

**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 AUTHORIZATION TO	)	
CONTINUE IN EFFECT AND TO EXTEND	)	
FOR AN ADDITIONAL FOUR-YEAR PERIOD	)	DOCKET NO. 12A-240G
THE CURRENT PROCEDURES FOR	)	
SEEKING AND OBTAINING	)	
AUTHORIZATION TO IMPLEMENT ANNUAL	)	
GAS PRICE VOLATILITY MITIGATION	)	
PLANS FOR ITS GAS SALES CUSTOMERS	)	

**STIPULATION AND SETTLEMENT AGREEMENT**

Public Service Company of Colorado ("Public Service" or the "Company"), the Trial Staff of the Colorado Public Utilities Commission ("Staff") and the Colorado Office of Consumer Counsel ("OCC"), collectively all of the Parties to this docket, hereby enter into this Stipulation and Settlement Agreement ("Agreement"). The Parties stipulate that resolving the issues raised by the Company's application in this docket by this Agreement provides a just and reasonable result that is in the public interest. The Parties agree to jointly request the Commission to approve this Agreement.

**BACKGROUND**

On March 15, 2012, Public Service filed an application seeking a Commission order authorizing the Company to extend, for an additional period of four years commencing July 1, 2013, the Commission-approved procedures currently in place by which Public Service may obtain annual Commission authorizations to implement Gas Price Volatility Mitigation (GPVM) plans for its gas sales customers. Specifically, Public Service proposed to continue for the four Gas Purchase Years commencing July 1,

2013, July 1, 2014, July 1, 2015, and July 1, 2016 the procedures and parameters set forth in the following paragraphs of the Amended Stipulation and Agreement in Resolution of Proceeding, filed August 20, 2004 in Docket No. 02A-267G and approved with modifications by the Commission by Decision No. C04-1112 (September 22, 2004) (the "Monthly GCA Settlement") and extended by Decision No. R09-0211 in Docket No. 08A-095G:

- ◆ Paragraph 21, pertaining to the Parameters Associated with the Agreed upon GPVM Plan, as originally set forth in Confidential Appendix A attached to the Monthly GCA Settlement, using the \$30 million budget established in Decision No. R09-0211.
- ◆ Paragraphs 22 through 23 of the Monthly GCA Settlement, pertaining to the Contents of the Annual GPVM Plan Application.
- ◆ Paragraphs 24 through 29 of the Monthly GCA Settlement, pertaining to the Governing Procedures for GPVM Plan Filings.

In addition, Public Service proposed two modifications to the current GPVM Plan parameters and procedures for the four gas purchase years beginning July 1, 2013. First, Public Service proposed an increase in the time horizon for long-term hedging instruments. Under the terms of the Commission-approved Stipulation and Agreement in Docket No. 10A-027G, the Company is limited to the purchase of hedging instruments for the current heating season plus two or three years.<sup>1</sup> Because of changes in the long-term market, Public Service is sought authority to purchase financial hedges for an additional two years (up to a total of five heating seasons).

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<sup>1</sup> In Re: The Application of Public Service Company of Colorado for Approval of its Gas Price Volatility Mitigation Plan for its Gas Utility Operations for the Gas Purchase Year July 1, 2010 through June 30, 2011, Docket No. 10A-027G, Decision No. C10-0298, mailed March 31, 2010 at p. 3.

Second, Public Service sought authority to enter into structured agreements (either physical or financial) covering ten years beyond the upcoming heating season, using a new regulatory approval process for long-term structured transactions outlined in the pre-filed direct testimony of Company witness Jeffrey D. Ishee.

Under Paragraph No. 5 of Decision No. R09-0211, which provides a sunset date in 2013, Public Service's GPVM plan procedures will expire unless the Commission issues an order on the Company's Application, in which the Commission would make a determination either "(i) that the ...GPVM Plan approval program approved herein should be continued for one or more additional periods, or (ii) that any part of such mechanism and/or program should be modified or terminated." Additionally, the Commission-approved procedures under which Public Service files for annual approvals of certain aspects of its annual GPVM plans will expire by their own terms as of the end of the current Gas Purchase Year ending June 30, 2013.

