

G-011/GR-92-132 FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

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OF LAW, AND ORDER

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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 Peoples Natural Gas Company, a Division of UtiliCorp United, Inc. for Authority to Increase Its Rates for Natural Gas Service in the State of Minnesota

ISSUE DATE: February 22, 1993
DOCKET NO. G-011/GR-92-132
FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER

PROCEDURAL HISTORY

I. INITIAL PROCEEDINGS

On March 6, 1992, Peoples Natural Gas Company (Peoples or the Company) filed a petition under Minn. Stat. § 216B.16 (1992) for a general rate increase of \$7,232,621, or 7.8%. The Company made additional related filings on March 31, 1992, and on April 23, 1992.

On May 5, 1992, the Commission issued Orders accepting the Company's filings as complete as of April 23, 1992, suspending the proposed rates, and ordering contested case proceedings under Minn. Stat. § 216B.16, subd. 1 (1992). The Office of Administrative Hearings assigned Administrative Law Judge Allan W. Klein to the case.

On May 27, 1992, the Administrative Law Judge (ALJ) held a prehearing conference. On June 2, 1992, and July 24, 1992, the ALJ issued Prehearing Orders granting petitions to intervene, establishing the hearing schedule and adopting procedural guidelines.

On May 29, 1992, the Commission issued an Order setting interim rates. The Commission authorized collection of an additional \$5,855,120 as interim rates, to be collected in the form of a 6.3% increase in the Company's retail rate schedules, effective June 1, 1992.

On September 22, 1992, at the start of evidentiary hearings before the ALJ, the parties to the proceeding (listed below) submitted a Stipulation Agreement to the ALJ.¹ This Stipulation

¹ Due to scrivener's error, Northern Natural Gas Company (Northern) is listed as a party represented by Robert S. Lee

Agreement resolved all but five of the issues in dispute in the rate case. These issues were litigated at evidentiary hearings on September 22 and 23, 1992, in St. Paul.

II. PARTIES AND REPRESENTATIVES

A. Intervenors

In his June 2, 1992, Prehearing Order, the ALJ granted petitions to intervene from the following parties:

The Minnesota Department of Public Service (the Department), represented by Eric F. Swanson and Brent L. Vanderlinden, Special Assistant Attorneys General, 1100 Bremer Tower, Seventh Place and Minnesota Street, St. Paul, Minnesota 55101.

The Residential Utilities Division of the Office of the Attorney General (the RUD-OAG), represented by Gary R. Cunningham and Julia E. Anderson, Special Assistant Attorneys General, 340 Bremer Tower, Seventh Place and Minnesota Street, St. Paul, Minnesota 55101.

The Peoples Taconite Class (composed of Cypress Northshore Mining Corporation, Eveleth Taconite Company, Eveleth Expansion Company, Hibbing Taconite Company [a Minnesota joint venture], Inland Steel Mining Company, LTV Steel Mining Company, National Steel Pellet Corporation, and USX Corporation), represented by Robert S. Lee and Susan M. Swift, Mackall, Crouse & Moore, 1600 TCF Tower, 121 South Eighth Street, Minneapolis, Minnesota 55402.

In his July 24, 1992, Prehearing Order, the ALJ granted a petition to intervene from the following party:

Northern Natural Gas Company, represented by Patrick J. Joyce, Senior Counsel, Northern Natural Gas Company, P.O. Box 3330, Omaha, Nebraska 68103-0330.

B. The Company

Peoples Natural Gas Company was represented by Michael J. Bradley, Moss & Barnett, 4800 Norwest Center, 90 South Seventh Street, Minneapolis, Minnesota 55402-4129. Also appearing on behalf of Peoples was James R. Talcott, Senior Company Counsel, Peoples Natural Gas Company, 1815 Capitol Avenue, Omaha, Nebraska 68102.

III. PUBLIC HEARINGS AND PUBLIC TESTIMONY

under his signature entering into the Stipulation. Northern was never represented by Mr. Lee and did not consider that it entered into the Stipulation. Northern did not, however, oppose any of the terms of the Stipulation.

The ALJ held public hearings to receive comments and questions from non-intervening ratepayers. The dates and locations of these hearings are listed below:

July 16, 1992	Bemidji
July 22, 1992	Fairmont
July 23, 1992	Eagan

During the course of these hearings, three persons gave oral comments. The parties expressed concerns regarding the rate increase, the consolidation of rates, and the concept of a monthly customer charge.

Twelve members of the public contacted the Commission by letter to comment on the proposed rate increase generally or with respect to one or more particular issues raised by the Company's proposal.

IV. EVIDENTIARY HEARINGS

The ALJ held evidentiary hearings on September 22 and 23, 1992, in St. Paul, Minnesota.

