

ISSUE DATE: SEPTEMBER 25, 1987

In the Matter of the Investigation of the Earnings Level of Northern Minnesota Utilities, Inc. Division of UtiliCorp United, Inc.

DOCKET NO. G-007/CI-87-108

In the Matter of the Stipulated Settlement Regarding the Rates of Northern Minnesota Utilities, Inc. Division of UtiliCorp United, Inc., Pursuant to Minn. Rules, Parts 7827.0100 to 7827.0600 Relating to Rate Adjustments Due to the Tax Reform Act of 1986

DOCKET NO. G-007/M-87-436

ORDER APPROVING STIPULATION

### PROCEDURAL HISTORY

On March 13, 1987, the Minnesota Public Utilities Commission (the Commission) issued its Order Requiring Information Disclosure and Filing to Northern Minnesota Utilities, Inc. division of UtiliCorp United, Inc.(NMU) In the Matter of the Investigation of the Earnings Level of Northern Minnesota Utilities, Docket No.

G-007/CI-87-108. That Order required NMU to file 1986 actual and weather-normalized returns on equity, projected 1987 return on equity, and supporting information. On April 23, 1987, NMU made its compliance filing.

On June 29, 1987, the Commission's permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. These rules state that on and after July 1, 1987, overall rates of public utilities are unjust and unreasonable unless their rates have been adjusted to account for the reduction in federal income tax expense as a result of the TRA or certain alternative conditions are fulfilled. One of the alternatives is that rates have been established under a stipulated settlement and a Commission decision approving the

tax rules was unlawful and that NMU was exempt in any case pursuant to Minn. Rules, part 7827.0300 because its earnings level was already being investigated in Docket No. G-007/CI-87-108.

On July 9, 1987, NMU, the Minnesota Department of Public Service (DPS), and the Residential Utilities Division of the Office of the Attorney General (RUD-AG) submitted their Stipulated Settlement Regarding Rates of Northern Minnesota Utilities for Commission approval. The parties intended that the Stipulation resolve NMU's obligations under both the tax rules and the earnings investigation.

On August 10, 1987, Commission staff sent interrogatories to the parties requesting additional information for evaluating the Stipulation. On August 21, 1987, NMU replied to the interrogatories.

### FINDINGS AND CONCLUSIONS

The issue for Commission consideration is whether the proposed Stipulation is in the public interest and ensures that NMU's rates are just and reasonable in light of the TRA and the Commission's earnings investigation.

The parties to the Stipulation proposed that the Commission:

1. Find that NMU's current rates are just and reasonable after July 1, 1987 and need not be adjusted for the TRA.
2. Find that NMU is exempt from reducing its rates pursuant to the formula in Minn. Rules, part 7827.0400, due to this Stipulation filed under Minn. Rules, part 7827.0300, item E.
3. Dismiss Docket Nos. G-007/M-87-436 and G-007/CI-87-108.
4. Approve NMU's agreement that it will not seek to implement interim rates prior to February 1, 1988.

In response to Commission staff interrogatories, NMU claimed that the Stipulation was in the public interest because NMU is currently underearning, so any reduction in rates would violate the statutory requirement that rates be just and reasonable and because savings from the TRA are offset by increases in other costs. The Company also claimed that if rates were reduced, NMU would have to file a general rate case and that ratepayers benefit by the agreement to delay any interim rate increase until at least February 1, 1988.

In another attachment to the Stipulation, NMU presented calculations showing that the effects of the TRA alone would increase its net operating income based on 1986 normalized data by \$230,000. However, adjustments to 1986 normalized results to account for increased costs reduced NMU's net operating income by \$272,000. These adjustments included increased property taxes, depreciation, insurance, and wages. Therefore, the parties found that NMU is underearning even after the TRA effects are considered.

In response to Commission Staff interrogatories, NMU stated that the financial data supporting its return on equity and TRA calculations have been reviewed by the parties and found to fairly represent the financial status of NMU. Therefore, the parties to the Stipulation found that no reduction in rates was required and the tax rule and earnings investigation dockets should be dismissed for NMU.

The Commission finds that the evidence presented in the Stipulation indicates that there are insufficient grounds for taking further action on the earnings investigation of NMU. The projected 1987 return on equity of 8.07% is below the 12.51% required return for 1986 estimated by the DPS and below what would likely be found to be its 1987 required return. The level of review of NMU's financial data in the Stipulation does not rise to that which would take place in a contested rate case proceeding; however, the Commission is persuaded that the available evidence supports a finding that NMU is not overearning at this time. Therefore, it would not be in the public interest to devote further resources to the investigation.

The Commission finds that the calculations of the effects of the TRA on NMU are reasonable and are consistent with methods found appropriate by the Commission in other recent tax dockets. Evidence presented in the Stipulation shows that the savings to NMU from the TRA based on normalized 1986 data is more than offset by known and measurable increases in operating costs based on normalized 1986 data. These calculations support a finding that NMU is unlikely to reap a windfall gain from tax savings resulting from the TRA at this time. Therefore, the Commission finds that NMU's present rates do not need to be adjusted for the effects of the TRA.

The Commission concludes that NMU's existing rates are just and reasonable after July 1, 1987 for purposes of Minn. Rules, parts 7827.0100 to 7827.0600, and that it is not necessary to reduce NMU's current rates for the effects of the TRA nor the results of the earnings level investigation. Therefore, the Commission finds that the Stipulation is in the public interest and will approve it.

### ORDER

1. The July 9, 1987 Stipulated Settlement Regarding Rates of Northern Minnesota Utilities is approved and fulfills NMU's

3. The Company's existing rates for natural gas service in Minnesota need not be changed as a result of the federal Tax Reform Act of 1986 nor the earnings investigation.
4. NMU shall not request authority to implement interim rates in a general rate case prior to February 1, 1988.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

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