

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

**RE: THE INVESTIGATION AND SUSPENSION)
OF TARIFF SHEETS FILED BY PUBLIC SERVICE)
COMPANY OF COLORADO ADVICE LETTER NO.) DOCKET NO. 06S – 234 EG
1454 – ELECTRIC, ADVICE LETTER NO. 671 – GAS)**

SETTLEMENT AGREEMENT

October 20, 2006

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SETTLEMENT AGREEMENT

1 Public Service Company of Colorado, the Staff of the Colorado Public Utilities
2 Commission (“Staff”), the Colorado Office of Consumer Counsel (“OCC”), Colorado
3 Energy Consumers, The Kroger Co., Climax Molybdenum Company, the
4 Commercial Group, and Adams County (collectively, the “Settling Parties”) hereby
5 enter into this Settlement Agreement.

INTRODUCTION

6
7 On April 14, 2006, Public Service Company of Colorado (“Public Service” or
8 the “Company”) filed Advice Letter No. 1454 – Electric and Advice Letter No. 671 –
9 Gas with the Colorado Public Utilities Commission (“Commission” or “CPUC”),
10 tendering revised tariff sheets in which the Company proposed comprehensive rate
11 and tariff changes. The Company also filed Direct Testimony and Exhibits in support
12 of the proposed rate and tariff changes.

The Company requested the following base rate revenue and estimated adjustment clause revenue as summarized in the Direct Testimony of Fredric C. Stoffel:

1	Base Rate Revenue	\$1,021,321,846	44.8%
2	PCCA Revenue	\$ 336,297,476	14.8%
3	ECA Revenue	\$ 851,707,000	37.4%
4	Other clauses	<u>\$ 68,814,056</u>	3.0%
5	TOTAL	\$2,278,140,378	100%

6

7 On August 11, 2006, the Company filed Supplemental Direct Testimony and
8 Revised Exhibits. This filing increased the Company's requested increase in electric
9 base rate revenue by \$774,172. On August 18, 2006, various parties filed Answer
10 Testimony and Exhibits objecting to aspects of the Company's requested rate
11 changes, overall revenue requirement, Return on Equity, cost adjustment
12 mechanisms and tariffs. Staff and the OCC each summarized their Answer
13 Testimony using exhibits comparing the Company's proposed revenue requirement
14 to the changes proposed by their respective organizations.

15

- 1 Staff's proposed revenue requirement was summarized by Dr. Shiao in his
2 Corrected Exhibit LYS-4:

Public Service Company of Colorado Calculation of Deficiency/Excess
Electric Department
Test Year 2005

Docket No. 06S-234EG
Corrected Exhibit LYS-4
Page 1 of 1

Description	PSCo Original Proposed	Staff Proposed	Difference
Revenue Deficiency/Excess			
1 Net CPUC Jurisdictional Rate Base	3,376,712,664	3,241,377,676	(135,334,988)
2			
3 Allowed Return on Rate Base	9.15%	8.25%	-0.90%
4			
5 Required Earnings	308,969,209	267,413,658	(41,555,551)
6			
7 Net CPUC Jurisdictional Operating Earnings	199,374,216	216,348,146	16,973,930
8			
9 Deficiency / (Excess)	109,594,993	51,065,512	(58,529,480)
10			
11 Gross-up	1.62700225	1.62595431	(0.00104794)
12			
13 Revenue Increase / (Decrease)	178,311,300	83,030,190	(95,281,110)
14			

Rider Calculation

15 Retail Rate Revenue	843,010,546	846,880,268	3,869,722
16			
17 Less: Street Light Maintenance Revenue	2,251,108	2,251,108	
18			
19 Rider Applicable Revenue	840,759,438	844,629,160	3,869,722
20			
21 Rider	21.208%	9.830%	-11.378%

Note: Row 5 = Row 1 x Row 3

Row 13 = Row 9 x Row 11

Row 7 from DAB-1 Schedule 1 & Staff's Exhibit LYS-2, Expenses

Row 15 from DAB-1 Schedule 4 & Staff's Exhibit LYS-2, Revenues

Row 9 = Row 5 - Row 7

Row 21 = Row 13/ Row 19

Staff proposed GRSA Rider includes PSCo's corrections presented in its Supplemental Direct Testimony

3

- 1 The OCC summarized its recommended adjustments to the Company's proposed
2 revenue requirements in Dr. Schechter's Revised Exhibit PBS-1:

PUBLIC SERVICE COMPANY OF COLORADO

Colorado Jurisdiction - Electric Department

Reconciliation of OCC Issues

Test Year Ended December 31, 2005

\$(000)

