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STAFF'S REPORT TO THE COMMISSION

CONCERNING

PUBLIC SERVICE COMPANY OF COLORADO'S

ELECTRIC DEPARTMENT

PERFORMANCE BASED REGULATORY PLAN

EARNINGS SHARING REPORT

FOR 2006

June 18, 2007

THE PUBLIC UTILITIES COMMISSION
ENTERED
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THE STATE OF COLORADO

I. EXECUTIVE SUMMARY

This is the eighth and final report prepared by the Staff of the Commission (Staff) on the Electric Department of Public Service Company of Colorado (PSCo or the Company). These annual reports evaluate the earnings of the Electric Department.

The purpose of the earnings test is to "provide an annual sharing of the Company's earnings based on an updated test period and on application of principles reflected in rates resulting from the Company's most recent rate case proceeding."[1] This earnings report along with the Company's Quality of Service Plan (QSP) report[2] are critical components of the Performance Based Regulation (PBR) framework under which the Commission currently regulates some aspects of PSCo's electric operations and rates in Colorado.[3] Under PBR guidelines, the Company shares its earnings over and above target levels with its Colorado retail customers.

After reviewing the Company's PBR Plan Adjustment 2006 Year Supporting Report filing (PSCo PBR Report) Staff has determined that it agrees, with an exception, for the detailed reasons contained in this Staff report, with the sharing calculations provided therein. In view of the fact that calculations demonstrate there are no earnings to be shared and the year 2006 is the final year of the Earnings Test and sharing mechanism, Staff recommends PSCo file an Advice Letter eliminating the Performance-Based Regulatory Plan Adjustment from its tariffs.

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[1] Stipulation and Settlement Agreement approved by the Commission in Decision No. C00-393, page 10, Docket No. 99A-377EG.

[2] Provided to the Commission under separate cover.

[3] The PBR framework applies to only certain aspects of the Company's rates. The ECA, AQIR, PCCA, DSMCA, the line extension policy, the depreciation policy, and the cost allocation manual are other examples of frameworks that govern aspects of the Company's rates and operations in Colorado.

II. Earnings Test History

PSCo filed its Electric Department PBR Report and Fully Distributed Cost Study for 2006 on April 2, 2007. On April 30, 2007, PSCo filed a Motion for Extension of Time up to and including May 18, 2007, to file certain aspects of its 2006 annual report to the Commission. The Motion was granted in Decision No. R07-0357-I, mailed on May 3, 2007. On May 14, 2007, Staff filed a motion for extension of time to file its verification report until June 18, 2007. The motion was granted by the Commission in Decision No. C07-0427.

The ratemaking principles this filing is based on are governed by Commission Decision No. C03-0670 in Docket No. 02S-315EG. Specifically, in *Section III.Q., Ratemaking Principles for Future Earnings Tests*, page 38, paragraphs 118 – 120, the Commission states:

> 118. In the Settlement, the parties agreed to certain ratemaking principles for eleven specific areas that are to be used in the 2004 to 2006 Earnings Tests. In addition to these eleven principles, the Proposed Settlement provides that the jurisdictional allocations (used in the revenue requirement determination) and all other cost assignment/allocation methodology in the current CAM will also be used for the 2004 to 2006 Earnings Tests.
>
> 119. While it would have been more efficient that all regulatory issues addressed in the Settlement would be the agreed upon principles for future Earning Tests, we understand the parties' inability to agree to such a provision in this case. As the parties pointed out, the Earnings Tests have become "mini" rate cases because new issues arise that have not previously been addressed by the Commission. We believe that the agreement to use the listed regulatory principles in the Settlement in future Earning Tests will make the future Earnings Test more efficient for all involved.
>
> 120. We accept the proposal in the Settlement that the listed ratemaking principles (pages 80-82) will apply in future Earnings Tests, except as specifically modified in this Decision.

Section XVII of the 02S-315EG Settlement approved by the Commission in Decision No. C03-0670 states:

XVII. Ratemaking Principles for Future Earnings Test Filings

For the 2004 through 2006 Earnings Tests the electric earnings sharing shall be measured on the basis of an Earnings Test that uses the ratemaking principles and treatments specified in the following sections of this Settlement Agreement:

- Rate of Return and Capital Structure;
- Plant Held for Future Use;
- Insurance Expense;
- Pension Expense;
- Trading A&G and Non Production O&M Expense;
- Oil and Gas Royalty Revenues;
- Dark Fiber;
- Regulatory Treatment of C.R.S. § 40-3-104.3(2)(a) discounts;
- Cost Allocation Between Regulated and Non-Regulated Business Activities;
- Reclassification of Substation Plant and Treatment of Radial Transmission Lines; and
- Sterling Correctional Facility

In addition, the Parties agree that the 2004 through 2006 Earnings Tests shall reflect the jurisdictional allocation methods used in developing the electric revenue requirement approved as a part of this Settlement Agreement and all other cost assignment/allocation methods identified in the Company's then current CAAM on file with the Commission.

For the test periods 2004 through 2006, sharing percentages for earnings over 10.75 percent return on equity shall be as follows:

Measured Return on Equity	Sharing Percentages	
(10.75%)	Customers	Company
>10.75% ≤ 11.75%	65%	35%
>11.75% ≤ 13.75%	50%	50%
>13.75% ≤ 14.75%	35%	65%
Over 14.75%	100%	

III. SUMMARY OF THE PBR PROCESS

As previously stated, PSCo files its annual earnings test calculations in the spring of each year. The filing includes an advice letter that proposes to adjust the annual tariff rider, in accordance with the Company's calculation of earnings, along with supporting material.[4] The annual rider goes into effect on July 1, subject to revision with interest if the Company's calculation is successfully challenged in later hearings.

Upon receipt of the Company's filing, Staff analyzes the Company's calculations and issues a report to the Commission. Based upon that analysis and report, Staff recommends that the filing either be accepted or set for hearing. If the Commission sets the matter for hearing, notice is given; and other persons may intervene and participate in the hearing. If a hearing is held and the outcome of the hearing differs from the Company's proposal, then the Company changes the proposed tariff rider, at an appropriate rate of interest, in accordance with the outcome of the hearing. This serves to true-up the filing with the sharing amount as determined by the Commission.

