ISSUE DATE: November 18, 1996

DOCKET NO. G-999/CI-95-696

ORDER CONCLUDING INVESTIGATION AND CLOSING DOCKET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Mac McCollar	Commissioner
Don Storm	Commissioner

In the Matter of an Investigation into Whether the Purchased Gas Adjustment (PGA) is Still Appropriate

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PROCEDURAL HISTORY

On August 11, 1995 the Commission opened an investigation into whether permitting natural gas utilities to make automatic rate adjustments to reflect fluctuations in the cost of gas[1] was still appropriate in light of changes in the natural gas industry. ORDER INITIATING INVESTIGATION AND REQUESTING COMMENTS, this docket.

The Order noted that federal action deregulating gas prices at the wellhead and requiring interstate pipelines to carry gas from unaffiliated suppliers had dramatically changed the way utilities bought gas. Instead of buying their whole supply from one vendor at federally determined rates, utilities now have access to many vendors offering different prices, different terms and conditions, and different levels of reliability. This new freedom gives utilities greater control over, and greater responsibility for, the cost of their gas supplies.

The Minnesota Legislature has recognized these new realities by enacting legislation permitting gas utilities to file, and the Commission to approve, performance-based gas purchasing plans. The purpose of these plans is to reward utilities financially for developing and practicing the entrepreneurial skills necessary to acquire the lowest cost reliable gas supplies for their customers. Such legislation reflects an increasing willingness to rely more heavily on market forces to achieve state regulatory goals.

All these developments led the Commission to conclude it was time to reexamine purchased gas adjustments to make sure they still served the public interest and met a legitimate regulatory need. The Commission invited interested persons to comment, listed eight questions the Commission considered especially relevant, and urged parties to comment on any other issues they considered important.

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[1]These adjustments are commonly called purchased gas adjustments or PGAs.

The following parties filed comments in the case: the Department of Public Service (the Department), the Residential and Small Business Utilities Division of the Office of the Attorney General (RUD-OAG), Northern Natural Gas Company (Northern Natural), and a group of Minnesota natural gas utilities (the gas utilities). Those utilities were Great Plains Natural Gas Company, Interstate Power Company, Minnegasco, Northern Minnesota Utilities, Northern States Power Company - Gas Utility, and Peoples Natural Gas Company.

The matter came before the Commission on September 26, 1996.

FINDINGS AND CONCLUSIONS

I. Comments of the Parties

All commenting parties agreed that it was still necessary and appropriate for gas utilities to make automatic rate adjustments to reflect fluctuations in the price of gas. While they considered performance-based gas purchasing plans effective tools to encourage good purchasing decisions and a good bridge to future competition, they did not believe they eliminated the continuing need for purchased gas adjustments.

The Department and the gas utilities suggested amending the purchased gas adjustment rules to streamline procedures for making and reporting automatic rate adjustments. The RUD-OAG opposed amending the PGA rules, stating parties' resources could be put to better use exploring the potential for achieving gas cost savings through different types of performance-based gas purchasing plans.

II. Commission Action

The Commission agrees with the parties that purchased gas adjustments have not yet outlived their usefulness. While utilities now have more control over their gas costs, the parties have demonstrated that gas prices still fluctuate significantly and do so for reasons beyond the control of Minnesota's natural gas utilities.

Eliminating utilities' ability to adjust for price fluctuations would lead to more frequent rate cases, at significant cost to all parties. It would cause under- and over-recovery of gas costs between rate cases. It could increase utilities' cost of capital, since investors could perceive utilities' inability to pass through gas price increases as an increased business risk. It could cause rate shock, since gradual increases in the price of gas could no longer be reflected as they occurred, but only in one-time rate increases.

The Commission will continue to permit purchased gas adjustments, then, even though it recognizes that the costs passed through require closer scrutiny than they did in the past. The Commission is convinced it has the regulatory tools -- from traditional prudence reviews to innovative performance-based gas purchasing plans -- to protect ratepayers from unnecessarily high gas costs and to ensure that utilities recover the just and reasonable costs of providing service.

Finally, the Commission agrees with the RUD-OAG that fine-tuning the purchased gas adjustment rules would not be an efficient use of resources at this point. The rules are performing well on the whole. The real regulatory challenges lie in finding effective ways to monitor and evaluate utilities' gas purchasing practices and in identifying and promoting effective strategies for securing reliable gas supplies at the lowest prices. The Commission agrees it would be more productive for parties to focus their energies and resources on these and similar challenges.

For the reasons set forth above, the Commission concludes this investigation by determining that the purchased gas adjustment remains a valuable regulatory tool.

ORDER

1. The Commission concludes its investigation into whether the automatic adjustment (PGA) mechanism is still appropriate for gas utilities in Minnesota. The Commission concludes that it is.

2. This docket is closed.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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