is no longer allowed to  
19 use accelerated depreciation. In addition, the taxes that have been deferred as a  
20 result of the prior accelerated depreciation must be paid to the federal  
21 government more quickly than they would be in the absence of the normalization  
22 violation. In light of the potential loss of accelerated deductions and for other

1 reasons, Colorado and virtually all other jurisdictions have adopted the  
2 normalization method of tax accounting for rate setting purposes.

3 **Q. HOW WOULD THOSE PENALTIES AFFECT THE UTILITY'S CUSTOMERS?**

4 A. As explained in more detail below, both of those circumstances would reduce the  
5 DTL balance, which would increase the rate base on which customers pay a  
6 return. Therefore, a normalization violation would very likely result in higher rates  
7 for utility customers.

8 **Q. WHAT IS YOUR RECOMMENDATION WITH RESPECT TO HOW THE**  
9 **COMMISSION SHOULD CALCULATE PUBLIC SERVICE'S INCOME TAX**  
10 **EXPENSE?**

11 A. Based on the normalization requirements and the adverse consequences that  
12 would result if those requirements are not followed, I recommend that the  
13 Commission calculate Public Service's income tax expense as though Public  
14 Service had depreciated its assets on a straight-line book basis.

1                                   **IV. EFFECTS OF RECENT TAX LEGISLATION**

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

4 A. I discuss the effects of the Consolidated Appropriations Act, 2016, also known as  
5 the Protecting Americans from Tax Hikes Act (“PATH Act”).

6 **Q. WHAT EFFECT DOES THE PATH ACT HAVE ON THIS CASE?**

7 A. The Path Act temporarily extended bonus depreciation and certain federal  
8 investment tax and production tax credits (“PTCs”), and it permanently extended  
9 the federal R&E credit.

10 **Q. PLEASE DESCRIBE “BONUS DEPRECIATION” AS THAT TERM IS USED IN**  
11 **YOUR DIRECT TESTIMONY.**

12 A. Bonus depreciation is a type of accelerated depreciation that allows for the  
13 immediate expensing of a large percentage of the purchase price of eligible  
14 assets.

15 **Q. WHAT WAS THE IMPACT OF THE PATH ACT ON BONUS DEPRECIATION?**

16 A. The PATH Act extended bonus depreciation for property placed in service during  
17 2015 through 2019. Under the PATH Act, the bonus depreciation percentage  
18 was 50 percent for eligible property placed in service during 2015, 2016, and  
19 2017, and it phased down after that.

1 **Q. WAS BONUS DEPRECIATION USED FOR ASSETS PLACED IN SERVICE**  
2 **DURING THE TEST YEAR?**

3 A. No. As discussed later in my Direct Testimony, as a result of the TCJA, utilities  
4 are no longer eligible to use bonus depreciation for assets placed in service after  
5 December 31, 2017. However, as a result of the PATH Act and prior tax acts,  
6 bonus depreciation has had a significant impact on Public Service's taxes in prior  
7 years, and was a significant driver of Public Service's DTL.

8 **Q. WHAT IS THE FEDERAL R&E CREDIT?**

9 A. The federal R&E credit is a credit available to taxpayers who engage in qualifying  
10 R&E activities. Public Service completes an annual study to determine which  
11 costs are eligible for the federal R&E credit. These costs include certain wages,  
12 supplies, and contract research expenses. The credit is non-refundable, which  
13 means that a taxpayer must have a tax liability to use the credit. When there is  
14 insufficient tax liability to fully use the credit, the credit may either be carried back  
15 one year or carried forward up to 20 years.

16 **Q. WHAT ARE EXAMPLES OF PUBLIC SERVICE'S R&E ACTIVITIES?**

17 A. Recent examples include Public Service's research and experimentation related  
18 to the refurbishment of its Cabin Creek Hydro facility and implementation of the  
19 Advanced Distribution Management System ("ADMS"), a grid modernization  
20 initiative and part of the Advanced Grid Intelligence & Security ("AGIS") initiative,  
21 which is discussed by Company witnesses Mr. Chad S. Nickell and Mr. David C.  
22 Harkness in this proceeding.



1 **Q. DID PUBLIC SERVICE INCLUDE A FEDERAL R&E CREDIT IN ITS TEST**  
2 **YEAR COST OF SERVICE?**

3 A. Yes. The 2018 HTY cost of service includes \$2.9 million which is the Colorado  
4 retail jurisdictional amount of federal R&E credits.

5 **Q. WHAT ARE THE FEDERAL INVESTMENT AND PRODUCTION TAX CREDITS**  
6 **THAT WERE EXTENDED?**

7 A. The PATH Act extended the federal ITC and PTC referenced in IRC § 48(a) and  
8 § 45(d), respectively. These credits are available to taxpayers who make  
9 investments in renewable energy property such as wind farms, geothermal and  
10 solar energy generation facilities, and hydropower facilities.

11 **Q. DID PUBLIC SERVICE EARN ANY NEW ITCs IN THE 2018 HTY?**

12 A. No. Public Service has not identified any new ITC-eligible projects. Therefore, it  
13 did not earn any new ITCs in the 2018 HTY.

14 **Q. ARE CUSTOMERS BENEFITTING FROM ANY PTCs IN THE 2018 HTY?**

15 A. No. Public Service is earning a PTC related to its Rush Creek Wind Project  
16 during the 2018 HTY; however, these credits are being shared with customers on  
17 an annualized as-generated basis through the ECA.

18 **Q. WHAT IS THE PTC AND HOW IS IT CALCULATED?**

19 A. The federal PTC is an inflation-adjusted per-kilowatt-hour (“kWh”) tax credit for  
20 electricity generated and sold by the taxpayer during the taxable year. The PTC  
21 is available for 10 years after the facility is placed in service. As of the 2018  
22 HTY, the PTC rate is 2.4 cents per kWh. For perspective, the Rush Creek Wind

1 Project was placed in service in December 2018 and generated a net  
2 167,959,047 kWh for December 2018.<sup>2</sup> As a result, the project earned a  
3 \$4,031,016 PTC for December 2018.

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<sup>2</sup> The kWh used in calculating the PTC was reduced by line loss and house use.

1                   **V. EFFECTS OF THE TCJA ON PUBLIC SERVICE**

2   **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

3   A. In this section of my Direct Testimony, I first provide an overview of the various  
4       sections of the TCJA that are potentially relevant for utilities. In doing so, I  
5       identify those provisions that I address in more detail, and refer some issues to  
6       other Public Service witnesses for further discussion. Second, I provide  
7       additional support for certain impacts of the TCJA on Public Service.

8   **Q. PLEASE DISCUSS GENERALLY THE EFFECTS OF THE TCJA ON PUBLIC**  
9   **SERVICE.**

10   A. On December 22, 2017, the TCJA was signed into law, enacting the most  
11       significant set of changes to the IRC since 1986. Key provisions affecting Public  
12       Service are as follows:

- 13       • *Corporate Tax Rate:* The TCJA set the federal corporate income tax rate  
14       at a flat 21 percent rate beginning on January 1, 2018, whereas under  
15       prior law, corporations' taxable income was subject to a graduated tax  
16       rate, with a maximum 35 percent tax rate. The result is a lower provision  
17       for income taxes reflected in revenue requirements. Ms. Blair and I  
18       address this topic.
  
- 19       • *Effect on ADIT Balances:* The reduction in the corporate tax rate gives  
20       rise to "excess" ADIT because the deferred income tax expense collected  
21       in prior years' rates was based on a 35 percent tax rate, but utilities will  
22       pay the deferred taxes to the IRS at a 21 percent rate. The difference  
23       between the amounts collected and the amounts to be paid is the "excess"  
24       ADIT. The excess ADIT will be returned to customers over varying  
25       periods of time, depending on whether the excess ADIT is plant or non-  
26       plant-related. As Ms. Wold discusses, Public Service uses the Average  
27       Rate Assumption Method ("ARAM") to normalize plant-related excess  
28       deferred taxes resulting from the tax rate decrease. I discuss the non-  
29       plant related excess deferred taxes.

- 1           • *Continuation of interest expense deductibility:* Regulated public utilities  
2           may continue deducting interest (companies other than utilities may lose a  
3           portion of their interest deductibility).
  
