

August 06, 2008

Ronald L. Lehr
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Re: Requests for Transmission Plans

Dear Ron,

In response to your letter dated April 15, 2008 concerning Requests for transmission plans, PSCo provides the following responses to your six questions.

1. PSCo is participating in the CCPG Long-Range Transmission Planning (LRTP) effort. The LRTP was kicked off in December 2007. The purpose of LRTP studies is to evaluate impacts of growing demand load, develop/propose facility infrastructure additions to deliver power from committed and proposed generating resources, and assure conformance to WECC/NERC Planning Criteria in the long-term. Previous LRTP studies have been performed every two years (2004 and 2006) and studied 10-year time frames. Study models incorporate load and resource data that accounts for demand management and renewable programs. Open meetings have taken place on a regular basis and have provided opportunities for public and stakeholder input. Based on input from stakeholders, the group plans to study scenarios that model expanded renewable resources using the SB07-91 report for guidance. The group hopes to finish studies by the end of 2008. Once completed, the studies will be posted.

PSCo also performs 5-year studies annually. The results of these studies were presented at the 890 Stakeholder meeting in March 2008, and PSCo intends to present the progress of these projects at the 2nd 890 Stakeholder meeting in the fall of 2008. Additional 5-year planning projects may be presented through the SB07-100 process.

2. PSCo has been performing studies to meet SB07-100 requirements. Studies were kicked off in March 2008 and regular stakeholder meetings have been held to allow for public and stakeholder input. Five Energy Resource Zones have been defined for studies. PSCo plans to have recommendations available in November 2008 and intends to file CPCN applications for transmission projects in March 2009.

3. PSCo transmission budgets are confidential and will not be provided for review. Major project cost information can be found in the PSCo Rule 3206 filings that are submitted to the CPUC every year in April. The CPUC provides Rule 3206 information to interested stakeholders. Cost information can also be found in CPCN filings, and in Generator Interconnection studies posted on the PSCo OASIS website.

4. As a first priority, transmission-planning studies focus on evaluating system reliability. Congestion reduction and customer economic benefits are more indirectly assessed and incorporated as supplementary rather than primary drivers of investment.

PSCo customers lie within the state of Colorado, and therefore transmission planning studies concentrate on providing service to those customers. However, PSCo is studying constrained paths through the SB07-100 study process. The next phase of the HPX Initiative is likely to include additional economic constraint analysis. PSCo participates in TOT2a, TOT3, TOT5 and TOT-7 studies. These TOT studies are performed regularly by their owners and operators and can be found on the WECC web site. Several Generation Interconnection studies have evaluated expanding TOT-7 and TOT-3 and can be found on the PSCo OASIS website.

5. PSCo has posted transmission plans for the High Plains Express on the web at http://www.rmao.com/wtpp/HPX_Studies.html. The plans for Eastern Plains Transmission Project are ongoing, and the project is being re-evaluated through the CCPG LRTP group. Generator Interconnection and Transmission Service request studies many times reveal investment costs of \$50 million or more and can be found on the PSCo OASIS website. Collaborative regional studies under CCPG and WestConnect may look at combined impacts of investments.

6. *PSCo is not clear that your question of incentives is appropriate or relevant. Different incentives for transmission investment may exist or be applicable, subject to regulatory requirements and approvals. As an example, SB 07-100, which has been codified in relevant part at § 40-5-101(4), C.R.S, provides new incentives for individual utilities to build transmission within the state of Colorado to or from identified resource zones. Section 40-5-101(4) provides as follows:*

(a) A public utility shall be entitled to recover, through a separate rate adjustment clause, the costs that it prudently incurs in planning, developing, and completing the construction or expansion of transmission facilities for which the utility has been granted a certificate of public convenience and necessity or for which the commission has determined that no certificate of public convenience and necessity is required. The transmission rate adjustment clause shall be subject to annual changes, which shall be effective on January 1 of each year.

(b) To provide additional encouragement to utilities to pursue the construction and expansion of transmission facilities, the commission shall approve current recovery by the utility through the annual rate adjustment clause of the utility's weighted average cost of capital, including its most recently authorized rate of return on equity, on the total balance of construction work in progress related to such transmission facilities as of the end of the immediately preceding year. The rate adjustment clause shall be reduced to the extent that the prudently incurred costs being recovered through the adjustment clause have been included in the public utility's base rates as a result of the commission's final order in a rate case.

FERC has also provided initiatives for transmission construction. Concerning market reforms, one must recognize there is no structured market in the West. Utilities transact business through the use of bilateral contracts. Transmission rates are pancaked across two or more systems thus rendering long-haul transactions generally unattractive. WestConnect recently filed an experimental transmission product with the FERC whereby signatories to the agreement (including PSCo) would be able to provide non-pancaked rates across the WestConnect footprint in parts of Wyoming, Colorado, New Mexico, Arizona, and Nevada for hourly non-firm service. This is the first step in evaluating an organized regional process in the West and PSCo is in the forefront. While a full RTO market like MISO, or even a partial market like SPP would more rapidly facilitate regional cooperation, even those areas experience extensive discussion and negotiation when it comes to building regional transmission and allocating costs. The Colorado PUC recently opened a docket to investigate regional improvement possibilities for transmission construction. PSCo is actively engaged in the process of writing comments that we feel could improve regional cooperation in the West.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerry Stellern". The signature is fluid and cursive, written in a professional style.

Gerry Stellern
Manager, Transmission Reliability, PSCo

Cc:Tom Green
Teresa Mogensen

