Decision No. C04-0339

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 04A-135G

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR AN ORDER AUTHORIZING IT TO EFFECT A CHANGE IN ITS ACCOUNTING FOR GAS STORED UNDERGROUND FROM THE LAST-IN, FIRST-OUT METHOD TO THE WEIGHTED AVERAGE COST METHOD, AND FOR SHORTENED NOTICE.

VERIFIED APPLICATION FOR AUTHORIZATION TO IMPLEMENT GAS INVENTORY ACCOUNTING CHANGE AND REQUEST FOR SHORTENED NOTICE

Mailed Date: April 1, 2004
Adopted Date: March 31, 2004

I. BY THE COMMISSION

A. Statement, Findings, and Conclusions

1. On March 23, 2004 Public Service Company of Colorado (Public Service) filed an application requesting Commission authorization to effect a change in its method of accounting for the cost of stored natural gas from the current, last-in-first-out (LIFO) pricing method to the weighted average cost (average cost) pricing method. Such Commission authorization is required pursuant to the Special Instructions to Account Nos. 117.1, 117.2 and 117.3 of the Uniform System of Accounts, as adopted by the Commission. Public Service requested this same accounting change in conjunction with its application filed on May 10, 2002 in Docket No. 02A-267G, in which it sought various approvals and waivers to allow it to shift from an annual Gas Cost Adjustment (GCA) process to a monthly GCA process. PSCO stated that it is now clear, however, that the monthly GCA proceeding will not be concluded in time to implement the requested accounting change until at least January 1, 2005. Due to Internal

Revenue Code requirements, any gas inventory accounting change must be implemented for income tax purposes on a fiscal year basis, which for Public Service is the same as the calendar year. Through the instant Application, Public Service requests that the Commission grant Public Service authorization to implement this accounting change on an expedited basis, to become effective for accounting purposes January 1, 2004, so that a $35,918,429 million credit to the deferred cost of gas (account 191) may be recorded in the first fiscal quarter of 2004 to the benefit of Public Service's gas sales customers.

2. In order for Public Service to make this accounting change and record the $35,918,429 million credit in the first fiscal quarter of 2004, a written Commission decision approving the accounting change must be issued no later than April 6, 2004. As such, Public Service requested that the Commission provide for a shortened notice period of five (5) days and set this matter for expedited procedures in accordance with C.R.S. § 40-6-109(5) and Rule 24 of the Commission's Rules of Practice and Procedure. The Commission approved PSCo's request for a shortened notice period by minute entry on March 24, 2004.

3. Consistent with generally accepted accounting procedures, implementation of the proposed accounting change will require a restatement of Public Service's gas storage inventory accounts and a corresponding change to its account 191 balance. A change in method of pricing inventory is a change in an accounting principle as defined in Accounting Principles Board Opinion No. 20 (APB 20). As such, the cumulative effect of the accounting change must be recorded to reflect retroactive application of the average cost method to Public Service's gas storage inventory as though the average cost method had always been applied. The Company recalculated its gas inventory by storage location using the average cost method as of December 31, 2003, and compared that to the gas inventory recorded using the LIFO method. PSCo's

Exhibit No 1, filed with the application, reflects the proposed journal entries for the cumulative effect of the accounting change.

4. From an accounting and financial reporting perspective, implementation of this accounting change will have no impact on net income, as any adjustment to gas costs related to this accounting method change will be offset by an equal adjustment to deferred gas costs. The adjustment to deferred gas costs results from the application of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation. Any increase or decrease to gas inventory at the date of change is offset by an equal increase or decrease to the over (under) collection of gas costs. There is no impact to the income statement.

5. As stated above, Public Service proposed this same accounting change as part of its application filed on May 10, 2002 in Docket No. 02A-267G, which was duly noticed by the Commission. If the instant application is timely approved, the parallel proposal to implement the accounting change in Docket No. 02A-267G will be rendered moot.

6. The interested parties in Docket No. 02A-267G, Commission Staff and Office of Consumer Counsel, do not oppose the granting of this Application.

7. The Commission finds that the application is in the public interest and should be granted.

II. <u>ORDER</u>

A. The Commission Orders That:

1. The application filed by Public Service Company of Colorado requesting to change from its current last-in-first-out method of accounting for stored natural gas to the

average cost accounting method with an effective date of January 1, 2004, for accounting purposes is granted.

2. This Decision is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING March 31, 2004.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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Commissioners

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