	(A)	(B)
1. PSCo revenue deficiency as filed		\$178,311
OCC adjustments:		
2. Modify FERC production allocation factor		(662)
3. Reduce ROE from 11.0% to 8.5%		(82,178)
4. Revised revenue conversion factor		2
5. Remove 2006 AFUDC on Comanche 3		(1,603)
6. Remove 2006 Non-Comanche CWIP		(2,525)
7. Correct M&S capitalized amount		(64)
8. Cash working capital		(566)
9. Reverse weather normalization adjustment		(3,876)
10. Include RTD revenue		(1,412)
11. Include oil & gas royalties		(2,026)
12. Adjust rail car lease		(207)
13. Adjust DSM employees		(216)
14. Correct postage expense adjustment		(3)
15. Remove targeted incentive compensation		(8,197)
16. Reverse pensions & benefits adjustment		0
17. Adjust depreciation expenses		(40,473)
18. Revised AQIR revenue requirement		1,775
19. Corrected Pawnee 2 and Metro Ash amortization		(1,038)
20. Out of period adjustments		(33)
21. Rendering service charges		150
22. Subtotal OCC adjustments		<u>(\$143,152)</u>
23. OCC calculated revenue deficiency		<u>\$35,159</u>

3

1 In its Rebuttal Case filed on September 29, 2006, the Company updated its
2 capital structure and projections of Comanche 3 CWIP, consistent with the terms of
3 the Comprehensive Settlement Agreement dated December 3, 2004 in Dockets No.
4 04A-214E, 04A-215E, and 04A-216E, approved by Commission Decision No. C05-
5 0049 (January 21, 2005) (the "2003 LCP Settlement"). The Company made other
6 changes to reflect corrections or concessions to proposals advocated by the Parties.
7 A summary of the changes to the Company's base rate revenue requirement as
8 submitted in its Rebuttal Case is shown below:

Company's Filed Case

1. Revenue Increase \$178,311,300

Supplemental Direct Corrections -

2. Labor Capitalization for M&S (\$78,726)
3. Lead-Lag Factors \$113,462
4. AQIR Revenue Credit \$1,799,200
5. Amortization of Pawnee 2 & Metro Ash (\$1,064,163)
6. Tax Gross-Up Factor \$4,399

Rebuttal Testimony -

7. Charges for Rendering Service \$149,608
8. Railcar Lease (\$207,603)
9. Postage (\$2,687)
10. Out-of-Period (\$25,071)
11. P&B- new Watson & Wyatt estimate (\$2,425,345)
12. Capital Structure - 60% vs. 59.93% \$205,224
13. Comanche 3 Update (\$1,106,800)
14. Gain on Sale - Depreciation Reserve (\$19,918)
15. Incremental DSM (\$213,956)
16. Windsorce - moved to ECA (\$3,699,158)

17. Sub total (\$7,345,706)

18. Final Revenue Increase \$171,739,766

1 In addition, as part of its proposal for treatment of the Windsource program,
2 the Company proposed recovering the Wind Benefit through the ECA instead of
3 through base rates. The Wind Benefit for 2007 was projected to be \$4,618,374.

4 Subsequent to the filing of its Rebuttal Testimony, the Company invited all
5 parties to this docket to participate in settlement discussions. Not all parties chose
6 to participate in discussions. Settlement has been successfully reached among the
7 signatories to this Settlement Agreement on all contested issues in this case. Other
8 parties may elect to support, oppose or remain silent on this Settlement Agreement.

9 The Settling Parties have reached agreement as to a just and reasonable
10 increase in the Company's base rate revenue. However, the Settling Parties do not
11 necessarily agree among themselves as to the resolution of the rate case principles
12 that make up the agreed-upon increase. Rather than continue to engage in litigation
13 over rate case principles, the Settling Parties agree that this case should be resolved
14 by agreement of a specific base rate revenue increase with a specific General Rate
15 Schedule Adjustment ("GRSA"), without reaching agreement as to all the specific
16 line items in the cost of service model that make up the settled increase. Because
17 the settled base rate revenue increase is less than the level proposed by the
18 Company and greater than the level proposed by other parties, a substantial record
19 of evidence exists to support the settled number.

20 Because agreement has not been reached on all the rate case principles
21 reflected in the competing cost of service models, the Settling Parties intend to
22 minimize the number of new rate case principles that are reflected in the proposed
23 settled base rate revenue increase. Other than the principles discussed in this

1 Settlement Agreement, the Settling Parties are not agreeing to the acceptance or
2 rejection of any position raised by any party in filed testimony. However, due to the
3 Company's accounting and reporting obligations, certain rate case principles will be
4 specified in this Settlement Agreement. In addition, solely for accounting and
5 reporting purposes, the Settling Parties agree that the rate case principles in effect
6 prior to the filing of this Settlement Agreement shall continue to apply, except as
7 modified by this Settlement Agreement.

8 The Settling Parties have also reached agreement on the base rates from
9 which purchased capacity costs have been removed, the form of the Electric
10 Commodity Adjustment ("ECA"), the form of the Purchased Capacity Cost
11 Adjustment ("PCCA"), and the form of the Wind Energy Service Adjustment
12 ("WESA") that should go into effect on January 1, 2007. The Settling Parties also
13 agree to new tariffs for non-gratuitous charges and residential late payment fees. All
14 Settling Parties specifically reserve the right to seek changes to any rate case
15 principles in any subsequent regulatory proceeding dealing with Public Service's
16 rates.

