

G-008/M-93-800 ORDER DENYING PETITION

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm  
Tom Burton  
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Chair  
Commissioner  
Commissioner  
Commissioner  
Commissioner

In the Matter of a Petition From  
Minnegasco, a Division of Arkla,  
Inc., for Approval of Deferred  
Accounting for the Acquisition  
Adjustment Amount in  
Minnegasco's Property Exchange  
With Midwest Gas

ISSUE DATE: November 23, 1993

DOCKET NO. G-008/M-93-800

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**PROCEDURAL HISTORY**

On July 29, 1993, the Commission issued an Order allowing Minnegasco and Midwest Gas to exchange assets, utility operations and business. In the exchange, Minnegasco gave Midwest its South Dakota properties plus approximately \$38 million in exchange for Midwest's Minnesota properties. In so doing, Minnegasco paid approximately \$15 million more than the book value of the property it received from Midwest. The amount paid in excess of the book value of the property received is referred to as the acquisition adjustment. This amount is placed in a separate account to be treated for ratemaking purposes as may be authorized by the Commission. In this case, Minnegasco has established an acquisition adjustment account of approximately \$15 million. See ORDER APPROVING EXCHANGE AND REQUIRING FILINGS in Docket No. G-008, 010/PA-93-92, page 6.

On August 18, 1993, Minnegasco filed a petition requesting approval for deferred accounting treatment of the associated income taxes and the amortization of the approximately \$15 million acquisition adjustment resulting from the property exchange with Midwest Gas.

On September 13, 1993, Minnegasco changed its request by removing the request for deferral of the income taxes. The Company's revised request was that approximately \$625,000 of amortization on an annual basis be deferred starting September 1, 1993, the day after the closing date of the exchange and continue until the date final rates are implemented in its next rate case.

On September 30, 1993, the Minnesota Department of Public Service (the Department) and the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) filed comments regarding the Company's proposal.

On October 11, 1993, Minnegasco filed reply comments, amending its petition. For the period between September 1, 1993 and the date interim rates are implemented in its next rate case, the Company proposed that the deferred amortization be included in rates only up to the amount of gas cost savings for the same period. From the date interim rates became effective to the date of final rates, any amortization would be compared to all exchange related savings for the purpose of determining rate recovery.

On October 28, 1993, the Commission met to consider this matter.

### **FINDINGS AND CONCLUSIONS**

In this Order, the Commission exercises its authority under Minn. Stat. § 216B.10, Subd. 3 (1992) to determine whether it is appropriate to allow Minnegasco to give deferred accounting treatment to a particular cost, the amortization of the acquisition adjustment resulting from the Company's property exchange with Midwest Gas. Having reviewed this matter thoroughly, the Commission makes the following findings:

**I. THE DEFERRED ACCOUNTING TREATMENT REQUESTED BY MINNEGASCO IN THIS CASE MAY ONLY BE GRANTED AS AN EXCEPTION TO THE UNIFORM SYSTEM OF ACCOUNTS UPON A SHOWING OF GOOD CAUSE**

**A. Minnesota's Accounting Regulations**

In 1974, the Minnesota legislature directed the Commission to establish a system of accounts to be kept by the public utilities subject to its jurisdiction. The statute also provides that a utility that keeps its accounts in accordance with the system of accounts prescribed by a federal agency shall be deemed in compliance with the system of accounts prescribed by the Commission. Minn. Stat. § 216B.10, Subd. 1 (1992).

Subsequently, the Commission adopted a rule which established Federal Energy Regulatory Commission's (FERC's) uniform system of accounts as its own and required Minnesota utilities to comply with that system. Minn. Rules, Part 7825.0300 states in part:

Subp. 2. **Clarification of standards.** All Minnesota utilities shall conform to the appropriate [FERC<sup>1</sup>] uniform system of accounts with the following clarifications:

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<sup>1</sup> The rule cites FERC's predecessor agency, the Federal Power Commission.

A. [In FERC's uniform system of accounts rules]...the following terms shall be interpreted as stated below for the purpose of regulation under the Minnesota Public Utilities Act: commission or [FERC] shall be interpreted as the Minnesota Public Utilities Commission; utility shall be interpreted as a Minnesota public utility.

**B. Status of Deferred Accounting Under the Uniform System of Accounts**

The standard treatment required by the uniform system of accounts (USOA) is to present all items of profit and loss in the year in which they are experienced and to take them into account in calculating the utility's annual net income. 18 CFR 201 (7). Deferred accounting treatment deviates from that aim. Deferred accounting excludes certain costs from the calculation of the utility's annual net income for the year in which they have been or will be experienced and holds them for inclusion in calculating the annual net income of future years.

Though the USOA provides for deferred accounting, it does so only pursuant to narrowly drawn exceptions. None of those exceptional accounts authorize deferring the amortization of Minnegasco's acquisition adjustment, but one of those accounts merits discussion: Account 186. Account 186 is the broadest of the deferral accounts. It provides deferred status for costs that meet certain specific criteria, but specifically excludes debits that are "elsewhere provided for", i.e properly recorded in other accounts provided by the uniform system of accounts. 18 CFR 201 (186).

**C. Minnegasco's Request**

Amortization of an acquisition adjustment is a cost. Since the uniform system of accounts contains an operating expense account for the amortization of Minnegasco's acquisition adjustment<sup>2</sup>, this cost is clearly "elsewhere provided for" and are, hence, specifically excluded from Account 186. Exceptions to the requirements of the uniform system of accounts are possible, but only upon a showing of good cause.<sup>3</sup> Minn. Rules, Part 7825.0300, subp. 4 states:

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<sup>2</sup> See Account 406 (Amortization of Gas Plant Acquisition Adjustments) which states: This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, pursuant to approval or order of the Commission, for the purpose of providing for the extinguishment of the amount in Account 114, Gas Plant Acquisition Adjustment.

