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STAFF'S REPORT TO THE COMMISSION

CONCERNING

THE GAS EARNINGS CAP REPORT

FOR PUBLIC SERVICE COMPANY OF COLORADO

FOR CALENDAR YEAR 2006.

July 30, 2007

THE PUBLIC UTILITIES COMMISSION
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I. EXECUTIVE SUMMARY

This is the first report prepared by the Staff of the Commission (Staff) concerning the Gas Department of Public Service Company of Colorado (PSCo or the Company) earnings cap.

Under the terms of the Stipulation and Agreement in Resolution of Proceeding (Settlement) approved in Commission Decision No. C06-0086, Docket No. 05S-264G, beginning with the calendar year ending December 31, 2006 and thereafter for each subsequent calendar year in which the terms of the Settlement remain in effect through at least October 31, PSCo agreed to calculate its achieved Return on Equity (ROE) and to reduce its base rates for gas services by means of a negative rate rider for any earnings in excess of 10.5%.

After reviewing the Company's Gas Earnings Cap 2006 Plan Year Supporting Report filing (PSCo's 2006 Gas Earnings Cap Report), for the reasons contained in this Staff report, Staff concurs with the Company that it realized no earnings above the 10.5% authorized return on equity threshold, with one exception. Therefore, there should be no earnings cap negative rider to base gas rates and Staff does not request that a hearing be held.

II. SUMMARY OF SETTLEMENT REQUIREMENTS

This filing is based on principles established primarily by the Settlement reached on December 21, 2005 in Docket No. 05S-264G, as approved by the Commission[1], and subsequently modified.[2] Specifically, beginning at *Section II.E., Earnings Cap*, page 28, the Settlement states :

> Beginning with the calendar year ending December 31, 2006, and thereafter for each subsequent calendar year in which the terms of this Settlement remain effective through at least October 31, Public Service agrees to calculate its earned ROE and to reduce its base rates for gas services by means of a negative rate rider for any earnings in excess of 10.5%. Public Service shall file its annual ROE calculation for the preceding calendar year with the Commission on or before April 1 of each year beginning on April 1, 2007.
>
> The Company's earnings will be measured using ratemaking principles (including jurisdictional allocation methodologies) reflected in the rates resulting from this gas rate case proceeding. All Commission-ordered adjustments, except pro forma adjustments, shall be made to the annual earnings cap calculation. All accounting adjustments will be made to the earnings cap calculation only to the extent that such adjustments correct transactions that should be properly counted in a period prior to the initial earnings cap test year (*i.e.*, 2006). Accounting adjustments affecting prior year's earnings cap calculation that do not become known until after the applicable earnings cap report for the prior year has been filed shall be recognized for the earnings cap calculation in the year they become known and are recorded on the books of Public Service in accordance with generally accepted accounting principles.[3]
>
> The Company agrees to calculate its annual ROE based on: a) its actual capital structure (per books, as adjusted) at the end of each test year; b) embedded cost of debt for each test year; c) its 13

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[1] Decision No. C06-0086, Docket No. 05S-264G , p. 7.
[2] Decision Nos. C06-0497 and C06-0710, provided clarification and approved a specific accounting treatment of the pending Kansas property taxes as appealed by PSCo.
[3] This treatment for accounting adjustments is consistent with paragraph II.B of the Stipulation and Settlement Agreement adopted by the Commission in Decision No. R01-1034, mailed October 5, 2001, in the Company's 1999 earnings test proceeding in Docket Nos. 00M-632EG and 95A-531EG.

> month average rate base for each test year, as described in Section II.A.4 of this Settlement; d) weather normalized revenues for each test year, using the weather normalization method described in Section II.A.9 of this Settlement; and e) settled ratemaking principles approved by the Commission in this proceeding.

