

G-001/GR-90-700 ORDER SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Patrice M. Vick	Commissioner

In the Matter of the Application of Interstate Power Company for Authority to Increase its Rates for Natural Gas Service in the State of Minnesota	ISSUE DATE: DECEMBER 31, 1990 DOCKET NO. G-001/GR-90-700 ORDER SETTING INTERIM RATES
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**PROCEDURAL HISTORY**

On September 28, 1990, Interstate Power Company (Interstate or the Company) filed a petition seeking a general rate increase of \$688,142, or 8.50%, for natural gas service. Along with the rate increase petition, the Company filed a proposed interim rate schedule, to be effective December 1, 1990. The interim rate request, if allowed, would increase present revenues by \$665,085, or 8.19%.

On October 29, 1990, the Commission issued its ORDER REJECTING FILING AS INCOMPLETE in the current docket. In that Order, the Commission rejected the Company's filing because Interstate had failed to include a jurisdictional class cost of service study (CCOSS), a requirement from the Company's last general gas rate case. The Commission stated that Interstate's petition for a rate increase would be considered filed when an adequate CCOSS was received.

The Company filed its CCOSS and supporting testimony on November 13, 1990. On December 10, 1990, the Commission issued its ORDER AND NOTICE FOR HEARING, in which the Commission referred the general rate case to the Office of Administrative Hearings for contested case proceedings.

The Commission also issued its ORDER ACCEPTING FILING AND SUSPENDING RATES on December 10, 1990. In that Order the Commission confirmed that the Company's rate case was deemed filed as of November 13, 1990. Under Minn. Stat. § 216B.16, subd. 3 (1988) if rates are suspended the Commission must set an interim rate schedule within 60 days of the Company's rate petition filing date.

The Company's proposed interim rates came before the Commission for consideration on December 18, 1990.

## FINDINGS AND CONCLUSIONS

### The Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3 (1988) states in part as follows:

\*\*\*\*\* Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design \*\*\*\*\*

### The Company's Last Rate Case

Interstate is one of the two combination gas/electric utilities regulated by the Commission. The Company's most recent utility rate case was its 1986 electric rate case, Docket No. E-001/GR-86-384 (the 1986 Case). The Company's most recent gas utility rate case was Docket No. G-001/GR-85-189 (the 1985 Case), which was prior in time to the electric case.

In its present filing, the Company has in several instances used the 1986 rate case as "the utility's most recent rate proceeding" pursuant to the interim rates statute. Interstate has designated various financial filings as the "the same in nature and kind" as filings from the 1986 electric case. The Company has also proposed an interim rate of return on common equity which is based on the return authorized in the electric utility rate proceeding.

The Commission finds that the Company should use its most recent gas rate proceeding as "the utility's most recent rate proceeding" under the interim rate statute. As the Commission stated when faced with this question in a prior Interstate filing:

Interstate's proposal would require that the Commission utilize some cost elements from the most recent electric rate case proceeding and other cost elements from the most recent gas rate proceeding. The Commission believes it is more reasonable to assume that the law envisions "the

utility's most recent rate proceeding" as the single proceeding during which all relevant cost items (e.g. cost of equity, rate base and expense items the same in nature and kind) were determined by the Commission. The Commission also believes it is reasonable to assume that "the utility" refers to a particular type of utility service, either natural gas or electricity.

In the Matter of the Proposed Petition of Interstate Power Company for Authority to Increase Rates for Gas Utility Service in Minnesota, Docket No. G-001/GR-85-189, ORDER SETTING INTERIM RATES, (May 23, 1985).

The Commission finds that the same interpretation of the term "most recent rate proceeding" should be applied in the present case. Although Interstate's last gas rate proceeding is not its most recent rate proceeding, it will provide the most relevant comparison of financial and operating risks, capital costs, and other factors. The Commission will compare the elements of the Company's last gas rate proceeding, the 1985 Case, when assessing this interim rate filing.

### The Company Proposal

Interstate proposed an interim rate increase of \$665,085, based on the following financial summary:

Rate Base	\$3,574,654
Rate of Return	9.9%
Required Operating Income	353,891
Operating Income (Loss)	(42,040)
Income Deficiency	395,931
Revenue Conversion Factor	1.6798
Revenue Deficiency	\$ 665,085

### Rate Base and Expense Issues

#### Rate Base

Unamortized Rate Case Expenses The Company proposed total rate case expenses of \$115,477, to be amortized over three years beginning with the test year. The Company proposed a 13 month average unamortized balance of \$96,229 which would be included in the proposed rate base. According to the Company, regulatory expenses were included in the 1985 Case but rate case expenses were not specifically identified.