IV. THE SCOPE OF THE PBR

The PBR earnings test is a limited and more routine financial review than a rate case review. The earnings test begins with the Company's books of account and incorporates accounting and Commission adjustments. Accounting adjustments are adjustments required to insure that transactions properly counted in the review period's earnings are included in the annual filing and transactions that are properly counted in the calculation of earnings for previous or future review periods are excluded.[5] Commission adjustments are adjustments adopted by the Commission (either in a rate case or in a PBR review) that address the treatment of revenues, expenses and rate base.[6]

Specific principles approved by the Commission in Docket No. 02S-315EG include, for example: use of average (as opposed to year-end) rate base; use of year-end capital structure and end-of-period capital costs; full normalization of tax timing differences on a going forward basis as well as associated catch-up provisions; a prohibition against test year quantity adjustments; and required treatment of certain dues and advertising expenses. As applicable in a PBR earnings review, general ratemaking principles include:

a) proposed adjustments must be known and measurable;
b) any transaction, including an affiliate transaction, must have the substance of an arms-length transaction;
c) rate base items must be used and useful;
d) expenses must benefit the ratepayer as a ratepayer; and
e) a proposed difference in amortization period must be justified and reasonable.

The PBR filing, however, does not incorporate pro forma adjustments and consequently does not annualize expenses. Pro forma adjustments result from annualizing price changes

[4] Under separate cover and at about the same time as its earnings test filing, the Company files an annual Quality of Service (QSP) Report with the Commission. On May 16, 2007, Staff filed its Verification Report pertaining to the 2005 QSP results in Docket No. 07M-162E.

[5] 99S-377EG Settlement, page 11, footnote 5.

[6] 99A-377EG Settlement, page 11, footnote 4.

within the test year ("in-period adjustments") or outside the test year ("out-of-period adjustments").[7]

In contrast to a PBR review, a rate case review begins with the Company's books of account and incorporates accounting, Commission, and pro forma adjustments and annualizes expenses during a test year. In addition, a rate case review has traditionally been the forum in which major accounting reclassifications, reassignments, and reallocations, and depreciation changes are brought before the Commission for approval.

These differences in process between a PBR financial review and a rate case result primarily from the difference in purpose between the two. A rate case resets rates for an indefinite period of time, perhaps many years, into the future. In contrast, the PBR was designed, and operates as, a year-by-year review on a consistent basis. As a result, in a rate case, the scope of issues is broad, the process takes many months to accommodate the issues raised, and normally there is no true-up process. In the PBR, the parties are bound by the principles of the last rate case and by previous PBR decisions, parties can only raise issues within the limitations of a stipulation, if any, only about 45 days pass between the Company filing and the Staff report, an additional 45 days pass before the proposed rates go into effect, and there can be a true-up process, if needed. Annualizing expense adjustments are plentiful in a rate case but are not addressed in the PBR. Rate of return is also an issue in a rate case whereas in the PBR there is a sharing formula to deal with earnings (in this case over 10.75% return on equity) on a systematic basis.

[7] 99A-377T Settlement, page 11, footnote 6.

As stated previously, the adjustments allowed in the PBR are more limited than the adjustments permitted in a rate case review. While the PBR review provides a forum for parties to raise limited "new issues" that the Commission has not ruled on in the previous rate case or in previous earnings test dockets, the PBR was not designed to provide a forum to permit accounting allocation or depreciation schedule changes. The 99A-377EG Settlement, which governs the 2002 PBR, states the sources of the regulatory principles for the 2000-2002 earnings tests as:

> For the calendar years 2000, 2001, and 2002 earnings tests, the electric earnings sharing shall be measured on the basis of an earnings test that uses the ratemaking principles ***(including allocation methodologies)*** reflected in the rates resulting from the following: the Company's Phase I and Phase II rate case proceedings in Docket Nos. 93S-001EG and 95I-513E, respectively; Decision No. C98-54 (January 20, 1998) in Docket No. 97A-299EG (the so called "pre earnings test docket"); the Stipulation of Partial Settlement with Respect to Public Service's 1997 Earnings Test, dated November 16, 1998, among the Company, the Commission Staff, and the OCC, approved by Decision No. R97-1187 (December 3, 1998) in Docket No. 95A-531EG; and any other Commission order issued subsequent to the most recent electric rate case proceeding. (Emphasis added.)

It is noteworthy that the 99A-377EG Settlement expressly identified different sources of the regulatory principles for the earnings tests beyond 2003. It states:

> For the earnings tests for calendar years 2004, 2005, and 2006, the electric earnings sharing shall be measured on the basis of an earnings test that uses the ratemaking principles ***(including allocation methodologies)*** reflected in the rates resulting from the following: the 2002 electric rate case or the then most recent electric rate case; and any Commission order issued subsequent to the most recent electric rate case proceeding. (Emphasis added.)

This paragraph contains a footnote that states that nothing shall preclude a party from requesting that the Commission adopt a rate making principle or allocation methodology for future earnings tests that differs from those used to establish base rates.

V. STAFF'S RESPONSE TO ON-GOING AND NEW ISSUES

A. General Comment

As noted above, PSCo filed its 2006 PBR earnings test report on April 2, 2007. The Company's calculations indicate that the company had Net CPUC Jurisdictional Operating earnings of $236,570,399, or an achieved return on equity (ROE) of 7.73%, resulting in no earnings sharing with Colorado customers. Based on the Company's calculations, it could have earned an additional $97.6 million before it reached its threshold for sharing with its customers under the terms of the 2006 PBR. The sharing schedule from the 02S-315EG Settlement indicates that earnings over 10.75% ROE for 2004 through 2006 shall trigger the sharing with retail electric customers.

The 2002 earnings test filing was the last earnings test in which the standards of the 1993 rate case (Docket No. 93S-001EG) applied. As noted previously, the current earnings test for 2006 uses the ratemaking principles reflected in Decision No. C03-0670, Docket No. 02S-315EG, which approved the 02S-315EG Settlement. For instance, the current test year uses an average rate base instead of year-end rate base, as was the case for the 2002 filing. The 2006 PBR has a different earnings sharing schedule based upon the 10.75% ROE granted in PSCo's 2002 Rate Case.

The remainder of this report discusses, in detail, Staff's analysis of the Company's filing. It includes Staff's response to each on-going and new issue PSCo has identified in its 2006 filing, followed by Staff's annual update of changes in the Company's capital structure, principal changes in plant accounts, and changes in selected income statement accounts.