- 4           • *Discontinuation of Bonus Depreciation:* Utilities are no longer eligible to  
5           use bonus depreciation for assets placed into service after December 31,  
6           2017. Although the law provides for bonus depreciation for “qualified  
7           property” placed in service before January 1, 2023, “qualified property” is  
8           now defined to exclude public utility property. Therefore, regulated public  
9           utility property is no longer eligible for bonus depreciation after December  
10          31, 2017; however, it continues to qualify for Modified Accelerated Cost  
11          Recovery System (“MACRS”) depreciation.
  
- 12          • *Limitation of NOL deduction:* The NOL deduction is now limited to 80  
13          percent of taxable income for losses arising in tax years beginning after  
14          December 31, 2017.
  
- 15          • *Manufacturing Deduction:* The deduction formerly available for certain  
16          manufacturing activities under IRC § 199 was eliminated effective January  
17          1, 2018.
  
- 18          • *Contributions in Aid of Construction:* The TCJA eliminated the public  
19          benefit exception for governmental programs that were not in existence  
20          prior to the enactment of the TCJA.
  
- 21          • *Executive Compensation:* The deductibility of executive compensation  
22          expense was modified effective January 1, 2018.
  
- 23          • *Meals and Entertainment Expense:* The deductibility of meals and  
24          entertainment expense was modified effective January 1, 2018.
  
- 25          • *Lobbying:* The deductibility of lobbying expense was modified effective  
26          January 1, 2018.

27          **A.     Federal Corporate Income Tax Rate Change**

28          **Q.     WHAT ARE SOME OF THE SPECIFIC WAYS THAT THE CORPORATE TAX**  
29          **RATE CHANGE WILL AFFECT PUBLIC SERVICE?**

30          A.     The reduction in the corporate federal income tax rate from 35 percent to 21  
31          percent affects:

- 1           • The calculation of current and deferred income tax expense (please see  
2           the Direct Testimony of Ms. Blair for additional discussion);
- 3           • The tax gross up factor used in the revenue requirement calculation  
4           (please see the Direct Testimony of Ms. Blair for additional discussion);
- 5           • The annual amount of ARAM amortization (please see the Direct  
6           Testimony of Ms. Wold for additional discussion);
- 7           • The annual amount of non-plant excess ADIT amortization (discussed in  
8           my Direct Testimony below);
- 9           • The amount of ADIT that reduces rate base (discussed in my Direct  
10          Testimony below and in the Direct Testimony of Ms. Wold); and
- 11          • The determination of Public Service's cost of equity (discussed in the  
12          Direct Testimony of Company witness Ms. Ann E. Bulkley).

13   **Q.    CAN YOU DESCRIBE "EXCESS ADIT" IN MORE DETAIL?**

14   A.    Yes. Public Service previously accrued its federal ADIT by applying the then-  
15   applicable federal tax rate of 35 percent to its accrued deferred income taxes. As  
16   a result of the corporate federal income tax rate reduction from 35 percent to 21  
17   percent, Public Service had to revalue its ADIT to reflect that it will only be paying  
18   taxes to the IRS at the 21 percent rate going forward. The difference between  
19   the ADIT at 35 percent and the ADIT at 21 percent is referred to as "excess  
20   ADIT."

21   **Q.    WHEN DID PUBLIC SERVICE REVALUE ITS ADIT?**

22   A.    Under ASC 740, entities are required to recognize the accounting impacts of a  
23   tax law change, including the impacts of a change in tax rates on ADIT, in the  
24   same period as the date of the tax law enactment. Because the TCJA was  
25   enacted in December 2017, Public Service recorded the effects of its ADIT

1 revaluation in December 2017. Ms. Wold discusses the impacts of the rate  
2 change to the plant ADIT balances in her testimony. Here, I will discuss the  
3 impacts to the non-plant ADIT balances.

4 **Q. IS THIS THE EXCESS ADIT INCLUDED IN THE CASE?**

5 A. For the most part, yes. However, some non-plant temporary adjustments that  
6 were estimated at December 2017 were updated to actuals when Public  
7 Service's 2017 corporate income tax return was filed in September 2018. As a  
8 result, the excess ADIT related to these adjustments was also updated, and  
9 these changes have been incorporated into the cost of service in this proceeding.

10 **Q. WHEN YOU REFERENCE "NON-PLANT" AMORTIZATION ABOVE, WHAT**  
11 **DO YOU MEAN BY NON-PLANT?**

12 A. Non-plant adjustments are the tax adjustments included in Public Service's  
13 revenue requirement that are not capital-related. Examples include the DTA  
14 associated with Financial Accounting Standard No. 112 ("FAS 112") Employers'  
15 Accounting for Postemployment Benefits and the DTL associated with pension.

16 **Q. HOW DID YOU ACCOUNT FOR THE RELATED EXCESS ADIT IN PUBLIC**  
17 **SERVICE'S LEDGER?**

18 A. As a result of the reduction in the corporate income tax rate, Public Service  
19 revalued its non-plant DTAs and DTLs from the former 35 percent federal rate to  
20 the new 21 percent federal rate. In doing so, Public Service decreased its DTAs,  
21 and where the DTAs had previously been credited to customers, a regulatory  
22 asset was recorded. Similarly, Public Service decreased its DTLs, and where the

1 DTLs had previously been recovered from customers, a regulatory liability was  
2 recorded.

3 **Q. HOW LARGE ARE THESE REGULATORY ASSETS AND REGULATORY**  
4 **LIABILITIES THAT ARE INCLUDED IN PUBLIC SERVICE'S COST OF**  
5 **SERVICE?**

6 A. As of December 31, 2018, the Electric Department had a \$3.7 million regulatory  
7 asset and an \$18.5 million regulatory liability related to its non-plant excess  
8 ADIT. The Electric Department will have a \$1.3 million regulatory asset and a  
9 \$12.8 million regulatory liability related to its non-plant excess ADIT. This  
10 balance is as of December 31, 2020, as explained in more detail below.

11 **Q. WHAT IS THE EFFECT OF THIS REGULATORY ASSET AND REGULATORY**  
12 **LIABILITY TO RATEMAKING?**

13 A. Currently, the non-plant regulatory asset is included as an increase to rate base,  
14 and the non-plant regulatory liability is included as a decrease to rate base.  
15 Consistent with the associated non-plant DTAs and DTLs, the regulatory asset  
16 and liability will remain as increases and decreases to rate base, respectively,  
17 until amortized from or to customers.

18 **Q. HOW IS PUBLIC SERVICE PROPOSING TO AMORTIZE THESE BALANCES?**

19 A. Because it is longer-term in nature, Public Service is proposing to amortize  
20 pension excess ADIT over 10 years. Public Service is proposing to amortize all  
21 other non-plant excess ADIT over five years.

1 **Q. HOW DID THE TCJA SETTLEMENT IN PROCEEDING NO. 18M-0074EG<sup>3</sup>**  
2 **AFFECT THE AMORTIZABLE BALANCE?**

3 A As discussed in greater detail in Ms. Blair's Direct Testimony, the amortizable  
4 balance has been reduced by two years' worth (*i.e.*, 2018–2019) of excess ADIT  
5 amortization. Additionally, the Company is including one year of the amortization  
6 of the excess ADIT in this case in deferred tax expense. Therefore, the excess  
7 ADIT balance included in rate base reflects the balance at December 31, 2020.

8 **Q. WHAT AMOUNT OF EXCESS NON-PLANT ADIT AMORTIZATION IS**  
9 **REFLECTED IN PUBLIC SERVICE'S COST OF SERVICE?**

10 A. Public Service has included \$1.5 million of income tax benefit, which represents  
11 one year of amortization of excess ADIT related to non-plant ADIT, as presented  
12 by Ms. Blair in Attachment DAB-1, Schedule 127.

