Decision No. C23-0105

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 23A-0038G

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS GAS PRICE VOLATILITY MITIGATION PLAN FOR THE PERIOD JULY 1, 2023, THROUGH JUNE 30, 2024.

COMMISSION DECISION GRANTING APPLICATION

Mailed Date: February 16, 2023
Adopted Date: February 8, 2023

I. BY THE COMMISSION

A. Statement

1. This decision approves an application filed by Public Service Company of Colorado (Public Service or Company) on January 17, 2023, for approval of its annual gas department Gas Price Volatility Mitigation (GPVM) Plan for the Gas Purchase Year July 1, 2023, through June 30, 2024 (Application).

B. Procedural History

2. Public Service filed the Application on January 17, 2023. On January 17, 2023, the Commission issued a public notice allowing for a ten-day intervention period for parties to raise concerns related to the Application. No interventions were filed. Concurrent with the application the Company also filed a Motion requesting Variances from Decision No. C21-0764

in Proceeding No. 21A-0275G, the previously approved three-year Master GPVM plan and procedures.[1]

C. Discussion of the Application

3. As explained in the filings submitted with the Application, Public Service's general approach to acquiring natural gas for its customers is outlined each year in its Gas Purchase Plan pursuant to the Commission's Gas Cost Adjustment Rules. Public Service buys gas in "baseload quantities" during the heating season, the Company stores gas for withdrawals during the heating season, and it engages in spot market purchases.

4. The majority of Public Service's baseload transactions are acquired through an auction process before the start of the heating season. In addition, prior to the start of each month, Public Service re-evaluates monthly supply needs and may purchase additional quantities of baseload. Baseload gas purchases themselves serve to "hedge" against daily spot prices when those prices increase above first of the month prices.

5. Public Service explains in the Application that the Company implements a yearly GPVM Plan in order to protect its gas sales customers from price spikes due to volatility in the natural gas market. The financial hedging instruments addressed by a GPVM Plan address a portion of the Company's baseload purchases as if they were purchased at a pre-determined price affording an amount of protection against certain price increases. The financial hedges acquired pursuant to a GPVM Plan are not intended to minimize the need for spot purchases, which is more for the charge of storage gas. The Company further acknowledges that currently available

[1] The requested variances are necessary to implement the proposed application addressing the applicable time period for financial hedging and the associated calculation of the Company's annual gas hedging budget.

financial options do not protect against middle-of-the-month price spikes, such as the ones experienced during Winter Storm Uri.

6. By the Application, Public Service seeks Commission approval of: (1) the proposed quantity of gas to be hedged; (2) the timing of the hedges; (3) the annual hedging budget; and (4) the amount of hedging costs that the Company may incur before being subject to what is called "incremental prudence risk." These four items are to be considered in the context of a Master GPVM Plan that sets forth Public Service's approved overall gas price hedging strategy as approved in Proceeding No. 18A-0334G and renewed in Proceeding No. 21A-0275G.

7. The Master GPVM Plan summarizes the goals for annual GPVM plans, the general strategies for seasonal and long-term hedging, and certain unchanging contractual requirements. The purpose of the Master GPVM Plan is to allow for a streamlined annual GPVM review process for specific gas purchase years, such as the plan for the 2022 through 2023 gas purchase year addressed by the Application. The Master GPVM Plan authorized the Company to hedge up to 50 percent of its projected winter gas purchases through a combination of financial hedging and storage with the budget set based on the financial hedging volume and the current market price of an at-the-money call option.

8. In this application, Public Service seeks approval to hedge, either physically or financially, 30 percent of its normal winter purchase volumes for the five-month heating season from November to March. Hedging activities would be focused on the central three winter months of December through February with approximately 40 percent of normal volumes covered by hedging activities for these months and a budget reflecting this hedging strategy. With respect to the hedged purchases, Public Service typically assumes a specific percentage of the Company's total forecasted winter heating season requirements would be supplied by

utilizing gas from storage and the remaining balance would be hedged utilizing financial instruments and/or fixed price contracts to provide price protection.

9. The specific GPVM activities for which Public Service seeks Commission approval is set forth in Confidential Attachment A to the Application under the title "Commission Approval Form."

10. Public Service notes in the Application that the budget proposed for the next heating season is higher than last year's hedging plan because call option premiums quoted to the Company this year were significantly higher than in previous years, due to the gas market's perceived increase in the risk of financial deals if a price spike similar to that experienced during Winter Storm Uri would occur again.

