

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 ELECTRIC DEPART-)
MENT GAS PRICE VOLATILITY MITIGATION) DOCKET NO. 10A-026E
PLAN FOR THE PERIOD MAY 1, 2010 THROUGH)
APRIL 30, 2011.)

STIPULATION AND AGREEMENT
IN RESOLUTION OF PROCEEDING

This Stipulation and Agreement in Resolution of Proceeding ("Stipulation") is entered into by and between Public Service Company of Colorado ("Public Service" or "Company") and the Staff of the Public Utilities Commission of the State of Colorado ("Staff"), collectively referred to herein as the "Parties." Public Service and Staff are the only parties to this proceeding. This Stipulation sets forth the terms and conditions by which the Parties have agreed to resolve all outstanding issues presented by the Company's proposed Electric Department Gas Price Volatility Mitigation Plan ("GPVM Plan") applicable to its for the period May 1, 2010 through April 30, 2011, attached as Highly Confidential Appendix A to its Application filed with the Commission in this docket on January 19, 2010, that have or could have been contested in this proceeding. The Parties state that the results of the compromises reflected herein are a just and reasonable resolution of this GPVM Plan proceeding, that reaching agreement as set forth and implementation of the compromises and settlements reflected in this Stipulation will result in substantial savings to all concerned by establishing certainty and avoiding litigation. Each party hereto pledges its support of this Stipulation and states that each will defend the settlement reached. The Parties respectfully request that the Commission

approve this Stipulation, without modification. For those Parties for whom this Stipulation is executed by counsel, such counsel states that (s)he has authority to execute this Stipulation on behalf of his/her client.

I. BACKGROUND

1. On January 19, 2010, Public Service filed an application seeking a Commission order approving its proposed GPVM Plan for its Electric Department for the period May 1, 2010 through April 30, 2011. The 2010-2011 Electric Department GPVM Plan, which was filed with the Application as Highly Confidential Appendix A, details the circumstances under which Public Service plans to use natural gas storage, fixed price contracts, and Commission-authorized financial instruments in hedging natural gas prices as part of its portfolio for acquiring natural gas to fuel electric generation facilities owned by the Company and electric generation facilities owned by others for which the Company is responsible to supply natural gas fuel under various tolling agreements. Specifically, and in accordance with the procedures adopted by the Commission in Decision No. C03-0670, mailed June 26, 2003, in Docket No. 02S-315EG, Public Service requested that the Commission approve certain aspects of the GPVM Plan, as specifically set forth in Highly Confidential Appendix B, including: (i) the hedging strategy and implementation plan for the 2010-11 hedging period; (ii) the proposed quantity of gas to be hedged; (iii) the timing of the hedges; (iv) the types of hedging instruments that the Company intends to use in implementing the proposed hedging plan; (v) the Floor Price for determining the costs related to the gas hedging cost cap; (vi) and the maximum hedging costs (collectively, the “GPVM Plan Approval Items”).

2. On January 20, 2010, the Commission issued its Notice of Application Filed. On February 11, 2010, Commission Staff filed its Notice of Intervention, Entry of Appearance and Request for Hearing. On February 23, 2010, Staff filed a Motion For Extension of Time to File Answer Testimony and Waiver of Response Time requesting that the answer testimony filing date be changed from February 25, 2010 to March 4, 2010. The date for required Answer Testimony and a hearing date of March 11, 2010 were set by the Commission in Decision C010-0160, mailed February 23, 2010. The Commission granted Staff's Motion by Decision No. C10-0217, mailed March 10, 2010.

3. Prior to the scheduled date for the filing of answer testimony, representatives of Public Service and Staff met to discuss Staff's concerns with the Company's proposed GPVM Plan, most of which centered around the Company's implementation of the long-term strategy, as described in its GPVM Plan, as well as long-term hedging transactions. Settlement discussions ensued. On March 8, 2010, the Parties filed a Notice of Settlement and Joint Motion to Vacate Hearing, indicating that Public Service and Staff had reached a stipulation and agreement in principle settling the issues in this proceeding, and requested that the Commission vacate the hearing set for March 11, 2010 in this docket to provide the Parties additional time to finalize and to file an executed stipulation and agreement. The Commission granted the Parties Joint Motion to vacate the March 11 hearing by Decision No. C10-0219, mailed March 10, 2010. This Stipulation is the culmination of the Parties' settlement discussions.

II. TERMS OF SETTLEMENT

4. The Parties agree that the terms contained in the Resolution sections of this Stipulation shall apply to the three annual hedging periods for the Company's Electric Department GPVM Plans commencing May 1, 2010 and ending April 30, 2013. As a result of

the agreements and compromises reached herein, the Parties agree that the GPVM Plan and GPVM Approval Form, filed as Appendix A (Public Version) and Highly Confidential Appendix A to the Application, should be revised to reflect a new Floor Price¹ and Annual Gas Hedging Budget. These revisions are reflected in Revised Appendix A (Public Version), Highly Confidential Revised Appendix A and Highly Confidential Revised Appendix B to the Application, both of which are attached hereto. As such, the Parties agree that the Commission should grant the Application, as amended hereby, including Highly Confidential Revised Appendices A and B attached hereto.

A. Long-Term Strategy and Use of Over-The-Counter Based Fixed-for-Float and Costless Collar Hedging Instruments

Public Service's Position:

5. It is Public Service's position that previously filed and Commission-approved GPVM plans permit it to "target up to 25% of its electric generation seasonal gas requirements to be hedged as part of the long-term hedge strategy set forth in the GPVM plan if gas prices are at or below the then set Floor Price plus the budgeted premium"² and, therefore, its proposed strategy to implement long-term hedges is not new. Public Service therefore believes that it has authority to transact³ the long-term strategy as described in its annual GPVM filing when certain

¹ As set forth in Section II. E below, the Parties have defined "Floor Price" for purposes of each GPVM Plan as the average of monthly index prices as published by Platts in its Inside FERC Gas Market Report for the index labeled "CIG-Rocky Mountains" over the previous four heating seasons (November to March).

² See Public Service's Verified Application, Reminder of Shortened Notice Period and Proposed Procedural Schedule (Application), Public Version Appendix A, Price Volatility Mitigation Long-Term Strategy, p. 4.

³ In other documents associated with the GPVM Plan filed in this docket, the terms "transact," "purchase," and "execute" are synonymous for the act of transacting a hedge.

conditions as described in the GPVM plan are met. Public Service also asserts that the Commission explicitly acknowledged and approved its use of a long-term hedge strategy as part of the Company's GPVM program for its gas utility operations in Docket No. 08A-095G, Decision No. R09-0211 (mailed March 2, 2009) and Order on Exceptions, Decision C09-0596 (mailed June 9, 2009) at paragraphs 45-47. Public Service states that its 2010-2011 GPVM Plan, as originally filed with the Application in this docket, and its previously-filed GPVM Plans, provided for a long-term strategy in which hedge transactions, if implemented, could settle in any of the four GPVM Plan annual hedging periods (May 1 through April 30) immediately following the hedging period covered by the current GPVM Plan (hereinafter referred to as "2-5 Year Strategy"). Public Service notes that, in the past, it has implemented long-term hedges as part of the 2-5 Year Strategy under previous GPVM Plans.

Staff's Position:

6. Staff's position is that the long-term hedges under the 2-5 Year Strategy have never been part of the specific GPVM Plan Approval Items in previous GPVM Plans either filed as submittals, or filed and approved, including the instant application. Staff's position is that a statement by Public Service in a GPVM Plan that sets forth the 2-5 Year Strategy does not make that statement part of the Commission-approved execution strategy under the previously approved GPVM Plan. Further, Staff believes that, although Public Service has implemented long-term hedges pursuant to the 2-5 Year Strategy, there is no filing by Public Service or any record at the Commission showing that Public Service implemented long-term hedges under the 2-5 Year Strategy as part of previous GPVM Plans. Staff therefore believes that the use of the 2-5 Year Strategy and OTC (Over-The-Counter)-based fixed-for-float swaps and costless collars to implement long-term hedges are new additions to the GPVM Plan. Staff is further concerned

that long-term hedges implemented under the 2-5 Year Strategy will fall outside the annual hedging period covered by the GPVM Plan and thus exempt them from prudence review. Staff believes that the quantities of gas acquired outside of the particular annual hedging period at issue here as well as the long-term hedges under the 2-5 Year Strategy should be excluded from this GPVM filing for the hedging period May 1, 2010 through April 30, 2011; and any costs associated with long-term strategy incurred today should be disallowed.

