

# Connections

NEWSLETTER OF THE COLORADO PUBLIC UTILITIES COMMISSION

JANUARY 2010

## STARTING POINT



By Doug Dean  
Director

Regulating public utilities is often perceived as a reactive process: applications are filed and the Commission responds. While this may be the core of the regulatory relationship, public utilities and utility regulators operate today in increasingly dynamic environments, requiring the Commission to anticipate and prepare for change.

The PUC has a section—*Research and Emerging Issues (REI)*—tasked with advancing inquiries and discussions into the changing forces affecting the delivery and regulation of public utilities. The section is staffed by **Duane Braunagel**, **Gary Klug**, **Rich Mignogna** and **Tony Munoz**. Duane brings over three decades of electric transmission experience to the PUC's transmission planning efforts. With over three decades of telecom experience—in the industry and at the PUC—Gary provides critical expertise for the section's efforts to assess emerging telecom issues. Rich has advanced expertise in strategic technology planning, forecasting and assessment. As such, he is called upon to gauge emerging technologies and policies in renewable and alternative energy. Tony's legal training and regulatory experience helps him assess the regulatory and policy implications of changes in the PUC-regulated markets. And effective Nov. 23, **Jeff Ackermann**, formerly of the Commission's Advisory Staff, assumed the duties of section head, following the retirement of Geri Santos-Rach. The section also looks forward to **Ellie Friedman** joining the team soon, contributing her financial analysis skills and telecommunications industry experience.

Technologies are evolving rapidly, moving public utility regulation into arenas than could not have been imagined when the Commission was established. Just think of the developments in communications and metering technologies over the past decade.

Public expectations, as reflected in state and federal public policies, are also expanding in new directions. Besides expecting energy services to be safe, reliable, consistently available and affordable, the public now wants energy to be cleaner, carbon-sensitive and with incentives to encourage more efficient use. The public also expects advanced communications services to be universally accessible regardless of location, while still being affordable.

Meanwhile, the principles underlying the regulation of monopoly utilities must be continuously reassessed. Should electric utilities have their profit incentives

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## PUC reduces Xcel electric rate hike

*\$61.4 million trimmed until Comanche plant becomes operational*

The Colorado Public Utilities Commission (PUC) trimmed \$61.4 million off a previously-granted electric rate increase for Xcel Energy because of delays in the startup of the new unit at the Comanche coal plant in Pueblo.

The PUC reduced from \$128.3 million to \$66.9 million an increase that went into effect on January 1. The increase was based partly on expectations that the third Comanche unit would begin operations by the end of the year. In mid-December, Xcel reported that the unit was experiencing boiler leaks and likely would not begin operations until at least February.

After a hearing on December 22, the PUC voted to remove \$61.4 million in costs associated with the new unit from rates until the plant is operational. Once the plant goes on line, the company can seek to put most of the removed portion of the increase back into rates. A small amount related to

property taxes at the unit will not be restored until January 1, 2011.

Based on the revised decision, typical residential customers using 632 kilowatt-hours will see a monthly bill increase of about 3.7 percent, or \$2.55, with small commercial customers, using 1,123 kilowatt-hours, receiving a 3.1 percent increase, or about \$3.66 a month. Without the adjustment for the Comanche delay, residential bills would have gone up by about 6.5 percent, or \$4.43 per month, and small commercial bills by about 5.7 percent, or \$6.72 per month.

In addition to the Comanche costs, the rate increase includes investments for the addition of 300 megawatts of natural gas-fired generation at the Fort St. Vrain station in Platteville, expenses associated with the SmartGridCity project in Boulder, and statewide distribution system improvements.

The PUC authorized a 10.5 percent rate of return on equity for the company's electric operations. The rate of return on equity is the profit that a utility is authorized to earn, but it is not guaranteed.

The company had initially requested a \$180 million increase.

"No one likes a rate increase," PUC Chairman **Ron Binz** said. "But we scrubbed Xcel's request thoroughly and believe that the reduced amount is fair."

The first phase of the rate case determined the company's annual revenue requirement, or how much money it is allowed to recover from customers in rates. A second phase will determine the appropriate allocation of costs between the various customer classes. Hearings on the second phase, or "rate design," were to be held January 11–21 at the PUC.

