G-012/M-93-1251 ORDER APPROVING INCREASED ENTITLEMENTS, REQUIRING CLASSIFICATION OF CERTAIN FDD RATE ELEMENTS AS DEMAND COSTS, AND REQUIRING A REFUND

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Don Storm | Chair |
| Tom Burton | Commissioner |
| Marshall Johnson | Commissioner |
| Cynthia A. Kitlinski | Commissioner |
| Dee Knaak | Commissioner |

In the Matter of a Request by Western Gas Utilities, Inc. for Approval to Increase and Change its Pipeline Demand Entitlements and to Recover the Associated Costs in its Monthly Purchased Gas Adjustment

ISSUE DATE: December 20, 1994

DOCKET NO. G-012/M-93-1251

ORDER APPROVING INCREASED ENTITLEMENTS, REQUIRING CLASSIFICATION OF CERTAIN FDD RATE ELEMENTS AS DEMAND COSTS, AND REQUIRING A REFUND

## PROCEDURAL HISTORY

On January 5, 1994, Western requested permission to increase and change its firm transportation and "no-notice" transportation entitlements and to increase the amount of firm storage service available under contract with Northern. Western also requested permission to convert its pipeline demand entitlements to conform with Northern's Federal Energy Reglatory Commission (FERC) Order 636 "restructured" services and tariffs and to recover FERC-approved transition costs associated with the pipeline's implementation of Order 636.

On July 19, 1994, the Department filed its Comments which included comprehensive recommendations regarding the Company's filing.

On December 1, 1994, the Commission met to consider this matter.

## FINDINGS AND CONCLUSIONS

Western's filing raised several issues which will be treated as follows:

### 1. Western's proposal to increase its demand entitlements

First, Western proposed to increase its total transportation entitlement level by 150 Mcf/day to 5,042 Mcf/day for the time period November 1, 1993 through June 30, 1994. Western based this increase on a projected 3.77 percent increase of firm customers and a projected 3.78 percent increase of design day requirements.

The Department stated that the Company's proposed entitlement levels are appropriate to meet the needs of its projected number of firm customers. The Department noted that the Company's proposed entitlement per customer is within the range of the four prior years and is below the five year average.

Second, Western proposed to change its blend of Northern's transportation services. The Department found that the combination of contracted transportation appropriately reduced Western's overall costs without jeopardizing reliability. The Department recommended that the Commission approve Western's proposed levels of Northern's transportation services.

Third, Western proposed to increase its Firm Deferred Delivery (FDD) by 30,200 Mcf/year to 75,000 Mcf/year. The Department agreed with Western that the nature of storage service has changed into an important swing service component of a local distribution company's (LDC's) supply portfolio. The Department reasoned that since FDD service offers additional swing service capabilities and potential capacity savings, the Department recommended that the Commission approve the Company's proposed increased level of FDD service.

The Commission finds that it would be reasonable to approve the entitlement increases and the conversion of the entitlements on Northern to correspond to Northern's "restructured" services under FERC Order 636. The Commission notes that FERC has already approved all of Northern's "restructured" services and tariffs.

**2. Western's proposal to recover the entitlement associated costs through its monthly PGA**

Western proposed to recover the costs associated with Northern's Order 636 services and related charges in its purchased gas adjustment (PGA).

The Department noted that Western's supplier (Northern) is allowed to recover in the rates it charges LDCs (such as Western) various costs related to the Order 636 unbundling process. Among the charges Northern assigned to Western were certain "transition costs". The Department reviewed these costs and found that Northern's associated tariff rates and monthly recovery levels were appropriate.

The Commission agrees with the Department that all of the costs associated with Northern's Order 636 services, including transition costs, which Western seeks to recover through its PGA have been approved by the FERC. These costs are billed to Western through Northern's tariffed rates. Since the FERC has approved Northern's tariffs for recovery of these costs, the rates Northern charges Western may be viewed as "federally regulated wholesale rates for energy delivered through interstate facilities." Pursuant to Minn. Stat. § 216B.16, Subd. 7 (1)[1], therefore, the Commission will permit Western to recover these costs through the PGA.