Public Service has filed its Direct Testimony. Answer Testimony is due by September 21, 2012. See Decision No. R12-1021-I (August 29, 2012). The Parties have met to discuss Public Service's proposals. The Staff and the OCC did not agree that the Company's application should be approved as filed. The Company, the Staff and the OCC have reached settlement on the modifications that should be made to the Company's proposals and on the approvals that will now be sought from the Commission in this Docket.

#### **AGREEMENT FOR CONTINUATION OF GPVM PLAN**

The Parties agree that the Commission should approve Public Service's proposals to extend its Gas Price Volatility Mitigation Plans, as described in the Company's Application and Public Service's Direct Testimony, subject to the following modifications:

1. Public Service shall be granted authority to use the parameters and procedures for obtaining Commission approval for the Company's Gas Price Volatility Mitigation Plans for an additional **two** years – Gas Purchase Years commencing July 1, 2013 and July 1, 2014.<sup>2</sup>
2. Public Service shall be authorized to hedge up to 50% of winter gas volumes, using storage to hedge approximately 20% of winter gas volumes and financial instruments to hedge the remainder.<sup>3</sup>
3. An annual hedging budget shall be calculated each January and shall be set through approval of the annual GPVM Plan. The budget shall be set at the then At-the-Money call option premium times the proposed financial hedge quantity ("At-the-Money" refers to the strike price of the underlying option being equivalent to the then current forward NYMEX price minus the CIG location basis for the term being hedged). To determine the At-the-Money call option premium, Public Service shall take the lowest of three quotes for an At-the-Money call option during one of the first five business days in January of each year.

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<sup>2</sup> In its Application, Public Service had requested approval to extend the GPVM parameters and procedures for four additional Gas Purchase Years.

<sup>3</sup> Public Service had requested authority to hedge 75% of winter gas volumes, hedging 20% of volumes using storage and 55% of volumes using financial instruments.

4. Hedging costs which consist of the total of all call and/or put option premiums paid plus any net settlement costs<sup>4</sup> incurred during each Gas Purchase Year should not exceed twice the approved annual hedging budget.<sup>5</sup> All hedging costs that exceed twice the annual hedging budget shall be subject to review for prudence under the prudence standard set by Commission Rule 4607. There shall be no floor price in calculating the settlement costs.<sup>6</sup>
5. The Company's proposal to increase the terms of hedge instruments up to five years after the current heating season shall be approved. However, if the Company wishes to enter into a hedging transaction with a term longer than this period, the Company shall seek Commission approval through the filing of a separate application.<sup>7</sup>
6. The following financial instruments are acceptable for use in the Company's GPVM plan: call options, costless collars, fixed for float swaps, and put options.<sup>8</sup>
7. Public Service shall be entitled to recover the premiums paid for hedging instruments for the next heating season through the next quarterly Gas

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<sup>4</sup> "Net settlement costs" are defined as the sum total of any monies paid or received by the Company associated with the use of financial hedge instruments under the GPVM plan excluding any premiums associated with options.

<sup>5</sup> Public Service had requested an approved annual hedging budget of \$30 million. Public Service's application had not proposed a limit on settlement costs.

<sup>6</sup> Public Service had proposed using a floor price of the average of the past four heating seasons in calculating settlement costs.

<sup>7</sup> Public Service had proposed a different procedure for obtaining approval of hedge terms longer than five years.

<sup>8</sup> The Parties agree to allow Public Service to add "put options" to the list of approved financial instruments.

Cost Adjustment filing after payment is made. In addition, any premiums paid for hedges entered into under the long-term portion of the plan shall be recovered in the Gas Cost Adjustment filing to be effective April 1<sup>st</sup> of the year that corresponds to the heating season for which those long-term hedges become effective.

