

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF ADVICE LETTER NO. 791)
FILED BY PUBLIC SERVICE COMPANY OF)
COLORADO TO INCREASE THE RATES FOR)
ALL NATURAL GAS SALES AND TRANSPORTATION SERVICES BY IMPLEMENTING A)
GENERAL RATE SCHEDULE ADJUSTMENT)
("GRSA") IN THE COMPANY'S COLORADO)
P.U.C. NO. 6 GAS TARIFF TO BECOME)
EFFECTIVE JANUARY 17, 2011.)

PROCEEDING NO. 10AL-963G

STIPULATION AND AGREEMENT

This Stipulation and Agreement ("Stipulation") is entered into by and among Public Service Company of Colorado ("Public Service" or "Company"), the Staff of the Colorado Public Utilities Commission ("Staff") and the Colorado Office of Consumer Counsel ("OCC") (together the "Settling Parties"). Although a party to this prudence review proceeding, Climax Molybdenum Company ("Climax") has authorized the Settling Parties to represent that Climax does not oppose the agreements reached herein between the Company, the Staff and the OCC or the Commission's approval of this Stipulation and Agreement. Although a Settling Party to this Stipulation for purposes of resolving any issues it may have within the scope of this prudence review proceeding, as established pursuant to Decision No. R13-1216-I, the OCC neither supports nor opposes the agreements reached between the Company and Staff as set forth in Sections II. A through II.D.

I. BACKGROUND

1. Proceeding No. 10AL-963G was originally commenced as a general rate proceeding concerning the rates and services regulated by the Commission as part of

Public Service's natural gas utility operations in Colorado. The proceeding was initiated through the filing by Public Service of certain revised tariff sheets with Advice Letter No. 791-Gas on December 17, 2010, in which the Company proposed to increase its base rates for gas services and to establish a Pipeline System Integrity Adjustment ("PSIA") mechanism, as part of its Colorado Public Utilities Commission gas tariff, to recover certain investments and expenses associated with its pipeline integrity management efforts. All issues related to Advice Letter No. 791-Gas and the ensuing general gas rate case were resolved pursuant to a Settlement Agreement dated May 25, 2011, entered into among Public Service, Staff and the OCC, and approved by the Commission with modifications in Decision No. C11-0946, mailed September 1, 2011.

2. Pursuant to the Settlement Agreement, as approved by the Commission, Public Service was authorized to implement a PSIA mechanism and, effective January 1, 2012, commence recovering incremental revenues above the Projects Base Amount ("PBA") established in Proceeding No. 10AL-963G related to the following six pipeline integrity programs and projects: (1) the Transmission Integrity Management Program ("TIMP"); (2) the Distribution Integrity Management Program ("DIMP"); (3) the Accelerated Main Renewal Program ("AMRP"); (4) the Cellulose Acetate Butyrate Services Replacement Program ("CAB"); (5) the Edwards to Meadow Mountain Pipeline; and (6) the West Main Replacement. On October 3, 2011, in accordance with its PSIA tariff, the Company filed revised tariff sheets and supporting documentation with Advice Letter No. 809-Gas proposing to place initial PSIA rates into effect on

January 1, 2012. Those tariff sheets became effective by operation of law on January 1, 2012.

3. Section 4 of the approved Settlement Agreement provides in part as follows:

The Company agrees to submit a report each year by April 1 detailing the costs incurred during the previous year. This report will explain how the project costs were managed and any deviations between budgeted and actual costs. To the extent interested parties wish to challenge any of the activities or their respective costs, they can request that the Commission convene a hearing within ninety (90) days of the date the Company files its report. The Company would file the first such report on April 1, 2013.

4. On April 1, 2013, Public Service filed its 2012 PSIA Annual Report addressing 2012 PSIA-related capital expenditures and operations and maintenance ("O&M") costs and deferred 2011 TIMP and DIMP O&M costs.

5. On April 16, 2013, the OCC filed a Motion for Request for Hearing in which it asked for a hearing on the Company's 2012 Annual PSIA Report. On April 30, 2013, Staff filed its response to the OCC motion and, among other things, joined in the request that the Commission establish a hearing to vet the issues raised in Public Service's 2012 PSIA Annual Report.

6. On May 20, 2013, by Decision No. C13-0587-I, the Commission requested additional information from Public Service, Staff, and OCC.

