Decision No. C07-0568

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 06S-656G

RE: THE INVESTIGATION AND SUSPENSION OF TARIFF SHEETS FILED BY PUBLIC SERVICE COMPANY OF COLORADO FOR ADVICE LETTER NO. 690-GAS.

COMMISSION ORDER APPROVING SETTLEMENT AGREEMENT WITH MODIFICATIONS

Mailed Date: July 3, 2007
Adopted Date: June 18, 2007

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I. BY THE COMMISSION

A. Statement

1. This matter comes before the Commission for consideration of Advice Letter No. 690-Gas, filed by Public Service Company of Colorado (Public Service or Company) on December 1, 2006 and the related Stipulation and Settlement Agreement filed on May 31, 2007 (Stipulation). The signatories to the Stipulation are Public Service, Commission Staff (Staff), the Colorado Office of Consumer Counsel (OCC), and Seminole Energy Services, LLC (Seminole) (collectively, the Settling Parties). Atmos Energy Corporation (Atmos), Climax Molybdenum Company (Climax), Kinder Morgan, Inc. (KMI), and the United States Department of Defense - Federal Executive Agencies (Federal Agencies) are also intervenors in this docket but do not join in the Stipulation. At the hearing on the Stipulation Atmos and Climax opposed portions of the Stipulation.

2. In its direct case Public Service indicated that the principal changes contained in Advice Letter No. 690–Gas increase base gas rates for service and implement a partial decoupling rate adjustment mechanism for residential service. In addition to the rate changes, Public Service also proposed to implement a rate adjustment mechanism for non-weather related changes in average actual use per customer. This mechanism would adjust the rates of all residential customers to reflect actual average residential usage, normalized for weather affects, compared to the average customer consumption used to calculate rates in this case. Public Service proposed this adjustment mechanism as a three-year pilot program, applied to residential bills for service beginning July 1, 2008 and terminating June 30, 2011.

3. As part of the Stipulation, the Settling Parties[1] have agreed upon a settled revenue requirement, excluding the Gas Cost Adjustment (GCA), of $337,877,991 based upon the test year of the 12 months ended June 30, 2006, resulting in an increase in jurisdictional base rate revenues of $32,331,771, or 10.66 percent. The Settling Parties also agreed that Public Service shall be permitted to implement a Partial Revenue Decoupling Adjustment (PRDA) mechanism for the Residential Gas Class on a three-year pilot basis commencing October 1, 2008 and expiring September 30, 2011, subject to the Commission authorizing the continuance and/or extension of the program upon application of Public Service. The rider that takes effect October 1, 2008 shall reflect the affect of the change in use per customer on revenues for the period July 1, 2007 through June 30, 2008.

4. Now, being fully advised in the matter, we find the rates established by the Stipulation are just and reasonable, and that the Stipulation is in the public interest, with the modifications discussed below.

B. Procedural History

5. On December 1, 2006, Public Service filed Advice Letter No. 690-Gas, along with pre-filed testimony in support of the Advice Letter. By Decision No. C06-1459, we suspended the proposed tariffs and the effective date of the tariffs for 120 days through April 30, 2007. By Decision No. C07-0298 suspended the effective date for another 90 days through July 29, 2007.

[1] With regard to the settlement of issues concerning revenue requirements, as set forth in Section II.A of this Stipulation, "the agreements and compromises reflected therein are those by and among Public Service, Staff and the OCC." Seminole joins in the resolution of the timing and requirement for Public Service to file its Phase II rate case, as described in Section II.C and takes no position on the particular resolution of the other issues herein. Accordingly, the use of the term "Parties" with respect to these sections of the Stipulation should be construed to mean that Seminole has no objection to the resolution specified therein.

6. In Decision No. C06-1459, we established the 30-day intervention period, which expired on January 16, 2007.

7. We held a prehearing conference on February 7, 2007 where we granted the petitions for intervention, approved the proposed procedural dates, as well as the proposed discovery procedures, and other procedural issues. The following parties filed timely notices or requests for intervention in this Docket: Atmos, Climax, OCC, Staff, KMI, Seminole, and the Federal Agencies. We granted the requests for intervention of Atmos, Climax, KMI, Seminole, and the Federal Agencies. Staff and OCC filed timely notices of intervention by right. Staff, OCC, and Seminole filed Answer Testimony and Exhibits. Public Service filed Rebuttal Testimony and Exhibits. All such testimony was timely filed.

8. In Decision No. C07-0452, we ordered that, should a settlement agreement be reached in this case, the parties to this matter were to file a comprehensive settlement agreement on or before the close of business on May 31, 2007.

9. On May 31, 2007, Public Service, Staff, OCC, and Seminole filed the Stipulation. Consequently, we held a scheduling conference on June 4, 2007 to determine how best to proceed to consider the Stipulation.

10. At the scheduling conference Atmos and Climax indicated they were not aware of the settlement negotiations that culminated in the Stipulation, and requested the Commission to order Public Service to hold a settlement conference among the non-signatories, or in the alternative require Public Service to declare it would conduct such a conference. Public Service agreed to hold a settlement conference on Tuesday, June 5, 2007.

11. By Commission Decision No. C07-0474, we set hearings on the Stipulation for 9:00 a.m. on Thursday June 7, 2007. A public comment hearing on the proposed Stipulation was also scheduled from 4:00 to 6:00 p.m. on Thursday June 7, 2007.

12. As part of that decision, we issued written questions concerning the Stipulation for witnesses to answer at hearing. We noted that the questions addressed only the minimum amount of testimony we wished to receive, and that additional questions may be propounded through cross-examination or by Advisory Staff and Commissioner questions during the course of the hearing. Hearings on the Stipulation commenced and concluded on June 7, 2007.

II. SETTLEMENT ISSUES

A. The $32.3 Million Rate Increase

1. The Parties' Initial Positions

13. In its direct case, Public Service originally sought to increase base rates by $41,540,530. On May 11, 2007, Public Service filed its rebuttal testimony and exhibits of nine witnesses responding to the various positions of the parties in answer testimony, which further supported its direct case, with the exception that the Company reduced its proposed return on equity from 11.00 percent to 10.75 percent, and adjusted its proposed revenue requirements accordingly. Pursuant to the adjustments reflected in its rebuttal case, Public Service revised its request for an increase to base rate revenues to $39,189,582, based on the Company's revised revenue requirement of $344,216,568 For example, as indicated *supra*, Staff recommended a base rate increase of $30,492,055 while the OCC recommended a base rate decrease of $2.9 million.

2. Settlement Resolution

14. The Settling Parties have agreed upon a settled revenue requirement, excluding the GCA, of $337,877,991 based upon the test year of the 12 months ended June 30, 2006. This results in an increase in jurisdictional base rate revenues of $32,331,771, or 10.66 percent. The Settling Parties have agreed to the specific resolution of certain disputed issues concerning revenue requirements, as set forth in Sections II.A.1 through II.A.6 of the Stipulation. A summary of the revenue requirement impact of the specific settled issues is reflected in Attachment A to the Stipulation. For the purpose of determining revenue requirements and to the extent an issue is not specifically addressed in the Stipulation or detailed in the supporting cost of service in Attachment B to the Stipulation, the Settling Parties agree to implementation of Public Service's proposal as to that issue, as reflected in the Company's rate case application originally filed on December 1, 2006, and corrected on February 12, 2007.

3. Commission Findings

15. In approving the $32,331,771 rate increase proposed in the Stipulation, we are required to analyze both the legal and policy implications of a rate proceeding. Legally, we look to the evidence in the record to arrive at a just and reasonable determination of the rates. In this case, the Settling Parties maintain that a significant amount of testimony exists to support the $32,331,771 million increase in rates. We agree. Based on the evidence in the record we find the $32,331,771 rate increase is just and reasonable.

B. Authorized Return on Equity (ROE)

1. The Parties' Initial Positions

16. Public Service originally sought an authorized rate of return on equity (ROE) of 11.0 percent in its direct case. However, as more fully described in the direct testimony of Public

Service Witness Mr. Hevert, a reasonable range for Public Service's ROE is between 10.25 percent and 11.25 percent. In the rebuttal testimony Mr. Hevert updated his analyses, which include certain adjustments made in response to the suggestions of other witnesses in this proceeding, to arrive at a recommended ROE range from 10.25 percent to 11.25 percent, especially recommending a ROE of 10.75 percent. Public Service is currently authorized to earn a 10.50 percent return on common equity for its gas and electric departments. As articulated in answer testimony filed by the intervenors, there was much disagreement with the proposed 11.0 percent ROE.

17. For example, Staff advocated for a 10.00 percent ROE based on its calculated ROE range of 9.0 percent to 10.50 percent. OCC advocated for a 9.0 percent ROE based on its calculated range of 8.0 percent to 9.0 percent.

18. All of the witnesses who addressed the issue of ROE derived their estimates using a Discounted Cash Flow (DCF) approach, supplemented, in some cases, by analyses using the Risk Premium Approach, Capital Asset Pricing Model or Dividend Discount Model. The pre-filed testimony of the witnesses reflects differing opinions regarding the selection of the appropriate group of comparable companies to use in the DCF analysis, and the determination of dividend yields and growth rates. In addition, OCC witness Mr. Copeland recommended a lower ROE if the Commission approved Public Service's decoupling proposal.

2. Settlement Resolution– Opposed by Climax

19. For purposes of settlement, the Settling Parties agree that a fair and reasonable ROE for the Company's gas department is 10.25 percent.

20. At the settlement hearing, Climax voiced its opposition to the Stipulated 10.25 percent return on equity. Climax stated through its closing statement that Staff's original

return on equity of 10 percent is a more appropriate level for the Commission to approve than the settled return on equity of 10.25 percent. In support of its position, Climax indicated that since Public Service filed its direct case in December of 2006, some seven months ago, the Company has agreed to reduce the requested ROE from the 11 percent it originally sought to the 10.25 percent that it now apparently says is a just and reasonable return on equity. In Climax's view, if trending means anything, then the required ROE to attract investors has been decreased quickly in the seven-month period.

21. Climax, in its closing statement, also stated that the protection afforded by partial decoupling for Public Service covers a reduction in customer usage for the residential class. As stated by Climax, residential use is roughly two-thirds of the Company's revenue stream, and it represents the most important revenue risk as testified by Mr. Brockett.