Attached to this Stipulation and Settlement Agreement are two Attachments. "Attachment A" includes the procedures and parameters set forth in the Amended Stipulation and Agreement in Resolution of Proceeding, filed August 20, 2004 in Docket No. 02A-267G and approved with modifications by the Commission by Decision No. C04-1112 (September 22, 2004) (the "Monthly GCA Settlement") and extended by Decision No. R09-0211 in Docket No. 08A-095G, as modified to reflect the terms of this settlement. "Attachment B" is a revised version of the Gas Price Volatility Mitigation Plan Approval Form that was included in a *pro forma* version as part of the Application in this docket. It has been revised to reflect the terms of this settlement. "Highly Confidential Attachment C" is a copy of Highly Confidential Exhibit JDI-1 which was included with the pre-filed testimony of Company witness Jeffrey D. Ishee that was submitted with the Application in this matter. It has been revised to reflect the terms settlement as well.

### **GENERAL TERMS AND CONDITIONS**

This Stipulation and Settlement Agreement reflects compromise and settlement of all issues raised or that could have been raised in this docket. All Parties agree to support this Agreement and to join a motion that requests the Commission to approve this Agreement.



The Parties agree that all pre-filed testimony and exhibits shall be admitted into evidence without cross-examination.

This Agreement shall not become effective until the issuance of a final Commission order approving the Agreement, which order does not contain any modification of the terms and conditions of this Agreement that is unacceptable to any of the Parties. If the Commission modifies this Agreement in a manner unacceptable to any Party, that Party shall have the right to withdraw from this agreement 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 by e-mail within three business days of the Commission-ordered modification that the Party is withdrawing from the Agreement and that the Party is ready to proceed to hearing. The withdrawal of a Party shall automatically terminate this Stipulation and Settlement Agreement.

In the event that this Agreement 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 Agreement shall not be admissible into evidence in this or any other proceeding, except as may be necessary in any proceeding to enforce this Agreement.

Approval by the Commission of this Stipulation and Settlement Agreement shall constitute a determination that the agreement represents a just, equitable and reasonable resolution of all issues that were or could have been contested among the Parties in this proceeding. The Parties state that reaching agreement in this docket by means of a negotiated settlement is in the public interest and that the results of the

compromises and settlements reflected by this Stipulation and Settlement Agreement are just, reasonable and in the public interest.

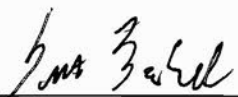
All Parties to this Stipulation and Settlement Agreement have had the opportunity to participate in the drafting of this Agreement. There shall be no legal presumption that any specific Party was the drafter of this Agreement.

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.

Dated this day of September 20, 2012.

Respectfully submitted,

**PUBLIC SERVICE COMPANY OF  
COLORADO**

By:   
\_\_\_\_\_  
Scott B. Brockett  
Director, Regulatory Administration  
Xcel Energy Services Inc.  
Agent for Public Service  
Company of Colorado

Approved as to form:

  
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**STAFF OF THE COLORADO  
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Approved as to form:

By: *Left for Charles Hernandez*  
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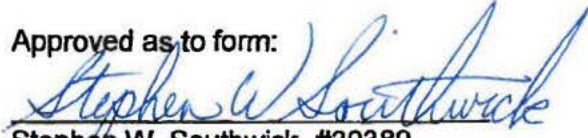
Exhibit JDI-2

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COUNSEL**

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Consumer Counsel

## **ATTACHMENT A**

### **A. Parameters Associated With the Agreed Upon GPVM Plan**

21. The GPVM Plan will provide for sufficient hedging of Public Service's gas supply portfolio using the various tools available to Public Service in order to reduce the magnitude of gas price volatility at reasonable cost to Public Service's gas sales customers. These tools include the use of natural gas storage, fixed price contracts, and the financial instruments identified on Twelfth Revised Sheet No. 50 of Public Service's current Colorado PUC No. 6-Gas tariff. For purposes of Public Service's annual Gas Purchase Years commencing July 1, 2013 and July 1, 2014, the Parties agree that Public Service shall target to hedge the quantity of projected natural gas commodity sales requirements for specified months during the Gas Purchase Year as shown in Attachment B. These projected gas commodity sales quantities are equal to the sum of all gas commodity quantities delivered to sales customers, the net of storage injections less withdrawals, projected quantities of upstream transportation fuel, lost and unaccounted for gas, and any exchange imbalance gas quantities. The projected sales quantities are typically shown on GPP Exhibit 1, page 2 at line 4.