7. On June 10, 2013, Public Service filed its Supplemental Report Regarding Integrity Management Initiatives in Conjunction with the Annual Report of Activities under the Pipeline Integrity Adjustment Filed April 1, 2013 in Proceeding No. 10AL-963G ("Supplemental 2012 PSIA Report"), and Staff and OCC each filed pleadings providing the supplemental information requested by the Commission.

8. On August 8, 2013, the Commission issued Decision No. C13-0964, in which the Commission, among other things, took the following actions with respect to the Company's 2012 PSIA Annual Report: (1) granted Staff's and the OCC's requests for a detailed review of the 2012 PSIA Annual Report and Supplemental 2012 PSIA Report; (2) ruled that the 2012 review would occur within the instant proceeding, thereby implicitly denying Staff's request that the review take place in a separate proceeding; and (3) referred the review to an administrative law judge.

9. On September 5, 2013, Administrative Law Judge Mana L. Jennings-Fader ("ALJ") issued an interim decision, Decision No. R13-1094-I, in which the ALJ, among other things, scheduled a prehearing conference in this Proceeding. In that Interim Decision, the ALJ identified the issues to be discussed and advised all of the parties of record in Public Service's underlying gas rate case in Proceeding No. 10AL-963G that "failure to attend or to participate in the prehearing conference will be deemed a waiver of objection to the rulings made, the procedural schedule established, the prehearing conference date, and the hearing dates established at the prehearing conference." Decision No. R13-1094-I at ¶ 25; see also *id.* at Ordering Paragraph No. 3.

10. The prehearing conference was convened as scheduled before the ALJ on September 20, 2013. Public Service, Staff, the OCC and Climax were all present and represented by counsel and participated in the prehearing conference. During the course of the prehearing conference, the ALJ made rulings from the bench, all of which were subsequently memorialized in Decision No. R13-1216-I, issued September 30, 2013. In addition to adopting a procedural schedule and discovery procedures,

including setting a hearing for March 3 through 7, 2014, the ALJ set forth numerous other rulings in Decision No. R13-1216-I, including without limitation: (1) identification of the parties entitled to participate in the review of the Company's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report; (2) the scope of the proceeding and relief that may be sought; (3) the burden of proof to be applied; (4) the standard of review; and (5) the extent to which the existing evidentiary record established for purposes of the gas rate case in Proceeding No. 10AL-963G may be used for purposes of this PSIA review proceeding.

11. With respect to the parties entitled to participate in the review of the Company's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report, the ALJ in Decision No. R13-1216-I ordered that any intervenor in the underlying gas rate case proceeding (other than Staff, the OCC and Climax) that wished to remain an intervenor in this PSIA review proceeding to make a filing to that effect by no later than October 11, 2013, and advised that, absent the required filing, a party will no longer be an intervenor and will be removed from the certificate of service in Proceeding No. 10AL-963G. No other parties in the underlying gas rate case proceeding made the necessary filing by October 11, 2013. Accordingly, the only parties to this PSIA review proceeding are Public Service, Staff, the OCC and Climax.

12. On November 5, 2013, in accordance with the procedural schedule established by Decision No. R13-1216-I, Public Service filed the Direct Testimony and Exhibits of the following four witnesses in support of the Company's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report: Ms. Cheryl F. Campbell, Vice President, Gas for Xcel Energy Services Inc. ("XES"); Ms. Deborah A. Blair, Director, Revenue

Analysis for XES; Mr. John J. Phibbs, Director, Business Area Finance for XES; and Mr. Scott B. Brockett, Director, Regulatory Administration and Compliance for XES.

13. Both before and after the Company's filing of its direct testimony and exhibits, Staff and the OCC propounded extensive discovery on the Company's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report. In total, the Company was served and responded to 275 enumerated discovery requests, including a total of 852 subparts. Individual Staff members also made a site visit to Public Service's Denver offices on December 10, 2013, and audited certain of the Company's books and records related to its PSIA costs.