22. Climax points out that since December 1, 2006, the legislature has passed, and the Governor has signed House Bill (HB) 1037, which provides Public Service with the opportunity for full cost recovery of all its expenditures for energy efficiency which are prudently incurred, without the need for a rate case. HB 1037 also provides Public Service with a bonus, as Mr. Darnell testified, which cannot be counted by this Commission in determining the Company's rate of return, and in the ratemaking process. Added to both of these are the GCA and the impact on the recovery of commodity costs on a dollar-for-dollar basis.

23. Given all of these issues taken together, it is Climax's position that the settled rate of return for Public Service's gas business, ends up being essentially, risk free.

24. Climax indicates that it agrees with Staff witness Mr. Trogonoski's testimony addressing a 10 percent return on equity and finds it more fair, just, and reasonable than the

Stipulation amount of 10.25 percent. Climax requests the Commission modify the Stipulation to establish Public Service's return on equity at 10 percent.

25. Climax goes on to indicate that one more telling aspect in support of its request to modify the ROE is Company witness Mr. Tyson's testimony that Public Service, for the year 2006, and across all of its ratemaking provisions, averaged about 75 percent recovery of what it requested in these proceedings. In response to a question asked by Chairman Binz, Mr. Tyson admitted that the settlement ROE represents about 82 percent of their requested revenue increase. Climax suggests that the Staff and OCC have agreed to settlement terms which result in ratepayers paying too much and Climax suggests that one way to reduce that burden is to establish the rate of return on equity at 10 percent.

3. Commission Findings

26. The terms of the Stipulation provide that the proposed ROE for Public Service is 10.25 percent. Public Service's current authorized ROE is 10.50 percent for its gas department, one quarter of a percent higher than what the Stipulation proposes. The ROE testimony establishes a range for determining an appropriate ROE between 9.0 and 11.25 percent. The proposed ROE falls within this range, therefore, we find it just and reasonable to approve the Stipulation's 10.25 percent ROE.

C. Cost of Debt

1. The Parties' Initial Positions

27. Public Service witness Mr. Tyson proposed a cost of debt of 6.38 percent, which was the embedded cost of long-term debt as of June 30, 2006. In his answer testimony filed on April 6, 2007, Staff witness Mr. Trogonoski expressed reservations about using the Company's embedded cost of debt as of June 30, 2006 because of the expected maturity on March 5, 2007 of

a $100 million first mortgage bond with an interest rate of 7.11 percent. Mr. Trogonoski recommended a cost of debt of 6.29 percent taking into account both the maturity of the $100,000,000 first mortgage bond on March 5, 2007 and Public Service's anticipated reissuance of that debt at an interest rate of approximately 6 percent in July 2007. OCC witness Mr. Copeland recommended using the actual embedded cost of debt as of June 30, 2006.

2. Settlement Resolution

28. For purposes of the Stipulation, the Settling Parties agree that Public Service shall use a cost of debt of 6.29 percent to determine the weighted average cost of capital.

3. Commission Findings

29. No party to this rate case opposed this provision of the Stipulation. Therefore, we approve this portion of the Stipulation.

D. Capital Structure and Weighted Average Cost of Capital

1. The Parties' Initial Positions

30. All witnesses who testified regarding the issue of capital structure agreed that Public Service's recommended capital structure was reasonable. The following table summarizes the Parties' recommendation with respect to capital structure:

Long-Term Debt	Equity
39.83%	60.17%

2. Settlement Resolution

31. For purposes of the Stipulation, the Settling Parties agree to the use of Public Service's actual capital structure as of June 30, 2006 and, excluding short-term debt, adjusted to include notes payable to subsidiaries as a part of long-term debt and to eliminate the effect of

non-utility and subsidiary investments from the equity portion of the capital structure. The following table reflects the weighted average cost of capital that has been agreed to in the Stipulation by the Settling Parties:

	Weight	Rate	Wtd. Avg. Cost
Long-Term Debt	39.83%	6.29%	2.50%
Equity	60.17%	10.25%	6.17%
Total Cost:			8.67%

3. Commission Findings

32. No party to this rate case opposed this provision of the Stipulation. As indicated in the terms of the Stipulation based on the authorized ROE of 10.25 percent, a 60.17 percent equity ratio, and an average cost of long-term debt of 6.29 percent, the proposed return on rate base is 8.67 percent. Therefore, we approve this portion of the Stipulation without modification.

E. Depreciation

1. The Parties' Initial Positions

33. In its revenue requirements study, as supported through the rebuttal testimony of its witness Mr. Watson, Public Service proposed an allowance for depreciation expense that was based upon the depreciation rates last approved by the Commission in previous Public Service gas rate cases in Docket Nos. 00S-422G and 02S-315EG, referred to as the "existing depreciation rates." Through its witness, Mr. Majoros, the OCC recommended that the Commission reduce the Company's depreciation rates going forward to reflect a lower removal cost component of net salvage, and to amortize over 30 years the non-legal Asset Retirement Obligation (ARO) amounts currently included in accumulated depreciation for ratemaking purposes. This is based primarily on the adoption of Statement of Financial Accounting Standard No. 143, Accounting

for Asset Retirement Obligations (SFAS 143). SFAS 143 defines “legal AROs” as obligations associated with the retirement of tangible long-lived assets that one is required to settle as a result of an existing or enacted law, statute, ordinance, written or oral contract, or by legal construction of a contract under the doctrine of promissory estoppel. “Non-legal AROs” are all removal costs not included in the “legal ARO” definition. Public Service’s existing depreciation rates include recovery for total estimated future removal costs associated with utility assets. The recommendations of Public Service and the OCC regarding the proper depreciation rates for use in determining the Company’s allowance for depreciation expense in this case are summarized in the table below:

	Party Proposal	**Difference from: Public Service Proposal**
	(Dollars in Millions)	
Depreciation Rate Change		
Public Service	44.5	
OCC	38.7	(5.9)
Amortization of “non-legal ARO” Regulatory Liability		
Public Service	0	
OCC	(4.6)	(4.6)
Total		
Public Service	44.5	
OCC	34.1	(10.5)

2. Settlement Resolution

34. For purposes of the Stipulation, the Settling Parties agree that Public Service shall continue to use the existing depreciation rates, as last approved by the Commission in Docket Nos. 00S-422G and 02S-315EG, for regulatory accounting purposes and for determining the depreciation expense allowance included in the settled revenue requirement in this case. Public

Service is to include a footnote in its future annual FERC Form 2 filings disclosing the non-legal asset retirement obligation portion of accumulated depreciation for its gas utility operations. In conjunction with the current requirement for Public Service to submit to Staff a depreciation study on or before December 31, 2007 (*see* Decision No. C03-0670, p. 35, ¶ 107), Public Service agrees that it shall perform and submit a net salvage study as part this depreciation study and will serve a copy of the study on the OCC.

35. Public Service further agrees that if at any time in the future, the Company's natural gas utility operations in Colorado should become deregulated, Public Service shall make the necessary filings with the Commission prior to such deregulation to ensure that the Commission has an opportunity to review the Company's depreciation-related rates and accounts at the time of such deregulation to determine what orders it may need to enter with respect to those depreciation rates and accounts. Additionally, such Commission review may include, but not be limited to, the resolution of any regulatory issues concerning previously expensed depreciation, including any amounts of "Non-legal AROs" that may at the time be recorded as accumulated depreciation for ratemaking purposes. For purposes of the Stipulation, the amount of "non-legal AROs" is to be that amount that Public service has reported for financial reporting purposes pursuant to SFAS 143. The Settling Parties agree that nothing in this Stipulation shall limit the ability of any party to take whatever position it deems appropriate with respect to any depreciation-related issue that may arise as a consequence of any such filing. Public Service further agrees that it will neither propose nor support legislation that would remove these issues from the Commission's jurisdiction.

3. Commission Findings

36. No party to this rate case opposed this provision of the Stipulation, and the resolution of this issue is based in part on prior Commission decisions. As a result, we approve this portion of the Stipulation without modification.

F. Amortization of Environmental Clean-up and Other A&G Costs

1. The Parties' Initial Positions

37. In its direct case, Public Service proposed to amortize certain costs which had been deferred for accounting purposes and to include the annual amortized amount in its revenue requirement. These deferred costs relate to: (a) the environmental clean-up of a former Manufactured Gas Plant (MGP) site in Fort Collins, Colorado; (b) the closure of the Leyden Gas Storage Facility (Leyden); (c) certain gas pipeline inspection costs incurred under its Integrity Management Program (IMP); and (d) rate case expenses. The deferred amounts, the amortization period and the annual amortized amount proposed by the Company are as follows:

Deferred Costs	Total	Amortization Period	Annual Allowance
MGP Cleanup	$10,787,306	4 yrs.	$2,696,827
Leyden	$5,900,702	4 yrs.	$1,475,176
IMP costs	$2,788,904	3 yrs.	$929,635
Rate case expense	$1,289,170	2 yrs.	$644,585

38. Through the testimony of Public Service witness Mr. Willemsen, the Company proposed to continue the same deferred accounting, amortization and true-up of these costs, as approved by the Commission in Public Service's last gas rate case in Docket No. 05S-264G, and detailed below. Except for the costs incurred by Public Service in providing legal notice to its customers of this rate case, as discussed in the next section, no party submitted testimony challenging the level of any of the above deferred costs or the proposed amortization periods.

Settlement negotiations revealed that the level of these deferred costs, particularly those associated with the Fort Collins MGP environmental clean-up costs have risen since Public Service's last gas rate case. Public Service notes that it has brought a contribution action against Schrader Oil Company and related parties seeking to offset a portion of costs it incurred to investigate and remove contaminated sediments from the Cache la Poudre River. The contribution action is scheduled for trial in 2008.

