

STARTING POINT



By Doug Dean
Director

Although it came down to the final hours of the session, I am very pleased with the outcome of the PUC sunset bill. The reauthorization measure, approved by lawmakers and expected to be signed by Gov. Ritter, not only continues the PUC

for the next 11 years, it also gives the agency some new consumer protection tools that will benefit the citizens of Colorado.

The reauthorization for 11 years, until Sept. 1, 2019, is longer than usual for the PUC. The previous three sunset reviews have extended the commission for five-year periods. But I think the legislature recognized that it's a large administrative burden to the department to have to review an agency of our size every five years. Also, it's unlikely that there won't be a need for regulation of monopolistic utilities over the next decade.

It's also important to note that the legislature is free to make changes to the PUC statutes at any time, and can ask for a sunset review prior to 2019 if it chooses.

In addition to the longer reauthorization period, this PUC sunset bill was unique in that it makes significant changes to PUC authority. Past PUC sunset bills have contained major policy recommendations, but all that has emerged from the legislature has been the continuation of the agency. This is the first time in recent memory that significant policy changes have been adopted in the PUC sunset bill.

One of those statutory changes gives the PUC the ability to impose fines on telecommunications, energy and water utilities for intentional violations of the law, PUC rules and commission orders. The PUC has had the authority to issue civil penalties directly to transportation carriers, but that authority did not extend to "fixed" utilities.

An increasing number of state legislatures are granting fining authority to their utility commissions. We think this is an appropriate regulatory tool that will provide important protections for consumers to ensure that they are receiving quality utility services. We can avoid the time and expense of going to district court, which has discouraged the PUC from pursuing fines in the past.

Another consumer protection recommendation adopted by the legislature amends the Low-Income Telephone Assistance Program eligibility criteria to mirror the Low-Income Energy Assistance Program criteria. This means that "Lifeline" telephone discounts will become available to approximately 50,000 more customers in Colorado, ensuring that they have access to basic phone service.

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Commissioners discuss policy priorities

Colorado PUC commissioners have teed up a number of policy initiatives, investigations and research projects that they would like to undertake over the next two years.

Chairman **Ron Binz**, along with commissioners **Jim Tarpey** and **Matt Baker**, discussed their priorities at a special PUC meeting in February. Among the topics they hope to tackle: utility incentives and rate structures; a review of the Colorado telecommunications high cost fund; and the potential impact that federal climate change legislation will have on Colorado utilities and ratepayers.

"The regulatory landscape is undergoing profound changes, especially in the energy sector, and it is appropriate to examine these and other important issues in light of these changes," Binz said.

The commissioners launched the first of these initiatives on April 30 when they opened an investigation of regulatory and rate incentives for gas and electric utilities. The purpose of the docket is to examine how existing regulatory structures and incentives influence energy utilities' behavior in promoting energy efficiency, and possible alternatives to those current structures and incentives.

Among the specific areas to be examined are rate-of-return vs. alternative forms of regulation; the impact of various adjustment clauses on utility actions; and the influence of current regulatory structures on utility "buy vs. build" decisions.

The PUC will invite comments from all stakeholders on these issues, conduct workshops and other presentations, and solicit expert research on best practices from across the country. The Commission hopes to conclude the



PUC Commissioners (from left) Jim Tarpey, Ron Binz and Matt Baker discuss what policy issues they would like address over the next two years during a recent special deliberations meeting.

investigation by the end of 2008.

Possible outcomes include a report from PUC staff summarizing the conclusions of the investigation; recommendations for rule changes; recommendations for possible legislative changes; and a formal record that could be included in other PUC proceedings.

In addition to the utility incentive investigation, other commissioner priorities in the energy area include: examining Colorado's role in state and regional transmission planning; establishing an investigatory docket on customer incentives; and taking a closer look at the elec-

tric resource plan of Tri-State Generation and Transmission Association.

On the telecommunications side, the commissioners said they want to look at restructuring the state high cost fund to support universal broadband deployment.

Other possible PUC initiatives over the next two years include looking at opportunities to streamline or lessen regulation for certain classes of regulated transportation carriers; and preparing for the expansion of light rail in the western corridor and the resulting increase in requirements for PUC safety regulation.

