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APPLICATION OF SOUTHWESTERN § BEFORE THE
PUBLIC SERVICE COMPANY FOR: (1) §
RECONCILIATION OF ITS FUEL AND § PUBLIC UTILITY COMMISSION
PURCHASE POWER COSTS FOR 2000 §
THROUGH 2001; AND (2) RELATED § OF TEXAS
RELIEF §

CITIES' RESPONSE TO BRIEFS ON THRESHOLD ISSUE

The Cities of Amarillo, Spearman and Panhandle (Cities) file this response to the briefs filed by Southwestern Public Service Company (SPS) and the Commission Staff. Cities agree with the arguments made and positions taken by TIEC and OPC in their briefs on the threshold issue.

1. Staff Brief

The Commission Staff attorney's position is that the fuel rule can be read to include the PCRf. Staff states, "Because reconciliation of PCRf is closely related to reconciliation of fuel costs, SPS' request to reconcile PCRf in the current proceeding is appropriate." Cities believe that Staff's arguments fail to recognize how the fuel rule is applied. Only reconcilable, eligible fuel expenses are included in a fuel reconciliation proceeding. The PCRf non-energy costs do not fit into any category of eligible fuel expenses and are specifically excluded by P.U.C. Subst. R. 25.238(b)(2) from the fuel factor. Consequently, as we discussed in our October 9th brief, the \$870,000 PCRf amount should be removed from this case.

Staff also cited a Texas-New Mexico Power Company fuel reconciliation case, Docket No. 22745, saying that the Commission there considered the reasonableness of purchased power costs under the PCRf. In fact, TNMP's PCRf had been eliminated prior to Docket No. 22745, although TNMP still had a PCRf during one year of the

Docket No. 22745 reconciliation period. Two months of costs from that year had not been trued-up prior to elimination of the PCRf. The Commission made findings in this regard:

44. TNMP had a Power Cost Recovery Factor (PCRf) in place during the year 1997, which was eliminated as of January 1998 in Docket No. 17751, *Application of Texas-New Mexico Power Company for Approval of Transition Plan and Statement of Intent to Decrease Rates*, Order on Rehearing, FOF Nos. 63-71D, Conclusion of Law No. 7A, and Order Paragraph No. 6 (Nov. 3, 1998).
45. Because of a two-month lag in reconciling costs under the PCRf, the energy costs for November and December 1997 were incurred in 1998.

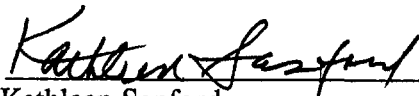
In FOFs 46 and 47, the Commission addressed those two months of energy costs, determined that the expenses and revenues related to them were correctly calculated and permitted TNMP to recover the net under-recovery in that proceeding. Therefore, in Docket No. 22745, the Commission essentially permitted a true-up of the PCRf energy costs to bring the PCRf to a close. That situation is unique and stands in stark contrast to what SPS is asking for in this case. Therefore, contrary to Staff's claim, the TNMP case does not show that the Commission includes PCRf purchased power costs in fuel reconciliation proceedings.

2. SPS' Brief

In its brief, SPS indicated it did not object to removing the \$870,277.66 in PCRf-related costs from this proceeding. Given that position, Cities suggest the Commission find in its Preliminary Order that those PCRf costs are not reconcilable here and should be removed from this case. For the reasons argued in our initial brief on this threshold issue and in this pleading, the Cities respectfully request the Commission require SPS to withdraw its request to recover the \$870,277.66 PCRf costs in this proceeding.

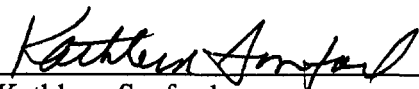
Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by fax and/or regular, first class mail on this 14th day of October 2002 to the Commission and the parties of record.


Kathleen Sanford