Resolution:

7. In accordance with the provisions set forth in this Stipulation at Sections B through G below, the Parties agree that the Company may enter into long-term hedges of two or three years when gas prices are at or below the Floor Price on the date of hedge purchase, through the use of fixed-for-float and costless collar hedging instruments (hereinafter referred to as “2-3 Year Strategy”).

B. Implementation Strategy & Prudence Review

Public Service’s Position:

8. It is Public Service’s position that, under previous Commission decisions, it can execute the long-term strategy using hedging instruments that may be executed both within and outside of the annual hedging period, as described in the GPVM plan, at any time after the annual GPVM plan is approved, depending on market prices. The Company further believes that the proposed long-term strategy as set forth at page 4 of Appendix A to its original Application, if the Application were to be granted by the Commission as originally filed,⁴ would allow it to

⁴ The Company’s proposed long-term strategy, as originally set forth in its Application, is being amended by this Stipulation as set forth in Revised Highly Confidential Appendix A attached hereto.

execute hedges from two to five years out and would include the 2011-12, 2012-13, 2013-14 and 2014-15 hedging periods. It is also the Company's position that the annual approval of the GPVM plan provides for prudence of the plan to acquire all hedges (including those entered into as part of the long-term strategy) that are executed under the currently effective GPVM Plan. Public Service asserts that its Application in this docket is for the approval of a GPVM Plan that will be executed in future annual hedging periods and the transactions will be subject to annual Electric Cost Adjustment ("ECA") prudence reviews at that time in accordance with the Settlement Agreement approved by the Commission in Docket No. 02S-315EG.

Staff's Position:

9. It is Staff's position that there is no previous Commission decision that specifically authorized Public Service to implement long-term hedges under the 2-5 Year Strategy for the applicable 2011-12, 2012-13, 2013-14, and 2014-15 years. The proposed long-term hedges of 2-5 years in length have never been part of the GPVM Plan Approval Items in previous GPVM Plans. Staff is also concerned that the unintended consequence of the long-term hedges under the 2 to 5 Year Strategy for those particular years is that the hedges are outside the current GPVM Plan for the hedging period May 1, 2010 through April 30, 2011, and thus not subject to the prudence review. At the time of the prudence review for this GPVM hedging period, long-term hedges implemented under the Company's 2-5 Year Strategy will not have taken place,⁵ even though they will have been transacted for. Since the natural gas fuel costs of these out-of-period hedges would not be reported as the natural gas fuel costs for this GPVM Plan hedging period under the prudence review, they may escape being subject to prudence

⁵ In other documents associated with the GPVM Plan filed in this docket, the terms take place, settle, and expire are synonymous for the act of settling a hedge at maturity or expiration date.

review. Further, in maintaining consistency with the Stipulation and Agreement between the Parties in Docket No. 10A-027G, Staff believes that the long-term hedges should be limited to 2 to 3 years to fit within the timeframe of the extension of the GPVM Plan for four more years as provided for in Docket 08A-095G.

Resolution:

10. For Electric Department GPVM Plans, the Parties agree that the long-term hedges shall be limited to two to three years, or the applicable current GPVM Plan hedging periods plus no more than two additional GPVM Plan hedging period thereafter. In the event that Public Service decides not to continue to transact long-term hedges under the 2-3 Year Strategy, or if the Commission terminates the use of long-term hedges under the 2-3 Year Strategy in the future, Public Service should be allowed to hold any such previously-transacted hedges until maturity.

11. The Parties agree that the actual quantities of natural gas hedges acquired under the 2-3 Year Strategy would not be reviewed in an annual ECA prudence review until the applicable GPVM Plan hedging periods in which these hedges actually settled. The Parties acknowledge and agree that the long-term hedging transactions entered into under the 2-3 Year Strategy included as a part of this Revised GPVM Plan will be subject to annual ECA prudence reviews.

12. In order to provide the Commission with an accounting of the long-term hedges under the 2-3 Year Strategy, the Parties agree that the quantities of gas that have been hedged under the 2-3 Year Strategy, as well as data establishing that the total hedged quantities under the 2-3 Year Strategy for each GPVM Plan hedging period have not exceeded 25% of the forecasted electric generation seasonal gas requirements for each applicable hedging period, shall be

submitted to the Commission. The quantities of natural gas hedges acquired under this 2-3 Year Strategy will be filed in a form similar to the template attached as Exhibit A to this Stipulation. The Parties further agree that the limit for these gas quantities to be hedged under the 2-3 Year Strategy is 25% of the forecasted electric generation seasonal gas requirements for the applicable GPVM Plan hedging period, and acknowledge that the quantities of gas to be hedged under the 2-3 Year Strategy would change with a change in the forecasted seasonal requirements.

13. Public Service believes and Staff accepts, based on the representations of Public Service, that the hedged or forecasted quantities from GPVM Plan hedging period to GPVM Plan hedging period for the years covered under the 2-3 Year Strategy would change only minimally, if at all. The Parties further agree that, in order to provide transparency concerning this strategy, these hedged quantities will also be filed in the format set forth in Exhibit A to this Stipulation in all future GPVM Plans. For purposes of future annual ECA prudence reviews, the hedged quantities of gas will be included in the applicable GPVM Plan hedging period in which the hedges settle. For purposes of future GPVM Plans, the hedged quantities of gas will be included in a new PVM schedule, in the form substantially similar to Exhibit A to this Stipulation, for the GPVM Plans covering each successive hedging period through the hedging period in which the hedges settle. At that time, those quantities of gas will be included in the quantities to be hedged for the applicable GPVM Plan hedging period. The long-term hedges executed as part of the 2-3 Year Strategy will be reported as mark-to-market in accordance with the process described in Part E. below.

C. Accounting for Hedged Volumes Under Long-Term Strategy

Public Service's Position:

14. It is Public Service's position that it can execute the long-term strategy described in the GPVM plan at any time after the annual GPVM plan is approved. Public Service believes that this long-term strategy allows the Company to execute hedges of 2-5 years and would include the 2011-12, 2012-13, 2013-14 and 2014-15 hedging periods.

Staff's Position:

15. Since this GPVM Plan is for the annual hedging period May 1, 2010 through April 30, 2011, Staff is concerned that the proposed "quantity of gas to be hedged" outside of the hedging period will not be counted as the "quantity of gas to be hedged" for this GPVM Plan hedging period nor will be counted in the GPVM Plan hedging period in which the hedges take place.

Resolution:

16. The Parties agree that Public Service may hedge up to 25% of its electric generation seasonal gas requirements under the 2-3 Year Strategy if gas prices are at or below the Floor Price at the time the hedge is purchased for the seasonal requirements for each of the GPVM Plan hedging periods covered by such hedging strategy during the 2010-2011 hedging period.

17. Any volumes of gas that are hedged for GPVM Plan hedging period other than November 2010 through March 2011 will be netted against the remaining hedges to be transacted for the applicable years. Such hedged volumes cannot be counted against the total volumes of gas allowed to be hedged for the heating season (November to March) in the 2010-2011 hedging period. For example, if Public Service executes any hedges for November 2012

through March 2013 during the 2010-2011 hedging period (April through October 2010), Public Service will file its 2012-2013 GPVM Plan for approval with the Commission showing the total “quantity of gas to be hedged,” including those hedges already transacted in 2010-2011. These volumes will not be hedged again. As this example shows, since Public Service is limited to hedging up to 25% of the forecasted electric generation seasonal gas requirements under the 2-3 Year Strategy, Public Service represents that it is virtually impossible for the long-term hedge quantities to exceed the overall hedging requirement for the 2012-2013 hedging period.

D. Process for Mitigation of Risk Exposure

Public Service’s Position:

18. Public Service does not believe that long-term hedges will necessarily cause a higher default risk. Long-term contracts contain some higher risk exposure because an entity is exposed to the market for a longer period of time. Public Service further believes the risk of non-performance by a counterparty is more directly related to the counterparty’s financial condition and trends over time than the amount of time that elapses between the date of the initial transaction and the date it settles.