Legislature extends PUC through 2019

Sunset bill provides fining authority, other consumer protections

A bill reauthorizing the Colorado Public Utilities Commission (PUC) for 11 years while reshaping PUC authority in several key areas cleared the Colorado Legislature on the final day of the 2008 session.

Lawmakers approved the PUC "sunset" bill on May 6, and sent it to the governor's office for his signature. The bill, which would be effective July 1, continues the PUC through 2019.

State law requires a periodic review of all state regulatory agencies to evaluate the need for and the effectiveness of the agency's functions, also known as the sunset process. The PUC's previous sunset review came in 2003 and extended the agency through June, 2008.

In addition to the continuation of the PUC, lawmakers approved a number of statutory policy changes, including giving the PUC direct fining authority over fixed utilities; lifting the current rate cap for basic residential telephone service; and changing the entry standards for new taxi companies in the state's most populous areas.

"We're pleased with the work the Department of Regulatory Agencies (DORA) sunset analysts and the legislature did," PUC Director **Doug Dean**

said. "These changes give us additional tools to provide adequate consumer protection to the people of the state of Colorado."

Under the new law, the PUC will be able to impose fines on energy, water and telecommunications utilities that intentionally violate PUC rules, similar to the ability that the agency currently has to issue civil penalties to transportation carriers. Previously, the PUC had to go to district court to seek fines against fixed utilities.

The law provides for fines of up to \$2,000 per violation, per occurrence. The total amount of fines that could be levied against any single utility is \$150,000 in any 6-month period, or 1 percent of the utility's annual jurisdictional revenues in any year, whichever is less. Cooperative telephone associations, rural electric associations, municipal utilities and non-profit generation and transmission electric associations are exempt from PUC fining authority.

As part of the bill, legislators also lifted the rate cap on basic residential telephone service, which has been in place since Colorado's local telephone market was opened to competition in 1995. The PUC will now determine the maximum basic residential rate based on each provider's costs and revenues, the average national price for comparable service, and flexible-pricing options.

Another provision in the law changes the standards for new taxi companies wanting to serve the Denver metro area or Colorado Springs area. New appli-

cants must show that they are financially and operationally fit, and then the burden of proof shifts to anyone opposing the application to prove that granting such an application would be a detriment to the public interest. Under the previous standards, new applicants had to prove there was a public need for their service.

Other policy changes approved by the legislature in the PUC sunset bill include:

- Amending the PUC's ex parte rules to exempt rulemaking proceedings.
- Giving the Governor's Energy Office (GEO) an automatic right to participate in proceedings before the PUC.
- Amending the Low-Income Telephone Assistance Program eligibility criteria to mirror the Low-Income Energy Assistance Program eligibility criteria.
- Including investor-owned water and sewer corporations in the definition of a public utility.
- Allowing the PUC to administratively set the annual vehicle registration fee for motor carriers.
- Changing the criteria under which the PUC can disqualify drivers of some passenger carriers after a criminal background check.
- Striking the fingerprinting requirement for owners of household goods moving companies.

PUC issues detailed report of Denver taxi industry

The Colorado Public Utilities Commission (PUC) staff has released a 77-page report examining the taxi industry in the Denver metro area.

The report was issued to the House Transportation and Energy Committee on March 18. The study stemmed from a bill passed in 2007, removing a statutory provision that prohibited the PUC from reviewing the lease rates charged to drivers. The bill gave the PUC broad authority to determine whether the lease rates charged to taxi drivers should be regulated by the Commission.

The report focuses on key legislative and policy initiatives that have shaped the current taxi industry, the status of the

metro Denver taxi market, the relationship between taxi companies and cab drivers, the availability of substitute service providers, and pricing methods for establishing retail fares and wholesale lease rates.

To gather the information for the report, PUC staff undertook a series of activities, including: researching activities in other states; interviewing industry representatives; reviewing taxi company annual reports; reviewing PUC taxi complaints; collecting information to evaluate industry concentration; and reviewing PUC decisions that established entry and rate policies. The staff also sought information from taxi drivers concerning their

revenues and costs, and met with key personnel from the taxi companies, driver organizations and DIA personnel.

While not reaching any conclusions, the report notes the "unusual relationship" that exists between cab companies and independent-contractor drivers under the current regulatory system.

"The taxi companies have an influence on drivers' profitability by either raising the lease rate or not seeking to raise retail rates on the behalf of drivers," the report stated.

