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

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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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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

[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 (Dollars in Millions)	Difference from: Public Service Proposal
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. Amortization of Environmental Clean-up and Other A&G Costs

Background. 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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