Staff’s Position:

19. Staff is concerned that long-term hedges will cause a higher default risk (or nonperformance risk) because of the length of time the entity is exposed to the market. Staff believes that generally-accepted accounting principles, formerly set forth in Statement of Financial Accounting Standard (SFAS) No. 157⁶, require that Public Service consider the default

⁶ See summary of SFAS No. 157 at <http://www.fasb.org/summary/stsum157.shtml>.

risk of the counterparty and make a necessary adjustment to its calculations when the Company uses models to calculate the ongoing exposure to the Company and to ratepayers. Staff believes that the long-term hedges should be limited to 2-3 years as a mitigating factor against this higher risk.

Resolution:

1. Process

20. Public Service represents, and Staff accepts, that Public Service has adopted the following principles and processes in mitigating the risk of default of counterparties to hedge transactions, and agrees to continue to follow these principles and processes for the Electric GPVM Plans:

21. Public Service calculates exposure similar to others in the industry with minor exceptions. Any transaction, hedged or not, that is marked (*i.e.*, financial or fixed price purchase or sale) is marked daily in the Company's systems based on forward prices generally obtained from third-party sources accepted by the industry and Wall Street. Credit default risk is a function of the financial condition of the counterparty. The industry generally uses the rating agencies (S&P and Moody's) ratings when looking for default risk. These agencies calculate a default probability and recovery percentage that they publish.

22. The long-term nature of hedging may result in a higher dollar risk exposure with the counter-party when the volatility of the applicable commodity price is greater over the term of the hedge, due to the longer-term reliance upon the financial soundness of the counterparty. To address this potentially higher risk, Public Service routinely monitors counterparty financial conditions and market and counterparty trends. The Company requires and will continue to require contract provisions, including, but not limited to, adequate assurance, or other contract

provisions that allow the Company to request financial forms of security if the Company deems a counterparty's creditworthiness to be materially impaired.

23. Public Service has procedures in place to handle risks associated with its long-term gas hedging activities by using over-the-counter derivatives as financial instruments that also implement Public Service's hedging plan. In order to mitigate these risks, Public Service subjects all counterparties to a credit review per the guidelines set forth in Public Service's Wholesale Credit and Performance Risk Management Policy, as may be modified by Public Service from time to time. A current copy of Public Service's Wholesale Credit and Performance Risk Management Policy (Dated July 15, 2009 – Revision 5) is attached as Highly Confidential Exhibit B to this Stipulation.

24. In addition to the mitigation measures set forth above, Public Service represents that it performs a review of available credit and collateral requirements daily on all counterparties and may adjust the amount of collateral according to the guidelines set forth in Public Service's Wholesale Credit and Performance Risk Management Policy.

2. Allowable Adjustment to Hedged Quantities in Case of Counterparty Default

25. In addition, in the event that counterparty defaults on a hedged transaction, Public Service will apply the following guidelines in determining whether to leave the position open or to replace the position:

- (a) If the Company, as the result of a default by the counterparty, is required to pay the counterparty to settle a fixed-for-float swap or costless collar, the Company will replace the defaulted position with a new fixed-for-float swap for the same period and in the same quantity of the defaulted position.
- (b) If the Company, as the result of a default by the counterparty, receives none or only a portion of the positive benefit that would be due as a result of a positive mark on the defaulted hedged position, the Company will replace the hedge with the appropriate instrument for the current price level, provided that it has budget

dollars available under the hedge plan. If no hedging dollars are available, the position will be left un-hedged. The available hedging dollars will be the difference between the approved budget for that particular GPVM Plan hedging period, less any option premiums paid in implementing that year's seasonal hedging strategy.

E. Hedge Budget and Floor Price

Public Service's Position:

26. Public Service's initially filed GPVM Plan, attached to the Application as Highly Confidential Appendix A, p. 3 states, "The maximum annual amount of net hedging costs that Public Service may pass on to its retail electric customers, as approved by the Commission in Docket No.02S-315EG, is \$15 million." The Floor Price⁷ used to calculate the impact of the various hedges on the hedging budget has been proposed by the Company on an annual basis and is subject to approval by the Commission as part of its annual approval of the Company's GPVM plan.

Staff's Position:

27. Based on the Company's filing, Staff's position is that the combined budget for the seasonal strategy and the budget, as represented by the mark-to-market value of the 2-5 Year Strategy proposed by the Company for the same GPVM Plan hedging period, should be \$15 million. Fixed-for-float swaps or costless collars may not incur any upfront costs at their initial construction and, therefore, no dollar amounts are counted against the budget in the year for which they are executed. To the extent there are no upfront costs to reduce the size of the budget, Public Service could theoretically engage in unlimited hedges. Staff's concern about

⁷ Exhibit C, which is attached hereto and incorporated herein, provides examples on the interactions between the Floor Price, Settlement Price, and Strike Price that are used in the calculation of the hedge budget and in the recovery as gas costs in the GCA.

unlimited hedges was somewhat alleviated by Public Service's assertion contained in both the public and Highly Confidential versions of Appendix A and through other assurances provided by the Company that Public Service is required to limit the electric generation seasonal gas requirements it hedges on a long-term basis to 25% of its electric generation seasonal gas requirements.⁸ Staff remains concerned about the financial exposure from these cost-free financial instruments that are accounted for as mark-to-market and when the mark-to-market value starts to trend significantly in one direction within the initially proposed long-term timeframe of 2 to 5 years, depending on how Public Service manages the trades. Staff understands that Public Service does not want to trade the hedge positions once they are transacted. Since the budget for seasonal strategy is determined in the applicable GPVM Plan hedging period, Staff believes the budget for long-term hedges under the 2-5 Year Strategy should be considered in the same GPVM Plan hedging period when they become applicable even though the costs when they were transacted were zero. The offset to the budget for long-term hedges under the 2-5 Year Strategy should be the mark-to-market value when the budget for the GPVM Plan is considered. In Staff's view, the previous GPVM Plans only included the seasonal strategy that provided an understanding of the budget. Staff recognizes that offsets have not needed to be considered before, because Public Service's implementation of previous GPVM Plans generally did not include long-term hedge transactions under the 2-5 Year Strategy. Further, Staff believes that the long-term hedges should be limited to 2-3 years as a mitigating factor against a ballooning budget.

⁸ See Application, Public Version Appendix A, Price Volatility Mitigation Long-Term Strategy, p. 4.

Resolution:

28. The Parties agree that long-term hedges agreed to in this Stipulation that may be initiated in the current GPVM Plan hedging period have no impact on the current year's budget. The Parties agree that the long-term hedges that are transacted pursuant to the 2-3 Year Strategy by the Company for a given May 1 through April 30 prudence review period will count against that year's budget limit of \$15 million. The Parties further agree that the budget for the GPVM Plan for an applicable year with long-term hedges under such 2-3 Year Strategy shall be the remaining balance of the allowed annual budget amount of \$15 million after the offset for long-term hedges. The offset to the budget for these long-term hedges under the 2-3 Year Strategy will be determined by the volume from the respective long-term hedges in prior years, multiplied by the negative difference between the currently effective Floor Price, the determination of which is set forth below, and the contracted strike price of a fixed-for-float swap or the contracted strike price associated with the put option that is part of a costless collar.⁹ For the purpose of this offset, the then-applicable Floor Price is the average of monthly index prices as published by Platts in its Inside FERC Gas Market Report for the index labeled "CIG-Rocky Mountains" over the previous four heating seasons (November to March). The Parties also agree that Public Service will use the average of the monthly index prices as described above as a guide to reset the Floor Price in the annual GPVM filing each year; however, if Public Service proposes an alternative Floor Price, it shall provide its rationale and a detailed explanation for such alternative Floor Price in its annual GPVM application, which shall be subject to Commission approval.

⁹ The volume associated with a costless collar will be the same as the volume of the underlying puts and calls, as Public Service uses the same number of puts and calls when constructing a costless collar.

29. Applying the above agreement to the Application filed in this docket, the Parties agree that the Company's GPVM Plan, as contained in Appendix A (Public Version) and Highly Confidential Appendix A, and the Approval Form setting forth GPVM Plan Approval Items, as contained in Highly Confidential Appendix B, shall be revised. Accordingly, the Parties agree that the Revised Appendix A (Public Version), Highly Confidential Revised Appendix A and the Highly Confidential Revised Appendix B shall replace and supersede the corresponding Appendix A (Public Version), Highly Confidential Appendix A and Highly Confidential Appendix B filed with the Application and shall become a part of the amended Application to be granted by the Commission in this proceeding.

F. Mark-to-Market Value in an Informational filing with the Commission

Public Service's Position:

30. Public Service does not currently provide any mark-to-market information on hedges executed as part of its long-term hedging strategy to the Commission.