In conjunction with the report, PUC staff is conducting confidential audits of each taxi company, focusing on the relationship between lease rates charged by

each company and their costs of providing service.

The report is just the first step in providing PUC commissioners with information regarding the question of whether lease rates should be regulated, according to **Geri Santos-Rach**, chief of the PUC's Policy, Research and Emerging Issues section.

"There are multiple solutions and perspectives to these complex and intertwined issues," Santos-Rach said. "PUC staff supports a collaborative process to allow opportunities for direct input from all interested parties."

The full report can be viewed on-line at: <http://www.dora.state.co.us/puc/>.

Lake Durango seeks to transfer assets to water authority

Lake Durango Water Company, Inc. has applied to the Colorado Public Utilities Commission (PUC) for authority to transfer all of its regulated utility assets to a newly-created, independent water authority that would not be subject to PUC jurisdiction.

The Lake Durango Water Authority was formed last December following negotiations between the company, La Plata County, and Durango West Metropolitan Districts 1 and 2—two large wholesale customers of Lake Durango Water Company.

The negotiations were aimed at resolving a number of long-standing

issues related to Lake Durango Water Company's financial health and to the adequacy and quality of Lake Durango's supply of water to the public in western La Plata County.

Lake Durango currently serves about 524 retail customers, as well as three "bulk" customers that provide water to another 618 end-users. Lake Durango also is currently obligated to serve another 293 end-users in the area who are not currently connected to the Lake Durango system.

Under an agreement reached by the negotiating parties, the Lake Durango Water Authority was created as an inde-

pendent political subdivision to purchase, own and operate the public water utility assets of Lake Durango Water Company. The authority is to be governed by a board of directors selected to represent all customer classes.

The agreement obligates the authority to serve all committed taps and to pursue the development of new water supplies in order to meet future growth. According to the application, these measures will permit a lifting of a current La Plata County resolution that has limited new customer connections seeking subdivision approval in Lake Durango's western La Plata County service area.

The agreement states that the purchase price to be paid by the authority for Lake Durango's assets is to be raised by means of a uniform per capita assessment on all end-users of Lake Durango water.

In addition to approval of the transfer, the application is simultaneously requesting a finding by the PUC that once the transfer is complete, neither the authority nor its operations would be subject to PUC jurisdiction.



Fred Johnson

When **Fred Johnson** is at a construction site watching a natural gas pipeline installation, he has to resist the urge to jump into the ditch and lend a hand.

"The hardest part is standing and watching the workers putting the pipe together," Johnson said. "I'm used to physical labor."

INSIDE CONNECTIONS

Fred is a member of the Public Utilities Commission (PUC) Gas Pipeline Safety Unit. He is responsible for the field inspection of intrastate gas transmission and distribution installations to determine compliance with federal and state pipeline safety regulations.

"I make sure that safety procedures are followed and that the people installing the pipe are qualified and certified to do the job they're supposed to be doing," he said.

Once construction is completed at a site, PUC inspectors focus on the operation and maintenance of the system, and the operator's plans in case of an emergency. Inspectors also investigate natural gas incidents.

Fred taught elementary school for five years after obtaining a bachelor's degree in education, before he was drawn to working outdoors. He worked

10 years as a service technician for propane companies, installing and repairing lines and service. He also spent 18 months with the Colorado Department of Transportation, plowing snow and maintaining the state's highways, before coming to the PUC in March of 2007.

"I enjoy meeting the contractors and the people working out in the field, and being able to do most of my work outside," he said.

Away from work, Fred has spent 23 years as a member of a volunteer fire and rescue team in Strasburg. He also has been elected to local fire and water districts in the community. In his spare time, Fred enjoys hiking, fishing, camping and spending time with his two kids.

(Inside Connections will feature a PUC employee each edition as selected by PUC section chiefs.)

