

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

In the Matter of the Filing of Written Documents)
and Gas Purchase Reports by UtiliCorp United, Inc.,)
d/b/a Peoples Natural Gas Company and Kansas) Docket No. 02-UTCG-371-GPR
Public Service Company, as Prescribed by)
Commission Order dated June 21, 2001 in Docket)
No. 106,850-U/75-GIMC-009-GIG.)

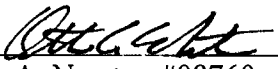
NOTICE OF FILING OF STAFF MEMORANDUM

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 Memorandum states as follows:

Pursuant to the Commission's June 21, 2001 Order issued in Docket No. 106,850-U/75-GIMC-009-GIG, Staff hereby files the attached Memorandum dated July 25, 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 June 12, 2017 annual meeting via phone conference of Black Hills/Kansas Gas utility Company, LLC, d/b/a Black Hills Energy, Staff, and Citizens' Utility Ratepayer Board, scheduled for the purpose of discussing Black Hills Energy's 2017-2018 Gas Purchase Plan. Inasmuch as Staff's Memorandum contains confidential commercial information pertaining to Black Hills Energy, Staff, in accordance with K.S.A. 2016 Supp. 66-1220a, has filed both confidential and public versions of its Memorandum.

WHEREFORE, Staff submits its Memorandum for the Commission's review and consideration.

Respectfully submitted,



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

Sam Brownback, Governor

**MEMORANDUM
UTILITIES DIVISION
PUBLIC VERSION**

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: July 25, 2017

SUBJECT: Docket No. 02-UTCG-371-GPR: *In the Matter of the Filing of Written Documents and Gas Purchase Reports by UtiliCorp United Inc., d/b/a People Natural Gas Company and Kansas Public Service Company, as Prescribed by Commission Order Dated June 21, 2001 in Docket No. 106,850-U/75GIMC-009-GIG.*

EXECUTIVE SUMMARY:

On June 12, 2017, Staff met with Black Hills/Kansas Gas Utility Company, d/b/a Black Hills Energy (Black Hills or Company), and the Citizens' Utility Ratepayer Board (CURB) via phone conference to discuss Black Hills' 2017-2018 Gas Purchase Plan. Based on its Gas Purchase Plan and the information provided during the teleconference, Staff believes that the Company's gas purchasing practices are reasonable and that Black Hills is able to supply sufficient gas for the 2017-2018 heating season (November 2017 through March 2018). Staff will continue to monitor Black Hills' gas purchasing practices and will inform the Commission of any significant changes. No Commission action is required at this time.

BACKGROUND:

Annual Meeting

On June 12, 2017, Staff met with members of Black Hills and CURB via phone conference to discuss Black Hills' 2017-2018 Gas Purchase Plan. This meeting is an annual requirement pursuant to the Commission's June 21, 2001, Order issued in Docket No. 106,850-U/75-GIMC-009-GIC. Black Hills must also file an annual report of its Gas Purchase Plan each year outlining its natural gas supply, transportation contracts, and purchasing strategy. The Company filed this report on May 6, 2017. At the meeting, Black Hills presented its view of the 2016-2017 winter heating season, a short-term price outlook, the 2016-2017 purchase plan performance, and the 2017-2018 purchase plan as discussed below.

2016-2017 Winter Heating Season

The 2016-2017 winter was 11% warmer than normal. At the time of the Black Hills purchase plan meeting, national storage levels were 12.1% higher than the five-year average. During the 2016-2017 heating season, the Henry Hub Natural Gas monthly average price ranged from \$3.59/MMBtu in December to \$2.85/MMBtu in February.¹ Throughout the 2016-2017 winter season, natural gas prices remained relatively low due to warmer-than-average temperatures, increased inventory levels, and production growth.

Short-Term Price Outlook

In part, the Energy Information Administration's (EIA) *Short-term Energy Outlook March 2017* reports on the performance of the natural gas industry and makes forecasts for the upcoming years. The EIA forecasted that monthly average Henry Hub² spot prices would rise through the year, but would remain lower than \$3.40/MMBtu through December 2017. Forecasted Henry Hub natural gas prices are expected to average \$3.03/MMBtu in 2017.³

ANALYSIS:

Gas Purchase Plan Year 2016-2017

According to Black Hills discussion, the 2016-2017 winter was uneventful from an operations and pricing perspective. In Black Hills' 2016-2017 Gas Purchase Plan, the Company indicated that it covered supply requirements by purchasing * [REDACTED] * at Index-prices without a financial hedge, * [REDACTED] * of purchases were backed by Call Options, and * [REDACTED] * was withdrawn from storage. Black Hills stated that the Plan was executed according to the filed Plan and that it was able to cover storage requirements for the 2016-2017 heating season.⁴

Gas Purchase Plan Year 2017-2018

Natural Gas Purchasing Process

Black Hills uses regression to forecast daily usage and the corresponding supply requirements. The majority of gas Black Hills delivers to its customers is purchased from its suppliers,⁵ who deliver it into the interstate pipeline systems for transport by Black Hills to its city-gates. The second supply source is to withdraw gas from storage.⁶ Black Hills expects a normal winter requirement of [REDACTED] *⁷ Bcf for the upcoming heating season and estimates that its total supply

¹ A "heating season" runs from November to March. Henry Hub Natural Gas Spot Price, www.eia.gov.