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<sup>3</sup> On February 1, 2018, the Commission initiated Proceeding No. 18M-0074EG to consider the impacts of the TCJA on the rates and revenue requirements of utility companies in Colorado. At the time the Commission opened Proceeding No. 18M-0074EG, Public Service was in the midst of litigating its 2017 Electric Rate Case. Recognizing that the TCJA could have a material impact of the revenue requirement at issue in that proceeding, the Company worked with Staff and OCC to file a Revised Stipulation and Settlement Agreement Regarding Incorporating TCJA Impacts into Public Service's Rates ("TCJA Settlement Agreement") on April 27, 2018. Under the terms of the TCJA Settlement, Public Service agreed to: (1) a \$42 million reduction of base rate revenue with a negative General Rate Schedule Adjustment ("GRSA") of 4.19 percent from June 1, 2018 to December 31, 2018; (2) extension of the negative 4.19 percent GRSA from January 1, 2019 until new rates took effect from the Company's next filed rate case; and (3) recovery of the Company's contributions to pension plans recorded as a regulatory asset through December 31, 2014 (the "Legacy Pre-Paid Pension Asset"). See, TCJA Settlement Agreement, p. 2 (filed April 27, 2018). The Commission opened a related proceeding, Proceeding No. 18M-0401E, to evaluate the TCJA Settlement Agreement. By Decision No. R18-0817, the Commission approved the TCJA Settlement Agreement and determined that it was in the public interest. Proceeding No. 18M-0401E, Decision No. R18-0817, ¶ 31 (mailed Sept. 17, 2018).



1 **Q. DOES THE TCJA PRESCRIBE THE METHOD THAT PUBLIC SERVICE MUST**  
2 **USE TO FLOW THESE TAX BENEFITS BACK TO RATEPAYERS?**

3 A. Yes. Section 1561 of the TCJA prescribes the use of ARAM for protected ADIT if  
4 the appropriate asset vintage records are available, or an alternative method for  
5 certain public utility property if such records are not available. Because Public  
6 Service's asset vintage records are available, the alternative method is not  
7 applicable to Public Service. Any entity subject to normalization accounting will  
8 be required to flow back tax benefits arising from plant-related protected items  
9 (e.g., accelerated depreciation) using ARAM. Please refer to the Direct  
10 Testimony of Ms. Wold for additional discussion.

11 **Q. WHAT WOULD BE THE CONSEQUENCE OF AN IMMEDIATE FLOW**  
12 **THROUGH OF EXCESS DEFERRED TAXES ASSOCIATED WITH**  
13 **PROTECTED ITEMS?**

14 A. The TCJA prescribes the return of the excess ADIT to be calculated using ARAM  
15 if ARAM is known. Not following this approach would result in a normalization  
16 violation. As I discussed earlier in my testimony, violating normalization  
17 requirements would disqualify Public Service from using accelerated  
18 depreciation, thereby increasing the rate base on which Public Service's  
19 customers pay a return. Therefore, I recommend that the Commission allow the  
20 protected, plant-related DTL to be returned to customers following the method  
21 discussed in both my Direct Testimony and that of Ms. Wold.

1 **Q. DOES THE TCJA PRESCRIBE A METHOD FOR FLOWING BACK OR**  
2 **RECOVERING THE EXCESS ADIT RELATED TO NON-PLANT ITEMS?**

3 A. No. There is no statutorily-required method for recovering or returning the  
4 excess ADIT related to non-plant items, such as pension. However, Public  
5 Service is proposing to recover or flow back this excess ADIT, as applicable,  
6 over the periods discussed above. This proposal is consistent with how Public  
7 Service has included these types of DTAs and DTLs in rate base in Public  
8 Service's prior cases before the Commission. Further, recovery of the regulatory  
9 asset reflects excess tax benefits previously received by customers, but now  
10 payable to Public Service, and the regulatory liability reflects excess tax benefits  
11 previously received by Public Service, but now payable to customers.  
12 Accordingly, it is appropriate to recover from or return to customers these excess  
13 ADIT balances.

14 **Q. ARE THE ASSUMPTIONS PUBLIC SERVICE HAS MADE REGARDING THE**  
15 **EFFECTS OF THE RECENT FEDERAL TAX LEGISLATION SUBJECT TO**  
16 **CHANGE?**

17 A. Yes. As with all rate review information, Public Service is providing its Direct  
18 Testimony based on the best information available at the time the testimony is  
19 developed. However, the TCJA was a significant piece of legislation crafted in a  
20 short period. As such, Congress may determine the legislation contains  
21 inconsistencies or errors that require correction or additional clarification. Public  
22 Service also anticipates that Congress or the Treasury may issue additional

1 guidance and regulations in the coming months and years, which may clarify or  
2 change the interpretation of pieces of the legislation. If any new information were  
3 to emerge, Public Service would update its data at the appropriate time during  
4 this rate review or in a future rate review as appropriate.

1                   **VI. COLORADO DIRECT PAYMENT PERMIT ISSUE**

2 **Q.    WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**  
3 **TESTIMONY?**

4 A.    In this section of my Direct Testimony, I explain the change in Colorado's direct  
5 pay permit process.

6 **Q.    WHAT IS A COLORADO DIRECT PAY PERMIT?**

7 A.    Per § 39-26-103.5, C.R.S., qualified purchasers of goods subject to sales tax are  
8 allowed to receive a direct pay permit and remit sales taxes directly to the  
9 Colorado Department of Revenue rather than to the vendor at the time of  
10 purchase. Once a qualified purchaser has been issued a direct pay permit from  
11 the Department of Revenue, vendors are not required to charge sales tax on  
12 purchases made by permit holders.

13 **Q.    DOES PUBLIC SERVICE HAVE A COLORADO DIRECT PAY PERMIT?**

14 A.    Yes. Public Service has held some form of formal or informal direct payment  
15 authority with the State of Colorado since 1962. In 2000, the State of Colorado  
16 formalized the direct payment process as a direct payment of sales tax.

17 **Q.    WHY DOES PUBLIC SERVICE HOLD A DIRECT PAY PERMIT?**

18 A.    Direct pay authority facilitates increased accuracy and simplifies Public Service's  
19 compliance with the complex sales tax regime that exists in Colorado.  
20 Additionally, holding direct pay authority from Colorado enables the Company's  
21 various compliance agreements with select Colorado "home rule" cities. These

1 "home rule" cities have direct pay approaches that function similarly to that of the  
2 State.

3 **Q. HAS ANYTHING CHANGED WITH THIS PROCESS SINCE PUBLIC**  
4 **SERVICE'S LAST ELECTRIC PROCEEDING?**

5 A. Yes. The State of Colorado made a change to § 39-26-103.5, C.R.S. that  
6 required those with a direct pay permit to remit sales tax for certain counties and  
7 cities.

8 **Q. WHEN DID THESE REGULATIONS CHANGE?**

9 A. The direct payment regulations changed in January 2014.

10 **Q. WHEN WAS PUBLIC SERVICE NOTIFIED BY THE DEPARTMENT OF**  
11 **REVENUE REGARDING THE CHANGE?**

12 A. In 2017, the Department of Revenue notified Public Service that it intended to  
13 enforce the regulation change and deny its application to renew the Company's  
14 direct pay permit.

15 **Q. WHY WAS A CHANGE NOT MADE PRIOR TO THIS NOTIFICATION?**

16 A. Based on past practice, past audits, and informal agreements with the  
17 Department of Revenue over the years, Public Service believed it had an  
18 agreement in place that did not require the Company to remit sales tax for certain  
19 counties and cities. These informal agreements that Public Service established  
20 many years ago ensured that it did not over-pay sales taxes, thereby providing  
21 significant savings to customers. Late in 2017, new management at the State

1 notified Public Service that it would not follow the informal agreement, back to the  
2 date of the regulation change.

3 **Q. WHAT DID PUBLIC SERVICE HAVE TO DO AS A RESULT OF THIS**  
4 **CHANGE?**

5 A. In order to retain direct pay authority, Public Service was required to file 36  
6 periods (December 2014 through November 2017) of amended returns remitting  
7 the additional sales tax, and also comply with the regulation change going  
8 forward.

9 **Q. WHEN WERE THE RETURNS FILED?**

10 A. Public Service filed the 36 amended tax returns in early 2018.

11 **Q. WHAT AMOUNT OF SALES TAX WAS DUE RELATED TO THE AMENDED**  
12 **RETURNS?**

13 A. The 36 months of amended returns resulted in \$5.5 million of tax due for total  
14 Company, including dollars charged to both capital and expense.

15 **Q. HOW IS PUBLIC SERVICE PROPOSING TO TREAT THIS TAX IN THIS**  
16 **PROCEEDING?**

17 A. The capital portion has been included in the asset value reflected in this  
18 proceeding. Public Service is proposing to defer and amortize the electric  
19 department portion of the expense which was \$968,269. Public Service is  
20 proposing a three-year amortization for this expense. However, Public Service is  
21 not requesting a return on the balance related to 2014–2017.