POSITIVE CHARGES

A pat on the back goes to **Geri Santos-Rach** and her team for its preparation and submission of a detailed report on the taxi industry in the Denver metro area. The 77-page report was submitted to the legislature on March 18. Team members included **Gary Gramlick, Larry Herold, Neil Langland, Tony Munoz, and Pat Parker.**

Kudos are in order for the PUC trial staff team for its recent submission of comprehensive testimony in the Xcel Electric Resource Plan docket. Team members included **Gene Kamp, Ron Davis, Inez Dominguez, Scott England, William Harris, Karl Kunzie, Sharon Podein, and Larry Shiao.**

The PUC Policy Advisors and Case Management section has performed yeoman's service in shepherding seven, high-visibility energy dockets through the PUC process this spring. In addition, the section has helped launch a number of other special commission meetings and projects. The section is supervised by **Becky Quintana** and includes **Jeff Ackermann, Bob Bergman, Julie Haugen, Jeff Hein, Mike Hydock, John Reasoner, and Bill Steele.**

Aquila sale passes Colorado regulatory hurdle

The Colorado Public Utilities Commission (PUC) in February approved the sale and transfer of Aquila Inc.'s electric and natural gas utility operations in Colorado to Black Hills Corporation of South Dakota.

The transfer is part of two larger transactions, announced by Aquila last year, to sell its electric and gas operations in Colorado, Kansas, Nebraska and Iowa to Black Hills for \$940 million, with the company's remaining electric assets in Missouri to be acquired by

Missouri-based Great Plains Energy. The transactions required various state and federal approvals.

In Colorado, Aquila serves about 92,000 electric customers in 21 communities, including Pueblo, Canon City, Rocky Ford and Florence. It also provides natural gas service to about 64,000 customers in 27 communities, including Castle Rock, Larkspur, Monument, Widefield and Woodland Park.

Black Hills provides retail natural gas and electric service to approxi-

mately 137,000 customers in South Dakota, Wyoming and Montana. The acquisitions in Colorado and the three other states will add about 616,000 new utility customers to Black Hills' overall operations.

The deal is expected to close later this year after all regulatory approvals are received. Once the transaction is finalized, Black Hills will announce the trade names under which it will conduct its electric and natural gas business in Colorado.

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The bill also provides additional protection for taxi and limousine passengers by enhancing the PUC's authority to dis-

qualify drivers after criminal background checks. It also allows the PUC to administratively set the annual vehicle registration fee to ensure adequate funding for important transportation safety and enforcement activities.

I appreciate the efforts of PUC staff,

DORA's sunset review team and the General Assembly in working successfully through the lengthy sunset process. I think we have the framework in place that will help us continue to effectively serve the public for the next 11 years and beyond.



CONNECTIONS is the newsletter of the Colorado Public Utilities Commission. It covers Commission cases and actions of importance to consumers, utilities, consumer groups, and decision makers.

Comments, suggestions, and requests for more information should be directed to:

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Photographer Tony Munoz

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PUC to lift cab limitations for Democratic convention

Restrictions on the number of vehicles that Denver-area cab companies can operate will be lifted temporarily to help ensure that passenger transportation needs are adequately met during the Democratic National Convention (DNC) this summer.

The Colorado Public Utilities Commission (PUC) has approved a temporary waiver of the maximum number of vehicles for Denver Yellow Cab, Metro Taxi and Freedom Cabs. The waiver will be in effect from Aug. 15 through Sept. 4.

The Commission in March directed PUC staff to conduct an investigation into the potential need for the issuance of temporary authorities for passenger transportation during the DNC, which will be held in Denver on Aug. 25-28. The Denver Metro Convention and Visitors Bureau is projecting that as many as 50,000 people will attend the convention.

An estimated 1,500 events are planned during the DNC, with a majority of them taking place at the Pepsi Center and the Colorado Convention Center. While much of the transportation will be provided by RTD buses and private vehicles, commercial passenger transportation services also are expected to be in high demand.

PUC staff solicited written comments from transportation carriers, surveyed shuttle, bus and taxi companies on the availability of extra vehicles for the DNC, and met with representatives of the Democratic National Convention Committee, the City of Denver and other interested parties.

In its report presented on April 30, PUC staff said its investigation "indicates that additional transportation (vehicles and drivers) will be necessary to adequately serve the transportation needs associated with the DNC."

One recommendation was to remove the vehicle limitation for the three Denver cab companies. Currently, the three companies are authorized to operate a total of 942 cabs at any one time. By lifting the maximum restrictions, the companies would be able put up to 1,257 vehicles on the street.

The PUC also said it would issue temporary operating authorities to persons providing charter service only in wheelchair accessible vehicles. This is intended to put more wheelchair accessible vehicles in service that can provide transportation to persons with or without disabilities.

