

# Alabama Public Service Commission

## Orders

**ALABAMA GAS CORPORATION, APPLICATION:** For authority to

APPLICANT establish an Enhanced Stability Reserve

**INFORMAL DOCKET U-3896**

### SECOND ORDER

#### **BY THE COMMISSION:**

On September 10, 1998, Alabama Gas Corporation filed an application to establish an Enhanced Stability Reserve (ESR) to promote greater rate stability for its customers, while continuing to provide the same ratemaking protections that are currently contained in Applicant=s Rate Stabilization and Equalization (Rate RSE) Tariff as approved by this Commission. In the application, Applicant requested authority to fund the ESR in an amount not to exceed \$4,000,000, which reserve may be used to: (1) dampen the adverse effects of natural disasters or other force majeure events on Applicant=s operation and maintenance (O & M) expenses (force majeure events include, but are not limited to: snow and ice storms; floods; tornados; hurricanes; other extreme weather conditions; and outages caused by weather conditions or third party damages); and (2) mitigate the effects of material individual revenue variances and load loss among Applicant=s Large Commercial and Industrial (LCLI) customers.

Prior to filing the application, representatives of Applicant met with appropriate members of the Commission Staff and the Utility Consumer Division of the Office of Attorney General (Attorney General) to explain the basis and proposed mechanics of the authority being requested. As a result of those meetings, modifications were made to the Company=s proposal prior to the filing of the Application. In recognition of Applicant=s fiscal year end of September 30, 1998, Applicant requested approval, prior to its 1998 fiscal year end, to establish and operate the ESR as described in the Application. However, Applicant also recognized that the Staff and Attorney General needed adequate and sufficient time to review the details of the Company=s proposal. Therefore, Applicant requested, and by Order dated September 14, 1998, this Commission granted interim approval to establish the ESR and to make an initial accrual to the ESR in the amount of \$2,547,000, subject to a final report and recommendation by Commission Staff regarding the Application.

Subsequent to the Interim Order, members of the Commission=s Energy and Advisory Divisions met with Applicant to review the details of the authority requested in the Application and to discuss how the proposed ESR will operate. As a result of those meetings, the parties agreed on several modifications to the requested authority, including additional safeguards designed to protect consumers. Those modifications and safeguards, which are described in the proposed AESR Terms and Conditions@ outlined below, were discussed with the Attorney General and are described in the Staff=s report and recommendation which was submitted to the Commission in compliance with the Interim Order.

## Proposed ESR Terms and Conditions

### (1) Funding of Reserve

- a) Applicant is authorized to accrue to the ESR during Applicant=s 1998 fiscal year an amount equal to the sum of the material individual revenue variances from budget attributable to Applicant=s LCLI customers during Applicant=s 1998 fiscal year (the AInitial Accrual@).
- b) The Maximum ESR Balance at any time will be an amount equal to the Initial Accrual rounded up to the next \$100,000.
- c) Applicant is authorized to make monthly accruals to the ESR in an amount of no more than \$40,000 per month (Monthly Accrual) beginning the first month of any fiscal year after a fiscal year in which Applicant has drawn from the ESR for one of the authorized purposes described in paragraph (2) below. Such monthly accruals will continue until the ESR balance reaches the Maximum ESR Balance. Monthly Accruals will not be included in O & M expense for purposes of the Cost Control Measurement (CCM) calculation required under the provisions of Applicant=s Rate RSE.
- d) In the event that as a result of charges against the ESR, the ESR balance drops to a level that Applicant deems inadequate, Applicant may file an application requesting a temporary increase in the Monthly Accrual amount to restore the ESR balance to the Maximum ESR Balance in a reasonable time period.

### (2) Use of Reserve

- a) In the event that at the end of Applicant=s fiscal year Applicant=s Return on Equity is below the range authorized by the Commission, Applicant may charge against the ESR the full amount of any negative individual LCLI budget revenue variance that exceeds \$250,000.
- b) Applicant may charge against the ESR the full amount of incremental extraordinary O & M expenses that result from either (I) a single force majeure event that results in more than \$200,000 of additional O & M expenses or (II) a combination of two such events that together result in more than \$200,000 of additional O & M expenses. Applicant will assign a work order number to each such force majeure event for the purpose of accumulating costs and to provide a basis for Commission review. At the end of the Applicant=s fiscal year, such work orders that qualify to be charged against the ESR will, at the Company=s election, be charged either to O & M or to the ESR. Any work order remaining open at the end of a fiscal year will be carried over to the next fiscal year.
- c) Within one month following the end of Applicant=s fiscal year, Applicant will provide a report to the Energy Division and to the Attorney General that describes the charges made to the ESR during the previous fiscal year.
- d) The Commission staff will monitor accruals to, and charges against, the ESR to assure compliance with this Order. At the end of the Applicant=s 2000 fiscal year, the Commission and the Attorney General will review the operation and reserve levels of the ESR to determine whether any modifications need to be made at that time.