14. On January 7, 2014, also in accordance with the procedural schedule established by Decision No. R13-1216-I, Staff filed the Answer Testimony and Exhibits and Corrected Answer Testimony of Abel L. Moreno, Rate/Financial Analyst for the Commission, and the OCC filed the Answer Testimony and Exhibits of Cory Skluzak, Financial Analyst for the OCC. By Notice of Substitution filed on January 29, 2014, Staff gave notice that Mr. Moreno's Answer Testimony and Exhibits would be subsequently adopted by Staff witness Ms. Marna Steuart at the hearing scheduled in this proceeding.

15. On February 6, 2014, Public Service filed the Rebuttal Testimony and Exhibits of Ms. Campbell and Messrs. Phibbs and Brockett.

16. Both before and after the filing of the Company's Rebuttal Testimony, representatives of Staff and the Company engaged in discussions concerning the potential settlement of the issues raised by Staff and the OCC in this proceeding.

17. This Stipulation is the culmination of these settlement discussions and sets forth the agreements of the Settling Parties, consisting of all of the active participants in this prudence review proceeding.

II. SETTLEMENT TERMS

18. This Stipulation is intended to be a comprehensive settlement resolving all issues raised by the Staff and the OCC with respect to the Company's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report, including the 2012 actual PSIA costs and 2011 deferred O&M costs at issue in this proceeding as identified in paragraph 20 of Decision No. R13-1216-I. To the extent that an issue has not been addressed specifically in this Stipulation, the Settling Parties agree that Public Service's 2012 actual PSIA costs and 2011 deferred O&M costs at issue in this proceeding and decisions affecting those costs are unopposed. Consequently, the Settling Parties hereto stipulate and agree that the issues raised by Staff and the OCC will not be contested as among the Settling Parties at the hearings scheduled in this proceeding for March 3 through 7, 2014 and, accordingly, the Settling Parties respectfully request that such hearing be vacated and this proceeding be closed.

19. Based on Staff's and OCC's review of Public Service's 2012 PSIA Annual Report and Supplemental 2012 PSIA Report, responses to discovery requests, and Staff's audit of relevant books and records, Staff and the OCC represent that they do not object to the Company's recovery of the 2012 actual PSIA costs and 2011 deferred O&M costs at issue in this proceeding, except as otherwise provided as between Staff and Public Service in Section II.D below.

20. The following Sections II.A through II.I of this Stipulation address and provide for the resolution of specific issues raised by Staff and the OCC in their answer testimony in this proceeding.

A. Internal Controls Regarding Contract Change Orders.

21. The Company represents, and Staff accepts, that the existing following Company policy is in place and is followed by the Company:

A properly authorized requisition is required from the business area before an authorized person in Supply Chain can sign a change order to modify the scope of work authorized under engineering, construction or vendor contracts related to PSIA projects, or extend the term of any such contracts. The following dollar levels apply to business area employees as they relate to approving requisitions for change orders to a contract. These levels are maintained in and controlled by the Company's internal work management and purchasing system (Passport).

- *Functional Vice President - Up to \$5,000,000*
- *Operational Vice President, General Manager, Managing Director - Up to \$1,000,000*
- *Director - Up to \$500,000*
- *Manager - Up to \$100,000*
- *Supervisor/Team Lead - Up to \$50,000*
- *Performance Level - Up to \$1,000*

Any single change order that results in an increase in contract value of over \$5,000,000 must be approved by an officer of the Company or pursuant to delegated authority, and documented in the internal work management and purchasing system (Passport).

22. Staff agrees that the requirement of the Company's Investment Review Committee ("IRC") approval shall remain the same and continue to be applied on an overall project by project (and not single contractor) basis.

23. The Company agrees to identify in its annual PSIA reports filed on or about April 1 of each year all changes in PSIA project costs that required approval of

the IRC, Finance Council or Board of Directors during the previous calendar year and if and when such approvals were sought and obtained. The Company also agrees to disclose in its annual PSIA reports any and all changes made to the Company's contract change order authorization policy, as stated above. The OCC neither supports nor opposes the agreements reflected in this Section II.A.

B. Cross Bore Inspections.

24. Staff acknowledges that the reason for the Company's expansion of its cross bore inspection plans for 2012 from 4000 to 6783 inspections was the discovery of two actual cross bore conflicts between a Company gas distribution line and a sewer line. While Public Service and Staff acknowledge that these two situations presented potentially serious public safety issues that were subsequently remediated by the Company, it is recognized that neither of these conflicts was discovered through the cross bore inspection program, but were brought to the Company's attention through other means. As a result, the Company represents, and Staff accepts, that the Company currently plans to terminate its cross bore inspection program in 2014, subject to specific circumstances arising in the future that may warrant a change. The OCC neither supports nor opposes the agreements reflected in this Section II.B.