PUBLIC INTEREST

17 The Parties to this Settlement Agreement state that reaching agreement as
18 set forth herein by means of a negotiated settlement rather than through a formal
19 adversarial process is in the public interest, consistent with Commission Rule 1408
20 encouraging settlements and, therefore, the compromises and settlements reflected
21 in this Settlement Agreement are in the public interest. The Parties further state that

1 approval and implementation of the compromises and settlements reflected in this
2 Settlement Agreement constitute a just and reasonable resolution of this proceeding.

SETTLEMENT

3 1. Base Rate Revenue Increase

4 The Settling Parties agree that Public Service should be authorized to put into
5 effect, beginning January 1, 2007, a General Rate Schedule Adjustment of 12.70%.
6 The GRSA shall apply to all base rate elements on retail customer bills. Because the
7 Settling Parties agree to the continuation of the PCCA, discussed later, the base
8 rates will not include any purchased capacity expense. A 12.70% GRSA represents
9 a \$107 million increase over test year base rate revenues. Attachment A sets forth
10 the average bill impacts by service class from this proposed GRSA and the
11 estimated effect of the rate adjustments discussed in this Settlement Agreement.

12 Attachment B sets forth the proposed electric tariffs. Attachment C sets forth
13 the proposed gas tariffs. Certain tariff sheets contain numbers that are illustrative
14 only and are marked "Illustrative." Where the tariff sheet is marked Illustrative, the
15 Settling Parties have agreed to the form of tariff and to the method for determining
16 rates. The Settling Parties have agreed that the Company shall file the rates under
17 these tariffs using updated projected 2007 costs on or before December 1, 2006. .

18 2. New Rate Case Principles Incorporated into the Base Rate Revenue 19 Increase

20 The following new rate case principles are incorporated into the compromise
21 and settlement on the \$107 million base rate revenue increase.

1 **A. Authorized Return on Equity**

2 The authorized Return on Equity shall be 10.5%.

3 **B. Capital Structure and Return on Rate Base**

4 Pursuant to the 2003 LCP Settlement, the approved capital structure
5 for the Company shall be 60% equity and 40% debt. The test year cost of
6 debt is 6.38%. The resulting return on rate base is 8.85%, calculated as
7 follows:

	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	40.00%	6.38%	2.55%
Common Equity	<u>60.00%</u>	10.50%	<u>6.30%</u>
Total	100.00%		8.85%

9
10 **C. Depreciation Rates**

11 The Company shall use the depreciation rates and remaining lives set
12 forth by Mr. Camp in his Answer Testimony at page 12, line 9, through page
13 21, line 12, and in his Exhibit No. ELC-9, and by Ms. Perkett in her Exhibit No.
14 LHP-1, Schedule 1 Hydraulic Production Plant and General Plant. These
15 exhibits are attached as Attachment D. The Company shall include a footnote
16 in its annual FERC Form 1 filing disclosing the non-legal asset retirement
17 obligation portion of accumulated depreciation.

18 **D. AFUDC on Transmission Investment (other than transmission**
19 **needed for Comanche 3)**

20 Transmission investment that is not related to Comanche 3 (and is not
21 considered "Comanche CWIP" under the 2003 LCP Settlement) shall be
22 included in Construction Work in Progress with an AFUDC offset.
23

1 **E. Retail / Wholesale Jurisdictional Allocation of Capacity Costs**

2 Retail/wholesale jurisdictional allocation for capacity costs (generation
3 and transmission) will be determined using the 12 Coincident Peak (12 CP)
4 method, except that the capacity sold under wholesale contracts that are for
5 specific amounts of capacity (as opposed to wholesale contracts for full or
6 partial requirements contracts) shall be directly assigned to the wholesale
7 jurisdiction.¹ In addition, the wholesale load associated with the Cheyenne
8 Light, Fuel & Power all-requirements contract shall be included in developing
9 the production demand jurisdictional allocator.²

10 **F. Comanche CWIP**

11 In accord with the 2003 LCP Settlement, 2006 year-end Comanche
12 Construction Work in Progress for generation and transmission shall be
13 included in rate base without an AFUDC offset. AFUDC shall accrue on
14 Comanche Construction Work in Progress for generation and transmission for
15 all construction expenditures made through December 31, 2006, but will no
16 longer accrue on these expenditures once rates take effect on January 1,
17 2007. In addition, for Comanche construction expenditures for generation and
18 transmission made on or after January 1, 2007, AFUDC shall accrue until
19 such time as these expenditures are included in effective rates without an
20 AFUDC offset.

¹ The wholesale contracts in the test year that are for specific amounts of capacity are contracts between Public Service and the Arkansas River Power Authority, the Municipal Energy Agency of Nebraska, and Aquila, Inc., respectively.

² Due to the adoption of the production demand allocator, there will be no PCCA revenue credit.

1 **G. Amortization of Certain Expenses**

2 Pawnee 2, Metro Ash, and actual rate case expenses incurred through
3 December 31, 2006 shall be amortized over two years. The gain on the sale
4 of rail cars shall be netted with the actual one-time 2006 costs and shall be
5 amortized over ten years. The actual one-time 2006 costs shall include actual
6 additional lease expense incurred in 2006, actual delivery charges for leased
7 railcars in 2006, and actual incremental coal handling O&M at Cherokee and
8 Pawnee incurred in 2006. These amortizations will be recorded on the
9 Company's books beginning January 1, 2007.

