

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

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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, 2022)
THROUGH JUNE 30, 2023)

PROCEEDING NO. 22A-0033G

UNANIMOUS COMPREHENSIVE SETTLEMENT AGREEMENT

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INTRODUCTION AND IDENTIFICATION OF PARTIES

This Unanimous Comprehensive Settlement Agreement (“Settlement” or “Agreement”) is intended to resolve, on a comprehensive basis, all issues raised in this proceeding between Public Service Company of Colorado (“Public Service” or the “Company”) and Trial Staff of the Colorado Public Utilities Commission (“Staff”) (together, the “Settling Parties” and representing all parties to this proceeding). Public Service initiated this Proceeding on January 18, 2022, through its Application requesting that the Colorado Public Utilities Commission (“Commission”) issue a Decision approving the Company’s 2022-2023 Annual Gas Price Volatility Mitigation Plan (“2022-2023 Annual GPVM Plan”) for its Local Distribution Company (“LDC”) for the period July 1, 2022, through June 30, 2023.

BACKGROUND

On January 18, 2022, the Company initiated this Proceeding by filing its Verified Application requesting approval of its 2022-2023 Annual Gas Price Volatility Mitigation Plan (“2022-2023 Annual GPVM Plan”) for the period July 1, 2022, through June 30, 2023, together with the supporting Direct Testimony of Cassandra E. Koester.

On January 28, 2022, Staff filed its Notice of Intervention as of Right.

On February 9, 2022, at the Commissioners Weekly Meeting, the Commission deemed the Application complete and set the proceeding for hearing *en banc*.

On February 11, 2022, by Decision No. C22-0093-I, the Commission acknowledged Staff’s intervention as of right and adopted the following procedural schedule: filing of answer testimony on February 15, 2022; filing of settlement agreements

and pre-hearing motions by February 22, 2022; responses to pre-hearing motions by February 25; and an evidentiary hearing on March 1, 2022.

The Settling Parties subsequently commenced settlement negotiations on February 10, 2022, and reached a settlement in principle on February 11, 2022.

On February 14, 2022, the Settling Parties filed a Notice of Settlement and Motion to Vacate and Amend Procedural Schedule. The Settling Parties noted that they had reached a unanimous and comprehensive settlement in principle, and they requested that the Commission vacate the remainder of the procedural schedule except with respect to the settlement deadline and the hearing, if the Commission determined that a hearing on the settlement is necessary.

On February 18, 2022, the Commission issued Interim Decision No. C22-0103-I granting the Motion to Vacate and Amend Procedural Schedule, vacating the Answer Testimony deadline and retaining the February 22, 2022 deadline for filing a settlement agreement and the March 1, 2022 hearing.

SETTLEMENT AGREEMENT

The following terms comprise the Agreement reached by the Settling Parties in this proceeding.

I. No Long-Term Changes to Master Hedge Plan

1. As noted in the Direct Testimony of Company witness Cassandra E. Koester, the Company has a Master GPVM Plan¹ in place that was approved in Proceeding No. 21A-0275G by Decision No. C21-0764, issued on December 3, 2021.²

¹ The Company conferred with Commission Staff and have agreed to file a Motion for Variance of the approved Master GPVM Plan in reference to this Settlement Agreement, on or before March 1, 2022.

² Direct Testimony of Cassandra E. Koester, at 10:7-20.

The Settling Parties agree that this Agreement reached for the 2022-2023 Annual GPVM Plan will apply only to the 2022-2023 plan year, and it will not affect the Master GPVM Plan that was approved in Proceeding No. 21A-0275G. The costs for financial hedging are extraordinarily high this year (nearly three times higher than recent years), which created the reasoning for the Company to revise its approach for just this year. For the 2023-2024 GPVM Application, the Company will review the knowledge gained from this year's activities and re-visit whether the more targeted approach set forth here should be used in future years.

II. Financial Hedges in December, January, and February

2. Ms. Koester's Direct Testimony explains that the Company's Master GPVM Plan provides for the use of financial hedging mechanisms during the period from November through March each year of the Master GPVM Plan.³

3. The Settling Parties agree that a deviation from the Master GPVM approach for the 2022-2023 Annual GPVM Plan is appropriate, given the higher pricing levels for financial hedging products seen in the market currently. Under the Agreement, Public Service will purchase financial hedge options only for December, January, and February (rather than November through March as proposed in Public Service's Verified Application) to reduce potential annual hedging costs; however, this provision does not limit the Company's ability to optimize daily gas supply plans based on storage inventory, baseload supply, and daily market conditions in the months where financial hedging is not taking place.⁴

³ Direct Testimony of Cassandra E. Koester, at 10:9-11.