<sup>3</sup> See the Commission's August 11, 1992 Order in Docket No. G-008/M-91-1015, pages 4-5 for similar analysis of Minnegasco's request for deferred treatment of manufactured gas plant (MGP) costs.

A public utility may petition the commission for approval of an exception to a provision of the system of accounts. Such exception shall be granted to the public utility for good cause shown.

Although Minnegasco did not couch its petition as a request for an exception to the restrictive language of Account 186, the Commission will move to the merits of the matter and evaluate it as such.

## **II. MINNEGASCO HAS FAILED TO SHOW GOOD CAUSE TO GRANT IT AN EXCEPTION TO THE UNIFORM SYSTEM OF ACCOUNTS**

### **A. Standard of Review**

The party seeking an exception to the uniform system of accounts bears the burden of showing that there is good cause to do so. Good cause to allow an extraordinary measure such as deferred accounting is a high standard, requiring, for example, a showing that severe inequity or hardship would result from the usual accounting practice.

### **B. Analysis of Minnegasco's Arguments**

Arguments advanced by Minnegasco in support of its request fail its burden in this matter, as the following analysis indicates:

For its principal argument, Minnegasco stated that since customers will receive benefits related to the property exchange from the date of acquisition, it should have an opportunity to recover the related costs of providing those benefits from that date.

The problem that Minnegasco highlights in this argument is that under normal accounting treatment (amortizing the acquisition adjustment from the closing date of the exchange in Account 406) some part of its purchase adjustment will be amortized prior to the test year used in the Company's next rate case. As such it would be unrecoverable. Minnegasco is asking the Commission to assure that none of the acquisition adjustment will be amortized prior to the test year on the grounds of fairness, i.e. that the exchange which produced the acquisition adjustment has been benefiting ratepayers from the closing date.

The argument is unpersuasive. An acquisition adjustment is simply one of many plant-related assets that a utility may purchase between rate cases and amortization of that asset is simply one of many operating costs that may or may not occur within the test year. Utility asset purchases normally create ratepayer benefit. Such a common occurrence as the creation of ratepayer benefit does not constitute good cause for the Commission to deviate from usual accounting practice. To find good cause in such a common occurrence would set a precedent extremely damaging to the test-year concept.

Moreover, Minnegasco was in the position to minimize or avoid the problem it now wishes the Commission to solve. It agreed to the exchange terms that created the acquisition adjustment in question. In addition, since it is in control of when it files its rate cases, it could have, if it wanted to, coordinated the filing of its rate case with the closing of the Midwest exchange to achieve what it seeks in this request.

Finally, on analysis, Minnegasco failed to show that it will actually experience substantial inequity or financial loss due to use of the normal accounting practice. In fact, it is not clear that Minnegasco will be suffering any overall hardship or inequity under the usual accounting practice. As a result of the exchange with Midwest, the Company will be recovering in rates from Midwest ratepayers \$4 million of Midwest Gas' Operation and Maintenance costs that the Company will not be incurring. These out-of-test-year savings will go directly to the shareholders. This benefit will more than offset any loss which occurs as a result of any amortization of the acquisition adjustment occurring outside the test year.

Minnegasco noted that granting its request was not the equivalent of approving the acquisition adjustment and would not prejudice any party's position in the next rate case. The Company also asserted that granting its request would have no impact upon customers' rates. These arguments do not attempt to show an actual benefit flowing from granting the Company's request, as the Company must do to show good cause. At best, they suggest that there would be no harm in granting the request. In short, they add no weight to overcome the substantial harm to the test-year concept identified previously. Moreover, since under normal ratemaking principles ratepayers are not required to cover non-test year costs in the rates, granting the Company's request in this case would immediately place ratepayers in a substantially weaker position vis a vis those costs than they currently enjoy. Ratepayers would be stripped of the out-of-test-year defense against paying these costs.

Minnegasco alleged that since it is uncertain whether the Commission will allow recovery of any of this expense in the rate case, it is appropriate to establish a deferred debit account for it. However, the fact that the Commission's previous Order indicated that recovery of **any** of the acquisition adjustment was uncertain simply does not imply that it is appropriate to depart from usual accounting practice and invoke the extraordinary means of deferred accounting to preserve the possibility that **all** the acquisition adjustment might be recovered.

Finally, in the same vein, Minnegasco asserted that deferring the acquisition adjustment until the 1993 case would be *consistent* with the Commission's decision in the exchange Order to consider recovery of the acquisition adjustment in the next rate case. This reflection (not an argument really) fails to establish what the Company needs to affirmatively establish, i.e. the desirability of granting an exception to the usual accounting practice in this case.

### C. Commission Action

Having reviewed Minnegasco's presentation, the Commission concludes that the Company has failed to bear its burden to show **good cause** to grant an exception to the uniform system of accounts to allow the Company to defer the amortization of its acquisition adjustment. Accordingly, the Commission will deny the Company's request.

To clarify the scope of this decision, this Order does not reach the question of whether the Company will be allowed to recover all or any of the portion of the acquisition adjustment appearing in the test year of its next rate case. That question will be decided in the context of the Company's rate case proceeding.

### ORDER

1. The request of Minnegasco for deferred accounting treatment for the amortization of the acquisition adjustment resulting from the Company's exchange of assets with Midwest Gas is denied.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Susan Mackenzie  
Acting Executive Secretary

(S E A L)