10 **3. Purchased Capacity Cost Adjustment**

11 The Purchased Capacity Cost Adjustment shall continue but shall be revised
12 beginning January 1, 2007 to recover all prudently-incurred costs paid by the
13 Company under all power purchase agreements ("PPAs") that are not recovered
14 through the Electric Commodity Adjustment. The ECA recovers fuel, purchased
15 energy, and purchased wheeling expenses. The remaining costs paid under power
16 purchase agreements are generally capacity-related costs, i.e., costs that do not
17 vary with output from the generator. The PCCA will be designed as described by
18 Company witness Mr. Darnell in his direct testimony at page 6, line 14, through page
19 8, line 13. The proposed form of PCCA tariff is included in Attachment B. The
20 Company will project each November 1 the PCCA costs for the upcoming year, and
21 such costs will be subject to true-up through a deferred account to compare actual
22 PCCA costs with PCCA revenues. Interest shall not accrue on the PCCA deferred
23 balance. The deferred balance as of September 30 of each year will factor into the

1 calculation of the subsequent year's rate. The PCCA shall be temporary and shall
2 expire at the earlier of rates taking effect after Comanche 3 goes into service or
3 December 31, 2010.

4 Public Service shall file by April 1 of each year for an annual review of the
5 costs recovered through the PCCA during the just completed calendar year. Public
6 Service's reporting requirements shall be limited to the actual PCCA costs incurred
7 by month and by PPA, the PCCA revenues received by month from the prior
8 calendar year, calculation of the PCCA deferred balance, identification of New
9 PPAs, and the status of regulatory approvals, if any, of each PPA. "New PPAs" shall
10 encompass all PPAs, and all contractual amendments or modifications to PPAs,
11 where the new, amended or modified contract has not been included in any
12 Commission-approved rate or has not been otherwise approved by the Commission.
13 New PPAs may be reviewed for prudence of contract execution and contract terms
14 in the first annual review in which the New PPA costs appear. The prudence of
15 contract administration giving rise to the costs under review in any annual review
16 proceeding may also be raised in that annual review proceeding.

17 **4. Electric Commodity Adjustment**

18 Beginning January 1, 2007, the Electric Commodity Adjustment shall recover
19 all prudently-incurred fuel, purchased energy and purchased wheeling expenses
20 pursuant to the ECA tariff included in Attachment B. The ECA shall be forward-
21 looking (subject to true-up through the use of a deferred account) and shall be filed
22 every November 1 for the upcoming year. The annual filing shall project the ECA for
23 the upcoming year and for the first calendar quarter. The ECA shall be updated

1 quarterly, using the projected fuel, purchased energy and purchased wheeling
2 expenses for the upcoming calendar quarter. The ECA shall continue to be
3 differentiated by service delivery voltage, but the class allocations proposed by
4 Public Service shall not be used.

5 There shall be no mandatory time-of-use ECA rate, but the Company shall
6 offer an optional time-of-use ECA rate for all transmission and primary customers
7 and for secondary customers with demands greater than 300 kw. The time-of-use
8 rate design shall use the methodology shown on Attachment E. This time-of-use
9 rate design is based on the ratio of the projected average marginal costs for the on-
10 peak and off-peak periods, updated annually in the Company's November ECA
11 filing. Public Service shall provide an assessment of the optional time-of-use
12 program to the Settling Parties on or before July 1, 2008.

13 Interest shall accrue monthly on the average calendar month deferred
14 balance (whether the balance is positive or negative). The monthly interest rate
15 shall be the average of the rate for Dealer Commercial Paper (90 day rate) as
16 published daily in the Wall Street Journal under Money Rates.

17 In addition to the recovery of prudently incurred fuel, purchased energy and
18 purchased wheeling expenses, the Company shall have the opportunity to earn two
19 incentive payments each year in its utility operations. These annual incentive
20 payments shall be calculated at calendar year end and shall be paid on April 1 of the
21 subsequent year by adjustments to the ECA deferred balance as set forth in the
22 ECA tariff. The total incentive payment to the Company in any calendar year shall
23 not exceed \$11.25 million.

1 The first incentive shall be the Base Load Energy Benefit or “BLEB” to
2 encourage efficient operation of base load coal plants. Under the BLEB, if the
3 Company succeeds in obtaining coal production greater than a benchmark target,
4 then the savings from the coal production over the benchmark will be shared 80% to
5 customers and 20% to the Company. The BLEB formula shall be as set forth in the
6 ECA tariff. The BLEB formula is the Company’s proposal in this Docket with the
7 following changes:

- 8 • The benchmark shall be the greater of the average annual coal production
9 from Company-owned coal-fired power plants for the most recent three
10 calendar years, or 18,300 GWH. The BLEB benchmark will be reset when
11 the Company brings on line a new coal plant, including an Integrated
12 Gasification Combined Cycle plant.
- 13 • The calculated heat rate in the BLEB formula shall be the actual heat rate
14 from the prior calendar year of all natural gas-fired generation, either owned
15 by the Company or under long-term PPAs.