⁴ Public Service will file a motion for any necessary variance to the approved hedging period provided by the Company's Master GPVM Plan.

III. Hedge Quantities

4. The Settling Parties agree that Public Service will target financially hedging the following quantities of natural gas during the 2022-2023 Annual GPVM Plan: [REDACTED] Dth of total hedges. In recent years, Public Service has targeted combined physical and financial hedging of roughly 50% of its expected winter quantities. However, given the much higher estimated financial hedging costs for the 2022-2023 year, Public Service will target hedging over the winter season up to [REDACTED] percent using physical storage and up to [REDACTED] percent using financial hedging for an overall hedging target of [REDACTED] percent. If market conditions change allowing Public Service to remain within its dollar budget, it may financially hedge higher quantities.

IV. Base Financial Hedge Cost

5. The Settling Parties agree that the base budget for financial hedging conducted from December through February will be based on a \$ [REDACTED]/Dth premium (The slight increase in unit price reflects updated pricing and the shortening of the hedging period from five months to three months resulting in hedge sellers demanding a higher risk premium).

V. Target Financial Hedge Budget

6. The Settling Parties agree that the Annual Gas Hedging Budget for the 2022-2023 Annual GPVM Plan will be \$ [REDACTED] million. Under the Company's Master GPVM Plan, the Company is entitled to recover the premiums paid for purchasing financial instruments, including any settlement costs paid to counterparties during the Gas Purchase Year, up to one and one-half times the Annual Gas Hedging Budget. Accordingly, the Settling Parties agree that Public Service may recover up to \$ [REDACTED] million to cover such costs.

VI. Company Investigation of Financial Hedging Products

7. The Settling Parties agree that Public Service will investigate and periodically report on the use of financial hedging products that may be used to reduce the exposure to natural gas price fluctuations. Such financial hedging products include: (1) At-the-Money (“ATM”) options; (2) Out-of-the-Money (“OTM”) options; and (3) fixed-for-float swaps that trade on both the CIG and NYMEX exchanges. Public Service will provide such reports to Staff confidentially on a monthly basis, beginning May 15, 2022 and continuing until November 15, 2022.

8. Additionally, the Settling Parties agree that Public Service will provide in these confidential monthly reports, reporting on hedge offers and contracts when buying hedges, including a short narrative regarding why the executed contracts were chosen. These reports will be submitted within 15 days of the end of the prior month.

VII. Use of Fixed-For-Float Swaps

9. As described in Ms. Koester’s Direct Testimony, fixed-for-float swaps allow a purchaser to pay a known price for gas purchased in the future, regardless of the ultimate market prices providing potential price protection.⁵ Ms. Koester also describes that these swaps create potential cost risks if market prices fall below the contract fixed price.

10. In recognition of the potential value that comes from locking in a price for gas, the Settling Parties agree that Public Service may employ fixed-for-float swaps as part of the 2022-2023 Annual GPVM Plan, provided that Public Service manages the cost

⁵ Direct Testimony of Cassandra Koester, at 13:10-23.

risk of its fixed-for-float program to stay within the budget agreed upon above for the 2022-2023 Annual GPVM Plan.

VIII. Expert Consultant Report

11. The Settling Parties agree that Public Service will hire an expert consultant—at the Company’s expense—to review hedging strategies and available financial tools. The expert consultant will be retained to make recommendations on these issues in a written report. The Company will discuss with CPUC Staff the scope and requirements of the consultants’ work prior to the consultant beginning his/her work. Public Service will include the expert consultant’s report in Public Service’s June 2022 Gas Purchase Plan filing.

IX. General Provisions

12. This Agreement is made for settlement purposes only. No Settling Party concedes the validity or correctness of any regulatory principle or methodology directly or indirectly incorporated in this Agreement. Furthermore, this Agreement does not constitute agreement, by any Settling Party, that any principle or methodology contained within or used to reach this Agreement may be applied to any situation other than the Proceeding(s) defined in this Agreement, except as expressly set forth herein. No binding precedential effect or other significance, except as may be necessary to enforce this Agreement or a Commission order concerning the Agreement, shall attach to any principle or methodology contained in or used to reach this Agreement, except as expressly set forth herein.

13. Each Settling Party understands and agrees that this Agreement represents a negotiated resolution of all issues the Settling Party either raised or could have raised in the Proceeding. The Settling Parties agree this Settlement, as well as the negotiation

process undertaken to reach this Settlement, are just, reasonable, and consistent with and not contrary to the public interest and should be approved and authorized by the Commission.