C. Completion of CAB Services Replacement Program.

25. The Company acknowledges that it has slowed the pace of CAB services replacement in recent years, but represents, and Staff accepts, that the Company currently has plans to accelerate this pace with the goal of completing CAB services replacements in 2015. The Company agrees to include in its 2015 PSIA filing expected to be made on or about November 15, 2014, a specific plan that details the CAB

services replaced in 2014 to date and sets a schedule for the Company to complete the CAB Services Replacement Program in 2015. The OCC neither supports nor opposes the agreements reflected in this Section II.C.

D. Edwards to Meadow Mountain (“EMM”) Project.

26. The Company represents, and Staff accepts, that the EMM project was the first transmission pipeline construction project undertaken by the Company in approximately 16 years and that neither the Company, nor its internal or external engineers, had significant relevant experience with constructing a major transmission pipeline through the Rocky Mountains in a major highway right-of-way. The Company concedes that its original estimate of total project costs was inadequate and that additional pre-engineering, core sample testing and high-level planning meetings with CDOT personnel would likely have enhanced both the Company’s project plan and its ability to more accurately estimate the EMM project cost. The Company concedes that such additional planning would likely have resulted in less overall costs being incurred in completing the EMM project. At the same time, the Company and Staff agree that the cost overruns identified by Staff amounting to \$3.7 million in capital expenditures were necessary expenditures and reflect costs that could not have been avoided through better pre-construction planning.

27. In settlement of this issue, Public Service and Staff agree that the PSIA revenue requirement for 2012 shall be reduced by an expense amount of \$118,660, which is equal to one-half of the calculated 2012 revenue requirement reduction related to the EMM Project recommended by Staff witness Abel Moreno in his Answer Testimony. Such reduction is an agreed-upon one-time revenue reduction for the 2012

PSIA revenue requirements and is neither associated with nor reflects any reduction in total capital expenditures or plant in-service balances related to the EMM project.¹ This reduction will be credited to customers as a reduction to the projected 2015 PSIA revenue requirement, and thereby credited to customers through the PSIA rider during 2015. Staff hereby withdraws its recommended disallowance of \$237,321 in 2012 PSIA revenue requirements and associated recommended disallowance of \$3.7 million in capital expenditures. Staff also agrees not to advance or pursue any disallowances of capital expenditures related to the EMM project that the Company presented in its April 2013 report, either formally or informally, directly or indirectly, in any proceeding before the Commission. The Company represents and agrees that there are no additional capital costs related to the EMM project except for possible incidental post-construction expenditures. Any future repairs or replacements of segments of the EMM pipeline would not be part of the EMM project, but rather would be part of a new project. The Company agrees to incorporate the “lessons learned” from its experience on the EMM project (as reflected in Exhibit No. CFC-20) into its best practices guidelines. These guidelines are to be employed for future construction of transmission pipelines throughout Colorado, in particular in the mountainous areas.

28. Public Service and Staff agree that the reduction of \$118,660 in 2012 PSIA revenue requirements is made as outlined above as part of the full and complete resolution and settlement of all issues between the Company and Staff in this

¹ By clarifying that the stipulated revenue reduction does not result in any reduction to the total EMM project cost, it is the Settling Parties’ intention that this settlement does not and will not trigger the condition established by the Commission at paragraph 60, page 20, of Decision No C13-1568, mailed December 23, 2013, in Proceeding No. 12AL-1268G.

proceeding. The Company does not admit or concede the validity of Staff's claims. The OCC neither supports nor opposes the agreements reflected in this Section II.D.

E. Correlating Projects With Federal Regulatory Provisions.

29. The Company represents that the TIMP and DIMP projects at issue here were evaluated in accordance with the procedures described in its Supplemental Report filed in this proceeding on June 10, 2013, which in turn incorporate requirements contained in the federal regulations at 49 CFR Part 192, Subpart O (TIMP) and Subpart P (DIMP), which have been adopted by the Commission for purposes of its pipeline safety regulation and enforcement. In future April 1 prudence report filings, the Company agrees to provide factual information demonstrating that its TIMP and DIMP programs and projects and associated costs, for which it seeks cost recovery through the PSIA, correlate with the elements that are consistent with the federal regulations and described in Appendix A ("Risk Ranking and Prioritization") to its June 10 Supplemental Report, as may be updated from time to time. Further, in future April 1 report filings, the Company agrees to provide specific explanations regarding why a particular project and its incurred costs were necessary to address risks and why such project was prioritized.

