BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR A DETERMINATION THAT A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY IS NOT REQUIRED FOR THE CHEROKEE 2 SYNCHRONOUS CONDENSER, OR IN THE ALTERNATIVE GRANTING OF A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY	)	**Docket No. 11A- 209E**

EXHIBIT # 6
DOCKET # 11A 209E
WITNESS
DATE 7/1/11
REPORTER CCC

SETTLEMENT AGREEMENT

Public Service Company of Colorado ("Public Service" or "Company"), Trial Staff of the Commission ("Staff"), the Office of Consumer Counsel ("OCC"), Colorado Energy Consumers ("CEC"), Colorado Independent Energy Association ("CIEA"), and Noble Energy, Inc., Chesapeake Energy Corporation, and Encana Oil & Gas (USA) (collectively "Gas Intervenors") (each a "Settling Party" and collectively the "Settling Parties") hereby enter into this Settlement Agreement to resolve all issues that have or could have been litigated in this docket. The Settling Parties agree to seek Commission approval of this Settlement Agreement. The only other parties to this proceeding, Climax Molybdenum Company ("Climax"), CF&I Steel, LP, d/b/a Evraz Rocky Mountain Steel ("CF&I"), Holy Cross Electric Association, Inc. ("Holy Cross"), and Western Resource Advocates ("WRA") have indicated that they will not oppose this settlement.

Accordingly, the Settling Parties request that the Presiding Judge and the Commission treat this Settlement Agreement as an unopposed settlement.

Background

In Docket No. 10M-245E, the Commission addressed the emissions reduction plan proposed by the Company in compliance with House Bill 10-1365, the Clean Air Clean Jobs Act ("CACJA"). This plan, as subsequently modified and approved by the Commission, consists of a number of components, including the conversion of Cherokee Unit 2 and Arapahoe Unit 3 to synchronous condensers to support the Company's transmission system by July 1, 2012 and 2014, respectively.

Although the Commission in its decisions in Docket No. 10M-245E specified that the Company needed to file applications for certificates of public convenience and necessity ("CPCN") for other facilities that the Company was installing as part of its CACJA compliance plan, the Commission did not specify that applications for a CPCN were required for the Cherokee Unit 2 and Arapahoe Unit 3 synchronous condensers. Accordingly, in its application in this proceeding, which was filed on March 9, 2011, the Company requested that the Commission determine that (i) the Company did not need to obtain a CPCN for the synchronous condenser to be installed at Cherokee 2, and (ii) that the Company is not precluded from earning a return on Construction Work in Progress ("CWIP") for the Cherokee 2 synchronous condenser as a consequence of not obtaining a CPCN for that facility. In the alternative, the

Company requested that the Commission grant a CPCN for the Cherokee 2 synchronous condenser.

As part of its application, the Company included the direct testimony of a single witness, Ms. Karen T. Hyde. Among other things, Ms. Hyde provided a revised cost estimate for the project. In Docket No. 10M-245E, the Company estimated that the Cherokee 2 synchronous condenser project would cost $4 million plus or minus 20%. In this docket, the Company, through the testimony of Ms. Hyde, originally informed the Commission that it was estimating the cost of the project at $9.9 million plus or minus 10%. Notwithstanding this higher cost estimate, Ms. Hyde indicated that the Company believed that the Arapahoe 3 synchronous condenser would no longer be needed, and that the new cost estimate for the Cherokee 2 synchronous condenser was within the cumulative cost estimate accuracy of both the Cherokee 2 and Arapahoe 3 synchronous condenser projects as they were included in Docket No. 10M-245E. Ms. Hyde also explained why the Company would oppose a cost cap for the project. Ms. Hyde included an exhibit to her testimony showing the schedule for project completion. Finally, Ms. Hyde expressly requested that the Commission specify in its order that all costs for the project shall be recoverable even if incurred before the grant of a CPCN, if the Commission determined that a CPCN was in fact required.

On May 11, 2011, the Commission issued Decision No. C11-0478, in which it granted all interventions and referred the Company's application to an Administrative Law Judge for resolution. The Commission had previously

deemed the Company's application complete by minute entry as of April 26, 2011.

Subsequently, the Company filed the supplemental direct testimony of Ms. Hyde and Mr. Randy J. Larson. In this testimony, the Company lowered its cost estimate for the project to $9.204 million plus or minus 10%. The Company also clarified that it was not asking the Commission to make any rulings with respect to the Arapahoe 3 synchronous condenser in this proceeding to allay a concern that had been raised in various parties' interventions. The Company included with its supplemental direct testimony a revised schedule for project completion.