B. Staff's Response and Analysis

1. Rate Case Principles

In the 02S-315EG Settlement, the parties agreed to certain ratemaking principles for eleven specific areas that were to be used in the 2004 to 2006 earnings tests. In addition, the parties agreed that the earnings tests will reflect the jurisdictional allocation methods used in developing the electric revenue requirement as set forth in *Section XVII. Ratemaking Principles for Future Earnings Test Filings.*

a) Rate of Return and Capital Structure

A detailed discussion of the requirements of the 02S-315EG Settlement and other related decisions are included below in Capital Structure, Section 10.

b) Plant Held for Future Use

PSCo's treatment of the amount in the Earnings Test for the Southeast Water Rights is in accordance with the latest Phase I rate case decision, Commission Decision No. C03-0670 in Docket No. 02S-315EG. The Commission determined that PSCo should continue to recover the debt cost of the Company's carrying costs for the Southeast Water Rights as long as and to the extent that PSCo continues to own such water rights.

c) Insurance Expense

In the 02S-315EG Settlement, the parties agreed to use actual 2002 insurance expense in calculating the revenue requirement. The 2004, 2005 and 2006 earnings tests will reflect actual insurance expense incurred during the applicable calendar year. In the 2006 earnings test, PSCo complied with the Commission decision approving the 02S-315EG Settlement.

d) Pension Expense

In the 02S-315EG Settlement, the parties agreed to a *pro forma* adjustment for pension costs to reflect an increase in pension costs anticipated in 2003. The 2004, 2005 and 2006 earnings tests will reflect actual pension expense incurred during the applicable calendar year. If actual pension costs are less than what is allowed in rates approved by the Commission as part of the 02S-315EG Settlement, 100% of the excess pension cost recovery (*i.e.*, the difference between actual costs and the costs allowed in the Settlement) will be flowed back to ratepayers in the annual earnings test regardless of the overall earnings test calculation. This treatment will not be symmetrical. The pension costs will be pooled with other expenses to perform the earnings test calculation. In the 2006 earnings test, PSCo complied with the Commission decision approving the 02S-315EG Settlement.

e) Trading A&G and Non Production O&M Expense

In the 02S-315EG Settlement Agreement, the parties agreed PSCo would exclude $2.74 million from test-year expenses for the purpose of calculating earnings sharing for the calendar year 2006. In the 2006 earnings test, PSCo complied with the Commission decision approving the 02S-315EG Settlement.

f) Oil and Gas Royalty Revenues

In the 02S-315EG Settlement, the parties agreed to include the full amount of oil and gas royalty revenues in the 2004, 2005 and 2006 earnings tests. In the 2006 earnings test, PSCo inadvertently omitted these revenues from the earnings test calculations. The amount of oil and gas royalty revenues omitted totaled $2,511,187.

g) Dark Fiber

In Docket No. 98A-262EG, the Commission approved the transfer of all of Public Service's dark fiber assets to NCE Communications, Inc. (NCEC) and a lease back of a portion of those assets Public Service was using at the time of transfer. The Commission approved the transfer following consideration of the October 8, 1998, Stipulation and Agreement (Dark Fiber Settlement) between Staff and Public Service that was filed to resolve all issues in that docket.

The Dark Fiber Settlement contained a "Favored Nations Clause" that provided that Public Service and its customers would be entitled to the lowest rate at which NCEC leased a similar fiber optic route segment. In August 1999, NCEC contributed the dark fiber to Northern Colorado Telecommunications, LLC d/b/a Touch America Colorado LLC, a partnership between NCEC and Touch America, Inc. In Docket No. 02S-315EG, Staff expressed concern whether the level of the lease rate paid by Public Service continued to be reasonable and whether the Favored Nations Clause under the Dark Fiber Settlement could operate in full force and effect following the contribution of assets to Touch America Colorado. In the 02S-315EG Settlement, the parties agreed to the amount of lease expense and pole attachment fees included in Public Service's original case. However, the parties did not agree that the original amounts reflected a settled ratemaking principle for purposes of the earnings test. Staff and Public Service reserved their rights to advocate in the earnings test or any other appropriate proceeding any position concerning this matter.

For the purposes of this 2006 earnings test, Staff elects not to exercise its right to advocate any position for Colorado regulatory purposes regarding the level of expense and revenue relating to dark fiber, pole attachment fees and conduit rental and whether the Favored Nations Clause applies to the contribution.

h) Regulatory Treatment of C.R.S. § 40-3-104.3(2)(a) Discounts

For contracts involving electric and steam service, C.R.S. § 40-3-104.3(2)(a) requires that the Commission specify a fully distributed cost allocation method to be used to segregate rate base, expenses, and revenues associated with utility service provided by contract from other regulated utility operations. In the 02S-315EG Settlement, the parties agreed that PSCo's treatment of making an adjustment to miscellaneous revenues to add to booked revenues the discounts given to certain contract customers should be continued for the 2004, 2005 and 2006 earnings test. In the 2006 earnings test, PSCo complied with the Commission decision approving the 02S-315EG Settlement.

i) Cost Allocation Between Regulated and Non-Regulated Business Activities

See detailed discussion below in Section 9.

j) Reclassification of Substation Plant and Treatment of Radial Transmission Lines

In PSCo's Phase I rate case in Docket No. 02S-315EG, PSCo proposed to reclassify certain high voltage facilities within its distribution substations from distribution plant to transmission plant. Parties in the rate case disagreed with PSCo's proposed reclassification, however, the parties stipulated that the proper classification of PSCo's high voltage facilities in distribution substations and its treatment of radial lines would be part of the Phase II rate case. On May 20, 2005, the Commission issued Decision No. C05-0597 in Docket No. 04S-164E, determining that PSCo's reclassification of its distribution substations and its treatment of radial transmission lines was appropriate.

k) Sterling Correctional Facility

In the Settlement Agreement approved in Commission Decision No. C03-0670 in Docket No. 02S-315EG, it was agreed that PSCo's retail customers would be held harmless with respect to the investments that the Company made at Sterling Correctional Facility (SCF). In the earnings tests for 2004, 2005 and 2006, PSCo was to make an adjustment for electric distribution plant in service, reserve for distribution plant depreciation, and electric distribution maintenance expense. Subsequently, PSCo sold those assets associated with the SCF to the State of Colorado. As such, the need to make any adjustments for the SCF is no longer necessary.

2. Lamar HVDC Converter

In Decision No. C06-0193 in Docket No. 05A-161E, the Commission reversed its decision in Docket No. 00A-600E, which allowed only 50 percent of PSCo's investment in the Lamar HVDC converter in rate base. No adjustments were made to the investment for the Lamar HDVC converter, thereby providing full rate base treatment for the assets.

3. Air Quality Improvement Rider

The 02S-315EG Settlement states the method for the treatment of the Air Quality Improvement Rider (AQIR) for the earnings test and the Electric Cost Adjustment. As set forth in the 02S-315EG Settlement, PSCo adjusted 2006 electric revenues by eliminating AQIR revenues of $31,123,942, then added back to Other Revenue the AQIR Levelized Annual Revenue Requirements designated specifically to the earnings test, in the amount of $22,456,000.

4. Purchased Capacity Cost Adjustment

Commission Decision No. C04-476 in Docket No. 03A-436E required PSCo to account for all purchased capacity expense and all Purchased Capacity Cost Adjustment (PCCA) revenues in the earnings test calculation. For 2006, PSCo identified PCCA revenues as totaling $7,362,463.

