

E-001/GR-91-605 ORDER APPROVING COMPLIANCE RATES AND SHORTFALL
RECOVERY PLAN AND REQUIRING ADDITIONAL INFORMATION

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 the Application of Interstate Power Company for Authority to Increase Its Rates for Electric Service in the State of Minnesota

ISSUE DATE: December 8, 1992

DOCKET NO. E-001/GR-91-605

ORDER APPROVING COMPLIANCE RATES AND SHORTFALL RECOVERY PLAN AND REQUIRING ADDITIONAL INFORMATION

PROCEDURAL HISTORY

On October 19, 1992, the Commission issued its ORDER AFTER RECONSIDERATION in this matter. In this Order the Commission directed Interstate Power Company (Interstate or the Company) to file new rate schedules reflecting the ordered revenue requirement and rate design decisions, rate case expense documentation, a proposal for the new Space Heating Rate, further information on its kilovoltamperes-reactive (KVAR) charge for Large Power and Lighting (LPL) customers and, if the Company felt it was necessary, a proposal for collecting the difference between interim and final rates from the date of the final determination until the implementation of final rates.

On October 29, 1992, Interstate submitted its compliance filing and served copies on all parties to this proceeding.

On November 13, 1992, the Minnesota Department of Public Service (the Department) filed comments indicating that the Company had fully complied with the Commission's Order but that it (the Department) did not support all aspects of the Company's proposed plan to recover revenue shortfall amounts.

On November 23, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. Proposed Final Rates

Upon review, the Commission finds that Interstate has proposed final rates, including the new Winter Space Heat rate, that correctly implement the Commission approved rate level and structure changes for all major service schedules.

B. Plan to Collect the Revenue Shortfall

Minn. Stat. § 216.16, subd. 3 (1990) authorizes the Commission to prescribe a method by which the utility will recover the difference in revenues from the date of the final determination to the date the new rate schedules are put into effect. In its October 19, 1992 ORDER AFTER RECONSIDERATION, the Commission directed Interstate to propose a plan for such a recovery.

In its October 29, 1992 compliance filing, Interstate calculated the amount to be recovered starting with the Commission's June 12, 1992 ORDER AFTER RECONSIDERATION and ending on the proposed effective date of the new rates, December 1992. The Company proposed to recover this amount (approximately \$312,000) by adjusting its proposed final rates upward by 1.5 percent and maintaining these adjusted final rates in effect for a period of six months, through May 1993. Beginning with the July 1993 billing, rates would recede to the approved final rate level. In addition, the Company proposed that following the six month shortfall recovery period, it would calculate any over- or under-recovery of the shortfall amount and reconcile or true-up any such amount through the fuel clause adjustment factor.

The Company has calculated the shortfall amount using the proper time period. According to the statute, the shortfall period begins with "the final determination". In this case, that term refers to the FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER issued June 12, 1992. While a determination may become "final" for purposes of appeal (judicial review) after reconsideration of the Order and never before, the Commission finds that in the context of Minn. Stat. § 216.16, subd. 3 (1990), the "final determination" referred to is not the Order that is subject to appeal but to the Order that terminates the interim rate period, i.e. the Commission's FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER.

The Company's proposal to recover the shortfall amount (approximately \$312,000) by adjusting the approved final rates upward by 1.5 percent effective with December 1992 billing and charging such adjusted final rates through May 1993, a period of six months, is reasonable and the Commission will approve it.

The Company's proposal to use the fuel adjustment clause to adjust any difference between the actual shortfall and the amount recovered during the six month period would require a variance from the Commission's fuel adjustment rule which does not provide for such a use. Minn. Rules, part 7825.2390 (1990). The Commission finds that the Company has not met the requirements for such a variance prescribed in Minn. Rules, part 7830.4400 (1990) and will deny this part of the Company's proposed recovery plan.

