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

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| **IN THE MATTER OF ADVICE LETTER 795 PUC NO. 6 GAS FILED BY PUBLIC SERVICE COMPANY OF COLORADO TO COMMENCE PHASE II COMPREHENSIVE RATE CASE TO BE EFFECTIVE ON APRIL 5, 2011.** ) | **DOCKET NO. 11AL-151G** |

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**STIPULATION AND AGREEMENT
IN RESOLUTION OF PROCEEDING**

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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 ("Commission Staff"), the Colorado Office of Consumer Counsel ("OCC"), Energy Outreach Colorado ("EOC"), Climax Molybdenum Company ("Climax"), Seminole Energy Services, LLC ("Seminole"), SourceGas Distribution LLC ("SourceGas"), Atmos Energy Corporation ("Atmos") and Colorado Natural Gas Inc. ("CNG"), collectively referred to herein as the "Parties." This Stipulation sets forth the terms and conditions by which the Parties have agreed to resolve all outstanding issues presented by the Company's Phase II gas rate case in Docket No. 11AL-151G 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 Phase II gas rate proceeding, that reaching agreement as set forth herein by means of a negotiated settlement is in the public interest, and that approval 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. For those Parties for whom this Agreement is executed by counsel, such counsel states that (s)he has authority to execute this Stipulation on behalf of his/her client.

## I. BACKGROUND

1. On February 24, 2011, Public Service filed Advice Letter No. 795-Gas, proposing certain changes to its gas sales and gas transportation tariffs to be effective April 5, 2011. The filing, which included the Company's direct testimony and exhibits, was made in conjunction with the Company's proposals reflected in its Phase I gas rate case in Docket No. 10AL-963G. Specifically, the Company proposed to: (a) replace the General Rate Schedule Adjustment ("GRSA") that would ultimately be approved by the Commission in the Company's Phase I rate case in Docket No. 10AL-963G; (b) implement new base rates for natural gas sales and transportation services under all rate schedules except Schedules TF-FRP and TI-FRP; (c) modify the Firm and Interruptible Gas Transportation Service rate schedules (Schedules TFS, TFL and TI) and the Rules and Regulations regarding the Service Lateral Extension and Distribution Main Extension Policy ("Gas Extension Policy") in the Gas Tariff to add provisions for service to Local Distribution Company ("LDC") customers served by the Company under these Schedules; and (d) modify the Small and Large Commercial Gas Services rate schedules (Schedules CSG and CLG), the Interruptible

Industrial Gas Service rate schedule (Schedule IG), and Schedules TFS and TFL to add provisions aimed at maintaining more accurate billing determinants for these customers.

2. As initially filed, the Company's proposed Phase II rates were developed to produce the annual gas department revenue requirement of $382,637,968 originally proposed by the Company in Docket No. 10AL-963G. The Company's Phase II proposals included the following: (a) updating the Class Cost of Service Study ("CCOSS") to reflect what the Company argued was a more accurate allocation of test-year costs among classes, including the use of a minimum system approach for the assigning the costs of distribution mains; (b) setting the Service and Facilities charges for classes with two-part tariffs at approximately 125% of the test-year customer-related units costs imposed by these classes, as indicated in the Company's CCOSS; (c) increasing the Demand Charge and lowering the Usage Charge for the classes with three-part rates; and (d) lowering the minimum TFL demand charge from $0.68 per dekatherm ("Dth") to $0.60 per Dth.

3. By Decision No. C11-0275, mailed March 11, 2011, in Docket No. 11AL-151G, the Commission suspended the Company's Phase II tariff sheets, established an intervention period, and set the matter for hearing before Hearing Commissioner Baker. Timely interventions were filed by EOC, Climax, Seminole, SourceGas, Atmos and CNG. Timely notices of intervention of right were filed by the Commission Staff and the OCC. A prehearing conference was held on April 28, 2011, pursuant to which the Hearing Commissioner issued a Procedural Order, Decision No. R11-0540-I (issued May 18, 2011), in which the Hearing Commissioner granted all petitions to intervene, set the hearing for

September 19 through 23, 2011, set dates for the filing of answer, rebuttal and cross-answer testimony, and established discovery and other procedures.