16 The second incentive shall be the Energy Purchase Benefit or “EPB” to
17 encourage cost reductions through purchases of economical short-term energy. The
18 EPB shall be as proposed by Mr. Imbler in his direct testimony on page 16, lines 4
19 through 22 and his Exhibit TAI-6, with \$6.7 million in energy purchase savings
20 before an incentive is earned, except that the sharing shall be 80% to customers and
21 20% to the Company.

22 The Company shall continue to file by August 1 of each calendar year for an
23 annual review of the ECA costs. Public Service’s reporting requirements shall be

1 limited to the actual fuel, purchased energy and the purchased wheeling expenses
2 incurred by month; ECA revenues received by month; calculation of the ECA
3 incentives; the trading margins from the prior year; and any other information
4 previously required by Commission order.

5 **5. Short Term Energy Trading**

6 Short term energy trading shall continue under all the terms and conditions
7 set forth in the Settlement Agreement approved in Docket No. 02S-315E (Public
8 Service's last Phase 1 rate case), under the business rules approved by the
9 Commission in the subsequent trading investigation Docket No. 04A-050E, and as
10 modified by Commission orders in Docket No. 05A-161E and the Settlement
11 Agreement filed in Docket No. 06A-015E. The only change to these terms and
12 conditions shall be the sharing of the "Gross Margins," as that term is defined in
13 footnote 43 of the Settlement Agreement in Docket No. 02S-315E. Public Service
14 shall share with customers the retail jurisdictional share of aggregated annual
15 positive Gross Margins over and above \$1,023,070 from each of the Generation
16 Book ("Gen Book") and the Proprietary Book ("Prop Book"). The sharing
17 percentages of aggregated annual positive Gross Margins shall be: Gen Book 80%
18 to customers and 20% to the Company; Prop Book 20% to customers and 80% to
19 the Company. These aggregated annual Gross Margins shall be calculated at
20 calendar year end and shall be paid to customers on April 1 of the subsequent year
21 as set forth in the ECA tariff. If the aggregated annual Gross Margins in either book
22 are negative, such losses may not be recovered from retail customers. Should the
23 aggregated annual Gross Margins in either of the Gen Book or Prop Book fall below

1 \$1,023,070, the Company shall not recover the shortfall from retail customers. This
2 Settlement Agreement is allowing the Company to recover one-half of trading
3 A&G/O&M expenses from the Gen and Prop Books prior to sharing Gross Margins
4 with retail customers.³ The changes to sharing of trading margins are set forth in the
5 proposed ECA tariff in Attachment B.

6 **6. Non-gratuitous charges**

7 The settled tariffs concerning non-gratuitous charges are included in
8 Attachments B and C.

9 **7. Residential late payment fee**

10 The Company shall be permitted to charge a late payment fee to residential
11 customers. The residential late payment fee shall be 1% per month applied to all bill
12 balances that are not paid by the billing date shown on the next bill. Upon customer
13 request, the Company shall forgive a late payment fee, but not more frequently than
14 once in any twelve month period. The proposed tariffs imposing the residential late
15 payment fee are included in Attachments B and C.

16 **8. Windsource**

17 Except as discussed in this Settlement Agreement, the Wind Energy Rate
18 that is incorporated into the Wind Energy Service Adjustment ("WESA") shall be
19 calculated and designed as discussed by Mr. Darnell in his Rebuttal Testimony. The
20 proposed form of WESA tariff is included in Attachment B. The projected avoided
21 costs created by the Windsource generation shall be calculated using the ProSYM

³ \$1,023,070 represents 25% of the retail jurisdictional share of the 2005 test year administrative and general and non-production operation and maintenance expenses of the Company's trading department.

1 analysis methodology described by Company witness Mr. Horneck in his Direct
2 Testimony and updated in his Rebuttal Testimony. The Wind Energy Rate shall be
3 calculated using the method set forth on Company witness Mr. Darnell's Rebuttal
4 Exhibit RND-10, page 1. Exhibit RND-10, page 1 is attached to this Settlement
5 Agreement as Attachment F. The projected avoided costs of the Windsource
6 generation shall be added to the ECA as the "Wind Benefit." There shall be an
7 annual projection of the Windsource stand-alone revenue requirement using a return
8 on rate base of 8.85%.⁴ The incremental cost of Windsource (the stand-alone
9 Windsource revenue requirement less the Wind Benefit) shall be used to design the
10 Wind Energy Rates used in the WESA. The Wind Energy Rates shall be designed
11 assuming full subscription of Windsource generation projected for the upcoming
12 year. No ECA shall be paid on the kilowatt hours of Wind Energy Service.

13 There shall be an annual true-up calculation of the Wind Benefit that was
14 projected in the ECA using the method set forth in this Settlement Agreement. The
15 true-up calculation shall be filed by April 1 of each year. The ProSYM model runs
16 used to project the avoided energy cost prior to start of the year shall be preserved
17 and shall be rerun using the actual gas prices from the prior period instead of the
18 projected gas prices. The avoided energy cost per kilowatt hour shall be multiplied
19 by the actual wind production from the prior period to determine the actual Wind
20 Benefit from the prior period. The difference between the projected and the actual
21 Wind Benefit (positive or negative) shall be reflected in the ECA deferred balance.
22 Whenever an adjustment is made to the Wind Benefit in the ECA deferred balance,

⁴ The interest expense used to determine the stand-alone Windsource revenue requirement shall be 2.55%.

