BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of the Review of the 2005 Annual Automatic Adjustment of Charges for All Electric and Gas Utilities

ISSUE DATE: February 22, 2007

DOCKET NO. E,G-999/AA-05-1403;
G-008/AA-05-1423 (Northern Area);
G-008/AA-05-1424 (Viking Area)

ORDER CLARIFYING ORDER DENYING VARIANCE AND ORDERING INDEPENDENT AUDIT

PROCEDURAL HISTORY

On December 6, 2006, the Commission issued an Order Denying Variance and Ordering Independent Audit in this docket.

On December 26, 2006, CenterPoint Energy (CenterPoint) submitted a petition for rehearing and requesting the Commission to reconsider its decision to deny the requested variance.

On January 4, 2007, the Office of the Attorney General, Residential and Small Business Utilities Division (RUD-OAG) submitted its answer opposing Center Point's petition.

On February 8, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

The Commission does not herein grant CenterPoint's petition for rehearing and reconsideration. However, some clarification of its analysis on page 6 of the December 6 Order may prove helpful.

In its December 6 Order, the Commission stated:

> Utilizing the Department's analysis, a comparison of five years of unrecovered gas costs to CenterPoint's total gas costs for that five-year period results in an under-recovery of approximately 0.5 percent. The Commission also finds persuasive the Department's analysis of the Company's pro forma financial statements for the five-year period, which show that the cumulative impact of the Company's errors was only $2.4 million over a five-year period, equal to approximately 1.6 percent of its annual reported net income over the same time period.

In its December 26 petition, CenterPoint disputed that "the cumulative impact of the Company's errors was only $2.4 million over a five-year period, equal to approximately 1.6 percent of its annual reported net income over the same time period." CenterPoint argued that in fact the $2.4 million referenced in the Order is not at issue, and does not represent the impact to Minnesota Gas of the Order. CenterPoint asserted that the impact of denying the requested variance was approximately $21 million in unrecovered gas costs.

The Commission clarifies, in this Order, that the cumulative impact of the Company's errors appears to be approximately $21 million before taxes, or $12.3 million after taxes, and not the $2.4 million referenced in the Commission's Order. The Commission recognizes that the $2.4 million number referenced (and 1.6 percent of net income) is the approximate amount of "margin revenue" that would have been collected on the un-billed sales volumes if those sales had occurred, and not the unrecovered gas costs.

Further, the Commission recognizes that the $2.4 million (and 1.6 percent of net income) number does not reflect the charge against earnings that may be required by the Securities and Exchange Commission for the approximately $21 million in unrecovered gas costs.

While the Commission clarifies this aspect of its December 6, Order, it also reaffirms the rationale for denying the variance requested as set forth in that same Order.

CenterPoint's argument that to deprive the Company recovery of the $21 million is punitive is undercut by the fact that it was Company-initiated changes in its accounting practices which caused the errors; that these errors were repeated every month during a five-year period from November 2000 until late fall 2005; and that the Company did not notice the errors until over five years after the accounting practices had been initiated.

Further, while the Company disputes that the losses involved are minor, the Commission must reiterate that the approximately $21 million in unrecovered gas costs remains only 0.5 percent of the Company's total gas costs of $4.2 billion during the period at issue. The Commission does not find that this amount poses an excessive burden for the Company to absorb. Importantly, the Commission refuses to hold ratepayers accountable for the Company's undiscovered and persistent errors. Ratepayers do not provide a failsafe or backup source of cash for the Company.

Finally, the two cases relied on by CenterPoint as legal authority[1] for why the Commission should grant a variance for recovery of prior period gas costs due to company errors simply do not provide the requisite support to compel such action. Variances are always fact-intensive and situation-specific, as well as specific to the economic conditions of the times in which they are granted. Here, in contrast to the cases relied on by CenterPoint, the Company's accounting errors occurred every month for a five-year period, and were due to Company-initiated changes to its accounting practices. Therefore, CenterPoint's arguments for rehearing and reconsideration simply do not require the Commission to act in a manner contrary to the action taken in its December 6, 2006, Order.

ORDER

1. Commission clarifies its December 6, 2006 Order as set forth herein.

2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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[1]In the Matter of the Review of the 1994 Annual Automatic Adjustment of Charges for All Gas and Electric Utilities, *Order Accepting Annual Automatic Adjustment Reports*, Docket No. E,G-999/AA-94-762 (July 13, 1995); In the Matter of the Review of the 1997 Annual Automatic Adjustment for All Gas and Electric Utilities, *Order Reviewing 1997 annual Automatic Adjustment Reports and True-Up Filings*, Docket No. G,E-999/AA-97-1212 (May 28, 1998).