



1800 Larimer Street
Denver, CO 80202

March 23, 2021

Via Email: SJohnson@yvea.com

Steve Johnson
Yampa Valley Electric Association
2211 Elk River Rd.
Steamboat Springs, CO 80487

Dear Steve,

I am writing on behalf of Xcel Energy Inc. (“Xcel Energy”) and our Colorado affiliate, Public Service Company of Colorado (“PSCo”), to discuss the effects of February’s bitter cold weather, the disruption it caused to energy markets throughout the country and how the event affected the fuel adjustment component of your wholesale production bill.

To begin, it should be recognized that we do not like the impact that the commodity market price surge has on customers – retail or wholesale. We are looking for ways to smooth the short-term impact as well as be self-reflective and review actions taken and update policies and procedures where we should take away lessons learned. We appreciate the feedback that we’ve had to date and anticipate more conversations around this topic for a while to come.

During the four-day President’s Day weekend, and for several days after, the midcontinent saw extremely cold temperatures that broke records. Denver recorded a low temperature of -16° F on February 15 and set an all-time record coldest high temperature on February 14 of 1° F—a record previously established in 1895 at 8° F. The cold was widespread throughout the country and caused a dramatic and sustained increase in demand for electricity and natural gas, putting immense pressure on energy providers, including Xcel Energy and PSCo.

We all saw the disaster that occurred in Texas during this period and the resulting loss of power, water, and heating, as well as signs of longer-term economic damage. Our top priority during this extreme weather event – as always – was ensuring all customers had reliable access to heat and electricity.

Through established regulatory processes and under the auspices of our regulators at the Colorado Public Utilities Commission (“Commission”) and the Federal Energy Regulatory Commission (“FERC”), we have made investments in our infrastructure over the last 10 years that have enhanced reliability and protected the system, even during frigid conditions. But even these well-planned investments did not entirely insulate us or our customers from the impact of the cold on the price of gas. Decreases in supply availability due to freezing of well-heads in the Southwest, in combination with the substantial increase in demand for natural gas and electricity, caused a dramatic short-term increase in natural gas prices. Natural gas prices prior to the cold weather were running in the range of \$2-\$3 per dekatherm; by Friday, February 12, we saw prices 100 times that price, with some running as high as \$600 a dekatherm. Natural gas priced at \$600 a dekatherm used to generate electricity can translate into power prices over \$4,500 per megawatt-hour.



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In advance of the winter event, our gas and electric operations department took steps to mitigate the effects of natural gas price volatility. We follow natural gas price hedging policies – policies reflecting good operating practices and the directives of the Commission – to reduce the impact of price surges. We also supported other utilities, when we could, throughout the winter storm by transferring spare gas reserves or providing electrical backup to assist in the stability of their systems. We drew on more gas storage during the winter event to reduce our exposure to the gas market. As well as we procure a portion of the month's gas needs at the first of the month for a fixed price. Over the course of these four days, and despite our planning and mitigation, we were still subject to natural gas market volatility just like any other gas buyer. Between our Commission-approved hedging efforts as well as our storage actions and first of month purchases, approximately 35% of the gas required to generate electricity was effectively “hedged”.

Pursuant to our wholesale contracts, which are cost-based and regulated by FERC, the cost of fuel for electricity generation is passed on directly to our customers without markup. We do not profit from natural gas prices. This is a foundational principle of cost-based rate recovery across the country.

We understand the effect of this unexpected natural gas fuel price increase on our customers. For that reason, we worked diligently to explore options within our existing wholesale contracts and FERC regulations to offer payment flexibility for February's bills to our wholesale customers. We ultimately offered you and the other wholesale customer up to six months to pay back the February fuel adjustment component of the March invoice, subject to each contract's interest rates.

We have received several questions regarding why we did not offer our wholesale customers what we plan to put forward to the Commission for the retail customers that PSCo serves. The answer to this is simple. Our number one focus was immediate relief to the forthcoming bill for February fuel usage, and as a regulated entity, we have limited options with respect to our FERC approved agreement prior to FERC weighing in. We determined that the FERC regulations and our contracts would allow us to voluntarily offer the six-month waiver on exercising the default provisions for late payment without requiring material revisions to the existing contracts. By offering you payment flexibility, we were able to act quickly without creating the regulatory uncertainty associated with a prolonged proceeding at FERC to revise our agreement.

In addition to the offer of payment flexibility, we are reviewing lessons learned and your feedback from this event and plan to use this experience to improve our services to you. We are exploring ways to improve communications between PSCo and each of the wholesale customers as well as reinvigorating our exploration of options for offering demand respond programs to help reduce your costs. We look forward to working with you on these initiative in the months ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alice K. Jackson'.

Alice K. Jackson
President, Public Service Co. of Colorado