

PUBLIC SERVICE COMMISSION**OF WEST VIRGINIA****CHARLESTON**

At a session of the Public Service Commission of West Virginia, in the City of Charleston, on the 16th day of September, 2002.

CASE NO. 02-0895-G-PC

MOUNTAINEER GAS COMPANY and
WEST VIRGINIA POWER GAS SERVICE,
both d.b.a. ALLEGHENY POWER

Petition for consent and approval to include and recover in the purchased gas adjustment rate a natural gas modeling instrument for purchasing gas supply.

COMMISSION ORDER

This is before the Commission for a determination as to whether Mountaineer Gas Company and West Virginia Power Gas Service, d.b.a. Allegheny Power, may include and recover the cost of a computer-based gas procurement tool in its purchased gas adjustment rate. The Commission shall grant the request on an experimental basis, as set forth herein.

BACKGROUND

On June 26, 2002, Mountaineer Gas Company and West Virginia Power Gas Service, d.b.a. Allegheny Power (Companies), filed a Petition for consent and approval to include in and recover through the purchased gas adjustment rate, the cost of a natural gas modeling instrument for purchasing gas supply. The Companies seek to recover the costs of Planalytics "GasBuyer" (the model), a computer-based gas procurement tool, as part of the Companies' purchased gas costs in their next proceeding pursuant to Rule 30-C of the Commission's Rules and Regulations for the Government of the Construction and Filing of Tariffs of Public Utilities and Common Carriers by Motor Vehicle (Tariff Rules). The model forecasts future natural gas prices based on projected industrial demand, storage activity, rig counts and long-term weather forecasts. According to the Companies, the model would assist them in capitalizing on the best opportunities to purchase natural gas, and thus reduce the overall gas costs to the customers. The Companies plan to contract for the model for an initial one-year period to allow for evaluation prior to any renewal.

On July 26, 2002, the Commission's Consumer Advocate Division (CAD) filed a petition to intervene and a recommendation in this proceeding. The CAD indicated that even though the cost of the model was not a gas cost as defined by Tariff Rule 30-C, the CAD did not oppose the inclusion of the model's cost in the Companies Tariff Rule 30-C filing on an experimental basis. The CAD further recommended that the Companies submit an evaluation of the model with the Companies' 2003 Tariff Rule 30-C filings.

On August 2, 2002, Staff filed its Initial and Final Joint Staff Memorandum. Staff noted that the \$125,000 cost of the model for one year was a small percentage of the Companies' \$100,000,000 combined gas procurement costs. According to Staff, inclusion of the model's cost will translate to an average annual cost to the customer of forty-five cents. Staff indicated that the Commission has authorized the inclusion of natural gas hedging instruments in the Companies' purchased gas costs. Staff believed that the model will provide information that will add to the Companies' abilities to evaluate future natural gas markets and the reasonableness of various hedging strategies. Staff recommended approval of the request to include the cost of the model in the Companies' pending Tariff Rule 30-C filings^{See FootNote 1}, but that the Commission should reserve the right to consider the prudence of the Companies' gas purchase decisions in reliance upon the model. Staff also concurred with the CAD recommendation that the Companies' provide the Commission with their evaluation on the effectiveness of the model's use.

On August 7, 2002, the Companies filed a letter stating their concurrence with the recommendations made by the CAD and Staff.

DISCUSSION

It is reasonable to grant the petition to intervene filed by the CAD.

As there is no objection to the request to include the cost of the model in the Companies' pending purchased gas adjustment filings, the Commission shall grant the request. However, this approval is granted on an experimental basis for the current Tariff Rule 30-C filings only. The Commission reserves the right to consider the prudence of the Companies' decisions regarding gas purchase in reliance upon the model. Additionally, the Companies' shall be required to submit an evaluation of the model with the Companies' 2003 Tariff Rule 30-C filings.

FINDINGS OF FACT

1. On June 26, 2002, the Companies filed a Petition for consent and approval to include in and recover through the purchased gas adjustment rate, the cost of a natural gas modeling instrument for purchasing gas supply.

2. According to the Companies, the model would assist them in capitalizing on the best opportunities to purchase natural gas, and thus reduce the overall gas costs to the customers. (Petition p. 2, 4).

3. On July 26, 2002, the Commission's Consumer Advocate Division (CAD) filed a petition to intervene and a recommendation.

4. The CAD recommended that the inclusion of the model's cost in the Companies' Tariff Rule 30-C filing be approved on an experimental basis. The CAD further recommended that the Companies submit an evaluation of the model with the Companies' 2003 Tariff Rule 30-C filings. (CAD' Petition to Intervene and Recommendation p. 2-3).

5. Staff recommended approval of the request to include the cost of the model in the Companies' Tariff Rule 30-C filings. Staff recommended that the Commission should reserve the right to consider the prudence of the Companies' gas purchase decisions in reliance upon the model. Staff also concurred with the CAD recommendation that the Companies' provide the Commission with their evaluation on

the effectiveness of the model's use. (Initial and Final Joint Staff Memorandum p. 2).

6. The Companies' concur with the CAD and Staff recommendations.

CONCLUSIONS OF LAW

1. It is reasonable to grant the petition to intervene filed by the CAD.

2. As there is no objection to the request to include the cost of the model in the Companies' purchased gas adjustment rate, the Commission shall grant the request as provided herein.

ORDER

IT IS, THEREFORE, ORDERED that Mountaineer Gas Company and West Virginia Power Gas Service, d.b.a. Allegheny Power's petition for consent and approval to include in and recover through the purchased gas adjustment rate, the cost of a natural gas modeling instrument for purchasing gas supply is hereby approved, on an experimental basis, as set forth herein.

IT IS FURTHER ORDERED that the request to include the cost of the model in the Companies' pending Tariff Rule 30-C filings is approved.

IT IS FURTHER ORDERED that the Commission's approval of including the costs of the model in the Companies' current Tariff Rule 30-C filings shall not be considered as pre-approval by the Commission of the prudence of the Companies' gas purchase decisions in reliance upon the model.

IT IS FURTHER ORDERED that the Companies shall be required to submit an evaluation of the model with the Companies' 2003 Tariff Rule 30-C filings.

IT IS FURTHER ORDERED that the Consumer Advocate Division's petition to intervene is hereby granted.

IT IS FURTHER ORDERED that upon entry of this order, this case shall be removed from the Commission's docket of active cases.

IT IS FURTHER ORDERED that the Commission's Executive Secretary serve a copy of this order upon all parties of record by United States First Class Mail and upon Commission Staff by hand delivery.

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Footnote: 1 ¹ The Companies' current Tariff Rule 30-C filings are pending as Case No.'s 02-1108-G-30C and 02-1074-G-30C.