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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 2004

JUNE 15, 2005

I. EXECUTIVE SUMMARY

This is the seventh 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 2004 Year Supporting Report filing (PSCo PBR Report) Staff has determined that it agrees, for the detailed reasons contained in this Staff report, with the sharing calculations provided therein. In view of the Company's calculations as filed and by operation of the tariffs, the PBR rider will continue to be zero on July 1, 2005.

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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.

As Staff's written report was being compiled, certain areas of concern were identified by Staff, the Colorado Office of Consumer Counsel ("OCC") and PSCo. In order for the parties to come to a consensus on a revised earnings test report that contains all known corrections, Staff requested an additional extension of time until June 15, 2005 within which to file its verification report. Staff's Motion was approved by the Commission in Decision No. C05-0678. PSCo filed a Revised Supporting Report June 6, 2005 that staff has now reviewed. Staff believes that the Revised Supporting Report is reflective of all of the corrections discussed by the parties. However, Staff notes that the first item reflected on the *Revised Schedules* page should be listed as Schedule 3, Page 1, Line 11 rather than Schedule 3, Page 2, Line 4.

II. Earnings Test History

Consistent with the provision found in the Stipulation and Settlement Agreement approved by the Commission in Decision No. C00-393, Docket No. 99A-377EG (the 99A-377EG Settlement), there was no Earnings Test Report filing for calendar year 2003. Specifically, a portion of *Section III. Summary of Settlement* states: "In view of the fact that newly determined rates will become effective 2003, there shall be no earnings test for calendar year 2003." Also, *Section IV. Terms of Settlement*, paragraph 6 of the 99A-377EG Settlement contains similar language.

PSCo filed its Electric Department PBR Report for 2004 on April 1, 2005 and its Cost Allocation Manual on April 15, 2005. The ratemaking principles this filing is based on is 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-315 EG 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; and
- Reclassification of Substation Plant and Treatment of Radial Transmission Lines
- 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 CAM 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

[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 1, 2005, Staff filed its Verification Report pertaining to the 2002 QSP results in Docket No. 05I-189E.

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 proposes 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 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

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

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

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 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

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

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.

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 2004 PBR earnings test report on April 1, 2005. The Company's calculations indicate that the company had Net CPUC Jurisdictional Operating earnings of $251,015,366, or a return on equity (ROE) of 10.02%, resulting in no earnings sharing with Colorado customers. Based on the Company's calculations, it could have earned an additional $18.1 million before it reached its threshold for sharing with its customers under the terms of the 2004 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) apply. As noted previously, the current earnings test for 2004 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 2004 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 2004 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 and Capitalization, Section 11.

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. Exception was noted here and PSCo has filed a revision to Schedule 3, page 1, line 1 to include account 310.3 Water Right.

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 pension expense incurred during the applicable calendar year. In the 2004 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 2004 earnings test, PSCo complied with the Commission decision approving the 02S-315EG Settlement. Exception was taken to the balance as originally filed. PSCo filed a revision to Schedule 3, page 5, line 10, to revise the Prepaid Pension account balance.

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 2004. In the 2004 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 2004 earnings test PSCo complied with the Commission decision approving the 02S-315EG Settlement.

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 S&A 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 2004 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. Staff reserves its right to advocate any position on these issues in future earnings tests or in any other appropriate proceeding.

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 2004 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 10.

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

In PSCo's last Phase I rate case, 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 the 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. 04S0164E, determining that PSCo's reclassification of its distribution substations was appropriate.

k) Sterling Correctional Facility

PSCo's adjustments for the Sterling Correctional Facility ("SCF") are in accordance with the latest Phase I rate case decision, Commission Decision No. C03-0670 in Docket No. 02S-315EG. PSCo's retail customers will be held harmless with respect to the investments that the Company made at SCF. In this earnings test, PSCo made an adjustment for electric distribution plant in service, reserve for distribution plant depreciation, and electric distribution maintenance expense. Commission Decision No. C03-0670 in Docket No. 02S-315EG states that this treatment shall continue in the 2004, 2005, and 2006 earnings tests. PSCo filed four revisions to Schedule 5, including: page 2, line 45; page 4, line 50; page 7, lines 62-63; and page 9, line 15 to eliminate the SCF adjustment. A revision was also filed to eliminate schedule 9 reflecting the removal of the SCF adjustment.

2. Gain on the Sale of Boulder Hydro

This issue is a continuation of an issue raised in the 2001 Earnings Test. In Docket No. 00A-351E, the Commission granted PSCo's application and approved a partial stipulation concerning the gain on the sale (Decision No. R00-1441). After receiving approval of the Commission, PSCo sold the Boulder Canyon Hydroelectric Plant and related assets in February 2001. PSCo recorded a gain of $10.9 million on the sale. In the partial Stipulation approved by the Commission in its decision on the sale of the Boulder Canyon Project, PSCo agreed that it would treat the gain as a matter to be considered in the earning test proceeding. Decision No. R03-1228 in Docket No. 02M-573E required PSCo to amortize the gain on the sale of this plant over a four-year period, including one fourth of the gain in earnings test calculations for the years 2001 through 2004. In accordance with this decision, PSCo made a positive adjustment of $2,730,274 for gain on utility plant in Schedule 4, Net Operating Earnings – Electric Department.

3. Lamar HVDC Converter

In Decision No. C01-1315 in Docket No. 00A-600E, the Commission upheld its earlier decision to allow only 50 percent of PSCo's investment in the Lamar HVDC converter in rate base. The investment in the HVDC converter appears in Construction Work in Progress (CWIP) during the first 11 months of 2004, the Earnings Test period. The converter was placed into service in December 2004. PSCo used a 13-month average of month-end balances for the Lamar HDVC Converter account. Staff verified that PSCo eliminated 50% of the 13-month average balance, as required by Decision No. C01-1315. Consequently, PSCo added $1,473,091 to gross rate base in 2004 as a result of the Lamar HVDC Converter being placed in service. PSCo filed revisions to schedule 7, line 50 to correct the HVDC converter plant balance; to schedule 13, lines 3-13 to correct HVDC converter plant balances and include November Allowance for Funds Used During Construction (AFUDC) amount; and to schedule 5, page 1, line 33 to add an adjustment to eliminate HVDC converter plant in service from scheulde 7, line 53.

