

ISSUE DATE: October 23, 1997

DOCKET NO. E,G-002/M-97-806

ORDER APPROVING AGREEMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Edward A. Garvey	Chair
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Gregory Scott	Commissioner
Don Storm	Commissioner

In the Matter of a Request by Northern States Power Company for Approval of the Accounting Treatment for a “Base Contract for the Short Term Sale and Purchase of Natural Gas” between NSP’s Gas Utility Business Unit and NSP’s Generation Business Unit

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PROCEDURAL HISTORY

On May 30, 1997, Northern States Power Company (NSP or the Company) petitioned for approval of its accounting treatment of interdepartmental gas sales under a contract between its gas utility business unit (NSP Gas) and its generation business unit (NSP Generation). Under the sales agreement, NSP Gas delivers natural gas to NSP Generation for use in the generation of electricity in a natural-gas-fired combustion turbine. The sales agreement was reached through a competitive bidding process conducted by NSP Generation.

NSP’s petition seeks approval of its accounting treatment of the sale and purchase of gas. In particular, NSP asks the Commission to approve its electric fuel clause adjustment (FCA) recovery for the delivered cost of natural gas purchased by NSP Generation under the agreement. NSP also asks approval of its accounting treatment for NSP Gas’s costs and revenues, consistent with the Company’s treatment of other “off-system” gas sales, in the purchased gas adjustment (PGA).

NSP’s petition also includes a request for a declaratory order determining whether the interdepartmental gas sales contract is an affiliated interest agreement. If the Commission determines that the transaction is between affiliated interests, the Company seeks certain variances to the affiliated interest rules.

On July 30, 1997, the Department of Public Service (the Department) filed comments. The Department concluded that the transaction is between affiliates under the definition found in Minn. Stat. § 216B.48, subd. 1 (i): “every part of a corporation in which an operating division is a public utility.” The Department analyzed the filing under the affiliated interest statutes and rules and found that the filing is complete and that the transaction is consistent with the public interest. The Department recommended that the Commission approve the agreement under the affiliated interest statute and grant the necessary variances. The Department also recommended

approval of NSP Generation's FCA treatment of the natural gas costs, with certain adjustments, and approval of NSP Gas's PGA accounting. The Department recommended approval of the agreement through its initial term, which would end on April 30, 1998. If thus approved, the contract would require rebidding in April, 1998, despite a one-year rollover extension contained in the contract.

On August 21, 1997, NSP filed reply comments.

On October 9, 1997, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

Although the Department believed that NSP's interdepartmental gas purchase and sale should be treated as an affiliate transaction, the Department also noted that the filing documenting the sale would be "approvable" under either the traditional accounting statutes, Minn. Stat. § 216B.05 and 216B.10, or the affiliated interest statute, Minn. Stat. § 216B.48. Under either analysis, the Department concluded that the Commission should approve NSP's FCA recovery of the cost of natural gas delivered by NSP Gas to NSP Generation.¹ The Department also found that NSP Gas properly treated the costs and revenues from the agreement in its PGA.

The Commission agrees with the Department that the Company's filing is "approvable" under either the accounting statutes or the affiliated interest statute. Under either analysis, the Company filed sufficient documentation to demonstrate that the transaction was reasonable and consistent with the public interest and did not harm ratepayers.

Although NSP asked for a Commission determination if this interdepartmental transaction is an affiliated interest, the Commission will not address that issue in this docket. The Commission recently opened a docket, E,G-999/CI-97-1426, the Chair's Roundtable on Affiliated Interests, to examine questions regarding affiliated interest agreements. The Commission expects that this investigation will shed light on the proper categorization of a number of transaction models, including interdepartmental sales such as NSP's. Since the Commission will be investigating general affiliated interest issues in the investigation docket, and the Commission has determined that this particular sales agreement is consistent with the public interest under either accounting analysis or affiliated interest analysis, no harm will ensue from declining to reach an affiliated interest determination in this docket. At the October 9, 1997 hearing, both the Company and the Department agreed with this analysis.

The Commission will therefore approve NSP's purchase and sale agreement, PGA accounting,

¹ The Department did note that the FCA accounting entries should initially be recorded in FERC Account 151 prior to being expensed to FERC Account 547. NSP agreed with this technical correction.

and FCA recovery (as corrected by the Department). The Commission finds that its examination of the Company's accounting filing, together with normal Department review of the Company's monthly FCA filings, annual PGA true-ups, and annual FCA and PGA automatic adjustment reports, provide sufficient evidence that the interdepartmental sales, in this case, are conducted in a manner consistent with the public interest.

Finally, the Commission will approve the agreement with the term as originally filed, that is, with the roll-over extension provision from the initial termination date of April 30, 1998. The Commission does not agree with the Department that approval should be limited to the original termination date of April 30, 1998. Given the fact that the Company is committed to rebidding this transaction no later than the start of the 1999 MAPP summer season, the Commission does not believe that an intervening bid procedure would be cost-beneficial or necessary.

ORDER

1. The Commission approves NSP's May 30, 1997 filing, including the Company's purchase and sale agreement, purchased gas and fuel clause adjustment treatment (as corrected), and accounting under Minn. Stat. § 216B.10. The agreement is approved with an effective date of June 1, 1997, and with the expiration provision as originally filed.
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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