

G-011/AT-88-457 APPROVING CONTRACT

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 Peoples Natural Gas Company's Request for Commission Approval of a Contract with EnerGroup, Inc., an Affiliated Company

ISSUE DATE: January 24, 1989

DOCKET NO. G-011/AT-88-457

ORDER APPROVING CONTRACT

PROCEDURAL HISTORY

On July 5, 1988 Peoples Natural Gas Company (Peoples or the Company) filed a petition under Minn. Stat. § 216B.48 (1988) and Minn. Rules, part 7825.2200 B., for approval of a contract to purchase computer engineering services from an affiliated company, EnerGroup, Inc.

The Department of Public Service (the Department) examined the petition, secured further information from the Company, and recommended approval of the contract.

FINDINGS AND CONCLUSIONS

Transactions between public utilities and affiliated interests are governed by Minn. Stat. § 216B.48 (1988) and Minn. Rules, part 7825.2200 B. All such transactions, with the exception of those involving amounts under \$10,000 or 5% of the utility's capital equity, require Commission approval. The burden of proof is on the utility to establish that the contract is reasonable and consistent with the public interest.

A petition for approval must normally include documentation of the cost of providing the goods or services which are the subject of the contract. It must also include a copy of the proposed contract, a list and narrative description of all outstanding contracts between the utility and the affiliated interest, an explanation of why the contract is in the public interest, a description of any competitive bidding process used in awarding the contract, and an explanation of any decision not to use competitive bidding.

The Commission finds that the contract between Peoples and EnerGroup is reasonable, consistent

with the public interest, and should be approved. The computer engineering services which are the subject of the contract are necessary to ensure the safe and efficient operation of Peoples' Rochester distribution system. The \$50,000 purchase price is reasonable for the services provided, and is comparable to the prices paid by other utilities for similar services.

Peoples did not submit documentation of the costs EnerGroup will incur to provide the services, but the Commission determines such documentation is not necessary, given the amount of money involved and the similarity between this contract price and the prices paid by other utilities for similar services.

Peoples did not use a competitive bidding process to award this contract, because the Company believed EnerGroup was the only firm which could provide the necessary services at reasonable cost. Peoples already uses computer software developed by EnerGroup to evaluate its distribution systems. Using a different firm for this engineering project would require the Company to purchase new software and to retrain its engineers in the use of the new software. This would involve unnecessary additional expense. The Commission agrees that competitive bidding is unnecessary under these circumstances.

Finally, the Commission notes that EnerGroup has already begun providing services under this contract. This is contrary to the affiliated interests statute, which provides as follows:

No contract or arrangement providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial or similar services, and no contract or arrangement for the purchase, sale, lease or exchange of any property, right, or thing, or for the furnishing of any service, property, right, or thing, other than those above enumerated, made or entered into after January 1, 1975 between a public utility and any affiliated interest as defined in Laws 1974, chapter 429, shall be valid or effective unless and until the contract or arrangement has received the written approval of the commission.

Minn. Stat. § 216B.48, subd. 3 (1988).

The Commission admonishes the Company to exercise more care in the execution of contracts with affiliated interests in the future.

The approval granted herein does not preclude the disallowance of this contract expense in a ratemaking proceeding, should it subsequently appear that the contract was in fact unreasonable. Minn. Stat. § 216B.48, subd. 6 (1988).

ORDER

1. The contract between Peoples Natural Gas Company and EnerGroup, Inc., filed for approval on July 5, 1988, is approved.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

(S E A L)