Only Staff filed answer testimony. Staff submitted testimony from two witnesses: Mr. Gene L. Camp and Mr. Inez G. Dominguez. Staff did not take issue with the Company's $9.204 million estimate or question the schedule. However, through the testimony of Mr. Camp, Staff took the position that this estimate should be used to establish a "soft cap" – that is, expenditures for the Cherokee Unit 2 synchronous condenser project up to that level would have a presumption of prudence – and that there should be no need for the additional 10% contingency that the Company's proposed range of accuracy would provide. Mr. Dominguez included as Exhibit IGD-1 the "Public Service Company of Colorado Voltage Stability & Reactive Resource Adequacy Phase I Assessment Report," which resolved his concerns whether there would be voltage regulation issues on the Public Service transmission system after the conversion of Cherokee 2 to a synchronous condenser. However, Mr. Dominguez testified that additional studies should be provided for year 2012 through 2021 to show

adherence to WECC reliability criteria for subsequent CACJA-related CPCN applications.

Public Interest

The Settling 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 consistent with Commission Rule 1408 encouraging settlements. Accordingly, the Settling Parties believe that the compromises and settlements reflected in this Settlement Agreement are in the public interest. The Settling Parties further state that approval and implementation of the compromises and settlements reflected in this Settlement Agreement constitute a just and reasonable resolution regarding all issues that have been or could be raised in this proceeding.

Settlement

To resolve this proceeding by settlement, the Settling Parties agree as follows:

1. Grant of CPCN

The Parties agree that subject to the terms and conditions set forth in this Settlement Agreement, and consistent with the Commission's preliminary finding of need in Docket No. 10M-245E, the Cherokee Unit 2 synchronous condenser project should be granted a CPCN by the Commission. Public Service withdraws its request for a determination that a CPCN is not necessary for the project.

2. Cost Estimate

The Settling Parties agree that the Company's revised all-in capital cost estimate of $9.204 million, as presented in the supplemental direct testimony and exhibits of Mr. Larson, is reasonable. The Settling Parties further agree that for ratemaking purposes, the Company's capital expenditures should be deemed to be prudent up to a level of 3% higher than this capital estimate ($0.276 million) to allow for contingencies specific to this project (that is, a total amount of $9.480 million). The Settling Parties agree that in a subsequent rate proceeding they will not contest the prudence of a capital expenditure of up to the total of $9.480 million and ask that the Commission order that capital expenditures at or below this level are deemed prudent. It is understood that this capital expenditure estimate and limit is exclusive of any Allowance for Funds Used During Construction or "AFUDC", the recovery for which is addressed below. If Public Service expends more than $9.480 million to complete the project, it will have the burden of establishing that such costs in excess of this amount are prudent in its next general rate case before being permitted recovery of such costs.

3. Cost Recovery

The Commission in Section I.H of Decision No. C10-1328[1] and Section I.H[2] of Decision No. C11-0121 set forth the cost recovery mechanisms that shall apply to the costs that the Company incurs in implementing its CACJA

[1] Decision No. C10-1328 at ¶¶ 204-207. The Commission approved specific cost recovery treatment related to construction work in progress ("CWIP") and accelerated depreciation and removal costs.
[2] Decision No. C11-0121 at ¶¶ 126-129. The Commission provided clarification for cost recovery related to CWIP and recovery of planning costs incurred prior to the issuance of Decision No. C10-1328.

compliance plan. While the Commission left open the possibility that the Company could seek cost recovery through a special regulatory mechanism by making the required showing under §40-3.2-207(4), C.R.S., the Company has not made such a request in this proceeding. Accordingly, the cost recovery mechanisms that the Commission set out in Decision Nos. C10-1328 and C11-0121 will instead apply to the costs that Public Service incurs for the project, subject to the limitation on such costs that may apply pursuant to Paragraph 2 above. To summarize, (1) the Company will accumulate AFUDC on the amounts it expends on the project (as such amounts may be limited in accordance with Paragraph 2 above) until the Company's next general rate case; and (2) depending on the timing of that rate case, the Company may seek recovery of a return on CWIP with the inclusion of past AFUDC in rate base without a current AFUDC offset. Subject to the limits in Paragraph 2 above, the Company shall be able to recover all capital expenditures made by the Company for the Cherokee 2 Synchronous Condenser Project irrespective of whether the costs were incurred prior to or after a Commission decision in this docket.