4. EEI Mutual Aid Effort

During 2004, PSCo provided assistance in the form of line crews to utility companies in the southeastern section of the country who experienced hurricane and tropical storm damage. Labor expenses totaled $697,993, non labor expenses totaled $171,550 and labor loadings totaled $344,030 for a grand total of $1,213,573 were recorded FERC account 587. Revenues of $1,213,573 were recorded in FERC account 456 Other Revenues.

5. 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 electric revenues by eliminating AQIR revenues of $30,902,922, then added back to Other Revenue the AQIR Levelized Annual Revenue Requirements designated specifically to the earnings test, in the amount of $22,670,000.

6. 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 2004, PSCo identified PCCA revenues as totaling $18,025,431.

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 found the reporting to be substantially correct.

7. Customer Billing System

The new Customer Billing System (CRS) system was placed into service in July 2004. The investment in the previous billings system, CIS, is reflected for the period January through June 2004 using the original amortization schedule. The investment in CRS is reflected for the period July through December 2004 (using the original amortization schedule). The Construction Work in Progress (CWIP) balances for the CRS system for the period January through June 2004 were eliminated as well as the AFUDC associated with those CWIP balances. Staff verified that PSCo did not include those CWIP balances or the associated AFUDC balances when performing the earnings sharing calculation for the 2004 PBR. PSCo filed a revision to Schedule 5, page 9, line 61 to reflect an adjustment referencing line 33 of Schedule 13 when the references should have been to line 35 instead.

8. 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, 2004, the true-up calculation for the 1997-1999 test years results in $342,691 of excess sharing credited to customers, and for the 2000 test year an excess sharing amount of $760,759, for a total of

$1,103,450. Since PSCo did not attempt to recover this amount in the 2004 earnings test, Staff did not take any action on this item at this time.

9. Material Changes in Accounting Policies, Practices or Procedures

a. JDE System-Related Changes

Staff's review of the JDE System-related changes described in the 2004 PBR filing are consistent with Commission Decision No. C03-0670 in Docket No. 02S-315EG .

b. 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. These items are FASB Interpretation No. 46, Consolidation of Variable Interest Entities; SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities the Derivatives Implementation Group of the FASB Implementation Issue No. C20, Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding the Contracts with a Price Adjustment Feature; and SFAS No. 143, Accounting for Asset Retirement Obligations .

In response to audit, PSCo stated that these pronouncements had no impact on the Company for the Earnings test period. Staff agrees with PSCo's assertion.c. Significant Unusual or Non-Recurring Income or Expense

In the PBR filing, PSCo listed two items in this category. First, in cost of goods sold, Operating & Maintenance (O&M) and fuel procurement expenses were reduced by $11 million related to a Burlington Northern/Santa Fe court-ordered payment. This is in response to the decision of the Surface Transportation Board (STB) in STB Docket No. 42057, Public Service Company of Colorado D/B/A Xcel Energy v. The Burlington Northern and Santa Fe Railway Company (BNSF). In that proceeding, PSCo challenged the reasonableness of rates charged by

Burlington Northern for movement of coal from the Powder River Basin of Wyoming to the Pawnee plant in Brush, Colorado. The STB found that BNSF rates were unreasonably high and ordered BNSF to lower its rates.

Second, PSCo accrued for the California Independent System Operator (ISO) settlement an anticipated expense of $7.3 million, $2.2 million of which was recorded in a prior period. In an audit response PSCo states this settlement pertains to prop book trading, which is excluded from the earnings test calculation. Accruals were booked in 2004 in anticipation of final settlement. In light of this statement, Staff has no concerns with issue.

10. Allocations

a. Jurisdictional Allocations

Staff verified several line items to determine if the Schedule 4 dollar amounts assigned to the Federal Energy Regulatory Commission (FERC) jurisdiction were calculated based on the FERC jurisdictional allocators listed in Schedule 25. Staff noted that the FERC/CPUC percentages verified had a small discrepancy whose effect was *di minimus*. As such, Staff does not take issue with this item.

b. Cost Allocation Between Regulated and Non-Regulated Business Activities, Cost Allocation Manual (CAM) and Fully Distributed Cost (FDC) Study

As previously discussed, Commission Decision No. C03-0670 approving the 02S-315EG Settlement directed that the earnings test reflect the jurisdictional allocation methods used in developing the electric revenue requirement approved as part of the 02S-315EG Settlement. Additionally, the Commission stated:

> ...The Company shall file its FDC study and CAM, updated to reflect the results of the workshop process, with its annual Earnings Test report commencing with the 2004 Earnings Test year filed in 2005...

The last workshop meeting was held in February, 2005 and the written report PSCo agreed to provide summarizing agreed-upon changes has not yet been filed.

In the written section of the PSCo's 2004 PBR Report describing material changes in the Company's accounting policies, practices or procedures, PSCo did not mention implementation of allocation-related changes arising from the cost allocation workshop process. Staff's review of the FDC study and CAM did not reveal inclusion of some of the agreed-upon changes identified during the cost allocation workshop process. Considering these factors, Staff's review of the FDC study and CAM is mechanical in nature for purposes of the 2004 PBR filing and does not include a recommendation for approval or adoption by the Commission. For purposes of the 2004 PSCo PBR Report, Staff believes that the Company has comported with the Commission order by filing a FDC study and CAM. In the next formal proceeding where rates are at issue and the Company files a FDC study and CAM consistent with the discussions arising from the cost allocation workshop process, a recommendation for approval/disapproval will be offered by Staff.

In light of the above, Staff's review of the FDC study and CAM 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 CAM. Staff issued audit requesting PSCo reveal the calculation of several amounts included in the FDC and Staff reviewed PSCo's audit responses.

