

G-011/M-91-296, G-007/M-91-460, G-008/M-91-575 ORDER REJECTING
PROPOSED TARIFFS AND REQUIRING REPORT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm
Cynthia A. Kitlinski
Dee Knaak
Norma McKanna

Chair
Commissioner
Commissioner
Commissioner

In the Matter of a Request by
Peoples Natural Gas for Approval
of a New Town Least Cost Energy
Rate

ISSUE DATE: March 10, 1992
DOCKET NO. G-011/M-91-296

In the Matter of a Request by
Northern Minnesota Utilities
for Approval of a New Town Rate

DOCKET NO. G-007/M-91-460

In the Matter of a Request by
Minnegasco for Approval of a New
Area Surcharge

DOCKET NO. G-008/M-91-575

ORDER REJECTING PROPOSED TARIFFS
AND REQUIRING REPORT

PROCEDURAL HISTORY

Between April and June 1 of 1991, three natural gas utilities filed proposals dealing with the recurring problem of how to extend gas service to communities that request it but cannot be served economically at tariffed rates. The three companies proposed different variations of a surcharge to cover the costs of extending service to these new communities.

Peoples Natural Gas: On April 12, 1991, Peoples Natural Gas (Peoples) filed an application for a New Town Rate tariff. This tariff would allow Peoples to collect a surcharge from customers who wanted service but who were in areas where main and service line extensions could not be economically justified under the company's current rates.

On July 2, 1991, the Minnesota Department of Public Service (the Department) filed its report and recommendation, Peoples filed reply comments on July 17, 1991, and the Department responded to the company's reply comments on August 1, 1991.

Northern Minnesota Utilities: On June 19, 1991, Northern Minnesota Utilities (NMU) filed an application for a New Town Rate tariff. Like Peoples' proposed tariff, NMU's proposed tariff would allow NMU to collect a surcharge from customers who wanted service but who were in areas where main and service line extensions could not be economically justified under the company's current rates.

On August 2, 1991, the NMU submitted its response to the Department's request for additional information. On September 6, 1991, the Department filed its report and recommendation. On February 6, 1992, the company submitted additional information requested by Commission Staff.

Minnegasco: On August 9, 1991, Minnegasco filed an application for a New Area Surcharge tariff. Like the tariffs proposed by Peoples and NMU, Minnegasco's proposed tariff would allow it to collect a surcharge from customers who wanted service but who were in areas where main and service line extensions could not be economically justified under the company's current rates.

On October 22, 1991, the Department filed its report and recommendation. On November 1, 1991, Minnegasco filed reply comments and the Department responded to the company's reply comments on November 12, 1991.

On February 27, 1992, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

The availability of natural gas service in Minnesota has brought significant benefits to customers and areas currently served. The Commission views the expansion of the availability of natural gas in areas of Minnesota not currently served as desirable, potentially bearing significant benefits to individual customers and enhancing the economic viability of these communities.

At this time, however, it appears that most of the communities that can be economically served by existing LDC networks under current gas tariffs are being served. In the absence of significant economic growth in the communities that are not currently being served, expansion of natural gas service to those communities appears unlikely to occur unless the LDCs are allowed to recover their excess extension costs directly from customers.

The Commission is determined to examine what encouragement it may appropriately provide these companies consistent with its regulatory responsibilities. To-date, three regulated natural gas utilities have filed proposed tariffs relevant to this subject. In brief, the companies' proposed tariffs would allow them to charge higher rates in areas where service is not currently provided because it is not economically justified under currently tariffed rates. Beyond this common goal, the companies' proposed tariffs differ in several particulars.

The Department has analyzed the companies' proposals and have raised several weighty objections to the companies' tariffs as filed. The Commission appreciates the companies' efforts and is encouraged that they provide a basis for progress in this area. However, although the Commission approves the general approach of allowing a group of customers who want gas service to pay extra for that service when it would be uneconomical for a LDC to make those extensions under its current tariff, it is clear that there

are multiple policy issues that the proposed tariffs do not adequately reflect and which the Commission must resolve before satisfactory tariffs may be fashioned. Among those issues are the following:

1. How should the companies' revenue deficiency for serving the new areas be calculated?
2. Should the surcharge assessed to recover the revenue deficiency be treated as a rate or as a contribution-in-aid-of-construction (CIAC)?
3. What reporting requirements and other safeguards against double recovery of costs and over-earning should be included in the tariff?
4. What provision should be made to assure equitable distribution of burden between the first group of customers or the first town served by a lengthy and expensive extension and customers or towns subsequently obtaining service provided in whole or in part due to that extension?

Accordingly, the Commission will reject the companies' tariffs at this time, without prejudice, and will proceed directly to examine in depth the issues whose resolution will govern acceptable tariffs in this area. Specifically, the Commission will direct the Department, in conjunction with Commission Staff, to file a report identifying the issues that require further examination. This report will be filed on or before March 12, 1992.

ORDER

1. The tariffs proposed by Peoples Natural Gas, Northern Minnesota Utilities, and Minnegasco are rejected without prejudice.
2. On or before March 12, 1992, the Minnesota Department of Public Service, in conjunction with Commission Staff, shall file a report which identifies the policy issues involved in establishing an appropriate regulatory framework for the provision of natural gas service in areas where service is not currently provided because it is not economically justified under currently tariffed rates.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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