

Decision No. C19-1028

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 19A-0566G

IN THE MATTER OF THE VERIFIED APPLICATION OF BLACK HILLS COLORADO GAS ICS. D/B/A BLACK HILLS ENERGY, FOR AN ORDER APPROVING A 2020 – 2023 GAS HEDGING PROGRAM TO BE INCLUDED IN THE GAS COST ADJUSTMENT TO BE EFFECTIVE JULY 1, 2020.

**DECISION GRANTING APPLICATION AND GRANTING
MOTION FOR EXTRAORDINARY PROTECTION**

Mailed Date: December 20, 2019

Adopted Date: December 4, 2019

I. BY THE COMMISSION

A. Statement

1. This Decision approves an Application filed by Black Hills Colorado Gas, Inc., doing business as Black Hills Energy (Black Hills or the Company) on October 17, 2019. The Application requests approval of Black Hills's gas hedging plan for a three year period from July 1, 2020 through June 30, 2020.

B. Procedural History

2. Black Hills Gas/Colorado Gas Utility Company, LP doing business as Black Hills Energy and Black Hills Gas Distribution, LLC doing business as Black Hills Energy filed their first combined hedging program in Proceeding No. 17A-0624G. The two-year hedging program was approved in Decision No. C17-1083.

3. Black Hills Gas Distribution, LLC's hedging program was initially approved by Decision No. C01-1011 in Proceeding No. 01L-408G and the program began in December of 2001. The last stand-alone hedging program was approved in Decision C17-0418 in Proceeding

No. 17A-0266G, and Black Hills Gas Distribution (Formerly SourceGas) was granted a two year hedging plan through June 30, 2020.

4. Black Hills Colorado Gas' hedging program had historically been included as part of its Gas Purchase Plan, as contemplated by Commission rules 4605 and 4606, Rules Regulating Gas Utilities and Pipeline Operators, 4 *Code of Colorado Regulations (CCR)* 723-4, and the program began in 2008. The Company began filing a specific hedging program application similar to Black Hills Gas Distribution in 2017. The last stand-alone extension of the program was approved in Decision No. C17-0519 in Proceeding No. 17A- 0352G, and Black Hills Colorado Gas was granted a one year hedging plan through June 30, 2018.

5. On October 17, 2019, Black Hills Colorado Gas, Inc. filed a verified Application for the combined gas utility requesting a Commission order authorizing it to place into effect on July 1, 2020, a hedging program to enter into, and to recover the costs associated with, financial instruments used to hedge against volatility in gas prices.

6. A notice and intervention period was established for 30 days starting October 17 29, 2017. No requests for intervention have been filed in this Proceeding.

C. Discussion of the Application

7. Black Hills requests approval for a hedging program for the 2020-21, 2021-2022, and 2022-2023 winter heating seasons. In its Application for Commission approval, Black Hills proposes to hedge a portion of total gas demand for the upcoming heating season. The Company proposes to hedge this gas volume using financial call options subject to a budget.

8. Black Hills proposes to institute a hedging budget based on a call option premium of \$0.45 per million Btu of gas hedged for the upcoming seasonal program. The Company states

that the call option premium represents the maximum price Black Hills would spend to implement the financial portion of its hedging program.

9. The Company proposes to file a report with the Commission no later than April 30 of each year detailing the hedging activities and performance following the Winter Heating Season. The annual hedging report will include hedged volumes, strike prices, trade dates, call option premium prices, and total settlement dollars.

10. Black Hills proposes to provide the annual hedging report for informational purposes, and that the costs of the hedging program would continue to be recovered through the Gas Cost Adjustment and be reviewed as part of the Gas Purchase Report file in June of each year.

11. Through the Application, the Company also commits to meet with representatives from Commission Staff and the Office of Consumer Counsel annually. The Company commits to “present the Company’s hedging performance for the prior Gas Purchase Year and updated market conditions as they relate to the hedging plans for the upcoming Gas Purchase Year(s).” Black Hills provides that these meetings will “serve as an opportunity for the Company to explain and support any changes to the targeted volumes and transaction timing discussed in this plan based on updated market conditions at the time of the meeting.”¹

12. The subject of electric and gas utility financial gas price hedging was discussed in the report “Staff Evaluation of Black Hills Colorado Electric Gas Hedging Process and Results” filed in Proceeding No. 15AL-0199E and at a Commissioner’s Information Meeting (CIM) on August 24, 2017. The Company represents that its proposal “aligns with the recommendations

¹ Attachment EJG-1 to the Testimony of Company Witness Eric J. Gillen, p. 4.

made by Staff after evaluating Company hedging process and results in Proceeding No. 15A-0199E.”²

13. The costs and benefits of the most recent five hedging seasons are detailed in Table EJG-1 of the Direct Testimony of Company witness Eric Gillen. This historical plan performance is summarized in the table below:

	BH Colorado Gas (Legacy BH) Net Benefit / (Cost)	BH Gas Distribution (Legacy SourceGas) Net Benefit / (Cost)
2014-2015	(\$2.0 M)	(\$2.0 M)
2015-2016	(\$2.1 M)	(\$1.6 M)
2016-2017	(\$0.4 M)	(\$0.4 M)
2017-2018	(\$0.6 M)	(\$1.0 M)
2018-2019	\$0.7 M	\$1.0 M
5-Yr Total	(\$4.4 M)	(\$3.9 M)

14. The Application is unopposed and will be determined without a hearing under Rule 1403 of the Commission’s Rules of Practice and Procedure, 4 CCR 723-1.

15. The Application provides consumer protections, including subsequent review of costs for prudence, a limited term, an annual hedging report, and a budgeted limit on the overall cost impact. We find that the commitments and proposals set forth in the Application are reasonable.

16. We find that the hedging plan complies with the Commission’s previously articulated application requirements in regard to such plans.

17. Therefore, we grant the Application of Black Hills requesting approval of its limited term gas hedging plan for a three year period from July 1, 2020 through June 30, 2023.

² Direct Testimony of Company Witness Eric J. Gillen, p.11 line 2 to 32.

II. ORDER

A. The Commission Orders That:

1. The Application filed by Black Hills Gas Colorado Gas, Inc. doing business as Black Hills Energy on October 17, 2019 for approval of its gas hedging program for its system gas supply for the period July 1, 2020 through June 30, 2023, is deemed complete.

2. The Application is granted, consistent with the discussion above.

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

4. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
December 4, 2019.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JEFFREY P. ACKERMANN

FRANCES A. KONCILJA

JOHN GAVAN

Commissioners