V. PROCEEDINGS BEFORE THE COMMISSION

On October 26, 1992 the ALJ submitted an Order Submitting Stipulation Agreement to the Commission. In that Order the ALJ stated that he had reviewed the Stipulation Agreement, considered the evidence in the record, and could find nothing in the Agreement which was contrary to law or rule.

On December 21, 1992, the Commission met to consider the terms of the proposed Stipulation Agreement. At that meeting, the Commission accepted the Stipulation Agreement in its entirety.

The ALJ filed his final report on December 9, 1992. This report covered the five contested issues.

Upon review of the entire record of this proceeding, the Commission makes the following Findings of Fact, Conclusions of Law, and Order.

FINDINGS AND CONCLUSIONS

VI. JURISDICTION

The Commission has general jurisdiction over the Company under Minn. Stat. §§ 216B.01 and 216B.02 (1992). The Commission has specific jurisdiction over rate changes under Minn. Stat. § 216B.16 (1992).

The case was properly referred to the Office of Administrative Hearings under Minn. Stat. §§ 14.48-14.62 (1992) and Minn. Rules, Part 1400.0200 et seq.

VII. FURTHER ADMINISTRATIVE REVIEW

Under Minn. Rules, Part 7830.4100, any petition for rehearing, reconsideration, or other post-decision relief must be filed within 20 days of the date of the Order. Such petitions must be filed with the Executive Secretary of the Commission, must specifically set forth the grounds relied upon and errors claimed, and must be served on all parties. The filing should include an original, 13 copies, and proof of service on all parties.

Adverse parties have ten days from the date of service of the petition to file answers. Answers must be filed with the Executive Secretary of the Commission and must include an original, 13 copies, and proof of service on all parties. Replies are not permitted.

The Commission, in its discretion, may grant oral argument on the petition or decide the petition without oral argument.

Under Minn. Stat. § 216B.27, subd. 3 (1992), no Order of the Commission shall become effective while a petition for rehearing is pending or until either of the following: ten days after the petition for rehearing is denied or ten days after the Commission has announced its final determination on rehearing, unless the Commission otherwise orders.

Any petition for rehearing not granted within 20 days of filing is deemed denied. Minn. Stat. § 216B.27, subd. 4 (1992).

VIII. PEOPLES NATURAL GAS COMPANY

Peoples is an operating division of UtiliCorp United, Inc., with headquarters in Omaha, Nebraska. Peoples distributes natural gas at retail to customers in seven states. At year-end 1991, Peoples had approximately 343,000 customers system-wide, and an annual throughput of approximately 151 billion cubic feet.

In Minnesota, Peoples currently serves 108 communities, with approximately 111,000 customers. Rochester and Eagan are the largest metropolitan areas in Minnesota served by Peoples. Most of the remaining Minnesota communities average fewer than 500 customers. Peoples has a significant large volume load, including the taconite industry, on the Iron Range in northeastern Minnesota. Peoples maintains its principal Minnesota office in Eagan, as well as a number of smaller offices throughout its service territory.

Peoples purchases gas from pipelines, as well as directly from producers. Peoples serves its Minnesota customers off the Great Lakes, Viking and Northern Natural Gas pipeline systems.

IX. BURDEN OF PROOF

Minn. Stat. § 216B.16, subd. 4 (1992) states: "The burden of proof to show that the rate change is just and reasonable shall be upon the public utility seeking the change."

The Minnesota Supreme Court has articulated standards for the burden of proof in rate cases. In the Matter of the Petition of Northern States Power Company for Authority to Change Its Schedule of Rates for Electric Service in Minnesota, 416 N.W. 2d 719 (Minn. 1987). In the Northern States Power case, the Court divided the ratemaking function of the Commission into quasi-judicial and legislative aspects. The Commission acts in a quasi-judicial mode when it determines the validity of facts presented. Just as in a civil case, the burden of proof is on the utility to prove the facts by a fair preponderance of the evidence. Such items as claimed costs or other financial data are facts which the utility must prove by a fair preponderance of the evidence.

The Commission acts in a legislative mode when it weighs the facts presented and determines if proposed rates are just and reasonable. Acting legislatively, the Commission draws inferences and conclusions from proven facts to determine if the conclusion sought by the utility is justified. The Commission weighs the facts in light of its statutory responsibility to enforce the state's public policy that retail consumers of utility services shall be furnished such services at reasonable rates. In its legislative capacity, the Commission forms determinations such as the usefulness of a claimed item, the prudence of company decisions, and the overall reasonableness of proposed rates.

The utility therefore faces a two part burden of proof in a rate case. When presenting its case in the rate change proceeding, the utility has the burden to prove its facts by a fair preponderance of the evidence. The utility also has the burden to prove, by means of a process in which the Commission uses its judgment to draw inferences and conclusions from proven facts, that the proposed rates are just and reasonable.