1 **Q. HOW IS THE ADDITIONAL SALES TAX BEING TREATED FOR 2018?**

2 A. Since the issue was identified, Public Service has remitted the additional tax to  
3 the State contemporaneously. As such, all purchases made during the 2018  
4 HTY include the additional tax and have been incorporated into the taxes  
5 included in this proceeding.

6 **Q. DID PUBLIC SERVICE HAVE TO PAY ANYTHING ELSE RELATED TO THE  
7 DIRECT PAY PERMIT ISSUE?**

8 A. Not at this time. However, the State has proposed \$1.2 million and \$0.6 million  
9 of reduced vendor's fees and interest expense, respectively, and \$0.9 million of  
10 penalties related to the Direct Pay Permit Issue. The payment of these costs has  
11 been suspended pending the outcome of the State's current sales tax audit of  
12 Public Service. These costs are expected to be discussed during the audit,  
13 which is expected to conclude after 2019. If any of the above costs remain after  
14 the audit concludes, Public Service is also requesting deferred accounting  
15 treatment to recover these costs from customers in a future proceeding.

16 **Q. WHY IS IT APPROPRIATE FOR PUBLIC SERVICE TO RECOVER THESE  
17 COSTS FROM CUSTOMERS?**

18 A. These costs are associated with the 36 amended tax returns filed in early 2018  
19 and are due to a change in policy by the State that could not have been foreseen  
20 by Public Service. These costs have been in support of Public Service's utility  
21 operations so Public Service is requesting amortization of such costs.

1 **VII. PROPERTY TAXES**

2 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**  
3 **TESTIMONY?**

4 A. The purpose of this section of my Direct Testimony is to support the property tax  
5 expense included in the 2018 HTY.

6 **Q. WHAT AMOUNT OF PROPERTY TAXES IS THE COMPANY INCLUDING IN**  
7 **THE 2018 HTY?**

8 A. While I reference the 2018 HTY throughout this section of my Direct Testimony, I  
9 use this term to refer to the Company's cost of service brought forward as part of  
10 this rate review. From a property tax expense perspective, I arrive at the level of  
11 property tax by utilizing the forecast for property tax expense for calendar year  
12 2019 (i.e., plant-service as of January 1, 2019). This brings me to my total  
13 property tax expense number for use in the 2018 HTY. The total Company  
14 property tax expense for calendar year 2019 is forecasted to be approximately  
15 \$206.46 million, which is then allocated by Ms. Blair as described briefly below  
16 and included in the cost of service.

17 **A. Property Tax Overview**

18 **Q. PLEASE PROVIDE AN OVERVIEW OF HOW PROPERTY TAXES ARE**  
19 **DETERMINED FOR THE COMPANY.**

20 A. As explained in further detail below, Public Service's property tax liability is  
21 determined on the basis of total Company assessed values and the levy rates set  
22 by the various local jurisdictions within Colorado, such as counties, school



1 districts, fire protection districts, and conservation districts. Since the Company's  
2 plant balance represents the property that is subject to property tax, the tax can  
3 be expected to increase as the plant balance increases. To calculate tax, the  
4 county treasurers apply a tax rate to the assessed value. Tax rates are set  
5 annually by the individual taxing entities and the Company does not control the  
6 level of these tax rates. Tax rates may increase or decrease, but tend to  
7 increase more often than decrease.

8 **Q. DOES PUBLIC SERVICE ALLOCATE A PORTION OF THE TOTAL**  
9 **COMPANY PROPERTY TAX EXPENSE TO THE ELECTRIC DEPARTMENT?**

10 A. Yes. Once the appropriate level of property tax expense is determined, Ms. Blair  
11 allocates the property tax expense to each utility department (*i.e.*, electric, gas,  
12 and steam) and to non-utility activities during the process of developing the cost  
13 of service study. Increases to plant and increases to net operating income  
14 ("NOI") are the biggest drivers of increases to total Company property tax  
15 expense. Allocations are made to the electric department based on plant  
16 components and the impacts arising out of non-electric plant changes and  
17 revenue from those additions are removed. As explained in greater detail by Ms.  
18 Blair, the Company applies allocation factors that best reflect cost causation to  
19 complete this analysis. The Company applied a plant allocation factor to allocate  
20 the total Company property tax expense among utility departments and non-utility  
21 activities, because property tax expense is mostly a function of net plant. The  
22 result of applying this allocation factor is that each utility department and non-

1 utility activity is allocated only its portion of the property tax expense for the total  
2 Company. After the tax is allocated to the Electric Department, a certain amount  
3 of those property taxes is further allocated to the retail jurisdiction.

4 **Q. DO YOU DISCUSS HOW THE COMPANY PROPOSES TO TRACK AND**  
5 **DEFER PROPERTY TAX EXPENSES?**

6 A. No. Ms. Blair and Ms. Trammell discuss those issues in their Direct Testimonies.

7 **Q. WHAT LEVEL OF PROPERTY TAX EXPENSE WAS INCLUDED IN BASE**  
8 **RATES AND APPROVED IN THE 2014 ELECTRIC RATE CASE?**

9 A. The level of property tax included in base rates in the 2014 Electric Rate Case  
10 was \$137.33 million (electric retail) for 2013.<sup>4</sup> The total Company equivalent  
11 amount of property tax expense included in base rates as a result of the 2014  
12 Electric Rate Case was \$157.40 million.

13 **Q. WHAT ARE THE ESTIMATED PROPERTY TAX EXPENSES FOR THE**  
14 **COMPANY FOR THE 2018 HTY?**

15 A. The Company has received the property tax bills from the various taxing  
16 jurisdictions, such as counties, school districts, fire protection districts,  
17 metropolitan districts, and conservation districts. The payments were made at  
18 the end of April 2019. The total Company estimated tax liability is \$195.43  
19 million for 2018.

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<sup>4</sup> This amount includes the recovery of \$109,506,702, which was the allocated actual property tax expense incurred by the Company in 2013, and \$27,827,992, which was the 2015 amortization of property tax expense deferred in 2012 through 2014 that was calculated in accordance with the Settlement Agreement in Proceeding No. 11AL-947E.

1 **Q. HAS THE PROPERTY TAX EXPENSE INCURRED BY THE COMPANY**  
2 **INCREASED IN 2019?**

3 A. Yes. The property tax expense for calendar year 2019 is forecasted to be  
4 approximately \$206.46 million (total company), an increase of \$11.03 million.

5 **Q. WHAT DROVE THE \$11.03 MILLION INCREASE IN PROPERTY TAX**  
6 **EXPENSE?**

7 A. The \$11.03 million increase was largely due to increases in Company plant and  
8 the weighted average NOI. A secondary factor was an increase in the effective  
9 tax rate from 2017 to 2018. The increase was caused by referenda that voters  
10 passed during the November 2018 election. The referenda increased property  
11 tax in certain jurisdictions through bonding issues and mill levy increases.

12 **Q. PLEASE DISCUSS THE UPCOMING CHANGES IN TOTAL COMPANY NET**  
13 **PLANT LEVELS.**

14 A. The Company's forecast takes into account that additions to total Company plant  
15 during 2018 were \$1.61 billion and impact the 2019 property tax. It is important  
16 to note that the Company's Rush Creek Wind Project represents a significant  
17 portion of the \$1.61 billion additions in 2018, adding \$1.01 billion to Company  
18 plant in-service beginning in 2019. Colorado law provides that wind energy  
19 facilities and other renewable energy projects are treated differently for property  
20 tax purposes than other components of the Company property. The impact of  
21 the special valuation procedure for these renewable energy projects is built into  
22 the Company's property tax forecast. Accordingly, included in the \$206.46

1 million of forecasted 2019 property tax expense is the property tax associated  
2 with the Rush Creek Wind Project of only \$2.52 million. Without this special  
3 treatment for renewable energy projects, the Company's property tax expense  
4 would have been \$222.54 million in 2019. The additional \$16.08 million of  
5 property tax would continue annually into the future.