2. Settlement Resolution

39. For purposes of the Stipulation and to reduce the customer impact of the above deferred costs, the Settling Parties agree that the amortization period for the Fort Collins MGP environmental clean-up costs shall be extended from four years to five years. The resulting annual amortized amount for Fort Collins MGP environmental clean-up costs is $2,157,461, as detailed in Attachment B, Schedule 26, page 2 of 3 of the Stipulation. With this modification, the annual amortized expenses are included in the settled revenue requirement. If the amortization period applicable to any of these items expires prior to the effective date of rates resulting from Public Service's next rate case establishing a new revenue requirement, the Company will file an application to place into effect a negative rider that will reduce its base rates by the amount of the annual amortization expense for the amortization that had expired. With respect to the amortization of rate case expenses, the negative rider would go into effect on July 30, 2009. With respect to the amortization of IMP costs, the negative rider would go into effect on July 30, 2010. With respect to the amortization of Leyden costs, the negative rider would go into effect on July 30, 2011. With respect to the amortization of MGP environmental clean-up costs, the negative rider would go into effect on July 30, 2012. Any such negative rider would remain in

place until the effective date of the rates resulting from Public Service's next gas rate case in which revenue requirements are determined.

3. Commission Findings

40. No party to this rate case opposed this provision of the Stipulation and the resolution of this issue is based in part on prior Commission decisions. As a result, we approve this portion of the Stipulation without modification.

G. Partial Revenue Decoupling Adjustment (PRDA)

1. The Parties' Initial Positions

41. In its direct case, Public Service proposed a residential class rate element identified as the PRDA that would be placed in Public Service's tariff, similar to the Company's current GCA and Demand Side Management Cost Adjustment clauses. The mechanism is designed to eliminate the impact of changes in customer use on Public Service's revenues and earnings. Specifically, the proposed mechanism would counter the financial impact of changes in customer use driven by factors other than weather, such as increased appliance efficiency, customer conservation efforts, and customer responses to price changes. The proposed mechanism would be implemented through a rider applied to the Company's base rate gas service revenues to compensate for the prior year's changes in weather-normalized use per customer. The rate adjustment would be updated annually to reflect both increases and decreases in weather-normalized use per customer.

42. Under this mechanism Public Service compares its weather-normalized sales during a month with the monthly weather-normalized sales in a base year -- such as the test year of the most recent rate case. The difference, whether positive or negative, is then multiplied by the distribution usage charge to derive the impact of changes in weather-normalized use on

revenues. This difference between actual revenues collected and revenues based on no change in the weather-normalized demand is then collected or credited to customers through an adjustment to usage rates.

43. Public Service represented that residential gas use per customer has been declining at an average rate of 2.6 percent per year since the test period of July 2000 through June 2001. Public Service pointed to various demand side management (DSM) impacts that have reduced its revenues and earnings. Public Service proposed the PRDA to reduce this negative impact on the Company's shareholders by severing, or "decoupling", the connection between revenue, earnings and energy efficiency effects. Public Service pointed to movement nationally towards regulatory approval of full or partial decoupling rate mechanisms, as well as support from NARUC and environmental groups.

44. Public Service proposed a three-year pilot program of the decoupling adjustment mechanism, with a base period of May 1, 2007 to April 30, 2008. An initial PRDA is proposed to occur on June 1, 2008, with annual filings occurring for the following two years. For example, the June 1, 2008 PRDA would recover the shortfall in revenues due to non-weather-sensitive, per customer use between the base period and the previous 12 calendar months.

45. Staff witness Mr. Camp, in rebuttal testimony neither supported nor opposed the PRDA. Staff did recognize that a PRDA can help prevent earnings attrition, and that a PRDA eliminates the disincentive for Public Service's conservation efforts. Staff also noted that consumers will still retain the bulk of conservation savings through reduced gas commodity expenses. Staff pointed out that a PDRA could also mitigate regulatory lag which would result in fewer filed rate cases. Staff also approved of the fact that the proposed PRDA is symmetrical,

allowing for capture of both increases and decreases on average weather normalized use per customer.

46. On the other hand, Staff argued that the benefit to consumers might still be uncertain, and the proposed PRDA, as applied only to the residential class, is discriminatory. Staff advocated that, because the PRDA is a departure from standard ratemaking practices in Colorado, the PRDA should be evaluated in a Phase II rate case. Staff finally observed that the proposed PRDA does not guarantee a rate of return for Public Service, nor does it provide Public Service with any revenue beyond the amount authorized by the rate of return aspect of this Phase I case. Staff contends that the PRDA tends to shift revenue shortfall risk from the Company and its shareholders to the residential customers.

47. Staff provided four options for the Commission to evaluate: approve the PRDA as proposed by Public Service, conditionally allow the PRDA subject to review in a Phase II case, defer a decision on the PRDA to a Phase II case, or deny Public Service's PRDA proposal. Staff, through the answer testimony of Mr. Dalton, also proposed slightly different calculation methodologies for the PRDA in the event we approve the PRDA, proposing that Public Service use a July-June base year. Staff also recommended that the PRDA, if approved, be capped at a 1 percent change in usage per customer.

48. OCC, in the Answer Testimony of Mr. Senger, argued that Public Service has not presented any significant data that requires such a dramatic change in the standard regulatory practice. Mr. Senger maintained that traditional rate of return regulation generally discourages "tracker" rate elements. OCC observed that the traditional regulatory process provides an incentive for utilities to become more efficient as the utility keeps such gains, at least temporarily, and that rate tracking adjustment mechanisms eliminate the utility's incentive to

become more efficient. OCC believes that Public Service has historically had successful financial performance in spite of declining use per customer.

49. OCC posited that the "national trend towards decoupling" alluded to in Public Service witness testimony by Ms. Vincent, Mr. Hevert, and Mr. Brockett is much less universal than Public Service implies. OCC argued that the proposal advanced by Public Service shifts a significant amount of risk to customers, yet Public Service witness Mr. Hevert argued that it should not result in any benefit to the customers in the form of a lowered ROE. OCC's position was that potential revenue stabilization proposals should be considered at the same time, preferably in a combined Phase 1 and Phase 2 case, as other mechanisms such as increasing the fixed component of the bill, which cannot be considered in a Phase 1 proceeding. OCC also criticized the proposal as it inequitably applies to only one class of customers (Residential) and it is being called a "pilot" program, but it is not optional, like other pilot-type programs.

50. OCC recommended that the Commission reject Public Service's decoupling proposal. Alternately, OCC indicates that approval of decoupling should result in a lowered overall return to the Company and implementation should be delayed until the subsequent Phase 2 rate case, when residential customers can be compensated for the additional burden they will be bearing.

51. Public Service addressed many of the Staff and OCC concerns in its Rebuttal Testimony. Mr. Brockett of Public Service reiterated Public Service's concern that the Company recover a significant portion of its fixed costs through usage charges, thus declining use jeopardizes the Company's recovery of fixed costs. According to Public Service, the use of a historical test year in Colorado exacerbates the problem. A related problem is that Public Service has a disincentive to promote energy efficiency as long as it recovers fixed costs through usage

charges. Further, Public Service does not believe that the PRDA mechanism represents a significant departure from traditional ratemaking. From an earnings standpoint, Public Service's response to a decrease in use per customer would be to take steps to reverse this trend. Yet one of Colorado's most critical public-policy goals is to promote energy efficiency, which obviously reduces use per customer. The interests of the shareholders in this case, in the view of Public Service, do not coincide with the broader public-policy goal. Public Service contends that the proposed PRDA mechanism is tailored to address this contradiction by truing up revenues for changes in weather-normalized use per customer, while maintaining the utility's risk for both changes in costs and changes in weather-related sales that are not directly affected by energy efficiency initiatives.

52. Public Service provided a national list of approved and proposed decoupling mechanisms in Mr. Brockett's testimony. The list includes companies that currently have decoupling mechanisms, and he points to other utility mechanisms that mimic revenue decoupling and/or revenue stabilization mechanisms of some type. The Company also noted that environmental organizations also support revenue decoupling and NARUC has issued a policy statement urging state commissions to consider revenue decoupling.

53. Public Service took the position that deferring the issue to a combined Phase I and Phase II rate proceeding would not add much value or insight. According to Public Service, as was the case with the Company's DSM adjustment clause, a decoupling adjustment can be assessed within the constraints of a Phase I case. Public Service argued that there is ample time to explore this issue without disadvantaging the Residential class. Public Service agreed with Staff's proposal to implement the first decoupling mechanism on October 1, 2008, and is willing to commit in this proceeding to filing a Phase II case on or before March 31, 2008. Public

Service indicated it is willing to agree to Staff's proposed schedule for deriving, filing, and implementing the initial decoupling adjustment. Public Service also agreed with Staff's requirements for reports supporting its future filings on decoupling. Public Service agreed with much of Staff's recommendations on the mechanics of deriving the residential weather-normalized impacts. Public Service did not agree with Staff that the PRDA be capped at 1 percent. Public Service maintains that any weather-normalized technique that has been approved either in prior rate cases or this one be used in calculating the PRDA.

2. Settlement Resolution

54. The Settling Parties reached agreement to implement Public Service's proposal on decoupling from its direct case, with the exception of the reporting and calculation modifications proposed by Staff. Public Service agreed to make July 2007 through June 2008 as the base year when Public Service will begin accruing for the change in revenues based on the difference in weather normalized usage per residential customer. Beginning on August 15, 2008, Public Service is to file a tariff Advice Letter and accompanying reports as designated by Staff for a partial decoupling rate element that would be effective on October 1, 2008. This process will be repeated in years 2009 and 2010.

3. Commission Findings

55. We accept in part, and modify in part, the proposed decoupling mechanism. We have evaluated the testimony filed in this docket, along with the testimony received at hearing on the Stipulation. Based on that review, we find that the decoupling mechanism proposal has merit as a pilot program. Specifically, we find it is consistent with DSM initiatives. Additionally, the proposal aids in addressing the issue of fixed cost recovery for Public Service in an environment of declining average residential demand for natural gas, and could certainly reduce the number

and cost of future rate cases. However, we reject the proposal to the extent that the proposal allows Public Service to recover all of the revenue associated with the partial decoupling proposal. Rather, we adopt the alternative mechanism described below.

56. We find that the entire risk associated with declining per customer use should not be assigned entirely to Public Service's residential customers. We expect that Public Service is aware of this decline in use per customer, and should be undertaking its own internal cost reduction, becoming more efficient through process re-designs and seeking more productive uses of its labor and capital resources. Becoming more efficient in the face of declining demand for an enterprise's product is rational economic behavior for a firm.