Staff's Position:

31. Staff believes that, given the 2-5 year timeframe for long-term hedges requested by Public Service, the financial exposure from these cost-free financial instruments as they are marked to market can be significant when the gas price starts to trend and sustains in one direction. Staff believes it is appropriate that Public Service should file an exception report with the Commission if the mark-to-market value exceeds \$15 million. Staff further believes Public Service should end all hedging until such time as the Commission addresses the exception report.

Resolution:

32. Public Service shall provide a quarterly report to the Commission, in the same docket in which the applicable GPVM Plan was approved, showing the mark-to-market value of the long-term hedges transacted under the 2-3 Year Strategy as of the end of each calendar quarter. This quarterly report is to be filed within 15 days of the end of each quarter. These reports will cover the second, third and fourth quarters of the same calendar year and the first quarter of the subsequent calendar year. Under this schedule, the cycle of quarterly reports will be filed under each new GPVM Plan docket filed in the middle of January each year. The quarterly report shall be in the format provided in Exhibit D, attached hereto and incorporated as a part hereof.

III. IMPLEMENTATION

33. This Stipulation shall not become effective until the issuance of a final Commission Order approving the Stipulation that does not modify the Stipulation in a manner that is unacceptable to any of the Parties. In the event the Commission modifies this Stipulation in a manner unacceptable to any Party, that Party shall have the right to withdraw from this Stipulation and proceed to hearing on the issues that may be appropriately raised by that Party in this docket. The withdrawing Party shall notify the Commission and the Parties to this Stipulation by e-mail within three business days of the Commission modification that the Party is withdrawing from the Stipulation and that the Party is ready to proceed to hearing; the e-mail notice shall designate the precise issue or issues on which the Party desires to proceed to hearing (the "Hearing Notice").

34. The withdrawal of a Party shall not automatically terminate this Stipulation as to the withdrawing Party or any other Party. However, within three business days of the date of the

Hearing Notice from the first withdrawing Party, all Parties shall confer to arrive at a comprehensive list of issues that shall proceed to hearing and a list of issues that remain settled as a result of the first Party's withdrawal from this Stipulation. Within five business days of the date of the Hearing Notice, the Parties shall file with the Commission a formal notice containing the list of issues that shall proceed to hearing and those issues that remain settled. The Parties who proceed to hearing shall have and be entitled to exercise all rights with respect to the issues that are heard that they would have had in the absence of this Stipulation.

35. Hearing shall be scheduled on all of the issues designated in the formal notice filed with the Commission as soon as practicable. In the event that this Stipulation is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Stipulation shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Stipulation.

IV. GENERAL TERMS AND CONDITIONS

36. This Stipulation reflects compromise and settlement of all issues raised or that could have been raised in this docket. Approval by the Commission of this Stipulation shall constitute a determination that the Stipulation represents a just, equitable and reasonable resolution of all issues which were or could have been contested between the Parties hereto in this proceeding. Notwithstanding the resolution of the issues set forth in this Stipulation, none of the methodologies herein contained shall be deemed by the Parties to constitute a settled practice or precedent in any future proceeding, and nothing herein shall constitute a waiver by any party with respect to any matter not specifically addressed herein.

37. The Parties to this Stipulation state that reaching agreement as set forth herein by means of a negotiated settlement rather than through a formal adversarial process is in the public interest and that the results of the compromises and settlements reflected by and in this Stipulation are just, reasonable and in the public interest.

38. Except as otherwise provided herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of said Stipulation, the settlement terms and conditions contained in this Stipulation, nor the Stipulation itself, may be used in this or any other administrative or court proceeding by any of the Parties hereto.

39. The Parties agree to a waiver of compliance with any requirements of the Commission's Rules and Regulations to the extent necessary to permit all provisions of this Stipulation to be carried out and effectuated.

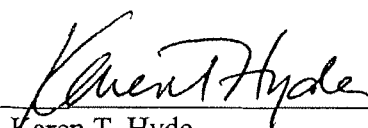
40. This Stipulation may be executed in counterparts, each of which when taken together shall constitute the entire Stipulation.

DATED this 12th day of March, 2010.

Respectfully submitted,

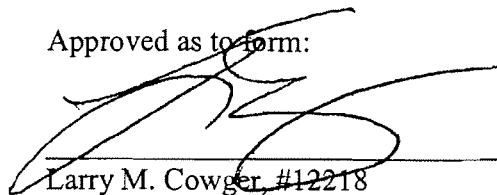
**PUBLIC SERVICE COMPANY OF
COLORADO**

By: _____



Karen T. Hyde
Vice President, Rates &
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Approved as to form: _____



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By: _____

Eugene L. Camp
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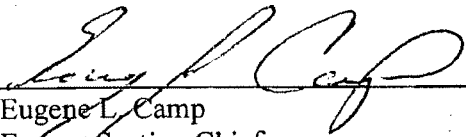
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**STAFF OF THE COLORADO
PUBLIC UTILITIES COMMISSION**

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Exhibit A

Public Service Company
Long Term Hedge Report
Volumes - Electric Dept

2010-11 GPVM Plan
Schedule PVM-5

2010-11	Total Requirements	Volume Eligible for Long-Term Hedge Strategy	Cumulative Long- Term Hedges Under Contract	Eligible Long-Term Volumes Not Under Contract
November	4,395,637	1,098,909	300,000	798,909
December	4,207,930	1,051,983	310,000	741,983
January	4,728,814	1,182,204	310,000	872,204
February	4,511,732	1,127,933	280,000	847,933
March	3,835,889	958,972	310,000	648,972
Total Winter	21,680,002	5,420,001	1,510,000	3,910,001

2011-12	Total Requirements	Volume Eligible for Long-Term Hedge Strategy	Cumulative Long- Term Hedges Under Contract	Eligible Long-Term Volumes Not Under Contract
November	3,082,000	770,500		770,500
December	3,333,050	833,263		833,263
January	3,502,180	875,545		875,545
February	3,360,799	840,200		840,200
March	2,851,160	712,790		712,790
Total Winter	16,129,189	4,032,297	-	4,032,297

2012-13	Total Requirements	Volume Eligible for Long-Term Hedge Strategy	Cumulative Long- Term Hedges Under Contract	Eligible Long-Term Volumes Not Under Contract
November	2,996,163	749,041		749,041
December	3,318,717	829,679		829,679
January	3,651,345	912,836		912,836
February	3,683,062	920,766		920,766
March	3,367,467	841,867		841,867
Total Winter	17,016,754	4,254,189	-	4,254,189

EXHIBIT B

(Public Version)

There are risks associated with counterparty performance in using over the counter derivatives as financial instruments to implement the Company's hedging plan. In order to mitigate these risks the Company subjects all counterparties to a credit review per the guidelines set forth in the Company's Wholesale Credit and Performance Risk Management Policy, which is contained in Highly Confidential Exhibit B. The following is a summary of the credit review and is provided solely for purposes of the public version of this Exhibit B.

The credit review incorporates the following steps.

1. All counterparties are reviewed financially and credit lines approved prior to permitting any transactions (financial or otherwise).
 - a. Audited financial statements (comparative) are required
 - b. Annually reviewed
 - c. Rating agency ratings and reviews are utilized when available
 - d. When qualified, lines are limited by the tangible net worth and unsecured debt ratings
 - e. Security is required if not qualified, or when the required credit exceeds available unsecured credit
 - f. Security issuers are also qualified/approved when applicable
2. Financial hedging is enabled/transacted under an ISDA (Int'l Swaps & Derivatives Agreement).
 - a. The ISDA contains 'thresholds' - they are similar to credit lines, but applicable only to transactions under the ISDA.
 - b. We measure and monitor exposure (Mark-to-Market) every day
 - c. When the exposure exceeds the threshold (generally, thresholds for major banks falls in the \$10 to \$20 million range) the ISDA requires the excess be paid to our company as security/margin (this is usually cash/wired)
 - d. These provisions are reciprocal, so they apply to us as well as the counterparty
 - e. Our operating company thresholds are generally in the \$10 to \$20 million range as well
3. Adequate Assurance is also included in our agreements
 - a. This provision allows a party to request adequate assurance (collateral) in the event that counterparty's creditworthiness is deemed materially impaired.
 - i. This is generally applicable if a counterparty were to be downgraded to below investment grade (i.e. BB+/equivalent or lower)
 - ii. It could also be invoked in the event that a major adverse decision/judgment was rendered against them (i.e. a regulatory decision not allowing needed recovery of costs imprudently incurred)

Exhibit C
Interactions of Floor Price, Settlement Price and Strike Price on Hedge
Budget And Gas Cost Recovery in the Gas Cost Adjustment (GCA)
Mechanism

To clarify the various calculations regarding the floor price and its impact or lack thereof in determining the annual budget for the GPVM, the calculated cost of the hedge program and the actual dollars that will be debited or credited to the GCA the following examples are presented to illustrate the impacts under different scenarios:

Scenario 1 – Strike price above the floor price but below the settlement price

Given a floor price of \$5.00, assuming the CIG Rocky Mountain index price settles at \$7.00 per Dth and Public Service has a fixed price hedge at a \$6.50 strike price for a volume of 500,000 Dth for the month.

