

G-007/PA-92-348 ORDER GRANTING APPROVAL OF ACQUISITION AND OF
INCREASE IN ENTITLEMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner
Norma McKanna	Commissioner

In the Matter of a Petition by
Northern Minnesota Utilities for
Approval of a Proposed
Acquisition of Natural Gas
Distribution Facilities from the
City of Warroad, Minnesota and
of an Increase in Demand Units

ISSUE DATE: July 20, 1992

DOCKET NO. G-007/PA-92-348

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ENTITLEMENTS

PROCEDURAL HISTORY

On May 1, 1992, Northern Minnesota Utilities (NMU or the Company) filed a petition requesting Commission approval of a proposed acquisition of the natural gas distribution system belonging to the City of Warroad, Minnesota. The petition also sought an increase in demand unit entitlements. The petition was supplemented on May 8 and June 10 and 12, 1992.

On June 24, 1992, the Department of Public Service (the Department) filed a report recommending approval of both the proposed acquisition and the increase in entitlements.

The matter came before the Commission for consideration on July 16, 1992.

FINDINGS AND CONCLUSIONS

I. The Proposed Acquisition

The Purchase and Sale

On April 13, 1992, NMU and the City of Warroad (Warroad or the City) entered into a purchase agreement for the purchase and sale of the City's entire gas system. For the consideration of \$450,000 cash, Warroad agreed to transfer all of its system, including pipelines, supplies, contracts, and permits and easements. The transfer would result in NMU's assumption of Warroad's 1,000 Mcf of capacity on Centra-Pipelines, the City's

sole transporter of gas. The \$82,789 paid by NMU over Warroad's original cost, net of depreciation, was referred to by the parties as an acquisition adjustment. NMU stated in its petition that the Company would not seek rate recovery or adjustment for this acquisition cost.

The Warroad city council granted NMU a 25-year franchise to maintain and operate a gas distribution system in the City.

Commission Jurisdiction

Minn. Stat. § 216B.50 requires that public utilities must seek Commission authority in order to transfer utility plant for consideration in excess of \$100,000 or to merge with another utility. The parties are thus properly before the Commission seeking approval of the acquisition. The statute requires that the Commission find the transfer or merger "consistent with the public interest" in order to approve it.

Analysis of the Acquisition

In its report, the Department examined the details of the purchase and sale and the projected financial impact of the transfer. Based upon its examination, the Department recommended that the Commission find the acquisition consistent with the public interest.

According to the Department's analysis, NMU's capital structure would remain comparable to other gas distribution companies after the acquisition. The Department also reported that NMU's purchase of Warroad's utility system would not increase the overall financial risk for NMU.

When it decided to sell its gas distribution system, Warroad solicited bids from all Minnesota utilities. Although NMU was the only utility to submit a bid, the bidding process was open and held at arms' length. According to the Department's analysis, NMU's cash payment of \$450,000 for Warroad's facility was reasonable.

The Department examined the acquisition's potential impact on rates for NMU and Warroad ratepayers. The Department estimated that the acquisition would lower Warroad's current rates and would result in a drop of approximately 23 percent in annual charges for firm customers. Savings to Warroad residential ratepayers would be approximately \$195.21 annually based on usage of 115 Mcf; commercial ratepayers would realize savings of approximately \$436.90 annually based on usage of 350 Mcf. The Department reported that the estimated impact on NMU's customers would be small. Since the net effect of the acquisition would be less than 3 cents per Mcf, the transfer would not trigger a change in NMU's Purchased Gas Adjustment.

The Department also examined the impact of the acquisition on the reliability of service to NMU and Warroad customers. The Department discovered that the additional 1,000 Mcf capacity gained for NMU would bring that utility in line with industry reserve averages. NMU also indicated that it would increase the service representative staffing for the Warroad system from a part-time position to a full-time position, with additional backup available from surrounding cities. The Department believed that the additional staffing would help to ensure system reliability and continued adherence to safety standards.

Commission Decision

The Commission finds that NMU's proposed acquisition of Warroad's natural gas facility is consistent with the public interest. This finding is based upon the projected impact of the acquisition on Warroad's and NMU's rates, service, system reliability, and financial risk. The Commission notes particularly NMU's statement that it will not seek rate recovery or adjustment for the portion of the purchase price which constitutes an acquisition adjustment. The Commission will approve the acquisition. There is nothing under the Commission's statutes or rules which will prohibit the projected closing of this transaction on July 20, 1992.

II. The Increase in Demand Entitlements

Under the purchase agreement, NMU will assume Warroad's 1,000 Mcf of capacity on Centra-Pipelines, Warroad's transporter of gas. In its petition, NMU filed for approval of an increase in demand entitlements, pursuant to Minn. Rules, part 7825.2910, subpart 2.

The Commission has found that the transfer of Warroad's gas facility to NMU is consistent with the public interest. The increase in NMU's demand entitlements is an integral part of that transfer. The Commission finds that NMU's filing is sufficient under the rules and the increase is appropriate. The Commission will approve NMU's proposed increase in demand entitlements.

ORDER

1. The Commission approves the acquisition of Warroad's gas distribution system by Northern Minnesota Utilities.
2. Within 30 days of the date of closing of the Warroad/NMU transfer, NMU shall file its final accounting entries and copies of executed agreements, with underlying documents, for the purchase transaction.

3. NMU's proposed increase of 1,000 Mcf in demand entitlements is approved.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)