1 a countervailing adjustment shall be made to the incremental wind cost, such that
2 the countervailing adjustment is included in the calculation of the next year's Wind
3 Energy Rates. Notwithstanding the foregoing, if the true-up to the Wind Benefit
4 divided by the Windsource kilowatt hours is less than a penny per kilowatt hour, then
5 no true-up shall be made to ECA deferred balance or to the Wind Energy Rates. If
6 required, the ECA deferred balance and the Wind Energy Rate adjustment shall take
7 effect on July 1 of each year.

8 Public Service agrees to conduct roundtable discussions to obtain input from
9 interested persons for development of environmentally friendly products in addition
10 to Windsource and for improving Windsource, particularly to address the
11 subscription wait-list.

12 **9. Miscellaneous**

13 **A. Imputed debt.** This Settlement Agreement does not resolve the dispute
14 raised in this docket with respect to imputed debt.

15 **B. Future rate cases.** If the Company plans to file a subsequent rate case
16 using a future test year, at least 60 days in advance of its rate case filing the
17 Company shall notify the Settling Parties and shall submit to Staff and the OCC its
18 sales forecast, including all supporting data and assumptions.⁵ Also, the Company
19 shall file historic test year data with pro forma adjustments in the next electric rate
20 case where the Company is relying on a future test year.

⁵ This information shall be made available to other interested persons upon request, except that Confidential individual customer load forecasts shall not be supplied.

IMPLEMENTATION

1 The Settling Parties agree that the rate and tariff changes resulting from this
2 Settlement Agreement should be approved by the Commission to become effective
3 January 1, 2007. Upon a final Commission order approving this Settlement
4 Agreement in all material respects, Public Service shall file with the Commission
5 amended advice letters to place into effect revised tariff sheets in the form
6 reflected in the Attachments to this Settlement Agreement to become effective
7 January 1, 2007. Public Service shall update its cost projections for the ECA,
8 PCCA, and WESA and file them with the Commission on or before December 1,
9 2006 to take effect on January 1, 2007.

GENERAL TERMS AND CONDITIONS

10 The Settling Parties agree that all pre-filed testimony and exhibits shall be
11 admitted into evidence in this docket without cross-examination by the Settling
12 Parties. This Settlement Agreement reflects compromise and settlement of all issues
13 raised or that could have been raised by the Settling Parties in this Docket. This
14 Settlement Agreement shall be filed as soon as possible with the Commission for
15 Commission approval.

16 This Settlement Agreement shall not become effective until the issuance of a
17 final Commission Order approving the Settlement Agreement, which Order does not
18 contain any modification of the terms and conditions of this Settlement Agreement
19 that is unacceptable to any of the Settling Parties. In the event the Commission
20 modifies this Settlement Agreement in a manner unacceptable to any Settling Party,
21 that Settling Party shall have the right to withdraw from this Agreement and proceed

1 to hearing on the issues that may be appropriately raised by that Settling Party in
2 this docket. The withdrawing Settling Party shall notify the Commission and the
3 Settling Parties to this Agreement by e-mail within three business days of the
4 Commission modification that the party is withdrawing from the Settlement
5 Agreement and that the party is ready to proceed to hearing; the e-mail notice shall
6 designate the precise issue or issues on which the party desires to proceed to
7 hearing (the "Hearing Notice").

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

19 Hearing shall be scheduled on all of the issues designated in the formal
20 notice filed with the Commission as soon as practicable. In the event that this
21 Agreement is not approved, or is approved with conditions that are unacceptable to
22 any Settling Party who subsequently withdraws, the negotiations or discussions
23 undertaken in conjunction with the Agreement shall not be admissible into evidence

1 in this or any other proceeding, except as may be necessary in any proceeding to
2 enforce this Settlement Agreement.

3 Approval by the Commission of this Agreement shall constitute a
4 determination that the Agreement represents a just, equitable and reasonable
5 resolution of all issues that were or could have been contested among the Settling
6 Parties in this proceeding.

7 All Parties specifically agree and understand that this Settlement represents a
8 negotiated settlement in the public interest with respect to the various Public Service
9 rate matters and terms and conditions of service for the sole purpose of the
10 settlement of the matters agreed to in this Settlement. Nothing in this Settlement
11 Agreement shall preclude the Company from seeking prospective changes in its
12 electric rates by an appropriate filing with the Commission. Nothing in this
13 Settlement Agreement shall preclude any other party from filing a Complaint or
14 seeking an Order to Show Cause to obtain prospective changes in the Company's
15 electric rates.

16 The Settling Parties to this Agreement state that reaching agreement in this
17 docket as set forth in this Agreement by means of a negotiated settlement is in the
18 public interest and that the results of the compromises and settlements reflected by
19 this Agreement are just, reasonable and in the public interest.