57. We understand the differences between a regulated monopoly and a fully deregulated firm, especially in terms of pricing. However, both categories of firms have the same ability, and incentive, to manage costs based on the market characteristics for its services. Further, the record in this docket demonstrates that Public Service continues to enjoy increased numbers of customers. The natural efficiency gains of economies of scale should provide a degree of offset to the revenue decreases caused by declining customer usage. Therefore we design a decoupling mechanism that divides the risk between ratepayers and Public Service.

58. Public Service will adjust rates each year through the decoupling rate adjustment mechanism to recover reduced weather-normalized revenues due to reduced usage per customer

to the extent that revenue per residential customer declines more than 1.3 percent per year. This value was chosen as it equals one-half the historic rate of decline referenced in Public Service's testimony.

59. The weather-normalized use per customer will be compared annually to the corresponding test year value used to set rates initially. To the extent that the weather normalized use per customer has declined more than 1.3 percent per year since the test year, the rate rider in a given year will be designed to collect the associated revenues lost in excess of the 1.3 percent threshold (*i.e.*, lost revenues). We direct the parties in this case to hold technical meetings to define the process within the context of the original proposal of Public Service in this matter in order to implement our modifications to the decoupling mechanism.

60. To the extent weather normalized use per customer increases, Public Service will not be required to implement a negative rate rider. The year-to-year positive and negative changes in customer usage will be accumulated and used to calculate the revenue losses in excess of the threshold. But if weather normalized usage increases to the degree that Public Service would be required to implement a negative rider, the rider amount will be set to zero for that year's percentage.

61. An illustration of the proposed revised decoupling mechanism with the 1.3 percent threshold is provided below. This example is based on a threshold of 1.3 percent and

uses the historical data provided by Public Service in Exhibit 35. The data in Exhibit 35 was a backcast of the impact of a decoupling adjustment if it had been in effect since 2001.

An Illustration: Revised Decoupling Mechanism Applied to Actual Historic Values

Year	Annual Use/Customer	Annual Change	Annual Percent Change	Percent Change from Base	Threshold	Net Adjustment
2001	919					
2002	912	-7	-0.8%	-0.8%	1.3%	0.0%
2003	899	-13	-1.4%	-2.2%	2.6%	0.0%
2004	836	-63	-7.0%	-9.0%	3.9%	5.1%
2005	837	1	0.1%	-8.9%	5.2%	3.7%
2006	804	-33	-3.9%	-12.5%	6.5%	6.0%

62. In the example above, we assume that 2001 is the test year from which rates were derived. The decoupling rate adjustment for each year thereafter is designed to account for the cumulative impact of changes in use per customer relative to the base year of 2001. The column entitled “Percent Change from Base” illustrates that accumulation. Consistent with that method of calculation, the “Threshold” column contains the cumulative threshold of 1.3 percent for each year in this example. The final column, “Net Adjustment” is not the rider value itself, but rather the portion of the revenue decline of changes in weather-normalized use per customer that the decoupling mechanism will collect for Public Service. In the example above, the cumulative decline in revenue from the base year falls below the cumulative 1.3 percent threshold in 2002 and 2003, so there would be no collection of revenue from the decoupling mechanism in those

years. In 2004, there is a 7.0 percent decrease in weather-normalized use per customer that pushes the cumulative decrease in usage above the 3.9 percent cumulative threshold, so Public Service is able to capture 5.1 percent of the revenue shortfall. That cumulative pattern extends into 2006 in this example.

H. Rate Case Expense

1. The Parties' Initial Position

63. In its direct case, Public Service included the cost of notifying customers of its rate case filed with the Commission. This expense item was to recover the direct mailing costs of the proposed rate changes to Public Service customers.

64. OCC, in rebuttal, objected to the $555,330 expense item. OCC contended that Public Service could have used a bill insert at a cost of $50,576. OCC argued that Public Service could have filed its rate case earlier, thus allowing it to place inserts into the cycle of mailed bills and meet the deadline of notifying all customers ten days before the end of this Commission's 30-day notice period.[2]

65. In rebuttal, Public Service pointed out that the particular method of notice is at the option of the utility as specifically provided in § 40-3-104(1)(c)(I), C.R.S. Public Service noted that there is no requirement to use the least cost alternative to consumers. The options include the choice made by Public Service. Public Service has the ability to file for a rate change on 30 days' notice, and must notify customers 20 days prior to the effective date as filed. According to Public Service since it mails its bills in a cycle that uses every calendar day of the month, it

[2] This ten-day requirement allows any service recipient to file interventions in a timely manner.

could not meet the aforementioned timing requirement using a bill insert, so it used a special mailing instead.

2. Settlement Resolution

66. For the purposes of the Stipulation, the Settling Parties agree to Public Service's position retaining all customer notice expenses that were contained in this tariff Application. Public Service, Staff, and OCC agree to meet within 90 days following the effective date of the tariff to discuss various methods, including statutory and rule changes, to minimize the costs of future notifications.

3. Commission Findings

67. No party to this rate case opposed this provision to the Stipulation and the resolution of this issue is based in part on prior Commission decisions. As a result, we approve this portion of the Stipulation without modification.

I. Weather Normalization

1. The Parties' Initial Positions

68. In its direct case Public Service stated that Residential, Commercial, and Industrial customers were divided into three areas: Front Range, Mountain, and Western. Public Service calculated a ten-year average base load amount per customer for each area, comprised of August and September usage which represent the level of sales that is not weather sensitive. These base-load quantities were then removed from the test period adjusted sales to develop weather sensitive sales quantities. Public Service asserted that it normalized the weather sensitive quantities using the method recently approved by the Commission. Under the Commission-approved method, the most current National Oceanic & Atmospheric Administration 30-year normal (1971-2000) is updated by multiplying it by the ratio of the most

current 30-year heating degree unadjusted data (1977-2006) to the unadjusted data for the 30-year period used for the most recent normal calculation (1971-2000). The weather normalization factor is the updated 30-year normal heating degree days divided by test period heating degree days.

69. In answer testimony OCC recommended two modifications. First, OCC asserted that the method should eliminate the double-counting of heating degree days (HDD) in June through December of 2005 in calculating normal HDD. Public Service included the HDD from June through December twice, once in the calculation of the 2005 HDD, and again in the calculation of the 2006 HDD, because complete 2006 information was not available at the time Public Service made its filing. OCC recommended updating the information to use the information from 2006 that is now known. Second, the weatherization method should recognize the downward trend in base load use in the adjustment calculation. Public Service used a ten-year average of the sales in August and September, and then annualized this number. OCC recommended using the data from the test period to calculate base load use per customer instead of using the ten-year average.

70. In rebuttal, Public Service argued that we should adopt a method that uses data that is available at the time a rate case is filed, and should reject the modifications recommended by OCC.

2. Settlement Resolution

71. The Settling Parties agree to implement the two weather normalization changes proposed by OCC witness Senger.

3. Commission Findings

72. In response to Commission questions at the settlement hearing regarding the future implications of this settlement issue, Public Service indicates that the Stipulation provides no guidance as to how it should file its next rate case. Though the Stipulation does not resolve this issue for the future, we agree that the two modifications recommended by OCC are reasonable, and adopt the settlement resolution for this issue of the Stipulation.

J. Phase II Rate Case Requirement

1. The Parties' Initial Positions

73. In its answer testimony, Seminole requests that the Commission require Public Service to file a Phase II rate case. Seminole witness Mr. Peter raised concerns that the Phase I rate increase would aggravate the lack of comparability between commercial sales rates and firm transportation rates, which the Commission recognized as an issue in Decision No. C06-0086 in Docket No. 05S-264G.

74. Pursuant to the settlement in 05S-264G, the last Public Service rate case, parties held workshops to address the comparability of sales and transportation rates, and Public Service agreed to make a filing as part of its next Phase II case. The Commission ordered Public Service to file a Phase II case within three years of the date of the decision in that last case, which resulted in a filing deadline of February 3, 2009. Public Service further agrees to the specific terms described above.

2. Settlement Resolution

75. Under the settlement in this case, Public Service agrees to file a Phase II rate case on or before March 31, 2008. Public Service also agrees that it will not use or support an imputed minimum system approach for inter-class cost allocation, it will file the results of using

the Atlantic Seaboard method to allocate all non-customer-related fixed costs, and it will not propose or support any classification or inter-class allocation of costs that treats less than 25 percent of the non-customer-related costs as commodity costs.

3. Atmos's Response to the Settlement Resolution

76. In the settlement hearing on June 7, 2007, Atmos asserted that it was not included in these settlement negotiations, and requested that the Commission make two modifications to the Stipulation. First, the Commission should require Public Service to file, for information purposes, the results of using the Straight Fixed Variable method of cost allocation. Second, the Commission should strike the phrase "or support" from paragraphs b and d in the Phase II Rate Case section of the Stipulation.

77. Atmos states that it does not oppose the Stipulation with these modifications. Climax concurs with Atmos' recommendation.

4. Commission Findings

78. We find it reasonable to establish a March 31, 2008 Phase II rate case filing requirement. However, we find that the additional restrictions associated with the Phase II filing, provided in the Stipulation, are not supported by the record in this case. Further, we agree with Atmos that it is improper for Public Service to agree to such issues outside of a Phase II case, particularly when Atmos was not included in settlement negotiations in this case. We agree that the remedy proposed by Atmos results in a more balanced approach to the upcoming Phase II case, and we modify the settlement to adopt Atmos' recommendations here. Therefore, we require Public Service to file, for information purposes, the results of using the Straight Fixed Variable method of cost allocation. We strike "or support" from Paragraphs b. and d. of the

Phase II Rate Case section of the Stipulation.[3] Paragraphs b. and d. are modified to read as follows:

> b. In such Phase II filing, Public Service will not use an imputed minimum system approach as the basis for its proposed inter-class cost allocation. However, the Company may use an imputed minimum system approach to support the development of its proposals relating to the service and facilities charges;
>
> d. Public Service will not propose any classification or interclass allocation of costs that treats less than 25 percent of the non-customer-related costs as commodity costs.

