

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

2006 SEP 19 PM 4:39

IN THE MATTER OF THE APPLICATION OF)
PUBLIC SERVICE COMPANY OF COLORADO)
FOR AN ORDER APPROVING EXPENSES)
INCURRED FOR THE PERIOD JANUARY 2004) DOCKET NO. 06A-056E
THROUGH DECEMBER 2004 THAT ARE)
RECOVERED THROUGH THE ELECTRIC)
COMMODITY ADJUSTMENT CLAUSE AND)
APPROVING THE CALCULATION OF 2004)
SHORT TERM SALES MARGINS.)

STIPULATION AND SETTLEMENT AGREEMENT

Public Service Company of Colorado ("PSCo", "Public Service," or the "Company") and the Colorado Office of Consumer Counsel (the "OCC") (collectively, the "Parties")¹ hereby stipulate and agree to a resolution of all the issues that could be presented and disputed in this docket. The Parties agree to request that the Commission approve the Company's expenses incurred for the period January 1, 2004 through December 31, 2004 that are recovered through the Electric Commodity Adjustment Clause ("ECA") and also approve the calculation by the Company of its 2004 short term sales margins, subject to the modifications set forth in this Stipulation.

BACKGROUND

By Decision No. C03-0670 (June 26, 2004), in Docket No. 02S-315EG, the Commission approved the Settlement Agreement dated April 4, 2003 filed in Public Service's general rate case proceeding (the "Rate Case Settlement Agreement"). The Rate Case Settlement Agreement established the Electric Commodity Adjustment as

¹ The Commission Staff originally was a party to this Docket and conducted an audit of the Company's Energy Costs and short term sales margins. On September 15, 2006, the Staff filed a Notice of Withdrawal of Intervention and no longer opposes the Company's application in this Docket.

the adjustment clause to recover Energy Costs from 2004 through 2006. Energy Costs include fuel, purchased energy and purchased wheeling expenses.

On February 7, 2006, Public Service filed an Application asking the Commission to approve the 2004 Energy Costs that the Company has reflected in the Company's Electric Commodity Adjustment. This Application is the so-called "prudence filing" that is contemplated by the Rate Case Settlement Agreement in footnote 37 on page 65. In addition, the Company's Application requested that the Commission approve the Company's calculation of the 2004 short-term sales margins that have been credited to the 2005 Electric Commodity Adjustment. The Company requested that the Commission find that these margins have been determined in a way that conforms to the Company's tariffs; to the Rate Case Settlement Agreement; and with other pertinent Commission orders and settlement agreements, including the Stipulation and Settlement Agreement and Commission Decision No. C04-1208 (October 15, 2004) in Docket No. 04A-050E, the Commission docket that reviewed the Company's electric commodity trading operations. The Company requested approval of the 2004 short term trading margins so that all 2004 costs would be reviewed in a single docket.

In support of its Application, the Company filed the Direct Testimony and Exhibits of David A. Wolaver, Darla Figoli, and Werner R. Uebelhoer. Mr. Wolaver presented the Company's calculation of the 2004 Energy Costs reflected in the ECA and the Company's calculation of the 2004 short-term sales margins. Ms. Figoli provided information with respect to the 2004 internal trades and a breakdown of the 2004 Short-Term Sales Costs as required by the Stipulation and Agreement in Docket No. 02A-

541E. Mr. Uebelhoer provided information with respect to the 2004-2005 gas hedging costs as required by the Rate Case Settlement Agreement in Docket No. 02S-315EG.

Staff and the OCC intervened in this Docket. By Decision No. R06-0745-I (June 27, 2006), a procedural schedule was set. According to that schedule, Answer Testimony was to be filed by September 15, 2006. On September 15, 2006, Staff filed a notice of withdrawal of intervention. In lieu of Answer Testimony, the OCC and the Company are entering into this Stipulation.

RESOLUTION OF POTENTIAL DISPUTED ISSUES

The OCC has conducted discovery with respect to the Company's 2004 Energy Costs and 2004 short term sales margins and has had discussions with the Company. As a result of this process, the OCC and the Company have agreed that the Company's Application should be approved, subject to a minor adjustment to the short term sales margins that Public Service reported for 2004. This adjustment results from Public Service's treatment of the results of Public Service's settlement with the California Independent System Operator ("CAISO").

The 2004 CAISO Settlement resolved a dispute between Public Service and certain wholesale power purchasers and California state agencies (the "California Parties") concerning wholesale prices paid to Public Service during the late 2000 and early 2001 time period for electricity Public Service sold into the CAISO organized wholesale market. The prices received by Public Service in the CAISO market during this time frame were established by market clearing prices that became the subject of a later investigation by the Federal Energy Regulatory Commission ("FERC") and there was uncertainty as to what level of price would ultimately be determined by FERC to

have been the level reflecting just and reasonable rates. Under the CAISO Settlement, Public Service agreed to refund certain payments to CAISO in compromise of claims made by the California Parties for refunds. The effect of the refunds was to reduce the ultimate margins earned by Public Service on these energy sales below the level reported by Public Service in earlier adjustment clause filings. Public Service sought to adjust the 2004 short term sales margins by this refund amount.

