

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

**IN THE MATTER OF ADVICE LETTER NO.)
124-STEAM FILED BY PUBLIC SERVICE)
COMPANY OF COLORADO TO REVISE) PROCEEDING NO. 14AL-0710ST
ITS COLORADO PUC NO. 1-STEAM)
TARIFF)**

SETTLEMENT AGREEMENT

Public Service Company of Colorado (“Public Service”), the Staff (“Staff”) of the Public Utilities Commission of Colorado (“Commission”), and the Colorado Energy Office (“CEO”) (together, the “Settling Parties”) hereby enter into this Settlement Agreement in resolution of all issues regarding Advice Letter No. 124 – Steam and accompanying tariffs. In support of this Settlement Agreement, the Settling Parties state:

I. PROCEDURAL HISTORY

Following the Commission’s decision¹ in its Phase I steam rate case, Proceeding No. 12AL-1269ST, on June 26, 2014, Public Service filed Advice Letter No. 124-Steam to revise the related tariffs. Accompanying the Advice Letter were proposed tariff sheets that had a proposed July 27, 2014 effective date. In support of the tariff revisions, Public Service also filed the direct testimony and exhibits of Scott B. Brockett and Mason Harrison.

¹ The Phase I rate case was resolved through a comprehensive unanimous Settlement Agreement approved by Administrative Law Judge Mana L. Jennings-Fader in Decision No. R13-1388, issued November 6, 2013, which became a decision of the Commission on November 26, 2013. As a result of the approved Settlement Agreement, Public Service implemented a General Rate Schedule Adjustment (“GRSA”) rider of 27.24% effective January 1, 2014.

On July 23, 2014, by Decision No. C14-0877, the Commission suspended the effective date of the tariffs that accompanied the Advice Letter for a period of 120 days, or until November 25, 2014, pursuant to Colo. Rev. Stat. §40-6-111(1) and set this matter for hearing before an administrative law judge.

Staff intervened as of right and is a party. The CEO filed a motion for permissive intervention, which was granted by Administrative Law Judge (“ALJ”) Robert I. Garvey in Decision No. R14-1062-I. See Decision No. R14-1062-I, p. 3, ¶11. As such, CEO is also a party.²

At a pre-hearing conference held on August 26, 2014, ALJ Garvey scheduled an evidentiary hearing for November 12, 2014, and established a procedural schedule, which is set forth in Decision No. R14-1062-I. Decision No. R14-1062-I at 3. ALJ Garvey also suspended the tariff sheets filed with Advice Letter No. 124-Steam for an additional 90 days, or until February 22, 2015, pursuant to Colo. Rev. Stat. § 40-6-111(1). Decision No. R14-1062-I, p. 2, ¶ 7.

On September 22, 2014, Public Service filed a Motion to Modify the Procedural Schedule (“Motion”) requesting to extend the due date of intervenor answer testimony by one week, or until October 1, 2014. Staff and CEO did not oppose the motion, which allowed the Settling Parties to continue to negotiate a settlement. ALJ Garvey granted Public Service’s Motion on September 26, 2014 in Decision No. R14-1185-I.

On September 22, 2014, the Settling Parties reached a settlement in principle, which was finalized in a written document, this Settlement Agreement, to which the

² While Colorado Energy Consumers filed a Protest and Request for Hearing prior to the Commission’s suspension order on July 25, 2014, it ultimately did not intervene in this proceeding.

Settling Parties agree. On October 1, 2014, the Settling Parties filed an Unopposed Motion to Approve Settlement Agreement and To Waive Response Time.

The Settling Parties have devoted substantial effort and time to settle this Proceeding. Public Service has exchanged information with Staff through Staff's audit. As a result, the Settling Parties conducted successful settlement negotiations and reached a settlement in principle on September 22, 2014. The final language for the settlement in principle was agreed to on September 30, 2014. This written Settlement Agreement sets forth the settlement in principle negotiated among the Settling Parties in resolution of this proceeding. An Unopposed Motion to Approve Settlement Agreement and To Waive Response Time is being filed concurrently with this Settlement Agreement.

II. SETTLEMENT

The Settling Parties have agreed, as set forth in detail herein, that Public Service shall revise its base rates as originally proposed in the revised tariff sheets filed with Advice Letter No. 124-Steam that are designed to recover the test-year cost of service of \$10,742,642 approved by the Commission in Public Service's Phase I rate case, Proceeding No. 12AL-1269ST using the rate design described below. Further, the Settling Parties have also agreed to the other revisions to the tariffs originally proposed in the revised tariff sheets filed with Advice Letter No. 124-Steam as described below.