4. The jurisdictional gas department revenue requirements that are to be spread across the Company's customer classes to determine the rates at issue in this Phase II gas rate proceeding will be the revenue requirements approved by the Commission in the Company's Phase I gas rate proceeding in Docket No. 10AL-963G. The Company initiated that Phase I rate proceeding through the filing of Advice Letter No. 791-Gas on December 17, 2010, wherein Public Service proposed to implement a GRSA that would increase its base rates for gas services to recover an overall revenue deficiency of $27.5 million, based on revenue requirements calculated using a future test year ("FTY") of calendar year 2011. In its order suspending the Company's Phase I tariff sheets and setting the matter for hearing before Hearing Commissioner Matt Baker, in Decision No. C11-0040, mailed January 11, 2011, the Commission directed the Company to file a revenue requirements study based on an historic test year ("HTY").

5. On May 25, 2011, Public Service, the Commission Staff and the Colorado Office of Consumer Counsel ("OCC") entered into and filed a Settlement Agreement in Docket No. 10AL-963G comprehensively resolving all issues in the Phase I rate case among those parties. That Settlement Agreement adopted a revenue deficiency and GRSA based on revenue requirements calculated using an HTY, but with various pro forma adjustments and an average rate base reflecting plant and plant-related balances for a test year ending June 30, 2011. On July 8, 2011, Hearing Commissioner Matt Baker issued his Recommended Decision Granting Stipulation and Settlement Agreement In Part, Decision No. R11-0743, in

Docket No. 10AL-963G, approving the Settlement Agreement with certain modifications ("Phase I Recommended Decision"). In Decision No. C11-0946, mailed September 1, 2011, the Commission granted the exceptions filed by Public Service and the OCC to the Recommended Decision, which were in the nature of clarifications, and otherwise adopted Hearing Commissioner's findings and conclusions in the Phase I Recommended Decision. This Stipulation is based on a $362,227,854 revenue requirement (see S&A Attachment 2) with a resulting GRSA increase of 3.65% and other tariff changes resulting from the Commission's Phase I determinations in Docket No. 10AL-963G that were placed into effect by Public Service on September 5, 2011.

6. On July 22, 2011, Answer Testimony and Exhibits in this Phase II case were filed by the Commission Staff, the OCC, EOC, Seminole and the LDC Intervenors (consisting of SourceGas, Atmos and CNG). On July 19, 2011, the OCC filed a Motion to file Supplemental Answer Testimony. By interim order, Decision No. R11-0790-I (issued July 22, 2011), the OCC's Motion was granted and the OCC filed Supplemental Answer Testimony on August 5, 2011. The Commission Staff, the OCC and EOC, in varying degrees, either opposed the Company's proposed use of the minimum system approach to classifying the costs of distribution mains in its CCOSS or proposed an alternative classification method for certain costs. The OCC and EOC also opposed the Company's proposed allocation of non-customer-related costs and certain of the Company's demand allocators. The Company provided two CCOSS models in its direct case, one that it endorsed that classified costs on the basis of what the Company claimed was an explicit cost-causation analysis and a second provided for informational purposes that incorporated the use of a fixed

percentage for classifying non customer-related costs (87.5% demand, 12.5% commodity), consistent with that adopted by the Commission in the Company's most recent Phase II proceeding in Docket No. 08S-264G. EOC recommended the Commission require the Company to use the CCOSS that used the fixed percentage method for classifying non-customer-related costs based on an 87.5% - 12.5% demand-commodity split. Staff proposed a classification method based on classifying non-plant costs as fixed or variable. The OCC and EOC both opposed the Company's use of Design Day requirements for allocating demand-related costs to residential and small commercial customers. Each proposed using a class demand allocation factor based on a recent annual peak day. EOC also proposed to modify the calculation for determining the interruptible transportation class's demand allocation factor and a change to the classification of operating and maintenance expenses associated with compressor stations and metering and regulating stations. Staff and EOC each challenged the Company's approach for classifying Production and Gathering and Products Extraction costs. As for allocations, EOC recommended that the Company be required to change the allocation of costs associated with uncollectible accounts and major account representatives. The OCC recommended that the Company develop three-part rates by imputing customer demand for the residential and small commercial customers, based on historical data. While the OCC generally supported the Company's proposed tariff modifications with regard to service to LDC customers, the OCC opposed the concept discussed by the Company in its testimony that would allow for Public Service's customers to subsidize some of the costs of incremental facilities constructed primarily to serve an LDC customer. Seminole raised several concerns regarding the Company's proposed changes to its sales and transportation rate schedules, and the LDC Intervenors raised specific concerns and requested clarification with regard to the tariff modifications relating to service to LDC customers.

