Robert J. O'Keefe Commissioner
Darrel L. Peterson Commissioner

	ISSUE DATE: OCTOBER 28, 1987
In the Matter of the Investigation of the Earnings Level of Great Plains Natural Gas Company	DOCKET NO. G-004/CI-87-106
In the Matter of the Stipulated Settlement Regarding the Rates of Great Plains Natural Gas Company Pursuant to Minn. Rules, Parts 7827.0100 to 7827.0600 Relating to Rate Adjustments Due to the Tax Reform Act of 1986	DOCKET NO. G-004/M-87-432
	ORDER APPROVING STIPULATION

PROCEDURAL HISTORY

On March 13, 1987, the Minnesota Public Utilities Commission (the Commission) issued its Order Requiring Information Disclosure and Filing to Great Plains Natural Gas Company (Great Plains or the Company) In the Matter of the Investigation of the Earnings Level of Great Plains Natural Gas Company, Docket No. G-004/CI-87-106. That Order required Great Plains to file 1986 actual and weather-normalized returns on equity, projected 1987 return on equity, and supporting information. On May 7, 1987, the Company made its compliance filing.

On June 29, 1987, the Commission's permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. These rules state that on and after July 1, 1987, overall rates of public utilities are unjust and unreasonable unless their rates have been adjusted to account for the reduction in federal income tax expense as a result of the TRA or certain alternative conditions are fulfilled. One of the alternatives is that rates have been established under a stipulated settlement and a Commission decision approving the settlement.

Residential Utilities Division of the Office of the Attorney General (RUD-AG) submitted their Stipulated Settlement Regarding Rates of Great Plains Natural Gas Company for Commission approval. The parties intended that the Stipulation resolve the Company's obligations under both the tax rules and the earnings investigation.

On September 29, 1987, the Commission issued an Order varying Minn. Rules, part 7827.0300, item E, to extend the time for Commission approval of a stipulated settlement until 120 days from July 1, 1987 for Great Plains and several other companies.

On October 9, 1987, Commission staff sent interrogatories to the parties requesting additional information for evaluating the Stipulation. On October 19, 1987, the parties replied to the interrogatories.

FINDINGS AND CONCLUSIONS

The issue for Commission consideration is whether the proposed Stipulation is in the public interest and ensures that Great Plains' rates are just and reasonable in light of the TRA and the Commission's earnings investigation.

The parties to the Stipulation proposed that the Commission:

1. Find that the Company's current rates are just and reasonable after July 1, 1987 and need not be adjusted for the TRA.

2. Find that the Company is exempt from reducing its rates pursuant to the formula in Minn. Rules, part 7827.0400, due to this Stipulation filed under Minn. Rules, part 7827.0300, item E.

3. Dismiss Docket Nos. G-004/M-87-432 and G-004/CI-87-106.

4. Approve the Company's agreement that it will not seek to implement interim rates prior to April 1, 1988.

In response to Commission staff interrogatories, the parties claimed that the Stipulation was in the public interest because: it confirmed just and reasonable rates after July 1, 1987 by considering changes due to the TRA and changes in operating costs of the Company, recognition of these issues would delay an expensive and time consuming general rate case, and customers would have stable and lower rates for a longer period of time.

In its May 1987 earnings investigation compliance filing in Docket No. G-004/CI-87-106, Great Plains calculated that its actual return on equity for 1986 was 10.65%, a weather-normalized return for 1986 would have been 11.34%, and its projected return for 1987 would be 9.05%. These figures do not include the full effects of the TRA or state income tax reductions.

In Exhibit A attached to the Stipulation, the parties presented calculations showing that the effects of the TRA and Minnesota state income tax reductions would increase the Company's net operating income based on 1986 normalized data by $163,876, for a rate of return on equity of 14.65%. However, projections for 1987 show the Company would be earning only an 11.45% return on equity for 1987, even after the effects of the TRA and state income tax decreases are considered. Additional support for the 1987 projected data was presented in the October 19, 1987 responses to interrogatories. The items contributing to lower earnings in 1987 included decreased revenues, due largely to decreased sales related to the poor agricultural economy, increased property taxes and insurance, and normal inflationary cost increases.

The Company stated that if any reduction were made in its existing rates for the effects of the TRA, it would be required to file a general rate increase application to recover its revenue deficiency. Great Plains agreed as a condition of the Stipulation that it would not seek an effective date for interim rates in a general rate increase application earlier than April 1, 1988.

The Commission finds that the evidence presented in the Stipulation, the earnings investigation compliance filing, and responses to interrogatories indicates that there are insufficient grounds for taking further action on the earnings investigation of Great Plains. The projected 1987 return on equity of 9.05% in the earnings investigation compliance filing and of 11.45% after the effects of the TRA in the Stipulation are below the 12.51% required return for 1986 estimated by the DPS and below what would likely be found to be its 1987 required return. The level of review of Great Plains' financial data in the Stipulation does not rise to that which would take place in a contested rate case proceeding; however, the Commission is persuaded that the available evidence supports a finding that Great Plains is not overearning at this time. Therefore, it would not be in the public interest to devote further resources to the earnings investigation.

The Commission finds that the calculations of the effects of the TRA on Great Plains are reasonable and are consistent with methods found appropriate by the Commission in other recent tax dockets. Evidence presented in the Stipulation shows that the increase in operating income from the TRA is offset in 1987 by decreases in revenues and increases in expenses. These calculations support a finding that Great Plains is unlikely to reap a windfall gain from tax savings resulting from the TRA at this time. Therefore, the Commission finds that the Company's present rates do not need to be adjusted for the effects of the TRA.

The Commission concludes that Great Plains' existing rates are just and reasonable after July 1, 1987 for purposes of Minn. Rules, parts 7827.0100 to 7827.0600, and that it is not necessary to reduce

1. The September 25, 1987 Stipulated Settlement Regarding Rates of Great Plains Natural Gas Company is approved and fulfills the Company's obligations under Minn. Rules, parts 7827.0100 to 7827.0600.

2. The investigation into the earnings level of Great Plains in Docket No. G-004/CI-87-106 is hereby closed.

3. The Company's existing rates for natural gas service in Minnesota need not be changed as a result of the federal Tax Reform Act of 1986 nor the earnings investigation.

4. The Company shall not request authority to implement interim rates in a general rate case prior to April 1, 1988.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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