X. TEST YEAR

Peoples used a calendar year ending December 31, 1992 as its rate case test year. The financial data submitted by the Company was largely projected. No party objected to the Company's test year. Peoples' test year was not addressed in the Stipulation Agreement or in the ALJ's report.

The Commission finds that the Company's use of a calendar year ending December 31, 1992 as its test year was appropriate in this proceeding.

XI. SETTLEMENT STIPULATION ACCEPTED AND ADOPTED

The Commission finds that the Stipulation Agreement (the stipulation) submitted by the parties is supported by substantial evidence, represents a just and reasonable resolution of all individual issues it addresses, promotes the public interest, and will result in just and reasonable rates. The Commission will accept and adopt the stipulation.

The stipulation provides support from the record for its resolution of each individual issue. The parties also made their witnesses available for questioning by Commission staff, to clarify the evidentiary basis for stipulation positions if necessary. Since the Commission must base its rate case decisions on the record, this increases the stipulation's value and credibility. Minn. Stat. § 14.60, subd. 2 (1990). The Commission could approve the stipulation based on an independent review of the record, which it has also conducted. It is reassuring, however, for the parties to demonstrate, as they have here, that the content of the record was central to their negotiations on every issue.

Similarly, the Commission finds that the resolutions reached by the parties on individual contested issues are just and reasonable. Just as the parties set forth the evidentiary basis for their resolutions of individual issues, they also explained their basis in reason and policy. They frequently cited Commission Orders treating settled issues in the same manner as they are treated in the stipulation. They made their witnesses available to Commission staff to clarify the rationale for the stipulation's resolution of any issue. These measures, too, increased the usefulness and credibility of the stipulation.

In non-ratemaking settlement negotiations it is common for parties to concede some issues to obtain a more favorable resolution of others they value more highly. This is reasonable and appropriate in private disputes, where the goal of the settlement process is to reach a result satisfactory to all parties. In Commission proceedings, however, the goal of the process is to serve the public interest. This requires protecting the interests of the Company, the public, and all customer classes, whether or not their interests are vigorously

represented. It requires resolving every issue within the bounds of acceptable regulatory practice, since future rate structures are built on the foundations established in past rate cases. For these reasons the Commission scrutinizes settlements with care and requires documentation of the reasonableness of the disposition of all issues.

Because the Commission is convinced that the stipulation's resolution of every issue is supported by substantial evidence, thorough reasoning, and sound public policy, the Commission will accept and adopt it.

XII. REMAINING CONTESTED ISSUES

Five issues remained unresolved by the parties' Stipulation Agreement and were litigated in the contested case proceeding. The Commission will discuss these five issues in turn.

A. Manufactured Gas Plant Costs

1. Historical and Factual Background

Peoples has been informed by state and federal environmental authorities that the site of its Rochester warehouse and parking facility contains coal tar and other hazardous wastes and requires potentially expensive environmental remediation. Peoples bought the land in 1948, when it was already the site of a warehouse and parking facility. However, the land had previously been the site of a manufactured gas plant.

Manufactured gas plants operated throughout the United States from the early 1800's until natural gas pipelines ended the need for them. The plants used coal to produce synthetic combustible gas for cooking, streetlighting, household lighting, and industrial purposes. The waste materials from the manufacturing process, primarily coal tar, were usually disposed of on-site in lagoons or underground wells or pits.

In the early 1980's the Minnesota Pollution Control Agency (MPCA) and the federal Environmental Protection Agency (EPA) began investigating the environmental status of former manufactured gas plant sites. In 1987 the EPA took soil samples at the Peoples' Rochester site; later that year the agency informed Peoples there was coal tar at the site. In 1990 the MPCA informed Peoples the Rochester site required remediation and that the Company was potentially liable for clean-up costs.

Federal and state environmental statutes are complex, but the following generalizations are helpful. The statutes are designed to ensure that clean-up occurs, and occurs promptly. Other issues and interests are treated as secondary to this goal. Therefore, although the statutes contain far-reaching liability provisions, they do not allow potentially responsible persons to resolve liability issues before clean-up. They make all

responsible parties liable for full clean-up costs, with rights of contribution against one another. If clean-up does not occur promptly, the environmental agencies can proceed with clean-up on their own, collect the costs from any creditworthy responsible party, and leave that party with the task of collecting from other liable persons. As the Administrative Law Judge explained, the philosophy is "cleanup first, litigate later."