7. In its initial Phase II case filed on February 24, 2011, the Company proposed to implement new base rates based on the same FTY revenue requirements originally proposed by the Company in its Phase I rate case in Docket No. 10AL-963G. As a result of the settlement and Phase I Recommended Decision in Docket No. 10AL-963G, which provided for revenue requirements using an HTY, the Company filed an unopposed motion on August 3, 2011, to modify the Phase II procedural schedule to allow for parties to update their class cost of service studies to reflect anticipated results of the Phase I rate case. That motion was granted by the Hearing Commissioner in his interim order issued August 4, 2011, Decision No. R11-0848-I. As a result, Public Service updated its direct case through Supplemental Direct Testimony and Exhibits filed on August 4, 2011, and Staff, the OCC and EOC updated their direct cases through Supplemental Answer Testimony and Exhibits filed on August 12, 2011. On August 19, 2011, Public Service filed its Rebuttal Testimony and Exhibits, and on August 31, 2011, filed its Supplemental Rebuttal Testimony in response to the OCC's Supplemental Answer Testimony and Exhibits filed August 5, 2011. On August 31, 2011, Climax and Staff filed Cross-Answer Testimony and Exhibits, in which Climax responded to several of the challenges raised by the OCC, EOC and Staff to the Company's proposed classification of non-customer-related fixed costs and use of the minimum system to classify the costs of distribution mains.

8. On September 9, 2011, Public Service circulated to counsel for all parties an offer of settlement addressing all contested issues in this proceeding. On September 12, 2011, a settlement conference was convened at Public Service's offices at 1800 Larimer Street in Denver, which was attended by representatives of all parties in the case. Settlement negotiations occurred during the week of September 12, 2011. This Stipulation represents the results of those negotiations.

9. This Stipulation incorporates by this reference the S&A Attachments 1-5, appended hereto, which are identified as follows:

S&A Attachment 1 - Settled Revisions to Colorado PUC No. 6 – Gas Tariff

S&A Attachment 2 - Settled Class Cost of Service Study ("CCOSS")

S&A Attachment 3 - Settled Rate Design and Price Out

S&A Attachment 4 - Rate Comparisons – Present and Settled

S&A Attachment 5 - Bill Comparisons – Present and Settled

## II. TERMS OF SETTLEMENT

### A. Cost Classification, Allocation and Revenue Apportionment

10. The Company's current rates were developed primarily using the class-specific revenue requirements and units costs that resulted from a fixed-percentage method for classifying the Company's non customer-related costs, where 87.5% of non-customer-related fixed costs are classified as demand-related and 12.5% as usage-related, as adopted by Hearing Commission Ron Binz in his Recommended Decision in the Company's last Phase II gas rate case in Docket No. 08S-146G. In the Class Cost of Service Study ("CCOSS") sponsored by the Company in this case, the Company proposed to examine and classify each

cost in the CCOSS on the basis of cost causality. In implementing this approach, the Company also imputed a minimum distribution system and classified the indicated percentage of the costs of the distribution mains account (FERC Account 376) as customer-related. The Company employed the zero-intercept method to develop its estimate of the percentage of the distribution mains account to be classified as customer-related. The OCC and EOC opposed the Company's proposed minimum system approach on conceptual grounds. The EOC also critiqued the Company's statistical analysis used to develop the zero-intercept.

11. With regard to the classification of costs other than distribution mains, the Company proposed a cost-by-cost analysis approach in its CCOSS. Under this approach, the Company explicitly classified the functionalized costs of the gas delivery business as customer-related, demand-related and usage related, and then applied allocation factors that followed directly from this cost classification. The Company stated its belief that this procedure was more disciplined and more accurately reflected how and why the Company incurs its costs than the allocation methods followed in the past.