Among the issues that will be included in the rate design phase is a proposal to adopt "inverted-block" rates for residential customers, to promote efficient use of energy during peak periods. Under the proposal, customers would pay a lower charge for the first 500 kilowatt-hours of electricity used, and a higher rate thereafter, each month from June through September. A typical residential customer uses about 632 kilowatt-hours per month.

A decision on the rate design portion of the case is expected by March, with any changes to rates implemented by April 1, 2009.



*Jeff Ackermann (seated left) heads up the PUC's Research and Emerging Issues section, which includes: (left to right) Gary Klug, Ackermann, Tony Munoz, Duane Braunagel and Rich Mignogna. The section is taking a proactive approach through inquiries, discussions and workshops to help inform the Commission of new developments in technology, markets and regulatory practices.*

## Tri-State agreement looks 'promising'

The Colorado Public Utilities Commission (PUC) has approved a proposal that will allow more transparency and public participation in the electric resource planning process of Tri-State Generation and Transmission Company.

The PUC in December accepted an agreement filed jointly by Tri-State and Western Resource Advocates (WRA) in which Tri-State will increase the information it files with the PUC, and provide the Commission, the Office of Consumer Counsel (OCC) and the public the opportunity to provide meaningful input in Tri-State's resource planning process.

As a result of the agreement, the PUC voted to close the investigatory docket it opened earlier this year to explore whether it should increase its oversight over Tri-State's resource planning process.

"This alternative approach looks promising," PUC Chairman **Ron Binz** said. "We appreciate the hard work by

Tri-State and WRA. I think the agreement addresses the goals that we had in opening the investigation, and I look forward to allowing the process to proceed and reviewing in a year how successful it has been."

Tri-State, headquartered in Denver, is a non-profit generation and transmission company that supplies electric power to 44 electric distribution cooperatives in four states, including 18 cooperatives in Colorado. Under PUC rules, Tri-State submits a plan to the PUC every four years on how it will meet projected future demand of its members.

The agreement establishes a two-step planning process in which Tri-State will fully consider input from all interested parties in developing its plan. Members of the public also will have an opportunity to comment on the plan to Tri-State before it is filed with the PUC.

The second step is the filing of the plan with the Commission. After the

filing, Tri-State will appear before the Commission to fully explain the new plan and the planning process used. The PUC will then solicit public comment, request additional information and issue an order evaluating the resource plan.

"I think this is a worthwhile approach," Commissioner **Jim Tarpey** said. "The expectation is that Tri-State and other parties will work together in meaningful ways, and that the company is receptive to constructive feedback."

Under the agreement, Tri-State pledged to file with the PUC the first plan under this process by November 30, 2010, a year earlier than previously required. Tri-State also will continue to file annual updates to its resource plan, and will appear before the Commission on an annual basis if requested. In addition, it will provide an annual opportunity to members of the public, PUC staff and the OCC to meet with Tri-State between plans.

# State high cost fund charge may increase in 2010

A surcharge on telephone bills to help keep basic local service affordable for all Coloradoans may need to be increased in 2010, according to an annual review of the program.

The Colorado High Cost Support Mechanism is currently set at 2.2 percent. Depending on future needs, the surcharge may need to be increased to 2.7 percent beginning with the second or third quarter in 2010, according to the program's annual budget approved by the Public Utilities Commission.

In its annual report to the legisla-

ture, PUC staff estimates that statewide high cost support for 2010 will total approximately \$63.4 million. However, a number of factors could impact the surcharge in 2010, including additional wireline and wireless carriers seeking support in 2010 and the outcome of proposed state and federal rulemakings and legislation.

The state high cost surcharge provides money to reimburse telecommunications providers that serve areas with higher than average costs. This allows local phone rates to remain reasonably comparable across the state.

Most Colorado telecommunications customers pay the surcharge, which is assessed as a percentage of a customer's in-state monthly telecommunications charges for local, wireless, paging, in-state long distance and optional service.

The PUC reviews the fund on a quarterly basis and reports to the legislature each December 1 on the previous year's contributions and disbursements, along with projections for the coming year.

After considering the impact of various factors and assumptions on the

budget, the PUC found that contributions in addition to the reserve balance will sufficiently cover disbursements for the first quarter of 2010, but the surcharge may need to be increased to 2.7 percent during subsequent quarters.

## Starting Point

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tied to metrics other than the sale of electricity? Should gas utilities own end-use equipment and lease it to their customers? What is the role of regulation in an increasingly competitive telecommunications marketplace? What do emerging "clean energy" technologies, with third-party (non-utility) deployment mean for the regulatory compact that has governed utility regulation in "traditionally regulated" states such as Colorado?