First, the Company will not be unduly burdened by enforcing the rule and not permitting the fuel adjustment clause to be used as the Company proposes. The amount of any over- or under-recovery is estimated to be small. Moreover, the final rates set by the Commission allow utilities a fair opportunity to earn their required return. Approved revenue levels are not guaranteed and actual sales and revenues during any period may be above or below estimated levels. Similarly, the rates that the Company has proposed and which the Commission will approve for the December 1992 through May 1993 period offer the Company a fair opportunity to recover the estimated revenue shortfall. Finally, the Company's proposal must be rejected because it conflicts with a standard imposed by law: Minn. Stat. § 216B.subd. 7 (1990) allows utilities to use the fuel clause adjustment only to recover changes in fuel costs.

Apart from the foregoing variance analysis under Minn. Rules, part 7830.4400, the fact that the Company's proposal is contrary to the fuel clause statute, of course, is sufficient in itself to deny the Company's proposal. Statutory provisions are not subject to variance.

C. Reactive Demand Charge Verification

In its June 12, 1992 FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER, the Commission directed Interstate to include with its compliance filing information verifying the reasonableness of its demand charge for a KVAR. In its compliance filing, Interstate explained that the KVAR charges are calculated by inferring the demand cost per KVAR from the demand cost per kilowatt (KW) based on the trigonometric relation between the two.

The Commission is not satisfied with the Company's explanation of the demand cost per KVAR. The costs associated with supplying KVARs are not the same as the costs to supply KWs. For example, it takes much less fuel to produce a VAR than to produce a KW. In short, the Company has failed to show that a trigonometric relationship between the demand cost per KVAR from the demand cost per KW exists.

Accordingly, the Commission will not approve Interstate's filing on this point and will direct the Company to file an analysis of the direct cost impact of supplying KVARs on its system as part of its next rate case filing and will consider the matter further at that time.

D. Rate Case Expenses

In its June 12, 1992 Order, the Commission directed Interstate to file detailed rate case expense documentation, including invoices from the regulatory agencies. The Company's July 30, 1992 filing in response to this directive did not contain agency invoices for the period ending June 1992 because the Company will not receive

agency invoices for that period until December 1992. Rather than accepting or rejecting the Company's filing on this point, the Commission will direct it to provide a completed filing of these matters after it receives the outstanding agency billings in December. In addition, the Company should increase the usefulness of the refiled information by summarizing the expense categories showing internal costs, external costs for legal and consulting, and regulatory agency costs. The Company will be directed to provide this additional information as part of its next rate case filing.

E. Conservation Cost Recovery Charge (CCRC) Revenues

Interstate included in its compliance filing adequate information to verify that it has complied with the Commission's June 12, 1992 Order directing it to begin applying the CCRC revenues to the Conservation Improvement Plan (CIP) tracker account as of November 1, 1991.

F. Customer Notices

As part of its compliance filing, Interstate filed satisfactory proposed customer notices explaining the final rates. The Commission had required the filing of these notices in its June 12, 1992 Order.

ORDER

1. The rates proposed by Interstate Power Company in its October 29, 1992 compliance filing are hereby approved: the rates denominated by the Company as its adjusted final rates shall be in effect starting with the December 1992 billing and remain in effect through May 1993; the rates denominated by the Company as its final rates shall be effective upon termination of the adjusted final rates.
2. Within 30 days of this Order, Interstate shall file revised tariff sheets consistent with this Order, including a residential space heating rate and adjusting the standard Rate 161 to reflect the additional revenue effect due to the residential space heating rate.
3. The rates portion of Interstate's plan to recover the interim rates shortfall amount is approved; the proposal to true-up any over- or under-recovery of such amount at the end of the six month shortfall recovery period is denied.
4. As part of its next general rate case filing, Interstate shall

- a. file additional information on the direct cost impact of supplying KVARs on its system; and
 - b. refile its rate case expense documentation updated to include the December 1992 agency billings and augmented by summarizing the expense categories showing internal costs, external costs for legal and consulting, and regulatory agency costs.
5. Except where the text of the Order and these Ordering Paragraphs indicate otherwise, Interstate's October 29, 1992 compliance filing is approved.
 6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)