AT A REGULAR SESSION of the Public Utilities Commission of the State of South Dakota, held in its offices, in the City of Pierre, the Capital, this 24th day of September, 1979.

PRESENT: Commissioners Klinkel, Fischer and Stofferahn

IN THE MATTER OF THE APPLICATION OF MINNESOTA GAS COMPANY TO CONSOLIDATE AND INCREASE RATES FOR GAS SERVICE BASED ON TEST YEAR ENDED DECEMBER 31, 1978.	)))))	DECISION AND ORDER (F-3302)

On the 26th day of March, 1979, Minnesota Gas Company, hereinafter Minnegasco or Company, filed with this Commission an application to increase its retail gas revenues by approximately $1,597,000. This represented an overall increase of 8.35% affecting 35,500 customers in South Dakota.

Thereafter, the Commission entered Orders of Suspension and granted Motions to Intervene filed by South Dakota ACORN and John Morrell and Company. Procedural dates were scheduled and hearings on Minnegasco's rate increase application were held by the Commission commencing on the 14th day of August, 1979 and concluding on the 17th day of August, 1979. Thereafter, Briefs were ordered by the Commission to be filed by the parties.

The Commission has carefully reviewed the entire record in this proceeding and hereby enters the following:

FINDINGS OF FACT

I.

1979 PLANT IN SERVICE

(A) Staff Position:

Staff points out that Minnegasco's proposed adjustments included a number of items based on expenses to be incurred in 1979 that were related to projected 1979 plant in service. Staff recommends that the Commission reject those adjustments. Staff contends that they are not known and measurable changes and effectively represent a 1979 projected test year.

Staff points out that Minnegasco proposed four adjustments to rate base, each of which consisted of increasing the average 1978 balance to year-end 1978 levels and adding an amount which relfects the change in the average balance for the 1979 proposed additions.

Staff Witness Brown testified that this type of adjustment should not be allowed to the test year. She testified to the enormity of the task that would confront the Commission if these types of adjustments, based entirely upon estimates, were routinely allowed. Staff Witness Brown pointed out that examining all of the assumptions which go into such adjustments would as a practical matter be impossible. Further, Staff Witness Brown testified that even if Minnegasco, Commission Staff, Intervenors and the Commission were to reach an agreement upon the reasonableness of all of the assumptions, the estimates may not materialize exactly as projected and, thereby, Minnegasco would thus be either overcollecting or undercollecting through rates established by reliance on estimates. She further stated that this violates the fundamental regulatory principle that consumers' rates should be based on actual costs adjusted for only known and measurable changes.

Staff recommends that an average actual test year adjusted only for known and measurable changes be employed. Staff contends that this avoids the burdens as well as risks inherent in the proposed adjustments made by Minnegasco which are based upon estimates. Staff further points out that the Commission's past precedent fully supports utilization of an average actual test year adjusted only for known and measurable changes that will occur within twelve months after the end of the historical test year. Staff points out that each such adjustment for a known and measurable change must be accompanied by corresponding adjustments to assure that costs and revenues continue to match. Staff points out that the matching requirement is a basic principle in proper ratemaking and should not be violated. Staff recognized a number of adjustments which were known and measurable such as a labor increase which will not occur until as late as October, 1979, a full nine months beyond the end of the test year utilized by all parties in this proceeding.

Staff notes that Company contends its adjustments are known and measurable and should be allowed on that basis. However, Staff points out that Company's proposed adjustments are based upon historical trends, projections of new customers, experience of its personnel and other estimates. Staff contends that Minnegasco's proposed adjustments require a great deal of judgment, as opposed to any methodology, in deriving its estimates and projections. Staff points out that Minnegasco's construction budget was utilized for a number of items in its proposed rate base adjustments. Staff notes that the budget is prepared in August or September of the prior year and is not subsequently revised in order to reflect current conditions. Staff contends that such a basis is speculative and not subject to confirmation, serious analysis or verification. Staff further points out that further difficulties occur when attempting to classify construction in terms of expenditures related to customer or revenue growth. Specifically, Staff notes that work orders can easily be erroneously classified which will totally distort the projections and estimates for ratemaking. Additionally, simply because an item appears in a budget, that does not assure that it will actually be constructed. Staff further contends that Minnegasco's approach is tantamount to suggesting that if some type of change, however great or small, may occur, Minnegasco is entitled to arbitrarily attempt to quantity the change. Staff points out that this is the antithesis of the sound ratemaking principle of recognizing known and measurable changes and not speculative estimates and projections. Staff concludes that Minnegasco's proposed adjustments do not constitute in any sense known and measurable changes and, consequently, should be rejected accordingly.

(B) Company Position:

Minnegasco contends that its proposed adjustments to 1979 plant in service should be adopted. Minnegasco Witness Petersen testified that the adjustments are known with reasonable certainty and measurable with reasonable accuracy. Company Witness Petersen testified that the first part of each adjustment involves an increase of the average 1978 level to year-end 1978. Company Witness Petersen testified that this is known and measurable as an absolute certainty and that it is based on actual 1978 end-of-year balances. Company Witness Petersen further testified that the second part of the adjustment reflects 1979 additions which in his opinion are reasonably known and measurable. The 1979 proposed adjustments are based upon forecasts and use of historical data for replacements coupled with existing and current information for labor purchases and related components. Company Witness Petersen further testified that matching occurs in that the adjustment of revenues and expenses for the same number of additional customers have been proposed by Minnegasco.

