

G-002/M-88-541 APPROVING OVERRUN SERVICE RIDER FOR LARGE INTERRUPTIBLE CUSTOMERS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of Northern States Power Company's Proposed Overrun Service Rider for Large Interruptible Customers on Flexible Commodity Charge Option and Proposed Revision to its Purchased Gas Adjustment Clause

ISSUE DATE: November 23, 1988

DOCKET NO. G-002/M-88-541

ORDER APPROVING OVERRUN SERVICE RIDER FOR LARGE INTERRUPTIBLE CUSTOMERS

PROCEDURAL HISTORY

On August 4, 1988 Northern States Power Company (NSP or the Company) filed a proposal to add an optional Overrun Service Rider to its Large Interruptible Service Flexible Commodity Charge. The rider was designed to allow Large Interruptible customers on the flexible tariff to avoid price-related curtailments by agreeing to pay the costs of procuring the higher-priced gas supplies necessary to serve them. Without the rider, these customers were being curtailed when the cost of securing enough gas to serve them would raise the Company's average price of gas.

The Department of Public Service (the Department) investigated the request and recommended denial on grounds that overrun service was cumbersome and unnecessary, that it sent false price signals, that it resulted in misallocation of gas costs, and that it could only be accomplished in a general rate case.

The Commission will approve the Overrun Service Rider for the reasons set forth below.

FINDINGS AND CONCLUSIONS

Overrun Service is Neither Superfluous Nor Unduly Cumbersome

The Department suggested that Overrun Service is unnecessary because the Company already has the tools necessary to prevent price-related curtailments in the form of Transportation Service and Limited Firm Service. This suggestion overlooks important differences between these three services.

Transportation Service requires that the customer, or someone acting on the customer's behalf, locate the gas supplies to be transported and arrange for transportation on one or more pipeline systems. Furthermore, Transportation Service requires daily attention to nominations and balancing of receipts and deliveries, which many customers find too intimidating.

Limited Firm Service enables a customer to contract for up to ten days of firm service during the year for a sizeable fee and firm gas prices. It does not address the situation where both capacity and gas supplies are available, but the final increment of gas supply is priced above the average gas cost. Clearly, these two services do not provide customer benefits identical to those of Overrun Service.

Furthermore, the Company reports that it was its Large Interruptible customers who suggested that the Company offer Overrun Service. These customers clearly believe that Overrun Service would enhance, not duplicate, the customer choices offered by NSP.

Similarly, the Commission does not agree that Overrun Service would be unduly cumbersome to operate. The Company and potential customers consider it workable, and they are the ones who would be responsible for day to day operation. The Department did not allege that the service would strain the Company's administrative capacity or present particular problems in terms of regulatory oversight. Under these circumstances, the Commission will not deny the proposal as too cumbersome.

Overrun Service Would Not Substantially Misallocate Gas Costs or Seriously Mislead Customers About the Cost of Gas

The Department also cautions that, because Overrun Service customers would bear the entire cost of obtaining higher priced gas supplies during overrun periods, and since some of these supplies might have to be used by the Company to fulfill its obligation to firm customers, overrun customers would occasionally pay more than their share of gas costs. This would result in some misallocation of the cost of gas and would send some inappropriate price signals.

The Commission agrees that these would be effects of allowing Overrun Service and that they would be unavoidable. It is important to note, however, that the extent of cost misallocation and inappropriate price signals would be minuscule, that these things would occur infrequently, and that the customers adversely affected would have freely assumed this burden. Indeed, the Large Volume

Interruptible customers using this service would be paying the "economically efficient" marginal cost of gas. It is also important to note that, despite best efforts, equitable cost allocation and accurate price signals cannot be determined with absolute precision.

The Commission concludes that cost allocation and price signal difficulties do not justify denying this proposal.

Overrun Service Can be Offered Without Initiating a General Rate Case

The Department also raised the issue of whether the Company could offer Overrun Service without initiating a general rate case. The basis for this concern was the flexible tariff statute's prohibition against approving flexible tariffs affecting other rates, or changing flexible rates, outside of a general rate case. Minn. Stat. Section 216B.163, subd. 3 (1986).

The Commission appreciates the Department's attention to detail but does not read the law so narrowly as to require rejection of this filing. As the Department acknowledged, no customer's rates could or would increase because of approval of Overrun Service. It is possible that occasionally there would be a de minimus decrease in rates through the purchase gas mechanism. This would occur because of the misallocation of gas costs discussed earlier. Such a decrease, however, would not conflict with the clear purpose and meaning of the statute, which is to prevent companies from recovering from captive customers margins lost by selling below cost to flexible tariff customers.

Benefits of Overrun Service

Besides benefitting Large Interruptible customers who requested this service, Overrun Service will provide benefits to firm customers as well. It will earn a margin, increasing general revenues and helping to provide rate stability for all customer classes. It will increase NSP's visibility, market share, and market power in the spot market, the overrun market, and Northern Natural Gas Pipeline's IT-1 transportation market. This will enhance the Company's ability to secure supplies at the best prices for its firm customers and reduce dependence on peak shaving. The service will also enable the Company to serve firm customers with gas cheaper than peak shaving gas on certain days.

The Commission will therefore approve the Company's proposal to offer an Overrun Service Rider to Large Interruptible customers on the flexible tariff.

ORDER

1. Northern States Power Company's proposal to add an Overrun Service Rider to its Large Interruptible Service Flexible Commodity Charge is approved.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)