K. Line Extension

1. The Parties' Initial Positions

79. In Answer testimony OCC raised concerns that Public Service's current line extension policy may cause current customers to subsidize new customers, at $75 million over six years, or over $12 million per year.[4] OCC recommended that the Commission require Public Service to track the growth-related plant and payments, and after sufficient data is collected, require the Company to file an application with the Commission defining the problem and proposing an equitable and economically rational solution.

80. In its Rebuttal Testimony, Public Service cited several problems with the OCC calculations reducing the amount not covered by refundable construction payments to $18.2 million.[5] Public Service recommended rejecting OCC's recommendations.

[3] Chairman Binz dissents from the decision to strike "or support."

[4] *See* Schechter Answer Testimony, pages 14 through 23.

[5] *See* Niemi Rebuttal Testimony, pages 8 through 12

2. Settlement Resolution

81. The Stipulation does not directly address this issue, therefore the Settling Parties agree to implementation of Public Service's position,[6] leaving the current line extension policy without the modifications proposed by OCC.

3. Commission Findings

82. We find that Public Service Witness Mr. Niemi adequately addressed the concerns raised by OCC with respect to the line extension issue and the questions we posed at the settlement hearing. Mr. Niemi explained that Public Service has taken steps to minimize any such subsidy, and we agree that no further action is appropriate for this issue. We adopt the settlement resolution for this issue; rejecting the recommendations made by OCC.

III. THE COMPLIANCE APPENDIX

83. Attached to this Order, as Attachment C, is a Compliance Appendix resulting from this case. The Commission has recently implemented a policy to use an internal database for tracking future filing requirements of our jurisdictional utilities. This Appendix enumerates the items to be completed, the party responsible for its completion, and the date by which the item must be completed.

IV. ORDER

A. The Commission Orders That:

1. The Commission approves the Stipulation and Settlement Agreement in Resolution of Proceeding (Stipulation), filed attached as Attachment A to this Order, with certain modifications as summarized below.

[6] Stipulation, page 5

2. The Joint Motion to Approve the Stipulation filed on May 31, 2007 is granted in part, as detailed above.

3. Public Service Company of Colorado (Public Service) shall work with the other parties in this docket to implement the partial decoupling mechanism as discussed above.

4. As a part of the Phase II rate case filing required by the Stipulation, Public Service shall include, for information purposes, the results of using the Straight Fixed Variable method of cost allocation, as discussed above.

5. The words “or support” are stricken from paragraphs b and d in the Phase II Rate Case section of the Stipulation, as discussed above.

6. Public Service’s Advice Letter No. 690-Gas is permanently suspended.

7. Public Service shall file, on not less than one day’s notice to the Commission, tariffs consistent with this Order. Such tariffs shall be filed to become effective on July 30, 2007.

8. Public Service shall make all filings in compliance with this Order as indicated in Attachment C to this Order.

9. The 20-day period provided for in § 40-6-114, C.R.S., within which to file applications for rehearing, reargument, or reconsideration begins on the first day after the effective date of this Order.

10. This Order is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' DELIBERATION MEETING June 18, 2007.

(S E A L)

ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

RON BINZ

POLLY PAGE

CARL MILLER

Commissioners

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Decision No. C07-0568-E

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 06S-656G

RE: THE INVESTIGATION AND SUSPENSION OF TARIFF SHEETS FILED BY PUBLIC SERVICE COMPANY OF COLORADO FOR ADVICE LETTER NO. 690-GAS.

ERRATA NOTICE

COMMISSION ORDER APPROVING SETTLEMENT AGREEMENT WITH MODIFICATIONS

Errata mailed July 11, 2007
Original Decision No. C07-0568 mailed July 3, 2007

Correct the header of Decision No. C07-0568 on page 2 and subsequent pages, replacing "Decision No. C07-0474" with "Decision No. C07-0568".

(S E A L)

ATTEST: A TRUE COPY

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

Doug Dean

Doug Dean, Director
Dated at Denver, Colorado this
11th day of July, 2007.

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

* * * * *

RE: THE TARIFF SHEETS FILED BY PUBLIC SERVICE COMPANY OF COLORADO WITH ADVICE LETTER NO. 690- GAS.	**))))**	**DOCKET NO. 06S-656G**

**STIPULATION AND AGREEMENT
IN RESOLUTION OF PROCEEDING**

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

*** * * * ***

RE: THE TARIFF SHEETS FILED BY PUBLIC SERVICE COMPANY OF COLORADO WITH ADVICE LETTER NO. 690- GAS.	**))))**	**DOCKET NO. 06S-656G**

STIPULATION AND AGREEMENT
IN RESOLUTION OF PROCEEDING

This Stipulation and Agreement in Resolution of Proceeding ("Stipulation") is entered into by and among Public Service Company of Colorado ("Public Service" or "Company"), the Staff of the Public Utilities Commission of the State of Colorado ("Staff"), the Colorado Office of Consumer Counsel ("OCC") and Seminole Energy Services, LLC ("Seminole"), collectively referred to herein as the "Parties." Atmos Energy Corporation ("Atmos"), Climax Molybdenum Company ("Climax"), Kinder Morgan, Inc. ("KMI") and the United States Department of Defense - Federal Executive Agencies ("FEA") have not had sufficient opportunity to consider the terms of this Stipulation and, therefore, are not joining in the Stipulation and are not stating their position at this time. This Stipulation sets forth the terms and conditions by which the Parties have agreed to resolve all outstanding issues presented by the Company's gas rate case filing in this docket that have or could have been contested in this proceeding.

The Parties state that the results of the compromises reflected herein are a just and reasonable resolution of this gas rate case proceeding, that reaching agreement as set forth and implementation of the compromises and settlements reflected in this Stipulation will result in substantial savings to all concerned by establishing certainty and avoiding litigation. Each party hereto pledges its support of this Stipulation and states that each will defend the settlement reached. The Parties respectfully request that the Public Utilities Commission of the State of Colorado ("Commission") approve this Stipulation, without modification. For those Parties for whom this Stipulation is executed by counsel, such counsel states that (s)he has authority to execute this Stipulation on behalf of his/her client.

I. BACKGROUND

On December 1, 2006, Public Service filed Advice Letter No. 690-Gas, proposing to implement a General Rate Schedule Adjustment ("GRSA") rider to increase the base gas rates for gas sales and transportation service under the Company's gas rate schedules and to implement a Partial Decoupling Rate Adjustment ("PDRA") clause applicable to gas service provided under Schedule RG in the Company's Colorado P.U.C. No. 6 – Gas tariff, to be effective January 1, 2007. The Company also filed direct testimony and exhibits in support of the proposed rate and tariff changes.

Through the GRSA rider proposed in Advice Letter No. 690-Gas, Public Service sought to increase base rate revenues by $41,540,530, or 13.88% on an annual basis. The Company's proposed revenue requirement of $346,567,516 was developed based on a test year consisting of the 12 months ending June 30, 2006, and reflected a proposed 9.16% overall return on the Company's rate base determined based on the 13-month average of month-end balances from May 31, 2005 through June 30, 2006. This overall return was calculated using a proposed return on common equity of 11.00% and a capital structure consisting of 60.17% equity and 39.83% long-term debt.

The Company also proposed a tariff mechanism on a pilot basis that would adjust the Company's gas revenues derived from residential services from year to year to compensate for changes in the average use per customer that are unrelated to weather. The Company proposed that this partial decoupling mechanism would be in effect for three years.

On December 15, 2006, the Commission issued Decision No. C06-1459, suspending the effective date of Advice Letter No. 690-Gas for 120 days through April 30, 2007 and setting this matter for hearing. By Decision No. C07-0163, dated February 26, 2007, the Commission granted the interventions of Atmos, Climax, KMI, Seminole and FEA and established a procedural schedule. The Staff and the OCC had each filed timely notices of intervention by right and were therefore also made parties to the proceeding. On April 19, 2007, the Commission issued Decision No. C07-0298 suspending the tariff sheets filed with Advice Letter No. 690-Gas an additional 90 days through July 29, 2007.

Consistent with the procedural schedule, Public Service filed corrections to its Direct Testimony and revised Exhibits on February 12, 2007[1]. Staff, the OCC, and Seminole filed Answer Testimony and Exhibits on April 6, 2007. The principal issues raised by Staff were the Company's proposed return on equity and its cost of debt. The OCC challenged the Company's proposed return on equity, its partial decoupling proposal and raised a number of

[1] Public Service's February 12, 2007 filing revised the increase to base rate revenues to $41,907,336 or 13.84% on an annual basis and revised the proposed revenue requirement to $346,934,322.

cost of service issues affecting the Company's proposed revenue requirement. Seminole's principal objective was to obtain an order requiring Public Service to follow this case with a Phase II rate case to provide the Commission with the opportunity to evaluate the Company's proposed spread of the approved revenue requirements among rate classes as well as its proposed rate design.

On May 11, 2007, Public Service filed the rebuttal testimony and exhibits of nine witnesses responding to the various positions of the Parties in answer testimony and further supporting its direct case, with the exception that the Company's reduced its proposed return on equity from 11.00% to 10.75%, and adjusted its proposed revenue requirements accordingly. Pursuant to the adjustments reflected in its rebuttal case, Public Service revised its request for an increase to base rate revenues to $39,189,582, based on the Company's revised revenue requirement of $344,216,568.

The Parties commenced settlement negotiations during the week of May 14, 2007. After several exchanges of offers of settlement, Public Service, Staff and the OCC reached an agreement in principal resolving all contested issues and filed a Notice of Partial Settlement with the Commission on May 29, 2007. On May 30, 2007, the Parties reduced their agreement to writing and circulated the terms of settlement to the other intervenors in this proceeding. This Stipulation represents the results of those negotiations.