Any temporary authorities granted by the PUC for transportation service during the DNC will be valid for a three-week period beginning in mid-



The Colorado Public Utilities Commission hopes to put more taxis on the streets during the Democratic National Convention by lifting restrictions on the cab companies' maximum number of vehicles.

August through Labor Day. This will allow adequate passenger transportation both immediately before and after the DNC, during which time two other major conventions are scheduled for Denver.

PUC Transportation Chief Terry

Willert said staff will continue to monitor the DNC transportation situation and will provide the Commission with updates every two weeks until the convention is over, in order to address any evolving DNC transportation issues.

New power line to improve north-south backbone

The Colorado Public Utilities Commission (PUC) has approved an application by Xcel Energy to construct a new, high-voltage transmission line from Brush to the Denver metro area.

The Pawnee-Smoky Hill 345-kilovolt (kV) transmission project is expected to increase system reliability; relieve transmission constraints which hinder the development of generation resources in northern Colorado and southern Wyoming; and serve as part of a 345kV transmission backbone extending from Brush to Pueblo.

The project is expected to cost

approximately \$120.4 million, and it is anticipated to be in service by May of 2013.

The 79-mile long transmission line will connect the Pawnee substation near Brush to the Smoky Hill substation southeast of the Denver metro area. Although only a single-circuit 345kV line will be constructed initially, the project will be built to allow an upgrade to double-circuit 345kV transmission if necessary in the future.

Additional transmission facilities are planned for the Pawnee-Smoky Hill corridor, including a possible substa-

tion that could serve as an injection point for additional wind resources in eastern Colorado, to serve the Front Range load.

In its application, Xcel also asked the PUC to find that the projected levels of electromagnetic fields (EMF) and noise for the proposed transmission line were reasonable.

The PUC denied the request with respect to the EMF levels because the record was insufficient to make a deter-

mination. However, the PUC stated that the company had included the prudent avoidance techniques as required by PUC rules.

With respect to noise, the PUC issued a conditional finding of reasonableness, based on a 50-decibel standard. If the company engineers the entire line to meet that standard under maximum build-out and maximum loading conditions, the noise level will be considered reasonable, the Commission said.

PUC approves FSV turbines in return for more efficiency

The Colorado Public Utilities Commission (PUC) has granted Xcel Energy's application to build two additional gas combustion turbines at its Fort St. Vrain generating station, but the company must also quickly initiate expanded demand-side management strategies as part of the approval.

The PUC in March ruled that the new turbines were necessary to help the company avoid a potential capacity shortfall of 383 megawatts for the projected peak load in summer of 2009. The problem arose following the termination of a purchased power agreement between Xcel and Squirrel Creek Energy LLC, an independent power producer.

Construction on the two turbines, estimated to cost roughly \$192 million, was expected to begin in April. Once built, the turbines would provide a total of 260 megawatts, and Xcel said it intended to obtain the additional 123 megawatts of capacity through short-term power purchases for 2009.

In approving construction of the turbines, the PUC said it was concerned by the timeframes in which it was required to decide the case, as well as the narrow scope of options provided by Xcel.

"Given the contract termination at a relatively late date and the long lead time required for construction of alternatives, the Commission was placed in

a difficult position by the severe limits on the time we had to explore other alternatives," the PUC commissioners wrote in their decision.

Although it approved construction of the turbines, the PUC said the appropriateness of the costs of the project was a separate matter.

"In assigning a rebuttable presumption of prudence for the cost of the Fort St. Vrain Project, we are allowing questions to be raised when (Xcel) includes it in rate base during the company's next rate case," the Commission said.

The PUC also said it was insisting on a robust effort by the company to spur growth in its various demand-side measures. Those measures could be used to offset a portion of the anticipated imported electric energy and capacity needed to meet the peak loads and reserve margins for 2009, and may be less costly than short-term power purchases.

The PUC ordered Xcel to promptly increase the impact of its interruptible load programs, Saver's Switch and other demand-side management programs, and said it would closely examine the combined impact of those programs on short-term power purchases in future annual reviews of the Electric Commodity Adjustment (ECA) and the Purchased Capacity Cost Adjustment (PCCA).

SourceGas seeks rate hikes for all Colorado service areas

The Colorado Public Utilities Commission (PUC) has ordered hearings into a request by SourceGas Distribution LLC to increase its natural gas distribution rates across Colorado.