² The Henry Hub is the benchmark used to reflect U.S. natural gas market as a whole

³ Black Hills Annual 2016-2017 Gas Purchase Plan, p. 8. The EIA releases the *Short-Term Energy Outlook* on a quarterly basis, as of July 2017, forecasted Henry Hub natural gas prices average \$3.10/MMBtu in 2017 and \$3.40/MMBtu in 2018; https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf, pg. 9.

⁴ Black Hills Annual 2016-2017 Gas Purchase Plan, p. 11.

⁵ Black Hills secures its natural gas requirements through Term Supply, Monthly Supply, and Daily Supply Purchases. Term Supply purchases are packages of gas that are in excess of a calendar month and obtained through a Request-For-Proposal (RFP) process. Term Supply purchases can either be Fixed or Index; Term-Fixed means that both the term and the price of the purchase are fixed for more than one month. Term-Index means that the term is fixed for more than one month, but the price will reflect the resulting index each month. Monthly Supply packages of gas are purchased in the spot market for a one-month term based on an index or a fixed price. Daily Supply packages of gas are purchased in the spot market on a day-to-day basis, which may be based on an index or a fixed price.

⁶ Ibid., pp.12.

⁷ Black Hills projects system wide growth of * [REDACTED] *. The projected growth factor is based on sales customer counts for February 2016 compared to February 2017 customer counts. Black Hills attributes the majority of the growth to small municipal acquisitions.

requirement for the year will be * [REDACTED] * Bcf.⁸ Because forecasts are based on normal weather requirements, actual usage could differ due to warmer or colder temperatures throughout the heating season.⁹

Winter Purchasing Strategy

Black Hills has indicated that its strategy for the 2017-2018 winter will be similar to the previous year's Plan. The portfolio entails purchasing approximately * [REDACTED] * of normal requirements at Seasonal-Index prices without a financial hedge, [REDACTED] * of normal requirements purchased will be backed by Call Options at a fixed strike price, and the remaining * [REDACTED] * of normal requirements will be purchased at Index settled prices to be used for storage only.¹⁰

Delivery from Suppliers

Seasonal-Index Purchases

[REDACTED] * of Black Hills' normal winter requirements will be purchased at Inside FERC Index prices as described in the "Natural Gas Purchasing Process" discussed above.¹¹ The total Seasonal-Index volumes are approximately * [REDACTED] * Bcf of winter requirements.¹²

Call Options/Financial Hedging

* [REDACTED] * or [REDACTED] * Bcf of Black Hills' normal winter requirements are backed by purchasing Call Options at a fixed strike price. The same budget as the previous year of up to [REDACTED] * million will be spent to purchase Call Options. Further, Black Hills will purchase all Options financially and the corresponding physical gas will be purchased at Inside FERC Indexes as described in the "Natural Gas Purchasing Process" discussed above.¹³

Physical Storage

Storage Injections/Withdrawals

Typically, Black Hills injects natural gas into storage during the months of May through October with * [REDACTED] * to * [REDACTED] * of Maximum Storage Quantity (MSQ) injected each month. Black Hills estimates that it will inject [REDACTED] * or [REDACTED] * Bcf of normal winter requirements during its injection season. Gas is normally withdrawn during the months of November through March, in which case Black Hills' guidelines call for withdrawing * [REDACTED] * of MSQ each of those months. These percentages assume that storage is filled to * [REDACTED] * of MSQ and withdrawn to * [REDACTED] * MSQ. This * [REDACTED] * cushion is left at the beginning and end of the heating season to aid if temperatures are warmer or colder than normal.¹⁴

⁸ Black Hills estimates normal sales and storage requirements for the year beginning in May and ending in the following April.

⁹ Black Hills Annual 2016-2017 Gas Purchase Plan, Exhibit 1.

¹⁰ Black Hills Annual 2016-2017 Gas Purchase Plan, p. 12.

¹¹ Index terms are fixed for more than one month. This type of supply is locked in, eliminating the risk of not being available when needed, and the price is index-based which means it will be at or near market prices each month.

¹² Black Hills Annual 2016-2017 Gas Purchase Plan, p. 13.

¹³ Black Hills Annual 2016-2017 Gas Purchase Plan, p. 11.

¹⁴ Ibid., p. 1.

RECOMMENDATION:

Staff believes that Black Hills is able to supply sufficient gas for the 2017-2018 heating season based on its Gas Purchase Plan and the information provided at the meeting held on June 12, 2017. Staff will continue to monitor Black Hills' gas purchasing practices and will inform the Commission of any significant changes. No Commission action is required at this time.

CERTIFICATE OF SERVICE

02-UTCG-371-GPR

I, the undersigned, certify that a true and correct copy of the above and foregoing PUBLIC VERSION Notice of Filing of Staff Memorandum was served via electronic service this 28th day of July, 2017, to the following

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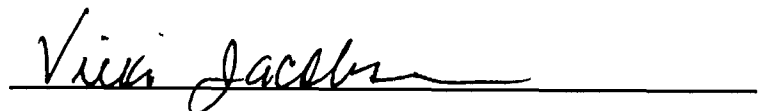
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02-UTCG-371-GPR

Vicki Jacobsen