- a) The annual hedge budget would be reduced from \$30M to \$29.25M as a result of taking the difference between the \$6.50 strike price and the \$5.00 floor price multiplied by the monthly volume of 500,000 Dth.
- b) The calculated cost of the hedge plan would be reduced by \$250,000 as a result of the positive settlement value from the hedge, which is calculated by taking the difference between the \$7.00 index settlement and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.
- c) The value credited to the GCA would be the actual settlement cost of the hedge which is \$250,000 and is calculated by taking the difference

between the \$7.00 index settlement and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.

Scenario 2 – Strike price above floor price and settlement price, however settlement price is below the floor price

Given a floor price of \$5.00, assuming the CIG Rocky Mountain index price settles at \$4.00 per Dth and Public Service has a fixed price hedge with a \$6.50 strike price for a volume of 500,000 Dth for the month.

- a) The annual hedge budget would be reduced from \$30M to \$29.25M as a result of taking the difference between the \$6.50 strike price and the \$5.00 floor price multiplied by the monthly volume of 500,000 Dth.
- b) The calculated cost of the hedge plan would be increased by \$750,000 as a result of the negative settlement value from the hedge, which is calculated by taking the difference between the \$5.00 floor price¹ and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.
- c) The value debited to the GCA would be the actual settlement cost of the hedge which is \$1,250,000 and is calculated by taking the difference between the \$4.00 index settlement and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.

Scenario 3 – Strike price above floor price and settlement price, however settlement price is above the floor price

¹ When the actual index settlement is below the floor price, for purposes of calculating the cost of the hedging program relative to the annual budget the floor price is used instead of the index settlement as described in the GPVM plan.

Given a floor price of \$5.00, assuming the CIG Rocky Mountain index price settles at \$5.50 per Dth and Public Service has a fixed price hedge with a \$6.50 strike price for a volume of 500,000 Dth for the month.

- a) The annual hedge budget would be reduced from \$30M to \$29.25M as a result of taking the difference between the \$6.50 strike price and the \$5.00 floor price multiplied by the monthly volume of 500,000 Dth.
- b) The calculated cost of the hedge plan would be increased by \$500,000 as a result of the negative settlement value from the hedge, which is calculated by taking the difference between the \$5.50 index price² and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.
- c) The value debited to the GCA would be the actual settlement cost of the hedge which is \$500,000 and is calculated by taking the difference between the \$5.50 index settlement and the \$6.50 strike price multiplied by the monthly volume of 500,000 Dth.

Scenario 4 – Strike price below floor price and above settlement price

Given a floor price of \$5.00, assuming the CIG Rocky Mountain index price settles at \$4.00 per Dth and Public Service has a fixed price hedge with a \$4.50 strike price for a volume of 500,000 Dth for the month.

² In this scenario the actual index settlement was above the floor price and therefore for purposes of calculating the cost of the hedging program relative to the annual budget the index price is used as described in the GPVM plan.

- a) The annual hedge budget would remain at \$30M; since the floor price is greater than the strike price no adjustment to the annual budget is required.
- b) There would be no impact on the calculated cost of the hedge plan since the strike price of the hedge is below the floor price.
- c) The value debited to the GCA would be the actual settlement cost of the hedge which is \$250,000 and is calculated by taking the difference between the \$4.00 index settlement and the \$4.50 strike price multiplied by the monthly volume of 500,000 Dth.

The following table compares the differences in the annual hedge budget, the cost of the hedge plan and the value debited or credited to the GCA as a result of changing the floor price from \$5.00 to \$5.85 for each of the scenarios listed above.

Scenarios	\$5.00 Floor Price	\$5.85 Floor Price
1A – Annual Budget	\$29.25M	\$29.675M
1B – Hedge Cost	(\$250,000)	(\$250,000)
1C – GCA Impact	(\$250,000)	(\$250,000)
2A – Annual Budget	\$29.25M	\$29.675M
2B – Hedge Cost	\$750,000	\$325,000
2C – GCA Impact	\$1,250,000	\$1,250,000
3A – Annual Budget	\$29.25M	\$29.675M
3B – Hedge Cost	\$500,000	\$325,000
3C – GCA Impact	\$500,000	\$500,000
4A – Annual Budget	\$30M	\$30M
4B – Hedge Cost	\$0	\$0
4C – GCA Impact	\$250,000	\$250,000

Exhibit D

**Public Service Company
Long-Term Hedge Summary
Open Positions as of
Quarter Ended December 31, 2009**

Month	Volume (Dth)	Weighted Average Contract Price ¹	Current Market Price ²	Mark to Market Value ³
November 2010	525,000	\$5.791	\$5.636	(\$81,600)
December 2010	542,500	\$6.076	\$6.153	\$41,540
January 2011	542,500	\$6.226	\$6.383	\$84,940
February 2011	490,000	\$6.235	\$6.360	\$61,250
March 2011	542,500	\$6.160	\$6.153	(\$4,069)
Total	2,642,500			\$102,061

¹ The weighted average contract price is the sum of the volumes of each open contract multiplied by their respective contract price divided by the total volume of all open contracts for each respective month

² The current market price for each month as of the quarter ended date in the heading.

³ The mark to market price is the difference between the weighted average contract price and the current market price multiplied by the monthly volume.

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2010-11 Gas Price Volatility Mitigation Plan

Gas Price Volatility Mitigation Plan
Public Service Company of Colorado - Electric Department
December 2009

Review of Historical Market Conditions

During the winter of 2008-2009, the US economy entered into "The Great Recession". Gross Domestic Product (GDP) decreased by 2.6 percent, unemployment rose to 7.5 percent and manufacturing decreased by 11.4 percent resulting in record high gas storage inventories and falling natural gas prices. The winter of 2008-2009 was the coldest since 2002-2003, however, the cold winter did not push prices up as the impact of a slowing economy sent natural gas demand spiraling downward. The average NYMEX Closing price for the first quarter of 2009 was \$4.89 per MMBtu as compared to the average NYMEX Closing price for the fourth quarter of 2008 of \$6.94 per MMBtu.

The summer of 2009 was the 34th coolest since 1895. For the months from June to August 2009, the average temperature was 0.4 degrees below the 20th century average for the Lower-48 States. According to the Energy Information Administration (EIA) the electric-power sector's natural gas consumption through July 2009 increased by 0.4 percent compared to the same period in 2008, due to coal-to-natural gas fuel switching. However, this increase in natural gas consumption only prevented prices from falling even further as the average NYMEX Closing price for the second quarter of 2009 was \$3.497 per MMBtu and \$3.39 per MMBtu in the third quarter of 2009 as demand from the industrial, residential and commercial sectors continued to be hampered by weak economic conditions as worldwide economic growth continued to shrivel.

Despite falling demand and prices, natural gas production in the Lower-48 States rose by 2.9 percent year-over-year through July 2009, despite a more than 40 percent decline in the working rig count since the start of the year. As a result, on September 4, 2009, the NYMEX October natural gas futures contract closed at \$2.73 per MMBtu, a 7-year low.

However, only a month later, on October 9, 2009, the November NYMEX natural gas futures contract rebounded up 75% to close at \$4.77 per MMBtu as the third coldest October weather engulfed most of the demand centers of the U.S. natural gas market. This resulted in a reversal of the long slide in natural gas prices as the average NYMEX Closing price for fourth quarter of 2009 was \$4.1683 per MMBtu. The 12-month average NYMEX Henry Hub natural gas settlement price for 2009 was \$3.9862 per MMBtu, as compared to an average settlement price of \$9.04 per MMBtu in 2008. During 2009, the NYMEX Henry Hub futures contract swung between a low of \$2.508 in September to a high of \$6.22 in January.