This Stipulation incorporates by this reference Attachments A through E, appended hereto, which are identified as follows:

Attachment A	-	Summary of Settled Revenue Requirements Issues
Attachment B	-	Settled Revenue Requirements Study
Attachment C	-	Sample Decoupling Calculation
Attachment D	-	Bill Impacts
Attachment E	-	Settled Revisions to Colorado PUC No. 6 – Gas Tariff

II. TERMS OF SETTLEMENT

A. Revenue Requirements

The Parties[2] have agreed upon a settled revenue requirement, excluding the Gas Cost Adjustment, of $337,877,991 based upon the test year of the twelve months ended June 30, 2006, resulting in an increase in jurisdictional base rate revenues of $32,331,771, or 10.66%. The Parties have agreed to the specific resolution of certain disputed issues concerning revenue requirements, as set forth in Sections II.A.1 through II.A.6 below. A summary of the revenue requirements effect of the specific settled issues are reflected in Attachment A. For the purpose of determining revenue requirements, to the extent an issue is not specifically

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2 With regard to the settlement of issues concerning revenue requirements, as set forth in Section II.A of this Stipulation, the agreements and compromises reflected therein are those by and among Public Service, Staff and the OCC. Seminole joins in the resolution of the timing and requirement for Public Service to file its Phase II rate case, as described in Section II.C and takes no position on the particular resolution of the other issues herein. Accordingly, the use of the term "Parties" with respect to these sections of the Stipulation should be construed to mean that Seminole has no objection to the resolution specified therein.

addressed in this Stipulation or detailed in the supporting cost of service in Attachment B, the Parties agree to implementation of the Company's proposal as to that issue, as reflected in the Company's rate case application originally filed on December 1, 2006, and corrected on February 12, 2007.

1. Rate of Return on Equity

Background. Three witnesses presented testimony regarding the proper rate of return on equity ("ROE"). Their recommendations are summarized in the table below:

Witness	Recommendation
Mr. Hevert (Public Service)	10.75%
Mr. Trogonoski (Staff)	10.00%
Mr. Copeland (OCC)	9.00%

All of the witnesses who addressed the issue of ROE derived their estimates using a Discounted Cash Flow ("DCF") approach, supplemented, in some cases, by analyses using the Risk Premium Approach, Capital Asset Pricing Model or Dividend Discount Model. The pre-filed testimony of these witnesses reflects differing opinions regarding the selection of the appropriate group of comparable companies to use in the DCF analysis, and the determination of dividend yields and growth rates. In addition, OCC witness Mr. Copeland recommended a lower ROE if the Commission approved Public Service's decoupling proposal.

Resolution. For purposes of settlement, the Parties agree that a fair and reasonable ROE for the Company's gas department is 10.25%.

2. Cost of Debt

Background. The Company's witness Mr. Tyson proposed a cost of debt of 6.38%, which was the embedded cost of long-term debt as of June 30, 2006. In his answer testimony filed on April 6, 2007, Staff witness Mr. Trogonoski expressed reservations about using the Company's embedded cost of debt as of June 30, 2006 because of the expected maturity on March 5, 2007 of a $100 million first mortgage bond with an interest rate of 7.11%. Mr. Trogonoski recommended a cost of debt of 6.29% taking into account both the maturity of $100,000,000 first mortgage bond on March 5, 2007 and the Company's anticipated reissuance of that debt at an interest rate of approximately 6% in July 2007. OCC witness Mr. Copeland recommended using the actual embedded cost of debt as of June 30, 2006.

Resolution. For purposes of settlement, the Parties agree that the Company shall use a cost of debt of 6.29 % to determine the weighted average cost of capital.

3. Capital Structure and Weighted Average Cost of Capital

Background. All witnesses who testified regarding the issue of capital structure agreed that Public Service's recommended capital structure was reasonable. The following table summarizes the Parties' recommendation with respect to capital structure:

Long-Term Debt	Equity
39.83%	60.17%

Resolution. For purposes of settlement, the Parties have agreed to the use of the Company's actual capital structure as of June 30, 2006, excluding short-term debt, and adjusted to include notes payable to subsidiaries as a part of long-term debt and to eliminate the effect of non-utility and subsidiary investments from the equity portion of the capital structure. The following table reflects the weighted average cost of capital that has been agreed to by the Parties:

	Weight	Rate	Wtd. Avg.Cost
Long-Term Debt	39.83%	6.29%	2.50%
Equity	60.17%	10.25%	6.17%
Total Cost:			8.67%

4. Depreciation

Background. In its revenue requirements study, as supported through the rebuttal testimony of its witness, Mr. Watson, Public Service proposed an allowance for depreciation expense that was based upon the depreciation rates last approved by the Commission in previous Public Service gas rate cases in Docket Nos. 00S-422G and 02S-315EG ("existing depreciation rates)." Through its witness, Mr. Majoros, the OCC recommended that the Commission reduce the Company's depreciation rates going forward to reflect a lower removal cost component of net salvage and to amortize over 30 years the non-legal Asset Retirement Obligation ("ARO") amounts currently included in accumulated depreciation for ratemaking purposes, primarily based on the adoption of Statement of Financial Accounting Standard No. 143, Accounting for Asset Retirement Obligations ("SFAS 143"). SFAS 143 defines "legal AROs" as obligations associated with the retirement of tangible long-lived assets that one is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. "Non-legal AROs" are all removal costs not included in the "legal ARO" definition. Public Service's existing depreciation rates include recovery for total estimated future removal costs associated with utility assets. The recommendations of Public Service and the OCC regarding the proper depreciation rates for use in determining the Company's allowance for depreciation expense in this case are summarized in the table below:

	Party Proposal	**Difference from: Public Service Proposal**
	(Dollars in Millions)	
Depreciation Rate Change		
Public Service	44.5	
OCC	38.7	(5.9)
Amortization of "non-legal ARO" Regulatory Liability		
Public Service	0	
OCC	(4.6)	(4.6)
Total		
Public Service	44.5	
OCC	34.1	(10.5)

Resolution. For purposes of settlement, the Parties agree that the Company shall continue to use the existing depreciation rates, as last approved by the Commission in Docket Nos. 00S-422G and 02S-315EG, for regulatory accounting purposes and for determining the depreciation expense allowance included in the settled revenue requirement in this case. The Company shall include a footnote in its future annual FERC Form 2 filings disclosing the non-legal asset retirement obligation portion of accumulated depreciation for its gas utility operations. In conjunction with the current requirement for Public Service to submit to Staff a depreciation study on or before December 31, 2007 (see Decision No. C03-0670, p. 35,

¶ 107), Public Service agrees that it shall perform and submit a net salvage study as part this depreciation study and will serve a copy of the study on the OCC.

The Company further agrees that if, at any time in the future, the Company's natural gas utility operations in Colorado should become deregulated, the Company shall make the necessary filings with the Commission prior to such deregulation to ensure that the Commission has an opportunity to review the Company's depreciation-related rates and accounts at the time of such deregulation to determine what, if any, order or orders it may need to enter with respect to said depreciation rates and accounts. Such Commission review may include, but not be limited to, the resolution of any regulatory issues concerning previously expensed depreciation, including any amounts of "Non-legal Asset Retirement Obligations" ("non-legal AROs") that may at the time be recorded as accumulated depreciation for ratemaking purposes. For purposes of this provision, the amount of "non-legal AROs" shall be that amount that the Company has reported for financial reporting purposes pursuant to SFAS 143. The Parties agree that nothing in this Stipulation shall limit the ability of any party to take whatever position it deems appropriate with respect to any depreciation-related issue that may arise as a consequence of any such filing. The Company further agrees that it will neither propose nor support legislation that would remove these issues from the Commission's jurisdiction.

5. <u>Amortization of Environmental Clean-up and Other A&G Costs</u>

<u>Background</u>. In its filed case, Public Service proposed to amortize certain costs which had been deferred for accounting purposes and to include the annual amortized amount in its revenue requirement. These deferred costs relate to (a) the environmental clean-up of a

former Manufactured Gas Plant ("MGP") site in Fort Collins, Colorado; (b) the closure of the Leyden Gas Storage Facility ("Leyden"); (c) certain gas pipeline inspection costs incurred under its Integrity Management Program ("IMP"); and (d) rate case expenses. The deferred amounts, the amortization period and the annual amortized amount proposed by the Company are as follows:

Deferred Costs	Total	Amortization Period	Annual Allowance
MGP Cleanup	$10,787,306	4 yrs.	$2,696,827
Leyden	$5,900,702	4 yrs.	$1,475,176
IMP costs	$2,788,904	3 yrs.	$929,635
Rate case expense	$1,289,170	2 yrs.	$644,585

Through the testimony of Public Service witness, Mr. Willemsen, the Company proposed to continue the same deferred accounting, amortization and true-up of these costs, as approved by the Commission in its last gas rate case in Docket No. 05S-264G and detailed below. Except for the costs incurred by Public Service in providing legal notice to its customers of this rate case, as discussed in the next section, no party submitted testimony challenging the level of any of the above deferred costs or the proposed amortization periods. In settlement negotiations, the observation was made that the level of these deferred costs, particularly those associated with the Fort Collins MGP environmental clean-up costs have risen since Public Service's last gas rate case. Public Service notes that it has brought a contribution action against Schrader Oil Company and related parties seeking to offset a portion of costs it incurred to investigate and remove contaminated sediments from the Cache la Poudre River. The contribution action is scheduled for trial in 2008.

Resolution. For purposes of settlement, and to reduce the customer impact of the above deferred costs, the Parties agree that the amortization period for the Fort Collins MGP environmental clean-up costs shall be extended from four years to five years. The resulting annual amortized amount for Fort Collins MGP environmental clean-up costs is $1,507,763, as detailed in Attachment B, Schedule 26, page 2 of 3. With this stipulated modification, these annual amortized expenses are included in the settled revenue requirement. If the amortization period applicable to any of these items expires prior to the effective date of rates resulting from the Company's next rate case establishing a new revenue requirement, the Company will file an application on less than statutory notice to place into effect a negative rider that will reduce its base rates by the amount of the annual amortization expense for the amortization that had expired. With respect to the amortization of rate case expenses, such negative rider would go into effect on July 30, 2009. With respect to the amortization of IMP costs, such negative rider would go into effect on July 30, 2010. With respect to the amortization of Leyden costs, such negative rider would go into effect on July 30, 2011. And with respect to the amortization of MGP environmental clean-up costs, such negative rider would go into effect on July 30, 2012. Any such negative rider would remain in place until the effective date of the rates resulting from the Company's next gas rate case in which revenue requirements are determined.