Minn. Stat. § 216B.16, subd. 3 provides that rate base or expense items must be the same in nature and kind as those allowed in the utility's most recent rate proceeding. The Commission finds that it is appropriate to include rate case expenses in the present filing because they are regulatory expenses which were allowed as

a 1985 Case expense item. The Commission will require a five year amortization period rather than the proposed three year plan, because the five year period would be consistent with the timing of the Company's prior two gas rate proceedings. The Commission will also require that the average unamortized balance for the five year period or one half of the projected rate case expenses be included in rate base, rather than the Company's proposed 13 month average unamortized balance. This will result in a more equitable recovery for ratepayers and the Company.

Retirement Work in Progress This item represents the expense of removal of assets that are being retired. According to Interstate, the Company spent \$5,923 in this category in 1989. Although this item was not specifically designated in the 1985 Case, it was probably included under net plant and equipment. The Commission therefore finds that this item is the same in nature and kind for the purposes of the interim rate statute.

Customer Deposits The Company proposed a debit of (\$19,814) for this item because it was the same in nature and kind as the same category included in the 1986 Case, Interstate's most recent electric rate proceeding. Customer deposits were not included in rate base in the 1985 Case.

While the Commission does not agree with the Company's comparison with its last electric rate proceeding, the Commission finds that exigent circumstances allow inclusion of this item. Disallowing customer deposits would result in an inflated rate base, which would in effect allow the Company's shareholders to earn a "return" on these deposits. Minn. Stat. § 216B.16, subd. 6 requires the Commission when determining rate base to give consideration to "offsets in the nature of capital provided by sources other than the investors", a category which would include customer deposits. For these reasons, the Commission finds exigent circumstances which call for inclusion of customer deposits in rate base as proposed in the Company's interim rate filing.

Minimum Bank Balances The Company proposed \$12,344 in minimum bank balances to be included as a subcategory of working capital. The category of minimum bank balances was not included in the Company's 1985 Case, but was included in the Company's last electric rate proceeding, the 1986 Case. The Company based the inclusion of minimum bank balances on the fact that they had appeared in the Company's last rate proceeding, the 1986 Case.

While the Commission disagrees with the Company's reasoning behind the inclusion of this item, the Commission will allow its inclusion. The Commission finds that minimum bank balances are a customary cost of doing business and a common component of cash working capital. Since the Company was allowed an amount for cash working capital in the 1985 Case, this expense is "the same

in nature and kind" for purposes of the interim rates statute.

### Interim Rate of Return

#### The Company's Proposal

Interstate proposed the following capital structure and cost rates for interim rates:

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	46.25%	7.91%	3.66%
Short Term Debt	0.51%	8.75%	0.04%
Preferred Stock	9.56%	8.09%	0.77%
Common Equity	43.68%	12.43%	5.43%
Total	100.00%		9.90%

In the 1985 Case, the last general rate case for Interstate's gas utility, the Commission allowed the following capital structure and cost rates:

Long Term Debt	48.83%	7.60%	3.71%
Preferred Stock	12.30%	8.59%	1.06%
Common Equity	38.87%	14.28%	5.55%
Total	100.00%		10.32%

For final rates, Interstate proposed a return on common equity of 13.30% and an overall rate of return of 10.28%.

#### Rate of Return on Common Equity

Interstate proposed an interim rate of return on common equity of 12.43%, which is the return on equity authorized in the Company's most recent electric rate case, the 1986 Case. For reasons discussed above, the Commission finds that the Company's most recent gas rate filing, the 1985 Case, should be considered the Company's "last rate proceeding" for purposes of the interim rate statute.

Interstate's proposed rate of return on common stock, 12.43%, is lower than the 14.28% approved in the 1985 Case. Minn. Stat. § 216B.16, subd. 3 requires an interim rate of return on common equity equal to that authorized in the last general rate proceeding, unless exigent circumstances exist.

Minn. Stat. § 216B.16, subd. 3 was enacted in 1984, an inflationary time when utilities were requesting greatly increased returns on equity. The statute was meant to reduce the effects of these increases and to minimize overcollections by holding utilities to previous levels during the interim rate

period.