On October 3, 2003, the Company filed an application for an order authorizing it to implement a Purchased Capacity Cost Adjustment (PCCA) Rider to recover the incremental purchased capacity costs paid to third-party power producers. In Decision No. C04-476 in Docket No. 03A-436E, the Commission determined that the capacity cost of contracts ordered by the Commission during the 1999 Integrated Resource Process constitute an extraordinary and unique set of costs for PSCo. Further, the Commission determined that these costs comprise a sudden increase in capacity costs that PSCo could not have recovered in the most recent rate case. The Commission ordered that, given the unique set of circumstances, implementation of the PCCA mechanism was warranted.

Commission Decision No. C04-476 requires PSCo to account for all purchased capacity expense and all PCCA revenue in its earnings calculation. Staff reviewed the information provided by PSCo in its workpapers and has no issues with the reporting.

5. Production Tax Deduction

Beginning in tax years after 2004, IRS Tax Code 199 allows C corporations, S corporations, partnerships, sole proprietorships, cooperatives, and estates and trusts to claim a deduction that is equal to a percentage of the income earned from U.S. production activities (including production of electricity). For PSCo in 2006 the deduction is 3% of the federal taxable amount allocated to production. Schedule 28 of the 2006 PBR filing demonstrates the calculation of the production tax deduction.

6. Reclassification of Substation Equipment

Consistent with Commission Decision No. C05-0412 in Docket No. 04S-164E, PSCo made adjustments to reclassify certain substation equipment between the distribution, transmission and production functions in the 2004 and 2005 Earnings Tests. The average test year adjustment was developed using the sum of the beginning of test year and end of test balances divided by two. In October 2006, the assets were reclassified on Public Services's accounting records. To develop the average test year balances for the 2006 Earnings Test, the beginning of test year balances were used for the months of December 2005 through September 2006 and added to the test year actual balances from October 2006 through December 2006.

7. True-Up of Previous Sharing Amounts

The Settlement Agreement approved in Commission Decision No. C96-1235 in Docket No. 95A-531EG required the earnings test to provide for a true-up mechanism to the extent necessary to address any over/under recovery issues. PSCo states that as of December 31, 2006, the true-up calculation for the 1997-2006 test years results in $1,103,552 of excess sharing credited to customers. Since PSCo did not attempt to recover this amount in the 2005 earnings test and 2006 is the final year for the earnings test, the Company requested recovery of the above amount by means of the Purchase Capacity Cost Adjustment (PCCA) mechanism in Docket No. 07A-105EG. This application was approved in Commission Decision No. C07-0375.

8. Material Changes in Accounting Policies, Practices or Procedures

a. Accounting Policy/Practice Changes

PSCo noted one change in accounting policy, practices or procedures. In early 2006, PSCo received final approval from the Federal Energy Regulatory Commission (FERC) of certain interconnection agreements. Under the agreements, PSCo is reimbursed for the cost of constructing generation interconnection facilities, via a facility fee, and the on-going operation and maintenance expenses, via an O&M fee. Prior to 2006, the fees billed were all recorded to revenue. The revised and approved agreements include language that segregates out the capital portion of the charges and as a result, PSCo will now account for the facility fee as a contribution in aid of construction. Journal entries were recorded to appropriately recognize the contribution in aid of construction and all other related amounts, e.g., depreciation and AFUDC, long term and current receivables, interest income, and the reversal of the fees that had been recorded as revenue. Staff has no concerns with this change at this time.

b. FERC-Related Items

In December 2005, FERC issued Order No. 668, Accounting and Financial Reporting for Public Utilities Including RTOs. The order established new transmission accounts for use by public utilities, including: 1) a new sub-account in which to record revenues for providing transmission services; 2) new sub-accounts in which to record costs for load dispatching, system planning and standards development; 3) new accounts in which to record their share of costs billed by RTOs; and 4) new accounts in which to record costs incurred in managing and monitoring regional market activity. The order was effective April 1, 2006.

c. Generally Accepted Accounting Principles (GAAP)-Related Items

PSCo noted that Company accounting policies, practices or procedures changed due to GAAP-related items that became effective since the last Earnings Test filing. In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, which requires companies to fully recognize the funded status of each pension and other post-retirement benefit plan as a liability or asset on their balance sheets with all unrecognized amounts to be recorded in other comprehensive income. PSCo applied regulatory accounting treatment, which allowed recognition of this item as a regulatory asset rather than as a charge to accumulated other comprehensive income, as future costs are expected to be included in rates. The change is a balance sheet reclassification of costs not yet required to be expensed in the income statement by either FASB No. 87 or FASB No. 106.

d. Significant Unusual or Non-Recurring Income or Expense

In the 2006 PBR filing, PSCo listed two items in this category. First, in early 2006, PSCo sold certain steel-bodied railcars and purchased new aluminum railcars. The sale of the railcars resulted in a pre-tax gain of approximately $10 million. The sale was approved in Commision Decision No. C05-1414, in Docket No. 05A-485E. In accordance with the order in that docket, PSCo recognized a pre-tax gain in 2006 of $7.2 million, which offset the incremental costs of leasing, delivery and coal handling. The remaining pre-tax gain of $2.8 million was deferred and will be amortized over a period of ten years and refunded to retail electric customers.

Second, in late 2006, PSCo sold certain excess SO2 emission allowances. After sharing, PSCo recognized a pre-tax gain on the sale of $2.7 million.

e. Other

In 2006, PSCo recorded journal entries to reclassify certain high voltage facilities within the Company's distribution substations from distribution plant to transmission plant, and reclassified certain transmission substations to distribution plant. The reclassification of these assets is consistent with Commission Decision No. C05-0412 in Docket No. 04S-164E.

9. Allocations

a. Jurisdictional Allocations

Staff verified several line items to determine if the Schedule 4 dollar amounts assigned to the FERC jurisdiction were calculated based on the FERC jurisdictional allocators listed in Schedule 29.

For purposes of the 2006 PSCo PBR Report, Staff believes that the Company has comported with the Commission order by filing a FDC study.

Staff's review of the FDC study filed in this case primarily related to verification that the account balances used in the study were reflective of the accounting books and records of the Company. In this respect, Staff did not note any discrepancies.

Verification was also performed to insure that the allocation process and resulting dollar amounts were reflective of the methodology listed in the current CAAM.

10. Capital Structure and Capitalization

a. Overview

In reviewing PSCo's PBR Report, Staff's focus is to be sure that PSCo has sufficient access to capital on reasonable terms to fulfill its need for cash, even at inopportune times. This review has been provided to the Commission each year since the inception of the PBR in 1997.

