

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 03L-396G

IN THE MATTER OF THE APPLICATION OF AQUILA INC. D/B/A AQUILA NETWORKS –
PNG FOR AN ORDER AUTHORIZING IT TO EFFECT CERTAIN REVISIONS IN GAS
RATES UPON LESS THAN STATUTORY NOTICE.

**COMMISSION ORDER AUTHORIZING
UPWARD REVISIONS OF GAS RATES**

Mailed Date: September 26, 2003
Adopted Date: September 24, 2003

I. BY THE COMMISSION

A. Statements

1. On September 15, 2003, Aquila Inc., doing business as Aquila Networks – PNG (Aquila or Applicant), filed a verified application. Applicant seeks a Commission order authorizing it, without formal hearing and on less-than-statutory notice, to place into effect on October 1, 2003, tariffs resulting in an increase to its existing natural gas rates on file with the Commission.

2. The proposed tariffs are attached to the application and affect Applicant's customers in, and in the vicinity of, Arriba, Bethune, Black Forest, Burlington, Cascade, Castle Rock, Cheyenne Wells, Chipita Park, Elizabeth, Flagler, Fountain, Franktown, Genoa, Glen Eagle, Green Mountain Falls, Hugo, Joes, Kiowa, Kirk, Limon, Monument, Palmer Lake, Perry Park, Seibert, Stratton, Vona, Widefield, Woodland Park, Woodmoor, and Yuma, Colorado.

3. This application for authority to increase rates is made under § 40-3-104(2), C.R.S., and Rule 41(e)(1), *Commission's Rules of Practice and Procedure, 4 Code of Colorado Regulations* (CCR) 723-1.

B. Findings of Fact

4. Applicant is an operating public utility subject to the jurisdiction of this Commission and is engaged in, *inter alia*, the purchase, distribution, transportation, and sale of natural gas for domestic, mechanical, or public uses in its Central and Northeast rate areas in the State of Colorado.

5. Applicant obtains its natural gas supply at wholesale for its entire Colorado Service Area from third party spot market suppliers in conjunction with supply made available by Colorado Interstate Gas Company (CIG). All gas supply is transported by CIG.

6. Transportation rates of CIG are regulated by the Federal Energy Regulatory Commission (FERC). The Commission has no jurisdiction over the transportation rates of interstate pipeline company CIG and wholesale rates of suppliers, but we expect Applicant to negotiate the lowest prices for supplies of natural gas that are consistent with the provisions of the Natural Gas Policy Act of 1978, 15 U.S.C. §§ 3301-3432 (Public Law 95-621) and applicable federal regulations or determinations made under applicable federal regulations.

7. The Commission's Gas Cost Adjustment Rules require that the Applicant revise its gas cost adjustment (GCA) rates to be effective on October 1 of each year. *See* 4 CCR 723-8-2.1. This filing is intended to comply with this requirement.

8. The purpose of the upward revision of Applicant's gas rates is to reflect a change in the level of natural gas pipeline transportation costs and an increase in the estimated spot market rates charged Applicant effective October 1, 2003, and to adjust for previous over-collections of purchase gas costs in the amount of \$3,851,573.

9. The commodity price of gas increases from a current price of \$3.0859/Mcf in Decision No. C02-1068 to be effective October 1, 2002 to a forecasted price of \$5.2940/Mcf. The forecasted price is based on the actual July through September 2003 Inside FERC Index and on forecasted information for the balance of the new GCA period, October 2003 through June 2004, based on the current NYMEX gas future strip and a basis differential. The upstream pipeline costs will increase from the current \$0.9844/Mcf to \$1.1022/Mcf.

10. Applicant's test year is not consistent with a GCA Effective Period that is 12 months from the proposed effective date. Applicant's test year ends in June 2004 leaving a three-month gap before the effective date of October 1, 2004 in the next annual GCA filing. Beginning July 1, 2004, Applicant would be charging a rate outside of the test period of October 1, 2003 through June 30, 2004 in this application. The Commission finds that there is a mismatch between rates that will be collected beginning July 1, 2004, and the underlying test period and the test period revenue requirements so calculated for the period July 1, 2003 through June 30, 2004. However, that mismatch may not substantially affect the rates proposed in this application. The Commission notifies Applicant that similar infractions in a future GCA application may result in denial of the application.

11. The effect of the revisions is an increase of \$21,564,439 to Applicant's customers in its Colorado certificated areas.

12. The proposed tariffs, attached as Appendix A, will increase total annual revenues by \$21,564,439, which is an increase of 57.38 percent.

13. Applicant anticipates that the adjustment in the GCAs requested herein will bring future gas cost recovery amounts more closely in line with the predicted future price of gas.

14. For the test period covered by this filing, the 12 months ended June 30, 2003, the Applicant's authorized rate of return on rate base was 10.67 percent, and its authorized rate of return on equity was 12.00 percent. Without the GCA rate revision to pass on increased gas costs, Applicant's rate of return on rate base would be (50.03) percent and its rate of return on equity would be (90.98) percent. Returns for the test period covered by this GCA rate revision to pass on increased costs, will result in a rate of return on rate base of 7.55 percent and rate of return on equity of 7.30 percent. Applicant is not allowed to earn a return on recovery of its GCA costs and has shown good cause for recovery of its GCA costs on an expedited basis in light of the significant impact of these costs on its financial integrity.

15. The proposed increase in rates will substantially recover only Applicant's increased cost of gas.

16. Aquila has informed Staff of the Colorado Public Utilities Commission (Staff) that an adjustment to these rates may be necessary due to accounting changes. Aquila will report to Staff by October 10, 2003 the results of its analysis of the effect of the accounting change, subsequently Staff will update the Commission.

17. The filing of this application was brought to the attention of Applicant's affected customers by publication in *The Denver Post*; *The Burlington Record*; *Daily News Press*,

Douglas County; *El Paso County Advertiser and News*, Fountain; *Range Ledger*, Cheyenne Wells; *The Flagler News*; and the *Ute Pass Courier*, newspapers in the areas affected.

18. Good cause exists for the Commission to allow the proposed increases on less-than-statutory notice.

II. ORDER

A. The Commission Orders That:

1. The application filed by Aquila Inc., doing business as Aquila Networks – PNG, for authority to change tariffs on less-than-statutory notice is granted.

2. Aquila Inc., doing business as Aquila Networks – PNG, is authorized to file, on not less than one day's notice, the tariffs attached as Appendix A and made a part of this Order. These tariffs shall be effective for actual gas sales on or after their effective date on October 1, 2003. The Commission has put Aquila Inc., doing business as Aquila Networks – PNG on notice that an infraction of a rate-making principle such as a mismatch of rates in its proposed test period to the Gas Cost Adjustment Effective Period revenue requirements in a future Gas Cost Adjustment application may result in denial of the application. Aquila Inc., doing business as Aquila Networks – PNG shall use a test period consistent with the Gas Cost Adjustment Effective Period that is 12 months from the proposed effective date in any future Gas Cost Adjustment filings.

3. This Order is effective on its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING
September 24, 2003.**

(S E A L)



ATTEST: A TRUE COPY

Bruce N. Smith
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

GREGORY E. SOPKIN

POLLY PAGE

JIM DYER

Commissioners