6. Rate Case Expense

Background. Through its witness Dr. Schechter, the OCC recommended that the Commission disallow $504,754 of the Company's rate case expense related to the mailing of customer notices because the Company failed to establish that the Company pursued the customer noticing option, as permitted by statute, that resulted in the least cost to its customers. Through the rebuttal testimony of its witness, Mr. Niemi, Public Service responded that the applicable statute, C.R.S. § 40-3-104, provides specifically for the method of notice (direct mailing) followed by Public Service and further that the selection of the method is at the option of the public utility. Mr. Niemi also pointed out that the statute does not provide for a "least cost to customer" standard, but does provide for the filing of rate changes by a public utility on 30 days notice, and that delays in the filing of rate cases to accommodate the longer notice required to follow other noticing options, such as bill inserts, would result in significant additional costs to Public Service.

Resolution. For purposes of settlement, the Parties agree that Public Service's costs of mailing customer notices for purposes of this rate case are reasonable and should be included as a component of rate case expense in the settled revenue requirement. To resolve this issue going forward, Public Service, Staff, and the OCC agree to begin, within ninety (90) days following the effective date hereof, to engage in good faith discussions to consider methods, including statutory changes , rules changes or other proposals, that would allow for less expensive, adequate notice to affected customers of general rate increases filed by fixed public utilities.

7. Weather Normalization

Background. Public Service proposed to normalize residential and commercial sales for weather based on a formula using heating degree days obtained from the National Oceanic & Atmospheric Association ("NOAA") 30-year normal, adjusted to the most recent 30-year period pursuant to a method approved by the Commission in prior gas rate cases. OCC witness, Mr. Senger, proposed changes to two aspects of the weather normalization process; eliminating certain "double-counting" of heating degree days for July 2005 through December 2005 and recognizing a downward trend in base load usage. As explained by Company witness Mr. Willemsen, Public Service's calculation of adjusted heating degree day normals was intended to be based on the most current 30-year period and to include the test year as one of those periods. The "double count" occurred as a result of the test year occurring from the midpoint of one year to the midpoint of the next (July 1, 2005 through June 30, 2006). Mr. Senger also argued that the current method of calculating base load sales using a ten-year average, which has been approved by the Commission, is inappropriate because it does not properly reflect the declining use per customer trend over the last several years. To remedy the situation, the OCC proposed to use the test year level of base load sales instead of a ten-year average.

Resolution. For purposes of settlement, the Parties agree that the settled revenue change shall be calculated by incorporating the two changes to the weather normalization calculation proposed by OCC witness Mr. Senger. As reflected on Attachment A hereto, these changes have the effect of reducing the revenue increase by $524,467.

B. Partial Decoupling Mechanism

Background. In its direct case, Public Service proposed to address the trend of declining use per customer through the implementation of a Partial Decoupling Rate Adjustment ("PDRA") for residential customers as part of a three-year pilot program. The proposed PDRA mechanism is an adjustment clause in the Company's tariff that is designed to reduce the impact of changes in weather-normalized customer use on the Company's revenues and earnings. Specifically, the proposed mechanism would decrease the impact of changes in customer use driven by factors other than weather – primarily efficiency gains, customer conservation efforts, and customer responses to price changes. The proposed mechanism would be implemented through a rider to compensate for the prior year's changes in weather-normalized use per customer. The rate adjustment would be updated annually. After the expiration of the three-year pilot, the Commission would evaluate the effectiveness of the mechanism and determine whether it should be continued, modified or eliminated.

The OCC, through its witness Mr. Senger, and Staff, though its witness Mr. Camp, identified numerous issues concerning the Company's proposed partial decoupling mechanism. The OCC recommended rejection of the proposal, arguing that there was insufficient evidence to support such a departure from traditional ratemaking principles. The OCC further argued that, if the PDRA was implemented, the decreased risk associated with the increased revenue stability should be recognized both in the establishment of the appropriate return on equity as well as in the cost allocation to the residential class. Staff neither supported nor opposed the proposal. Through its witness Mr. Dalton, Staff further recommended how the Partial Decoupling mechanism should be administered, if the

Commission were to approve it. With respect to the schedule for the initial implementation of the PDRA mechanism, the Company's and Staff's proposals were as follows:

ACTIVITY	**COMPANY PROPOSED**	**STAFF RECOMMENDED**
Period for Deriving Initial Decoupling Adjustment	1st Month After Order – 04/30/08	07/01/07 – 06/30/08
Company Filing Date for Initial Decoupling Adjustment	06/01/08	08/15/08
Implementation Date of Initial Decoupling Adjustment	07/01/08	10/01/08

Staff proposed that the Commission determine the filing and implementation schedule for subsequent years. Mr. Dalton further recommended that certain specific information be provided in each year's advice letter filing to support the proposed PDRA rider. Mr. Dalton also recommended that, in calculating the annual PDRA rider, the forecasted use be limited to one percent above or below the actual Residential (RG) class use during the previous year. Through the rebuttal testimony of its witness Mr. Brockett, Public Service addressed the concerns raised by OCC and Staff and argued that the concerns did not support the Commission's rejection of the pilot program proposed by the Company. Public Service also accepted Staff's proposed schedule as to the initial implementation of the PDRA, but recommended that the subsequent year's schedule track the first year's dates, rather than leaving the scheduling open to Commission determination at a future time. Mr. Brockett also agreed to the informational requirements proposed by Staff witness Mr. Dalton, but disagreed with the need to impose a one percent limit on the variation between forecasted use and the prior year's actual use in calculating the PDRA rider.

Resolution. The Parties agree that Public Service shall be permitted to implement a PDRA mechanism for the RG Class on a three-year pilot basis commencing October 1, 2008 and expiring September 30, 2011, subject to the Commission authorizing the continuance and/or extension of the program upon application of Public Service. The rider that takes effect October 1, 2008 shall reflect the effect of the change in use per customer on revenues for the period July 1, 2007 through June 30, 2008. Thereafter, the Company shall file to change the rider on October 1, 2009 and October 1, 2010 to reflect the effect of the change in use per customer on revenues for the periods July 1, 2008 through June 30, 2009 and July 1, 2009 through June 30, 2010, respectively. The tariff sheets implementing the PDRA mechanism shall be as contained in Attachment E hereto, and shall be consistent with the following principal provisions:

a. For each of its three weather regions (Front Range, Mountain and Western), the Company will compare monthly weather-normalized RG use per customer with the monthly weather-normalized RG use per customer approved in this proceeding. The method for weather-normalizing sales shall be the same as used in developing the settled revenue change in this case, as provided in Section II.A.6 above. The differences in average use for Public Service's three regions, whether positive or negative, will be multiplied by the number of RG customers in the region during the month times the RG usage charge (including the GRSA) approved in this proceeding. Beginning in July 1007, the resulting total monthly over- or under-collections will be entered into a deferred account -- Account No. 182.3. Interest at a rate equal to the average of the daily rates for Commercial Paper, Financial, 3-Month rates, as published by the United States Federal Reserve (http://www.federalreserve.gov/releases/h15/data.htm), will be applied monthly to the average balance in Account 182.3. Beginning in October 2008, the account balance will be credited monthly for the revenue generated from the decoupling adjustment.

b. Each year the decoupling adjustment will be derived by dividing the Account Balance as of June 30 by the projected RG sales from the following October 1 through September 30. Attachment C hereto provides an illustrative example of how the monthly over- or under-collections will be derived, how the balances in Account 182.3 will be derived, and how the annual decoupling adjustments will be derived.

c. On or before September 15, commencing September 15, 2008, and September 15 for each of the next two years, the Company will file with the Commission an application on less than statutory notice to implement the annual PDRA rider effective October 1. On or before August 15, 2008 and August 15 for each of the next two years, the Company shall submit to Staff and the OCC: 1) the supporting spreadsheets that derive the monthly difference between the actual weather-normalized sales per RG customer and test-year sales per RG customer; 2) a spreadsheet detailing the monthly entries into its deferral account, including support reflecting the monthly difference between actual and test-year sales per RG customer (derived in the previous spreadsheets), the RG Usage Charge effective during the month, the actual number of RG customers in the month, and the interest rate applied to that month's account balance; and 3) the derivation of the Partial Decoupling adjustment for the year beginning October 1.

d. The Company will provide notice to all affected customers by placing a legal classified advertisement in a newspaper of general circulation, providing a press release, and placing a copy of the filing on the Company's website, all of which shall be accomplished within three business days following the filing of the Company's PDRA application.

C. Phase II Rate Case

Background. Through its witness, Mr. Marc Peter, Seminole argues that the application of the GRSA as proposed in this Phase I rate proceeding enlarges the difference between the Commercial Gas (CG) and Transportation Firm (TF) Service and Facilities (S&F) Charges. This larger gap highlights the issue of rate comparability between these classes of customers as also raised by Seminole in Public Service's last gas rate case in Docket No. 05S-264G. Specifically, some customers, particularly small customers, might have a greater incentive to opt for sales service rather than transportation service.

To address this concern, and to assure resolution of the issue caused by application of the GRSA rider, Seminole recommended that the Commission direct Public Service to file a Phase II rate case (cost allocation and rate design) on or before March 31, 2008. In addition, both OCC and Staff, through witnesses Senger and Camp, respectively, argue that the implementation of revenue decoupling will have implications on certain issues of cost allocation between rate classes that are typically determined by the Commission in a Phase II proceeding.

Resolution. In resolution of these issues concerning the Phase II portion of this rate case, and as part of the overall compromises and settlement of issues in this rate case, Public Service agrees as follows:

a. On or before March 31, 2008, Public Service shall file a Phase II rate case to spread among Public Service's customer classes the settled revenue requirement provided for herein;

b. In such Phase II filing, Public Service will not use or support an imputed minimum system approach as the basis for its proposed inter-class cost allocation. However, the Company may use an imputed minimum system approach to support the development of its proposals relating to the service and facilities charges;

c. Public Service will file, for informational purposes as part of its direct case, the results of using the Atlantic Seaboard method to allocate all non-customer related fixed costs; and

d. Public Service will not propose or support any classification or interclass allocation of costs that treats less than 25 percent of the non-customer-related costs as commodity costs.