6 **Q. WHAT IS THE FORECAST WITH RESPECT TO THE COMPANY'S NOI?**

7 A. Public Service has forecasted total Company NOI to increase by [REDACTED]  
8 or [REDACTED] percent in 2019. The NOI to capitalize (used to calculate property tax  
9 liability) increases for 2019 by [REDACTED] or [REDACTED]. In 2019 and  
10 beyond, the impact to property tax from the Rush Creek Wind Project is removed  
11 through the Colorado deductions. In the next section of my Direct Testimony, I  
12 discuss in more detail how these property tax expense levels, including Colorado  
13 deductions, were calculated.

14 **B. Property Valuation**

15 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT**  
16 **TESTIMONY?**

17 A. In this section of my Direct Testimony, I present how the Property Tax  
18 Administrator ("PTA") at the Division of Property Taxation ("DPT") values the  
19 Company's property and how property tax is calculated by the various taxing  
20 jurisdictions throughout Colorado.

1 **Q. WHAT ARE THE METHODS USED BY THE PTA IN DETERMINING THE**  
2 **ASSESSED VALUE TO BE USED TO CALCULATE COMPANY PROPERTY**  
3 **TAX?**

4 A. In Colorado, the PTA is generally responsible for determining the assessed value  
5 of the operating property of utility companies for property tax purposes.  
6 However, a few of the Company's real estate parcels and some non-operating  
7 personal property are valued by county assessors. The operating property is  
8 considered to include all real<sup>5</sup> and personal<sup>6</sup> property used in the Company's  
9 utility business. The two approaches the PTA uses to assess utility property are  
10 referred to as the "cost approach" and the "income approach." In the appraisal of  
11 public utility property using the cost approach, the PTA considers the investment  
12 made by Public Service in the entire system in Colorado, including electric, gas,  
13 and steam thermal assets. The PTA then considers the depreciated value of  
14 Public Service's utility property when determining the value using the cost  
15 approach. The following equation summarizes the PTA's formula to value the  
16 property of the total Company:

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<sup>5</sup> Real property includes real estate, land, and buildings

<sup>6</sup> Personal property excludes real property, and generally includes machinery and equipment.

1

**Figure NK-D-1  
Property Tax Formula**

(DPT Determined Cost Indicator x 40% + DPT Determined Income Indicator x 60%)  
x DPT Equalization Factor (now 98%)  
= Colorado Actual Value  
x 29% (Statutory Assessment Ratio)  
= Assessed Value  
x Statewide Effective Tax Rate  
= State-Assessed Property Tax  
+ Tax on Locally Assessed Property  
= Total Company Property Tax

2

For the income approach, the PTA considers the history of net utility operating income in valuing the assets for property tax purposes. The premise of the income approach is that the value of property that produces income is the present worth of anticipated future cash flows. While I explain both the income and cost approach in detail below, from a high-level, the PTA's use of the two varying indicators of value (cost and income) results in a reasonable estimate of the value for the entire system.

9

Once the assessed valuation is determined, it is then allocated to the taxing jurisdictions in Colorado and each jurisdiction's tax rate is applied to determine the property tax that is due. The Company and the county assessors receive value reports from the DPT, and the assessors work with the Company on how the assessed value of Company property should be distributed to taxing

10

11

12

13

1 jurisdictions (such as cities, school districts, fire districts, etc.) within the counties.

2 The assessors send the values divided for all jurisdictions to the county  
3 treasurers who create the tax statements that the Company receives.

4 **Q. WHAT IS THE PTA'S STARTING POINT FOR AN APPRAISAL OF COMPANY**  
5 **PROPERTY?**

6 A. Each year, the PTA starts with a review of the financial information that the  
7 Company renders to the DPT using the DPT's Annual Statement of Property  
8 ("ASOP") form. The Company's financial data is based on its FERC Form 1  
9 filing. The ASOP contains information that the PTA uses for both the cost  
10 approach and the income approach valuation methods, a balance sheet for the  
11 Company as of the most recent calendar year, and revenue and expense data  
12 for the most recent five calendar years.

13 When the Company places new assets into service, the cost of these new  
14 assets is reflected in the plant in-service balances in the FERC Form 1. The  
15 increased plant in-service balances, as the starting point for the PTA's appraisal  
16 under the cost approach, will drive an increase in the property tax liability. The  
17 income approach has more inputs that can influence the value derived therein  
18 which will be discussed later in this section.

19 The lien date for purposes of determining the assessed value is January 1  
20 of each year. As such, the PTA staff bases its calculation on the Company's  
21 financial data found in the FERC Form 1 from the end of the prior year. In other

1 words, the Company's 2018 property tax will be based on the Company's  
2 financial data from year-end 2017.

3 **Q. USING THE PTA'S METHODOLOGY, PLEASE DISCUSS HOW THE VALUE**  
4 **OF THE COMPANY'S ASSETS ARE ASSESSED USING THE COST**  
5 **APPROACH.**

6 A. The PTA calculates the Total System Unit Value, which is the market value as of  
7 January 1 of all of the Company's assets, both taxable and nontaxable. To  
8 determine the Total System Unit Value for purposes of property tax assessment,  
9 the PTA relies, in part, on the cost approach. Public and Confidential Attachment  
10 NK-1 reflect the schedule showing how total Company property tax is calculated.  
11 Starting at line 1 we show the cost approach to value based on the PTA's  
12 formula. To arrive at the cost indicator of value at line 4, the Company follows  
13 the PTA's methodology of using the depreciated value of the Company's  
14 operating property. Operating property includes all of the Company's property  
15 that is needed to conduct the Company's business, such as property, plant,  
16 equipment, and materials and supplies; operating property excludes non-utility  
17 property. As shown on line 4 of Public Attachment NK-1, the cost indicator of  
18 value based on the depreciated value used by the PTA, was \$8.52 billion for  
19 2018. The cost indicator of value is forecasted to be \$9.85 billion in 2019.



1 **Q. USING THE PTA'S METHODOLOGY, PLEASE DISCUSS HOW THE VALUE**  
2 **IS CALCULATED USING THE INCOME APPROACH.**

3 A. In the income approach, the PTA typically uses a weighted average of the  
4 previous three years' NOI. NOI is based on FERC accounting, and includes  
5 operating revenue less operating and maintenance expense, depreciation, and  
6 income tax, and does not include interest expense or non-utility income. On  
7 occasion the PTA will use a different average from the NOI history of the past  
8 five years when the Company suggests the three-year weighted average  
9 overstates the value of the assets during a protest hearing. Next, the PTA  
10 applies a capitalization rate to the weighted average NOI.

11 The capitalization rate is a weighted average cost of capital derived from  
12 market data that incorporates all levels of corporate equity and debt for the utility  
13 industry, as well as the market as a whole. For the PTA's methodology, the  
14 capitalization rate is a discount factor that the PTA uses to convert the weighted  
15 average NOI into an indicator of the total Company's market value.

16 The income approach calculation divides the weighted average NOI by the  
17 capitalization rate to determine the income indicator of value. For 2018, the NOI  
18 to capitalize was \$633.12 million and the capitalization rate was 7.70 percent.  
19 The income indicator of value was [REDACTED]. For 2019, the NOI to capitalize  
20 was [REDACTED] and the capitalization rate for 2019 is [REDACTED] percent. The  
21 resulting income indicator of value is [REDACTED].

1 **Q. HOW IS TOTAL SYSTEM UNIT VALUE ARRIVED AT FOR PUBLIC**  
2 **ATTACHMENT NK-1?**

3 A. The PTA determines the Company's Total System Unit Value based on a  
4 weighted average of the income indicator (60 percent weight) and cost indicator  
5 (40 percent weight). The 60 percent/40 percent weighting applied to the two  
6 approaches shown on lines 15 and 16 of Public Attachment NK-1 is the  
7 weighting that has been consistently used by the PTA for many years. Market  
8 value by definition assumes a sale of the property that is being appraised. The  
9 PTA believes that a purchaser of Public Service, or any income producing utility,  
10 would rely more on the potential income from the property than the money spent  
11 by the seller to assemble the system. The Company agrees with that  
12 assumption and the corresponding placement of greater weight on the income  
13 approach. The application of the weightings shown on line 17 produces a Total  
14 System Unit Value of \$8.34 billion for 2018 and [REDACTED] for 2019.