12. For purposes of settlement, the Parties have compromised their differences by agreeing that the minimum system approach shall not be used for classifying the costs of distribution mains, but that the Company's explicit classification of non-customer-related costs reflected in its CCOSS (Second Revised Exhibit No. NMH-1) shall be adopted with the specific modifications and clarifications described below. The Parties agree that the use of this method, as well as the manner of resolution of other cost classification and allocation issues described herein, is solely for the purposes of settlement and does not constitute a settled practice or otherwise have precedent-setting value in any future proceedings.

A.1 The CCOSS appended hereto as S&A Attachment 2 is based on the Company's explicit, cost-by-cost classification and allocation of costs, as reflected in the CCOSS sponsored by the Company in this case, but without use of the minimum system approach for classifying distribution mains, and with additional modifications as detailed in subsections A.3 through A.5 below.

A.2 The class demand allocation factors shall be those sponsored by the Company as set forth in Revised Exhibit No. NMH-4.

A.3 All costs functionalized as Production & Gathering and Products Extraction Plant shall be classified as usage-related, as recommended by Staff and EOC.

A.4 Uncollectible account expenses shall be allocated 83.4% to the residential class, with the remainder allocated to commercial and industrial customers, similar to the recommendation of the EOC.

A.5 Major account representative expenses shall be allocated only to non-residential classes, as recommended by EOC, with 25% allocated to small commercial and small transportation rate classes and 75% to large commercial and large transportation rate classes.

A.6 All other cost classification and allocation issues are resolved as proposed in the Company's Direct and Supplemental Direct Testimony and Exhibits, as may have been modified pursuant to its Rebuttal Testimony and Exhibits, and reflected in the Settled CCOSS attached hereto as S&A Attachment 2.

B. Rate Design

13. The Company proposed in its direct case to increase the fixed monthly charges for its residential and small commercial rate classes, which have two-part rates, to a level equal to approximately 125% of the test-year customer-related units costs reflected in its CCOSS, supported in part by the minimum system cost approach. The Company's proposal would have increased the current residential fixed monthly service and facility charge from $10.00 per month to $12.00 per month.[1] The OCC and EOC opposed the Company's proposal as it related to the residential fixed monthly service and facility charge. The OCC and EOC argued that the current $10.00 per month residential fixed service and facility charge should not be increased. For purposes of settlement, the Parties have compromised their differences and agree to the settled base rates and associated test-year revenue requirement by rate component as reflected in S&A Attachment 3. A comparison of the settled base rates with the Company's currently-effective rates and charges is reflected in S&A Attachment 4. The settled base rates have been developed as follows:

B.1 Rates for the RG class are designed to recover approximately the RG revenue requirement of $238,756,236, as set forth on S&A Attachment 2. The RG Service and Facility Charge is $11.00,[2] which collects $158,490,002 (see S&A Attachment 3). The remaining RG revenue requirement of $80,266,234 is

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1 In the sense used in this paragraph, "current" refers to the residential fixed monthly service and facility charge in effect prior to the Company's implementation of the Phase I GRSA approved in Docket No. 10AL-963G.

2 This charge is specifically a settlement amount and is not based on costs allocated in the Settled CCOSS.

recovered through a Usage Charge of $0.08440 per Therm (see S&A Attachment 3).

B.2 Rates for the small commercial sales and transportation classes (Schedules CSG and TFS) are designed to recover approximately the small commercial revenue requirement of $85,806,241, with the CSG rates designed to recover approximately $76,584,167 and the TFS rates designed to recover approximately $9,222,074, all as set forth on S&A Attachment 2. The CSG Service and Facility Charge is $31.50,[3] which collects $37,964,871, and the remaining CSG revenue requirement of $38,619,296 is recovered through a Usage Charge of $0.11676 per Therm (see S&A Attachment 3). The TFS Service and Facility Charge is $43.50,[3] which collects $1,481,001, and the remaining TFS revenue requirement of $7,741,073, which includes $13,837 of revenues attributable to Backup Supply Sale Service, is recovered through a Usage Charge of $1.1676 per Dth (see S&A Attachment 3).