A review of capitalization issues began as a result of the longstanding practice of another utility parent, Qwest Communications International, Inc. vis-a-vis its regulated subsidiary, Qwest Corporation (Qwest), and their predecessor companies. In Qwest's case, the parent company required its subsidiaries to pay 100% of earnings as dividends to it. This means that earnings generated by the utility operating company in excess of dividends were not automatically retained by the utility that generated them. Effectively, the parent tightly controlled the investment policies for each of its subsidiaries. As a result, if Qwest wanted additional equity funding to build infrastructure to fulfill its regulatory obligations, it had to justify to the parent the need for those funds. It was required to compete with unregulated subsidiaries that could potentially offer a bigger return than the regulated business for funds that were generated. While these unregulated operations potentially offered larger returns to the parent/holding company's stockholders, they also carried a different risk profile than regulated operations and might not have generated sufficient cash to fund those riskier activities. The parent's solution to this cash shortfall in the unregulated subsidiary was to flow cash from the regulated subsidiary to the parent and then from the parent to the unregulated subsidiary. While this was not necessarily problematic if the regulated subsidiary had sufficient cash to meet its regulatory obligations, it might become problematic if sufficient cash was lacking.

b. Xcel Energy/PSCo Corporate Structure

In August 2000, New Century Energies, Inc. (NCE), PSCo's former parent corporation, consummated a merger with Northern States Power Company (NSP) and formed Xcel Energy. Xcel Energy's utility operating company subsidiaries, including PSCo, are now 100% owned by Xcel Energy. The utility subsidiaries do not issue common stock in their own name. Instead, Xcel Energy issues the stock and the operating subsidiaries support Xcel Energy's overall financial needs by flowing dividend payments to Xcel Energy. PSCo is allowed to issue *debt* in its own name.

Xcel Energy influences the capitalization of its subsidiaries, including the utility subsidiaries, based on the dividend payment policy from the subsidiary to the parent. Xcel Energy pays dividends to its shareholders based on cash derived from its subsidiaries. The pro-rata share of the dividends to be paid by each subsidiary, including PSCo, to Xcel Energy is based on the corporate dividend policy of Xcel Energy.

Subsequent to the June 1, 1999, Staff Earnings Sharing Report, the Commission granted the application of PSCo for NCE to merge with NSP and approved the 99A-377EG Settlement (Decision No. C00-393, Docket No. 99A-377EG). One provision contained in the 99A-377EG Settlement that should be noted here is related to the dividend calculation.[8] The provision states:

> The Company agrees to file reports regarding the calculation of dividends paid by an annual computation of dividend payments from Public Service to the parent Company. The format of the reports will be established by the Company, after consultation with the Commission Staff and the OCC. These reports will be filed as part of the earnings test so long as the earnings test is in existence, and thereafter they will be filed with the annual Appendix questionnaire.

PSCo filed the dividend calculation report with its 2006 calendar year Earnings Sharing Report, in accordance with the 99A-377EG Settlement Agreement. PSCo paid dividends of $65,032,567 in April 2006, $64,622,341 in July 2006, and $65,970,477 in October 2006 for a

[8] 99A-377EG Settlement, page 21, item g.

total of $195,625,385 for the calendar year 2006. To accomplish PSCo's plan to increase the common equity component of its capital structure, the Company did not pay dividends to Xcel from February 2005 through December 2005. Since there was no accrual in December 2005, there was no payment in January 2006.

c. Capital Structure

As in prior years, the capital structure contains debt issued in PSCo's name and common stock issued in Xcel Energy's name. Table 1 below reflects the test year capital structure ratios from Schedule 2, page 1 of 2, of PSCo's 2006 PBR earnings test filing. 2005 ratios are from Schedule 2 of the 2005 PBR filing. Table 1 shows a further shift in the percentages of debt and common equity in the capital structure, as adjusted. Common equity as a percentage of total capitalization grew from 56.89% in 2005 to 60.31% in 2006, while long-term debt declined from 43.11% in 2005 to 39.69% in 2006.

Table 1

	12/31/06	12/31/05	Difference
Long Term Debt	39.69%	43.11%	-7.93%
Common Equity	60.31%	56.89%	+6.01%
Total	100.00%	100.00%	

Table 2 compares the per book amounts contained in the capital structure filed in PSCo's 2006 PBR earnings test report with the per book capital structure filed in 2005.

Table 2

	(A) Item	(B) Per Books @ 12/31/06	(C) Per Books @ 12/31/05	(D) Difference $ (%)
1	Long Term Debt As Filed	$1,909,525,000	$2,023,850,000	-$114,325,000 (-5.65%)
2	Common Equity As Filed	$2,901,650,849	$2,670,402,108	$231,248,741 (+8.66%)
3	Total Capital As Filed	$4,811,175,849	$4,694,252,108	$116,923,741 (+2.49%)

As shown on line 2(D) of Table 2, common equity increased in absolute dollars by $231,248,741 between PSCo's 2005 and 2006 earnings test filings. The primary reason for this increase in common equity is dividend reductions by PSCo to Xcel Energy to attain and maintain the target capital structure PSCo stated it wanted to attain in combined Dockets Nos. 04S-214E, 04S-215E, and 04S-216E, for the Comanche 3 project.

The composite allowed return for PSCo has increased due to both a lower cost of long-term debt in 2006 as compared to 2005 and a shift in the capital structure to a higher percentage of common equity.

For the purposes of this Earnings Test and in accordance with Dockets Nos. 04S-214E, 04S-215E, and 04S-216E which states that the Company's capital structure shall not exceed 60% equity, PSCo calculated the return on rate base and return on equity based upon a capital structure with 59.93% equity rather than the actual equity percentage of 60.31%. See Schedule 2, page 2 of 2.

Table 3

	(A)	(B)	(C)	(D)
	Item	Long Term Debt	Common Equity	Total
1	Cost @ 12/31/06	6.38%	10.75%	
2	Cost @ 12/31/05	6.44%	10.75%	
3	Difference: Basis Points (%)	-6bp (-0.93%)	0 bp (0.00%)	
4	Composite Cost @ 12/31/06	2.53%	6.48%	9.01%
5	Composite Cost @ 12/31/05	2.78%	6.12%	8.90%
6	Difference: Basis Points (%)	-25bp (-8.99%)	+36bp (+5.88%)	+11bp (+1.24%)

d. Dividend Payments

In absolute dollars, dividend payments from PSCo to Xcel Energy have increased from $62,624,258 in 2005 to $195,625,385 in 2006. This represents a 312.38% increase in dividends.