F. Double Counting of PSIA Costs.

30. Based on the agreement below relating to internal audits for PSIA-related costs, Mr. Phibbs' Direct Testimony concerning accounting controls, the clarification below with regard to the Projects Base Amount and its relationship to the annual PSIA revenue requirements, the OCC's concerns regarding the possibility of double counting of PSIA-related costs are reasonably mitigated for purposes of this proceeding. The

Company agrees that it has the responsibility to demonstrate that it is consistently implementing these internal controls.

G. Internal Audits.

31. The Company commits that its internal audit department will perform an audit of the calendar year 2013 PSIA-related costs (*i.e.*, all eligible PSIA costs, whether recovered through the PSIA or base rates) and will issue its audit report by April 30, 2014. The scope of that audit will be as follows:

- Reviewing the regulatory requirements related to the PSIA rider (*i.e.*, tariffs and applicable Commission orders);
- Reviewing the business process for work order management related to the projects that are included in the PSIA rider to provide reasonable assurance that the capital and operating and maintenance expenses are properly classified; and
- Tracing costs back to the source documents on a sample basis to validate compliance with the PSIA rider requirements (*i.e.*, test for compliance with applicable tariffs and Commission orders) and compliance with the Company's Capitalization Policy.

32. The results of this audit will be considered during the Internal Audit Department's annual risk assessment process during calendar 2014. In addition to normal follow-up work on issues noted in the audit of 2013 costs, the Company's internal audit department will consider the risks related to the PSIA in determining its future audit plans, which are approved by executive management and the Audit Committee of Xcel Energy. Such audit report will be available through discovery properly conducted in subsequent PSIA prudence review proceedings.

H. Capitalization Policy.

33. For all issues that arise within the Company concerning whether PSIA-related costs should be expensed or capitalized under the Company's Capitalization

Policy in the preceding calendar year, for which the Asset Analysis Team issues a formal determination, the Company agrees to identify and describe such formal determination in the April 1 PSIA Annual Report for the year in which the costs at issue were incurred.

I. Issues Raised But Not Addressed in this Stipulation.

34. With respect to any other issue raised by either the Staff or the OCC in their answer testimonies that is not addressed in the foregoing Sections A through H, the Settling Parties have not reached specific agreement as part of this Stipulation. The Staff and the OCC agree to no longer contest those issues in this proceeding and agree that those issues may be considered withdrawn for purposes of this proceeding.

III. GENERAL TERMS AND CONDITIONS

35. The Settling Parties hereto agree that this Stipulation should be approved, in its entirety, subject to the terms and conditions provided herein.

36. This Stipulation shall not become effective and shall be of no force and effect until the issuance of a final Commission order which accepts and approves this Stipulation and Agreement as to all of its terms and conditions. If this Stipulation is not approved in its entirety or, if approved with conditions which are not acceptable to any party, any party shall, at its option, have the right to withdraw from this Stipulation.

37. The Settling Parties hereto 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 compromises and settlements set forth in this Stipulation are in the public interest. The Settling Parties hereto pledge to support this Stipulation and urge the Commission to approve same. The Settling Parties agree

to file the necessary motions or other pleadings to obtain a Commission order approving this Stipulation and closing this proceeding.

38. Approval by the Commission of this Stipulation shall constitute a determination that this Stipulation represents a just, equitable and reasonable resolution of the issues which were or could have been contested between the Settling Parties in this proceeding.

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

DATED this 25th day of February, 2014.

Agreed to on behalf of:


Approved as to form:

**PUBLIC SERVICE COMPANY
OF COLORADO**

By:



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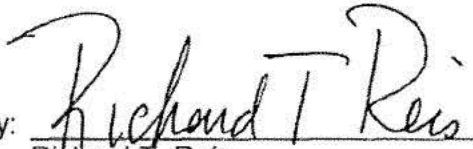
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