Decision No. C04-1272

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 04L-523G

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO 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: October 27, 2004
Adopted Date: October 27, 2004

I. BY THE COMMISSION

A. Statements

1. On October 15, 2004, Public Service Company of Colorado (Public Service 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 November 1, 2004, tariffs resulting in an increase to its existing natural gas rates now on file with the Commission.

2. In addition, pursuant to Rule 4 *Code of Colorado Regulations* (CCR) 723-16-3 of the Commission's rules governing the treatment of confidential information, Public Service has filed under seal an original and six copies of Gas Cost Adjustment (GCA) Exhibit No. 2 containing material that it claims is highly confidential, proprietary, and market-sensitive.

3. This application constitutes Public Service's first ever GCA filing, albeit an annual GCA filing, under the new monthly GCA mechanism provided for in the Amended Stipulation and Agreement (S&A) adopted by the Commission, with modifications, in Decision

No. C04-1112 in Docket No. 02A-267G. Except for the one-month extension of time to file this annual GCA application, the S&A, in general, requires Public Service to make 1 annual and 11 monthly GCA filings.

4. The proposed tariffs are attached to the application, and affect Applicant's customers in its Colorado certificated areas on file with the Commission.

5. This application for authority to increase rates is made pursuant to § 40-3-104(2), C.R.S., 4 CCR 723-1-41.5, and Commission Decision No. C04-1112.

B. Findings of Fact

6. Applicant is an operating public utility subject to the jurisdiction of this Commission and is engaged, in the purchase, transmission, distribution, transportation, and resale of natural gas in various certificated areas within the State of Colorado.

7. Applicant's natural gas supplies for sale to its residential, commercial, industrial, and resale customers, are purchased from numerous producer/suppliers located inside and outside of the State of Colorado. The rates and charges incident to these purchases are established through contracts between Applicant and the various producer/suppliers.

8. These gas supplies are either delivered directly into Applicant's natural gas pipeline system from wellhead, gathering system, or gas processing plant interconnections, or through several interstate pipeline and/or storage facilities with which Applicant is directly connected. The transportation of these gas supplies is made pursuant to service agreements between Applicant and upstream pipeline service providers based upon Applicant's system requirements for the various pipeline services, such as gathering, storage, and transportation. These upstream pipeline service providers include: Colorado Interstate Gas Company (CIG);

Wyoming Interstate Company, Ltd. (WIC); Kinder Morgan Interstate Gas Transmission Company (KMI); Southern Star Central Gas Pipeline, Inc. (Southern Star); Red Cedar Gathering Company (Red Cedar), and Young Gas Storage Company, Ltd. (Young).

9. CIG, WIC, KMI, Southern Star, and Young are natural gas companies under the provisions of the Natural Gas Act, as amended, and the rates and charges incidental to the provision of the various pipeline delivery services to Applicant are subject to the jurisdiction of the Federal Energy Regulatory Commission (FERC). This Commission has no jurisdiction over the pipeline delivery rates of CIG, WIC, KMI, Southern Star, and Young, but it expects 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.

10. The Commission's GCA Rules require that Applicant revise its GCA rates to be effective on October 1 of each year. *See* 4 CCR 723-8-2.1. The Commission granted Applicant a one-time waiver of the GCA filing date in Decision No. C04-1112 (Docket No. 02A-267G) to November 1. The instant filing is intended to comply with that decision.

11. The purpose of the proposed revision is to reflect the level of: (1) Gas Commodity Cost, reflecting natural gas costs to be charged Applicant by its numerous producers/suppliers during the period November 1 through 30, 2004, based on forecasts of sales quantities, producer/supplier contract pricing terms, and market indices; (2) Deferred Gas Cost, reflecting the over or under-recovered gas cost balance in Applicant's Deferred Gas Cost Account No. 191 as of September 30, 2004, adjusted for billing cycle lag; (3) Upstream Services Cost, reflecting costs anticipated to be charged Applicant by CIG, KMI, WIC, Southern Star, Red

Cedar, and Young for the period November 1, 2004, through October 31, 2005; and (4) Gas Demand Cost, reflecting monthly reservation fees or demand charges payable to gas sellers for the period November 1, 2004 through October 31, 2005.

