

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Review of 1986  
Automatic Adjustment of Charges for All Gas  
and Electric Utilities

ISSUE DATE: May 26, 1988

DOCKET NO. G,E-999/AA-86-503

ORDER ACCEPTING FILING OF  
ANNUAL AUTOMATIC ADJUSTMENT  
REPORTS

PROCEDURAL HISTORY

Minn. Rules, parts 7825.2390 to 7825.3000, require all gas and electric utilities to file annual reports with the Minnesota Public Utilities Commission (the Commission) on their automatic adjustment of charges.

Between August 29, 1986 and November 25, 1986 all required gas and electric utilities filed 1986 reports.

The Minnesota Department of Public Service (Department or DPS) filed its Review of the 1986 Automatic Fuel Adjustment Annual Reports on October 31, 1986.

On March 30, 1987, the Commission issued its Order Requiring Further Investigation and Review in this docket (March 30 Order). The Order required the DPS to answer certain questions raised in the Commission's review of the annual reports. The DPS was given 30 days to complete its investigation.

On April 22, 1987, the Commission received a request from the DPS for an extension from April 29, 1987 to May 14, 1987 for submitting its Report of Investigation and Review. On May 4, 1987, the Commission issued its Order Granting Extension to May 14, 1987.

On May 14, 1987, the DPS filed its report on the review and investigation required by the Commission's March 30, 1987 Order. The report addressed all questions raised in the Order, with the exception of matters relating to Western Gas Utilities, Inc.(Western), which had not provided the DPS with requested information.

On September 9, 1987, following the receipt and review of requested information from Western, the DPS filed its report on Western.

### FINDINGS AND CONCLUSIONS

Minn. Rules, part 7825.2390 to 7825.2700, allow gas and electric utilities to make the following adjustments to their rates between general rate cases. Gas utilities change rates due to increases or decreases, since their last general rate case, in the cost of gas that they purchase and then resell to Minnesota customers. Electric utilities that generate their own power change rates due to increases or decreases, since their last general rate case, in the cost of fuel used to run the generating plants. Electric utilities that resell purchased power change rates due to increases or decreases, since their last general rate case, in the cost of that purchased power.

Minn. Rules, parts 7825.2800 to 7825.2840 require all utilities to submit a series of annual reports to the Commission. Minn. Rules, part 7825.2850, requires the Commission to conduct a separate meeting to review the reports. The reports allow the Commission to gather information for its review of automatic adjustments made during the year.

The Commission reviewed the required annual reports submitted by the following utilities:

Bigfork Valley Electric Service Company, Inc.  
Dakota Electric Association  
Great Plains Natural Gas Company  
Northern Minnesota Utilities (formerly Inter-City Gas Corporation)  
Interstate Power Company (Electric Division)  
Interstate Power Company (Gas Division)  
Iowa Electric Light and Power Company  
Minnegasco, Inc.  
Minnesota Power and Light Company  
North Central Public Service Company  
Northern States Power Co. (Electric Division)  
Northern States Power Co. (Gas Division)  
Northwestern Wisconsin Electric Company  
Otter Tail Power Company  
Peoples Natural Gas Company  
Western Gas Utilities, Inc.

## Policies and Actions

Minn. Rules, part 7825.2800 requires all public utilities to file annually their procurement policies for selecting sources of fuel and energy purchased, their dispatching policies, if applicable, and a summary of actions taken to minimize cost. The DPS stated that the reports filed by the utilities were acceptable and complied with Minnesota Rules.

The Commission finds that the utilities' summaries of fuel and energy procurement policies, dispatching policies and cost minimizing actions are acceptable and that no further action is required.

## Automatic Adjustment Charges

Minn. Rules, part 7825.2810 requires all gas and electric utilities to submit an annual reporting of all automatic adjustment charges, by month, for each customer class. In its review of the utilities' initial filings, the Commission found that it needed further information from certain utilities and ordered the Department to conduct further investigations and review of the following matters:

### 1) Gas Utility Purchases Not Regulated by the Federal Energy Regulatory Commission (FERC)

Pursuant to Minn. Rules, part 7825.2500 (B), gas companies change rates to Minnesota ratepayers through a purchased gas adjustment (PGA) after FERC approves a change in the rate that the pipeline supplier charges to the gas companies. Minn. Stat. Section 216B.16, subd. 7 (1986) allows rate changes for gas purchased from sources which are not FERC price regulated. Since the automatic adjustment rules do not address rate changes for gas prices not regulated by FERC, companies purchasing such gas must ask the Commission to vary its automatic adjustment rules and be granted rule variances from them to pass price changes through the PGA. The DPS investigated the treatment of gas purchases not regulated by FERC for those utilities who had not received a rule variance as of March 30, 1987 from the Commission to pass these purchases through the automatic adjustment. Those companies were North Central Public Service Company, Great Plains Natural Gas Company, Northern Minnesota Utilities, and Western Gas Utilities.