11. 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 requires 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 are not automatically retained by the utility that generated them. Effectively, the parent tightly controls the investment policies for each of its subsidiaries. As a result, if Qwest wants additional equity funding to build infrastructure to fulfill its regulatory obligations, it has to justify to the parent the need for those funds. It is required to compete with unregulated subsidiaries that could potentially offer a bigger return than the regulated business for funds that it generates. While these unregulated operations potentially offer larger returns to the parent/holding company's stockholders, they also carry a different risk profile than regulated operations and may not generate sufficient cash to fund those riskier activities. The parent's solution to this cash shortfall in the unregulated subsidiary is to flow cash from the regulated subsidiary to the parent and then from the parent to the unregulated subsidiary. While this is not necessarily problematic if the regulated subsidiary has sufficient cash to meet its regulatory obligations, it becomes problematic if sufficient cash is 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, which is a holding company under the federal Public Utilities Holding Company Act (PUHCA). 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

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

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.

As in 2002, PSCo did not file the dividend calculation report with its 2004 calendar year Earnings Sharing Report, in violation of the 99A-377EG Settlement Agreement. However, Staff obtained the information through audit. In response to Data Request No. CPUC2-1, PSCo states that "the dividend allocation between operating companies is based on each entity's common equity outstanding as a percent of the consolidated operating company common equity outstanding from the prior quarter end. This methodology has been in place since the merger in August 2000 and was a carryover from the former NCE policy. Under this methodology, PSCo's dividend allocation has been about 40+% of the total." In other words, Xcel Energy calculates subsidiary dividend payments based on the ratio of the utility's common equity to the total common equity of all the utility subsidiaries.

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 of PSCo's 2004 PBR earnings test filing. 2002 ratios are from Schedule 2 of the 2002 PBR filing. Table 1 shows a moderate 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 47.57% in 2002 to 50.11% in 2004, while long-term debt declined from 52.43% in 2002 to 49.89% in 2004.

Table 1

	12/31/04	12/31/02	Difference
Long Term Debt	49.89%	52.43%	-5.09%
Common Equity	50.11%	47.57%	+5.34%
Total	100.00%	100.00%	

Staff verified PSCo's proposed per book numbers against the general ledger. Staff's review confirmed that per book numbers reflected in the filing tied to those reflected in PSCo's general ledger. Table 2 compares the per book amounts contained in the capital structure filed in PSCo's 2004 PBR earnings test report with the per book capital structure filed in 2002.

Table 2

	(A) Item	(B) Per Books @ 12/31/04	(C) Per Books @ 12/31/02	(D) Difference $ (%)
1	Long Term Debt As Filed	$2,272,750,000	$2,219,090,000	$53,660,000 (+2.42%)
2	Common Equity As Filed	$2,374,648,524	$1,978,461,589	$396,186,935 (+20.03%)
3	Total Capital As Filed	$4,647,398,524	$4,197,551,589	$449,846,935 (+10.72%)

As shown on line 2(D) of Table 2, common equity increased in absolute dollars by $396,186,935 between PSCo's 2002 and 2004 earnings test filings. The primary reason for this large increase in common equity is equity infusions by Xcel Energy to maintain the target capital structure of PSCo. In 2003 and 2004, Xcel Energy infused $150 million and $185 million, respectively, for purposes of capital structure maintenance at PSCo.

The composite allowed return for PSCo has decreased due primarily to a lower cost of long-term debt in 2004 as compared to 2002. Even though common equity has increased as a percentage of total capital structure since 2002, the overall allowed return has decreased, as shown in Table 3 below.

Table 3

	(A)	(B)	(C)	(D)
	Item	Long-Term Debt	Common Equity	Total
1	Cost @ 12/31/04	6.59%	10.75%	
2	Cost @ 12/31/02	7.50%	11.00%	
3	Difference: Basis Points (%)	- 91 bp (-12.13%)	- 25 bp (-2.27%)	
4	Composite Cost @12/31/04	3.29%	5.39%	8.68%
5	Composite Cost @12/31/02	3.93%	5.23%	9.16%
6	Difference: Basis Points (%)	- 64 bp (-16.28%)	+ 16 bp (+3.06%)	- 48 bp (-5.24%)

d. Dividend Payments

PSCo's dividend payment to Xcel Energy in 2004 accounted for 40.65% of total dividends paid to the parent by the operating subsidiaries in the test year. This figure remained relatively unchanged compared to prior years. In 2003, PSCo contributed 39.84% of total dividends to Xcel Energy, and in 2002 it paid 40.72% of total dividends to the parent. In absolute dollars, dividend payments from PSCo to Xcel Energy have increased from $230,867,000 in 2002 to $243,906,000 in 2004. This represents a 2.45% increase in dividends paid over the two-year period.

By comparison, pro forma CPUC Electric Department Jurisdictional Net Operating Earnings have increased from $238,702,151 in 2002 to $251,015,366 in 2004. This represents a 5.16% increase in Net Operating Earnings over the two year period.

According to the Form 10-K filed by PSCo with the United States Securities and Exchange Commission for 2004, PSCo's total capital expenditures in Colorado have increased from $443,176,000 in 2002 to $457,365,000 in 2004. This represents a 3.65% increase in total capital expenditures.

In rating PSCo's commercial paper, Moody's Investors Service (Moody's) observed in a report dated March 4, 2005: "Public Service Company of Colorado's Prime-2 rating for commercial paper reflects the relatively stable and predictable cash flow provided by a vertically integrated utility system that serves customers in Colorado." Moody's continued as follows: "PSCo's internal funds satisfy the majority of the company's capital requirements including the payment of dividends to parent Xcel Energy, Inc. and the funding of PSCo's capital expenditure program."

Staff's analysis demonstrates that dividend payments from PSCo to Xcel Energy have increased less than capital expenditures since the 2002 PBR earnings test report. This appears to indicate that PSCo has adequate cash flow to fund its capital spending requirements while continuing to pay its share of dividends to Xcel Energy. Credit rating agencies have sustained PSCo's credit rating at BBB in the belief that the company has taken positive steps to maintain its credit quality as its expands generation capacity.

e. Impact of NRG

In the 2002 PBR report, Staff expressed concerns regarding PSCo's ability to secure financing at reasonable rates due, in part, to the financial difficulties of its non-regulated wholesale-power generating sister subsidiary, NRG Energy, Inc. (NRG). Staff requested a hearing to determine the appropriate adjustment to PSCo's capital structure to reverse the adverse financial impact of NRG. Staff ultimately recommended that the Commission approve an imputed interest rate for a September 2002 $600 million bond issue that was more representative of the prevailing interest rates at which corporate bonds of comparably rated companies were being issued at that same time.