**3. Classification of FDD Reservation and Capacity Costs as Commodity or Demand Costs in Western's PGA**

In its PGA recovery proposal, Western classified all storage gas (FDD) charges as a commodity component in calculating its monthly PGA and therefore assigned the FDD charges to both firm and interruptible sales customers.

The FDD rate consists of five parts: reservation fee, capacity fee, injection charge, withdrawal charge, and annual rollover fee. The Department objected to the Company's practice of charging the reservation fee and capacity fee parts of the FDD rate as commodity costs to both firm *and* interruptible sales customers. The Department noted that the amount of firm storage supplies (FDD) that Western arranges for should be/is calculated to meet the load swing requirements of

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[1] **Minn. Stat. § 216B.16, Rate changes; procedure; hearing, Subd. 7, Energy cost adjustments.** Notwithstanding any other provision of this chapter, the commission may permit a public utility to file rate schedules containing provisions for the automatic adjustment of charges for public utility service in direct relation to changes in:

(1) federally regulated wholesale rates for energy delivered through interstate facilities;

(2) direct costs for natural gas delivered; or

(3) costs for fuel used in generation of electricity or the manufacture of gas.

its **firm** customers who are, theoretically, weather sensitive. Therefore, the Department reasoned, the reservation and capacity components of the FDD rates, which are classified by Western as capacity charges, should be classified by Western as demand charges and recovered only from firm customers in the monthly PGA.

The Department did not object to Western classifying the FDD injection and withdrawal charges, which are assessed by Northern on a volumetric basis, as commodity charges and recovering them from both firm and interruptible customers.

The Commission accepts the Department's analysis and will require Western to begin classifying FDD reservation and capacity fees as a demand cost, effective July 1, 1994, and require the Company, on a prospective basis, to treat these costs accordingly in its monthly practice PGAs.

**4. Refund of money collected for entitlements in excess of the levels authorized by the Commission in Docket No. G-012/AA-93-218**

Western used a higher level of entitlements to calculate its 1993 true-up adjustment than what the Commission approved in the Company's 1992-93 change in demand entitlement filing, in Docket No. G-012/AA-93-218. Western was using the lower, approved level of entitlements in its monthly PGA calculations.

The Department did not find out about this discrepancy until it conducted its investigation of the Company's 1993-94 change in demand entitlement request in this docket. Western was using the lower, approved level of entitlements in its monthly PGA calculations and did not alert the Department that there was a cost recovery/entitlement change contained in its 1993 true-up filing until the Company responded to the Department's information request in this docket.

The Department argued that the Company should be ordered to refund the cost of these entitlements immediately because

- the Company has never asked permission to recover the cost of these entitlements and
- the entitlements have never been approved.[2]

The Department suggested the Company be required to file a refund plan within 30 days of the date of this Order.

In response to the Department's recommendation, the Company argued that it thought the SF (gas supply) entitlements it purchased from Northern included transportation. On the basis of this misunderstanding, the Company did not ask for approval of additional entitlements.

However, the SF supply entitlements did *not* include transportation and Western was billed for a matching amount of transportation entitlements through its gas marketer, Panda Resources. When the Company prepared its gas cost reconciliation adjustment for 1993 it included these excess entitlements in its calculation of how much of a true-up adjustment it would need.

In addition, the Company argued that the higher entitlement levels would have been approved if they had been included in the Company's original filing for 1992-93 because the additional entitlements would not put the number of peak-day entitlements per customer outside the range that was approved for the Company during the 1989-90, 1990-91 and 1991-92 heating seasons. The Department did not investigate the validity of this claim (regarding the 1992-93 heating

[2] Subsequent to these comments by the Department, the Company made a filing in which it requested the Commission to grant such approval. The matter was assigned to Docket No. G-012/M-94-799. In an Order dated December -----, 1994 in that docket the Commission denied the Company's request. Therefore, the Department's comment about the questioned entitlements never being approved remains accurate.

season) because the petition in this docket was for the 1993-94 heating season.