Upon discussions of this matter, the OCC and Public Service have agreed that it is acceptable to adjust 2004 short term sales margins to reflect the refund that Public Service paid to the CAISO; however, the refund should take into account the margin sharing arrangement that was in effect during the 2000 – 2001 time period, as opposed to the different margin sharing arrangement that was in effect in 2004. Specifically, in the period of 2000 and 2001, Public Service shared the retail jurisdictional share of short term sales margins with retail customers on a 50%/50% basis between the customers and the Company. In 2004, under the ECA, margins were shared on a 60%/40% customer/Company basis for sales made from the Company's assets (Generation Book Sales) and 40%/60% for sales made from the generation assets of other companies (Proprietary Book Sales). Public Service has recalculated the CAISO Settlement adjustment to reflect the margin sharing in effect in 2000. Attachment A to this Stipulation and Settlement Agreement shows the revised CAISO Settlement adjustment using the 2000 sharing percentages as the basis for allocating the CAISO refund. As a result of this recalculation, Public Service will allocate an additional \$114,832 of 2004 short term sales margins to retail customers. Given the relatively small size of this adjustment, Public Service will adjust the ECA deferred balance to

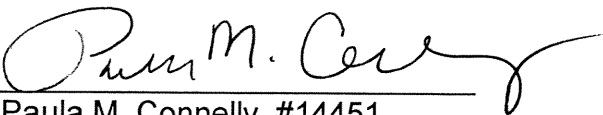
show \$114,832 of additional revenue. The adjustment shall be made in the month that the Commission approves this Stipulation and Settlement Agreement.

CONCLUSION

There are no remaining disputes to be litigated in this Docket. The remaining Parties, the OCC and the Company, request Commission approval of the Company's application, subject to the modification to the allocation of the CAISO Settlement set forth in Attachment A to this Stipulation and Settlement Agreement. The Parties agree that this Stipulation and Settlement Agreement and the Company's pre-filed testimony shall be admitted into evidence without objection. If necessary, the Parties agree to support this Stipulation in a hearing on the Stipulation. The Parties further agree to jointly request vacation of the hearing and approval of this Stipulation and Settlement Agreement upon the written pleadings. Should this Stipulation and Settlement Agreement not be approved by the Commission, then the Parties agree to cooperate to develop a procedural schedule to proceed to hearing and all parties reserve the right to argue their respective interests on all matters.

Dated this 19th day of September 2006.

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PUBLIC SERVICE COMPANY OF COLORADO
ELECTRIC DEPARTMENT
2004 ECA
CAL ISO TREATMENT

ATTACHMENT A

	step 1		step 2		step 3			step 4	CUSTOMER IMPACT
	CAL ISO REFUND	CAL ISO ALLOCATION TO GEN BOOK PROP BOOK	PROP BOOK JOA ALLOCATION JOA PERCENT PSOC PROP	PROP BOOK JOA ALLOCATION	GEN BOOK PROP BOOK	CUSTOMER SHARING	TOTAL	JURISDICTIONAL ALLOCATION	
AS FILED	\$ 7,255,501	2004 GEN/PROP RATIO 66% 34% \$4,798,498 \$2,457,003	34% \$ 835,381	2004 JOA ALLOCATION	60% ECA METHOD 40% \$ 334,152	\$ 3,213,251	2004	80.0906%	\$ 2,573,512
Reallocation of CAL ISO refund based on 2000 allocation factors	\$ 7,255,501	2000 GEN/PROP RATIO 68% 32% \$4,933,741 \$2,321,760	34% \$ 789,399	2000 JOA ALLOCATION	50% ICA METHOD 50% \$ 394,699	\$ 2,861,570	2000	85.9207%	\$ 2,458,681
								DIFFERENCE	<u>\$ 114,832</u>

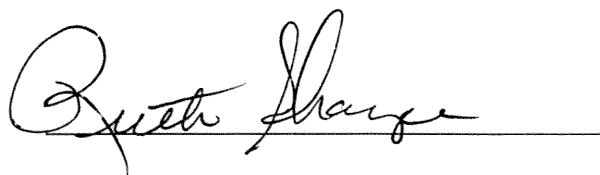
CERTIFICATE OF SERVICE

I hereby certify that on this, the 19th day of September 2006, the original and seven (7) copies of the foregoing **STIPULATION AND SETTLEMENT AGREEMENT** were served via hand delivery on:

Doug Dean, Director
Colorado Public Utilities Commission
1580 Logan OL2
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and a copy of this document was emailed, addressed to all Parties on this certificate of service:

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*Denotes persons who have signed
nondisclosure agreement