Over the past two years the REI unit has staffed Commission inquiries into such areas as electric utility financial incentives, consumer price signals (rate design and related educational efforts) and data privacy issues resulting from "Smart Grid" technology. The section also is staffing inquiries into electric transmission issues (extending lines to wind and solar development sites, in advance of such projects; coordination of planning; cost allocation). Ongoing developments in renewable electric generation will continue to merit our attention. To that end, REI has been monitoring developments in energy storage technologies, ground source heat pumps and feed-in tariffs, as well as assisting in the implementation and assessment of the renewable energy standard (RES).

As we look ahead to 2010 and beyond, there likely will be significant impacts on public utilities—electric, gas and telecom—from the various federal economic recovery initiatives. Funding is already beginning to flow into Colorado to support such initiatives, accentuating the need for the PUC to concentrate more attention on the emerging issues these initiatives will raise.

Meanwhile, experience teaches us that the frontier of utility emerging issues has many facets. REI will continue scan the horizon and inform policy makers of new developments in technology, markets, and regulatory practices. We invite your participation in this process. Please send us your suggestions for future studies in utility regulation and public policy. If you know of new developments that will impact public utility markets, please contact us by email: [REI@dora.state.co.us](mailto:REI@dora.state.co.us).

## Kelley named new DORA executive director

Gov. Bill Ritter appointed **Barbara J. Kelley** executive director of the Department of Regulatory Agencies (DORA) effective December 1, 2009. Kelley replaced Rico Munn, who was appointed by Gov. Ritter to lead the Colorado Department of Higher Education.

"Barbara is a strong leader whose dynamic set of skills, knowledge and experience will be of great value to the people and businesses served by the Colorado Department of Regulatory Agencies," Gov. Ritter said in announcing the appointment.

Kelley was a partner with the law firm Kamlet Reichert. She has been practicing law for more than 30 years and most recently specialized in corporate and financing transactions, commercial banking, commercial real estate, as well as general commercial and business matters.

DORA's agencies include Banking, Financial Services, Securities, Real

Estate, Insurance, Registrations, Public Utilities Commission, Office of Consumer Counsel, and Civil Rights. The common thread of the department linking all agencies is consumer protection.

"There are four basic principles of success to strive for in the public sector: efficiency, effectiveness, fairness and transparency," Kelley said. "I welcome the challenge to ensure that DORA continues to deliver on these principles."

Kelley is a member of the American, Colorado, Denver and Sam Cary bar associations, and was honored as one of Law Week Colorado's "2009 Tom Women Lawyers." Prior to joining Kamlet Reichert, she practiced law with Morrison & Foerster; Sherman & Howard; Tate, Kelley & Tate; Blue Cross and Blue Shield of Colorado; and the Federal Action Agency.

She has worked on a number of community projects in Colorado,



Barbara Kelley

including the Lowry and Stapleton redevelopment projects, as well as projects in Rwanda and Hong Kong. Honored in 2008 as a Girl Scout "Colorado Woman of Distinction," she is a former chair of the Denver Planning Board.



Harris Adams

To those on the outside, the Public Utilities Commission may not seem like a very interesting place to work. But Administrative Law Judge (ALJ) **Harris Adams** considers himself one of the lucky ones.

Harris, an attorney and certified public accountant, began his career as a tax attorney. He worked in private practice for a few years, and some of the tax work led him to expand his practice into bankruptcy law.

"After a few more years, I realized I really wasn't having much fun—I know it should not have taken that

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long to figure it out," he said. "Then, my luck turned and I got an opportunity to work in the Attorney General's office representing the Office of Consumer Counsel. From there I learned of the ALJ opportunity and jumped on board with the Commission."

Harris has been with the PUC since June of 2005. As one of five ALJs, he conducts hearings and decides matters referred by the Commissioners for disposition. He particularly enjoys dealing with the variety of subject matters on a day-to-day basis.

"After getting deeply involved for some time in deciding a case in one industry, I love that I can jump into another industry matter for something fresh," he said. "While those outside the Commission may not think anything we do is interesting, I find that the variety keeps things interesting and new for me."