In Decision No. C04-1566, Docket Nos. 03I-134E and 04I-098E, the Commission approved the Stipulation and Settlement Agreement in this matter. In that Stipulation, the parties agreed that PSCo would be allowed to include the actual cost of the $600 million debt issue in its calculation of its weighted cost of capital for purposes of the 2002 Earnings Test Report and all future earnings test or rate proceedings in which its cost of capital is at issue. In consideration, PSCo committed to invest an additional $38 million over the next three years as part of a Quality of Service Plan designed to improve system reliability and reduce power outages. Therefore, Staff is not recommending any adjustments to the interest rate for the September 2002 $600 million debt issue as part of this 2004 PBR report.

12. 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 2002 to 2004.

Normal Staff review provides for a year-to-year comparison (which is a standard accounting and regulatory presentation) to identify trends and flag areas of significant changes.

As previously noted, the 99A-377EG Settlement indicates, "For calendar year 2003, there shall be no earnings test…" As a result, no earnings information was filed for that calendar year. Staff attempted to obtain the 2003 earnings information by audit in order to perform its review consistently with past standards. PSCo did not provide the information and referred Staff to its annual Appendix A questionnaire. See audit question and response, attached as Exhibit No 2. While expense information was available there was no revenue data available for the electric department alone. The revenue information was presented on a combined department basis. Due to the limited amount of time available for review of the PBR filing as well as the lack of significant unexplained changes arising from Staff's review of the FERC Form No. 1 information, Staff did not pursue filing a motion to compel. However, Staff remains concerned about the Company's response to its request for information that resulted in limiting the ability of Staff to complete its comparative trend analysis. Staff requests that the Commission direct PSCo to perform standard analyses in the future even in instances where an earnings test filing is not made. Staff brings this concern to the Commission because, given the time constraints in a PBR filing, where there is no reasonable surrogate for necessary information, customers may be caused significant harm because of hidden items that ordinarily should not be allowed for recovery from customers.

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 costs to show changes to the income statement amounts on a book basis for years 2002, 2003 and 2004. The results are set forth in Exhibit No. 3.

Staff issued audit requests for an explanation of variances greater than 0% and has now received responses to all audit questions. Exception was taken to the inclusion of a prior period SO2 Allowance amount. PSCo has filed a revision to Schedule 5, page 7, line 4 to eliminate the out-of-period SO2 Allowance entry. None of the inquiries or responses thereto represents material amounts that could potentially trigger a Staff recommendation for sharing and/ or a hearing. Therefore, Staff has no significant concerns with changes within the accounts.

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 2004 is summarized in the following table:

Total Per Book Electric Plant in Service

Date	**Plant in Service**	**Percent Change**
December 31, 2004	$6,250,663,064 *	
December 31, 2003	$5,783,764,514	
2003-2004 Difference	$466,898,550	8.07%
December 31, 2003	$5,783,764,514	

Changes, by category, are summarized as follows:

Plant in Service	13 Month Avg Bal for 2004	13 Month Avg Bal for 2003	Change 2003 to 2004	% Change
Common Plant & General Plant (allocated to Electric)	$412,110,192	$351,645,595	$60,464,597	17%
Production Plant	$2,415,624,268	$2,282,280,870	$133,343,398	5.8%
Transmission Plant	$772,736,404	$724,304,001	$48,432,403	6.7%
Distribution Plant	$2,650,628,338	$2,425,534,048	$225,094,290	9.3%
Total Plant	$6,251,099,202 *	$5,783,764,514	$467,334,688	8.1%

- **Please note that the "December 31, 2004" "Plant in Service" balance differs from the "December 31, 2004" "Total Plant in Service" by an amount of $436,138. This difference is due to a new plant sub-account being added during 2004 and erroneously excluded in PSCo's PBR model.**

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). Prior to the last rate case, PSCo was calculating rate base on a year-end basis, therefore, 2002 rate base numbers are not comparable to 2003 and 2004 rate base because 13 average month-end balances are used.

VI. CONCLUSION AND RECOMMENDATIONS

Staff does not challenge the findings of the Company that there were not sufficient earnings to reach the sharing threshold established in the PBR. In view of the Company's calculations as filed and revised, and by operation of the tariffs, the PBR rider will be continue to be zero on July 1, 2005.

Staff recommends that the Commission direct PSCo to perform standard analyses even in instances where an earnings test filing is not made. Staff further recommends that the Commission accept PSCo's 2004 Earnings Test as revised and does not request a hearing.

Public Service Company of Colorado
Performance Based Earnings Test Comparison
Electric Department
Data are on a pro-forma, after adjustments basis as filed by PSCo