The PUC in April suspended the proposed request, which is the first proposed base rate adjustment for SourceGas customers in 14-18 years, depending on the service territory.

SourceGas, which purchased Kinder Morgan's retail gas operations in 2007, currently serves about 85,000 natural gas customers in five separate rate areas across Colorado. The proposed changes would consolidate the company's non-gas charges into a single distribution and fixed monthly rate for all of SourceGas customers.

Among the major towns served by SourceGas in Colorado are Aspen, Crowley, Dacono, Delta, Firestone, Fowler, Frederick, Glenwood Springs, Holyoke, Julesburg, Las Animas, La Junta, Montrose, Ouray, Pagosa Springs, Rocky Ford, Telluride, Wray, and Yuma.

The proposal would increase the company's annual base rate revenues by about \$17.7 million, with a proposed return on equity of 10.75 percent. Depending on the service territory, residential customers would see increases of 16 to 33 percent, with commercial increases of 3 to 17 percent under the company's proposal. On average, residential rates would go up

about \$16.45 a month, with commercial rates increasing by \$23.46 a month.

The base rate component of a monthly bill includes a fixed monthly customer charge and a volumetric charge, which varies from month-to-month depending on the amount of gas used. The base rates cover costs for infrastructure, equipment, labor, materials and billing. The request does not affect the largest portion of a customer's bill, the natural gas commodity costs, which are based on market prices and account for 70 to 80 percent of the total monthly bill.

Under the proposal, SourceGas would shift more of its costs into a fixed monthly charge of \$12.75 for all customers, which includes a 75-cent per month adjustment to recover bad debt. SourceGas also has proposed a "Pipeline Integrity Cost Adjustment" to recover expected Federal Energy Regulatory Commission safety requirements.

SourceGas also is proposing to convert its billing from volume to thermal units, which takes into account factors such as elevation, temperature and heat content of gas.

Hearings on the proposal are likely to occur this summer at the PUC. Customers may submit written comments on the proposal to the Colorado Public Utilities Commission, 1560 Broadway, Suite 250, Denver, CO 80202. Comments should be addressed to Docket No. 08S-108G.

Hearings on Xcel resource choices begin in June

Three weeks of hearings are scheduled in June and July as the Colorado Public Utilities Commission (PUC) continues a comprehensive review of Xcel Energy's proposal to meet its Colorado customers' electricity demand through 2015.

Formal evidentiary hearings are scheduled to begin June 23 and run through July 11 at the Xcel Technical Services Building, 550 15th St., Room 19, in Denver. About 120 people attended a public hearing in Denver on April 14 to comment on the company's proposed plan.

Xcel filed its 2007 Electric Resource Plan in November. The two-phase review process is not expected to be completed until May of 2009.

"For consumers, it's one of the most important decisions the PUC is asked to

make," PUC Chairman **Ron Binz** said. "We will weigh many factors, including consumer cost, environmental sustainability and system reliability."

In its proposed plan, the company said it intends to add approximately 1,050 megawatts of renewable generation, reduce current electricity demand by 694 megawatts through enhanced energy efficiency programs, and competitively acquire an additional 800 megawatts of natural-gas fired generation. The company also is requesting to replace two older, coal-fired power plants—one in Denver and one in Grand Junction—with a more efficient natural gas facility located in Denver.



Xcel said the proposed plan would put it on a path to meet the Colorado Climate Action Plan goals recently announced by Gov. Bill Ritter. Those targets include a 20 percent reduction in utility greenhouse gas emissions by 2020. Xcel also said it would file its next resource plan in 2009, two years early, because of the rapidly changing technological and regulatory

environment.

Under the PUC's electric resource planning rules, first adopted in 1992, regulated utilities are required to file resource plans every four years forecasting future electric demand and how the utility will meet that demand.

The PUC modified its rules in 2007 to align with new legislation establishing resource selection criteria beyond "least-cost," and requiring greater PUC input into resource selection. Under the current process, the PUC approves the utility's general plan in the first phase of the proceeding. That decision is expected by the end of August.

Once that phase is complete, the utility solicits bids consistent with the approved plan, and those bids are evaluated by both the utility and an independent evaluator. Both the utility and the independent evaluator then file reports with the PUC recommending resource choices.

Following a comment period, the PUC will hold an expedited proceeding to establish a preferred portfolio. That decision is expected by May of 2009.