Harris is one of the PUC's technical

gurus, and has given a hand with audio, telephone and computer issues. He also has written instructions and prepared continuing legal education programs to help others inside and outside of the Commission. Most recently, he's represented the ALJ section on the team developing the PUC's e-filing system.

Harris holds a bachelor's degree from Texas A&M University with a double major in accounting and finance. He received his law degree from the University of Denver.

Away from work, his hobbies include anything to do with computers, walking, handyman projects and hanging out with his family. "I'm a romantic at heart," he said. "I just celebrated 24 years of marriage with my middle-school sweetheart and I can't wait to see what comes next."

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

reduce storage costs and provide greater accessibility to the documents for both PUC staff and external customers. Those who worked on the project include **Cheryl Fisher, Della Menchaca, Trudy Reinmuth, Jonell Poley, Darlene Del Valle and Raenette Rodriguez.**

The third annual Colorado New Energy Economy conference drew more than 600 participants to downtown Denver last October and generated more than \$10,800 for low-income energy assistance programs. The one-day event was sponsored by the PUC, the Governor's Energy Office,

the Office of Consumer Counsel and Energy Outreach Colorado. Proceeds from the conference were donated to Energy Outreach Colorado and will provide energy assistance to approximately 27 low-income families in Colorado this winter.

Welcome to new PUC employee **Duane Braunagel**, an engineer with the Research and Emerging Issues section.



## POSITIVE CHARGES

Major kudos go out to the administrative team, which recently completed a monumental task in cleaning up PUC documents that were kept in off-site storage. More than 3,500 boxes of documents, some dating back to the 1960s, were imaged and entered into the PUC's information management system. Once the electronic versions were checked, the hard copy documents could be destroyed. The project, which took nearly seven years to complete, will



**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.

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# Hearings on transmission line pushed into February

Hearings on a proposal by Tri-State Generation and Transmission and Xcel Energy to jointly construct major new electric transmission facilities in southern Colorado have been rescheduled for early February.

A Public Utilities Commission (PUC) administrative law judge in December granted a request by parties for additional time to review testimony and prepare for the hearings. Under the new procedural schedule, evidentiary hearings will be conducted February 1-5 and 8 in Denver, with February 10-11 held as possible spillover dates. Public comment hearings on the proposal were held in November.

Tri-State and Xcel are seeking certificates of public convenience and necessity (CPCNs) to build the San Luis Valley-Calumet-Comanche Transmission Project, a proposed 150-mile transmission line and new substation to accommodate expected new solar and wind generation in southeastern and south-central Colorado.

Utilities are required by law to seek PUC authority to build and own certain major electricity infrastructure projects in Colorado. The PUC determines whether there is a need for the project, and whether the application is in the public interest. The proceeding

before the PUC will not determine the routing of the line.

Along with authority to construct the project, the companies are asking the PUC for specific findings that the expected noise and electro-magnetic field (EMF) levels associated with the project as designed and quantified in the application would be reasonable. The two companies also seek approval to transfer ownership interest as needed when the project is completed.

The proposed project involves construction of three new, high-voltage

transmission line segments that would connect electrical substations from north of Alamosa to Pueblo. The project includes a new substation to be built near Walsenburg.

The project is currently estimated to cost approximately \$180 million and is expected to be in service by May 31, 2013. Tri-State and Xcel would share costs and capacity ownership rights for the individual transmission segments based on an agreement still to be negotiated.

The PUC is expected to rule on the applications by the end of April.

## Transmission rules proposed

The Public Utilities Commission (PUC) has proposed rules to streamline and improve the process by which utilities obtain approval to build new electric transmission facilities in Colorado.

The PUC in December opened a rulemaking proceeding focusing on the process for issuing a Certificate of Public Convenience and Necessity (CPCN). The CPCN process was one of several areas identified for improvement as part of an investigatory docket on transmission issues, which was closed in October.

The proposed rule clarifies the definition of "in the ordinary course of business," which is used to determine whether a CPCN application is required. As proposed, all 230 kilovolt (kV) lines and above will require a CPCN. All 115 kV projects will be exempted from a CPCN if they meet the noise and electromagnetic field (EMF) thresholds, and do not have unusual system impacts or expense.

In situations where a CPCN application is required, the proposed rule sets default levels of EMF and noise to expedite proceedings where the default levels are met. If the levels are not met, the proposed rule requires the utility to present alternatives and costs to reduce noise and EMF to the lowest possible levels.

The proposed rule also requires applicants for CPCNs to explain how the proposed transmission project is compatible with the conceptual long-term needs of the transmission system.

"It is believed that the proposed modifications will streamline the process of determining which projects will require a CPCN, and of processing an application for a CPCN," the Commission noted in its order opening the rulemaking docket.

Written comments on the proposed rules are due Feb. 1, and reply comments by Feb. 16. If a hearing is necessary, it will be held on February 23.

## Atmos putting new gas rates in place following settlement

A PUC Administrative Law Judge in December approved a settlement granting Atmos Energy a \$1.97 million annual increase in gas base rates. The new rates were expected to be implemented in January.

The settlement, negotiated by the company, PUC staff, the Office of Consumer Counsel, and Seminole Energy Services, was for approximately half of the company's original \$3.93 million request. Atmos' last base rate increase took effect in 2001.

Atmos serves about 110,000 customers in more than 60 communities in Colorado, including Greeley, Canon City, Durango, Gunnison, Crested Butte, Lamar and Steamboat Springs.

The agreement provides for a single, statewide base rate for Atmos customers. Previously, the company had five different rate areas—Northeast, Northwest/Central, Southeast, Southwest and Buena Vista. Changes in monthly residential bills under the new rates will range from a 13 percent increase in Buena Vista to a

3 percent decrease in the Southwest Colorado. Changes to commercial bills will range from a 9 percent increase in Buena Vista to a 6 percent decrease in Southwest Colorado.

Base rates cover costs associated with infrastructure, equipment, labor, materials, meter reading and billing. They do not include the largest portion of the monthly bill, the natural gas commodity costs, which are passed on to customers on a dollar-for-dollar basis under a separate charge. The company will continue to use separate rate areas for its gas costs.

The agreement set the company's rate of return on equity at 10.25 percent, down from the company's proposed 11.25 percent. The rate of return on equity is the profit that a utility is authorized to earn, but it is not guaranteed.

The fixed monthly facilities fee was increased from \$9 to \$10 for residential customers and from \$21.50 to \$24 for commercial customers. The company withdrew a proposal to institute a low-income rate affordability program.

### Atmos Gas Rate Case Settlement/Monthly Customer Bill Impacts

Rate Area		Previous Average Bill	New Average Bill	Money Change	Percent Change
Northeast	Residential	\$52.28	\$55.42	\$3.14	6%
	Commercial	\$264.78	\$272.43	\$7.65	3%
	Irrigation	\$332.49	\$347.76	\$15.27	5%
Northwest/Central	Residential	\$62.04	\$62.56	\$0.52	1%
	Commercial	\$273.90	\$270.77	(\$3.13)	-1%
Southeast	Residential	\$50.14	\$51.83	\$1.69	3%
	Commercial	\$190.53	\$176.96	(\$13.57)	-7%
	Irrigation	\$545.12	\$557.21	\$12.09	2%
Southwest	Residential	\$48.04	\$46.76	(\$1.28)	-3%
	Commercial	\$238.31	\$223.39	(\$14.92)	-6%
Buena Vista	Residential	\$50.26	\$56.92	\$6.66	13%
	Commercial	\$165.24	\$179.86	\$14.62	9%

## SourceGas issues bill credits

About 300 customers of SourceGas Distribution in Colorado received bill credits and refunds last fall totaling approximately \$93,000 for errors related to the company's billing system.

The credits and refunds stemmed from a Public Utilities Commission (PUC) investigation launched in June after a significant number of SourceGas customers reported billing problems and difficulty in resolving those problems with the company. The PUC instructed staff to conduct an investigation into reported billing errors, including incorrect or inaccurate bills, incorrect meter reads, failure to issue a bill, and estimated bills.

During the course of the investigation, PUC staff determined that many of the errors appeared to be related to the company's outsourced billing

system. When the errors were discovered and corrected in the system, the customers were overbilled in large amounts past the six-month period allowed by PUC rules.

SourceGas eventually identified the customers affected by the billing errors and issued the appropriate credits and refunds. The company also implemented a new billing system on September 1.

The PUC closed the investigation on December 28, but noted that staff will continue to monitor SourceGas complaint levels in the future, in the event that new issues arise.

SourceGas serves about 90,000 natural gas customers across Colorado, including the towns of Aspen, Delta, Glenwood Springs, Julesburg, La Junta, Montrose, Ouray, Telluride, Wray and Yuma.

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