There are at least two other parties potentially liable for the clean-up costs in this case: the City of Rochester, which owns adjacent contaminated land, and Interstate Power Company, one of the former operators of the manufactured gas plant. In 1991 these three parties signed a cost-sharing agreement providing that each of them would pay one-third of the initial costs of testing and assessment. They agreed to pay remaining costs on the same one-third basis, but reserved the right to challenge and litigate the one-third allocation factor for these costs at the end of the clean-up process.

2. The Company's Request

Under the cost sharing agreement, Peoples' share of the initial testing and assessment expenses was \$171,445. The Company seeks recovery of \$120,257 of this amount, plus carrying costs.² The Company also asks the Commission to find remediation expenses legitimate utility expenses; to authorize deferred accounting, including carrying costs, for future remediation expenses; and to find that remediation expenses meeting traditional tests of reasonableness and prudence can be recovered through rates.

3. Positions of the Parties; Recommendation of the ALJ

The Department opposed current recovery of the \$120,257, opposed finding remediation costs legitimate utility expenses, and supported deferred accounting of remediation expenses for future Commission action. The Department argued that issues of insurance coverage and contribution from other potentially liable parties should be resolved before acting on the Company's requests.

The RUD-OAG opposed any recovery of remediation expenses, for a number of reasons. The RUD-OAG contended that shareholders, not ratepayers, should bear the risk of hidden environmental defects in utility property; that the manufactured gas plant that caused the pollution was never used and useful for Peoples' ratepayers; that Peoples may have paid less for the land because it had been

² The Company does not seek recovery of amounts booked before the Commission Order authorizing a deferred debit account. In the Matter of a Request by Peoples Natural Gas Company for Approval of Accounting Procedures for its Manufactured Gas Plant Site Investigatory and Clean-up Costs, Docket No. G-011/M-90-1135 (March 26, 1991).

the site of a manufactured gas plant; that UtiliCorp, the parent company, may have paid less for Peoples because it knew Peoples might have to pay remediation costs; that the use of the land as a warehouse and parking lot was not sufficiently related to the provision of utility service to justify rate recovery of clean-up expenses. In the alternative, the RUD-OAG concurred with the Department that finding clean-up costs legitimate utility costs was premature at this point, since the liability of insurance carriers and other potentially responsible parties is yet to be determined.

The Administrative Law Judge found the \$120,257 initial expenditure to be prudent, reasonable, and recoverable in rates. He recommended authorizing deferred accounting for future remediation expenses, recommended allowing carrying charges, and believed the Commission should make a finding that future remediation costs would be recoverable in rates, subject to Commission review for prudence and reasonableness.

4. Summary of Commission Action

The Commission accepts and adopts the Administrative Law Judge's Findings 14 through 27, 29, and 32. The Commission agrees with the Administrative Law Judge that Peoples' final share of remediation costs for the Rochester manufactured gas plant site is a legitimate utility expense, recoverable in rates. Like all legitimate utility expenses, it will be reviewed for reasonableness and prudence before rate recovery is authorized. The Commission will examine the reasonableness and prudence of the total amount of remediation costs, the allocation of those costs between potentially liable parties, and Company efforts to obtain any applicable insurance recovery. The costs will be recorded in a deferred debit account; amounts ultimately found prudent and reasonable will be subject to a carrying charge.

The Commission disagrees with the Administrative Law Judge on the demonstrated reasonableness and prudence of the Company's having paid one-third of the initial testing and assessment costs. The Commission will determine the recoverability of that amount when it addresses total remediation costs.

These decisions will be explained in turn.

5. Total Remediation Costs

a. "Used and Useful" Test

The RUD-OAG argued that remediation costs were not recoverable because the manufactured gas plant that caused the costs was never "used and useful" in Peoples' system. The Commission disagrees.

The ALJ found, and the record shows, that the land at issue has been used and useful for utility purposes since it went into rate base in 1948. The land itself clearly meets the used and useful

test, and it has for 40 years. Normally, the inquiry would end there; there would be no doubt that expenses arising from ownership of the land (property taxes, special assessments, insurance premiums) are recoverable in rates. Because remediation expenses are so extraordinary, however, and so clearly linked to earlier land uses, it is at least initially attractive to apply the "used and useful" test to the land at the time the need for remediation was created. At that time, the land was not used and useful for Peoples' ratepayers.

In the absence of negligence on the part of the utility, however, this is fundamentally unfair. There are valid state and federal statutes placing clean-up responsibilities on current landowners, whether or not they owned the land when the pollution requiring remediation occurred. These responsibilities flow from land ownership alone. To treat remediation costs differently from other costs related to current land ownership would be result-driven and contrary to general ratemaking principles.

