

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 A Request by Northern Minnesota Utilities for a Rule Variance Regarding Calculation of Purchased Gas Adjustments in September and October, 1987

ISSUE DATE: February 26, 1988

DOCKET NO. G007/AA-87-583

ORDER GRANTING RULE VARIANCE
AND REQUIRING REFUND

PROCEDURAL HISTORY

On September 4, 1987, Northern Minnesota Utilities (NMU or the Company) filed an automatic purchased gas adjustment (PGA) with the Minnesota Public Utilities Commission (the Commission). NMU excluded two customers' annual sales volumes from the PGA calculations.

The excluded sales volumes represented sales to two large volume customers who no longer take commodity gas from NMU. Instead, those customers use NMU's system for transportation. That is, the two customers pay NMU a fee to transport gas purchased from third parties.

On September 25, 1987, NMU requested a variance to Minn. Rules 7825.2400 and 7825.2700 for the PGA calculations used by NMU for September and October, 1987.

The Minnesota Department of Public Service (DPS) completed its Report of Investigation and Recommendation on December 3, 1987. In that report, DPS recommended that the Commission reject the variance request. DPS argued that the proposed method results in an overrecovery from classes whose customers have not switched to transportation. According to DPS, the overrecovery should be refunded.

On December 15, 1987, NMU responded to DPS's recommendation. NMU responded that the requested variance would increase residential customers' bills by \$2.42 during the two-month period at issue. NMU stated that this burden is not disproportionate and is justified by the rapid changes occurring in the gas industry.

DPS's reply, dated December 18, 1987, stated that NMU's proposal does place an undue burden on the smaller classes. According to DPS, the issue is not the undercollection of total gas costs, but rather NMU's proposed method of recovering these costs from the various classes.

FINDINGS AND CONCLUSIONS

The issue before the Commission is to determine a reasonable PGA calculation method for September and October, 1987. Minn. Rules 7825.2400 and 7825.2700 require the use of historical sales volumes in calculating the PGA. However, two of NMU's customers have recently stopped being commodity customers subject to the PGA. Historical volumes including sales to these customers would not properly represent the situation in September and October, 1987. The use of forecasted volumes would solve this problem, but differs from the rule.

The rules also require the inclusion of historical large volume sales in the calculation of the annual demand sales volumes. This requirement would result in an underrecovery of demand costs in September and October, 1987.

The Commission has approved a new PGA calculation method for NMU, effective November 1, 1987. See Northern Minnesota Utilities, Docket No. G007/M-87-662, Order Granting Rule Variance in Calculation of Purchased Gas Adjustments (November 13, 1987). In that Order the Commission found that:

. . . using projected costs and projected sales volumes, instead of current costs and historical sales volumes, will result in more accurate computation of its [NMU's] commodity adjustment. . . .

The Commission also finds that allowing the Company to apply an automatic adjustment tied to purchased-demand costs to its Large Volume demand charge will result in a more equitable distribution of purchased-demand costs among the Company's customers. If NMU's proposal were not adopted, then either the Company or smaller firm customers would have to pick up the costs no longer recovered from Large Volume transportation customers who continue to be responsible for the incurrence of these costs.

The circumstances addressed in that Order are similar to those presented here. The Order quoted above covered an indefinite period beginning November 1, 1987. This Order covers the months of September and October 1987. NMU's relationship with the Large Volume Transportation customers in November was identical with its relationship with them in September and October, except for the specific amounts of gas taken. However, at issue here is the calculation method, not amounts. Therefore, the situation for purposes of this Order is identical. For that reason, the Commission finds that the PGA calculation method in September and October should be the same as the one approved to begin in November.

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

1. Enforcement of the rules would impose an excessive burden upon the applicant or others affected by the rule;

2. Granting of the variance would not adversely affect the public interest; and
3. Granting of the variance would not conflict with standards imposed by law.

Minn. Rules part 7830.4400

In the November 13, 1987 Order, the Commission found that requiring the Company to compute its PGA in strict compliance with Minn. Rules parts 7825.2400 and 7825.2700 would impose an excessive burden on the Company. That burden consisted of undercollecting demand-related gas costs. The Commission makes a similar finding here. The Commission further finds that equitable allocation and recovery of gas costs is in the public interest. Therefore, granting the variance would not adversely affect the public interest. Furthermore, granting the variance would not conflict with standards imposed by law. The Commission concludes that the requirements of Minn. Rules part 7830.4400 have been met and that a variance should be granted.

However, in approving a variance, the Commission is not approving the PGA calculation method used by the Company for September and October. The Commission finds that NMU incorrectly calculated its PGA for September and October by using an improper calculation method.

The Commission finds that NMU over-recovered costs from some customers classes and under-recovered costs from other classes. For classes with customers that had switched to transportation, the PGA resulted in an overall rate that was too low. The Commission will not retroactively impose a higher rate for those months.

For classes with customers that had not switched to transportation, the September and October PGA resulted in an overall rate that was too high. The Commission will order a refund of the amounts overcollected from customers during those months. The Company will be required to file a refund plan for Commission approval before issuing the refund. The plan will show the exact amount of the refund and the method of making refunds to each customer class.

ORDER

1. Northern Minnesota Utilities is hereby granted a variance from Minn. Rules parts 7825.2400 and 7825.2700 to allow it to base its commodity adjustment on projected costs and projected sales volumes, instead of current costs and historical sales volumes, for the months of September and October, 1987.
2. Northern Minnesota Utilities is ordered to refund the difference between its actual PGA collections in September and October and what the collections would have been if the calculation method described above had been used.
3. Northern Minnesota Utilities is ordered to file a refund plan with the Commission within 30 days. The plan shall show the exact amount of the refund and the method of making the

refund to each customer class. The refund plan is subject to approval before refunds shall be issued.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

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