The combination of a cooler than normal summer and increasing natural gas production helped push U.S. natural gas storage inventories to a new record high at the end of the injection season, eclipsing the previous record high set in November, 2007 of 3.518 Bcf. EIA reported the injection season ended with 3.837 Tcf in storage on November 27, 2009, which is 470, Bcf higher than the same week in 2008 and 487 Bcf above the five-year average.

Regionally, the monthly gas price index for CIG- Rockies Mountains, as posted by Inside FERC's Gas Market Report, ranged from a high of \$4.35 per MMBtu in January, 2009 to a low

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2010-11 Gas Price Volatility Mitigation Plan

of \$2.30 per MMBtu for September 2009. In addition, the daily spot market actually dropped as low as \$1.85 per MMBtu over the labor-day weekend and would most likely have kept falling had Colorado not experienced the second coldest October on record.

Market Outlook

In September, 2009, Federal Reserve Chairman Ben Bernanke stated that the current economic recession was "very likely over." It is being forecasted that the economy will start to recover during the winter of 2009-2010; however, the recovery will be fragile. According to Global Insight, the GDP is projected to show mild growth, 0.7 percent, compared to last winter. The unemployment rate is expected to remain at approximately 10 percent, and manufacturing, an important component of natural gas demand, is projected to decline 1.6 percent this winter compared to last winter's steep decline of 11.4 percent. Economic growth may well reemerge, but will likely do so gradually and the recovery has yet to register a strong impact on industrial demand. PIRA Energy Group (PIRA) estimates coal based electric generation's projected aggressive re-capture of the electric generation market from gas will result in sizable overall net demand losses, barring a very cold winter.

In September 2008, the natural gas directed rig count hit a historical high of 1,606 active rigs leading to an estimated increase in natural gas production in the Lower-48 States of 2.9 percent year-over-year through July 2009. Although we have experienced a decline in excess of 40% in the overall working rig count since the start of the year, the horizontal rig count has dropped only about 27 percent according to Cambridge Energy Research Associates (CERA).

Horizontal rigs are used predominantly to drill shale gas wells, which typically produce twice the output of a conventional well on average, and are the primary reason for the surge in natural gas supply during the past few years. The cost of developing shale gas wells is falling as operators implement operational efficiencies and realize increases in initial production rates due to the implementation of directional drilling techniques. The number of wells required to maintain production is falling and will continue to fall as major shale plays ramp up and become a larger component of North America natural gas production. The Marcellus and the Haynesville shale gas plays continue to lead a slight recovery in the gas-directed rig count. CERA estimates that the increased activity in these areas more than offsets the decline in activity in other areas. This is part of the reason why natural gas production levels have not dropped proportionally to the decline in the total natural gas rig count.

The continuing supply/demand imbalance has allowed natural gas inventories to set a new all time high inventory level as of November 27, 2009 of 3,837 billion cubic feet (Bcf). This record natural gas storage inventory has put significant downward pressure on gas prices this year and is expected to continue through 2010. Currently, NYMEX prices for the 2010-11 heating season are \$6.34 and current price forecasts for Henry Hub for this upcoming heating season range from \$4.23 to \$7.00.

Although record high storage levels, resilient production and lower demand due to broader economic events have put downward pressure on gas prices and the downward pressure is anticipated to continue, in the past natural gas prices have tended to reverse themselves relatively quickly. The possibility of price fluctuations due to extreme weather events remain, which

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2010-11 Gas Price Volatility Mitigation Plan

underscores the need for continued price volatility mitigation efforts. Therefore, the goals of the Company's gas price mitigation efforts will be similar to those of previous years' plans

Definition of Volatility

This plan is titled "Gas Price Volatility Mitigation Plan", however it should be noted that the academic definition of the word volatility is not being used in the title or throughout this document. For purposes of this document, the "volatility" that the plan is mitigating is sharp upward price movement only. It is assumed in this document that downward price "volatility" is considered beneficial to the ratepayers and therefore the plan does not specifically attempt to mitigate downward price volatility.

Price Volatility Mitigation Goals

The overall goal of the Company's Gas Price Volatility Mitigation Plan is to reduce the exposure to and magnitude of gas price spikes at a reasonable cost to Public Service Company's electric customers. The goal of the plan is not to attempt to outguess the market or speculate on the future direction of energy prices. Uncertain economic outcomes and the volatility of the natural gas market create conditions where the final result of implementing the Company's plan may be gas costs that are somewhat higher than if all gas supply had been purchased on the monthly spot market. However, the Company maintains that gas price volatility mitigation is important to protect the Company and its electric customers from the risk of very high gas prices for electric generation due to the unstable market conditions discussed above.

The targeted hedge volume for Public Service's Electric Generation portfolio is approximately 75% of the forecasted gas usage for November 2010 through March 2011 (leaving 25% of the volumes to be purchased on a spot basis). The Company will use storage to hedge approximately 25% of the forecasted winter purchase requirements and financial instruments to hedge the remaining 50%.

Hedge Budget

The maximum annual amount of net hedging costs that Public Service may pass on to retail electric customers, as approved by the Commission in Docket No. 02S-315EG, is \$15 million in order to determine the Annual Gas Hedging Budget the \$15 million will be reduced by the offset¹ from the long-term hedges that are currently in place as determined in accordance with the Stipulation and Agreement entered in Docket No. 10A-026E. Therefore, the Annual Gas Hedging Budget for 2010-11 will be \$14,316,125.

¹ The offset to the budget is determined by the volume of the long-term hedges applicable to the current Gas Purchase Year, that were previously executed in prior years, multiplied by the negative difference between the currently effective Floor Price and the contracted strike price of a fixed-for-float swap or the contracted strike price associated with the put option that is part of a costless collar. For the purpose of this offset, the Floor Price is the average of monthly index prices as published by Platts in its Inside FERC Gas Market Report for the index labeled "CIG-Rocky Mountains" over the previous four heating seasons (November to March), unless an alternative Floor Price is approved by the Commission.

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2010-11 Gas Price Volatility Mitigation Plan

In order to determine the budgeted hedge cost per Dth, the Annual Gas Hedging Budget of \$14,316,125 will be divided by the storage withdrawals (5,419,800 Dth) plus the hedging volumes (10,845,000 Dth) net of any long-term hedges (2,642,500 Dth) that have previously executed for 2010-11, which will result in a budgeted hedge cost per Dth of \$1.05. This will result in \$5,695,847 of budgeted hedge costs assigned to storage withdrawal volumes and \$8,620,278 available to implement the seasonal hedging strategy as shown on the Hedging Tool/Gas Price Matrix, Schedule PVM-3.

Floor Price

This year's floor price will be \$■, this is the average of the Inside FERC-CIG monthly index price over the past four heating seasons (November through March) as shown on Schedule PVM-1.

The floor price is used to determine the cost of the Price Volatility Mitigation Plan when either a fixed price swap or a costless collar is purchased. In calculating the total cost of the plan, all settlement costs included in the hedging budget will be based on the costs above the floor price. For instance, if the Company purchases a \$6.50 per MMBtu fixed price swap (or a costless collar with a floor price of \$6.50 per MMBtu) against the GPVM plan floor price of \$■ per MMBtu it counts \$■ per MMBtu towards the hedging budget if CIG Index prices settled at \$■ per MMBtu or lower. However, if the Company purchases call options only the actual premiums paid are counted against the hedge budget.

Price Volatility Mitigation Long-Term Strategy

Consistent with past plans, there are two primary features of the Company's price volatility mitigation strategy: a seasonal strategy and a longer-term (2 to 3-year) strategy. Public Service will utilize this two-pronged approach in its plan in an effort to provide longer-term price stability, while at the same time mitigating much of the intra-seasonal volatility.

The long-term price volatility mitigation strategy will focus on a time horizon of two to three years. This time horizon and corresponding strategy will allow customers to avoid a portion of the price risk related to significant increases in gas prices that may last for longer periods of time. The utilization of a longer-term strategy will allow the Company to mitigate the effects of this type of price risk, while allowing the seasonal strategy to mitigate the effects of the shorter-term price spikes during peak demand months.