RUD-OAG pointed to a Commission decision disallowing recovery of nuclear decommissioning costs for NSP's Pathfinder plant as supporting its position. That decision was based only in part on a finding that the plant was not used and useful. The Commission also found that a series of bad management decisions had kept the plant from becoming used and useful.³ There is nothing in this record to suggest that bad management decisions have contributed to the Company's potential liability for remediation costs.

b. Other Concerns Raised by RUD-OAG

The RUD-OAG suggested that Peoples may have paid less for the land because it had been the site of a manufactured gas plant and that UtiliCorp, the parent company, may have paid less for Peoples because it knew Peoples might have to pay remediation costs. There is no evidence in the record for either of these propositions. The second is directly contradicted by the Administrative Law Judge's findings that Peoples first learned of the presence of coal tar on the land in 1987, and was first notified of its potential clean-up liability in 1990. Both events occurred after UtiliCorp's 1985 purchase of Peoples at a price higher than book value.

Similarly, there is no evidence in the record that Peoples has ever used the land for non-utility purposes or gerrymandered its use of land to ensure that potentially polluted land was used only for utility purposes.

The RUD-OAG suggested that on land ownership issues the Commission allocate shareholder and ratepayer risk on some basis

³ In the Matter of the Application of Northern States Power Company for Authority to Increase its Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-91-1, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (November 27, 1991), at 29.

other than the use of the land for utility or non-utility purposes. The Commission believes that land use, together with traditional requirements of prudence and good management, remains the most equitable, straightforward, and principled basis for allocating those risks. If land requiring remediation were used entirely for non-utility purposes, the Commission would be hard-pressed to justify allocating a share of remediation costs to ratepayers.

Finally, the Commission rejects the contention that the use of the land for warehouse and parking purposes was not sufficiently related to the provision of utility service to justify the recoverability of expenses associated with owning the land. Warehouse space is just as essential to the provision of utility service as clerical support, managerial expertise, construction equipment, and a host of other items whose recoverability in rates is not subject to debate. The expenses associated with all these functions are recoverable in rates, subject to review for reasonableness and prudence.

c. Recoverability Determination Appropriate Now

It is clear from the record that the Company is potentially liable for the full costs of remediating the manufactured gas plant site. It is clear that the City of Rochester and Interstate Power Company are in a similar position. To avoid losing control over the timing, conduct, and costs of remediation, the three parties have signed an agreement to clean up the site, split the costs equally, and argue over proper cost allocation later. This is a reasonable approach to pollution abatement which the Commission will not discourage by being ambiguous about cost recovery.

The Commission appreciates and shares the Department's concern about deciding issues prematurely. Sound regulatory practice requires that issues be decided only when facts and policy options have been fully developed and there is a genuine need for a decision. The Commission believes those criteria are met on the issue of the general recoverability of remediation expenses.

The Administrative Law Judge has conducted lengthy hearings on the factors that determine general recoverability: the Company's use of the property from 1948 to the present; when, where, and how the Company learned of the need for remediation; the Company's potential liability under federal and state environmental statutes. The parties have submitted testimony, conducted cross-examination, filed briefs, and made oral arguments on the recoverability of remediation costs. There is nothing to be gained from repeating this procedure in the next rate case. There is no need to defer decisionmaking pending further development of these issues.

Furthermore, there is a need for a decision now. As the Administrative Law Judge found, without a finding that reasonable

and prudent remediation expenses are recoverable, the Company may be forced to write off remediation expenses in its non-regulatory financial statements. While that is not a result the Commission would violate regulatory norms to avoid, it is a burden the Company should not have to bear, other things being equal.

Both the Department and the RUD-OAG were concerned that a general finding of recoverability might reduce the Company's incentive to negotiate the lowest possible allocation of remediation expenses. The Commission agrees with the Administrative Law Judge that Commission review of the reasonableness and prudence of total remediation expenses, and of their allocation between the parties, will provide adequate incentive for hard bargaining.

d. Decision on Initial Costs Deferred

The Commission agrees with the Department and the RUD-OAG that at this point the record does not demonstrate the reasonableness and prudence, and therefore the recoverability, of the Company's one-third share of initial testing and assessment expenses. The Commission will therefore defer action on these expenses.

The Company contends it was reasonable to pay a full third of these expenses because of the need to move forward quickly with testing and assessment and to set a cooperative tone in negotiations. The Commission is not convinced at this point that signing a binding agreement to pay a one-third share was reasonable, prudent, or essential to accomplish these ends. It is not clear that the Company could not have obtained a non-binding cost-sharing agreement, as it did for the remediation expenses themselves. It is not clear that the one-third allocation is reasonably related to what the Company's final allocation of responsibility will be. Finally, it is not clear that the Company's acceptance of a mechanically determined, liability-neutral allocation factor did set the proper tone in negotiations. It may have sent a miscue about the seriousness with which the Company approaches financial obligations passed on to ratepayers. For these reasons, the Commission will defer action on the recoverability of the \$120,257 in testing and assessment expenses, pending further evidentiary development in another proceeding.