By comparison, pro forma CPUC Electric Department Jurisdictional Net Operating Earnings have decreased from $238,132,330 in 2005 to $236,570,399 in 2006. This represents a 0.66 % decrease in Net Operating Earnings.

11. Changes In the Company's Financial Statements

As part of its annual review of the Company's information filed with the PBR, Staff analyzes changes to the Company's financial statements.

a. Changes in Income Statement

Staff reviewed the changes from PSCo's previous income statement items. Exhibit No. 1 shows changes on an adjusted basis to income statement items from 2005 to 2006.

To perform the type of review contemplated by the Commission consistent with past practice, Staff used FERC Form 1 to identify calendar year-to-year cost to show changes to the income statement amount on a per book basis for year 2005 and 2006. The results are set forth in Exhibit No. 2.

b. Changes in Plant In Service

Staff reviewed how PSCo's Electric Department's plant in service and rate base has changed in the last year, both in total and by category. The change to per book total electric plant in service for 2006 is summarized in the following table:

Table 4

Total Per Book Electric Plant in Service

Date	Plant in Service	Percent Change
December 31, 2006	$6,780,603,051	
December 31, 2005	$6,660,389,676	
2005-2006 Difference	$120,213,379	1.80%

Table 5

Changes, by category, are summarized as follows:

Plant in Service by Category	13 Month Avg Bal for 2006	13 Month Avg Bal for 2005	Change 2005 to 2006	% Change
Intangible, Common Plant & General Plant (allocated to Electric)	$521,466,986	$582,876,473	-$61,409,487	-10.54%
Production Plant	$2,363,125,609	$2,371,827,513	-$8,701,904	-0.37%
Transmission Plant	$918,865,297	$874,982,600	$43,882,697	5.02%
Distribution Plant	$2,915,810,198	$2,822,452,915	$93,357,283	3.31%
Total Plant	$6,719,268,090	$6,652,139,501	$67,128,589	1.01%

The changes to total plant in service are usually driven by the new plant added to service during the year and any significant plant retirements during the year. As a result, Staff annually reviews the additions, transfers, and retirements to the plant in service portion of PSCo's books of account. Plant in Service includes dollars in the following accounts: Account 101 (Plant in Service); Account 102 (Electric Plant Purchased or Sold); and Account 106 (Completed Construction Not Classified).

VI. CONCLUSION AND RECOMMENDATIONS

Staff does not challenge the findings of the Company that there were not sufficient earnings for the Colorado Electric Department to reach the sharing threshold established in the PBR. Even when the omitted Oil and Gas Royalty revenues are added back, PSCo is still far short of any earnings to be shared. In view of the fact that calculations demonstrate there are no earnings to be shared and the year 2006 is the final year of the Earnings Test and sharing mechanism, Staff recommends PSCo file an Advice Letter eliminating the Performance-Based Regulatory Plan Adjustment from its tariffs.

Staff recommends that the Commission accept PSCo's 2006 Earnings Test as filed and does not request a hearing.

Public Service Company of Colorado
Performance Based Earnings Test (After Adjustments Basis)
Electric Department

Sch. 4 Page #		December 31, 2006	December 31, 2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
1/6	Operating Revenues	1,597,798,011	1,736,341,963	(138,543,952)	-8%
1/6	Total Other Rev. & Revenue Credits	45,314,008	49,745,309	(4,431,301)	-9%
	Total Operating Revenue	**1,643,112,019**	**1,786,087,272**	(142,975,253)	-8%
3/6	Total Steam Production O & M	132,364,565	119,734,044	12,630,521	11%
3/6	Total Hydro Production O & M	4,204,909	4,741,260	(536,351)	-11%
3/6	Total Comb. Turbine Production O & M	10,272,969	9,435,211	837,758	9%
2/6	Total Purchased Power	506,173,387	639,500,463	(133,327,076)	-21%
3/6	System Load Control	353,868	753,659	(399,791)	-53%
	Total Production O & M	**653,369,698**	**774,164,637**	(120,794,939)	-16%
4/6	Total Transmission O & M	20,823,696	19,284,903	1,538,793	8%
4/6	Total Distribution O & M	70,199,465	70,104,607	94,858	0%
5/6	Total Customer Operations Expense	48,966,997	43,068,145	5,898,852	14%
5/6	Total A & G Expense	153,600,475	146,248,992	7,351,483	5%
	Total O & M Expense	**946,960,331**	1,052,871,284	(105,910,953)	-10%
5/6	Depreciation & Amortization Expense	163,151,888	161,665,424	1,486,464	1%
5/6	Total Taxes Other Than Income	67,168,302	68,678,612	(1,510,310)	-2%
6/6	Total Income Taxes	105,875,153	90,421,767	15,453,386	17%
6/6	Gain on Disp. of Allow. & Sale of Utility Plant	104,722	844,411	(739,689)	-88%
	Total Operating Deductions	**1,367,928,240**	**1,542,667,946**	(174,739,706)	-11%
	Net Operating Earnings	**275,183,779**	**243,419,326**	31,764,453	13%
6/6	Total AFUDC Addition	15,203,225	6,116,942	9,086,283	149%
	Total Net Operating Earnings	**290,387,004**	**249,536,268**	40,850,736	16%
6/6	Allocated to FERC	54,399,986	12,451,638	41,948,348	337%
	CPUC Jurisdictional NOE	**235,987,018**	**237,084,630**	(1,097,612)	0%

Source: 2005 PBR Report
2006 PBR Report

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve Month Period Ending December 31, 2005 & 2006

Acct No.	ACCOUNT TITLE	2006	2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
SALES OF ELECTRICITY					
440	Residential Sales	756,701,427	760,919,147	(4,217,720)	-1%
442	Commercial and Industrial Sales:				
	small (commercial)	921,423,472	946,395,757	(24,972,285)	-3%
	large (industrial)	330,012,095	294,300,747	35,711,348	12%
444	Public Street and Highway Lighting	33,827,571	33,780,284	47,287	0%
445	Other Sales to Public Authorities	4,901,402	5,197,038	(295,636)	-6%
448	Interdepartmental sales	200,759	262,603	(61,844)	-24%
	Total Sales to Ultimate Customers	**2,047,066,726**	**2,040,855,576**	**6,211,150**	**0%**
447	Sales for Resale	883,581,646	1,013,232,864	(129,651,218)	-13%
	Total Sales of Electricity	**2,930,648,372**	**3,054,088,440**	**(123,440,068)**	**-4%**
449.1	Provision for Rate Refunds	0	515,171	(515,171)	-100%
	Total Revenues (Net of Provision for Refunds)	**2,930,648,372**	**3,054,603,611**	**(123,955,239)**	**-4%**
OTHER OPERATING REVENUES					
450	Forfeited Discounts	1,606,925	1,605,217	1,708	0%
451	Miscellaneous Services Revenues	1,616,753	1,203,919	412,834	34%
454	Rent from Electric Property	5,393,360	5,577,575	(184,215)	-3%
456	Other Electric Revenues	30,540,069	41,308,668	(10,768,599)	-26%
	Total Other Operating Revenues	**39,157,107**	**49,695,379**	**(10,538,272)**	**-21%**
TOTAL ELECTRIC OPERATING REVENUES		**2,969,805,479**	**3,104,298,990**	**(134,493,511)**	**-4%**
OPERATING EXPENSES					
STEAM POWER PRODUCTION EXPENSES					
500	Operation Supervision and Engineering	3,453,068	3,027,632	425,436	14%
501	Fuel	275,533,637	214,458,455	61,075,182	28%
502	Steam Expenses	24,076,081	21,893,749	2,182,332	10%
505	Electric Expenses	8,718,862	6,744,213	1,974,649	29%
506	Misc. Steam Power Expense	15,712,255	16,385,423	(673,168)	-4%
507	Rents	5,572,525	5,064,511	508,014	10%
509	Allowances	25,142	7,230	17,912	248%
	Total Operation Expenses - Steam	**333,091,570**	**267,581,213**	**65,510,357**	**24%**