Regarding material changes in circumstances occurring subsequent to the rate case, at *Section II.E., Earnings Cap*, page 30,the Settlement states:

> ...any party may argue that, as a result, the Commission should determine the appropriate regulatory treatment regarding the issue affected for purposes of the earnings cap calculation. A material change in circumstances is a change that impacts the calculation of the gas department revenue requirement and: (1) occurs as a result of a Commission order; or (2) arises as a result of formal action by any other governmental body or other authority. For purposes of the earnings cap calculations, any party proposing a change in regulatory treatment as a result of a material change, as defined above, or proposing a regulatory treatment for an item for which there has been no previously accepted regulatory treatment, shall identify the material change in circumstances and the party's proposed new regulatory treatment in the party's testimony in the earnings cap docket and shall bear the burden of going forward and the burden of proof as to that proposed new regulatory treatment.

No party has argued that there have been material changes in circumstances occurring subsequent to Docket No. 05S-264G.

At *Section II.E., Earnings Cap*, beginning at page 30, the Settlement further states:

> The Company shall identify in its filing any change that the Company is requesting from previously accepted regulatory treatment and any item for which there has been no previously Commission approved regulatory treatment. Where references are made to settled ratemaking principles for purposes of application of the earnings cap, these settled principles shall only be deemed settled for the earnings cap calculations and proceedings that apply to periods before the conclusion of a subsequent general gas rate

case proceeding, whether initiated by the Company or by any other party.

The Company has not identified or argued in its filing any change from previously-accepted regulatory treatment nor any item for which there has been no previously Commission approved regulatory treatment.

The Settlement contains additional provisions for the annual gas earnings cap filings. At *Section II.E., Earnings Cap*, page 30, Staff is required to file a report with the Commission identifying any matters in the earnings cap calculation with which Staff takes issue. In addition, the Settlement provides that any party may submit discovery requests in the matter and file a protest if desired. It further provides for a hearing in the matter if requested, and requires any resultant earnings cap negative riders to have a Rider Period of twelve months, to go into effect on July 1 of each year and to include interest at the Commission-approved customer deposit rate. It also provides that there shall be a true-up mechanism to the extent necessary to address any over/under recovery issues from prior years.

III. SUMMARY OF THE ROE REVIEW PROCESS

PSCo files its annual Gas Earnings Cap Report in the spring of each year, with the subject 2006 Report being the first. Upon receipt of the Company's filing, Staff analyzes the Company's calculations and issues a report to the Commission. Based on that analysis and report, Staff proposes that the filing either be accepted or set for hearing. If set for hearing, notice is given, and other parties may intervene and participate in the hearing. If a hearing is held and the Commission determines that PSCo's achieved return on equity exceeded 10.5%, the difference is refunded to the ratepayers via an earnings cap negative rider to base rates that goes into effect on July 1 and includes interest at the Commission-approved customer deposit rate[4]. The rider period will be the twelve months from July 1 of each year through June 30 of the following year. In years subsequent to the initial year of implementation of any such rider, the Settlement provides for a true up mechanism for any prior over/under recovery issues.

IV. ROE TEST PROCEDURAL HISTORY

On April 2, 2007, PSCo filed its 2006 Gas Earnings Cap Report. Docket No. 07I-135G was opened for the purpose of addressing the 2006 Gas Earnings Cap Report and all related matters.[5] On May 14, 2007, Staff filed an unopposed motion for extension of time within which to file its report, due May 30, 2007, and request for waiver of response time. Staff's motion cited as grounds an extension of time granted to PSCo in Decision No. R07-0357-I, Docket No. 07M-031EG (PSCo's Annual Report docket) to May 18, 2007, for PSCo to file portions of its annual report, including its Federal Energy Regulatory Commission (FERC) Form 2. The Commission granted Staff's request for additional time and request for waiver of response time, giving Staff until July 30, 2007 to analyze PSCo's filing and prepare its report.[6] PSCo filed its FERC Form 2 on May 8, 2007.