15 **Q. WHAT IS THE PURPOSE OF THE COLORADO ACTUAL VALUE IN**  
16 **DETERMINING PROPERTY TAX AMOUNTS?**

17 A. "Colorado Actual Value" is a statutory term that refers to the value of the taxable  
18 portion of the Company's property and represents the market value in the  
19 appraisals conducted by the PTA. It is arrived at by deducting certain property  
20 from the Total System Unit Value and applying an equalization factor. An  
21 equalization factor is an inflation factor used to equate utility property to non-  
22 utility real property. The deductions to market value shown on line 19 of

1 Confidential Attachment NK-1 take into account, for example, Colorado statutes  
2 that exempt business personal property from property taxation until it is actually  
3 used in business by the owner. Other deductions include assets on the  
4 Company's balance sheet where the property tax is fully paid by another party  
5 (such as in a joint venture) and property that is assessed by county assessors  
6 and billed to the Company separately (such as undeveloped vacant land used as  
7 a buffer adjacent to power plants). The Colorado deductions ensure that all  
8 exempted items are removed and no assets will be taxed twice. As  
9 demonstrated in Confidential Attachment NK-1, the deductions reflected on line  
10 19 increases between 2018 and 2019 by [REDACTED]. Deductions are  
11 approximately \$373.81 million for 2018 and [REDACTED] in 2019.

12 **Q. WHAT IS THE CAUSE OF THE LARGE INCREASES TO DEDUCTIONS IN**  
13 **2018 AND 2019?**

14 A. The large increase in 2019 is due to the Company's Rush Creek Wind Project.  
15 As discussed above, in Colorado, wind energy is subject to a particular property  
16 tax statute regarding new renewable energy property. Therefore the property tax  
17 for this project is calculated using the DPT's renewable energy template. On line  
18 27 of Confidential and Public Attachment NK-1, the property tax forecast of \$2.52  
19 million for 2019 is shown. The impact of this project to the assessed value for  
20 the Company is removed by inclusion in the Colorado deductions.

1 **Q. PLEASE EXPLAIN THE EQUALIZATION FACTOR THAT IS APPLIED AFTER**  
2 **THE DEDUCTIONS ARE MADE TO THE TOTAL SYSTEM UNIT VALUE.**

3 A. As discussed above, an equalization factor is an inflation factor used to equate  
4 utility property to non-utility real property. After the deductions are made to the  
5 Total System Unit Value, the equalization factor is applied in order to arrive at the  
6 Colorado Actual Value. The equalization factor on line 21 of Public Attachment  
7 NK-1 is an inflationary adjustment to bring the PTA's values for utilities to the  
8 same "level of value" as the county assessors use for real property. Real  
9 property in Colorado is valued only in odd numbered years and by law the  
10 assessors must use comparable sale data between two years prior and six  
11 months prior to the lien date. The equalization rate adjusts the January 1 value  
12 derived by the PTA by six months in odd numbered years and by 18 months in  
13 even numbered years. The equalization factor had been 100 percent in 2015  
14 and 2016, and it was 99 percent in 2017. In 2018, the equalization factor was 98  
15 percent. Public Attachment NK-1 shows a 99 percent equalization factor  
16 for 2019. Over the past 18 years, the equalization factor has fluctuated between  
17 96 percent and 100 percent, with the average being 99 percent. The Colorado  
18 Actual Value is expected to increase from \$7.81 billion in 2018 to \$8.14 billion  
19 in 2019 as the impact of plant changes and increased NOI flow through to Actual  
20 Value.

1 **Q. ONCE COLORADO ACTUAL VALUE IS DETERMINED, PLEASE EXPLAIN**  
2 **THE REMAINING STEPS TAKEN TO ARRIVE AT THE ESTIMATED**  
3 **PROPERTY TAX FOR THE COMPANY.**

4 A. The assessment ratio of 29 percent, shown on line 23 of Public Attachment NK 1,  
5 is the Colorado statutory assessment ratio for all property other than residential  
6 property. The assessment ratio is applied to the Colorado Actual Value to arrive  
7 at the assessed value, and the tax rate is applied to that assessed value. The  
8 effective tax rate is applied to the assessed value to arrive at property tax for the  
9 Company's utility property. Some property is valued by the local county  
10 assessors as opposed to the PTA. The total property tax for these parcels is  
11 shown on line 26 of Public Attachment NK-1. The \$900,000 estimate for 2019 is  
12 based on the \$911.89 million paid in 2018 for locally assessed property. With the  
13 addition of tax on locally-assessed property, we arrive at the Company's total  
14 calculated property tax expense. In 2019, we also add the forecasted property  
15 tax due from the Rush Creek Wind Project as the value was removed from the  
16 larger appraisal process since the statute mandates a specific valuation method  
17 for renewable energy. As shown on line 28 of Public Attachment NK-1, the  
18 resulting property tax expense for the Company is \$195.43 million for 2018, and  
19 is expected to increase to \$206.46 million for 2019.

20 **Q. WHAT DOES THE EFFECTIVE TAX RATE REPRESENT?**

21 A. The effective tax rate as shown on line 24 of Public Attachment NK-1 represents  
22 the total property tax to be paid in 2018 and 2019 to all the jurisdictions that levy

1 property tax to the Company divided by each year's total assessed value for  
2 Colorado that generated that total property tax. The 2018 effective tax rate  
3 of 8.60 percent is continued for 2019 since the Company will not be able to  
4 calculate the 2019 effective tax rate until April 2020. Therefore, this is the most  
5 accurate information the Company has to date.

6 The property tax for state-assessed property is calculated by the individual  
7 local jurisdictions just like any other property subject to taxation. The DPT  
8 reports the county-wide assessed values to the county assessors. The Company  
9 sends each county, where there is Company property, a letter of distribution  
10 showing how the county wide value should be apportioned between all of the  
11 jurisdictions in the county. The county assessors send the complete  
12 apportionment to the county treasurers. The county treasurers calculate the  
13 property tax by multiplying the assessed value relative to each jurisdiction by the  
14 tax rate for that jurisdiction. The Company adds all of the property tax bills to  
15 derive a Company total of property tax and then divides that total payment by the  
16 Company assessed value calculated by the PTA to reach an effective tax rate for  
17 the entire state.

18 **Q. HOW IS THE COMPANY ESTIMATING PROPERTY TAX FOR 2019?**

19 A. The Company typically sees gradual increases from year-to-year in the effective  
20 tax rate for the Company. As such, using an effective tax rate from prior years  
21 when it is highly likely that the effective tax rate will go up means that, the  
22 Company's actual tax liability will be underestimated for any future year.

1           Therefore, the Company is applying the 2018 effective tax rate of 8.60 percent,  
2           the latest year for which the Company has actual information, for 2019.

1           **C.    Property Tax Expenses and the Drivers Affecting Increased Property**  
2           **Tax Expense**

3   **Q.    PLEASE QUANTIFY THE TOTAL IMPACT OF PROPERTY TAX INCREASES**  
4           **BETWEEN THE 2013 LEVEL OF TAXES APPROVED IN THE 2014 ELECTRIC**  
5           **RATE CASE AND THE AMOUNT OF PROPERTY TAXES REFLECTED IN**  
6           **THE 2018 HTY.**

7    A.    As noted above, the Company has calculated a total of \$206.46 million for 2019  
8           in property tax expense. As compared to the \$157.40 million in total Company  
9           property tax expense that was the basis for the \$137.33 million used in electric  
10          base rates in the 2014 Electric Rate Case, the \$206.46 million property tax  
11          expense for this proceeding is an increase of approximately \$49.06 million, or  
12          31.17 percent.

13   **Q.    WHY HAVE THE COMPANY'S PROPERTY TAXES INCREASED OVER THE**  
14           **LAST FEW YEARS?**

15    A.    The drivers of change in property tax expense are always interrelated. Changes  
16          to one item can impact any of the others. However, the changes to the  
17          investment in plant and the changes to operating revenue caused the majority of  
18          the change in property tax expense since the end of the test year utilized in  
19          Public Service's last base rate proceeding.