B. Accumulated Unbilled Revenues

1. Historical and Factual Background

The term "unbilled revenues" refers to revenues a company has earned between the most recent meter reading date and the end of the month. Utility companies bill customers on a cyclical basis throughout the month based on meter readings. The gas usage from each customer's meter reading date to the end of the month remains unbilled until the meter is read and the bill prepared the following month. Unbilled revenues can be a ratemaking issue because, while the utility incurs gas costs in the month service is provided, a portion of the utility's revenues from the sale of

that gas to its retail customers is not billed until the month

after service. A company's test year may overstate its revenue deficiency if it reflects all gas costs but not the proper level of related revenues.

Peoples originally filed its test year data without an adjustment for test year unbilled revenues; in the Stipulation Agreement, the parties agreed that a test year unbilled revenue adjustment would occur. The adjustment includes approximately 15 days revenues that the Company earned in the test year but billed after the test year and excludes approximately 15 days revenues earned just before the test year and billed within the test year. As a result of the adjustment, Peoples' overall margins increased by \$62,239. This figure was the difference between \$1,832,239 included in the test year for billings in approximately the first 15 days of 1993, and \$1,770,000 excluded from the test year for billings in approximately the first 15 days of 1992.

2. Positions of the Parties

Although the RUD-OAG agreed with the stipulated adjustment for test year unbilled revenues, the agency urged the Commission to impose a further adjustment for what it termed accumulated or transitional unbilled revenues. The RUD-OAG argued that the \$1,770,000 (\$1,054,122 after tax adjustments) excluded from the 1992 test year should be considered revenue not previously included in rates and returned to ratepayers through a revenue adjustment. The RUD-OAG stated that this income should be recognized and amortized over a two- or a four-year period. In the alternative, Peoples' rate base should be decreased by \$1,054,122.

The RUD-OAG argued that the \$1,054,122 adjustment for accumulated unbilled revenues was proper because it represents utility income not previously included in rates. The IRS has received tax payments on this amount and shareholders have benefitted from its accumulation; it is time that ratepayers share in the benefits. The RUD-OAG labeled the adjustment amount as extraordinary income, recoverable by ratepayers although accrued by the utility outside the test year. The fact that it was extraordinary income also justified the fact that it would result in some mismatch of utility revenue and expense; according to the RUD-OAG, some mismatch is always part of the recognition of extraordinary revenue or expense.

The RUD-OAG argued that recognition of accumulated unbilled revenues would not result in retroactive ratemaking because the recognition results from a current accounting change; this rate case is the first instance in which Peoples will match revenues with expenses by using an accrual method of accounting. The RUD-OAG also argued that recognition of these revenues could not be considered single-issue ratemaking, since the recognition would occur within the context of the current general rate case. Finally, the RUD-OAG argued that treatment of unbilled revenues should parallel treatment of transitional expenses for SFAS 106 "other post-retirement employee benefits." According to the

RUD-OAG, both issues reflect an accounting change from cash to accrual basis. Just as Peoples has requested the recognition of SFAS 106 transitional expenses, so should the accumulated unbilled revenues be recognized and an adjustment made.

The Department did not agree that accumulated unbilled revenues should be amortized to income in this case. The Department stated that there had been no deferral of this income for ratemaking purposes in 1987, when Peoples began recognizing it for financial reporting purposes. Even if the income had been deferred and amortized at that time for ratemaking purposes, Peoples' proposed rates would not have been affected in this case. This is so because any likely amortization period would have expired prior to the current test year; accumulated unbilled revenues would therefore not have appeared in test year income.

Peoples stated that the main issue is whether or not rates were excessive when revenues were generated from approximately December 15 through December 31, 1991. If they were not excessive, but were applied according to the Commission's approved rate structure, there is no reason that margins generated by service during this time should be returned to ratepayers in the form of an accumulated unbilled revenue adjustment. Peoples argued that there was no evidence whatsoever of any application of excessive rates, and therefore no justification for a refund to ratepayers.

Peoples stated that there is no dispute that the Company has consistently matched 12 months of revenue with 12 months of expenses. No evidence exists of a windfall for the Company. If an adjustment were made for both test year unbilled revenues (as agreed to by the parties) and the accumulated unbilled revenues (as sought by the RUD-OAG) the result would be a mismatch of 12 1/2 months' revenues with 12 months' expenses.

Peoples argued further that even if it were considered that a mismatch occurred in 1987, when Peoples changed its booking method, there is absolutely no evidence that the mismatched amount accumulated or that it approximated the \$1,054,122 sought by the RUD-OAG. The RUD-OAG is simply arbitrarily trying to recover revenue related to growth in sales, without proving that Peoples overearned at any time the growth occurred.