B.3 Rates for the large commercial sales and transportation classes (Schedules CLG and TFL) are designed to recover approximately the large commercial revenue requirement of $29,325,799, with the CLG rates designed to recover approximately $4,723,549 and the TFL rates designed to recover approximately $24,602,250, all as set forth on S&A Attachment 2. The CLG Service and Facility Charge is $60.00, which collects $472,860, the CLG Firm

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3 This charge is specifically a settlement amount and is not based on costs allocated in the Settled CCOSS.

Capacity Reservation Charge is $6.75, which collects $3,241,620. The remaining CLG revenue requirement of $1,009,069 is recovered through a Usage Charge of $0.1854 per Dth (see S&A Attachment 3). The TFL Service and Facility Charge is $72.00, which collects $1,711,728, and the TFL Firm Capacity Reservation Charge is $6.75, which collects $16,601,156. The remaining TFL revenue requirement of $4,396,306, which excludes $1,879,702 of revenues collected from customers on discounted rates, but includes $13,358 of revenues attributable to Backup Supply Sales Service, is recovered through a Usage Charge of $0.1854 per Dth (see S&A Attachment 3). The Minimum Rate for the TFL Firm Capacity Reservation Charge is $0.60 per Dth (see S&A Attachment 4).

B.4 Rates for the TI class are designed to recover the TI class-specific revenue requirement of $8,031,384, as set forth on S&A Attachment 2 . An additional $243,847 in annual revenue received from TI Specific Facilities Charges is added to this amount in S&A Attachment 3. The resulting total class revenue target is $8,275,203. The net revenues to be collected from customers on standard rates are $8,031,384. The TI Service and Facility Charge is $72.00, which collects $167,976. The TI Usage Charge of $0.3072 per Dth is set to collect approximately the remaining TI revenue requirement of $7,683,549. TI customers on discounted rates add another $175,212 in annual revenue and revenues of $4,618 are attributable to Backup Supply Sales Service (see S&A Attachment 3). A Backup Supply Sales

Service Charge of $0.1854 per Dth collects $1,054 of the TI Backup Supply Sales Service revenue requirement, with remaining $3,564 collected through an On-Peak Demand Charge of $6.75.

B.5 Rates for the interruptible industrial sales (Schedule IG) are designed to recover approximately the requirement of $115,144, as set forth on S&A Attachment 2. The IG Service and Facility Charge is $31.00, which collects $6,293, the On-Peak Demand Charge is $6.75, which collects $466, and the remaining revenue requirement of $108,385 is collected through a Usage Charge of $0.3007 per Dth (see S&A Attachment 3).

14. The Company agrees to work with the OCC and other interested parties to assure that all of the data needed for parties to develop a three-part rate design for the Company's residential and small commercial customers will be readily available in a workable format within standard discovery time frames. In the Company's next Phase II gas rate case, the Company agrees to review any proposal for a three-part rate design for residential and small commercial customers (RG and Small CG) based on the OCC approach in advance of the scheduled date for filing of answer testimony in that proceeding, and to provide the Company's feedback to the sponsor of any proposal as to the appropriateness of implementing such proposal.

## C. Terms and Conditions Regarding Service to LDC Customers.

15. The Company proposed modifications to various sections of its tariff to reflect changes in the way the Company provides upstream gas transportation service to LDC customers on its system. The Company stated that these changes were necessary to address

changes in the relationship between the Company and its LDC customers as a result of the Commission's determination in Docket No. 08F—033G that service by the Company to LDC customers is not subject to the same obligations and rights to serve as the Company's service to end-use customers within its service territory. Specifically, the Company proposed to add a definition of a LDC Customer and to revise the Contract Period sections of Schedules TFS, TFL and TI. The Company also proposed to revise the General Provisions, Definition of Terms, Construction Allowance and Construction Payment and Customer Reinforcement sections, as well as add a new "Extensions for Local Distribution Company Customers" section in the Service Lateral Extension and Distribution Main Extension Policy ("Gas Extension Policy") of its Gas Tariff to set forth the terms and conditions upon which the Company will extend new or reinforce existing gas facilities to provide new or additional gas transportation service to LDC customers. Public Service expressed its preference that, going forward, the Commission review and approve the multi-year contracts for service to its LDC customers. The LDC Intervenors support the provisions in this Section II.C, the other provisions of this Stipulation and S&A Attachment 1, Sheets R31 and R43, except that the LDC Intervenors take no position on the provisions in Section II.A, II.B or II.D, and take no position on S&A Attachments 2-5 or S&A Attachment 1, Sheets 16A or 29H.