14. The discussions among the Settling Parties that produced this Agreement have been conducted in accordance with Rule 408 of the Colorado Rules of Evidence (“CRE”).

15. Nothing in this Agreement shall constitute a waiver by any Settling Party with respect to any matter not specifically addressed in this Agreement. In the event this Agreement becomes null and void or in the event the Commission does not approve this Agreement, then this Agreement, as well as the negotiations or discussions undertaken in conjunction with this Agreement, shall remain inadmissible into evidence in these or any other proceedings in accordance with CRE 408.

16. The Settling Parties will support all aspects of this Agreement embodied in this document in any hearing conducted or written responses to ALJ or Commission questions to determine whether the Commission should approve this Agreement, and/or in any other hearing, proceeding, or judicial review relating to this Agreement or the implementation or enforcement of its terms and conditions. Each Settling Party also agrees that, except as expressly provided in this Agreement, it will take no action in any administrative or judicial proceeding, or otherwise, which would have the effect, directly or indirectly, of contravening the provisions or purposes of this Agreement. However, each Settling Party expressly reserves the right to advocate positions different from those stated in this Agreement in any proceeding other than one necessary to obtain approval of, or to implement or enforce, this Agreement or its terms and conditions. Each Settling

Attachment A to Motion to Approve Settlement Agreement
Hearing Exhibit 102, Proceeding No. 22A-0033G

Party agrees to testify in support of this Agreement if the Commission or assigned ALJ approves a procedural schedule that allows for either live testimony or the filing of Testimony in support of this Agreement. This Settlement Agreement may be modified by the express written agreement of both Settling Parties.

17. No waiver or variance of Commission Rules is required to effectuate this Agreement, but the Settling Parties agree jointly to apply to the Commission for a waiver of compliance with any requirements of the Commission's current Rules and Regulations if necessary to permit all provisions of this Agreement to be approved, carried out and effectuated.

18. This Agreement is an integrated agreement that may not be altered by the unilateral determination of any Settling Party. There are no terms, representations or agreements among the parties which are not set forth in this Agreement (including attachments and appendices thereto).

19. This Agreement shall not become effective until the Commission issues a final decision addressing the Agreement. In the event the Commission modifies this Agreement in a manner unacceptable to any Settling Party, that Settling Party may withdraw from the Agreement and shall so notify the Commission and the other Settling Parties in writing within ten days of the date of the Commission order. In the event a Settling Party exercises its right to withdraw from the Agreement, this Agreement shall be null and void and of no effect in the Proceeding or any other proceeding.

20. All Settling Parties have had the opportunity to participate in the drafting of this Agreement and the term sheet upon which it was based. There shall be no legal presumption that any specific Settling Party was the drafter of this Agreement.

Attachment A to Motion to Approve Settlement Agreement
Hearing Exhibit 102, Proceeding No. 22A-0033G

21. This Agreement may be executed in counterparts, all of which when taken together shall constitute the entire Agreement with respect to the issues addressed by this Agreement. This Agreement may be executed and delivered electronically and the Settling Parties agree that such electronic execution and delivery, whether executed in counterparts or collectively, shall have the same force and effect as delivery of an original document with original signatures, and that each Settling Party may use such facsimile signatures as evidence of the execution and delivery of this Agreement by the Settling Parties to the same extent that an original signature could be used.

2022-23 Gas Price Volatility Mitigation Plan

**PSCo Gas Department
 Overall Projected Hedge Quantities
 2022-2023 Gas Purchase Year
 Schedule PVM-1**

a. Delivery Month	b. Total Requirements (From Sales Budget)	c. Storage Activities (From GPVM)	d. Long-Term Hedges (PVM-2)	e. Seasonal Quantities ((b.x .50) - c.-d.)	f. Total Hedge Quantities (c. + d.)	g. Daily Hedge Volume (e./days per mo.)	h. ** Rounded Hedge Quantities	i. April	j. May	k. June	l. July	m. August	n. September	o. October
November, 2022														
December, 2022														
January, 2023														
February, 2023														
March, 2023														
Total														

** Hedge Quantities are rounded.

Attachment A to Motion to Approve Settlement Agreement
Hearing Exhibit 102, Proceeding No. 22A-0033G

Dated this 22nd day of February, 2022.

Agreed on behalf of:

PUBLIC SERVICE COMPANY OF COLORADO

By: /s/ Steven P. Berman
Steven P. Berman
Director, Regulatory Administration
Public Service Company of Colorado

Approved as to form:

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COLORADO**

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