ISSUE DATE: April 8, 1997

DOCKET NO. G-002/M-96-1356

ORDER DETERMINING TREATMENT OF OFF SYSTEM SALES MARGINS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Edward A. Garvey | Chair |
| Joel Jacobs | Commissioner |
| Marshall Johnson | Commissioner |
| Mac McCollar | Commissioner |
| Don Storm | Commissioner |

In the Matter of a Request from Northern States Power - Gas Utility for a Ten Month Variance from the PGA True-up Rule

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## PROCEDURAL HISTORY

On November 1, 1996 Northern States Power Company - Gas Utility (NSP) filed a request for a variance from the portion of the purchased gas adjustment rules authorizing gas utilities to true-up future rates to reflect past overcharges or undercharges for gas costs and specifying how the true-up should be calculated. Minn. Rules, part 7825.2700, subp. 7. The Company proposed to include in the true-up the margin it received from off-system sales of gas contracted for, but ultimately not needed by, its ratepayers.

On December 30, 1996 the Department of Public Service (the Department) filed comments agreeing that the Company should refund the margin to ratepayers but arguing that no variance was necessary, since the Department read the rules to require inclusion of the margin in the true-up.

On January 13, 1997 the Company filed reply comments claiming a variance was necessary because the proposed accounting treatment did not comply with the Federal Energy Regulatory Commission (FERC) System of Accounts, which Commission rules require it to follow. Minn. Rules, part 7825.0200-7825.0400. The Company also explained it considered the issue important because finding a variance necessary would preserve its right to argue for different treatment of off-system sales margins if it began operating under a Performance Based Gas Purchasing Plan in the future.

On January 24, 1997 the Department filed supplemental comments stating the Commission had addressed this issue in an earlier case and had decided no variance was necessary.

The matter came before the Commission on February 13, 1997.

## FINDINGS AND CONCLUSIONS

## I. FACTUAL BACKGROUND

Under the purchased gas adjustment (PGA) rules, Minn. Rules 7825.2700, gas utilities make automatic rate adjustments to reflect changes in their cost of gas. Total precision is impossible, however, and once a year they determine how much they have over- or under-recovered from each customer class and adjust rates for each class for the next twelve months accordingly. This process is described in the rule as follows:

> The true-up amount is the difference between the commodity and demand gas revenues by class collected by the utility and the actual commodity-delivered gas cost and demand-delivered gas cost by class incurred by the utility during the year. The true-up adjustment must be computed annually for each class by dividing the true-up amount by the forecasted sales volumes and applied to billings during the next 12-month period beginning September 1 each year, provided that the adjustment has been filed under part 7825.2910, subpart 3.
>
> Minn. Rules 7825.2700, subp. 7.

The Company pays its suppliers fixed fees ("demand charges") to reserve specified amounts of pipeline capacity, as well as per-unit fees ("commodity charges") for the gas it actually takes. It factors both fees into its prices on the basis of estimated consumption. Since consumption varies with the weather, a warmer or colder than average winter will result in over- or under-recovery of gas costs. The true-up rules allow the Company to adjust rates to refund or recoup these over- or under-recoveries.

In this case the Company over-reserved gas supplies for certain months, but was able to sell them off-system at a profit before ratepayers were charged for them.

## II. Positions of the Parties

The Company contends it needs a variance to pass through the profit (or margin) in rates, because the margin was never part of the cost of gas, which the rule treats as the baseline for determining over- or under- charges. The Company also contends the FERC Uniform System of Accounts, which it must follow under Commission rules, does not allow it to treat the margin as an adjustment to the cost of gas.

The Department contends the Company should treat the margin from off-system sales as a reduction in the cost of gas, citing an earlier case in which the Commission required the Company to include in the true-up revenues from off-system sales of transportation capacity.[1]

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[1]In the Matter of a Request for an Accounting Order Granting Northern States Power Company-Gas Utility Approval to Record Certain Margin Revenues from Transactions Made

## III. Commission Action

The Commission agrees with the Company that in this case it needs a variance to include in its annual PGA true-up the margins from off-system sales, except for the amount of the reservation fee paid by ratepayers. These margins do not fit comfortably within the confines of the rule. They are not commodity or demand gas revenues collected from any of the Company's customer classes or a recovery of costs paid by ratepayers -- they are revenues collected from non-utility customers outside the system.

While it is consistent with the purpose of the rule to refund these amounts through the true-up, it is better practice to read the rule narrowly and grant a variance than to force an interpretation which could have unforeseen consequences and could unnecessarily limit future policy options. It is possible, as the Company states, that a different treatment of these margins would be more appropriate under a performance based gas purchasing plan under Minn. Stat. § 216B.167.

The accounting issues raised by the Company are also a concern. Accounting procedures should be driven by neutral accounting principles, not by desired outcomes. Result-driven accounting can only muddle the regulatory process.

Neither does the Commission agree that this case is controlled by the earlier case cited by the Department. While the cases are similar, the earlier case involved transportation services for which ratepayers had paid in full and for which there remained a revenue shortfall even after the off-system revenues were credited through the true-up. Here, with the exception of a small reservation fee, ratepayers did not pay for the gas supplies at issue and will receive a net benefit from the true-up credit proposed.

To ensure that amounts actually collected from ratepayers pass through the true-up as a matter of right, the Commission will exempt from the variance, and require to be included in the PGA as a reduction in the cost of gas, the amount of the reservation fees for the gas supplies at issue. These amounts should be recorded in FERC Account 805.1, as the Commission has held in the past.[2]

The Commission will therefore grant the Company a variance, finding that enforcing the rule would impose an excessive burden on the Company and ratepayers, that granting the variance will not adversely affect the public interest, and that granting the variance will not conflict with applicable legal standards. Minn. Rules, part 7829.3200.

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Under Authority Granted by FERC Order 636 and to Credit Those Margin Revenues to NSP's Retail Firm Gas Customers in the State of Minnesota, Docket No. G-002/M-94-103, ORDER REGARDING THE TREATMENT OF REVENUES FROM NSP'S OFF-SYSTEM END-USER SALES PROGRAM (March 20, 1995).

[2]See the March 20, 1995 Order in docket no. G-002/M-94-103, cited previously.

## ORDER

1. Northern States Power Company - Gas Utility's request for a variance is granted except for the amount of the reservation fees paid by ratepayers, which shall be included in the PGA true-up as a reduction in the cost of gas, and shall be recorded in FERC Account 805.1.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)