V. CAPITAL STRUCTURE AND WEIGHTED-AVERAGE COST OF CAPITAL

As memorialized in the Settlement, the Commission approved an earnings cap of 10.5% return on equity[7] for PSCo's Gas Department. An actual embedded cost of debt of

[4] Settlement, *Section II.E., Earnings Cap*, p. 31.
[5] Commission Decision No. C07-0296, Docket No. 07I-135G.
[6] Commission Decision No. C07-0425, Docket No. 07I-135G.
[7] Decision No. C06-0086, Docket No. 05S-264G, p. 7.

6.44% was approved for determination of the weighted-average cost of capital. The Commission determined that short-term debt should be excluded from the determination of the capital structure. Specifically, capital structure was adjusted to eliminate notes between PSCo and its subsidiaries, 1480 Welton, Inc., and PSR Investments, Inc. This resulted in a weighted average cost of capital of 8.70% for the purposes of settling the rate case.

Schedule 2 of the 2006 Gas Earnings Cap Report reflects PSCo's 2006 test year capital structure ratios. Staff's June 18, 2007 PSCo Electric Department Performance-Based Regulatory Plan Earnings Sharing Report to the Commission (Staff's 2006 Electric Earnings Sharing Report in Docket No. 07I-134EG) includes a complete discussion of PSCo's 2006 capital structure.[8] PSCo's 2006 capital structure as reported therein, matches that reported in the 2006 Gas Earnings Cap Report: $1,909,525,000 of total long term debt comprising 39.69% of capital structure and $2,901,650,849 of common equity comprising 60.31%, for a total capital structure of $4,811,175,849. The 2006 Electric Earnings Sharing Report relates that PSCo's common equity increased in both absolute dollars and as a percentage of capital structure between 2005 and 2006. This shift was due in part to PSCo's efforts to increase the common equity component of its capital structure to achieve its goals regarding the Comanche 3 project, as described in combined Docket Nos. 04S-214E, 04S-215E, and 04S-216E.[9] Common equity grew from 56.89%

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[8] Docket No. 07I-134EG, Staff's Report to the Commission Concerning Public Service Company of Colorado's Electric Department Performance Based Regulatory Plan Earnings Sharing Report, Section B 10, pp.19 - 24.
[9] *Ibid.*, Section B 10, p. 23.

in 2005 to 60.31% in 2006, as adjusted, while long term debt declined from 43.11% in 2005 to 39.69% in 2006.[10]

Schedule 2 of the 2006 Gas Earnings Cap Supporting Report includes an adjustment decreasing long term debt by $6,275,000 to remove short term notes between PSCo and its subsidiaries as required in the Settlement.

VI. STAFF'S RESPONSE AND ANALYSIS

1. Achieved Return on Equity

Schedule 2, page 2 of 2 of the 2006 Gas Earnings Cap Report indicates that PSCo's gas department had Net CPUC Jurisdictional Operating earnings of $80,262,816, or an achieved return on equity of 7.84%, which is significantly less than the 10.5% threshold that would trigger refunds to Colorado ratepayers. Based on the Company's calculations, it could have earned an additional $28.6 million, including gross up for tax impact, before it reached the refund threshold.

2. Average Rate Base

The Parties stipulated to use of an average rate base for determining revenue requirement and establishing rates using a 13-month of average month-end balances for all rate base items[11], with some exceptions as described in Section II.A.4 of the Settlement, specifically:

- Cash working capital to be determined by the working capital factors as reflected in Attachment C to the Settlement;

[10] *Ibid.*, Section B 10, p. 22.
[11] Settlment, pp. 13 – 14.