Commission Findings

The Commission finds that Staff's recommendation should be adopted for the reasons set forth in (A) above. The Commission finds that Minnegasco's proposed adjustments include a number of items based on expenses to be incurred in 1979 that were related to projected 1979 plant in service. The Commission finds that those adjustments are not known and measurable changes. Further, the Commission finds that Minnegasco's filing in this regard represents a 1979 projected test year. The Commission finds that not only is a projected test year impossible to fully evaluate and scrutinize, but, moreover, a projected test year based upon estimates is in total contravention of the rational and sound ratemaking principle of utilizing a test year adjusted for known and measurable changes. The Commission finds that utilization of an average actual test year adjusted for known and measurable changes avoids the impossible task of evaluating the reasonableness of all of the assumptions, predictions, projections and estimates involved in such a test year as well as lessens the possibilities of overcollection or undercollection by Minnegasco during the period the rates in this proceeding will be in effect.

The Commission further finds that the fundamental ratemaking principle of matching is violated by Minnegasco's proposed adjustments. The Commission finds that Minnegasco's construction budget is an unreliable basis for establishing rates in this proceeding. The flaws of such an approach have been glaringly pointed out in this proceeding.

The Commission finds that while the Natural Gas Policy Act of 1978 does not expressly apply to this proceeding, the Commission's determinations herein are in no manner inconsistent with the objectives of said federal legislation.

Finally, the Commission finds that the criticism by certain parties of John Morrell's participation in this proceeding is hereby expressly rejected. This Commission has always and will continue to provide the opportunity for participation by any customer or group of customers. This Commission believes that such participation fully enhances the ratemaking process and leads to more informed judgments. While the Commission may not adopt a certain intervenor's position in part or in whole, nonetheless, that participation raises issues which would not otherwise be addressed by this Commission and, perhaps, never considered. The Commission recognizes that all parties to all proceedings before the Commission have certain self interests to be protected and that that is certainly no valid criticism to any party's participation before this Commission.

XXI.

GENERAL CONSIDERATIONS

After reviewing the entire record in this proceeding, the Commission finds that in future proceedings, more candor will be forthcoming when mutually agreed upon errors made by any party are discovered. This Commission has never encountered a situation, other than in the instant proceeding, such total reluctance and, in certain instances, refusal, by an applicant to remedy errors which the applicant concedes exist and which all parties concur exist. Commission Staff and most other utilities have never acted in such a manner before this Commission and this Commission will not tolerate such conduct in future proceedings.

The Commission further finds that, normally, when a utility files a projected or future test year, that utility does not attempt to rationalize that estimates, projections, predictions, and other hypothetications are not what they are. The Commission finds that Minnegasco is entitled to file the type of application it so desires as long as it complies with the applicable statutory provisions and with the Commission's rules in form, but the fully projected test year utilized by the Company is exactly that, a fully projected test period. The Commission finds that the data utilized by Company is based on multiple projections and estimates of many departments, individuals, and/or consultants that make up Minnegasco. As previously noted, it is this Commission's finding that these adjustments are speculative since no one can project with certainty the outcome of the many issues related to a fully projected test period and their net effect on Minnegasco's revenues. For ratemaking purposes, the Commission finds that these projections should not be the basis for establishing rates for Minnegasco.

This Commission has always in the past and has in this case found that the test period for ratemaking purposes should be a known test period. The Commission finds that Staff's analysis set forth in its Reply Brief is absolutely correct that whatever the many relationships that are present in the incurring of costs, rate base and service, the analysis of twelve months' data that are known will reflect these relationships. This Commission has also recognized in the past, and has in this proceeding recognized, changes which are known and measurable. Unfortunatley, certain of Minnegasco's recommendations contain a fundamental misunderstanding of the fact that known and measurable changes are recognized only in the context of the relevant test period. This misunderstanding serves to completely destroy the relationship between costs, revenues and rate base reflected by an actual twelve month period. Again, the Commission concurs with Staff's analysis set forth in its Brief that of fundamental importance in this proceeding and in understanding what this Commission has found is the meaning of the terms known and measurable. Known and measurable changes do not relate to adjustments that cannot, by any standard or criteria, be said to be known and measurable today or at the time of Minnegasco's filing. Known and measurable changes are exactly that. The antithesis of known and measurable changes are adjustments that are based on estimates, projections, or predictions which may be totally arbitrary or only partially arbitrary. Known and measurable changes, on the other hand, are exactly that: known and measurable. The Commission finds that Minnegasco's utilization of the phrase "known minimum" in fact means "estimated, projected, or predicted minimum."

Finally, the Commission finds that Minnegasco's attempt to create a year-end rate base must fail. This Commission has found in the past and has found in this proceeding that the matching of revenues, expenses and rate base is crucial for any rational and representative test period as may properly be adjusted for known and measurable changes not otherwise accounted for. While semantics are in the realm of form over substance, this Commission refuses to recognize a fundamental distortion of a fundamental ratemaking principle.

The Commission hereby rules that all proposed Findings of Fact, Conclusions of Law and Orders submitted by the parties are hereby rejected.

Upon the foregoing Findings of Fact, the Commission hereby enters the following:

CONCLUSIONS OF LAW

I.

That the Commission has jurisdiction over the subject matter and the parties to this proceeding.