A. Three Part Rate Design

Currently, Public Service has a two-part steam rate that consists of a fixed Service and Facilities ("S&F") Charge and a variable Commodity Charge for all customers. Public Service proposes to implement a three-part steam rate that will

include an S&F Charge, a Consumption Charge³, and a Demand Charge. The Demand Charge will be assessed on a monthly billing demand equal to the higher of the customer's maximum on-peak hourly demand during the billing period or 50% of the customer's highest billing demand during the previous five winter months. Public Service states that the three-part rate structure will send better price signals to customers, better link cost recovery with cost causation, and facilitate Public Service's long-term planning for the steam business. The demand ratchet feature is intended to ensure that customers remain responsible for the costs they impose on the system during critical periods. The Settling Parties have agreed to the tariff revisions effectuating Public Service's proposed three-part steam rate. The Settling Parties also agree that the revised tariff shall be allowed to go into effect on January 1, 2015. Set forth in Highly Confidential Attachment A are the estimated bill impacts resulting from the revised tariff sheets. Ultimately, the impact of the three-part steam rate on a specific customer will depend both on the customer's size and load factor.

B. Quarterly Steam Cost Adjustment

Currently, pursuant to its existing tariffs, Public Service updates the Steam Cost Adjustment ("SCA") annually. Based on Public Service's experience, revising commodity rates on an annual basis can result in large positive or negative deferred balances, resulting in steam customers experiencing large changes in bills on January 1 of each year that are unrelated to current costs of providing them service. As a result, Public Service proposes certain revisions to its tariff to allow for SCA changes to be made on a quarterly basis. The Settling Parties agree that the tariffs should be revised to allow for quarterly updates to the SCA. Under the quarterly SCA, revised SCA rates

³ Public Service proposes to change the name of the "Commodity Charge" to "Consumption Charge."

would become effective beginning the first day of each calendar quarter. Each filing will be submitted no later than the 15th of the month prior to the effective date (typically, the first day of the following calendar quarter), or the next business day after the 15th day should the 15th day fall on a Saturday, Sunday, or Commission-recognized holiday. Public Service will file an application quarterly on less than statutory notice in accordance with Colo. Rev. Stat. § 40-3-104(2), and as permitted for gas adjustment clauses under Rule 4109 and electric cost adjustment clauses under Rule 3109.

C. Customer Option to Leave System

Public Service proposes to offer a temporary option that would allow qualifying customers committing to leave the steam system by a certain date to continue paying the currently effective two-part steam rate, as adjusted by the 27.24% GRSA, in lieu of the new three-part steam rate. In order to qualify for the two-part rate, a customer must (1) be an existing steam customer on June 26, 2014, the date of the Phase II rate case filing; (2) submit a written notice to Public Service within thirty (30) days following a final Commission decision approving this Settlement Agreement⁴, that the customer commits to discontinuing service on a permanent basis no later than October 1, 2015; (3) enter into a written service agreement providing for the permanent discontinuance of service by such date; and (4) in fact discontinue service by October 1, 2015. For customers who provide notice within the specified time frame, Public Service will issue a bill credit for any difference between the two-part and three-part rate. Customers that provide notice and sign such agreement, but that actually remain on the steam system after

⁴ Currently, the proposed Tariff Sheet No. 5 contains the following language “the date that is thirty (30) days following a Commission decision approving revised base rates in Proceeding No. AL14-___ST or March 31, 2015, which ever is earlier.” However, if the Commission issues a decision approving the Settlement Agreement, this tariff language will be revised simply to January 31, 2015, so that the provision takes effect after the effective date.

October 1, 2015, will be charged the difference, if any, between its billings under the two-part rate and what they would have been charged under the three-part rate as if they had been on the three-part rate since the three part rate went into effect.

If a customer discontinues service and subsequently wants to resume service, the customer will be required to submit an application to Public Service which will be considered on a first-come, first-serve basis and subject to available steam capacity. Further, if the customer was charged less under the two-part rate than otherwise applicable under the three-part rate, the customer will have to pay the difference between billings under the three-part rate and what was previously charged under the two-part rate. The customers who plan to discontinue service will be charged the two-part base rates until they discontinue service. Public Service will absorb any short-term revenue loss attributable to customers remaining on two-part rates. Public Service also included provisions in its proposed tariffs to allow for delinquent steam bills for customers who left the steam system to be transferred to electric or gas bills after 90 days.

The Settling Parties agree that Public Service's proposed tariff revisions providing for this option should be allowed to go into effect.

D. Applications For Standby Service

Currently, Public Service is precluded from accepting applications for standby service.⁵ The Settling Parties agree that, as proposed by Public Service, the tariffs should be modified to remove the restriction precluding standby service. Public Service will not begin offering standby service through the tariffs approved in this proceeding;

⁵ See tariff on 49th Revised Sheet No. 3

but rather Public Service must seek Commission approval of any terms and conditions of standby service in the event it elects to offer such service.

E. Effective Date of Revised Tariffs

The Settling Parties agree that the tariff changes agreed to herein shall become effective January 1, 2015. A January 1, 2015 effective date will allow customers to adjust their behavior in response to the new three-part rate design sooner and allow Public Service to assess more quickly customer response to the new rate design, which will facilitate long-term business planning. Upon issuance of a final Commission order approving this Settlement Agreement in all material respects, Public Service shall file, on not less than five (5) business days notice, compliance tariff sheets reflecting all of the substantive changes reflected in the revised tariff sheets originally filed with Advice No. 124 - Steam to become effective January 1, 2015.