Refr: Schedule Page #		December 31, 2004	December 31, 2002	$ Change from 2002 to 2004	% Change from 2002 to 2004
S4, 1/6	Operating Revenues	1,769,837,118	1,675,585,923	94,251,195	6%
	Total Other Rev. & Revenue Credits	37,465,769	18,768,794	18,696,975	100%
	Total Operating Revenue	**1,807,302,887**	**1,694,354,717**	**112,948,170**	**7%**
S4, 3/6	Total Steam Production O & M	114,752,483	236,509,811	(121,757,328)	-51%
	Total Hydro Production O & M	3,440,420	2,891,079	549,341	19%
	Total Comb. Turbine Production O & M	11,405,951	94,759,279	(83,353,328)	-88%
S4, 2/6	Total Purchased Power	668,373,258	516,884,915	151,488,343	29%
S4, 3/6	System Control & Dispatch	736,516	56,819	679,697	1196%
	Total Production O & M	**798,708,628**	**851,101,903**	**(52,393,275)**	**-6%**
S4, 4/6	Total Transmission O & M	18,322,431	18,668,231	(345,800)	-2%
	Total Distribution O & M	65,984,684	48,411,915	17,572,769	36%
S4, 5/6	Total Customer Operations Expense	40,387,372	39,266,851	1,120,521	3%
	Total A & G Expense	134,935,332	146,263,041	(11,327,709)	-8%
	Total O & M Expense	1,058,338,447	1,103,711,941	(45,373,494)	-4%
	Deprec & Amortization Expense	150,696,530	174,318,245	(23,621,715)	-14%
	Total Taxes Other Than Income	64,208,273	57,968,219	6,240,054	11%
S4, 6/6	Total Income Taxes	80,957,479	97,227,814	(16,270,335)	-17%
	Gain of Sale of Utility Plant	5,108,301	0	5,108,301	100%
	Total Operating Deductions	**1,551,837,663**	**1,433,226,219**	**118,611,444**	**8%**
	Net Operating Earnings	**255,465,224**	**261,128,498**	**(5,663,274)**	**-2%**

Public Service Company of Colorado
Performance Based Earnings Test Comparison
Electric Department
Data are on a pro-forma, after adjustments basis as filed by PSCo

Refr: Schedule Page #		December 31, 2004	December 31, 2002	$ Change from 2002 to 2004	% Change from 2002 to 2004
	AFUDC Addition				
S4, 6/6	Total AFUDC Addition	12,454,489	9,356,677	3,097,812	33%
	Total Net Operating Earnings	**267,919,713**	**270,485,175**	**(2,565,462)**	**-1%**
	Allocated to FERC	16,904,347	31,783,025	(14,878,678)	-47%
	CPUC Jurisdictional NOE	**251,015,366**	**238,702,150**	**12,313,216**	**5%**
	Note: Other rev and rev credits includes "other rentals" that are as follows:				
	Other Rentals	*3,997,861*	*2,917,090*	*1,080,771*	*37%*

Public Service Company of Colorado	)	**Fourth Set of Data Requests**
Docket No. 05I-188E	)	**of the Commission Staff**
2004 Earnings Test Filing	)	**Dated April 29, 2005**

<u>DATA REQUEST NO. CPUC4-1</u>:

Reference Schedule 4. Please provide the same Net Operating Earnings – Electric Department statement for 12 months ending December 31, 2003, using the applicable ratemaking principles for the PBR.

<u>RESPONSE</u>:

As per the Stipulation and Settlement Agreement in Docket No. 99A-377EG, there was no earnings test performed for the year 2003. As such, the requested analysis has not been performed. Public Service did file its annual Appendix A questionnaire responses for 2003 and while the rate of return calculations supplied in response to question one of the Appendix A are not based on earnings test principles, they could be used as a proxy to that calculation.

Sponsor: Tim Willemsen **Date:** 05/09/05

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve month period ending December 31,

Acct No.	REVENUE OR EXPENSE ITEM	2004	2003	2002	$ Change from 2003 to 2004	$ Change from 2002 to 2004	% Change from 2003 to 2004	% Change from 2002 to 2004
SALES OF ELECTRICITY								
440	Residential Sales	672,496,730	686,626,943	585,034,721	(14,130,213)	87,462,009	-2%	15%
442	Commerical and Industrial Sales							
	small or (comm)	832,943,485	817,277,219	661,968,870	15,666,266	170,974,615	2%	26%
	large or (ind.)	247,716,060	241,866,245	204,985,948	5,849,815	42,730,112	2%	21%
444	Public Street and Highway lighting	31,376,086	32,443,594	29,239,699	(1,067,508)	2,136,387	-3%	7%
445	Other Sales to Public Authorities	4,880,906	6,330,915	3,563,171	(1,450,009)	1,317,735	-23%	37%
446	Sales to Railroads and Railways	0	0	0	0	0		
448	Interdepartmental sales	179,695	250,804	218,857	(71,109)	(39,162)	-28%	-18%
	Total Sales to Ultimate Customers	**1,789,592,962**	**1,784,795,720**	**1,485,011,266**	**4,797,242**	**304,581,696**	**0%**	**21%**
447	Sales for Resale	866,791,614	550,121,350	1,850,796,812	316,670,264	(984,005,198)	58%	-53%
	Total Sales of Electricity	**2,656,384,576**	**2,334,917,070**	**3,335,808,078**	**321,467,506**	**(679,423,502)**	**14%**	**-20%**
449.1	Provision for Rate Refunds	569,767	(635,500)	15,677,087	1,205,267	(15,107,320)	-190%	-96%
	Total Revenues (Net of Provision for Refunds)	**2,656,954,343**	**2,334,281,570**	**3,351,485,165**	**322,672,773**	**(694,530,822)**	**14%**	**-21%**
OTHER OPERATING REVENUES								
450	Forfeited Discounts	948,751	1,776,153	2,000,042	(827,402)	(1,051,291)	-47%	-53%
451	Miscellaneous Services Revenues	(10,412)	(243,390)	47,131	232,978	(57,543)	-96%	-122%
453	Sales of Water and Water Power	0	0	0	0	0		
454	Rent from Electric Property	4,087,144	4,825,324	3,071,235	(738,180)	1,015,909	-15%	33%
455	Interdepartmental Rents	0	0	0	0	0		
456	Other Electric Revenues	7,980,211	20,061,767	28,572,365	(12,081,556)	(20,592,154)	-60%	-72%
	Total Other Operating Revenues	**13,005,694**	**26,419,854**	**33,690,773**	**(13,414,160)**	**(20,685,079)**	**-51%**	**-61%**
TOTAL ELECTRIC OPERATING REVENUES		**2,669,960,037**	**2,360,701,424**	**3,385,175,938**	**309,258,613**	**(715,215,901)**	**13%**	**-21%**
OPERATING EXPENSES								
STEAM POWER PRODUCTION EXPENSES								
	Steam Power Generation:							
500	Operation Supervision and Engineering	3,415,838	4,059,204	4,350,845	(643,366)	(935,007)	-16%	-21%
501	Fuel	198,246,079	212,570,287	212,299,089	(14,324,208)	(14,053,010)	-7%	-7%
502	Steam Expenses	19,921,207	14,507,327	12,636,229	5,413,880	7,284,978	37%	58%
503	Steam from Other Sources	0	0	0	0	0		
504	(less) Steam Transferred	0	0	0	0	0		
505	Electric Expenses	6,969,331	8,539,998	8,644,450	(1,570,667)	(1,675,119)	-18%	-19%
506	Misc. Steam Power Expense	14,611,677	20,636,717	15,377,979	(6,025,040)	(766,302)	-29%	-5%
507	Rents	16,420	141,296	276,590	(124,876)	(260,170)	-88%	-94%
509	Allowances	130,225	1	476,832	130,224	(346,607)	13022400%	-73%
	Total Production Operations - Steam	**243,310,777**	**260,454,830**	**254,062,014**	**(17,144,053)**	**(10,751,237)**	**-7%**	**-4%**
	Steam Production Maintenance:							
510	Maintenance Supervision and Engineering	1,701,517	2,554,119	2,585,981	(852,602)	(884,464)	-33%	-34%
511	Maintenance of Structures	5,968,174	4,105,621	3,400,839	1,862,553	2,567,335	45%	75%
512	Maintenance of Boiler Plant	20,237,160	19,844,732	15,323,595	392,428	4,913,565	2%	32%
513	Maintenance of Electric Plant	11,845,148	6,499,593	5,908,773	5,345,555	5,936,375	82%	100%
514	Maintenance of Miscellaneous Steam Plant	12,969,593	8,853,912	5,807,067	4,115,681	7,162,526	46%	123%
	Total Maintenance Expenses - Steam	**52,721,592**	**41,857,977**	**33,026,255**	**10,863,615**	**19,695,337**	**26%**	**60%**
	Total Steam Power Production Expenses	**296,032,369**	**302,312,807**	**287,088,269**	**(6,280,438)**	**8,944,100**	**-2%**	**3%**