- Gas stored underground to be reflected as an average of the twelve monthly average balances for the test year;
- In cases where the 13-month data are not available, the sum of the prior year-end balance and the test year-end balance divided by two;
- Specific assignment of plant to either the CPUC or FERC jurisdiction using year-end balances, and;
- AFUDC additions to earnings to be based upon the actual test-period amount, rather than an annualized earnings figure.

a) Cash Working Capital

Section II.A.4 of the Settlement requires that the cash working capital component of the annual gas earnings cap rate base determinations be calculated using "...*pro forma* expense multiplied by the working capital factors as reflected in S&A Attachment C...", *i.e.*, the factors initially proposed by PSCo in the 05S-264G rate case. Staff reviewed the cash working capital factors used in the 2006 Gas Earnings Cap filing and confirmed that they matched those in the Settlement.

b) Gas Stored Underground

The second of the Settlement's Section II.A.4 exceptions requires that the gas-stored-underground component of the annual gas earnings cap tests' rate base be reflected as an average of the twelve monthly average balances for the test year. Pages 78-79 of PSCo's work papers revealed that gas stored underground was determined via the 13-month average month-end balance method applicable to the bulk of the rate base determination, rather than the average of the twelve monthly average balances in the test year, as should have been the case. In response to Staff audit, the Company provided a schedule of the determination of the value using the correct method. Gas stored underground was initially valued by PSCo at $153,248,873 in Schedule 3 of the 2006 Gas Earnings Cap filing, but should have been $150,692,891. The resulting $2,555,982 overstatement of net PUC jurisdictional rate base resulted in a $365,308 reduction in the $28.6 million revenue deficiency, as shown in Exhibit No. 1. This oversight on the Company's part does not make a material difference in the 10.5% ROE threshold determination.

c) Cases Where 13-Month Data Are Unavailable

Similarly, regarding cases where the 13-month data are not available, the Settlement provides for an alternate averaging method for use in the Company's annual gas earnings cap report filings, specifically, use of the sum of the prior year-end balance and the test year-end balance divided by two, for any such items. The 2006 Gas Earnings Cap Report does not include any rate base values determined in this fashion. In response to Staff audit, the Company confirmed that there were no such items in the test period.

d) Specific Assignment of Plant to CPUC or FERC Jurisdictions

Regarding specific assignment of plant to either the CPUC or FERC jurisdiction using year-end balances, the 2006 Gas Earnings Cap Report did not include any items assigned in this fashion. In response to Staff audit, the Company confirmed that there were no such items in the test period.

e) AFUDC Additions to Earnings

AFUDC additions to earnings are to be based upon the actual test-period amount, rather than an annualized earnings figure. In the 2006 Gas Earnings Cap Report, PSCo complied with the Commission decision approving the 05S-264G Settlement.

3. Amortization of Certain Costs

In its filed case in Docket No. 05S-254G, PSCO proposed to amortize certain costs which had been deferred for accounting purposes and to include the annual amortized amount in its revenue requirement. These deferred costs relate to (a) the environmental clean-up of a former Manufactured Gas Plant ("MGP") site in Fort Collins, Colorado; (b) the Leyden Gas Storage Facility ("Leyden"), which is in its final stage of closure and abandonment, and; (c) rate case expenses.

In the Settlement, the Parties agreed to PSCo's proposals as to the amortization and deferred accounting concerning MGP environmental clean-up costs, Leyden costs and rate case expenses, except that the estimated costs included in the total rate case expense were reduced from $589,501 to $498,426 to reflect PSCo's actual booked amount for these costs as of November 30, 2005. The settled annual amortized rate case expense is $459,083, as detailed in the Settlement's Attachment C, Schedule 19. These annual amortized expenses were included in the settled revenue requirement and in the development of the settled base rates. No separate rate rider was authorized to be placed into effect to collect any of these amortizations. The Settlement provided that, if the amortization period applicable to any of these items expires prior to the effective date of rates resulting from the Company's next rate case, the Company will file an application on less than statutory notice to place into effect a negative rider that will reduce rates by the amount of the annual amortization expense for the amortization that had expired. With respect to the amortization of rate case expenses, such negative rider would go into effect on February 1, 2008, and with respect to the amortization of MGP environmental clean-up costs and Leyden costs, such negative rider would go into effect on February 1,

2010. Any such negative rider would remain in place until the effective date of the rates resulting from the Company's next gas rate case in which revenue requirements are determined.[12]

In response to audit, PSCo provided a schedule of the amortization amounts taken for Leyden gas storage costs and environmental clean up costs that reveals PSCo complied with the Commission decision approving the 05S-264G Settlement. Similarly, PSCo complied with the Commission decision approving the 05S-264G Settlement's required treatment of amortization of rate case expenses.

