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 North Central Public Service Company's Request for a Variance from Commission Rules to Recover the Cost of Third-Party Gas Purchases Through the Company's Purchase Gas Adjustment and for Authority to Distribute Various Refunds to Customers

ISSUE DATE: July 26, 1988

DOCKET NO. G-010/MR-88-201

ORDER GRANTING ONE-YEAR VARIANCE AND AUTHORIZING REFUNDS

PROCEDURAL HISTORY

On March 29, 1988 North Central Public Service Company (North Central or the Company) requested authority to distribute to its customers refunds resulting from the settlement of a rate case of its major supplier, interest amounts inadvertently omitted from its Tax Reform Act refund, PGA overcollections for the months of November 1987 and January 1988, and savings resulting from the purchase of third-party gas.

On April 27, 1988 the Company filed a request for a variance from the Purchased Gas Adjustment (PGA) Rules, Minn. Rules, parts 7825.2500 et seq., to allow it to use the PGA process to pass through to its customers changes in cost resulting from the purchase of gas not regulated by the Federal Energy Regulatory Commission (FERC).

The Department of Public Service (DPS or the Department) investigated the requests and filed its report on June 1, 1988. The Department recommended approving the refund request as submitted. The Department also recommended granting the variance, but recommended modifying the Company's proposal by requiring a rate adjustment each time the Company's purchase of FERC-regulated or non-FERC-regulated gas resulted in cost changes of three cents or more per Mcf. The Company had proposed charging the FERC-regulated rate and making adjustments for non-regulated purchases on a six month basis for purposes of administrative convenience.

FINDINGS AND CONCLUSIONS

Refund Authorization

The Commission finds that the Company's refund proposal is reasonable and consistent with Commission treatment of similar refunds in the past. The proposal will be approved.

PGA Variance

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 the requirements for granting a variance are met in this case. Enforcing the existing PGA rules, which would not allow the Company to pass through savings from unregulated gas purchases, would impose an excessive burden upon both the applicant, the Company, and others affected by the rules, the Company's ratepayers. It would burden the ratepayers by depriving them of the benefit of the Company's efforts to secure the most economical available gas supplies. It would burden the Company by placing it in the untenable position of having to choose between over-earning or paying non-competitive prices for gas. Clearly, these are excessive burdens, and the first requirement for a variance has been met.

The second requirement, that granting the variance not adversely affect the public interest, is also met. In fact, granting the variance serves the public interest by facilitating the Company's efforts to provide its customers with reliable energy at the lowest possible prices.

Finally, the third requirement, that granting the variance not conflict with any standards imposed by law, is also met. Allowing the Company to use the PGA process to reflect cost changes resulting from the purchase of gas not subject to FERC regulation does not conflict with any applicable state or federal authority.

The requirements of Minn. Rules, part 7830.4400 have been met, and the Commission will grant the variance.

The Modification Proposed by DPS

The Department objected to the Company's proposal to charge the pipeline rate to customers' bills when it is actively purchasing non-FERC-regulated gas. The Department took the position that the Company should change its rates every time its weighted average cost of gas changed by three cents or more.

This is consistent with the terms of similar variances the Commission has granted other utilities. It is also, as the Department pointed out, consistent with the purpose of the PGA rules, which is to allow rates to track fuel costs without the expense of a general rate case. The Commission agrees with the Company, however, that in this case there are good reasons to allow a semi-annual refund of non-FERC-regulated gas purchase savings.

One reason is that the revenues at issue are relatively small. For the past seventeen months they have totalled $45,437, or approximately 0.2% of the Company's total gas costs. Furthermore, the administrative costs associated with following the Department's recommendation would be extraordinarily high at this time, because the Company is currently undergoing corporate reorganization and relocating its corporate headquarters. This process should be complete by January, approximately the same time the Commission expects to promulgate its new PGA rules. Under the circumstances, it is reasonable to accommodate the Company's request that it be required to overhaul its PGA system only once, not twice.

Finally, the Company's proposal is also consistent with the purpose of the PGA rules, which is to allow rates to track the cost of gas without a general rate case. In this case, factoring the cost of non-FERC-regulated gas into the Company's PGA equation would be unlikely to affect rates, because the Company's activity in that market has been so limited. Requiring the Company to do that would therefore not serve the purpose of the rules. In fact, it would work at cross purposes with the rules by imposing costly procedural requirements without producing proportional benefits.

One Year Duration

As a general practice, the Commission has limited rule variances to one-year terms. This case does not appear to require deviation from that practice, and the variance will be limited to one year.

ORDER

1. North Central Public Service Company's refund proposal is approved as submitted.

2. North Central Public Service Company is granted a one-year variance from the PGA Rules, Minn. Rules, parts 7825.2500 et seq., to allow it to use the PGA process to pass through to its customers cost changes resulting from the purchase of gas not regulated by the Federal Energy Regulatory Commission on a semi-annual basis. The Company is authorized to refund savings from such gas purchases on a semi-annual basis, and to use the pipeline rate for regular PGA adjustments.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)