Great Plains Natural Gas Company and Northern Minnesota Utilities have since filed and been granted variances to pass through cost differences on non-regulated gas purchases. Western Gas Utilities indicated it did not anticipate purchasing gas not regulated by FERC, but later requested and was granted a variance. North Central Public Service has recorded savings on spot gas purchases in a deferred account, to be returned to customers through a PGA true-up. The Company is preparing revised tariff language to accomplish this true-up, but has not filed a revision to date.

The Commission finds that gas utilities that have purchased gas not regulated by FERC have either filed for and been granted variances to the Commission's rules or are preparing to request variances to allow the pass through of the related cost differences. The Commission therefore concludes that the gas utilities have treated these cost differences appropriately and no further action is required.

## 2) Gas Utilities' Supplier Refunds

Minn. Rules, part 7825.2810, requires utilities to report the amount of supplier refunds received and the amount of refunds credited to customers for the period under review. Supplier refunds are defined in Minn. Rules, part 7825.2700 (C) as "refunds and interest thereon received from the suppliers of purchased gas that are attributable to the cost of gas previously sold."

The DPS investigated refunds reported by three companies, Iowa Electric Light and Power Co., Northern Minnesota Utilities, and North Central Public Service Company, that did not fit the normal definition of supplier refunds. These companies reported amounts as supplier refunds that did not result from a direct payment or credit from the pipeline supplier. The Department also reviewed the refund activities of Western Gas, whose filing did not respond to this reporting requirement.

### Iowa Electric Light and Power Co.

The DPS reported that the refunds reported by Iowa Electric Light and Power Co. came from two sources, one of which met the definition of Minn. Rules, part 7825.2700 (C). The other source was a mismatch created by over-recovery of gas costs due to either delayed implementation of rate changes or retroactive tariff changes made by the pipeline companies. The sources and corresponding refund amounts were reviewed and approved by the Commission in Docket No. G-006/MR-85-815 (January 29, 1986).

### Northern Minnesota Utilities

Northern Minnesota Utilities reported refunds from three sources, one of which is supplier refunds as defined in Minn. Rules, part 7825.2700 (C). Another is purchased gas adjustment refunds, due to either delayed implementation of rate changes or retroactive tariff changes made by the pipeline companies. The third source was minor adjustments necessary to correct earlier billing errors. The sources and corresponding refund amounts were reviewed and approved by the Commission in Docket No. G-007/MR-85-762 (January 23, 1986).

### North Central Public Service Company

This Company reported refunds from three sources which involved both its suppliers, Northern Natural Gas and Midwestern Gas Transmission Company. One is supplier refunds as defined by the rules. Another is purchased gas adjustment refunds, due to either delayed implementation of rate changes or retroactive tariff changes made by the pipeline companies. The third source represents a supplier refund due to the application of an incentive sales rate schedule. The sources and corresponding refunds amounts were reviewed and approved by the Commission in Docket No. G-010/MR-85-651 (Midwestern customers) and Docket No. G-010/MR-85-840 (Northern Natural customers).

The DPS reported that the refunds reported by these three companies had been reviewed and

approved in previous Commission Orders; that the sources of these refunds comply with Minnesota Rules; and that it believes the companies' treatment is appropriate.

The Commission concludes that the supplier refunds reported by Iowa Electric light and Power Co., Northern Minnesota Utilities, and North Central Public Service Company comply with Minnesota Rules and have been properly credited to customers and that no further action is required. The Commission further concludes that the supplier refunds from all other utilities with the exception of Western Gas Utilities complies with the Commission's automatic adjustment rules.

#### Western Gas Utilities, Inc.

The DPS also reported that Western Gas Utilities, Inc. received and distributed a refund of \$254.51 to its customers. Although it noted that the method used by the Company to calculate the refund distribution did not comply with the Commission's Rule for such matters, the DPS did not recommend corrective action because the refund was so small.