4. Pipeline Integrity Management Costs

In its filed case in Docket No. 05S-254G, PSCo proposed to include one-third of the total $8,351,700 of estimated costs necessary to carry-out the Company's Pipeline Integrity Management Plan, which was completed in December 2004 in compliance with new federal pipeline safety laws and the U.S. Department of Transportation Office of Pipeline Safety regulations promulgated thereunder. Being an estimate, the amount to be included in the revenue requirement was disputed. In resolution of this issue, the Parties stipulated to the inclusion of $735,000 in the settled revenue requirement for recovery of these costs. For regulatory accounting purposes, the Company was permitted to defer in a regulatory asset account the amounts incurred during 2005, 2006 and 2007 under the Pipeline Integrity Management Plan that are in excess of $735,000 per year that has been included as part of the Company's settled revenue requirement.

In response to Staff audit, PSCo furnished a schedule showing that the balance in the regulatory asset account as of May 31, 2007 was $1,834,815. In the 2006 Gas

[12] *Ibid.*, pp. 14 - 16.

Earnings Cap Report, the Company complied with the Commission decision approving the Settlement.

5. American Gas Association Dues

In its filed case in Docket No. 05S-254G, PSCo proposed to include in its test year revenue requirement, $206,615 in 2004 expenses for American Gas Association (AGA) dues. This amount reflected a reduction of $10,331 in the amount of AGA dues actually incurred by PSCo in 2004, to account for the representative amount of AGA dues associated with the AGA's lobbying activities. This amount was disputed in the rate case and in resolution of this issue, the Parties agreed that the allowance for AGA dues should be adjusted to exclude the amounts related to AGA's governmental relations and media communications (excluding environmental communications) activities. The resulting test year allowance for AGA dues included in the settled revenue requirement is $162,432.

In developing its pro forma AGA dues for the 2006 Gas Earnings Cap test, PSCo used 75% of its total $234,449 AGA membership dues, or $175,743, because that was the ratio of allowed expense resulting from Docket No. 05S-254G.

6. GCA Recovery of Certain Costs Historically Recovered in Base Rates

In its filed case, PSCo proposed to transfer three items, Kansas property taxes on gas inventory, Yosemite compressor costs, and net gas shrinkage costs that would normally be in base rates, into the GCA recovery mechanism. In the Settlement, the Parties agreed to recover all three of these items in base rates, and not through the GCA mechanism.

a) Kansas Tax on Gas Stored Underground

However, with respect to the Kansas property taxes, the Commission was concerned that, given that the tax issue might not be resolved for several years, PSCo could receive a windfall if its court challenge were successful, with base rates being set artificially high by the amount of the taxes. The Commission therefore removed the cost of the Kansas property taxes from base rates and directed PSCo to address this cost in a GCA filing[13] and to file a revised Settlement class cost of service study model with the Kansas Taxes removed, but approved the fixed rate components as proposed in the Settlement, with the variable rate components of base rates changed to reflect the removal of the Kansas Taxes. Ultimately, the Commission approved a Consensus Accounting Plan (Plan) for treatment of the Kansas Taxes plan in Decision No. C06-0710. Under the terms of the Plan, Kansas property taxes already accrued were to be treated as deferred gas costs, with the ongoing monthly accruals of the tax to be treated as current gas costs.[14] Provisions were included for denial of PSCo's appeal to the Kansas Board of Tax Appeals and subsequent recovery of the deferred gas cost in PSCo's GCA filings, as well as for crediting back the tax in the event of a successful appeal of the tax and subsequent refund of any taxes paid, through the Deferred Gas Cost component of the GCA rates. The ongoing accrued Kansas gas tax expense was to be included as an element of the current gas cost component of the GCA.