16. Procedures for Seeking Approval of LDC Contracts. The LDC Intervenors and the Commission Staff expressed concerns regarding the necessity of obtaining approval of LDC contracts and the specific procedures the Company should follow in seeking approval of its contracts with LDC customers. The Commission Staff recommended that the Company pursue Commission approval pursuant to the so-called "competitive response

statute," C.R.S. § 40-3-104.3. In resolution of this issue, the Parties agree that Public Service will not seek Commission approval of standard LDC contracts that fit within basic transportation service tariff – *i.e.*, LDC contracts that do not include special rates or special provisions for treatment of costs of incremental facilities. These will simply be filed with the Commission in the Miscellaneous Repository Docket created for that purpose in Docket No. 10M-343G, or other appropriate docket. Public Service, or Public Service jointly with its LDC customer, will be free to file for Commission approval of any non-standard LDC contract -- *i.e.*, LDC contracts that include special rates or special provisions for treatment of costs of incremental facilities. Such approvals may be sought under any appropriate procedural vehicle allowed by statute and the Commission's Rules – *e.g.*, the competitive response statute, as recommended by Staff witness Reis, advice letter, or application.

17. Clarification of Avoided Costs. The LDC Intervenors expressed concern and requested clarification regarding the Company's "avoided cost approach" for determining the LDC customer's cost responsibility with respect to system reinforcement, upgrades or extensions in under the Gas Extension Policy. Consistent with the Company's discussion in its Rebuttal Testimony, Public Service will use the concept of "Avoided Costs" as part of its calculation of determining cost responsibility and developing a "Special Service and Facilities Charge" to recover the costs from the LDC customer associated with a system Reinforcement or Extension. Determining the appropriate amount of "Avoided Costs" will be specific to each particular situation/project and is a matter left for contract negotiations. The Company agrees to add the following to the definition of Construction Cost of Distribution Main Extension/Service Lateral Extension on Sheet R31:

> In determining an LDC Customer's share of the Distribution Main Extension, Distribution Reinforcement and/or Compressor Stations, the Company will consider the LDC Customer's least cost alternatives for service provided from the Company on a stand-alone basis, if applicable, and service from other resources, as well as the viability, reliability and comparability of any such service alternatives. Such service alternatives include, but are not limited to, alternative pipeline suppliers, compressed natural gas storage, liquefied natural gas storage, and propane storage/air mixing.

18. Definition of Ongoing Ownership Charge. The LDC Intervenors noted that the term "Ongoing Ownership Charge," even though a capitalized term in the Company's proposed tariffs, was not defined in the tariff. The LDC Intervenors considered the definition provided in the Company's Direct Testimony to be acceptable and recommended that this same definition be included in the tariff, which the Company subsequently agreed to in its Rebuttal Testimony. Accordingly, the Parties agree that the definition of Ongoing Ownership Charge as reflected on Sheet No. R33 of Second Revised Exhibit No. PNB-2 be included the Company's tariff.

19. Term of LDC Contracts. The LDC Intervenors expressed concern over the apparent inflexibility of Public Service's proposed tariff requirement that contracts for service to LDC customers have a minimum term of five years, without allowing for shorter terms or rollover provisions. In settlement of this issue, Public Service agrees to modify the tariff language providing for the minimum five-year term to add "or other term as mutually agreed upon by the parties" on Sheet R43 of the Company's gas tariff. This will allow for exceptions to the five-year minimum where appropriate.

