

Decision No. C24-0167

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

PROCEEDING NO. 24A-0039G

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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 OF JULY 1, 2024 THROUGH JUNE 30, 2025.

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**COMMISSION DECISION GRANTING APPLICATION**

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Mailed Date: April 1, 2024  
Adopted Date: February 14, 2024

**I. BY THE COMMISSION**

**A. Statement**

1. This Decision grants the Application filed by Public Service Company of Colorado (Public Service or Company) on January 16, 2024, for approval of its annual gas department Gas Price Volatility Mitigation (GPVM) Plan for the Gas Purchase Year July 1, 2024, through June 30, 2025 (Application).

**B. Procedural History**

2. Public Service filed the Application on January 16, 2024. On January 18, 2024, the Commission issued notice allowing for a ten-day intervention period for parties to raise concern related to the Application. No interventions were filed before the January 29, 2024, deadline.

3. Concurrent with the Application the Company also filed a Motion for Variance requesting Variances from Decision No. C21-0764,<sup>1</sup> the approved 3-year “Master GPVM” plan

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<sup>1</sup> Proceeding No. 21A-0275G.

and procedures for the period January 1, 2022, through June 30, 2025.<sup>2</sup> The Application is the third Annual Plan filed under the current three-year “Master GPVM Plan”.

**C. Discussion of the Application**

4. As explained in its 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 (GCA) Rules.

5. Public Service buys gas in “baseload quantities” during the heating season (November to March), the Company stores gas for withdrawals during the heating season, and it engages in spot market purchases.

6. 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.

7. 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 considered in the context of a Master GPVM Plan that sets forth Public Service’s approved overall gas price hedging strategy. The precise hedging strategy and its terms are confidential and are explained in detail in the GPVM Plan as set forth in Confidential Appendices to the Application.

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<sup>2</sup> 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.

8. The GPVM procedures for the Company's gas department were first established in 2004 via Decision No. C04-1112.<sup>3</sup> Since 2004, the Company has generally sought and received renewal of these GPVM procedures every three years and files annual applications to implement the parameters for the given year and market conditions.

9. The Master GPVM Plan summarizes the goals for annual applications, 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. 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.

10. Subject to 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. Financial hedging activities would be focused on the central three winter months of December through February with a lower than typical annual budget reflecting this hedging strategy.

11. Additionally, the Company is proposing to incorporate fixed-price purchases into its 2024-2025 planned activities stating that due to current volatility in the gas commodity marketplace, the cost of using traditional financial hedging methodologies has increased significantly, as the premium paid for the financial options will also reflect the volatility.<sup>4</sup>

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<sup>3</sup> Proceeding No. 02A-0267G.

<sup>4</sup> Direct Testimony of Company Witness Koester (HE101) at 16:6-8.

12. Fixed price purchases will be incorporated into the GPVM by crediting the quantity purchased towards the total target quantity to be financially hedged under the plan, and in turn should reduce the need to purchase financial hedge quantities. The fixed price purchase costs and quantities will be reported in Company's annual Gas Purchase and Deferred Balance (GPDBR) report rather than being presented as part of the total commodity costs, and thus will not impact the financial hedging dollar amount.

13. 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."

14. 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. Conclusion and Findings**

15. 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, 2024, through June 30, 2025.

16. We agree that narrowing of the months to December through February further focuses the financial hedging efforts on the period with the highest propensity for extreme weather given the current market conditions.

17. We further agree that the physical fixed-price purchases provide another avenue to maximize the benefits of the hedging program for customers, while also minimizing the cost exposure to the financial hedging options.

18. 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.

**II. ORDER**

**A. The Commission Orders That:**

1. The Application filed by Public Service Company of Colorado on January 16, 2024, for approval of its gas department Gas Price Volatility Mitigation Plan for the Gas Purchase Year July 1, 2024, through June 30, 2025, is granted.

2. The 20-day 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 upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING  
February 14, 2024.**

(S E A L)



ATTEST: A TRUE COPY

Rebecca E. White,  
Director

THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

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Commissioners