Public Service's annual GPVM Plan applications, through and including the one to be filed on January 15, 2014, shall request approval of the targeted quantity and targeted cost specified in Attachment B attached hereto, unless different targets are mutually agreed to by all Parties to this Stipulation.

### **B. Contents of the Annual GPVM Plan Application for Approval**

22. Public Service's annual application for approval of its GPVM Plan shall include a copy of the proposed GPVM Plan, which shall be filed under seal in accordance with Rule 4 C.C.R. 723-1-1100 (c)(III) of the Commission's rules governing the treatment of confidential information, Rule 4 C.C.R. 723-1-1100, *et seq.* Public Service's GPVM Plan shall detail the circumstances under which Public Service plans to use natural gas storage, fixed price contracts (including multiple year contracts), and the types of financial instruments that Public Service has been authorized by the Commission to use in hedging natural gas prices for the applicable Gas Purchase Year. The GPVM Plan shall describe in detail the total quantities proposed to be hedged, the timing of the proposed hedges for each Hedging Month (defined as the calendar month, plus or minus ten days), the types of hedging instruments that will be used to implement the plan, and the proposed cap on expenditures for the gas hedging activity for the Gas Purchase Year. The GPVM Plan shall include a narrative explaining the proposed hedging strategy, the market conditions present at the time the plan was developed and the proposed cap on hedging expenditures. The application for approval of the GPVM Plan shall not request Commission approval of the precise hedging instruments to be employed at various gas price levels.
23. As to the specific activity Public Service will be requesting the Commission to approve, the Parties agree that Public Service may seek Commission approval of the hedging strategy that it proposes for the applicable Gas Purchase Year, the targeted hedging budget and maximum settlement costs, and Public Service's proposed quantities of gas

to be hedged and the timing of the hedges. In each annual GPVM Plan filing, Public Service shall segregate in a separate confidential exhibit the specific activity for which it seeks Commission approval; such confidential exhibit to be in a form substantially similar to that attached to this Stipulation as Highly Confidential Attachment C. The information for which the Company may seek approval within these formats includes the following: the hedging strategy for the upcoming year and the implementation plan; the proposed quantity of gas to be hedged; the timing of the hedges; the types of hedging instruments that the Company intends to use in implementing the proposed hedging plan; the then At-the-Money call option premium times the proposed financial hedge quantity to develop the costs related to the gas hedging cost cap; and the amount of the maximum settlement costs the Company may incur before being subject to incremental prudence risk. Public Service shall not seek specific approval of the exact instruments to be used at various prices.

**C. Governing Procedures for Future Annual GPVM Plan Filings**

24. The Company shall file its Gas Department GPVM Plan on January 15 of each year, through and including January 15, 2014, to be effective March 15 and applicable to the Gas Purchase Year commencing the following July 1. The Company shall provide to Staff and the OCC its workpapers (in hard copy and electronic formats) at the time that the annual GPVM Plan filing is made. These timeframes have been selected so that the Commission would approve the Gas Department GPVM Plan in advance of the Company contracting for gas hedges, including storage injections.
25. Public Service shall meet with the Staff and the OCC between January 1 and January 10 of each year to present and explain its anticipated GPVM Plan for the forthcoming Gas Purchase Year.
26. The Parties agree that Public Service's applications for approval of its GPVM Plan, starting with the GPVM Plan to be filed on or before January 15, 2013, shall be governed by the following procedures. Each year, in its application for approval of that year's GPVM Plan, Public Service shall set forth a request that the Commission issue a notice of application filed that adopts the following procedures: (1) a ten-day notice period; (2) the setting of a hearing date, which hearing date shall be proposed by Public Service and be targeted for approximately 2 weeks prior to the requested application approval date; (3) the setting of an answer testimony due date, which date shall be proposed by Public Service and be two weeks prior to the date of the hearing; (4) response time to audit and discovery shall be shortened to three business days; and (5) response time to motions to compel and other motions *in limine* shall be shortened to three business days. Public Service shall file eight copies of all confidential exhibits and testimony with each GPVM application.
27. Nothing in this Stipulation modifies Public Service's obligation to file Gas Purchase Plans and Gas Purchase Reports consistent with the provisions of the GCA Rules found at Commission Rule Nos. 4605 and 4606 (Gas Purchase Plan) Rules 4608 and 4609 (Gas Purchase Report), 4 C.C.R. 723-3. If a GPVM Plan has been approved sufficiently in advance of the filing of Public Service's GPP for the same Gas Purchase Year, scheduled to be filed on or about June 1 under the current GCA Rules, Public Service shall incorporate such approved GPVM Plan by reference in such GPP. In the event that the Commission does not rule on the merits of an annual GPVM Plan prior to Public Service's June 1 GPP filing, Public Service shall file a supplemental GPP for such June