Peoples also stated that the RUD-OAG's position, if adopted, would amount to improper retroactive ratemaking and single issue ratemaking. The ratemaking would be retroactive because if any issue ever existed, it should have been resolved in 1987, when the accounting change first took place. It is single issue ratemaking because the RUD-OAG is seeking to recover revenue associated with growth which apparently took place between rate cases.

Peoples disputed the RUD-OAG's claim that adoption of SFAS 106 accounting principles supports an adjustment for accumulated

unbilled revenues. The Company agreed that both SFAS and **test year** unbilled revenues use accrual accounting for both revenues and expenses. Accrual accounting would mean, however, that the \$1,054,122 termed accumulated unbilled revenues by the RUD-OAG would be considered accrued as **pre-test year** revenues and would not be recognized for ratepayers.

Finally, Peoples argued against the RUD-OAG's suggested alternative of lowering rate base by \$1,054,122. There is no record of an increase in cash received as a result of the change in accounting methods, nor of any cash being turned into a capital asset. According to Peoples, there is simply no evidence justifying a reduction of rate base because of the RUD-OAG's accumulated unbilled revenue theory.

3. Commission Action

The Commission agrees with the ALJ that there should be no adjustment for accumulated unbilled revenues. This position is equitable, practical, and consistent with prior Commission opinion.

The Commission finds that the RUD-OAG has submitted no evidence which justifies the inclusion of \$1,054,122 after tax in revenues generated in 1991. As the ALJ stated in his report, "the claim of an accumulation of unbilled revenues is speculative and cannot be proven with any degree of accuracy." Any attempt to justify an adjustment would require investigation of each of the Company's rate cases, plus non-test year revenues and expenses from 1986 to the present. If such an attempt were made, it might well be found that in some years the revenue adjustment would be positive, in some years negative, and in some years nonexistent. There is no record evidence to justify such an attempt.

The Commission is satisfied that the method of revenue/expense matchup stipulated to by the parties is proper and results in equitable rates. With an adjustment for **test year** unbilled revenues, the result is a proper match between revenues generated in the test year and expenses incurred in the test year. A further adjustment for non-test year unbilled revenues is inappropriate.

In past rate cases the Commission has consistently refused to allow an adjustment for accumulated unbilled revenues. In the 1991 Northern States Power rate case⁴ the Commission addressed the issue of accumulated unbilled revenues.

⁴ In the Matter of the Application of Northern States Power Company for Authority to Increase Its Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-91-1, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (November 27, 1991).

The Commission also agrees with the ALJ's recommendation regarding the RUD-OAG's proposed inclusion of an amortized portion of accrued unbilled revenues. Unbilled pre-test year revenues should not be included in test year revenues, because to do so would be to match twelve months' costs with more than twelve months' revenues. Amortization of these revenues would not change the fact that they are improperly included in test year revenues. The Commission finds that pre-test year accrued unbilled revenues should not be included in test year revenues.

Order at p. 47.

In the 1985 Northern States Power rate case⁵ the Commission addressed and rejected the argument that accumulated unbilled revenues should be included as revenue because they represent previously unrecognized utility income which has grown and accumulated through the years.

For example, the Company, the RUD-OAG and the ALJ have implied that the unbilled revenue at the beginning of the test year includes revenue that has been unbilled from the very inception of the company. In the Commission's view, that characterization is misleading and inaccurate. Generally, what is unbilled at the end of any month is the electricity that has been consumed since the prior meter reading date. For the earliest unbilled billing cycle, there may be approximately 30 or 31 days of unbilled usage. For another billing cycle, there may be one day of unbilled usage.

Order at p. 35.

As the ALJ stated in this case, to measure such income from the beginning of its booking by the Company, and attempt to chart its growth, would be speculative and unproductive.

The Commission has also previously rejected the RUD-OAG's arguments that ratepayers must benefit from recovery of the unbilled revenue, and that recovery is justified because it is extraordinary income, or the first recognition of an accounting change. The Commission addressed these arguments in the 1985 Northern States Power Company rate case (although in that instance the Company had not yet recorded the unbilled balance for accounting purposes).

⁵ In the Matter of the Application of Northern States Power Company for Authority to Increase Its Rates for Electric Service in the State of Minnesota, Docket No. E-002/GR-85-558, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER (August 23, 1988).

The amount of \$3.7 million does not represent a liability owed to ratepayers. It will not appear on the Company's books unless and until the accounting change to begin recording unbilled revenue is adopted. If the adjustment were to acquire form in the accounts of the Company, its substance could be examined for what it really is -- a one-time extraordinary adjustment to revenues. That increment to existing revenues during a test year would first be a non-recurring event that did not reflect ordinary operations. Second, it would not represent revenues from test year sales. Third, it would not be an offset to any rate base or expense item found in the test year. As such, the adjustment is not of a character that logically would be included in test year revenues.