Xcel gas rate proposal shifts costs to fixed charge

Xcel Energy has filed a proposal that would shift more of its natural gas distribution costs from a usage component into its fixed monthly service and facilities charge. The proposed change would slightly reduce overall bills for residential customers, while increasing rates for commercial customers.

The Colorado Public Utilities Commission (PUC) on April 30 ordered a hearing on the proposal. A prehearing conference is scheduled for June 11 at the PUC, at which time a procedural schedule will be set. A final PUC decision is expected by the end of the year.

The revenue-neutral filing, which means the company would receive no additional revenue from the proposal,

is the second phase of a natural gas rate case originally filed in 2006. Last June, the PUC approved an across-the-board increase of about 2.56 percent for Xcel Energy's natural gas customers.

The new proposal would change how that increase is spread among Xcel Energy's residential, commercial and transportation customers.

Xcel Energy currently recovers its distribution costs for infrastructure, equipment, labor, metering and billing through a monthly service and facilities charge and a volumetric charge applied to the amount of gas used each month. Under the company's proposal, the monthly service and facilities charge for residential customers would increase from \$11.07 per month to

\$13.88 per month. The volumetric charge would drop from \$0.08768 to \$0.04050 per therm. Overall, residential customers would see a reduction in their bills by about one-half of a percent.

For commercial customers, the natural gas base rate would rise from \$0.10546 to \$0.10804 per therm. The service and facilities charge also would increase from \$22.13 to \$28.38 per month. As a result, the average commercial customer would see an overall monthly bill increase of about 2.4 percent, based on an average use of 304 therms.

Xcel's rate design request does not affect the largest portion of a customer's bill, the natural gas com-

modity costs, which are based on market prices and account for 70 to 80 percent of the total monthly bill.

As part of the proposal, Xcel also is seeking to implement a new low-income energy assistance pilot program. The program would provide financial assistance in the form of arrearage forgiveness over time to help low-income customers reduce or eliminate past-due balances, as well as reduce their percentage of income spent on natural gas bills.

The program would be funded through a 38-cent increase per month in Xcel natural gas customers' fixed monthly charges, and would cost about \$14.2 million over the 30-month pilot period.

Xcel seeks to make monthly gas cost adjustment permanent

Xcel Energy has filed a request to make its monthly gas cost adjustment (GCA) permanent when an agreement allowing the monthly pass-through of natural gas commodity charges expires next year.

Xcel has been using a monthly GCA since 2004, when the Public Utilities Commission (PUC) approved an agreement negotiated by Xcel, PUC staff and the Office of Consumer Counsel. The agreement will expire in September of 2009.

A gas cost adjustment is used by utilities to pass on to customers market fluctuations in the wholesale price of natural gas. Wholesale prices were deregulated by the

federal government in the 1980s.

Both increases and decreases in the cost of purchasing natural gas are passed along to customers on a dollar-for-dollar basis. The utility does not make any profit from this adjustment. Xcel Energy is the only Colorado natural gas utility currently using a monthly GCA. Other utilities adjust their gas costs on an annual basis.

Under an annual GCA, utilities adjust costs associated with purchasing natural gas for their customers each fall, forecasting costs for the upcoming heating season and truing up costs from the previous year. If gas costs vary significantly from what was forecasted, the utility must carry large positive or

negative deferred balances until costs can be adjusted the following year, or seek an interim adjustment.

A monthly GCA is intended to eliminate the large deferred balances and allow a utility to more closely match gas costs with recovery of those costs at the time they are incurred. A monthly GCA also sends more accurate price signals to customers, who can better respond to higher costs to the extent possible, by adjusting usage or making other changes to conserve gas.

In its new application, Xcel seeks to permanently continue the current provisions of the monthly GCA, with one exception. The company is requesting

that the PUC approve symmetrical interest on deferred balances of over-recovered or under-recovered gas costs. Currently, Xcel must pay interest to customers for excess gas costs that are collected, but cannot collect interest on under-recovered costs.

In addition to the monthly GCA, the company is asking the PUC to extend for four years procedures that provide for hedging of Xcel's gas supply portfolio in order to reduce the magnitude of gas price volatility at reasonable costs to customers.

The application has been referred to a PUC administrative law judge for hearing. A decision is expected by April of next year.

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