We have reviewed the Application and the ESR Terms and Conditions agreed to by Applicant and Staff, and find that the ESR Terms and Conditions are reasonable, appropriate and consistent with the principles of rate stability underlying Applicant=s Rate RSE. The establishment and operation of the ESR, as described herein, will dampen the potentially destabilizing effect of future extraordinary O & M expenses or LCLI variations from budget by allowing those events to be charged directly to the ESR. In this way, revenues and expenses attributable to events beyond Applicant=s control will have a much less disruptive effect because they will be recognized more gradually for cost of service and ratemaking purposes. The CCM provision of Applicant=s Tariff will continue to serve as a strong incentive to Applicant to contain its O & M costs through effective and efficient management, but will not penalize Applicant for incurring the extraordinary costs necessary to address force majeure conditions that may occur from time to time.

Moreover, the ESR is similar to the Natural Disaster Reserve currently in place for Alabama Power Company. Alabama Power Company=s Natural Disaster Reserve, established by Commission Order dated December 4, 1995, in

Informal Docket U-3556, has allowed Alabama Power Company to stabilize the effects of natural disaster costs on rates, while providing the funding necessary to restore service in a timely manner without causing a significant rate impact on consumers.

Importantly, Applicant=s obligation to implement rate reductions under Rate RSE when Applicant=s fiscal year ROE exceeds the ROE range will remain in full force and effect. Additionally, the Commission will retain in place Applicant=s current CCM incentives to encourage Applicant to control its costs without causing a hardship on Applicant when it must address force majeure situations.

**IT IS THEREFORE ORDERED**, That the Commission finds that the Application, as modified by the ESR Terms and Conditions described herein, is in the public interest and is hereby granted.

**IT IS FURTHER ORDERED**, That Applicant is authorized to accrue to the ESR during Applicant=s 1998 fiscal year an amount equal to the sum of the material individual revenue variances from budget attributable to Applicant=s LCLI customers during Applicant=s 1998 fiscal year (the AInitial Accrual@).

**IT IS FURTHER ORDERED**, That the Maximum ESR Balance at any time will be an amount equal to the Initial Accrual rounded up to the next \$100,000.

**IT IS FURTHER ORDERED**, That Applicant is authorized to make monthly accruals to the ESR in an amount of no more than \$40,000 per month (Monthly Accrual) beginning the first month of any fiscal year after a fiscal year in which Applicant has drawn from the ESR for one of the authorized purposes described above. Such Monthly Accruals will continue until the ESR balance reaches the Maximum ESR Balance. Monthly Accruals will not be included in O & M expense for purposes of the CCM calculation.

**IT IS FURTHER ORDERED**, That in the event at the end of Applicant=s fiscal year Applicant=s Return on Equity is below the range authorized by the Commission, Applicant may charge against the ESR the full amount of any negative individual LCLI budget revenue variance that exceeds \$250,000.

**IT IS FURTHER ORDERED**, That Applicant may charge against the ESR the full amount of incremental extraordinary operating and maintenance expenses that result from either (I) a single force majeure event that results in more than \$200,000 of additional O & M expenses or (II) a combination of two such events that together result in more than \$200,000 of additional O & M expenses. Applicant will assign a work order number to each such force majeure event for the purpose of accumulating costs and to provide a basis for Commission review. At the end of the Applicant=s fiscal year, such work orders that qualify to be charged against the ESR will, at the Company=s election, be charged either to O & M or to the ESR. Any work order remaining open at the end of a fiscal year will be carried over to the next fiscal year.

**IT IS FURTHER ORDERED**, That within one month following the end of Applicant=s fiscal year, Applicant will provide a report to the Energy Division and the Attorney General that describes the charges made to the ESR during the previous fiscal year.

**IT IS FURTHER ORDERED**, That the Commission staff will monitor accruals to, and charges against, the ESR to assure compliance with this Order. At the end of Applicant=s 2000 fiscal year, the Commission and the Attorney General will review the operation and reserve levels of the ESR to determine whether any modifications need to be made at that time.

**IT IS FURTHER ORDERED**, That jurisdiction is hereby retained by the Commission for whatever order or orders deemed appropriate by the Commission.

**IT IS FURTHER ORDERED**, That this order is effective on the date hereof.

**DONE** at Montgomery, Alabama, this 6th day of October, 1998.

**ALABAMA PUBLIC SERVICE COMMISSION**

Jim Sullivan, President

Jan Cook, Associate Commissioner

Charles B. Martin, Associate Commissioner

**ATTEST:** A True Copy,

Walter L. Thomas, Jr., Secretary

**Press the Back Arrow to Return to the Search**

**Return to PSC Home - <http://www.psc.state.al.us/index.htm>**