In response to Staff audit, PSCo furnished a brief summary of the *ad valorem* Kansas tax situation. PSCo received a favorable decision at the Board of Tax Appeals

[13] Decision No. C06-0086, Docket No. 05S-264G, pp. 18 - 19.
[14] June 1, 2006 Consensus Accounting Plan Relating to Kansas Gas Inventory Taxes, p. 2, Docket No. 05S-264G.

and the Director of Valuation appealed the decision. Oral argument was heard by the Kansas Supreme Court on March 13, 2007, under Court Docket No. 06-96986-AS. On July 13, 2007, the Kansas Supreme Court issued its decision, ruling in favor of PSCo, *i.e.*, determining that the gas stored underground is not subject to Kansas *ad valorem* taxes.[15]

In its 2006 Gas Earnings Cap report, PSCo includes no expense for the Kansas ad valorem taxes, in accordance with the Commission's decision. Similarly, the Company has not included this expense in its monthly Gas Cost Adjustment Reports to the Commission.[16]

b) Yosemite Compressor Costs

These costs were included in the gas earnings cap calculation and are a component of FERC Account 0853, Compressor Station Labor and Expenses in the net earnings schedule (Schedule 4) of the 2006 Gas Earnings Cap report. In the 2006 gas earnings test, the Company complied with the Commission decision approving the 05S-264G Settlement.

c) Net Gas Shrinkage Cost

Net gas shrinkage is made up of gas liquids revenues and gas shrinkage expense. The 2006 Gas Earnings Cap report included gas liquids revenues and gas shrinkage expense in the determination of test year net operating earnings for recapture through base rates rather than through the GCA process; the Company complied with the Commission decision approving the Settlement.

[15] *In re: the Appeal of Director of Property Valuation*, 284 Kan.___, ___ P3d ___ 2007 (No. 96,986 opinion filed July 13, 2007).
[16] May, 2007 Gas Cost Adjustment Report, furnished by the Company in accordance with Decision No. C98-924, Docket No. 98M-346G.

7. Weather Normalization

In Docket No. 05S-254G the Parties stipulated to a specific procedure for determining weather normalized revenues. The Parties agreed that:

> "...the weather normalization adjustment shall be calculated using the adjusted NOAA 30-year normal as approved by the Commission in Decision No. C99-579, mailed June 8, 1999, in Docket No. 98S-518G. Specifically, the adjustment is calculated by first averaging thirty years of actual annual heating degree days for the period 1971-2000. The actual thirty-year average for the period 1975-2004 is then calculated. Next, the ratio of the 1975-2004 thirty-year average to the 1971-2000 thirty-year average is multiplied by the 1971-2000 NOAA thirty-year normal. This result is then divided by the actual test-year heating degree days to derive the weather normalization factor. Test year volumes for the residential and commercial classes are then multiplied by the weather normalization factor."[17]

In its 2006 Gas Earnings Cap Report, the Company complied with the Commission decision approving the 05S-264G Settlement's required treatment for weather normalization of revenues.

8. Lead-Lag Study and Cash Working Capital

The record indicates that there was a certain amount of discussion and disagreement between Staff and the Company with respect to the methodology used in the Company's lead-lag study and resulting cash working capital factors, as well as whether the Company should be required to conduct a new lead-lag study for every rate case. In resolving the disagreement, the Company, Staff and the Colorado Office of Consumer Counsel (OCC) agreed to engage in good faith discussions to determine the methodology and data collection processes to be used in future lead-lag studies, and

[17] Settlement, pp. 20 - 21.