Public Service Company of Colorado
Comparative Income Statement - Electric
For the Twelve month period ending December 31,

Acct No.	REVENUE OR EXPENSE ITEM	2004	2003	2002	$ Change from 2003 to 2004	$ Change from 2002 to 2004	% Change from 2003 to 2004	% Change from 2002 to 2004
	HYDRAULIC POWER PRODUCTION EXPENSES							
	Operations:							
535	Operation Supervision and Engineering	331,310	212,932	162,527	118,378	168,783	56%	104%
536	Water for Power	(18,344)	(18,684)	0	340	(18,344)	-2%	100%
537	Hydraulic Expenses	652,197	269,363	175,383	382,834	476,814	142%	272%
538	Electric Expenses	239,035	774,556	920,713	(535,521)	(681,678)	-69%	-74%
539	Misc. Hydraulic Power Generation Expenses	902,697	750,608	523,628	152,089	379,069	20%	72%
540	Rents	1,716	19,126	25,254	(17,410)	(23,538)	-91%	-93%
	Total Hydraulic Power Operations Expenses	**2,108,611**	**2,007,901**	**1,807,505**	**100,710**	**301,106**	**5%**	**17%**
	Hydraulic Maintenance Expenses:							
541	Maintenance Supersion and Engineering	(268)	138,093	139,261	(138,361)	(139,529)	-100%	-100%
542	Maintenance of Structures	283,582	108,904	52,448	174,678	231,134	160%	441%
543	Maintenance of Reservoirs, Dams and Waterways	507,266	129,779	54,549	377,487	452,717	291%	830%
544	Maintenance of Electric Plant	301,140	382,074	406,877	(80,934)	(105,737)	-21%	-26%
545	Maintenance of Miscellaneous Hydraulic Plant	240,089	408,547	430,439	(168,458)	(190,350)	-41%	-44%
	Total Hydraulic Maintenance Expenses	**1,331,809**	**1,167,397**	**1,083,574**	**164,412**	**248,235**	**14%**	**23%**
	Total Hydraulic Power Production Expenses	**3,440,420**	**3,175,298**	**2,891,079**	**265,122**	**549,341**	**8%**	**19%**
	OTHER POWER PRODUCTION EXPENSES							
	Operations.							
546	Operation Supervision and Engineering	609,014	116,488	2,947	492,526	606,067	423%	20566%
547	Fuel	152,809,160	130,397,061	103,228,719	22,412,099	49,580,441	17%	48%
548	Generation Expenses	1,559,917	2,365,137	2,299,348	(805,220)	(739,431)	-34%	-32%
549	Misc. Other Power Generation Expenses	1,018,634	180,969	642,486	837,665	376,148	463%	59%
550	Rents	1,116	(34,551)	116,795	35,667	(115,679)	-103%	-99%
	Total Other Power Operations Expenses	**155,997,841**	**133,025,104**	**106,290,295**	**22,972,737**	**49,707,546**	**17%**	**47%**
	Other P/P Maintenance Expenses:							
551	Maintenance Supersion and Engineering	246,777	110,593	1,206	136,184	245,571	123%	20362%
552	Maintenance of Structures	776,833	293,134	4,664	483,699	772,169	165%	16556%
553	Maintenance of Generating and Electric Plant	6,094,410	5,902,544	9,462,405	191,866	(3,367,995)	3%	-36%
554	Maintenance of Miscellaenous Other Plant	1,099,249	152,485	383,054	946,764	716,195	621%	187%
	Total Other Power Maintenance Expense	**8,217,269**	**6,458,756**	**9,851,329**	**1,758,513**	**(1,634,060)**	**27%**	**-17%**
	Total Other Power Production Expenses	**164,215,110**	**139,483,860**	**116,141,624**	**24,731,250**	**48,073,486**	**18%**	**41%**
	Other Power Supply Expenses							
555	Purchased Power	1,347,985,840	961,268,628	2,169,467,342	386,717,212	(821,481,502)	40%	-38%
556	System Control and Load Dispatch	736,515	446,841	56,819	289,674	679,696	65%	1196%
557	Other Expenses	9,398,569	64,474,069	(121,164,994)	(55,075,500)	130,563,563	-85%	-108%
	Total Other Power Supply Expenses	**1,358,120,924**	**1,026,189,538**	**2,048,359,167**	**331,931,386**	**(690,238,243)**	**32%**	**-34%**
	Total Power Production Expenses	**1,821,808,823**	**1,471,161,503**	**2,454,480,139**	**350,647,320**	**(632,671,316)**	**24%**	**-26%**
	TRANSMISSION EXPENSES							
	Operation:							
560	Operation Supervision and Engineering	2,915,210	2,237,061	(6,767)	678,149	2,921,977	30%	-43180%

