

ISSUE DATE: April 1, 1996

DOCKET NO. G-012/M-95-847

ORDER DENYING REQUEST FOR AN INCREASE IN DEMAND ENTITLEMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Tom Burton
Marshall Johnson
Dee Knaak
Don Storm

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Western Gas Utilities, Inc. for Approval to Increase Its Demand Entitlements, and for Approval of PGA Recovery of the Increased Entitlements

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PROCEDURAL HISTORY

On August 17, 1995, Western Gas Utilities, Inc. (Western or the Company) petitioned for authority to increase its firm demand entitlement by 2,000 Mcf per day, and for recovery of the costs through its purchased gas adjustment (PGA).

Western's filing reflected a planned addition to its distribution system capacity to serve anticipated growth in the Delano and Watertown communities, as well as surrounding areas. In order to accommodate the growth, Western had entered into a ten-year agreement with its supplier, Northern Natural Gas Company (Northern). Under the agreement, Northern would supply an additional 2,000 Mcf of pipeline capacity per day and would construct a new town border station at its St. Bonifacius branchline. For its part, Western would construct a seven mile 4-inch pipeline connecting the new town border station with the Company's Delano/Watertown distribution system. Western's construction costs would be approximately \$489,000; Northern would provide Western with a contribution in aid of construction of \$265,000 in 1995, the first year of the ten-year contract.

On October 23, 1995, the Department of Public Service (the Department) filed comments. The Department recommended that the Commission approve a demand entitlement increase of 1,130 Mcf for Western. The Department generally supported the Company's request for PGA recovery of the modified level of entitlements. The Department also recommended that the Commission require Western to file a report showing the actual change in customer number, peak day, and total consumption in the Delano/Watertown area.

On November 2, 1995, Western filed reply comments. Because the new pipeline had not come into operation in time for the 1995-96 heating season, Western asked for permission to release the entire 2,000 Mcf as excess capacity on Northern's electronic bulletin board until the expansion to its distribution system came online.

On March 12, 1996, Western's new addition to its distribution system came into operation.

The matter came before the Commission for consideration on March 14, 1996. At the March 14 meeting, the Department argued that circumstances required it to change its recommendation from approval to denial of the PGA recovery. The Department noted that the construction was not completed during the 1995-96 heating season, and, as a consequence, only 39 new customers were added to the system. The new pipeline was not necessary during the past heating season and therefore did not benefit ratepayers. The Department suggested that the Commission allow the Company to release its excess capacity on Northern on a non-recallable basis in order to realize the greatest possible return. The Commission can revisit the issue of increased demand entitlements and PGA recovery next fall, when the pipeline is operational and the effects on customer levels and use can be assessed.

Western reiterated its request for PGA recovery for the increased entitlements. The Company noted that an unusually severe winter had halted construction for extended periods of time. The weather, not any Company action, had prevented the addition to its distribution system from being ready for use in the 1995-96 heating season. Western argued that it should be allowed PGA recovery of the increased gas costs attributable to the 2,000 Mcf of additional pipeline capacity under contract with Northern.

FINDINGS AND CONCLUSIONS

Western entered into a ten-year contract with Northern in order to ensure reliable service for the Company's present customers and to accommodate expected customer growth. While Western knew that it would experience some excess capacity in the first years of the contract, the Company believed this temporary situation was necessary in order to secure additional capacity for ten years' growth and beyond. Western asked to be allowed to release the expected excess capacity on a non-recallable basis through Northern's electronic bulletin board.

For a number of reasons, Western's provision of service in the Delano/Watertown area did not follow the Company's projected scenario for 1995-96. An unusually bitter winter made construction of the new pipeline within its distribution system impossible, despite the Company's best efforts. The lack of new pipeline meant that the distribution system remained capacity-constrained; only 39, rather than the anticipated 359, new customers joined the system. Western found itself with 100% of the additional demand entitlements as excess capacity. Western has been releasing the excess capacity on a non-recallable basis, in order to maximize its recovery of these costs.

The Commission agrees with the Department that the situation does not justify increasing Western's demand entitlements or allowing PGA recovery of the contract costs. Western has

not demonstrated a need for the additional 2,000 Mcf, since only 39 customers have been added to the system during 1995-96. Because the new pipeline did not come online during the heating season, ratepayers derived no benefit from it and should not be responsible for the additional gas costs during this time. Western has not shown why ratepayers should absorb shortfalls in recovery after the Company nets release revenues against contractual obligations during 1995-96.

The Commission understands that Western's circumstances may change during 1996-97. The new pipeline will be in service and may provide necessary capacity for a significant increase in customers in the Delano/Watertown area. Western is free to file a new petition for an increase in demand entitlements and for PGA recovery of attendant gas costs at that time. If the Company files a second request, the Commission will decide the merits of the request on the facts demonstrated at the time.

The Commission notes that denial of the Company's request for PGA recovery will not preclude the Company from proceeding as it has been, releasing excess capacity to the electronic bulletin board on a non-recallable basis, to minimize any losses from excess capacity.

ORDER

1. The Commission denies Western's August 17, 1995, petition.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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