1 **Q. BRIEFLY EXPLAIN THE INVESTMENTS IN PLANT SINCE THE 2014**  
2 **ELECTRIC RATE CASE THAT ARE HAVING A LARGE IMPACT ON**  
3 **PROPERTY TAX EXPENSE.**

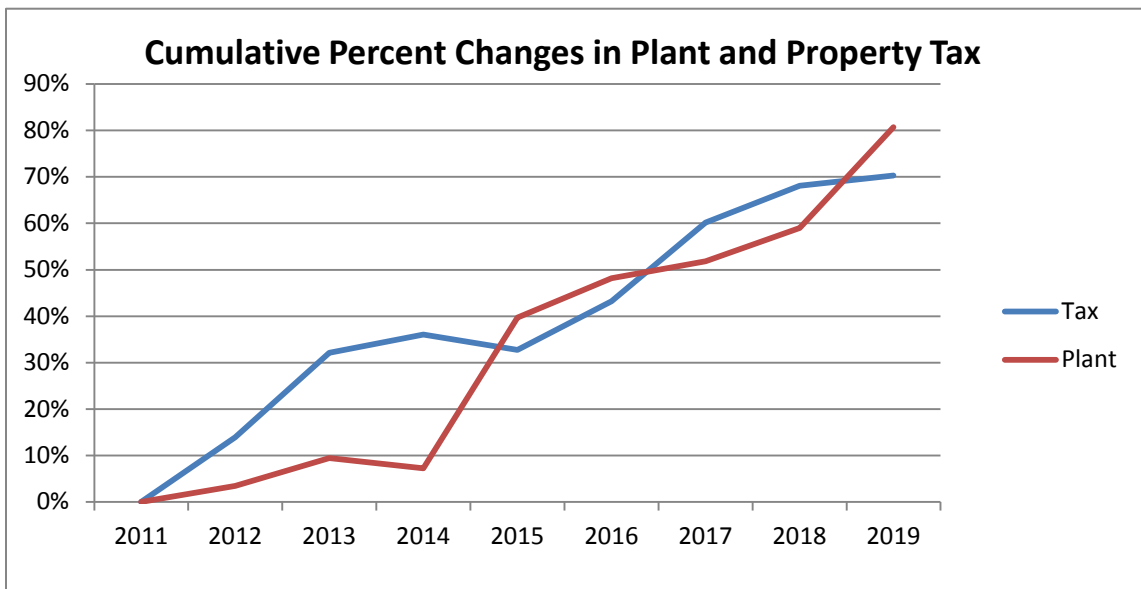
4 A. While the primary driver of change for property taxes is the increase in the plant-  
5 in-service balances reflected on the financial statements, property tax expense is  
6 not computed on an asset-by-asset basis. The net plant-in-service for the  
7 Company as a whole has been increasing steadily as a result of significant  
8 investments. As discussed above, the DPT always values the entire Company.  
9 Therefore, investments in all Company departments impact total Company  
10 property tax expense. The electric department property tax is estimated through  
11 a ratio of electric plant to total plant. Under this approach, the electric  
12 department investments remain in the electric property tax estimate while the  
13 non-electric investments, such as new gas pipelines, are removed. Net plant-in-  
14 service as calculated for property tax valuation and used in this rate review for  
15 purposes of setting the level of property tax expense in the cost of service has  
16 increased by \$4.61 billion or 48 percent as compared to 2013, which was the test  
17 year used for purposes of setting the level of property tax expense in the 2014  
18 Electric Rate Case.

19 **Q. WHY HAS THE PROPERTY TAX EXPENSE CHANGE DIFFERED FROM THE**  
20 **PLANT-IN-SERVICE CHANGE OVER THIS TIME PERIOD?**

21 A. The NOI to capitalize by the DPT rose by only [REDACTED] due to the Company's  
22 negotiations with the DPT. The predominant adjustment was influencing the

1 DPT to move away from its default of a three-year weighted average NOI to  
2 capitalize to a five-year simple average NOI to capitalize. The reduced NOI to  
3 capitalize reduced assessed value and property tax expense. As a result, total  
4 Company assessed value for property tax increased by 23 percent and total  
5 Company property tax increased by 31 percent. The factors involved in making  
6 the change in tax much less than the change in plant include an increased level  
7 of economic obsolescence and a change in the NOI to capitalize at the request of  
8 the Company (economic obsolescence is a form of appraisal depreciation  
9 caused by factors outside the control of the Company, for example, regulatory  
10 lag). The increased effective tax rate offset some of the savings of the  
11 obsolescence and the NOI reduction. Figure NK-D-2, below, shows how closely  
12 property tax has trended with plant growth.

**Figure NK-D-2: Cumulative Percent Changes in Plant and Property Tax**



1           The figure details the cumulative growth to both net plant and property tax  
2           between 2011 and 2019. In 2011, the DPT's valuation just started to include the  
3           Comanche 3 generating unit. During construction prior to 2011 the DPT  
4           accepted the Company's proposal to leave any Construction Work in Progress  
5           ("CWIP") related to Comanche 3 not taxable even though the Company had a  
6           return on Allowance for Funds Used During Construction ("AFUDC") for  
7           Comanche 3 built into rates. During this period, the DPT accepted the  
8           Company's proposal to use a five year simple average NOI in the calculation of  
9           property tax value. Between 2011 and 2015, the DPT went back to the three  
10          year weighted average NOI and the Comanche 3 generating unit was in the plant  
11          in service. In 2016 and 2017, the Company requested the DPT use the five year  
12          average NOI in its calculation during protest hearings to smooth out certain  
13          fluctuations in market activity that would have caused a temporary increase to  
14          the valuations, and those requests were granted. In 2018 the DPT reverted back  
15          to its normal three-year weighted average. We have also used the three-year  
16          weighted average for 2019.

17   **Q. DOES THIS INFORMATION SUGGEST THAT PLANT MAY NOT BE THE**  
18   **BEST BASIS TO ALLOCATE PROPERTY TAX TO THE ELECTRIC**  
19   **DEPARTMENT?**

20   **A.** No. Plant is the single largest component of rate base, which drives required  
21          earnings in the revenue requirement calculation. While NOI can fluctuate some  
22          from year-to-year, plant growth correlates well with property tax expense growth

1           and using plant balances to allocate property taxes to the electric utility provides  
2           an allocation basis that is cost-causative and consistent with historical rate-  
3           making.

1 **Q. HOW DO CHANGES IN THE CAPITALIZATION RATE IMPACT THE**  
2 **COMPANY'S PROPERTY TAX CALCULATION?**

3 A. Capitalization rates have an inverse relationship with value. In order to derive an  
4 estimated value for the property of an operating public utility, an NOI selected by  
5 the DPT as representative of current Company business activity is divided by the  
6 capitalization rate. Between 2013 and the 2018 HTY, the capitalization rate has  
7 had only a minor impact on property tax expense. In 2014 the capitalization rate  
8 employed by the PTA to value the Company's property was 8.14 percent. The  
9 property tax for 2016 incorporated an 8.04 percent capitalization rate. Initially,  
10 the PTA proposed a capitalization rate of 7.30 percent for 2019, which is a  
11 blended rate that combines separate capitalization rates the PTA derived for  
12 electric utility and gas utility. Intervention by the Company caused the PTA to  
13 increase the blended capitalization rate to 7.50 percent, which had the impact of  
14 lowering the total Company property tax for 2019 by [REDACTED].

15 **Q. FOR 2019, HOW ARE ALL OF THESE DRIVERS IMPACTING PROPERTY**  
16 **TAX EXPENSE?**

17 A. All of the drivers discussed above contribute to the overall calculation of property  
18 tax expense presented in Confidential and Public Attachment NK-1 for 2018  
19 and 2019. Both the cost indicator of value and the income indicator of value  
20 continually increase from 2018 to 2019. Moreover, both the cost indicator of  
21 value and the income indicator of value feed into the \$332.25 million increase in  
22 the Colorado Actual Value between 2018 and 2019. The Total System Unit

1 Value increases by [REDACTED] dollars between these two years. The  
2 addition of the Rush Creek Wind Project is included in the Total System Unit  
3 Value, but is removed in calculating Colorado Actual Value.