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve Month Period Ending December 31, 2005 & 2006

Acct No.	ACCOUNT TITLE	2006	2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
510	Maintenance Supervision and Engineering	1,569,265	1,536,484	32,781	2%
511	Maintenance of Structures	4,259,880	4,064,368	195,512	5%
512	Maintenance of Boiler Plant	26,905,505	22,316,321	4,589,184	21%
513	Maintenance of Electric Plant	6,376,015	9,862,614	(3,486,599)	-35%
514	Maintenance of Miscellaneous Steam Plant	14,330,998	12,396,900	1,934,098	16%
	Total Maintenance Expenses - Steam	**53,441,663**	**50,176,687**	**3,264,976**	**7%**
	Total Steam Power Production Expenses	**386,533,233**	**317,757,900**	**68,775,333**	**22%**
HYDRAULIC POWER PRODUCTION EXPENSES					
535	Operation Supervision and Engineering	138,161	214,439	(76,278)	-36%
536	Water for Power	13,129	17,259	(4,130)	-24%
537	Hydraulic Expenses	936,697	791,488	145,209	18%
538	Electric Expenses	243,523	247,536	(4,013)	-2%
539	Misc. Hydraulic Power Generation Expenses	928,682	1,280,926	(352,244)	-27%
540	Rents	147,234	170,050	(22,816)	-13%
	Total Operation Expenses - Hydraulic	**2,407,426**	**2,721,698**	**(314,272)**	**-12%**
541	Maintenance Supervision and Engineering	27,805	21	27,784	132305%
542	Maintenance of Structures	219,957	282,696	(62,739)	-22%
543	Maintenance of Reservoirs, Dams and Waterways	500,151	397,521	102,630	26%
544	Maintenance of Electric Plant	919,223	1,241,413	(322,190)	-26%
545	Maintenance of Miscellaneous Hydraulic Plant	130,350	97,914	32,436	33%
	Total Maintenance Expenses - Hydraulic	**1,797,486**	**2,019,565**	**(222,079)**	**-11%**
	Total Hydraulic Power Production Expenses	**4,204,912**	**4,741,263**	**(536,351)**	**-11%**
OTHER POWER PRODUCTION EXPENSES					
546	Operation Supervision and Engineering	444,651	520,582	(75,931)	-15%
547	Fuel	213,746,431	238,946,267	(25,199,836)	-11%
548	Generation Expenses	1,610,045	1,515,905	94,140	6%
549	Misc. Other Power Generation Expenses	941,652	1,005,802	(64,150)	-6%
550	Rents	1,019,669	1,254,911	(235,242)	-19%
	Total Operation Expenses - Other Power	**217,762,448**	**243,243,467**	**(25,481,019)**	**-10%**

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve Month Period Ending December 31, 2005 & 2006

Acct No.	ACCOUNT TITLE	2006	2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
551	Maintenance Supervision and Engineering.	246,137	232,838	13,299	6%
552	Maintenance of Structures	480,197	474,149	6,048	1%
553	Maintenance of Generating and Electric Plant	5,190,869	4,100,102	1,090,767	27%
554	Maintenance of Miscellaneous Other Power Plant	339,750	330,924	8,826	3%
	Total Maintenance Expenses - Other Power	**6,256,953**	**5,138,013**	**1,118,940**	**22%**
	Total Other Power Production Expenses	**224,019,401**	**248,381,480**	**(24,362,079)**	**-10%**
OTHER POWER SUPPLY EXPENSES					
555	Purchased Power	1,409,184,341	1,626,347,271	(217,162,930)	-13%
556	System Control and Load Dispatching	353,869	753,658	(399,789)	-53%
557	Other Expenses	46,989,894	17,028,647	29,961,247	176%
	Total Other Power Supply Expenses	**1,456,528,104**	**1,644,129,576**	**(187,601,472)**	**-11%**
	Total Power Production Expenses	**2,071,285,650**	**2,215,010,219**	**(143,724,569)**	**-6%**
TRANSMISSION EXPENSES					
560	Operation Supervision and Engineering	3,118,522	3,447,856	(329,334)	-10%
561	Load Dispatching	5,458,943	4,165,814	1,293,129	31%
562	Station Expenses	494,749	548,021	(53,272)	-10%
563	Overhead Line Expenses	2,505,488	1,579,594	925,894	59%
564	Underground Line Expenses	442	308	134	44%
565	Transmission of Electricity by Others	15,100,872	13,498,730	1,602,142	12%
566	Miscellaneous Transmission Expenses	1,405,184	1,160,469	244,715	21%
567	Rents	1,064,663	1,037,678	26,985	3%
	Total Transmission Operations Expenses	**29,148,863**	**25,438,470**	**3,710,393**	**15%**
568	Maintenance Supervision and Engineering	87,660	1,165	86,495	7424%
570	Maintenance of Station Equipment	1,818,775	1,311,259	507,516	39%
571	Maintenance of Overhead Lines	1,596,528	1,944,972	(348,444)	-18%
572	Maintenance of Underground Lines	84	14,833	(14,749)	-99%
573	Maintenance of Miscellaneous Transmission Plant	91,614	38,514	53,100	138%
	Total Transmission Maintenance Expenses	**3,594,661**	**3,310,743**	**283,918**	**9%**
	Total Transmission Expenses	**32,743,524**	**28,749,213**	**3,994,311**	**14%**

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve Month Period Ending December 31, 2005 & 2006