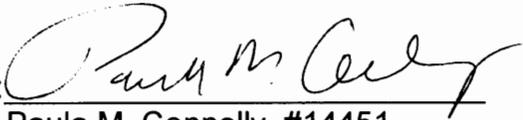
20 The Settling Parties understand that this Settlement Agreement will not be
21 executed by all parties to this docket. The Settling Parties agree to reasonably
22 defend this Settlement Agreement before the Commission against challenges that
23 may be made by non-executing parties.

1 This Agreement may be executed in counterparts, all of which when taken
2 together shall constitute the entire Agreement with respect to the issues addressed
3 by this Agreement.

4 Dated this 20th day of October, 2006.

**PUBLIC SERVICE COMPANY OF
COLORADO**

By: 
Frédéric C. Stoffel
Vice President,
Xcel Energy Services Inc.
1225 17th Street, Suite 1000
Denver, Colorado 80202

By: 
Paula M. Connelly, #14451
Assistant General Counsel
Xcel Energy Services Inc.
1225 17th Street, Suite 900
Denver, CO 80202
Telephone: (303)294-2222
Fax: (303)294-2988

Attorney for Public Service
Company of Colorado

**COLORADO OFFICE OF THE
CONSUMER COUNSEL**

By: _____
PB Schechter
Rate/Financial Analyst
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203
(303) 894-2124

Approved as to Form:

JOHN W. SUTHERS
Attorney General

By: _____
Stephen W. Southwick, #30389
First Assistant Attorney General
Office of the Attorney General
1525 Sherman Street, 7th Floor
Denver, Colorado 80203
Fax: (303) 866-5342
Telephone: (303) 866-5869
Stephen.Southwick@state.co.us

Attorneys for the Colorado Office of
the Consumer Counsel

HOLLAND & HART LLP

By: _____
Robert M. Pomeroy, Jr., #7640
Thorvald A. Nelson, #24715
8390 East Crescent Pkwy, Suite 400
Greenwood Village, CO 80111
(303) 290-1600
(303) 290-1606 – Fax

Attorneys for Colorado Energy
Consumers

**PUBLIC SERVICE COMPANY OF
COLORADO**

By: _____
Fredric C. Stoffel
Vice President,
Xcel Energy Services Inc.
1225 17th Street, Suite 1000
Denver, Colorado 80202

By: _____
Paula M. Connelly, #14451
Assistant General Counsel
Xcel Energy Services Inc.
1225 17th Street, Suite 900
Denver, CO 80202
Telephone: (303)294-2222
Fax: (303)294-2988

Attorney for Public Service
Company of Colorado

**COLORADO OFFICE OF THE
CONSUMER COUNSEL**

By: PB Schechter
PB Schechter
Rate/Financial Analyst
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203
(303) 894-2124

Approved as to Form:

JOHN W. SUTHERS
Attorney General

By: Stephen W. Southwick
Stephen W. Southwick, #30389
First Assistant Attorney General
Office of the Attorney General
1525 Sherman Street, 7th Floor
Denver, Colorado 80203
Fax: (303) 866-5342
Telephone: (303) 866-5869
Stephen.Southwick@state.co.us

Attorneys for the Colorado Office of
the Consumer Counsel

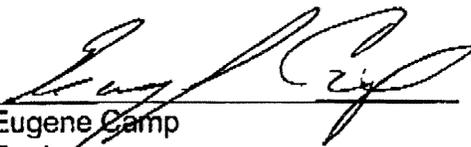
HOLLAND & HART LLP

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Robert M. Pomeroy, Jr., #7640
Thorvald A. Nelson, #24715
8390 East Crescent Pkwy, Suite 400
Greenwood Village, CO 80111
(303) 290-1600
(303) 290-1606 – Fax

Attorneys for Colorado Energy
Consumers

APPROVED:

STAFF OF THE COLORADO PUBLIC UTILITIES COMMISSION

By: 
Eugene Camp
Engineer
1580 Logan Street, OL-2
Denver, CO 80203
Telephone: (303) 894-2047

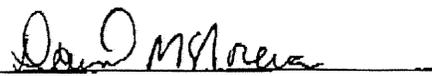
APPROVED:

STAFF OF THE COLORADO PUBLIC UTILITIES COMMISSION

By: 
Ronald Davis
Senior Economist
1580 Logan Street, OL-2
Denver, CO 80203
(303) 894-2883

APPROVED AS TO FORM:

JOHN W. SUTHERS
Attorney General

By: 
David M. Nocera, 28776*
Michael J. Santisi, 29673*
Jean S. Watson-Weidner, 21036*

Assistant Attorneys General
Business and Licensing Section
Attorneys for Staff of the
Public Utilities Commission
1525 Sherman Street, 5th Floor
Denver, Colorado 80203
Telephone: (303) 866-5295 (Nocera)
Telephone: (303) 866-3764 (Santisi)
Telephone: (303) 866-5158 (Watson-Weidner)
Fax: (303) 866-5395