PSCo agreed to respond to any requests by Staff or the OCC for data necessary to conduct their own lead-lag studies for use in subsequent rate cases.[18] Ultimately, the Parties agreed to the determination of the Company's cash working capital amounts based on the cash working capital factors proposed by the Company in its application, i.e., the cash working capital balances were determined using the lead-lag factors approved by the Commission in the Company's most recent combined rate case, Docket No. 02S-315EG.[19]

9. Jurisdictional Allocations

As previously noted, the Settlement requires that the Company's earnings are to be measured using ratemaking principles, including jurisdictional allocation methodologies, reflected in the rates resulting from the gas rate case proceeding. Staff reviewed several line items in the 2006 Gas Earnings Cap Report and determined that 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 17 of the Report. These allocators were derived based on the formulas established in Docket No. 05S-264G. In the 2006 Gas Earnings Cap Report, the Company complied with the Commission decision approving the 05S-264G Settlement.

10. Changes in Income Statement

Staff reviewed the changes from PSCo's prior natural gas department income statement item for 2005. Exhibit No. 2 shows changes to income statement items from 2005 to 2006.

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[18] *Ibid.*, p. 21.
[19] Decision No. C06-0086, Docket No. 05S-26G, p. 21.

11. Future Gas Earnings Cap Reports

As stated earlier, the Settlement provides that, beginning with calendar year 2006 and for every year thereafter in which the terms of the Settlement remain in effect through at least October 31, PSCo shall file an annual gas earnings cap report with the Commission no later than April 1 of the subsequent year, and reduce its base rates for gas services via a negative rate rider for any earnings in excess of 10.5%.[20]

The Commission approved a new gas rate case settlement (New Settlement) in Decision No. C07-0568, Docket No. 06S-656G. In that Decision, the Commission ordered that PSCo file, on not less than one day's notice to the Commission, tariffs consistent with Decision No. C07-0568.[21] In that Decision, the Commission stated that the 20-day period provided for in § 40-6-114, C.R.S., within which to file applications for rehearing, reargument or reconsideration (RRR), begins on the first day after the effective date of the Order.[22] This results in a filing deadline of July 23, 2007, at which time the OCC filed an application for RRR. As of the date of this report it is not known whether the OCC's application for RRR will be acted upon or denied. The only certainty is that, as stated in Commission Rule 1506 (c), "a request for RRR does not stay the Commission's decision unless it is specifically so ordered", and at this time there has been no such order.

The new gas rates and other elements of the New Settlement, which do not require an annual earnings test, were ordered to become effective July 30, 2007.[23] A

[20] Settlement, p. 28.
[21] Decision No. C07-0568, Docket No. 06S-656G, p. 32.
[22] *Ibid.*
[23] *Ibid.*

second and final gas earnings cap report will be required for the period ending October 31, 2007.

VII. CONCLUSION AND RECOMMENDATION

Staff does not challenge the findings of the Company that there were not sufficient earnings to reach the ROE cap of 10.5%. PSCo's use of an unauthorized method to determine the value of gas stored underground has an immaterial impact upon the earnings test. In view of the Company's calculations as filed, Staff's recommendation is that there be no reduction in base rates for gas services by means of a negative rate rider for any earnings in excess of 10.5%.

Staff recommends that the Commission accept PSCo's 2006 Gas Earnings Cap Plan Year Supporting Report, and does not request a hearing.

Docket No. 07I-135G
Staff's Report to the Commission
Exhibit No. 1
Page 1of 1

Public Service Company of Colorado
Impact of Incorrect Valuation of Gas Stored Underground on Rate Base and Revenue Deficiency
For the Twelve Month Period Ending December 31, 2005 & 2006