F. Public Interest

The Settling Parties to this Settlement Agreement state that reaching agreement by means of this negotiated settlement rather than through a formal adversarial process is in the public interest and consistent with Commission Rule 1408 encouraging settlements and 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 to this proceeding.

G. Comprehensive Settlement

The Settling Parties agree that the above described rate design, the resulting revised base rates, and other tariff revisions are just and reasonable. The Settling

Parties also agree that this settlement is just and reasonable. Further, the Settling Parties agree that this Settlement Agreement is intended to be a comprehensive settlement resolving all issues raised or that could have been raised with respect to Public Service's Advice Letter No. 124 – Steam and accompanying tariffs to recover the test-year cost of service of \$10,742,642, as approved by the Commission in Public Service's Phase I rate case, Proceeding No. 12AL-1269ST.

III. GENERAL TERMS AND CONDITIONS

The Settling Parties agree that this Settlement Agreement will only become effective when the Commission issues a final decision approving this Settlement Agreement. The Settling Parties agree to support this Settlement Agreement as being in the public interest and will request that the Commission approve this Settlement Agreement without an evidentiary hearing. The Settling Parties pledge support for the Commission's approval and subsequent implementation of the provisions of this Settlement Agreement.

The Settling Parties further agree that, if the Commission schedules a hearing on this Settlement Agreement, they will cooperate on preparation for the hearing. If such a hearing is conducted, the Settling Parties further agree that all pre-filed testimony and exhibits of Public Service will be admitted into evidence in this proceeding without objection and without cross-examination.

In the event the Commission issues a decision approving this Settlement Agreement, but modifying it in a manner unacceptable to any Party, that Party shall have the right to withdraw from this Settlement Agreement. The withdrawing Party shall notify the Commission and the other Settling Parties by electronic mail within five (5)

business days of the Commission's final order modifying the Settlement Agreement that the Party is withdrawing from the Settlement Agreement and that the withdrawing Party is ready to proceed to hearing. The email notice shall designate the precise issue or issues on which the withdrawing Party desires to proceed to hearing (the "Hearing Notice").

The withdrawal of a Party shall not automatically terminate this Settlement Agreement as to any other Settling Party. Within three (3) business days of the date of the Hearing Notice from the first withdrawing Party, all Settling Parties shall confer to arrive at a comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled as a result of the first Party's withdrawal from this Settlement Agreement. Within five (5) business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled. The Parties who proceed to hearing shall have and be entitled to exercise all rights with respect to the issues that are heard that they would have had in the absence of this Settlement Agreement. The hearing shall be scheduled as soon as practicable on all of the issues designated in the Hearing Notice filed with the Commission.

Whether this Settlement Agreement is approved by the Commission or not, the negotiations and 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 and its

provisions represent a just, equitable, and reasonable resolution of all issues that were, or could have been, disputed by each of the Settling Parties related to this Proceeding. The Settling Parties state that agreeing to resolve these disputes by means of a negotiated settlement is in the public interest and that the results of the compromises, stipulations and agreements reflected in this Settlement Agreement are just, reasonable, and in the public interest.

All Settling Parties specifically agree and understand that this Settlement represents a negotiated settlement in the public interest with respect to the various Public Service rate matters and terms and conditions of service for the sole purpose of the settlement of the matters agreed to in this Settlement. The revised steam base rates and tariff provisions placed into effect in accordance with the terms of this Settlement Agreement shall be the established just and reasonable rates and tariff provisions to be thereafter observed. Nothing in this Settlement Agreement shall preclude Public Service from seeking prospective changes in its steam rates by an appropriate filing with the Commission. Nothing in this Settlement Agreement shall preclude any other party from filing a Complaint or seeking an Order to Show Cause to obtain prospective changes in Public Service's steam rates.

This Settlement Agreement provides for a negotiated resolution of the issues in this proceeding that involves compromises by each Party to resolve their claims and disputes while avoiding further litigation. In any other negotiations or proceeding before the Commission or the courts (other than any proceeding that may involve the enforcement, interpretation, construction, or application of the terms of this Settlement Agreement), the Parties shall not be bound or prejudiced by this Settlement Agreement.

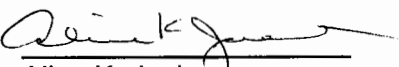
The Parties agree that nothing in this Settlement Agreement shall constitute precedent for purposes of any other proceeding, nor shall this Settlement Agreement constitute an admission by any Party of the correctness or applicability of any claim, defense, rule, or interpretation of law, allegation of fact, principle, policy or method of regulation.

All Settling Parties were represented by counsel and have had the opportunity to participate in the drafting and revision of this Settlement Agreement. There shall be no legal presumption that any specific Party was the drafter of this Settlement Agreement.

Dated the 1st day of October, 2014.

Agreed on behalf of:

PUBLIC SERVICE COMPANY
OF COLORADO

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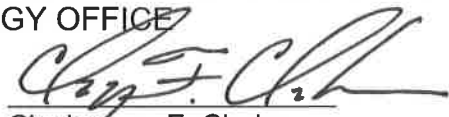

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