III. TERM OF THIS STIPULATION AND AGREEMENT

This Stipulation shall take effect upon its approval by the Commission. Nothing in this Stipulation shall be construed as precluding the Company from filing a general rate case to change the rates for its natural gas services at any time. Nothing in this Stipulation shall be construed to limit the Company from applying to the Commission for adjustment clauses or for any other change to the Company's gas rates. Nothing in this Stipulation shall be construed to prevent the Staff of the Commission (by seeking an order to show cause) or any other party (by filing of a complaint) from seeking review by the Commission of the justness and reasonableness of the Company's natural gas service rates.

Except as provided in this paragraph, the provisions of this Stipulation shall terminate and have no continuing effect upon the effective date of the revised rates for natural gas services resulting from Public Service's next comprehensive gas rate case, whether initiated through the Company's filing of a rate case, an order to show cause, or complaint. Where reference is made in the Stipulation to provisions that apply for a period of time, all such time period provisions of this Stipulation may be modified by a subsequent filing with the Commission or subsequent stipulation approved by the Commission.

IV. EFFECTIVE DATE OF SETTLEMENT RATES AND TERMS AND CONDITIONS OF SERVICE

Subject to implementation of the Stipulation in accordance with Article V hereof, the rates and terms and conditions of service set forth herein shall go into effect on July 30, 2007.

V. IMPLEMENTATION

This Stipulation shall not become effective until the issuance of a final Commission Order approving the Stipulation that does not modify the Stipulation in a manner that is unacceptable to any of the Parties. In the event the Commission modifies this Stipulation in a manner unacceptable to any Party, that Party shall have the right to withdraw from this Stipulation and proceed to hearing on the issues that may be appropriately raised by that

Party in this docket. The withdrawing Party shall notify the Commission and the Parties to this Stipulation by e-mail within three business days of the Commission modification that the Party is withdrawing from the Stipulation and that the Party is ready to proceed to hearing; the e-mail notice shall designate the precise issue or issues on which the Party desires to proceed to hearing (the "Hearing Notice").

The withdrawal of a Party shall not automatically terminate this Stipulation as to the withdrawing Party or any other Party. However, within three business days of the date of the Hearing Notice from the first withdrawing Party, all Parties shall confer to arrive at a comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled as a result of the first Party's withdrawal from this Stipulation. Within five business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled. The Parties who proceed to hearing shall have and be entitled to exercise all rights with respect to the issues that are heard that they would have had in the absence of this Stipulation.

Hearing shall be scheduled on all of the issues designated in the formal notice filed with the Commission as soon as practicable. In the event that this Stipulation is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Stipulation shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Stipulation.

The Parties agree that, upon final Commission approval of this Stipulation, the Company will file an Advice Letter with the Commission, on not less than one day's notice prior to the effective date ordered by the Commission, that will include a citation to the order approving the Stipulation, and the settlement rates, terms and conditions and tariff sheets set forth herein in Attachment E hereto. The Parties agree that the Commission's order should permanently suspend the tariff sheets filed with Advice Letter No. 690-Gas and direct Public Service to place into effect tariff sheets reflecting the tariff changes that are in all respects identical to the *pro forma* tariff sheets contained in Attachment E hereto, with the exceptions that (i) the GCA rates reflected on Sheets 10A and 11 shall be updated to reflect the then-effective monthly GCA rates as may be approved by the Commission after the filing of this Stipulation and (ii) the effective date of the Commission's order shall be inserted in the tariff sheets where such reference is indicated. The settlement rates, terms and conditions shall then become final rates, terms and conditions to be effective as provided in Article III hereof and shall not be subject to refund, nor shall they be subject to modification except in accordance with the Public Utilities Law and the Commission's Rules and Regulations promulgated there under.

VI. GENERAL TERMS AND CONDITIONS

The Parties hereby agree that all pre-filed testimony and exhibits shall be admitted into evidence in this docket without cross-examination. This Stipulation reflects compromise and settlement of all issues raised or that could have been raised in this docket.

Approval by the Commission of this Stipulation shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of all issues which were or could have been contested between the Parties hereto in this proceeding. Notwithstanding the resolution of the issues set forth in this Stipulation, none of the methodologies or ratemaking principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, and nothing herein shall constitute a waiver by any party with respect to any matter not specifically addressed herein. Further, by entering into this Stipulation, no party shall be deemed to have agreed to any principle or method of ratemaking or rate design. This Stipulation may be executed in counterparts, each of which when taken together shall constitute the entire Stipulation with respect to the issues addressed by this Stipulation.

The Parties to this Stipulation state that reaching agreement as set forth herein by means of a negotiated settlement rather than through a formal adversarial process is in the public interest and that the results of the compromises and settlements reflected by and in this Stipulation are just, reasonable and in the public interest.

Except as otherwise provided herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of said Stipulation, the settlement terms and conditions contained in this Stipulation, nor the Stipulation itself, may be used in this or any other administrative or court proceeding by any of the Parties hereto.

The Parties agree to a waiver of compliance with any requirements of the Commission’s Rules and Regulations to the extent necessary to permit all provisions of this Stipulation to be carried out and effectuated.

This Stipulation may be executed in counterparts, each of which when taken together shall constitute the entire Stipulation.

DATED this 31st day of May, 2007.

Respectfully submitted,

PUBLIC SERVICE COMPANY OF COLORADO

By:______________________________
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Agent for Public Service
Company of Colorado

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Revised Decoupling Mechanism

Public Service Company would adjust rates each year to recover reduced weather-normalized revenues due to reduced usage per customer to the extent that the revenue per customer declines more than 1.3% per year. This value was chosen since it equals one-half the historic rate of decline.

Each year the weather-normalized use per customer will be compared to the corresponding test year value used to set rates initially. To the extent the weather-normalized use per customer has declined by more than 1.3% per year since the test year, the rider in a given year will be designed to collect the associated revenues lost due to such decline.

The adjustment and the "dead band" of 1.3% are symmetric. That is, if weather-normalized use per customer increases, Public Service will refund moneys only to the extent that the increased use per customer exceeds 1.3%.

An Illustration: Revised Decoupling Mechanism Applied to Actual Historic Values

Annual Deadband	Year	Annual Use/Cust	Annual Change	Annual % Change	% Change from Base	Deadband	Net Adjustment
1.30%	2001	919					
	2002	912	-7	-0.8%	-0.8%	1.3%	0.0%
	2003	899	-13	-1.4%	-2.2%	2.6%	0.0%
	2004	836	-63	-7.0%	-9.0%	3.9%	5.1%
	2005	837	1	0.1%	-8.9%	5.2%	3.7%
	2006	804	-33	-3.9%	-12.5%	6.5%	6.0%

Note: The "net adjustment" in the example is not the value of the rider, but the portion of the revenue decline that the rider will collect.

Modeling the Impact of DSM required by HB 1037

DSM Goal -0.5%	DSM Impact	Year	Base Case	DSM Chg	DSM Case
		2001	919		919
	-0.1%	2002	912	-1	911
	-0.2%	2003	899	-2	896
	-0.3%	2004	836	-3	831
	-0.4%	2005	837	-3	828
	-0.5%	2006	804	-4	791

Applying Revised Decoupling Rider to DSM Case

Annual Deadband	Year	Annual Use/Cust	Annual Change	Annual % Change	% Change from Base	Deadband	Net Adjustment
1.30%	2001	919					
	2002	911	-8	-0.9%	-0.9%	1.3%	0.0%
	2003	896	-15	-1.6%	-2.5%	2.6%	0.0%
	2004	831	-66	-7.3%	-9.6%	3.9%	5.7%
	2005	828	-2	-0.3%	-9.9%	5.2%	4.7%
	2006	791	-37	-4.5%	-13.9%	6.5%	7.4%

Checking Marginal Impact of DSM on Decoupling Rider

	Base Case			DSM Case			Difference	
Year	Annual Use/Cust	% Change from Base	Net Adjustment	Annual Use/Cust	% Change from Base	Net Adjustment	% Change from Base	Net Adjustment
2001	919			919				
2002	912	-0.8%	0.0%	911	-0.9%	0.0%	0.1%	0.0%
2003	899	-2.2%	0.0%	896	-2.5%	0.0%	0.3%	0.0%
2004	836	-9.0%	5.1%	831	-9.6%	5.7%	0.6%	0.6%
2005	837	-8.9%	3.7%	828	-9.9%	4.7%	1.0%	1.0%
2006	804	-12.5%	6.0%	791	-13.9%	7.4%	1.4%	1.4%

COMPLIANCE APPENDIX
Docket No. 06S-656G

Compliance Requirement	Entity Obligated to Comply	Compliance Deadline
1. File Compliance Advice Letter Appendix E tariff sheets to implement GRSA rider and PDRA mechanism	PSCo	Upon approval of the Stipulation, on not less than one day's notice
2. Discussions with PSCo, Staff, OCC regarding notice to customers	PSCO, Staff, OCC	Commence within 90 days of effective date of order
3. File initial Partial Decoupling (PDRA) LSN application	PSCo	September 15, 2008 to be effective October 1, 2008 (also for following 2 years)
4. Serve PDRA supporting schedules and spreadsheets on OCC and Staff	PSCo	August 15, 2008 (also for following 2 years)
5. Include footnote in FERC Form 2 filings disclosing non-legal asset retirement obligation portion of accumulated depreciation for its gas utility operations	PSCo	Annual filing in April
6. Submit new salvage study as part of depreciation study	PSCo	December 31, 2007
7. Make necessary filings prior to any gas deregulation to bring ARO issue to Commission's attention	PSCo	Any time in the future that gas operations should be deregulated in Colorado
8. LSN – negative rider to remove amortization for Rate Case Expense	PSCo	July 30, 2009, if prior to effective date of new revenue requirement rate case
9. LSN – negative rider to remove amortization for Integrity Management Program Costs	PSCo	July 30, 2010, if prior to effective date of new revenue requirement rate case
10. LSN – negative rider to remove amortization for Leyden closure costs	PSCo	July 30, 2011, if prior to effective date of new revenue requirement rate case
11. LSN – negative rider to remove amortization for Fort Collins MGP Cleanup cost	PSCo	July 30, 2012, if prior to effective date of new revenue requirement rate case
12. File Phase II gas rate case	PSCo	On or before March 31, 2008