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Acct No.	REVENUE OR EXPENSE ITEM	2004	2003	2002	$ Change from 2003 to 2004	$ Change from 2002 to 2004	% Change from 2003 to 2004	% Change from 2002 to 2004
561	Load Dispatching	5,133,840	4,769,960	5,077,404	363,880	56,436	8%	1%
562	Station Expenses	827,792	341,689	261,809	486,103	565,983	142%	216%
563	Overhead lines Expense	1,515,950	1,565,100	1,803,222	(49,150)	(287,272)	-3%	-16%
564	Underground Line Expenses	71	455	0	(384)	71	-84%	100%
565	Transmission of Electricity by Others	15,674,310	28,807,421	35,474,441	(13,133,111)	(19,800,131)	-46%	-56%
566	Miscellaneous Transmission Expenses	1,004,781	1,164,483	1,337,567	(159,702)	(332,786)	-14%	-25%
567	Rents	0	232,859	2,228	(232,859)	(2,228)	-100%	-100%
	Total Transmission Operations Expenses	**27,071,954**	**39,119,028**	**43,949,904**	**(12,047,074)**	**(16,877,950)**	**-31%**	**-38%**
	Maintenance.							
568	Maintenance Supervision and Engineering	197	20,497	44,677	(20,300)	(44,480)	-99%	-100%
570	Maintenance of Station Equipment	1,614,899	1,623,901	1,530,970	(9,002)	83,929	-1%	5%
571	Maintenance of Overhead Lines	1,824,864	775,116	1,451,429	1,049,748	373,435	135%	26%
572	Maintenance of Underground Lines	4,793	0	2,633	4,793	2,160	100%	82%
573	Maintenance of Miscellaneous Transmission Plant	46,151	106,484	156,392	(60,333)	(110,241)	-57%	-70%
	Total Transmission Maintenance Expenses	**3,490,904**	**2,525,998**	**3,186,101**	**964,906**	**304,803**	**38%**	**10%**
	Total Transmission Expenses	**30,562,858**	**41,645,026**	**47,136,005**	**(11,082,168)**	**(16,573,147)**	**-27%**	**-35%**
DISTRIBUTION EXPENSES								
	Operation:							
580	Operation Supervision and Engineering	3,997,977	5,127,758	1,938,148	(1,129,781)	2,059,829	-22%	52%
581	Load Dispatching	1,914,947	1,467,676	1,697,440	447,271	217,507	30%	11%
582	Station Expenses	1,001,260	932,342	962,590	68,918	38,670	7%	4%
583	Overhead Lines Expense	2,715,086	3,266,155	1,180,204	(551,069)	1,534,882	-17%	57%
584	Underground Line Expenses	5,866,923	7,188,077	4,128,027	(1,321,154)	1,738,896	-18%	30%
585	Street Lighting and Signal System Expenses	599,917	915,829	860,417	(315,912)	(260,500)	-34%	-43%
586	Meter Expenses	5,480,675	2,420,623	2,304,949	3,060,052	3,175,726	126%	58%
587	Customer Installations Expenses	1,549,934	492,166	975,180	1,057,768	574,754	215%	37%
588	Miscellaneous Expenses	13,829,131	8,906,311	12,856,599	4,922,820	972,532	55%	7%
589	Rents	1,962	274,491	329,406	(272,529)	(327,444)	-99%	-16689%
	Total Distribution Operations Expenses	**36,957,812**	**30,991,428**	**27,232,960**	**5,966,384**	**9,724,852**	**19%**	**26%**
	Maintenance:							
590	Maintenance of Supervision and Engineering	538,013	430,568	697,392	107,445	(159,379)	25%	-30%
592	Maintenance of Station Equipment	3,664,601	2,463,848	1,561,131	1,200,753	2,103,470	49%	57%
593	Maintenance of Overhead Lines	10,392,585	11,831,598	8,096,624	(1,439,013)	2,295,961	-12%	22%
594	Maintenance of Underground Lines	7,080,230	6,738,716	5,390,993	341,514	1,689,237	5%	24%
595	Maintenance of Line Transformers	1,173,578	136,325	127,618	1,037,253	1,045,960	761%	89%
596	Maintenance of Street Lighting and Signal Systems	4,945,966	4,486,174	3,500,544	459,792	1,445,422	10%	29%
597	Maintenance of Meters	908,062	944,626	544,889	(36,564)	363,173	-4%	40%
598	Maintenance of Miscellaneous Distribution Plant	346,233	750,231	1,289,377	(403,998)	(943,144)	-54%	-272%
	Total Distribution Maintenance Expenses	**29,049,268**	**27,782,086**	**21,208,568**	**1,267,182**	**7,840,700**	**5%**	**27%**
	Total Distribution Expenses	**66,007,080**	**58,773,514**	**48,441,528**	**7,233,566**	**17,565,552**	**12%**	**27%**
CUSTOMER ACCOUNT EXPENSES								
	Operations:							
901	Supervision	67,140	79,965	92,366	(12,825)	(25,226)	-16%	-27%
902	Meter Reading Expenses	5,520,911	4,604,453	4,310,885	916,458	1,210,026	20%	28%
903	Customer Records and Collection Expenses	24,353,206	20,269,439	24,169,670	4,083,767	183,536	20%	1%

