

**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)	DOCKET NO. 11A-869E
FOR APPROVAL OF ITS 2011 ELECTRIC)	
RESOURCE PLAN)	

REBUTTAL TESTIMONY OF TIMOTHY J. CARTER

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

July 16, 2012

**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 2011 ELECTRIC RESOURCE PLAN))))	DOCKET NO. 11A-869E
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INDEX

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE OF TESTIMONY.....	1
II. USE OF THE GAS PRICE VOLATILITY MITIGATION ADDER	2

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REBUTTAL TESTIMONY OF TIMOTHY J. CARTER

I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Timothy Carter. My business address is 1800 Larimer Street, Suite 1000,
Denver, Colorado 80202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Xcel Energy Services, Inc., a wholly-owned subsidiary of
Xcel Energy Inc., the parent company of Public Service Company of Colorado
("Public Service" or "Company"). My job title is Director, Gas Supply.

Q. DID YOU FILE DIRECT TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my Rebuttal Testimony is to address concerns raised by
Colorado Gas Producers witness Mr. Fishman regarding the use of the Gas
Price Volatility Mitigation ("GPVM") Adder in the bid evaluation.

1 **II. USE OF THE GAS PRICE VOLATILITY MITIGATION ADDER**

2 **Q. MR. FISHMAN STATES IN HIS ANSWER TESTIMONY THAT THE**
3 **POTENTIAL IMPACT OF GAS PRICE VOLATILITY IN THE ERP**
4 **FORECAST IS OVERSTATED BY THE APPLICATION OF THE PVM**
5 **ADDER. DO YOU AGREE WITH THIS CONCLUSION?**

6 **A.** No. Mr. Fishman appears to base his conclusion on two primary factors. First,
7 Mr. Fishman states on page 9, lines 5-7 of his answer testimony:

8 One result from this extensive natural gas resource expansion is that the
9 future gas price indications are both lower and more stable and reasonably
10 may be expected to continue as such for the foreseeable future.

11
12 While I agree that current gas prices are lower than they have been in the
13 past, the question is whether these prices truly are more stable over both the
14 short term and the long term. Although it is possible that Mr. Fishman's
15 speculation as to the stability of natural gas prices could come to fruition, there
16 is no guarantee that this will be the case. In fact, Public Service continues to
17 hedge a portion of our natural gas purchases and to practice other gas
18 mitigation techniques in order to protect our customers against this price
19 volatility.

20 Non-fuel resources, like wind and solar, do not present the risk of
21 volatility that gas-fired resources present. We believe it is important, when
22 comparing technologies against one another, to attempt to quantify the cost
23 risks that each impose. For renewable resources, we attempt to quantify the
24 integration and coal cycling costs that we experience when operating these
25 resources on our system. Because natural gas prices can be volatile, it is
26 important to use a proxy cost to account for the potential deviations in the

1 future price of natural gas from the prices assumed in our analyses. These
2 deviations are otherwise not captured in the Company's STRATEGIST
3 analyses.

4 The second argument that Mr. Fishman makes is that Public Service's
5 gas price risk management program can be used in place of the GPVM Adder.
6 He refers to the fact that Public Service mitigates price risk in many ways,
7 through the use of long term contracts; annual, seasonal and monthly
8 purchases; storage; and a gas price risk management hedging program. He
9 argues that because we use these practices, there is no need for a GVPM
10 Adder at all, or in the very least that 25% of the gas volumes in our evaluation
11 should have no GPVM adder.

12 I disagree with Mr. Fishman. First of all, let me clarify that Public
13 Service does not assign any GVPM adder to gas volumes under fixed price
14 gas contracts, so that is not a disputed issue. Secondly, the other gas price
15 risk management techniques that he mentions are all short term risk mitigation
16 efforts. Our Electric hedging program is relatively short term in nature and
17 only allows hedges to be placed for the upcoming heating season (November
18 to March) plus the next two heating seasons and storage gas is purchased
19 each summer for use in the upcoming heating season. These efforts do not
20 eliminate the need to consider adjustments (i.e. the GPVM Adder) to the long
21 term forecast in order for Public Service to properly evaluate adding gas
22 facilities (or tolling agreements with gas facilities) instead of fixed price
23 renewable resources in our resource planning process.

1 As we discuss on page 2-265 of the ERP Volume II Technical
2 Appendix, Public Service assigns to all gas volumes not under fixed price
3 contracts, the average cost of an “at the money” NYMEX call option covering
4 the 5 year period (note: the Appendix incorrectly referred to a 10 year period)
5 starting in 2012 as a proxy for the cost of gas price volatility mitigation. This
6 methodology is consistent with the methodology proposed and ordered in the
7 Company’s 2007 Electric Resource Plan, Docket No. 07A-447E at page 80 of
8 Decision No. C08-0929.

9 **Q. MR. FISHMAN STATES IN HIS ANSWER TESTIMONY THAT**
10 **APPLICATION OF THE GPVM ADDER REINFORCES A BIAS THAT GAS**
11 **PRICES ARE ONLY VOLATILE ON THE UPSIDE. DO YOU AGREE WITH**
12 **THIS STATEMENT?**

13 A. No. The GPVM Adder is not intended to create a bias; rather it is the
14 Company’s method to account for the upside price risk exposure associated
15 with selecting a natural gas fired resource as compared to a resource that
16 does not have the same fuel risk associated with it. Again this can be
17 thought of in the same context as wind integration costs that are assigned to a
18 wind bid during the resource selection process to account for the non-
19 dispatchable nature of a wind resource as compared to dispatchable
20 resources such as natural gas combustion turbines.

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes.