

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott
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Chair
Commissioner
Commissioner
Commissioner

In the Matter of the Review of the 2001 Annual
Automatic Adjustment of Charges for All Gas
and Electric Utilities

ISSUE DATE: December 23, 2002

DOCKET NO. G, E-999/AA-01-838

ORDER ADDRESSING 2001 ANNUAL
AUTOMATIC ADJUSTMENT REPORT

PROCEDURAL HISTORY

Electric Utilities' Initial Filings

On August 31, 2001, four electric utilities (Dakota Electric Association, Interstate Power, Minnesota Power and Light, and Otter Tail Power Company) filed 200-2001 Annual Automatic Adjustment Reports and various other annual filings, including the following: annual reports on their fuel procurement policies and actions, pursuant to Minn. Rules, part 7825.2800; annual auditor's reports, pursuant to Minn. Rules, part 7825.2820; annual five-year projections of fuel costs, pursuant to Minn. Rules, part 7825.2830; and notices of the availability of these reports to interveners in each utilities' last two general rate cases, pursuant to Minn. Rules, part 7825.2840. Northern States Power Company d/b/a Xcel Energy filed the same items on September 4, 2001.

Gas Utilities' Initial Filings

Between August 31, 2001 and September 13, 2001, five gas utilities (Great Plains Natural Gas Company, Interstate Power, Northern Minnesota Utilities, Reliant Energy Minnegasco¹, and Peoples Natural Gas Company) filed 2000-2001 Annual Automatic Adjustment Reports and various other annual filings, including the following: annual true-up filings, pursuant to Minn. Rules, part 7825.2910, subpart 4, a summary of actions taken to minimize costs, pursuant to Minn. Rules, part 7825.2800; a statement of opinion on the impact of market forces on gas costs for the coming year, pursuant to Minn. Rules, part 7825.2820; annual five-year projections of fuel costs, pursuant to Minn. Rules, part 7825.2830; and notices of the availability of these reports to interveners in each utilities' last two general rate cases, pursuant to Minn. Rules, part 7825.2840. Northern States Power Company d/b/a Xcel Energy filed the same items on September 4 and 26 and December 28, 2001.

¹ Now known as CenterPoint Energy Minnegasco.

The Department's Annual Report

On September 24, 2001, at the request of the Department of Commerce (the Department), the Commission extended by notice the initial comment deadline to February 22, 2002.

On February 22, 2002, the Department of Commerce (Department) submitted its Report of the 2001 Annual Automatic Adjustment Reports (the Department's Report) and filed its reply comments on June 20, 2002.

Reply and Response Comments

On March 12, 2002, Interstate Power filed Reply Comments.

On April 8, 2002, Reply Comments were filed by Reliant Energy Minnegasco, Northern States Power d/b/a Xcel Energy (NSP), and Peoples Natural Gas Company and Northern Minnesota Utilities, Divisions of UtiliCorp United Inc.² Otter Tail Power Company (OTP) filed reply comments on April 9, 2002.

On April 25, 2002, Great Plains Natural Gas Company filed Reply Comments.

On July 15, 2002, NSP filed Supplementary Reply Comments and filed additional Supplementary Reply Comments on July 29, 2002.

On August 16, 2002, Northern Minnesota Utilities (NMU) and Peoples Natural Gas Company (Peoples) filed Supplementary Reply Comments.

The Commission met on October 10, 2002 to consider this matter.

FINDINGS AND CONCLUSIONS

I. INTRODUCTION

The Commission is required to hold an annual meeting to review the utilities' automatic adjustment of charges, pursuant to Minn. Rules, part 7825.2850.³ This Order, which follows the annual review just referred to, disposes of all the issues raised by the parties' filings in this matter except for

1) issues specifically deferred for future consideration (see Ordering Paragraphs 10C and 12H below) and

² Now Aquila, Inc.

³ Minn. Rules, part 7825.2850, Annual Commission Meeting. The Commission shall annually conduct a separate meeting to review the automatic adjustment of charges reported herein.

2) issues regarding the prudence of certain of Peoples' gas purchasing decisions referred to the Office of Administrative Hearings (OAH) for contested case proceedings. See NOTICE AND ORDER FOR HEARING issued in this matter on November 14, 2002.

II. ELECTRIC UTILITIES

A. Annual Reports - FY 2001

Based on the Department's recommendation and the Commission's own review, the Commission finds that all the electric utilities' FY 2001 reports as amended generally comply with Minn. Rules, part 7825.2390 through 7825.2920 and will approve them.

B. Transportation Expenses

Based on information provided by Xcel following the Commission's Order in a related docket⁴, the Department noted that Xcel was proposing to pass through a lower percentage of the gross margins than the Commission's Order had required. The Department recommended that the Commission require Xcel to flow through to ratepayers the full amount required by the Commission's previous Order.

Xcel initially objected to the Department's recommendation that the Company be required to flow through to ratepayers the full amount (percentage of gross margins on the per ton of delivered coal) required by the Commission's July 20, 2001 Order in Docket No. E-002/AI-01-242. Subsequently, the Company filed written comments agreeing to flow through that amount. Then, at the hearing, the Company reported that subsequent checking revealed that it had already flowed the recommended amount through the fuel clause in July 2002. The Commission will require the Company to confirm that it has flowed through the amount required by its July 20, 2001 Order, as reported at the hearing, or to do so by the time the Agreement expires or shortly thereafter, as was anticipated when the Commission issued its Order in the above referenced matter.

C. Otter Tail's True-Up

The theory underlying the FCA is that the cumulative average over- and under-recoveries should approach zero if the recovery mechanism is designed and implemented properly. The Department's calculations show that the cumulative average is approaching or hovering around zero for all of the electric utilities except Otter Tail.

In its December 18, 2001 Order in Docket No. E,G-999/AA-00-1027, the Commission asked the Department to examine the merits of including a true-up mechanism in Otter Tail Power Company's (OTP's) FCA and report its findings in its next Annual Automatic Adjustment report.

⁴ In the Matter of Northern States Power Company d/b/a Xcel Energy for Approval of a Short Term Coal Supply Agreement Between Xcel Energy and NRG Energy Inc., Docket No. E-002/AI-01-242, ORDER APPROVING AGREEMENT, GRANTING VARIANCE AND DIRECTING REPORTING (July 20, 2001), the Affiliated Interest Docket.

The Department stated it believes that an annual true-up would give better price signals than a monthly true-up and recommended that the Commission require OTP to implement an annual true-up. OTP stated it is designing a monthly true-up that can be presented for approval.

The Commission finds that it is appropriate to require OTP to submit a true-up proposal for approval and will order the company to do so within 90 days of the hearing date, i.e. by January 8, 2003.

III. GAS UTILITIES

A. All Gas Utilities Annual Reports Complete

The Department's 2001 Report analyzed whether the monthly automatic adjustments for fuel costs were accurate, and for the gas utilities, whether the annual true-up balance and adjustment charges were correctly calculated. In its Report, the Department stated that all six regulated gas utilities met the annual filing requirements, including information relating to fuel procurement and the annual true-up adjustment.

Based on the Department's Report and the Commission's own review, the Commission finds that the gas utilities' annual filings are complete and accurate as originally filed or subsequently amended.

B. All Gas Utilities' Future Filings

1. Reporting Information

The Commission has approved and required various reporting requirements (based mainly on Department recommendations) over the years. This information provides good year-to-year data for bench-marking and planning purposes. The Department has again compiled this data and presented it in a useful and comprehensive format as part of its Report.

Among other items, the AAA reports included information regarding the transition cost resulting from Federal Energy Regulatory Commission (FERC) Order 636. The Department suggested that reporting that information has served its purpose in showing the effect of Order 636 upon Minnesota ratepayers and that continuation of the report is no longer necessary. The Department proposed to eliminate reporting the 636 transition costs in all future AAA reports.

Accordingly, the Commission will request that the Department include the same Commission-required information in its 2002 Report as was included in the 2001 Report except it should eliminate the summary of the transition costs resulting from FERC's Order 636 in all future annual automatic adjustment reports.

2. Justification for Trade Secret Designation

In its March 12, 2001 Order⁵ and also in its December 18, 2001 ORDER ACTING ON GAS UTILITIES' 2000 ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND SETTING FURTHER REQUIREMENTS,⁶ the Commission stated in ordering paragraph 17:

All gas utilities shall provide specific justification for each piece of information for which they claim trade secret status, as required under Minn. Stat. § § 13.01 *et seq.* and the Commission's Revised Procedures for Handling Trade Secret and Privileged Data, September 1, 1999.

In this docket, the Commission is concerned that this direction (“specific justification for each piece”) does not appear to have been heeded in all instances and, therefore, will provide the following clarification. All gas utilities are required to provide a specific justification for each piece of information for which the designation of trade secret is claimed in their annual reports and true-up filings and to limit the designation of trade secret to only the words, numbers, or phrases that are actually trade secret and not entire paragraphs or pages.

3. Meeting With the Independent Auditor

All regulated utilities are required to submit an independent auditor's report that evaluates the accounting for automatic adjustments for the prior year.

In its March 12, 2001 Order,⁷ the Commission directed all gas utilities to meet with their independent auditors prior to the auditors' examinations concerning the companies' Annual Automatic Adjustment Reports to review audit procedures and Minn. Rules, part 7825.2820.

The Commission finds the requirement is reasonable and will continue it.

C. Great Plains Natural Gas Company

1. Great Plains' True-Ups

The Department stated that Great Plains' annual automatic adjustment reports are in compliance with Minnesota rules and recommended that the Commission accept Great Plains's true-ups. The Commission will accept the Department's recommendation and accept Great Plains' true-ups.

⁵ *In the Matter of the Review of the 1999 Annual Automatic Adjustment Reports and Opening Investigation*, Docket No. G,E-999/AA-99-1095.

⁶ *In the Matter of the Review of the 2000 Annual Automatic Adjustment of Charges for All Gas and Electric Utilities*, Docket No. G,E-999/AA-00-1027.

⁷ *In the Matter of the Review of the 1999 Annual Automatic Adjustment Reports and Opening Investigation*, Docket No. G,E-999/AA-99-1095, ORDER ACTING ON GAS UTILITIES' 1999 ANNUAL AUTOMATIC ADJUSTMENT REPORTS AND OPENING INVESTIGATION (March 12, 2001).

2. Great Plains' Rule Violation

Minnesota Rules, part 7825.2700, subp. 4 states:

The commodity adjustment is the change in the commodity rate which results from a difference between the commodity-delivered gas cost and the commodity base cost.

Great Plains adjustment for January through March was the difference between the commodity-delivered gas cost and the commodity base cost **plus** an additional amount to makeup the under-recovery for November and December. The Department stated that because the company did not seek Commission permission to make such a change, it violated Minn. Rule, part 7825.2700, subp. 4.

Minnesota Rules provide for an annual true-up factor to be established for the amount of over or under-recovery which is part of the September 1 annual report. Great Plains should not have attempted to short circuit the normal true-up process by erroneously adjusting its commodity gas costs for a three month period without Commission approval.

The Department recommended that the Commission find that Great Plains violated Minnesota Rules by its adjustment of commodity costs for the months of January through March 2001. Great Plains did not file reply comments responding to this recommendation.

The Commission finds that Great Plains violated the rule by including an adjustment for under-recovered gas costs in November and December 2000. The Commission notes, however, that Great Plains has generally been complying with its regulatory duties. Rather than require the company to file a regulatory compliance plan, therefore, the Commission will simply warn the company that any future violation will result in more serious consequences.

D. Interstate Power Company

Minn. Rules, part 7825.2910, subp. 2 requires gas utilities to file for a change in demand to increase or decrease demand, to redistribute percentages among classes, or to exchange one form of demand for another.

Beginning in November 1999, Interstate was invoiced directly by Northern Border Pipeline for reservation charges. Interstate charged the invoices to a "TF Demand" account. The charges were recovered in the annual automatic adjustment filing as a demand charge only from Firm customers, rather than through the monthly PGA.

The Department expressed concern that Interstate's action, which resulted in redistributing demand percentages among classes without obtaining Commission approval, violated Minn. Rule 7825.2910, subp. 2.

Interstate acknowledged that it had shifted demand percentages among rate classes in violation of the rule but maintained that the change was inadvertent and was caused by an accounting mistake. The company proposed to make an adjustment in its September 1, 2002 AAA filing to reallocate the incorrectly charged amounts to a Reservation Charges account where they will be allocated to all customers.

The Commission accepts Interstate's explanation (inadvertent error) and notes that Interstate's action affected less than five percent of the corrected adjustment charge which is the threshold for a refund within 90 days under Minn. Rules, part 7825.2920, subp. 2. The Commission further notes that the company's proposed corrective action will result in the appropriate charges being made to each rate class.

Accordingly, the Commission will approve Interstate's proposed remedy and allow it to correct the situation in this manner.

E. UtiliCorp United Inc. and its Divisions, Peoples Natural Gas Company (Peoples) and Northern Minnesota Utilities (NMU)

1. Peoples' Purchase and Sales Volume Discrepancies

The Department requested that Peoples explain why the sales volumes were higher than the purchased volumes⁸ in Peoples-MN's Great Lakes system. After receiving the company's explanation (Viking billing error), the Department stated that because Minnesota ratepayers will not be negatively impacted by Viking's billing error, the Department concluded that the issue was resolved.

The Commission accepts this resolution. With regard to the entire subject into the future, however, it appears that it will be beneficial to require Peoples-MN (including Peoples-MN Northern, Peoples-MN Viking, and Peoples-MN Great Lakes) to continue to report in its true-up filing the over and under recovery by individual demand and commodity cost components (Peoples' Schedule D3) and to provide explanations for discrepancies on a component basis for each of its three systems.

2. Peoples' Exclusion of Estimated Backhaul Costs

The company stated that including an estimate of the backhaul cost in the monthly PGA would likely lead to an over recovery of the cost because the cost is rarely incurred. The company recommended, therefore, that any actual backhaul cost be reported in the annual AAA true-up filing in those years in which the backhaul occurs but not be included as an estimated cost in the monthly PGA filings.

The Department stated that it agrees with the company's proposal and recommended that the Commission require Peoples-MN Viking to continue to exclude backhaul costs associated with TF12 in the estimated costs in the monthly PGA filings unless and until such time as UtiliCorp knows that the annual backhaul costs associated with TF12 will be significant.

The Commission finds that the Department's recommendation is appropriate and will so order.

⁸ UtiliCorp's report shows purchases on Viking of 885,183 Mcf and sales on Viking of 906,566 Mcf.

3. Peoples and NMU's Storage Use

The Department stated that based on the documentation provided by UtiliCorp to date, it could not conclude that UtiliCorp's storage plan and the economic dispatch of storage is reasonable.

The Department recommended that the Commission delay any decision regarding Peoples' and NMU's true ups until UtiliCorp submits supporting documentation that would allow the Department to independently confirm UtiliCorp's explanations regarding storage use and the Department has had the opportunity to analyze and respond to the newly provided cost information.

The Commission agrees that company should provide more than general narrative about storage and will direct the company to do so on or before December 9, 2002. In its response, the company should state how much in dollars of storage penalties it avoided in each month by its actions. Workpapers that support the calculation that were prepared at the time of the decision should be included with the response.

The Commission will delay the Commission's final decision regarding Peoples and NMU's true-ups to allow time for UtiliCorp to submit supporting documentation and for the Department to independently confirm UtiliCorp's explanations regarding storage use and to analyze and respond to UtiliCorp's newly provided cost information.

4. UtiliCorp's Purchasing Practices and Policies

The Department stated that UtiliCorp has not explained or defined the new "targeted" goals and has not shown how those goals were developed or implemented. The Department stated that UtiliCorp implemented a new purchasing strategy (increasing the percentage of fixed-price gas purchases and changing from using a percentage of normal winter requirements to buying twelve month fixed priced gas based on an unspecified "industry viewpoint") without any filed analysis only to then end the program without providing any substantive analysis.

According to the Department, the only clear fact is that UtiliCorp seeks ratepayers' recovery for high cost fixed-price volumes purchased outside the winter heating season. The Department asserted that it appears that UtiliCorp believes its experimental purchasing justifies higher rates for Minnesota ratepayers. The Department argued that the fact that UtiliCorp has ended the program raises questions about the reasonableness of a hedging program based on year round rather than winter requirements.

Commission staff recommended that the Commission require the company to provide the total system-wide fixed-priced purchases, both volumes and dollars, and the allocation of those volumes and dollars to all the states for the gas years ended June 30, 2000, 2001, and 2002, with the Minnesota allocation showing Peoples and NMU separately. The company should also provide the basis for the allocation. Staff further recommended that the company clarify whether its fixed price purchase goal is based on normal winter requirements or normal year round requirements and provide a calculation of the normal requirement on both a system-wide and a state-by-state basis, with Peoples and NMU shown separately.

UtiliCorp did not object to providing this information, but requested that the information be provided as a compliance filing. The Department objected that it wanted to receive the information not as a compliance filing (after approval of the company's true-ups) but before the Commission made its final decision on the company's true-ups.

The Department's point is well taken. The Commission will require UtiliCorp to file the information referred to above on or before December 9, 2002 so that the Department will have an opportunity to analyze this information before the Commission makes its final decision regarding Peoples and NMU's true-ups.⁹

F. Reliant Energy Minnegasco (REM)

1. Northern and Viking Area True-Ups

The Department recommended that the Commission accept Minnegasco's Northern Area true-up (Docket Nos. G-008/AA-01-1346) and also its Viking Area true-up (G-008/AA-01-1345) and allow Minnegasco to implement its true-ups as shown in Attachment G9 to the Department's February 22, 2002 Report.

The Commission finds that this is appropriate and will so order.

2. Consolidation of the Northern and Viking Areas

REM serves two areas: the Northern Area and the Viking Area. The company serves the two areas from one gas portfolio but, due to several factors, the customers in each area experience different bills. In its comments, REM stated that it would be willing to revisit the issue of consolidating the PGA rate areas in advance of a rate case.

The Department agreed it may be appropriate to revisit the issue of combining Minnegasco's two purchased gas adjustments (PGAs). The Department recommended that the Commission order REM to fully investigate and provide testimony regarding PGA consolidation and the resulting rate design impacts at the time of its next rate case.

The Commission finds that this approach is appropriate and will so order.

G. Northern States Power Company d/b/a Xcel Energy (Xcel)

1. Pricing Effect of the Predictable Price Tariff

The Department stated that the Commission's September 20, 1999 Order in Docket No. G-002/M-99-562 requires Xcel to use the WACOG¹⁰ to calculate the cost at which to assign fixed-price gas supply that was not used by predictable price customers to general system customers.

⁹ The Commission referred issues regarding the prudence of certain of the company's gas purchasing decisions to the Office of Administrative Hearings (OAH) for contested case proceedings. See NOTICE AND ORDER FOR HEARING issued in this matter on November 14, 2002.

¹⁰ Weighted Average Cost of Gas.

According to the Department, Xcel did not price the gas correctly, but the overall difference was *de minimis*. The Department recommended that Xcel be required to comply with the Order on a going forward basis.

Xcel agreed with the Department's interpretation of the Order and stated that it will use the Department's methodology to price predictable price gas assigned to general system customers in future PGA true-up filings.

The Department reviewed the company's analysis and agreed that system gas costs are generally unaffected by the Predictable Price program, made no further recommendation on the issue, and concluded that no further Commission action is necessary.

In these circumstances, the Commission will simply reiterate its directive on this issue by directing the company to comply with the Commission's September 20, 1999, ORDER ACCEPTING SETTLEMENT AGREEMENT in Docket No. G-002/M-99-562 on a going forward basis.

2. Supplier Refund Returns

Minn. Rules, part 7825.2700, Subp. 8 requires that refunds and interest on refunds received from suppliers and attributable to the cost of gas previously sold must be refunded by credits to bills within 90 days of receipt, if equal to or greater than \$5 per customer. If the amount to be refunded is less than \$5 per customer, the utility must make the refund by credits to bills annually.

The Department reported that without seeking and obtaining a variance from that rule, Xcel had held supplier refunds (less than \$5 per customer) for more than a year before combining them with part of its Kansas Ad Valorem Tax refund and refunded the combined amount in the October 2001 billing cycle. The Department recommended that the Commission require Xcel to use an earlier annual refund period in the future, i.e., whenever the refund is not covered by the 90 day rule, the company should make it standard operating procedure to return supplier refunds and accrued interest to customers on an annual basis during its July billing cycle to allow for reconciliation and reporting in the September 1 annual automatic adjustment report filings.

Xcel stated it agreed with the Department's recommendation to show in future annual reports that it has returned supplier refunds within time period required by Minn. Rule 7825.2700. It also stated, however, that if only *de minimis* supplier refund dollars have been received, the company will request a rule variance to retain the refund dollars until the refund dollars justify expenditure of the substantial programming costs the company stated it incurred for each PGA refund.

The company also stated that, to the extent necessary, the company would request a variance at this time for the way refunds were made in this instance, i.e., not until October 2001. The company argued that this variance is in the public interest because it is consistent with prior Commission treatment of bill credits and because its customers were not harmed by the company's oversight. Moreover, the company argued, the variance does not conflict with the standards imposed by law.

Compliance with the supplier refund rule appears to be a recurring area of concern with Xcel. The Commission notes that the Department had to do extra followup with the company to learn about the supplier refund in question. For efficient oversight, such information should routinely be available to the Department without the extra steps. Therefore, the Commission will direct the company to show in future annual reports that it has returned supplier refunds to its customers within 90 days as required by Minnesota Rules, part 7825.2700, subp. 8, if applicable or within one year of its previous refunds, as required by Minnesota Rules, part 7825.2700, subp. 8.

In addition, the Commission will adopt the Department's recommendation that the company be required to implement its annual refunds early enough to allow for reconciliation and reporting in the AAA Report (i.e., to make the refunds the same month each year irrespective of any refunds made under the 90 day rule).

Finally, while the Commission will give the company a variance to Minnesota Rules, part 7825.2700, subp. 8 regarding its October 2001 refund, the Commission clarifies that the company should not interpret this as authorization for any future tardy refunds or for any after-the-fact requests for variances from the refund deadline. The Commission will hold the company to its commitment to comply with all procedural requirements associated with Minnesota Rules, part 7825.2700, subp. 8.

3. Propane Inventory

In its July 12, 2001 Order in Docket No. G-002/AI-00-1702¹¹, the Commission required Xcel Gas to provide information to show that ratepayers are not subsidizing the cost of propane sold to third parties.

The Department stated that the company sold and purchased replacement propane supplies in a sequence that resulted in its regulated ratepayers subsidizing the company's non-regulated operations. The Department recommended that the Commission require Xcel to reduce the cost of the regulated inventory and increase the non-regulated inventory by \$341,189 to remove the higher cost of the replacement propane from the regulated inventory.

Xcel disagreed with the Department recommendation. The company stated that its decision to purchase additional inventory should be judged in light of the following facts which were known at the time:

1. In June 2001, only one inventory account existed for propane.
2. The propane purchases made during June 2001 were made to ensure that the company's non-traditional rate offerings, Limited Firm and Standby Services, had sufficient inventory to be marketed at a known price for the 2001-2002 heating season.

¹¹ See *In the Matter of a Request by Northern States Power Company d/b/a Xcel Energy for Approval of an Affiliated Interest Agreement Between Xcel Energy and Natrogas, Inc.*, ORDER ,

3. Had the company waited until the regulatory approval of the propane inventory separation was granted, it would have had an insufficient amount of propane to be marketed successfully, and the company would not have been able to provide a “fixed” price quote for the programs.

The company noted that as of July 1, 2001 the propane inventory was separated into a regulated and a non-regulated inventory.

The Commission agrees with the Department and will adopt its recommendation. The issue is subsidization of non-regulated customers by regulated customers, which the Department showed occurred in this instance. Such subsidization will not be allowed. The company’s above-cited explanation does nothing to change that basic point or to indicate that the Department’s proposed correction is inappropriate. For instance, the establishment of two propane inventories (one for regulated sale and one for non-regulated sale) is not required before inventory figures are adjusted and properly allocated, as the Department proposed.

4. Agency Customer Nominations and Gas Purchases

The Department questioned the line separating Xcel Gas’ nonregulated Agency Service and regulated transportation (distribution) activities from its regulated sales service. In response, Xcel reviewed the process used to assign costs and revenues to the provision of Agency and Transportation services and concluded that the cost allocation process is appropriate.

The Department responded that the company’s explanation increased rather than alleviated the Department’s concerns. The Department recommended as follows:

1. Xcel Gas should be required to provide and use certain cost to market comparisons and allocation valuation guidelines to demonstrate that regulated sales customers were not harmed by Xcel Gas’ FYE01 allocation of gas costs between its nonregulated Agency Service operations and its regulated system sales operations. If the demonstration results show instead that Xcel Gas actually assigned more cost to regulated sales customers than would have been assigned under the above valuations, the company should be required to recalculate the true-up balance carried over to next year.
2. Xcel Gas should be required to use a specified pricing methodology to calculate future true-ups.
3. Xcel Gas should be required to calculate for FYE01 an imbalance penalty credit (to be applied as a reduction to the monthly gas costs contained in the true-up) according to a specified formula.
4. If Xcel has not identified and properly recorded certain nominations during FYE01, Xcel Gas should be required to calculate an imbalance penalty credit to the true- up according to a specific formula or recalculate its system true-up as if the Agency customers were a separate system sales class (or classes to the extent there were both firm and interruptible Agency customers), much like the comparison true-up calculation done for predictable price sales.

Additionally, the Department recommended that the Commission require Xcel Gas, on a going forward basis, to keep detailed records regarding

- daily nominations and gas purchased on behalf of Agency customers,
- daily consumption by Agency customers, and
- daily cost and market comparisons.

According to the Department, this will allow 1) proper review of the calculation of gas cost valuations and allocations between Agency customers and system sales customers and 2) appropriate application of imbalance penalties.

Xcel agreed with the Department that it is appropriate to revisit the design and provision of Agency Service but strongly contended that the cost allocation methods used to allocate gas costs between system supply services and Agency Services during the 2000-01 true-up period were reasonable and consistent with the 1988 and 1990 orders in Docket No. G-999/0-88-320 (the "Agency Orders"). The company argued that applying the Department's cost allocation methods to the 2000-01 PGA true-up period (and potentially to the 2001-02 true-up to be filed on September 1, 2002) would require the company to re-allocate substantial commodity gas costs to Agency Services that could never be recovered, i.e., it would have the effect of a cost disallowance.

Regarding the Department's recommendation on record keeping related to possible imbalance penalties, Xcel stated that effective August 1, 2002, Xcel Energy Gas Acquisition is complying with the Department recommendation regarding daily nominations, gas purchases, market comparisons and daily consumption. Thus the company stated that it did not object to this Department recommendation.

At the hearing the Department and the company requested that the Commission delay a decision regarding the four Department recommendations listed above to allow the parties additional time to discuss these items among themselves. Given the complexity of these issues, discussion among the parties seems appropriate. The parties selected October 28, 2002 as the date for submitting a progress report on their discussions. After the parties report their progress on these issues, the Commission will again consider these issues.

Regarding the Department's forward looking record keeping recommendation, however, that item needs no further development. This information, which the company stated it has now begun maintaining since August 2002, will allow review of gas cost valuations and allocations between Agency customers and system sales customers and the imposition of imbalance penalties, should penalties ultimately be deemed warranted.

Finally, the Commission takes the Department's concerns about Xcel's Agency Service operating in a possibly discriminatory or anti-competitive behavior seriously. Accordingly, as a precautionary matter the Commission will direct Xcel to work with the Department to design an Agency Service program that does not give it a competitive advantage over third party marketers or subsidize its Agency Service customers at the expense of Xcel's system customers.

ORDER

Electric Utilities

1. The Commission hereby accepts all of the electric utilities FY2001 annual reports as filed and subsequently amended, as being in general compliance with Minn. Rules, parts 7825.2390 through 7825.2920 for the automatic adjustment of charges.
2. Xcel Electric shall confirm that it has flowed through the amount required by its July 20, 2001 Order in Docket No. E002 /AI-01-242, as reported at the October 10, 2002 hearing in this matter, or shall flow through the amount required by its July 20, 2001 Order by the time the Agreement expires or shortly thereafter, as was anticipated when the Commission issued its Order in the above referenced matter.
3. Otter Tail Power Company shall file an FCA true-up proposal by January 8, 2003, i.e., within 90 days of the hearing date.

Gas Utilities

4. The Commission hereby accepts the 2000-2001 annual reports as filed by the gas utilities, and subsequently amended, as being complete as to Minnesota Rules, parts 7825.2390 through 7825.2920.
5. All gas utilities shall meet with their independent auditors prior to the auditors' examinations concerning the companies' Annual Automatic Adjustment Reports which are to be filed September 1, 2003, to review audit procedures and Minn. Rules, part 7825.2820.
6. All gas utilities shall provide a specific justification for each piece of information for which the designation of trade secret is claimed in their annual reports and true-up filings. All companies shall limit the designation of trade secret to words, numbers, or phrases that are actually trade secret and not designate entire paragraphs or pages which contain the trade secret words, numbers, or phrases.
7. The Department is requested to include the same Commission-required information in its 2002 Report as was included in the 2001 Report except eliminate the summary of the transition costs resulting from FERC's Order 636 in all future annual automatic adjustment reports.

Great Plains Natural Gas

- 8A. The Commission hereby accepts Great Plains' true-ups (Docket Nos. G-004/AA-01-1413, G-004/AA-01-1414, and G-004/AA-01-1415).
- 8B. The Commission notifies Great Plains that it has violated Rule 7825.2700 by including an adjustment for gas costs under-recovered in November and December 2000 and that any future violation will incur more serious consequences.

Interstate Power Company

9. The Commission allows Interstate Gas to implement the adjustment proposed in its March 11, 2002 Reply Comments in the next annual adjustment filing and accepts Interstate Gas' true-up as set forth in Docket No. G-001/AA-01-1343.

UtiliCorp United Inc. and its Divisions, Peoples and Northern Minnesota Utilities (NMU)

- 10A. Peoples shall continue to report in its true-up filing the over and under recovery by individual demand and commodity cost components (Peoples' Schedule D3), and to provide explanations for discrepancies on a component basis for each of its three systems.
- 10B. In the Peoples-MN Viking area, Peoples shall continue to exclude backhaul costs associated with TF12 in the estimated costs in the monthly PGA filings unless and until such time as Peoples knows that the annual costs associated with TF12 backhaul costs will be significant.
- 10C. The Commission defers its final decision regarding Peoples' and NMU's true-ups until UtiliCorp submits
 1. supporting documentation that would allow the Department to independently confirm UtiliCorp's explanations regarding storage use and the Department has had the opportunity to analyze and respond to the newly provided cost information; the answers should be responsive and not just general narrative about storage; the company should state how much in dollars of storage penalties it avoided in each month by its actions; any workpapers that support the calculation of avoided penalties that were prepared at the time of the decision should be included with the response; and
 2. the total system-wide fixed-price purchases, both volumes and dollars and the allocation of those volumes and dollars to all the states for the gas years ended June 30, 2000, 2001, and 2002; the Minnesota allocation should show Peoples and NMU separately; the company should also provide the basis for the allocation; the company should also clarify whether its fixed price purchase goal is based on normal winter requirements or normal year round requirements and provide a calculation of the normal requirement on both a system wide and a state-by-state basis with Peoples and NMU shown separately.

UtiliCorp shall submit the documentation referred to in 10C1 and 10C2 above on or before December 9, 2002.

Reliant Energy Minnegasco

- 11A. The Commission hereby accepts Reliant Energy's Northern area true-up (Docket No. 6008/AA-011346) and allows the company to implement its Northern area true up, as shown in Department Attachment G9.

- 11B. The Commission hereby also accepts Reliant Energy's Viking Area true-up (Docket No. G-008/AA-O1-1345), and allow Reliant Energy to implement its Northern area true-up, as shown in Department Attachment G9.
- 11C. Reliant Energy shall fully investigate and provide testimony regarding PGA consolidation and the resulting rate design impacts at the time of its next rate case.

Xcel Energy

- 12A. Xcel Gas shall comply, on a going forward basis, with the Commission's September 20, 1999, Order Accepting Settlement Agreement in Docket No. G-002/M-99-562.
- 12B. Xcel Gas shall show in future annual reports that it has returned supplier refunds to its customers within 90 days as required by Minnesota Rules., part 7825.2700, subp. 8, if applicable or within one year of its previous refunds, as required by Minnesota Rules, part 7825.2700, subp. 8.
- 12C. Xcel Gas shall keep detailed records on a going forward basis regarding daily nominations and gas purchased (received) on behalf of, as well as daily cost and market comparisons and daily consumption by, Agency customers.
- 12D. Xcel Gas shall work with the Department to design an Agency Service program that does not give it a competitive advantage over third party marketers or subsidize its Agency Service customers at the expense of Xcel's system customers.
- 12E. The Commission hereby grants Xcel Gas a variance from Minn. R. 7825.2700, subp. 8 for the refunds made to its customers in October 2001.
- 12F. Xcel Gas shall implement its annual refunds early enough to allow for reconciliation and reporting in the AAA Report (i.e make the refunds the same month each year irrespective of any refunds made under the 90 day rule).
- 12G. Xcel Gas shall adjust the cost of its propane inventory by a *\$341,189* credit to the regulated Wescott/Sibley inventory and an offsetting debit to the nonregulated Wescott/Sibley inventory at June 1, 2001.
- 12H. The Commission will defer a decision on the following issues to allow the parties to have opportunity to discuss among themselves and file a report:
 - a. market comparisons for gas costs issues and options as described in Staff Briefing papers for the October 10 hearing;
 - b. whether Xcel Gas should be required to recalculate the true-up balance carried forward to next year (September 2003) to reflect the disallowance;
 - c. whether Xcel Gas should be required to use the allocation pricing methodology (as described in the Department's June 20, 2002 Response Comments pages 29-30) to calculate future true-ups; and

- d. whether Xcel Gas should be required to calculate an imbalance penalty credit or recalculate its system true-up for FYE01 as described in June 20, 2002 DOC Response Comments page 32.
- 12I. The parties shall file a report on their progress on these issues on October 28, 2002, after which the above listed issues (12H, a-d) will come back to the Commission.

Effective Date of Order

13. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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