In the 1986 Case, the Commission made a finding of exigent circumstances when the Company requested an interim rate of return on common equity which was lower than the rate approved in the utility's most recent rate proceeding:

The Commission concludes that it is reasonable to calculate interim rates using a return on equity different from that allowed in Interstate's most recent electric rate proceeding. To minimize the likely overcollection by the Company during the interim period and to fulfill the intent of the statute, immediate action to reduce interim rates is necessary. This is accomplished by using the lower rate of return on common equity \*\*\*\*\* to calculate interim rates  
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In the Matter of the Application of Interstate Power Company for Authority to Increase its Rates for Electric Service in Minnesota, Docket No. E-001/GR-86-384, ORDER SETTING INTERIM RATES (August 28, 1986).

In the present case, as in the 1986 Case, the Company has requested a lower return on equity than allowed in its last rate case. The danger of overcollection here lies in the fact that the Commission will likely approve a final return on equity lower than that set in the last rate case. The statutory goal of avoiding overcollection would best be served by allowing the lower interim rate. The Commission finds exigent circumstances which justify an interim rate of return lower than that of the last general rate case. The Commission will set the interim rate of return on common equity at 13.30%, the Company's requested final return on equity.

#### Capital Structure

Minn. Stat. § 216B.16, subd. 3 provides that the utility's proposed test year cost of capital will be used in setting interim rates, unless exigent circumstances require a change. In this case, there are no exigent circumstances which would preclude use of the test year capital structure. The Commission finds that the test year capital structure should be used in calculating interim rates.

Based on the capital structure and rate of return on common equity as discussed above, the Company's approved interim rate of return will be calculated as follows:

<u>Type of Capital</u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
Long Term Debt	46.25%	7.91%	3.66%
Short Term Debt	0.51%	8.75%	0.04%
Preferred Stock	9.56%	8.09%	0.77%
Common Equity	43.68%	13.30%	5.81%
Total	100.00%		10.28%

### Rate Design

Interstate proposed an interim increase of \$665,085, or 8.19%. This would come from an 8.2858% increase (\$588,894) from the General Service (Firm) class and an 8.2881% increase (\$76,061) from the Interruptible Service (Non-Flex) class. No increase was proposed for the Interruptible (Flex) customers. Interstate revenues already reflected the downward flex from the Interruptible Flex class. The Company apparently judged that it could not raise any further revenues from this class and therefore apportioned the increases between the other two classes.

Minn. Stat. § 216B.16, subd. 3 provides that an interim rate schedule shall include no change in the existing rate design, unless exigent circumstances exist. The Interstate proposal would constitute a change in the existing rate design, because the classes are assigned disproportionate shares of the increased revenue requirement. The Commission does not find that exigent circumstances exist which would allow this change in rate design.

The Commission will instead require the Company to apply an 8.19% revenue increase to each of the three customer classes. This will be consistent with the Company's current rate design as established in its last rate case. The 8.19% will be applied to the \$93,815 which the Interruptible Flex group paid in the 1989 test year after the flex discount was applied. Although the imputed flex group increase may not be collectible because of flex rate contracts, the resulting overall rate design is fair to the three classes and follows statutory standards.

### Commission Action

Based on the findings and conclusions above, the Commission will authorize an interim revenue increase of \$664,300, or 8.18% of revenues under current rates, as shown below:

Rate Base	\$3,527,140
Rate of Return	10.28%
Required Operating Income	\$ 362,590
Operating Income (Loss)	32,874
Income Deficiency	395,464
Revenue Conversion Factor	1.6798
Revenue Deficiency	<b>\$ 664,300</b>

The interim rate schedule will be effective on January 1, 1991. Interim rates are collected subject to refund in the event the interim rate level exceeds the final rate level allowed in the general rate case. Minn. Stat. § 216B.16, subd. 3 (1988).

Finally, the Commission reminds Interstate of the necessity of reading previous Commission Orders regarding this and prior rate proceedings. Needless duplication of effort can often be prevented if the Company reviews past Commission treatment of the rate proceeding issues.

### ORDER

1. Interstate Power Company is authorized to collect \$664,300 in additional annual revenues, or 8.18% of revenues under current rates. The interim rate schedule will be effective on January 1, 1991.
2. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein.
3. The Company shall keep such records of sales and collections under interim rates as will be necessary to compute a potential refund. Any refund shall be made within 120 days of the effective date of the Commission's final Order in a manner approved by the Commission.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster  
Executive Secretary

(S E A L)