11. The Application reflects a hedging strategy that removes the months of November and March from financial hedging, since these months are generally less weather-sensitive and also less volatile. The proposed budget is therefore significantly less than the budget would have been based on the hedging strategy initially contemplated in the Master GPVM Plan.

12. In addition to the detailed plan for the upcoming heating season, Public Service requests the continuation of its "Long-Term Strategy" whereby it is authorized to implement financial hedging to cover up to 25 percent of seasonal gas requirements for up to four years beyond the upcoming season for a total of five years into the future.[2] Any gas volumes and hedging costs incurred in implementing the long-term hedging strategy will be netted against the 50 percent hedge goal and associated budget for the applicable GPVM year.

[2] This five-year period covers the 2023 to 2024 heating season to the 2027 to 2028 season.

13. The Application is unopposed and will be determined without a hearing under Rule 1403 of the Commission's Rules of Practice and Procedure, 4 *Code of Colorado Regulations* (CCR) 723-1.

D. Conclusions and Findings

14. Our review of the GPVM Plan and attachments leads us to conclude that the Application is reasonable and will likely serve to mitigate gas price volatility. Therefore, we grant the Application and approve Public Service's GPVM Plan for the Gas Purchase Year July 1, 2023, through June 30, 2024.

15. We agree that a "business as usual" approach to hedging for the 2023 through 2024 heating season, when hedging instruments are three to four times more expensive than they have been historically, would provide too little price protection for too much money, particularly since the available hedging products do not address intra-month price protection.

16. We conclude that the Company's Application is just, reasonable, and in the public interest because it reflects an appropriate balance of providing some ratepayer protection against medium-term movements in the commodity price of gas through financial hedging instruments while not buying expensive protection that does not reduce price risk from intra-month price spikes.

17. We agree with Public Service that the substantial price increase in financial hedge products for the upcoming year calls into question the efficacy of an approach that simply follows the previous year's program. The narrowing of the months to December through February further focuses the hedging efforts on the period with the highest propensity for extreme weather or challenging market conditions and when the Company faces the highest

demands from competing purchasers. We further agree with both Public Service and Staff that the negotiated hedging quantities and budget level (which are confidential) strike a reasonable balance between the cost of hedging and the risk of being unhedged.

18. It is further reasonable for Public Service to examine the financial hedging products available in the marketplace pursuant to the terms of the Settlement Agreement. Public Service shall file the monthly reports beginning in May and continuing until November on the Company's use of: (1) At-the-Money (ATM) options; (2) Out-of-the-Money (OTM) options; and (3) fixed-for-float swaps. The additional reporting on hedge offers and contracts, including explanations of why the executed contracts were chosen, will help Staff and the Commission further evaluate the role and effectiveness of financial hedging in coming years. We note that Public Service will research and report on additional avenues for mid-month and daily price protection using the types of instruments available now and others that may become available during the 2022 through 2023 period. We likewise authorize Public Service to hire, at its own expense, an expert consultant to review its hedging strategies and the available financial tools for use in gas price hedging. Public Service shall include the expert consultant's report in its June 2022 Gas Purchase Plan filing.

19. We agree with Staff that a "business as usual" approach to hedging for the 2022 through 2023 heating season, when hedging instruments are three to four times more expensive than they have been historically, provides too little price protection for too much money, particularly since the available hedging products do not address intra-month price protection. We further agree with Staff that the provisions in the Settlement Agreement are just, reasonable, and in the public interest because the agreement reflects an appropriate balance of providing some ratepayer protection against medium-term movements in the commodity price of gas through

financial hedging instruments while not buying expensive protection that does not reduce price risk from intra-month price spikes.

II. ORDER

A. The Commission Orders That:

1. The Application filed by Public Service Company of Colorado on January 17, 2023, for approval of its gas department Gas Price Volatility Mitigation Plan for the Gas Purchase Year July 1, 2023, through June 30, 2024, is granted.

2. The 20-day time period provided by § 40-6-114, C.R.S., to file an application for rehearing, reargument, or reconsideration shall begin on the first day after the effective date of this Decision.

3. This Decision is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING February 8, 2023.

(S E A L)

ATTEST: A TRUE COPY

G. Harris Adams,
Interim Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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Commissioners