The Commission finds that Minn. Rule, part 7825.2700 specifies that "Refunds must be made to each customer class on the same basis as previously charged to customers." A refund received from a supplier must first be allocated between all classes based on the class's consumption during the period covered by the refund; then the refund may be distributed to customers within each class based on current consumption. Western, however, distributed the \$254.51 refund, including interest, to its customers in the billings for November, 1985. The Company estimated sales for the month of the refund and divided these sales into the amount of the refund to arrive at a credit amount per MCF.

The Commission may grant a variance to any of its rules upon finding that the following conditions apply:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
2. Granting the variance would not adversely affect the public interest; and
3. Granting the variance would not conflict with standards imposed by law.

Minn. Rules, part 7830.4400.

The Commission finds that enforcing the refund method of Minn. Rules, part 7825.2700 would impose an excessive burden upon the Company. The refund amount is very small and has been distributed. To require the Company to recalculate the amounts to be refunded and make appropriate adjustments to customers would impose an excessive burden on Western. Granting a variance would not adversely affect the public interest; rather, it would serve the public interest by avoiding unnecessary customer confusion over a very small refund. Finally, granting the variance would not conflict with standards imposed by law. Therefore, the Commission will vary Minn. Rules, part 7825.2700 and approve Western's refund method. The Commission, however, cautions

Western that it will be expected to comply with the refund treatment of Minn. Rules, part 7825.2700 for any future applications.

### 3) PGA Recovery Rates

All companies except Iowa Electric Light and Power Company filed PGA recovery rates which complied with the automatic adjustment rules. The Commission will approve those filings.

The DPS reviewed the PGA recovery rates reported by Iowa Electric Light and Power Co. in its annual report, which did not match the PGA data on file. The Company explained that its annual report had inadvertently matched current revenue data with PGA data from a previous period. The DPS reported that the revised billing data matches the PGAs on file.

The Commission concludes that Iowa Electric's application of PGAs for the period under review complies with the automatic adjustment rules and that no further action is necessary.

#### 4) Variances in Recovery of Gas Costs

The DPS reported that all gas utilities reported the amount of gas costs recovered through rates and the actual cost of the gas delivered to customers. Pursuant to the Commission's March 30, 1987 Order, the DPS further investigated those companies with class variances of more than three percent between gas costs and gas costs recovered, and those companies which had not reported this data by customer class.

In its March 30, 1987 Order, the Commission noted that all gas utilities reported variances between the amount of gas costs recovered through rates and the actual cost of the gas delivered to customers. Further, the Commission recognized that the automatic adjustment rules are not intended to achieve exact recovery. The Commission ordered the DPS to further investigate those companies with customer class variances greater than 3%, North Central Public Service Company and Northern Minnesota Utilities.

#### North Central Public Service Company

The DPS identified three reasons for North Central Public Service's apparent over-recovery of gas costs:

- a) North Central received significant revenues in the current period from the sale of gas purchased in a previous period and stored.
- b) A winter surcharge, approved in the Company's last rate case, was applied on gas sold to Small Volume Interruptible customers from November through April.
- c) The allocation of costs between classes, specified in the Company's last rate case, differed from actual results.

The Commission finds that adjusting for these factors brings North Central's class variances to well under three percent.

#### Northern Minnesota Utilities

The DPS identified two adjustments to be made to Northern Minnesota Utilities'(NMU) over-recovery calculation:

- a) Certain retroactive refunds had been inadvertently excluded from the Company's initial filing.

- b) Supplemental surcharge revenues, which represent the recovery of costs incurred for peak shaving gas during a previous period, were removed from the over-recovery calculation.

The Commission finds that adjusting for these factors brings NMU's class variances to well under three percent.

In its March 30, 1987 Order, the Commission also found that three utilities, Northern States Power Company, Iowa Electric Light and Power Company, and Western Gas Utilities Inc. reported a company-wide variance, but did not report recovery balances by customer class. The Commission found that a report of recovery balance on a company basis is of limited use; it may be reasonable only because positive customer class variances may have balanced out negative customer class variances. Possible over- or under-recovery may not be discovered when reviewing reports based only on a company-wide variance.

Supplementary reports from Northern States Power Company and Iowa Electric Light and Power Company demonstrated that all class variances, for both companies, were below the three percent threshold.

The Commission finds that all gas and electric utilities have properly submitted an annual reporting of all automatic adjustment charges for the year ended June 30, 1986. The Commission is satisfied that the DPS investigation has adequately explained the variances and concludes that the variances noted, except for Western Gas, are a natural function of the estimate built into the PGA computation.