In keeping with a portfolio approach to its gas price volatility mitigation strategy, Public Service will target up to 25% of its Electric generation seasonal gas requirements to be hedged on a longer-term basis if gas prices retreat are at or below the floor price as described above. This quantity will provide a level of price stability in the Company's gas portfolios, while not eliminating the desire for the portfolios to be sensitive to market prices in the long run. In addition, the long-term strategy will complement the seasonal strategy in providing reasonably-priced gas supply service to Public Service's electric customers.

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2010-11 Gas Price Volatility Mitigation Plan

Public Service will begin the implementation of its long-term price volatility mitigation strategy if gas prices in the Rocky Mountain Region are at or below the floor price of \$[REDACTED] as described above. Employing this level of pricing will ensure that the longer-term component of the volatility mitigation strategy will remain reasonably market sensitive, while still providing an adequate level of price stability.

Price Volatility Mitigation Seasonal Strategy

The purpose of the seasonal component of the strategy is to reduce the risk of price spikes resulting from short-term upsets in the wholesale gas markets. The seasonal strategy will allow for gas prices to be hedged between the months of April 2010 through October 2010, prior to the months of delivery. This timeframe allows the Company to analyze market data regarding production trends, demand trends and storage inventory levels in making its hedging decisions. The seasonal nature of the strategy is intended to provide a desired level of price risk protection, while maintaining a balance between market premiums and overall plan costs.

To allow for a more cost effective approach to the hedging activity, the targeted volume may be modified for a particular month to allow for standard-sized packages of gas to be hedged. For example, in an effort to make the acquisition of the hedging instruments more cost effective, the targeted daily volumes may be modified to match the standard NYMEX contract size (10,000 MMBtu per contract). Schedule PVM-2 incorporates a dollar cost averaging approach, where the Company will layer in the hedged volume over the planned implementation period. The layering approach spreads the timing risk of the hedging decision over the full planning horizon and ensures that the Company will not enter into all or a very large percentage of the hedged volume at the peak of the market.

The Company will implement the Volume Schedule (Schedule PVM-2, page 2) each month using the Hedging Tool/Gas Price Matrix, attached as Schedule PVM-3. This matrix is designed in such a way as to keep the total hedging costs (the sum of the premium cost and settlement costs) within the Annual Gas Hedging Budget for 2010-11 net of any budgeted hedge costs assigned to storage withdrawal volumes². The matrix takes into account that the approved hedging tools for this plan will include fixed price purchases (including NYMEX with basis differentials and fixed-for-float swaps), costless collars and call options. The matrix outlines the hedging tools to be used at the various gas pricing levels that may be experienced over the implementation period.

The Company's plan is that when gas prices are below the Floor Price as defined above, the Company will use fixed price hedges, costless collars or a combination of both. As the market price moves above the Floor Price, the Company will shift from the combination of fixed price hedges and costless collars to a combination of costless collars and call options. The premiums for the options will be limited to the budgeted amount of \$[REDACTED] per Dth, the Company will

² The Company acquired Totem Storage capacity for the electric portfolio beginning in the summer of 2009 and in recognition of the ability of storage withdrawals, the volume of financial hedging required to meet the 75% hedge target will be reduced by the projected storage withdrawal volumes.

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2010-11 Gas Price Volatility Mitigation Plan

manage the budget by adjusting the strike price “out of the money” to keep the premium within the budgeted amount. While it is understood that call options with significantly higher strike prices will not provide as much protection against smaller movements in gas price, the trade off for lower premiums is appropriate as gas prices climb further away from the mean price. The cost for costless collars and fixed price swaps will be calculated as described above in the section labeled “Floor Price”.

Implementation Strategy

In implementing the Company’s Price Volatility Mitigation Plan, the Company will use its best judgment to select the days to complete the hedging activity. On the selected day(s), the Company will complete the hedging transaction as identified in the Volume Schedule (Schedule PVM-2, page 2) using the hedging instruments identified in the Hedge Tool/Gas Price Matrix (Schedule PVM-3). Due to small or “odd lot” volumes in various months, and the need to apply percentage splits to the hedge volumes, the Company may use a particular hedging instrument for certain months of the delivery period, while using another instrument for another month. In doing so, the Company will strive to meet the intent of the matrix selection process while still allowing it to complete the transactions in a commercially acceptable fashion (e.g., where the volume is so small or the volume does not fit into a normal trading package size, the hedging counter-parties may not be interested in completing such transactions). In order to provide flexibility to deal with the timing of weather events at the beginning or end of a month, the Company may hedge the monthly volumes any time during the period ten days before and ten days after the original targeted month.

Adjustment as a result of Counterparty Default

In the event that counterparty defaults on a hedged transaction, Public Service will apply the following guidelines in determining whether to leave the position open or to replace the position:

- a) If the Company, as the result of a default by the counterparty, is required to pay the counterparty to settle a fixed-for-float swap or costless collar, the Company will replace the defaulted position with a new fixed-for-float swap for the same period and in the same quantity of the defaulted position.
- b) If the Company, as the result of a default by the counterparty, receives none or only a portion of the positive benefit that would be due as a result of a positive mark on the defaulted hedged position, the Company will replace the hedge with the appropriate instrument for the current price level, provided that it has budget dollars available under the hedge plan. If no hedging dollars are available, the position will be left un-hedged. The available hedging dollars will be the difference between the approved budget for that particular Gas Purchase Year, less any option premiums paid in implementing that year’s seasonal hedging strategy.

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2010-11 Gas Price Volatility Mitigation Plan

Conclusion

Continued gas price volatility is projected for the upcoming heating season. The Company is proposing to implement a strategy that will protect approximately 75% of the normal winter requirements from exposure to gas price fluctuations. Also, to manage the hedging costs, a mix of hedging instruments, including call options, fixed-float swaps and costless-collars is being proposed. This plan will achieve the goal of the Company's Price Volatility Mitigation Plan, which is to reduce the exposure to and magnitude of gas price spikes at a reasonable cost to Public Service's customers.

Schedule PVM-1

INSIDE FERC CIG- ROCKY MOUNTAIN INDEX

YEAR	NOV-MAR					
	NOV	DEC	JAN	FEB	MAR	AVG
2005-06	\$ 10.75	\$ 8.60	\$ 8.84	\$ 6.65	\$ 6.14	\$ 8.20
2006-07	\$ 3.61	\$ 6.02	\$ 5.98	\$ 7.09	\$ 7.81	\$ 6.10
2007-08	\$ 5.99	\$ 5.63	\$ 4.17	\$ 6.41	\$ 6.17	\$ 5.67
2008-09	\$ 2.78	\$ 4.63	\$ 4.35	\$ 2.98	\$ 2.47	\$ 3.44
2009-10	\$ 4.32	\$ 4.20	\$ 5.54	\$ 5.65	\$ 5.62	\$ 5.07
2010-11	\$ 5.98	\$ 6.32	\$ 6.52	\$ 6.48	\$ 6.36	\$ 6.34
Average-Past 4 Heating Seasons						\$ 5.854

NOTE: Feb & Mar 2010 are projected prices based upon NYMEX and CIG basis as of December 28, 2009

Public Service Company of Colorado
2010-11 Electric Hedge Volume Volumes
Schedule PVM-2

	a.	b.	c.	d.	e.	f.	g.	h.	i.	j.	k.	l.	m.	n.	o.	p.
	Month	Total Projected Gas Purchase Volume	Jurisdictional Allocation Factor *	CO Retail Volume (b. x c.)	Storage Volumes	Total Hedge Volume ((d. x 75%)-e.) **	Rounded Hedge Volumes (Net of Storage)	Calculated Daily Volume Total (f. /Days/Mo.)	Rounded Daily Hedge Volume (MMBtu/day)	Daily Transaction Volumes Completed April	May	June	July	August	September	October
4	May-10	-	0.0%	-	-	0	0	0	-							
5						0%										
6	Jun-10	-	0.0%	-	-	0	0	0	-							
7						0%										
8	Jul-10	-	0.0%	-	-	0		0	-							
9						0%										
10	Aug-10	-	0.0%	-	-	0	0	0	-							
11						0%										
12	Sep-10	-	0.0%	-	-	0	0	0	-							
13						0%										
14	Oct-10	-	0.0%	-	-	0	0	0	-							
15						0%										
16	Nov-10	5,108,830	86.0%	4,395,637												
17																
18	Dec-10	5,009,440	84.0%	4,207,930												
19																
20	Jan-11	5,629,540	84.0%	4,728,814												
21																
22	Feb-11	5,371,110	84.0%	4,511,732												
23																
24	Mar-11	4,512,810	85.0%	3,835,889												
25																
26	Apr-11		0.0%													
27																
28	Total	25,631,730		21,680,001	5,419,801	10,840,201	10,845,000									
29					25%	50%										

30 * Jurisdictional Allocation Factor is the percentage of total sales to jurisdictional retail customers.