20. Potential Future Subsidization of Costs of Incremental Facilities. In its direct case, the Company discussed scenarios where the cost of incremental facilities necessary to

serve the needs of downstream LDC customers may be too great to be absorbed by the retail gas distribution customers served by the downstream LDC, in which case Public Service may agree to rates that limit the LDC customer's cost responsibility. The OCC objected to any provision that would authorize Public Service to burden its customers with the costs of incremental facilities to serve downstream LDCs or other "uneconomic investments." The Parties acknowledge that there are no provisions in the Company's proposed modifications for service to LDC customers that predispose the appropriateness of any subsidization of costs by Public Service's customers of investment made to serve a downstream LDC. Accordingly, the Parties agree that this issue shall be addressed and resolved by the Commission in an appropriate future proceeding; *i.e.*, an application for approval of an LDC contract or a future Public Service rate case. The Parties reserve all rights to advocate whatever position they desire in such proceeding. In a rate case or other application filing that includes any proposed subsidization of costs by Public Service's retail customers for investment made to serve a downstream LDC that has not been approved by the Commission in a prior proceeding, Public Service agrees to identify and quantify any such proposed subsidization in its testimony and exhibits.

21. <u>Default Rates for Ancillary or Special Services</u>. As part of its proposed tariff modifications to address changes in the service to be provided to LDC customers, the Company excluded the following special or ancillary services from being automatically available to LDC customers, as they are to end-use transportation customers under the tariff, and made them subject to negotiated agreements instead:

- Additional Firm Capacity Service or any increase in the Peak Day Quantity for any Delivery Point;

- Additional Firm Supply Reservation Service;
- Backup Supply Sales Service;
- Authorized Overrun Transportation Service;
- Unauthorized Overrun Transportation Penalty Service;
- Authorized Overrun Sales Service;
- Unauthorized Overrun Supply Penalty Service;
- Any termination of firm gas transportation service or conversion of firm gas transportation service to sales service;
- The applicability of Schedule TFS as to any Delivery Point; and
- Any reduction in the Peak Day Quantity for any Delivery Point.

The LDC Intervenors expressed concern over the rates that Public Service would be entitled to charge LDC customers for these special or ancillary services, even though Commission-approved rates for these special and ancillary services are set forth in the Company's tariff. In resolution of this issue, the Company acknowledges and agrees that, unless unique circumstances exist that warrant different rate treatment, as may be mutually agreed upon by the parties, the rates for any ancillary or special services provided for under any contract with an LDC customer shall be equal to the existing Commission-approved tariff rates for those services.

## D. Other Tariff Issues

22. Grandfathering of Small Load Customers on Large Service Rate. The Company proposed tariff changes to limit the eligibility of service under schedules CLG and TFL to customers with at least 5,000 Dth of annual usage. Currently, smaller gas customers may elect service under these large firm service schedules, which the Company believes reduces its ability to accurately estimate class billing determinants and maintain fairness in

ratemaking. With respect to customers currently under the large firm service rate schedules whose annual usage is less than the minimum, Public Service stated in its direct case that it would allow these customers to remain on the large firm class rate schedules until they elect to switch to the small firm class rate schedules in accordance with the applicability provisions of those rate schedules. Seminole voiced concern over this proposal, stating that allowing some non-qualifying small customers to receive service under the large firm service schedule would unfairly place them on a different footing which could provide a competitive advantage. To address Seminole's concern, Public Service agrees to move those large firm service (Rate Schedule TFL and CLG) customers whose annual usage falls below 5,000 Dth per year back to small firm service (Rate Schedule TFS and CSG) and rescind its proposal to allow these customers to remain on their current rate schedule until such time as the customer voluntarily chooses to switch from the large to small service rate schedule. During normal annual processing, the Company will reassess service applicability for any TFL and CLG customers with annual usage of less than 5,000 Dth per year during the previous three-year period, or shorter period if these were new customers,. The Company will transfer these customers to the TFS or CSG rate schedule effective May 1, 2012.

23. Minimum three-year period for customers receiving benefit of small customer construction allowance. The Company proposed revisions to the CSG and TFS rate schedules that would require customers electing initial service under these service schedules, who also require a distribution extension and a Construction Allowance, to be subject to a three-year minimum service period if the Construction Allowance received under the applicable small gas service schedules is greater than that which would otherwise be