4. Arapahoe 3 Synchronous Condenser

Public Service recognizes that certain of the Settling Parties are relying upon Public Service's analysis and representations that the Arapahoe 3 Synchronous Condenser will likely not be needed due to the larger synchronous condenser to be installed at Cherokee ~~3~~ 2 (DH 7-1-11), that the $9.480 million cost for the Cherokee ~~3~~ 2 (DH 7-1-11) Synchronous Condenser is within the cumulative cost estimate accuracy of both the Cherokee 2 and Arapahoe 3 synchronous condenser

projects as they were included in Docket No. 10M-245E, and that if voltage support is still needed at the Arapahoe site, a less expensive solution will likely be appropriate. Public Service is not seeking any determination in this docket as to whether it shall or shall not complete the Arapahoe 3 synchronous condenser project. While Public Service has indicated that such project likely will not be needed, it shall obtain the Commission's approval before formally abandoning that project. In such filing, the Company shall include a Voltage Stability and Reactive Resource Adequacy Study conducted in accordance with the recommended Western Electricity Coordinating Council ("WECC") voltage stability assessment methodology for the Denver metropolitan area under 2012 and 2022 summer peak loading conditions. Public Service will also discuss in that filing why voltage stability and reactive resource adequacy will not be adversely impacted during any of the intermediate years (2012-2022). If that study shows that additional voltage support is still needed at the Arapahoe site, Public Service will propose in its application an appropriate cost-effective solution consistent with the Commission's directive in Decision No. C10-1328, ¶110 and 114, which may include capacitor banks. Alternatively, if Public Service concludes, based on the results of this study, that the conversion of Arapahoe Unit 3 to a synchronous condenser remains the best option for providing any needed voltage support, Public Service will file a CPCN application for the Arapahoe 3 facility, and will include the above study as part of that filing. Unless authorized otherwise, Public Service will make one or the other of the above filings no later than December 31, 2012.

General Provisions

The Settling Parties agree to support this Settlement Agreement as being in the public interest and request that the Commission approve this Settlement Agreement in their statements of position. The Settling Parties pledge support for the Commission approval and subsequent implementation of the provisions of this Settlement Agreement.

This Settlement Agreement provides for a negotiated resolution of the issues in this proceeding that involve compromise by each Settling Party. In any future negotiation, proceeding, or docket before the Commission (other than any proceeding that may involve the enforcement, interpretation, construction, or application of the terms of this Settlement Agreement), the Settling Parties shall not be bound or prejudiced by the Settlement Agreement: nothing in this Settlement shall constitute an admission by any Party of the correctness or applicability of any claim, defense, rule, or interpretation of law, allegation of fact, principle or method of ratemaking, or cost-of-service determination.

Except insofar as the Settling Parties are agreeing to support the Settlement Agreement, the Settlement Agreement shall not become effective until the issuance of a final Commission order approving the Settlement Agreement, which order does not contain any modification of its terms and conditions that is unacceptable to any of the Settling Parties. In the event the Commission modifies this Settlement Agreement in a manner unacceptable to any Settling Party, that party shall have the right to withdraw from this Settlement Agreement. The withdrawing Settling Party shall notify the Commission and the

other Settling Parties by email within seven business days of the Commission's final order modifying the Settlement Agreement that the Settling Party is withdrawing from the Settlement Agreement. In that notification, the withdrawing Settling Party shall provide a list of issues that it intends to raise at any subsequent stages of this proceeding.

Whether this Settlement Agreement is approved by the Commission or not, the negotiations or discussions undertaken in conjunction with the Settlement Agreement shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Settlement Agreement.

The Settling Parties agree that approval by the Commission of this Settlement Agreement shall constitute a determination that the Settlement Agreement represents a just, equitable, and reasonable resolution of all issues that were or could have been contested by each of the Settling Parties in this proceeding. The Settling Parties state that reaching Settlement Agreement in this docket by means of a negotiated settlement is in the public interest and that the results of the compromises and settlements reflected in this Settlement Agreement are just, reasonable, and in the public interest.

This Settlement Agreement may be executed in counterparts, all of which when taken together shall constitute the entire agreement with respect to the issues addressed by this Settlement Agreement.

Dated this 23rd day of June, 2011.

Respectfully submitted,

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