

**BEFORE THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

In the Matter of the Application of Kansas	)	
Gas Service, a Division of ONEOK, Inc.	)	Docket No. 05-KGSG-580-HED
For Approval of a Hedge Program for Gas	)	
Purchased for the Winter Heating Season.	)	

**NOTICE OF FILING OF STAFF REPORT AND RECOMMENDATION**

COMES NOW the Staff of the State Corporation Commission of the State of Kansas ("Staff" and "Commission", respectively), and for its Notice of Filing of Staff Report and Recommendation states as follows:

Staff hereby files the attached Report and Recommendation dated April 26, 2017, jointly prepared by John Turner, Research Economist; Lana Ellis, Deputy Chief of Economics and Rates; Robert Glass, Chief of Economics and Rates; and Jeff McClanahan, Director of Utilities, informing the Commission of the April 6, 2017 annual meeting, which included Kansas Gas Service, a Division of ONEOK, Inc., Staff, and Citizens' Utility Ratepayer Board, scheduled for the purpose of discussing Kansas Gas Service's planned natural gas hedging program for the 2017-2018 heating season. Inasmuch as Staff's Report and Recommendation contains confidential commercial information pertaining to Kansas Gas Service, Staff, in accordance with K.S.A. 2016 Supp. 66-1220a, has filed both confidential and public versions of the Report and Recommendation.

WHEREFORE, Staff submits its Report and Recommendation for the Commission's information and consideration.

Respectfully submitted,



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For the Commission Staff

### **CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of the foregoing *Notice of Filing of Staff Report and Recommendation* was placed in the United States Mail, postage prepaid, on this 1<sup>st</sup> day of May, 2017, properly addressed to:

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Pat Apple, Chairman  
Shari Feist Albrecht, Commissioner  
Jay Scott Emler, Commissioner

Sam Brownback, Governor

**REPORT AND RECOMMENDATION  
UTILITIES DIVISION  
PUBLIC**

**TO:** Chairman Pat Apple  
Commissioner Shari Feist Albrecht  
Commissioner Jay Scott Emler

**FROM:** John Turner, Research Economist  
Lana Ellis, Deputy Chief of Economics and Rates  
Robert Glass, Chief of Economics and Rates  
Jeff McClanahan, Director of Utilities

**DATE:** April 26, 2017

**SUBJECT:** Docket No. 05-KGSG-580-HED: *Kansas Gas Service 2016-2017 Natural Gas Hedging*

**EXECUTIVE SUMMARY:**

On April 6, 2017, Staff met with Kansas Gas Service (KGS) to discuss their planned 2017-2018 Natural Gas Hedge Program. After reviewing their plan with KGS, Staff believes that the Hedge Program plans provide a reasonable measure of protection against price volatility based on the objectives of the program and given expected market conditions. No Commission action is required at the time.

**BACKGROUND:**

KGS' Hedge Program was authorized on March 24, 2005, by Commission Order in Docket 05-KGSG-580-HED. The purpose of KGS' Hedge Program is to provide ratepayers a measure of protection against price volatility. KGS meets with Staff and the Citizens' Utility Ratepayer Board (CURB) each year to discuss the prior year program performance and plans for the upcoming winter-season Hedge Program. This meeting is an annual requirement pursuant to the Commission's May 24, 2005, Order Granting Joint Motion and Approving Stipulation and Agreement issued in this Docket.

**ANALYSIS:**

KGS met with Staff and CURB on April 6, 2016, to discuss the prior year's program performance and plans for the upcoming winter-season Hedge Program.

***2016-2017 Program***

In 2016-2017, KGS planned to hedge \* [REDACTED] \* Bcf, which is \* [REDACTED] \* of forecasted demand, using call options exclusively with a budget of [REDACTED] \*. Actual volumes hedged were \* [REDACTED] \* Bcf with an average strike price of \* [REDACTED] \* per

MMBtu, and a cost of [REDACTED] \*. In order to reach forecasted demand of [REDACTED] \*, and due to increased volatility in the natural gas markets, KGS informed Staff that it needed an additional [REDACTED] \* to complete all call option purchases on target.<sup>1</sup> Staff informed the Commission of this increase in estimated budget in a Memorandum filed in this Docket on October 12, 2016.<sup>2</sup>

Only those call options exercised in January 2016 were in the money during the 2016-2017 heating season (November 2016 through March 2017).

#### ***2017-2018 Program***

For the 2017-2018 heating season, KGS plans to hedge [REDACTED] \* Bcf, which is [REDACTED] \* of its forecast demand volumes, with the rest of the forecasted volumes hedged with physical storage. KGS estimates it can hedge its target volume with a budget of [REDACTED] \*. However, due to recent volatility in the natural gas markets, KGS, Staff, and CURB agreed to an additional [REDACTED] \* above the estimated budget of [REDACTED] \*. Therefore, KGS will hedge its target volume of [REDACTED] \* Bcf with a budget of [REDACTED] \*, and an average estimated call cost of [REDACTED] \*<sup>3</sup> per MMBtu. KGS will hedge with call options exclusively using 14 transactions April through October.

#### **RECOMMENDATION:**

KGS' 2017-2018 program plans are reasonable based on the objectives of the program and expected market conditions. If KGS determines that a change in circumstances warrants deviation from those plans, KGS will contact Staff to discuss what changes are needed. No Commission action is required at this time.

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<sup>1</sup> At the original estimated budget of [REDACTED] \*, KGS would have only achieved [REDACTED] \* coverage of the forecasted need for winter demand volumes.

<sup>2</sup> The total budget for KGS' Gas Hedge Program shall not exceed \$13.3 million annually.

<sup>3</sup> 
$$[REDACTED] * / [REDACTED] * BCF = [REDACTED] * MMBtu$$