provided under Schedule CLG or Schedule TFL. The Company stated that it has experienced increases in requests for distribution extensions and, thus, higher levels of Construction Allowance payments. In many cases, customers receive a larger Construction Allowance under the small gas service schedules (CSG and TFS) than they would under the large gas service tariffs (CGL and TFL). Consequently, customers may elect initial service under the small gas schedules and receive the corresponding larger Construction Allowance for the distribution extension, but then convert to the large gas service schedules after the project is completed. The Company believes that this opportunity conflicts with the Company's intentions under these tariffs and the Construction Allowance provisions. Seminole expressed concern that this limitation was overly punitive, in that it locked small sales and transportation customers to their initial rate schedule even though they may qualify under another rate schedule. In resolution of this issue, Public Service agrees to implement procedural improvements to minimize the possibility that a customer whose actual usage falls into the large customer category be assigned a construction allowance applicable to small customer service, and further agrees to address the disparate construction allowances between large and small customers in an appropriate future proceeding. In addition, to clarify this limitation, the tariff shall be modified to add the following sentience to the Service Period section of Rate Schedule CSG: "Such three-year minimum service period shall not apply to a customer under this schedule requesting service under Schedule TFS." The tariff shall also be modified to add the following corresponding sentence to the Contract Period section of Rate Schedule TFS: "Such three-year minimum service period shall not apply to a customer under this schedule requesting service under Schedule CSG."

## E. Miscellaneous

24. Except as modified in this Stipulation, the Parties agree to the proposals and tariff modifications contained in the Company's direct case, as originally filed on February 24, 2011, corrected on July 1, 2011, supplemented on August 4, 2011, and revised in rebuttal testimony on August 19, 2011. Commission approval of this Stipulation shall constitute Commission approval of all such aspects of such proposals and tariff modifications as filed by the Company.

25. The Parties agree that this Stipulation and the settlement rates, terms and conditions of service and the cost allocation, rate design and other methods contained in the S&A Attachments, including but not limited to the Settled CCOSS, have been agreed to by the Parties solely for purposes of settlement and do not constitute a settled practice or otherwise have precedent-setting value in any future proceedings. Neither Public Service, the Commission, its Staff, nor any other party or person shall be deemed to have approved, accepted, agreed to or consented to any concept, theory or principle underlying or supposed to underlie any of the matters provided for in this Stipulation. Notwithstanding the resolution of the issues set forth in this Stipulation, none of the methods or ratemaking principles herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding. Nothing in this Stipulation shall preclude the Company from seeking prospective changes in its natural gas service rates by an appropriate filing with the Commission. Nothing in this Stipulation shall preclude any other party from filing a complaint or seeking an order to show cause to obtain prospective changes in the Company's natural gas service rates and/or provisions in the Company's tariff.

## III. EFFECTIVE DATE OF SETTLEMENT RATES AND TERMS AND CONDITIONS OF SERVICE

26. Subject to implementation of the Stipulation in accordance with Article IV hereof, the rates and terms and conditions of service set forth herein will become effective January 1, 2012.

## IV. IMPLEMENTATION

27. 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 that the Commission modifies this Stipulation in a manner unacceptable to any Party, that Party shall so notify the Company in writing within ten days of the mailing date of the Commission Order in which the modification is made. If this Stipulation is not approved in its entirety or is approved by the Commission with modification(s) unacceptable to any Party, then this Stipulation shall be null and void and of no force and effect in this or any other proceeding. In the event that this Stipulation does not become effective, the Stipulation as well as the negotiations and discussions undertaken in conjunction with the Stipulation shall not be admissible into evidence in this or any other proceeding.

28. 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 January 1, 2012, that will include a citation to the order approving the Stipulation, and the settlement rates, terms and conditions of service and tariff sheets set forth herein in S&A Attachment 1. The settlement rates, terms and conditions of service shall then become

final rates, terms and conditions of service to be effective as of January 1, 2012 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 thereunder.

29. Approval by the Commission of this Stipulation shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of issues that were or could have been contested among the parties in this proceeding. The Parties 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 in this Stipulation are in the public interest.

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

31. 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.

DATED this 19th day of September, 2011.

Respectfully submitted,

**PUBLIC SERVICE COMPANY OF COLORADO**

By: ______________________
Scott B. Brockett
Director, Regulatory Administration and Compliance
Xcel Energy Services Inc.
Agent for Public Service Company of Colorado

Approved As To Form:

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**Public Service Company of Colorado**

**STAFF OF THE COLORADO PUBLIC UTILITIES COMMISSION**

By: Richard Reis

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