G-010/M-92-785 ORDER APPROVING TARIFF WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of a Request by Midwest Gas Company for Approval of a New Town Rate Surcharge and a Request for Variance

ISSUE DATE: November 10, 1992

DOCKET NO. G-010/M-92-785

ORDER APPROVING TARIFF WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS

PROCEDURAL HISTORY

On July 17, 1992, Midwest Gas Company (Midwest or the Company) filed a proposal for approval of a service expansion tariff called a New Town Rate. The Company also requested a variance from Minn. Rules, Part 7825.3200 to allow the proposed tariff to go into effect on less than 90 days notice.

On September 30, 1992, the Department of Public Service (the Department) filed comments in favor of approval of the proposed tariff with certain modifications.

The matter came before the Commission on October 22, 1992.

FINDINGS AND CONCLUSIONS

The Company's Proposed New Town Rate

Midwest's proposed New Town Rate is a surcharge meant to cover the costs of extending service to communities which have not previously had natural gas available. The tariff would allow Midwest to include a fixed monthly surcharge on customers' bills in areas in which service extension would not be economically justified, without adversely affecting current customers.

Midwest's initial project, which it used as an example in its proposal, would be a service extension to 225 residential customers and 40 small commercial customers in Eden Valley, Minnesota. Under the proposal, the Company would place a surcharge of $8.00 per month for each residential or commercial customer involved in the service extension. Midwest proposed that future projects would have their own unique surcharges calculated for them.

Midwest proposed a revenue deficiency formula to determine the length of time for which the surcharge would be assessed. The formula would take into account all of the estimated up-front costs of piping the new area, the forecasted revenue from the new area, and the additional non-gas expenses associated with providing service to the new customers. The Company proposed a 30 year time period to evaluate these factors.

Midwest's revenue deficiency formula would determine an annual revenue deficiency (or surplus) for each year of the project's projected 30 year service life. The annual numbers would be discounted to the present to come up with a net present value for the project's revenue deficiency. This would be the contribution-in-aid-of-construction (CIAC) that the Company would recover through the monthly customer surcharge. The Company proposed its last approved rate of return, with an adjustment to account for income tax treatment of CIACs, for the discount rate.

Midwest would file an analysis of each new extension project undertaken under the tariff. The Company also would submit an annual report summarizing the status of each of its areas operating under the New Town Rate.

Comments of the Department

The Department stated that approval of Midwest's proposed New Town Rate would allow the benefits of natural gas service to be extended to communities which could not otherwise feasibly be served. The Department recommended approval of Midwest's proposed New Town Rate, with the following modifications and clarifications:

1. The monthly surcharge should be reflective of the customer charges of each class rather than be equal for all customer classes as originally proposed by the Company;

(In a letter dated August 28, 1992, the Company responded by filing a revised proposed tariff sheet No. 54A that broke the surcharges down by customer class.)

2. Language should be added to the tariff specifying that the surcharge should be treated as CIAC for accounting purposes;

3. The monthly surcharge should be the same for each project, rather than differ by project as proposed by the Company;

4. Once the recovery period is determined, the period may be shortened but not extended;

5. The definition of Depreciation Reserve should be amended;

6. The New Town Rate tariff should be modified after the final rate Order in any future rate case;

7. Midwest should file its annual report by March 1 of each year.

The Company stated that it agreed with all of the Department's modifications.

Commission Analysis

The Commission finds that Midwest's basic proposal for a service extension tariff is reasonable and appropriate. The use of a New Town Rate such as that proposed by Midwest can be an important means of expanding natural gas service to outlying Minnesota communities. New Town Rate surcharges can promote service expansion without subsidization of less profitable routes by existing customers or shareholders.

The Commission agrees in most part with the modifications of the Department. In some cases, however, the Commission will clarify the Department's additions further. The Commission will also add six other modifications to the Company's proposal.

The modifications to Midwest's New Town Rate tariff will be required by the Commission as follows:

1. Base the surcharge on the revised rates filed in the Company's August 28 letter, to be listed on tariff sheet 54A for both Northern and Viking. (Firm General Service, $8.00/mo.; Medium Firm General Service, $57.00/mo.; Small Volume Interruptible Service, $57.00/mo.; Large Volume Interruptible Service, $228.00/mo.).

2. As proposed in the Company's August 28 letter, modify proposed tariff sheet No. 54A by adding the following language for both Northern and Viking:

   "The net present value of surcharges will be treated as contribution-in-aid-of-construction for accounting purposes."

3. Modify the proposed tariff sheets No. 29A and 45A by adding the following language to subpart 6:

   "The term of service under this schedule shall vary from area to area, as established by the methodology described on sheet 29B and 45B. However, under no circumstances shall the term exceed 15 years."