4 **D. Accuracy of the Company's Property Tax Expense Calculations**

5 **Q. PLEASE EXPLAIN WHY THE COMPANY'S CALCULATION**  
6 **APPROPRIATELY ANTICIPATES PROPERTY TAX EXPENSE FOR 2018**  
7 **AND 2019.**

8 A. The PTA's valuation methodology has been in place for many years, and there  
9 have been very few changes to this methodology over the past 10 years. The  
10 PTA's methodology is stable, and the Company has substantial knowledge of the  
11 appraisal process and the detailed calculations of which it is comprised. Use of  
12 this stable methodology has resulted in property tax estimates in prior rate case  
13 proceedings that are near or even below the actual property tax expense  
14 incurred by the Company. As I describe above, the data presented to the  
15 Commission in the Company's most recent gas and electric rate cases  
16 (Proceeding No. 17AL-0363G and Proceeding No. 14AL-0660E, respectively), as  
17 well as the new data presented in this Direct Testimony, clearly demonstrate that  
18 the Company's property tax estimates end up being very close to, and typically  
19 below, the actual amount of property tax paid on an annual basis.

20 For this proceeding, the Company is estimating property taxes in the same  
21 way it did in the 2014 Electric Rate Case. Just like in prior rate cases, the  
22 Company has estimated test year Total System Unit Value based on the most

1 recent estimated plant and income information available. Since the Company  
2 has filed with its ASOP for 2019 property tax with the DPT, this document is the  
3 source of the plant and income information. The 2018 valuation process at the  
4 DPT has begun and we are aware of the capitalization rate, 7.50 percent that the  
5 DPT will apply in the valuation of the Company's property. The Company has  
6 calculated the effective tax rate for the 2018 property tax after processing all the  
7 tax bills in April 2019. The effective tax for 2018 is 8.60 percent, which is used in  
8 the 2019 total Company property tax forecast. The total Company property tax  
9 for 2018 is \$195.43 million. By using the effective tax rate from 2018 to estimate  
10 taxes for 2019, the Company is likely forecasting conservative property tax  
11 estimates as both assessed value and effective tax rates tend to rise over time.  
12 Due to the tendency for rates to rise over time, the use of historical tax rates  
13 typically leads to an underestimated, not overestimated, tax liability.

14 Finally, part of the property tax expense calculation, as set forth in Public  
15 Attachment NK-1, is based upon a statutory formula. After the calculation of the  
16 Colorado Actual Value, which is set up by the PTA and explained above, the  
17 Company cannot change aspects of the formula (e.g., the assessment ratio) that  
18 results in the final property tax expense calculation.

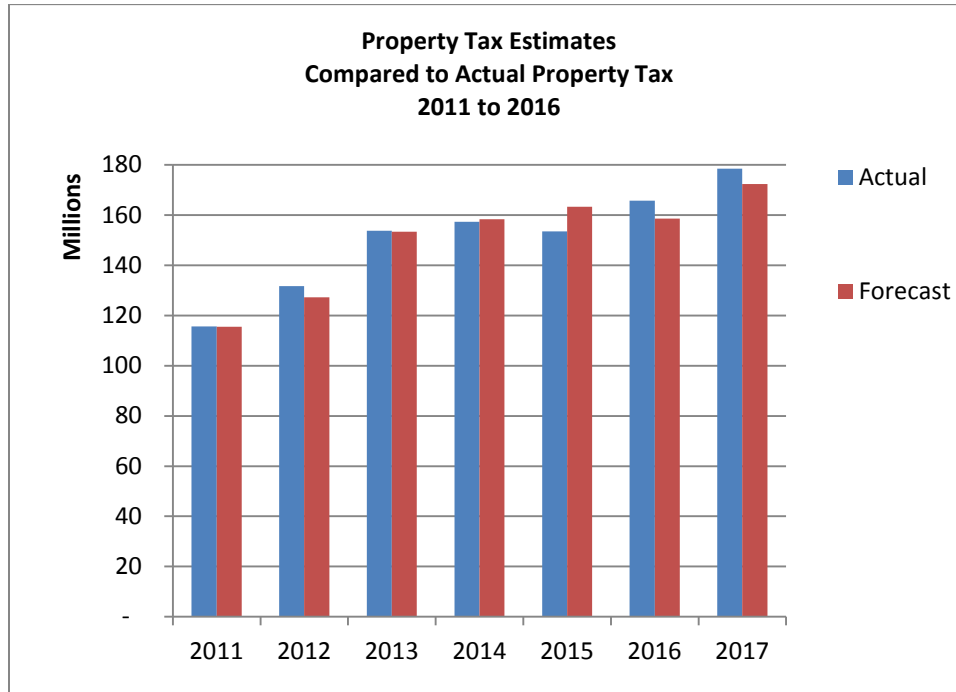
19 **Q. ON WHAT BASIS DO YOU CONCLUDE THAT THE METHODOLOGY THE**  
20 **COMPANY USES RESULTS IN REASONABLY ACCURATE ESTIMATES?**

21 A. The Company's historical accuracy for estimating its projected property tax  
22 liability is illustrated on Figure NK-D-3 below. The graph demonstrates

1 graphically that from 2011 through 2017 the estimates that the Company has  
2 provided to the Commission have been close to the actual property tax incurred  
3 by Public Service.

4 The variances between the forecasts and the actual tax liability for the  
5 years 2011 through 2017 range from one to six percent. The average variance  
6 over the six-year period is one percent.

7 **Figure NK-D-3: Property Tax Estimates Compared to Actual Property Tax**



8 **Q. IN SUMMARY WHAT IS THE COMPANY RECOMMENDING REGARDING**  
9 **PROPERTY TAX?**

10 A. The property tax expense discussed above is a necessary expense in order for  
11 Public Service to provide electric service to customers. Therefore, I recommend



1           that the Commission allow Public Service to recover the property tax expense,  
2           including the adjustments for changes to the 2018 HTY. Although the 2019  
3           property tax forecast was based on changes expected to occur in the pro forma  
4           period and based on long-standing procedures with the PTA, there is still some  
5           uncertainty in the forecasted property tax expense. As a result, I recommend the  
6           Commission approve the continuation of the property tax deferral as discussed  
7           by Ms. Trammell.

1 **VIII. CONCLUSION**

2 **Q. PLEASE SUMMARIZE THE RECOMMENDATIONS FROM YOUR**  
3 **TESTIMONY.**

4 A. I have four primary recommendations. I recommend that the Commission  
5 calculate Public Service's income tax expense as though Public Service had  
6 depreciated its assets on a straight-line book basis. I also recommend that the  
7 Commission allow excess ADIT to be returned to customers following the method  
8 discussed in both my Direct Testimony and that of Company witness Ms. Wold.  
9 Moreover, I recommend that the Commission allow Public Service to defer and  
10 amortize the costs associated with Public Service's direct pay permit issue. My  
11 final recommendation is that the Commission allows Public Service to recover  
12 \$206.46 million of property tax expense, as allocated by the Revenue  
13 Requirements department and included in the 2018 HTY, and allow the  
14 continuation of the property tax deferral as discussed in Company witness Ms.  
15 Trammell's Direct Testimony.

16 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

17 A. Yes, it does.

**Statement of Qualifications**

**Naomi Koch**

I am employed by Xcel Energy Services Inc. ("XES"), as Manager, Tax Reporting. I earned a Bachelor of Science degree from the University of Minnesota and a Masters of Business Taxation degree from the University of Minnesota. I joined what is now Xcel Energy in 1999 in Tax Services, and have more than 19 years of corporate tax experience. In 2008, I was promoted to my current position. Through this experience, I have become familiar with various provisions of the IRC and IRS regulations that affect public utilities. I also have become familiar with various state laws, utility commission rules, and court cases that relate to the treatment and calculation of tax expenses, including income tax, for ratemaking and utility regulatory purposes. I have taken several courses related to accounting and taxation of public utilities offered by the Edison Electric Institute, the American Gas Association, Deloitte & Touche, PricewaterhouseCoopers, and Arthur Andersen. I am also a member of Tax Executives Institute, an association of in-house business tax professionals worldwide.

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 ) PROCEEDING NO. 19AL-\_\_\_\_\_E  
COLORADO P.U.C. NO. 8- )  
ELECTRIC TARIFF TO IMPLEMENT )  
RATE CHANGES EFFECTIVE ON )  
THIRTY-DAYS' NOTICE. )

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AFFIDAVIT OF NAOMI KOCH  
ON BEHALF OF  
PUBLIC SERVICE COMPANY OF COLORADO

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I, Naomi Koch, 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 03 day of May, 2019.

Naomi Koch

Naomi Koch  
Manager, Tax Reporting

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

Pamela C. Wilson

Notary Public

My Commission expires 1-31-2020