1 plan filing within 30 days of the effective date of the Commission's order on that year's annual GPVM Plan filing. The supplemental GPP shall reflect any determinations made by the Commission with regard to that year's annual GPVM Plan filing.

28. Unless otherwise provided in any Commission order approving a GPVM Plan, Commission review and approval of Public Service's proposed GPVM Plan shall constitute only a Commission determination that the GPVM Plan shall be deemed prudent based upon information available at the time and to the extent that if Public Service implements such plan as approved, the associated hedging and settlement costs up to two hundred (200) percent of the approved annual hedging budget shall not be subject to disallowance in any subsequent gas cost prudence review proceeding. Public Service shall continue to exercise professional judgment in the performance and continuation of the GPVM Plan in light of changing circumstances, and the Parties do not contemplate that Commission findings initially approving the GPVM Plan will affect appropriate implementation and modification of the plan.
29. Once approved by the Commission, the GPVM Plan shall remain in effect through the Gas Purchase Year unless and until the Commission approves an amendment to the GPVM Plan. If conditions change to the point where an update to the GPVM Plan is required, Public Service or any other party may request that the Commission modify the GPVM Plan previously approved. Although unlikely given the comprehensive approach Public Service has presented in its previous GPVM Plans, an approved GPVM Plan should be subject to change where circumstances require. Public Service and interested parties should have the opportunity to request modification of an approved GPVM Plan where circumstances change and Public Service is still able to modify its actions in a timely manner. Given the importance of providing certainty to Public Service and interested parties and the difficulty in implementing subsequent changes, the Parties agree that substantial justification will be required for changing the GPVM Plan, once approved by the Commission.



**ATTACHMENT B**

**Gas Price Volatility Mitigation Plan Approval Form  
Public Service Company of Colorado  
Gas Department  
2013-14 Gas Purchase Year**

Public Service Company of Colorado ("Company") is requesting approval of the following three items related to its Gas Price Volatility Mitigation Plan for the Gas Purchase Year of July 1, 2013 through June 30, 2014:

- 1) The Gas Price Volatility Mitigation Plan for the 2013-14 Gas Purchase Year 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 50% of the Company's normal winter purchase requirements during November 2013 through March 2014. The long-term strategy targets up to 25% of the Company's seasonal gas purchase requirements for the next five heating seasons (November 1 through March 31 of the next five years, ending March 31, 2018).

The seasonal strategy will target a volume of up to 50% (depending on whether any part of the long-term strategy has been implemented) of the Company's normal winter purchase requirements during November 2013 through March 2014. The Company will use storage to hedge approximately 20% of the normal winter requirements and financial instruments to hedge the remaining 30%. The volumes to be hedged, as identified on page 3 of this Confidential Appendix C, 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 years' plans.

- 2) The Annual Hedging Budget shall be calculated each January and shall be set at the At-the-Money call option premium times the proposed financial hedge quantity determined in Section 1 above. To determine the At-the-Money call option premium, Public Service shall take the lowest of three quotes for an At-the-Money call option during one of the first five business days in January of each year.