4. Modify the proposed tariff sheets No. 29A and 45A by adding a subpart 7 using the following language:

   "<u>Expiration</u>: The surcharge for customers in the area subject to the New Town Rate shall terminate on the date approved by the Commission or on the date on which the approved revenue deficiency has been retired, whichever occurs first."

5. Modify the Company's proposed definition of <u>Depreciation Reserve</u> in the revenue requirements formula to read:

   "...the sum of the Book Depreciation for the current year plus all previous years."

6. Require that the New Town Rate Surcharge Tariff be modified after the Commission issues a final Order in any future rate case.

7. Require that Midwest file by March 1 of each year a report regarding activities of the New Town Rate projects for the previous year. This report would be used by the Commission to review progress on amortization of the deficiency for previously approved projects, and by the Company to submit for Commission approval the proposed termination dates for New Town projects begun since the last annual report.

   The March 1 filing date will coincide with similar filings by other gas utilities, thus facilitating Department and Commission review and comparison of those reports.

8. Include on the tariff sheets for both Northern Natural Gas and Viking Transmission System the following language:

   <u>Methodology</u> - Midwest Gas shall use the following methodology to determine the net present value of the revenue deficiencies and surplus and the term of the surcharge for any area.

   Midwest will evaluate all projects in the following manner:

   > All New Town projects will be evaluated using a 30 year service life. Midwest Gas will estimate the cost by year of extending service to each area. The costs shall include pipeline taps, pressure regulating stations, measurement and instrumentation, lateral line extensions, distribution main extensions, customer meters and customer service lines under 85 feet. (Customer service lines over 85 feet shall be paid for by the customer as described in Section No. 3.2 of the general terms and conditions of the tariff.)

Should a second area be served using piping originally part of the surcharged area, the two projects will be combined if it is to the benefit of the ratepayers in the original area. If it is not to the benefit of the ratepayers in the first area, then separate surcharges shall be established.

All terms underlined shall have the meanings defined below. These definitions apply to this section only, and do not have any meaning outside of this section.

All the definitions and descriptions included in Section V, pages 1-4 of Midwest's filing would follow the above paragraph. The definitions and descriptions included should be modified as recommended by the Staff and the Department.

9. Clarify the definition of Volumes by adding the following language:

   "The calculation is column 2 multiplied by the average annual usage per residential customer plus column 3 multiplied by the average annual usage for commercial customers."

10. Clarify the definition of O & M Expenses by adding the following language:

   "The calculation is the average of the number of customers at the end of the previous year and the end of the current year multiplied by $41.45."

11. Modify the definition of Margin Existing Rates as follows to correspond with the Company's model:

   "...the existing commodity margin ($1.1252 per Mcf for GS) multiplied by the average of the volumes for the previous year and the current year..."

12. The Company shall list each expansion project separately on proposed tariff sheet No. 54A with the projected expiration date as determined by the proposed methodology. Until the expiration date is approved by the Commission, the expiration date should be footnoted with the following explanation: "This date represents Midwest's estimate and has not been approved by the Minnesota Public Utilities Commission."

With these modifications and clarifications, the proposed New Town Rate tariff will be appropriate and acceptable.

The Requested Variance

In its July 17, 1992 filing, Midwest requested a variance from Minn. Rules, Part 7825.3200 to allow the Company to implement the New Town Rate tariff on less than 90 days notice. Minn. Rules, Part 7825.3200 requires a utility filing for a change in rates to serve notice on the Commission at least 90 days prior to the proposed effective date of the modified rates.

Requests for variances are governed by Minn. Rules, Part 7830.4400. Under that rule, the Commission must grant a requested variance to one of its rules if the following factors are met:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.

In this case, requiring 90 days notice before the proposed New Town Rate went into effect would mean that Midwest would be unable to begin its proposed service expansion project in this construction season. This would be an excessive burden upon the Company and upon the parties who are awaiting service.

2. Granting of the variance would not adversely affect the public interest.

Allowing the Company to begin construction on service expansion projects would have a positive effect on customers who wish to have the option of gas service available to them. No party would be harmed by the reduction of the notice period.

3. Granting of the variance would not conflict with standards of law.

A shortened notice period would not conflict with legal standards.

Midwest's request for a variance fulfills the requirements of Minn. Rules, Part 7830.4400. The Commission will grant the Company a variance to Minn. Rules, Part 7825.3200 to allow the Company to put the New Town Rate tariff into effect upon the issuance of this Order.

ORDER

1. Midwest's New Town Rate tariff filed July 17, 1992 is approved with the 12 modifications and clarifications discussed in this Order.

2. On or before 30 days from the date of this Order, the Company shall file a revised copy of its New Town Rate tariff which demonstrates compliance with the requirements of this Order.

3. The Company is granted a variance from Minn. Rules, Part 7825.3200 to allow the New Town Rate tariff to go into effect upon the issuance of this Order.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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