Acct No.	ACCOUNT TITLE	2006	2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
575	**Regional Market Expenses**	**127,089**	**0**	**127,089**	**N/A**
DISTRIBUTION EXPENSES					
580	Operation Supervision and Engineering	5,587,623	5,243,957	343,666	7%
581	Load Dispatching	3,575,535	2,671,698	903,837	34%
582	Station Expenses	1,005,047	1,198,470	(193,423)	-16%
583	Overhead Lines Expense	2,220,511	1,936,809	283,702	15%
584	Underground Line Expenses	5,622,670	5,066,234	556,436	11%
585	Street Lighting and Signal System Expenses	931,099	476,587	454,512	95%
586	Meter Expenses	1,206,083	2,020,955	(814,872)	-40%
587	Customer Installations Expenses	1,683,698	1,893,747	(210,049)	-11%
588	Miscellaneous Expenses	14,386,048	15,503,873	(1,117,825)	-7%
589	Rents	2,805,344	2,803,551	1,793	0%
	Total Distribution Operations Expenses	**39,023,658**	**38,815,881**	**207,777**	**1%**
590	Maintenance Supervision and Engineering	394,550	302,464	92,086	30%
592	Maintenance of Station Equipment	3,513,601	3,602,503	(88,902)	-2%
593	Maintenance of Overhead Lines	12,143,202	11,137,168	1,006,034	9%
594	Maintenance of Underground Lines	8,374,583	8,289,300	85,283	1%
595	Maintenance of Line Transformers	990,563	826,878	163,685	20%
596	Maintenance of Street Lighting and Signal Systems	4,889,482	6,351,465	(1,461,983)	-23%
597	Maintenance of Meters	636,887	551,414	85,473	16%
598	Maintenance of Miscellaneous Distribution Plant	235,541	160,418	75,123	47%
	Total Distribution Maintenance Expenses	**31,178,409**	**31,221,610**	**(43,201)**	**0%**
	Total Distribution Expenses	**70,202,067**	**70,037,491**	**164,576**	**0%**
CUSTOMER ACCOUNT EXPENSES					
901	Supervision	97,587	79,592	17,995	23%
902	Meter Reading Expenses	4,458,697	4,385,800	72,897	2%
903	Customer Records and Collection Expenses	21,294,135	19,819,479	1,474,656	7%
904	Uncollectible Accounts	13,931,575	13,449,665	481,910	4%
905	Miscellaneous Customer Accounts Expenses	235,495	1,586,211	(1,350,716)	-85%
	Total Customer Accounts Expenses	**40,017,489**	**39,320,747**	**696,742**	**2%**

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve Month Period Ending December 31, 2005 & 2006

Acct No.	ACCOUNT TITLE	2006	2005	$ Change from 2005 to 2006	% Change from 2005 to 2006
CUSTOMER SERVICE AND INFORMATIONAL EXPENSES					
908	Customer Assistance Expenses	17,987,631	13,219,859	4,767,772	36%
909	Informational and Instructional Advertising Expenses	423,824	436,079	(12,255)	-3%
	Total Customer Service and Information Expenses	**18,411,455**	**13,655,938**	**4,755,517**	**35%**
SALES EXPENSES					
912	Demonstrating and Selling Expenses	709,370	754,803	(45,433)	-6%
	Total Sales Expenses	**709,370**	**754,803**	**(45,433)**	**-6%**
ADMINISTRATIVE AND GENERAL EXPENSES					
920	Administrative and General Salaries	34,789,184	29,578,424	5,210,760	18%
921	Office Supplies and Expenses	26,111,740	25,455,905	655,835	3%
922	(less) Administrative Expenses Transferred - Credit	(9,577,518)	(9,397,021)	(180,497)	2%
923	Outside Services Employed	10,498,839	9,283,744	1,215,095	13%
924	Property Insurance	3,072,387	2,893,660	178,727	6%
925	Injuries and Damages	7,250,595	6,602,379	648,216	10%
926	Employee Pension and Benefits	63,731,780	60,525,889	3,205,891	5%
928	Regulatory Commission Expenses	5,498,296	5,383,438	114,858	2%
929	(less) Duplicate Charges	(2,657,814)	(2,568,118)	(89,696)	3%
930.1	General Advertising Expenses	3,455,228	2,553,271	901,957	35%
930.2	Miscellaneous General Expenses	4,236,687	3,680,304	556,383	15%
931	Rents	10,516,137	12,520,987	(2,004,850)	-16%
	Total Administrative and General Operation Expenses	**156,925,541**	**146,512,862**	**10,412,679**	**7%**
935	Maintenance of General Plant	100,320	207,478	(107,158)	-52%
	Total Administrative and General Maintenance Expenses	**100,320**	**207,478**	**(107,158)**	**-52%**
	Total Administrative and General Expenses	**157,025,861**	**146,720,340**	**10,305,521**	**7%**
	TOTAL ELECTRIC OPERATIONAL AND MAINT. EXPENSES	**2,390,522,505**	**2,514,248,751**	**(123,726,246)**	**-5%**
	DEPRECIATION AND AMORTIZATION	**163,561,655**	**170,054,793**	**(6,493,138)**	**-4%**
	TAXES OTHER THAN INCOME	**67,168,708**	**68,678,611**	**(1,509,903)**	**-2%**

Public Service Company of Colorado					
Comparative Income Statement - Electric					
For the Twelve Month Period Ending December 31, 2005 & 2006					
				$ Change from 2005 to 2006	**% Change from 2005 to 2006**
Acct No.	**ACCOUNT TITLE**	**2006**	**2005**		
	INCOME TAXES				
	Federal Income Tax	43,147,690	(21,250,457)	64,398,147	-303%
	State Income Tax	5,183,484	(4,478,279)	9,661,763	-216%
	Deferred Income Tax	48,101,879	118,623,439	(70,521,560)	-59%
	ITC - Amortized	(3,122,937)	(3,142,723)	19,786	-1%
	Total Income Taxes	**93,310,116**	**89,751,980**	**3,558,136**	**4%**
	Gain on Disposition of Allowances	(3,869,389)	(830,473)	(3,038,916)	366%
	Gain on Utility Plant	(7,214,308)	(13,938)	(7,200,370)	51660%
	Total Operating Deductions	**2,703,479,287**	**2,841,889,724**	**(138,410,437)**	**-5%**
	Net Operating Earnings	**266,326,192**	**262,409,266**	3,916,926	1%
	AFUDC	2,650,446	2,655,282	(4,836)	0%
	Total Net Operating Earnings before allocation to FERC	**268,976,638**	**265,064,548**	**3,912,090**	**1%**
Source: 2005 FERC Form No. 1					
2006 FERC Form No. 1					