12. Commission review has revealed a mismatch in the time periods used to calculate revenue increases or decreases in the four GCA cost components of Gas Commodity Cost, Deferred Gas Cost, Upstream Services Cost, and Gas Demand Cost, *i.e.*, monthly for the Gas Commodity Cost versus annual for the others. These varying time periods do not present a problem that would impact rate derivation since the four costs are each unitized and summed up in rates on a per Dth basis.

13. The mismatch in time periods does impact and create a problem for the rate of return calculation reflected on Exhibit No. 11 as required in 4 CCR 723-8-4.7.11. This problem was detected during the Commission Staff (Staff) review process of this first ever annual GCA filing under the monthly GCA filing mechanism. Exhibit No. 11 is important in the regulatory review process in that it allows the Staff to execute its regulatory duty to understand and monitor the relationship between a utility's gas commodity costs and revenues to total costs and revenues. Exhibit No. 11 is only filed once a year with the annual GCA filing and provides the Commission a snapshot of the Company's financial standing and identifies the impact of gas costs from a regulatory standpoint to the utilities' overall financial health with and without the requested rate change. In the instant filing the rate of return calculation is based on information from varying time periods. For example, the calculation includes an annual rate base, annual operations/maintenance expenses, and annual base rate revenues, on the other hand it also includes the change in GCA revenues; and costs on a monthly basis. Exhibit No. 11 is required

as part of the annual GCA filing under 4 CCR 723-8-4.7.11. Therefore, the Commission will direct Public Service to work with Staff to provide appropriate information within 60 days after the proposed effective date of this filing to accomplish the purpose described above.

14. Applicant's currently effective GCA, placed into effect October 1, 2003, as authorized by the Commission in Docket No. 03L-400G (Decision No. C03-1096, mailed September 26, 2003), was based on *Natural Gas Monthly* by Global Insight (formerly DRI WEFA) for a weighted-average forecasted producer/supplier rate of $4.6577 per Dth. As provided in the S&A, projected gas costs included in this filing to derive the Gas Commodity Cost are based on the New York Mercantile Exchange (NYMEX) November 2004 Daily closing price for natural gas on the seventh business day of the preceding month, or October 11, 2004. The NYMEX price was adjusted for the basis differentials applicable to regional indices used by the Company for its gas purchases.

15. Pursuant to the S&A, Public Service's GCA tariff and Rule 4 CCR 723-8-4.7.3 of the Commission's GCA Rules, Public Service proposes to include in the calculation of the Deferred Gas Cost component of the GCA rates the full amount of the deferred account balance as of September 30, 2004, instead of June 30, 2004. Applicant's Account No. 191 balance as of September 30, 2004, adjusted for billing cycle lag, is $15,038,793. This balance was reduced by an estimated unbilled GCA revenue amount for the balance of September of $16,580,759, resulting in a cumulative deferred gas cost of negative $1,541,966. Two pipeline refunds were also subtracted from this cumulative deferred gas cost, as ordered by the Commission in Decision No. C03-1401 (Docket No. 03A-286G) and Decision No. C04-0217 (Docket No. 04A-038G). The total refunds (principal plus interest) for these dockets are $2,909,722 and $296,068,

respectively. The balance for the deferred gas cost, after subtracting these two refunds, is a negative $4,747,756.

16. In addition to a change in the commodity cost of gas, Applicant has included in the instant filing projects for costs for upstream pipeline transportation and storage services from CIG, WIC, KMI, Southern Star, Red Cedar, and Young, based upon existing service agreements and currently effective rates under each interstate company's FERC gas tariff.