31 ** The Monthly Hedge Volume is only calculated during the months of November to March and are rounded.

Schedule PVM-3
Public Service Company of Colorado

2010-11 Electric Department Hedging Tool/Price matrix						
Hedge Volume						Hedge Cost
Target (Dth)	13,622,300					Target \$14,316,125 \$ 1.051
Storage DTH	5,419,800					Storage \$5,695,847
Hedge Volume						Hedge Cost
Target (Dth)	8,202,500					Target \$8,620,278 \$ 1.051
Hedging Instruments						
	Market	Market at	Fixed Price or			Total
	Floor	time of Hedge	Costless Collar	ATM Call	OTM Call	Cost
Pricing Scenario 1						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 2						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 3						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 4						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 5						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 6						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 7						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 8						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 9						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 10						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 11						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 12						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 13						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 14						
% of Portfolio						
Cost						\$8,620,278
Pricing Scenario 15						
% of Portfolio						
Cost						\$8,620,278

Schedule PVM-4
Public Service Company of Colorado
Special Requirements for Financial Derivatives

Public Service's 2010-2011 Gas Price Volatility Mitigation Plan will use financial derivative products, including fixed-for-float swaps, NYMEX futures contracts with basis differentials, costless collars and call options in its efforts to mitigate gas price volatility for the Company's gas sales customers.

The Company has established individual authority limits for the following individuals:

Gas Buyer/Trader: Monica Nedbalski, Janice Vargas, Kathleen Little and Jeff Spector shall have the authority to complete all transactions, subject to prior approval by the Manager, Gas Supply or the Director, Gas Supply. The Gas Buyer/Trader shall have the discretion to agree to variances in price quotes up to 5% of the price approved by the Manager, Gas Supply or the Director, Gas Supply. The maximum amount of any financial derivatives entered into during any single day by each Gas Buyer will be limited to 50,000 Dth per day (1,550,000 Dth per month) per month.

Manager, Gas Supply: Jeff Ishee or Craig Rozman shall have the authority to approve all swaps, financial transactions, costless collars, and call options up to the full price and quantity limits included in the Company's Price Volatility Mitigation Plan.

Director, Gas Supply: Tim Carter shall have the same authority to approve the use of financial derivatives as the Manager, Gas Supply.

Vice President, Fuels: Susan Arigoni shall have the same authority to approve the use of financial derivatives as the Manager, Gas Supply.

Finally, Public Service will record and maintain the required supporting information and documentation on each financial derivative transaction.

All personnel titles referenced above are for employees of Xcel Energy Services Inc.

Appendix B
Page 1 of 3

**Price Volatility Mitigation Plan Approval Form
Public Service Company of Colorado
Electric Department
2010-11 Hedging Period**

Public Service Company of Colorado is requesting approval of the following three items related to its Electric Department Gas Price Volatility Plan for the period May 1, 2010 through April 30, 2011:

- 1) The Gas Price Volatility Mitigation Plan for 2010-11 includes two components: a seasonal strategy and a long-term strategy. The combined volume, available to be hedged under the two components, is a maximum of 75% of the monthly forecast purchase volumes. The long-term strategy targets up to 25% of the Company's seasonal gas purchase requirements for the next three heating seasons (November through March, ending March 2013) and will be implemented at or below a gas price (CIG index) of \$[REDACTED] per MMBtu, which is the current Floor Price for the 2010-11 hedging period.

The targeted hedge volumes for Public Service's seasonal strategy are to hedge approximately 75% of its electric generation gas requirements for the months of November 2010 through March 2011. The Company will use storage to hedge approximately 25% of the forecasted winter purchase requirements and financial instruments to hedge the remaining 50%. The volumes to be hedged, as identified on page 3 of this Highly Confidential Appendix B, will be spread out over the year with the specified volumes hedged each month. These monthly volumes will be reduced to reflect any volumes acquired as part of the long term hedging plan from prior year's plans.

The seasonal strategy will be implemented using the concept that the Company will manage the 1.05 per MMBtu premium cost by purchasing fixed price swaps or costless collars if the fixed price quote is \$[REDACTED] per MMBtu or lower. As strike prices move above \$[REDACTED] per MMBtu, the Company will target purchasing ATM Call options as long as the premium cost does not exceed \$1.05 per MMBtu. If the Company is unable to purchase ATM Call options at or less than \$1.05 per Dth, the Company will switch to purchasing Out-the-Money ("OTM") Call options, with the strike price adjusted above the ATM to limit the cost of the premium to \$1.05 per MMBtu. The exact volumes to be hedged using the various instruments, the use of a specific hedge instrument and the strike price of the hedge instrument will be dependent on the market price of the hedging instrument and the approved targeted hedging budget, as set forth in section (2) below.

- 2) The Floor Price and the Annual Gas Hedging Budget for the 2010-11 Price Volatility Mitigation Plan are as follows:

Floor Price: \$[REDACTED] per MMBtu

Annual Gas Hedging Budget: \$14,316,125¹

- 3) The gas purchase volume to be included in the Price Volatility Mitigation Plan and the implementation timing of the plan are set forth on page 3 of this Highly Confidential Appendix B. The schedule identifies the total volume to be hedged for each delivery month (see "Monthly Hedge Volume") and the corresponding daily volume rate (Dth per day) that will be hedged for each delivery month (see "Daily Hedge Volume"). The schedule also identifies the timing of the implementation of the hedging plan, stating the volume to be hedged in each of the forward months for the given month of delivery.

¹ This is the \$15M as approved in Docket No. 02S-315EG adjusted for the offset from the long-term hedges in accordance with the Stipulation and Agreement entered in Docket 10A-027G.

Public Service Company of Colorado
Commission Volume Approval Form
Electric department

1	a.	b.	c.	d.	e.	f.	g.	h.	i.	j.	k.	l.	m.	n.	o.	p.	
2	Month	Total Projected Gas Purchase Volume	Jurisdictional Allocation Factor *	CO Retail Volume (b. x c.)	Storage Volumes	Total Hedge Volume ((d. x 75%)-e.) **	Rounded Hedge Volumes (Net of)Storage	Calculated Daily Volume Total (f. /Days/Mo.)	Rounded Daily Hedge Volume (MMBtu/day)	Daily Transaction Volumes Hedged For Delivery Month (MMBtu/day)							
3										Completed Hedges	April	May	June	July	August	September	October
4	May-10	-	0.0%	-	-	0		0	0	-							
5						0%											
6	Jun-10	-	0.0%	-	-	0		0	0	-							
7						0%											
8	Jul-10	-	0.0%	-	-	0			0	-							
9						0%											
10	Aug-10	-	0.0%	-	-	0		0	0	-							
11						0%											
12	Sep-10	-	0.0%	-	-	0		0	0	-							
13						0%											
14	Oct-10	-	0.0%	-	-	0		0	0	-							
15						0%											
16	Nov-10	5,108,830															
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24	Mar-11	4,512,810															
25																	
26	Apr-11																
27																	
28	Total	25,631,730		21,680,001	5,419,801	10,840,201	10,845,000	359,844	360,000								
29					25%	50%											

30 * Jurisdictional Allocation Factor is the percentage of total sales to jurisdictional retail customers.

31 ** The Monthly Hedge Volume is only calculated during the months of November to March and are rounded.

CERTIFICATE OF SERVICE
10A-026E

I hereby certify that on this 12th day of March, 2010, an original and seven (7) copies of the foregoing **"STIPULATION AND AGREEMENT; AND HIGHLY CONFIDENTIAL EXHIBIT B AND HIGHLY CONFIDENTIAL APPENDICES A AND B (FILED UNDER SEAL)"** were served via hand delivery to:

Doug Dean, Director
Colorado Public Utilities Commission
1560 Broadway, Suite 250
Denver, CO 80202

and a copy was electronically served to all parties on March 11, 2010, as follows:

David A. Beckett First Assistant Attorney General Office of the Attorney General 1525 Sherman Street, 6 th Floor Denver, CO 80203 David.beckett@state.co.us	Erin Overturf Assistant Attorney General Office of the Attorney General 1525 Sherman Street, 6 th Floor Denver, CO 80203 Erin.overturf@state.co.us
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