The Commission will direct the Company to refund, with interest, the money it collected in the 1992-93 true-up for entitlements that exceeded the levels approved in Docket No. G-012/AA-93-218. It is the Company's responsibility to understand the entitlements it has under contract, e.g. what they are for, what they cost and how the Company is to be billed for them. In addition, it is inappropriate for the Company to change its entitlements in its true-up filing without obtaining permission from the Commission and particularly inappropriate to do so without notifying the Department that was doing so.

### 5. Modification of transportation tariffs

The Department has recommended that Western modify its tariffs to correspond to the pipeline's balancing and scheduling requirements. Peoples and Interstate have already modified their transportation tariffs to reflect such changes. The Commission has already approved a similar recommendation from the Department with respect to Great Plains. The Commission finds that it is timely to require Western to make these tariff changes at this time.

### 6. Western's 1994 Annual Automatic Adjustment Report

The Department also recommended that Western be required to report on the amount of penalties (and charges) it has paid to the pipelines and collected from its customers.

The Commission finds that it would be appropriate for Western to submit an amendment to its 1994 Annual Report containing this information. Peoples and Interstate have been directed to provide information about penalties paid and collected in their 1994 Annual Automatic Adjustment Reports and the Department has recommended that Great Plains, Minnegasco, Northern Minnesota Utilities (NMU) and NSP provide this information in their next Annual Automatic Adjustment Reports.

### 7. Capacity-release (revenue) credits in FERC Account No. 805.1

On May 1, 1994, Western began releasing any capacity not used by its sales customers to Northern's electronic bulletin board. The Company is currently booking all capacity release revenues (credits) to FERC Account No. 488.

The Department argued that since this revenue is related to gas costs which are not included in the utility's rate schedules it is more properly booked to FERC Account No. 805.1.

The Commission will direct Western to book all future capacity release revenue to FERC Account No. 805.1. The Commission does not believe that Western's current practice (booking these revenues in FERC Account 488 - Miscellaneous Revenues) is appropriate. Instead, the Commission finds that FERC Account No. 805.1, the PGA true-up account used for making adjustments to the Company's overall cost of gas, is the appropriate account.[3]

## ORDER

[3] This decision is consistent with the Commission's decision with respect to NSP in Docket No. G-002/AI-94-433, Peoples Natural Gas Company in Docket No. G-011/M-93-1248, and Interstate Power in Docket No. G-001/M-93-1219. In those dockets the Commission decided that FERC Account 805.1 was the appropriate account to use for booking capacity release revenue.

1. Western's request to increase its entitlements for the time period November 1, 1993 through June 30, 1994 and to recover the associated costs through its monthly PGA during this same time period is approved.

2. Western shall classify FDD reservation and capacity fees as demand costs, effective July 1, 1994, and shall treat these costs accordingly in its monthly practice PGAs on a prospective basis.

3. Western shall proceed forthwith to refund by bill credit the money collected in the 1992-93 true-up for entitlements in excess of the levels approved by the Commission for 1992-93 in Docket No. G-012/AA-93-218, with interest.

4. Within 30 days of completion of the refund, the Company shall make a compliance filing showing the amount of the refund and its detailed calculations.

5. Within 90 days after November 1, 1994, Western shall file modified transportation tariffs in response to pipeline tariff changes having to do with balancing and scheduling charges.

6. Within 15 days of this Order, Western shall amend its 1994 Annual Automatic Adjustment Report to include information about the balancing and scheduling penalties it has paid to pipelines and the penalties it has collected from its customers.

7. Western shall book all capacity-release (revenue) credits received after November 1, 1993 in FERC Account No. 805.1.

8. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)