*Counsel of Record

**PUBLIC SERVICE COMPANY OF
COLORADO**

**COLORADO OFFICE OF THE
CONSUMER COUNSEL**

By: _____
Fredric C. Stoffel
Vice President,
Xcel Energy Services Inc.
1225 17th Street, Suite 1000
Denver, Colorado 80202

By: _____
PB Schechter
Rate/Financial Analyst
Office of Consumer Counsel
1580 Logan Street, Suite 740
Denver, CO 80203
(303) 894-2124

Approved as to Form:

JOHN W. SUTHERS
Attorney General

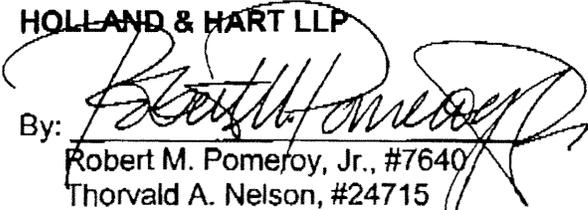
By: _____
Paula M. Connelly, #14451
Assistant General Counsel
Xcel Energy Services Inc.
1225 17th Street, Suite 900
Denver, CO 80202
Telephone: (303)294-2222
Fax: (303)294-2988

Attorney for Public Service
Company of Colorado

By: _____
Stephen W. Southwick, #30389
First Assistant Attorney General
Office of the Attorney General
1525 Sherman Street, 7th Floor
Denver, Colorado 80203
Fax: (303) 866-5342
Telephone: (303) 866-5869
Stephen.Southwick@state.co.us

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the Consumer Counsel

HOLLAND & HART LLP

By: 
Robert M. Pomeroy, Jr., #7640
Thorvald A. Nelson, #24715
8390 East Crescent Pkwy, Suite 400
Greenwood Village, CO 80111
(303) 290-1600
(303) 290-1606 – Fax

Attorneys for Colorado Energy
Consumers

THE COMMERCIAL GROUP

THE KROGER COMPANY

By: Alan R. Jenkins *by special appearance*

Alan R. Jenkins, *pro hac vice*
McKenna Long & Aldridge LLP
303 Peachtree Street, NE, Suite
5300
Atlanta, GA 30308
Telephone: (404) 527-4642
Facsimile: (404) 527-4198

Timothy R. Odil, #35771
McKenna Long & Aldridge LLP
1875 Lawrence Street, Suite 200
Denver, CO 80202
Telephone: (303) 634-4000
Facsimile: (303) 634-4400

By: _____

Michael L. Kurtz, #0033350
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite
1510
Cincinnati, OH 45202
Telephone: (513) 421-2255
Fax (513) 421-2764

Counsel for The Kroger Company
on behalf of its King Soopers and
City Market Divisions

**ADAMS COUNTY BOARD OF
COUNTY COMMISSIONERS**

By: _____

Jennifer M. Wascak, #29457
Deputy Adams County Attorney
Adams County Attorney's Office
450 South 4th Avenue
Brighton, CO 80601
Telephone: (303) 654-6116

THE COMMERCIAL GROUP

By: _____

Alan R. Jenkins, *pro hac vice*
McKenna Long & Aldridge LLP
303 Peachtree Street, NE, Suite
5300
Atlanta, GA 30308
Telephone: (404) 527-4642
Facsimile: (404) 527-4198

Timothy R. Odil, #35771
McKenna Long & Aldridge LLP
1875 Lawrence Street, Suite 200
Denver, CO 80202
Telephone: (303) 634-4000
Facsimile: (303) 634-4400

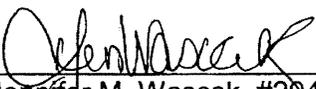
THE KROGER COMPANY

By: _____

Michael L. Kurtz, #0033350
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite
1510
Cincinnati, OH 45202
Telephone: (513) 421-2255
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on behalf of its King Soopers and
City Market Divisions

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Jennifer M. Wascak, #29457
Deputy Adams County Attorney
Adams County Attorney's Office
450 South 4th Avenue
Brighton, CO 80601
Telephone: (303) 654-6116

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Denver, CO 80202
Telephone: (303) 634-4000
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Adams County Attorney's Office
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Brighton, CO 80601
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THE KROGER COMPANY

By: Michael L. Kurtz

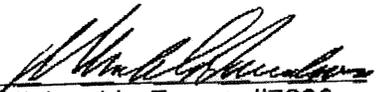
Michael L. Kurtz, #0033350
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite
1510
Cincinnati, OH 45202
Telephone: (513) 421-2255
Fax (513) 421-2764

Counsel for The Kroger Company
on behalf of its King Soopers and
City Market Divisions

OCT-20-06 02:14PM FROM-DUFFORD & BROWN PC.

Attachment A
Docket No. 06S-234EG
Decision No. C06-1379
November 20, 2006
Page 32 of 32

DUFFORD & BROWN, P.C.

By: 

Richard L. Fanyo, #7238
Mark A. Davidson, #10364
Michelle R. Brandt, #35048
1700 Broadway, Suite 2100
Denver, CO 80290-2101
Telephone: (303) 861-8013
Facsimile: (303) 832-3804

Attorneys for Climax Molybdenum
Company