	Initial Calculation of Earnings Cap			Revised Calculation of Earnings Cap			
Description	As Initially Stated in the PSCo 2006 Gas Earnings Cap Report			Adjustment for Incorrect Gas Stored Underground		Using Correct Valuation Method for Gas Stored Underground	
Net Jurisdictional Rate Base	1,105,789,099		Less:	(2,555,982)	=	1,103,233,117	
Allowed Return on Rate Base	8.86%					8.86%	
Required Earnings	97,972,914					97,746,454	
Net Jurisdictional Operating Earnings	80,262,816					80,262,816	
Deficiency / (Excess)	17,710,098					17,483,638	
Factor to Gross	1.61312227					1.61312227	
Revenue Deficiency / (Excess)	28,568,554	(1)				28,203,246	(2)

(1)	Original Revenue Deficiency	28,568,554
	Less:	
(2)	Revised Revenue Deficiency	28,203,246
	=	
	Revenue Deficiency Reduction	365,308

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

Account Description	**31-Dec-06**	**31-Dec-05**	**$ Change from 2005 to 2006**	**% Change from 2005 to 2006**
Total Rate Revenue	308,250,005	285,566,519	22,683,486	7%
Total Other Revenue	6,027,967	6,108,370	(80,403)	-1%
Total Revenue	**314,277,972**	**291,674,889**	**22,603,083**	**7%**
Total Gas Purchased for Resale	-	-	-	
Total Other Gas Supply	(4,754,977)	(4,879,672)	124,695	-3%
Total Underground Storage Operations	975,001	1,224,197	(249,196)	-26%
Total Underground Storage Maintenance	204,448	183,976	20,472	10%
Total Underground Storage	1,179,449	1,408,173	(228,724)	-19%
Total Production Operations	850,539	981,397	(130,858)	-15%
Total Production Maintenance	3,313	5,404	(2,091)	-63%
Total Production Expense	853,852	986,801	(132,949)	-16%
Total Products Extraction Operations	924,849	1,555,909	(631,060)	-68%
Total Products Extraction Maintenance	50,477	107,575	(57,098)	-113%
Total Products Extraction Expense	975,326	1,663,484	(688,158)	-71%
Total Production O & M	(1,746,350)	(821,214)	(925,136)	53%
Total Transmission Operations	11,558,914	11,374,639	184,275	2%
Total Transmission Maintenances	3,333,873	1,743,582	1,590,291	48%
Total Transmission O & M	14,892,787	13,118,221	1,774,566	12%
Total Distribution Operations	24,418,577	23,717,660	700,917	3%
Total Distribution Maintenance	8,437,035	8,389,009	48,026	1%
Total Distribution O & M	32,855,612	32,106,669	748,943	2%
Total Customer Accounting	37,564,391	34,601,055	2,963,336	8%
Total Customer Service	3,204,551	3,297,017	(92,466)	-3%

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

Account Description	31-Dec-06	31-Dec-05	$ Change from 2005 to 2006	% Change from 2005 to 2006
Total Sales Expense	488,106	513,017	(24,911)	-5%
Total Customer Operations	41,257,048	38,411,089	2,845,959	7%
Total Administrative & General	44,810,017	44,959,775	(149,758)	0%
Total O & M	**132,069,114**	**127,774,540**	**4,294,574**	**3%**
Total Depreciation & Amortization Expense	53,180,718	49,233,722	3,946,996	7%
Total Taxes Other Than Income	19,934,244	21,470,169	(1,535,925)	-8%
Total Income Tax Expense	29,799,286	21,011,128	8,788,158	29%
Gain/Loss on Utility Plant	-	1,138	(1,138)	
Total Operating Deductions	**234,983,362**	**219,490,697**	**15,492,665**	**7%**
Net Operating Earnings	**79,294,610**	**72,184,192**	**7,110,418**	**9%**
AFUDC Addition	826,014	1,070,186	(244,172)	-30%
Total Deductions	**234,157,348**	**218,420,511**	**15,736,837**	**7%**
Net Operating Earnings	**80,120,624**	**73,254,378**	**6,866,246**	**9%**

Source: Attachment 1(b) of Appendix A of PSCo Annual Reports for 2005 and 2006