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Acct No.	REVENUE OR EXPENSE ITEM	2004	2003	2002	$ Change from 2003 to 2004	$ Change from 2002 to 2004	% Change from 2003 to 2004	% Change from 2002 to 2004
904	Uncollectible Accounts	4,801,050	3,537,948	5,756,972	1,263,102	(955,922)	36%	-17%
905	Miscellaneous Customer Accounts Expenses	405,156	1,544,547	487,960	(1,139,391)	(82,804)	-74%	-17%
	Total Customer Accounts Expenses	**35,147,463**	**30,036,352**	**34,817,853**	**5,111,111**	**329,610**	**17%**	**1%**
CUSTOMER SERVICE AND INFORMATIONAL EXPENSES								
	Operations:							
907	Supervision	0	0	0	0	0		
908	Customer Assistance Expenses	10,593,170	8,220,753	2,190,250	2,372,417	8,402,920	29%	384%
909	Informational and Instructional Expenses	306,595	270,986	(1,245,583)	35,609	1,552,178	13%	-125%
910	Misc. Customer Service and Informational Expenses	0	0	0	0	0		
	Total Customer Service and Information Expenses	**10,899,765**	**8,491,739**	**944,667**	**2,408,026**	**9,955,098**	**28%**	**1054%**
SALES EXPENSES								
	Operations							
911	Supervision	0	0	0	0	0		
912	Demonstrating and Selling Expenses	851,251	3,725,558	3,958,377	(2,874,307)	(3,107,126)	-77%	-78%
913	Advertising Expenses	0	0	0	0	0		
916	Miscellaneous Sales Expenses	0	0	0	0	0		
	Total Sales Expenses	**851,251**	**3,725,558**	**3,958,377**	**(2,874,307)**	**(3,107,126)**	**-77%**	**-78%**
ADMINISTRATIVE AND GENERAL EXPENSES								
	Operations							
920	Administrative and General Salaries	27,454,217	37,624,630	30,902,805	(10,170,413)	(3,448,588)	-27%	-11%
921	Office Supplies and Expenses	24,818,865	32,868,623	30,127,799	(8,049,758)	(5,308,934)	-24%	-18%
922	(less) Administrative Expenses Transferred - Credit	(5,763,002)	(6,134,281)	(5,896,306)	371,279	133,304	-6%	-2%
923	Outside Services Employed	12,918,242	19,043,599	19,132,483	(6,125,357)	(6,214,241)	-32%	-32%
924	Property Insurance	3,460,145	5,189,595	4,723,971	(1,729,450)	(1,263,826)	-33%	-27%
925	Injuries and Damages	7,373,234	6,576,424	8,243,188	796,810	(869,954)	12%	-11%
926	Employee Pension and Benefits	51,130,789	38,038,511	29,700,735	13,092,278	21,430,054	34%	72%
928	Regulatory Commission Expenses	6,330,286	6,109,151	5,473,918	221,135	856,368	4%	16%
929	(less) Duplicate Charges	(1,031,962)	0	0	(1,031,962)	(1,031,962)	100%	100%
930.1	General Advertising Expenses	2,859,102	2,922,058	1,417,687	(62,956)	1,441,415	-2%	102%
930.2	Miscellaneous General Expenses	4,067,546	1,741,770	2,277,710	2,325,776	1,789,836	134%	79%
931	Rents	3,906,609	7,468,861	6,247,062	(3,562,252)	(2,340,453)	-48%	-37%
	Total Admin and General Operation Expenses	**137,524,071**	**151,448,941**	**132,351,052**	**(13,924,870)**	**5,173,019**	**-9%**	**4%**
	Maintenance							
935	Maintenance of General Plant	212,325	528,414	0	(316,089)	212,325	-60%	100%
	Total Admin and General Maintenance Expenses	**212,325**	**528,414**	**0**	**(316,089)**	**212,325**		
	Total Admin and General Expenses	**137,736,396**	**151,977,355**	**132,351,052**	**(14,240,959)**	**5,385,344**	**-9%**	**4%**
	TOTAL ELECTRIC OPERATIONAL AND MAINT. EXPENSI	**2,103,013,636**	**1,765,811,047**	**2,722,129,621**	**337,202,589**	**(619,115,985)**	**19%**	**-23%**
	DEPRECIATION AND AMORTIZATION	**163,126,845**	**172,266,420**	**190,845,340**	**(9,139,575)**	**(27,718,495)**	**-5%**	**-15%**
	TAXES OTHER THAN INCOME	**64,208,273**	**61,542,551**	**57,985,527**	**2,665,722**	**6,222,746**	**4%**	**11%**
	INCOME TAXES							
	Federal Income Tax	4,484,825	53,618,835	22,144,184	(49,134,010)	(17,659,359)	-92%	-80%
	State Income Tax	1,067,784	8,846,490	(3,441,452)	(7,778,706)	4,509,236	-88%	-131%

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Acct No.	REVENUE OR EXPENSE ITEM	2004	2003	2002	$ Change from 2003 to 2004	$ Change from 2002 to 2004	% Change from 2003 to 2004	% Change from 2002 to 2004
	Deferred Income Tax	75,093,397	39,155,359	105,639,845	35,938,038	(30,546,448)	92%	-29%
	ITC - Amortized	(3,167,486)	(3,179,664)	(3,381,602)	12,178	214,116	0%	-6%
	Total Income Taxes	**77,478,520**	**98,441,020**	**120,960,975**	**(20,962,500)**	**(43,482,455)**	**-21%**	**-36%**
	Gain on Disposition of Allowances	0	(214,092)	0				
	Gain on Utility Plant	(2,378,027)	0	0				
	Total Operating Deductions	**2,405,449,247**	**2,097,846,946**	**3,091,921,463**	**307,602,301**	**(686,472,216)**	**15%**	**-22%**
	Net Operating Earnings	**264,510,790**	**262,854,478**	**293,254,475**	**1,656,312**	**(28,743,685)**	**1%**	**-10%**
	AFUDC	15,001,831	15,060,976	7,248,392	(59,145)	7,753,439	0%	107%
	Total Net Operating Earnings before allocation to FERC	**279,512,621**	**277,915,454**	**300,502,867**	**1,597,167**	**(20,990,246)**	**1%**	**-7%**