#### Western Gas Utilities Company

Western Gas Utilities, Inc. had reported a company wide variance but had not reported recovery balances by customer class. A supplementary report provided additional information which the DPS used to calculate variances by class. Although the calculation showed a firm class variance slightly over three percent, the Company noted that the calculations used to establish the PGA rates for demand-related gas make use of three-year normalized sales volumes. For the period under review, sales were greater than average, resulting in an over-collection of these costs. The DPS stated that this adequately explains the firm class variance.

In its review of Western's gas revenues, the DPS noted that revenue figures calculated by multiplying monthly sales volumes (reported by the company) by the current PGA rates (as reported by the Company) did not match the total revenue reported by the Company in its initial filing to the Commission. Western has been unable to explain the difference of about \$28,000, which represents 2.6% of the Company's annual gas revenue. The DPS recommended that the Commission order Western to explain how it arrived at the revenue figure it reported to the Commission in its November 24, 1986 filing.

The Commission finds that the difference between Western Gas Utilities' total revenue, as reported in the Company's initial filing, and the revenue total calculated by multiplying monthly sales volumes by current PGA rates has not been adequately explained by the Company. The

Commission also finds that this difference may represent an over-collection of gas costs which should be returned to customers. Therefore, the Commission concludes that it will direct Western Gas to explain the difference in its reported revenues, and that the Commission will direct the DPS to review the Company's explanation to determine whether an additional refund is due customers.

#### Over-Recovery of Commodity Gas Costs

In its March 30, 1987 Order, the Commission found that Minnegasco, Inc. reported an 8% over-recovery of gas costs for May, 1986 and a 14% over-recovery for June, 1986. The Commission ordered the DPS to investigate these over-recoveries.

The DPS reported that two factors contributed to the large over-recoveries:

- a) Minnegasco, Inc. experienced significant unaccounted for gas gains, which could not be quantified or fully accounted for until the end of the heating season. These gains were included in the Company's August 19, 1986 Gas Cost Reconciliation and have been returned to customers.
- b) The Company's gas supplier, Northern Natural Gas, opened its system for the transportation of spot market gas for four days in June. Although the Company purchased and transported gas at greatly reduced prices, it had not yet obtained a variance to PGA rules allowing it to pass on cost savings to its customers. Subsequently, the spot market gas savings were included in the Company's 1986 Gas Cost Reconciliation filing and have been passed on to customers.

The Commission concludes that Minnegasco properly handled and recorded the over-recovery of commodity gas costs and that related refunds due were accurately distributed to customers.

### Annual Auditor's Report

Minn. Rules, part 7825.2820 requires all gas and electric utilities to submit an independent auditor's report evaluating accounting for automatic adjustments for the year ending June 30. The DPS reported that the reports filed by all utilities complied with Minnesota Rules.

The Commission concludes that the utilities' annual audit reports are acceptable and that no further action is required.

### Annual Five-Year Projection

Minn. Rules, part 7825.2830 requires all gas and electric utilities to submit a five-year projection of fuel and gas costs. The DPS reported that all utilities included projection or forecast information in their original or subsequent filings.

The Commission concludes that the utilities' annual five-year projection information is acceptable and that no further action is required.

### Annual Notice of Reports Availability

Minn. Rules, part 7825.2840 requires all gas and electric utilities to provide notice of the availability of the reports defined in parts 7825.2800 to 7825.2830 to all intervenors in the particular company's previous two rate cases. The DPS reported that all utilities had provided notice to the applicable intervenors.

The Commission concludes that proper notice of the availability of the above reports has been provided to the appropriate intervenors by all the gas and electric utilities.

## ORDER

1. The Minnesota Public Utilities Commission accepts the filing of the 1986 Annual Automatic Adjustment Reports, as defined in Minn. Rules, parts 7825.2390 to 7825.3000 for all gas and electric utilities.
2. Western Gas Utilities, Inc. shall submit an explanation of the difference between the monthly sales volumes and rates reported by the Company and the Company's initial November 24, 1986 filing. The explanation shall be submitted to the Commission and the Minnesota Department of Public Service within 30 days of the issue date of this order.
3. The Department of Public Service shall investigate Western's explanation to determine whether

gas revenues have been over-collected, and submit a report on its investigation within 15 days of the receipt of Western's response.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

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