The total hedge costs (premiums paid plus any settlement costs incurred) during the Gas Purchase Year should not exceed twice the approved Annual Hedge Budget. Hedge costs that exceed twice the Annual Hedge Budget shall be subject to review for prudence under the prudence standard set by Commission Rule 4607.



- 3) The gas purchase volume to be included in the Gas Price Volatility Mitigation Plan and the timing of the implementation of the plan are set forth on Highly Confidential Attachment C, entitled Overall Projected Hedge Volumes, identifies for each delivery month the Total Requirements, Storage Activities, Monthly and Daily Hedge Quantities to be hedged in each delivery month. The schedule also identifies the timing of the implementation of the hedging plan, stating the volume to be hedged in each of the transaction execution months for the given month of delivery.

**PUBLIC SERVICE COMPANY OF COLORADO**Sheet No. 50P.O. Box 840  
Denver, CO 80201-0840Cancels  
Sheet No. \_\_\_\_\_**NATURAL GAS RATES  
GAS COST ADJUSTMENT**APPLICABILITY

All rate schedules for natural gas service are subject to a Gas Cost Adjustment. The Gas Cost Adjustment includes the following costs: 1) cost of gas purchased from the Company's suppliers; 2) costs to deliver that same gas to the Company's pipeline system, and 3) the recovery of the revenue requirement associated with the Company's investment in its gas storage inventory. The Gas Cost Adjustment rate will be subject to one annual and three regular quarterly changes to be effective on the first day of each calendar quarter and interim changes, if justified by the Company, to be effective on the first day of any other month. The Gas Cost Adjustment for all applicable rate schedules is as set forth on Sheet Nos. 50H and 50I, and will be added to the Company's Base Rate for billing purposes.

DEFINITIONS

Account No. 191. An account under the Federal Energy Regulatory Commission System of Accounts, as required by Rule 4005(c) of the Commission's Rules Regulating Gas Utilities and Pipeline Operators, used to accumulate actual gas supply costs, and corresponding actual revenues in a given period.

Actual Gas Cost. The amount recorded as Well Head Purchases in Account 1800, Field Line Purchases - 1801, Gasoline Outlet Purchases - 1802, Transmission Line Purchases - 1803, City Gas Purchases - 1804, Exchange Gas - 1806, Kansas Storage Taxes in Account 1807-51, Gas Price Management Costs in Account 1807-54\*, Gas Withdrawn from and Delivered to Storage - 1808, Gas Used for Products Extraction - 1811, Take/Pay Buy-out payments in Account 1813-12, and Storage Gas Lost and Unaccounted in Account 1823. In accordance with the authorizations granted in Docket No. 99S-293G and 12A-240G, Gas Price Management Costs recorded in Account 1807-54 shall include only those premiums or settlement costs incurred by the Company in connection with its use of the following financial instruments as part of its most-recently filed Gas Price Volatility Mitigation Plan: fixed-for-float swaps (a financial fixed price agreement for deliveries at a location other than the Henry Hub), New York Mercantile Exchange ("NYMEX") futures contracts in conjunction with market basis (between Colorado Interstate Gas Company, Northwest Pipeline Company, Henry Hub, or other monthly indices in the areas where the Company regularly procures its natural gas supplies), call options, put options and costless collars.

\* - Pursuant to Commission Decision Nos. R99-1094, C02-910, C04-1112, ~~and~~ C09-0596 and C12-  
[decision approving this filing] Gas Price Management Costs shall be excluded from the definition of Actual Gas Costs effective July 1, 20135, unless the Commission by subsequent order approves the continued inclusion of these costs.

(Continued on Sheet 50A)

ADVICE LETTER  
NUMBER \_\_\_\_\_ISSUE  
DATE \_\_\_\_\_DECISION  
NUMBER \_\_\_\_\_VICE PRESIDENT,  
Rates & Regulatory AffairsEFFECTIVE  
DATE \_\_\_\_\_