17. Public Service notes in the instant application that it has included upstream services costs projected to be incurred during the GCA Effective Period under its gas gathering agreement with Red Cedar. Public Service further represents that certain past costs incurred under the Red Cedar agreement are also reflected in the Account No. 191 (deferred gas cost) balance. To properly reflect the apportionment of Red Cedar deferred costs between transportation and sales customers, the Company has removed these costs from the Deferred Gas Costs for purposes of calculating the Deferred Gas Cost rate and treated them as Current Gas Costs herein. The recovery by Public Service of these costs through the GCA is the subject of an application filed by Public Service on May 27, 2004 in Docket No. 04A-275G. That proceeding is ongoing. Accordingly, Public Service acknowledges that any proposed recovery by Public Service of the subject Red Cedar costs in this GCA is subject to any and all future orders by the Commission in Docket No. 04A-275G regarding the appropriateness and amount of such recovery, and that future refunds and/or GCA adjustments may be required to reflect the Commission's subsequent determination of the appropriateness of GCA recovery of these costs.

18. In paragraph d of Section 6, Part C, of the Commission's Decision No. C95-796 (page 13), the Commission imposed the following requirements after stating its concern that

transportation discounts could possibly have an adverse impact on the cost of gas collected through the GCA:

> Therefore, the Company will be ordered to report in each of its GCA applications the calculation of the revenue effect of transportation discounts on sales in the GCA. This report shall include any discounts which are provided to any affiliated company. (Footnote omitted.)

19. Consequently, Applicant was required to report in its GCA Application the following: (i) the revenue effect of any transportation discounts on sales in the GCA; and (ii) any transportation discounts provided to any affiliated company.

20. Applicant states that the GCA is currently not impacted by transportation commodity discounts, as all discounted transportation commodity rates are in excess of the current gas cost portion of the transportation charge (balancing costs). Accordingly, Applicant represents that the GCA applicable to sales customers will not be affected by transportation discounts.

21. The net effect of the revision in the GCA for the month of November would be to increase revenues by $23,384,006 above that yielded by the currently effective GCA, based on the projected purchases, sales, and upstream transportation volumes for the GCA effective period. This increase is the net result of a forecasted gas cost that is higher than that reflected in Applicant’s currently-effective gas sales rates and Applicant’s Deferred Gas Cost Account No. 191.

22. The proposed tariffs, attached as Appendix A, will increase annual revenues by $23,384,006, which is an increase of 23.79 percent.

23. For the Gas Department, Applicant's last authorized rate of return on rate base was 9.33 percent, and its last authorized rate of return on equity was 11.25 percent. If this increase is

approved and based on the concerns discussed in paragraph 13, Applicant's rate of return on rate base will be 7.95 percent and rate of return on equity will be 9.42 percent. The Commission cannot assess the impact on the annual rates of return for Public Service and its income without the proposed increase based on the information filed in this application. Therefore, the significant impact of these increased gas costs to the financial integrity of Public Service without the requested rate revision cannot be fully assessed by the Commission.

24. Applicant shall arrange for notice of publication of the proposed rate in conformance with Rule 41(e) of the Commission's Rules of Practice and Procedure, 4 CCR 723-1 within three days after the filing of this application. The filing of this application has been or will be brought to the attention of Applicant's affected customers by publication in *The Denver Post*, a newspaper of general circulation in the areas affected.

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

26. Good cause exists to allow the proposed increases on less-than-statutory notice contingent upon the required filing within 30 days after the effective date of this application.

II. <u>ORDER</u>

A. The Commission Orders That:

1. The application filed by Public Service Company of Colorado for authority to change tariffs on less-than-statutory notice is granted.

2. Public Service Company of Colorado is directed within 60 days after the effective date of the instant application, to work with Staff of the Commission to provide appropriate information such that the annual rates of return without the proposed increase may be calculated.

3. Public Service Company of Colorado 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 of November 1, 2004.

4. This Order is effective on its Mailed Date.

B. ADOPTED IN COMMISSIONERS' WEEKLY MEETING October 27, 2004.

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

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Commissioners

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