Order After Reconsideration (October 20, 1988) at p. 3.

Finally, the Commission finds that there is no evidence which links the Commission's treatment of SFAS 106 post-employment benefits (OPEBs) with the Commission's treatment of accumulated unbilled revenues. Although each matter involves the consequences of an accounting change, the similarity ends there. The facts and circumstances involved in the provision of OPEBs to employees are not the same or parallel to the booking of unbilled revenues. SFAS 106 required an accounting change for the costs of benefits which had been earned by the employees and for which recovery was currently being allowed under the pay-as-you-go accounting method. In contrast, the unbilled revenue issue raised by the RUD-OAG involves a proposed recognition of revenues which the Commission has consistently found do not belong to ratepayers.

The Commission remains unpersuaded by the RUD-OAG's arguments for recognition of accumulated unbilled revenues. Most if not all of these arguments have been specifically, carefully, and consistently addressed and rejected in previous rate case proceedings. The Commission will not include accumulated unbilled revenues as income in this case.

C. Residential Customer Charge

1. Historical and Factual Background

At the time Peoples acquired its Fairmont residential customers from Iowa Electric Light & Power Company, there was no monthly customer charge imposed upon this group of customers. In their Stipulation Agreement, the parties agreed that Peoples would begin imposing upon the Fairmont residential customers the \$4.00 monthly customer charge currently assessed against other residential customers. Peoples proposed raising the customer charge for residential customers other than Fairmont from \$4.00 to \$6.00. This proposal was supported by the Department and opposed by the RUD-OAG. Because no agreement was reached, the issue was litigated in the contested case proceedings.

In setting the level of a customer charge, there must be an analysis of the fixed monthly cost of providing service to the customer. Once the monthly cost is determined through a Class Cost of Service Study (CCOSS), it is apportioned between the fixed monthly customer charge and the variable commodity charge. The proportional levels of these two factors have important effects on such issues as energy consumption, rate and revenue stability, and equity in and among customer classes.

In this rate case, the parties did not dispute the CCOSS findings developed by the Company and the Department. Because the results were similar and did not affect rate designs proposed in the case, the parties stipulated that either study could be cited for the purpose of evaluating any rate design issue which was not settled by the Stipulation. Peoples' CCOSS showed the monthly residential customer cost as \$16.48; the Department's CCOSS showed the cost as \$16.50.

2. Positions of the Parties; Recommendation of the ALJ

In its arguments for the proposed customer charge increase, Peoples cited James C. Bonbright's Principles of Public Utility Rates (Public Utility Reports, Inc. 1988). Bonbright's text lists three main criteria by which to judge a rate design proposal: capital attraction; consumer rationing; and fairness to ratepayers.

The capital attraction criterion considers the effectiveness of the rate design in recovering a utility's revenue requirement. Peoples argued that its proposed rate design, which increased the proportion of fixed cost that is recovered through the customer charge and decreased the proportion recovered through the commodity charge, would move in the direction of revenue stability. Peoples stated that it intended to move the customer charge closer to the level of fixed cost in future rate cases, enhancing revenue stability.

Bonbright's second criterion for proper rate design is consumer rationing. Under this criterion, rates are set to discourage wasteful use of service while promoting use which is economically justified in view of the relationships between the private and social costs incurred and the benefits received. According to Peoples, the RUD-OAG's conservation arguments against the increase were overstated, and did not take in possible corresponding social costs such as discouragement of natural gas consumption. Peoples argued that it is more appropriate to address conservation concerns through CIP programs, which have undergone rigorous cost/benefit analysis. Finally, Peoples questioned if the conservation principles of Minn. Stat. § 216B.03, cited by the RUD-OAG, are applicable to this rate design issue.

The third criterion stressed by Peoples is the fairness to ratepayers. This criterion measures the fair apportionment of

the burden of meeting total revenue requirements among the various classes and among customers within a class. Peoples argued that a monthly charge which is set below fixed cost allows some low-use customers to shift part of their fixed cost to high-use customers. A move toward setting the customer charge at the level of fixed cost would lessen the cost shifting among customers. Peoples also argued that fairness in the sense of historical continuity or rate stability does not mean that rates may never be increased.

The RUD-OAG relied heavily upon Minn. Stat. § 216B.03 to support its stand against a customer charge increase. Among other things, that statute states: "To the maximum reasonable extent, the Commission shall set rates to encourage energy conservation..." The RUD-OAG argued that increasing the proportion of fixed costs placed in the customer charge (and thereby decreasing the proportion in variable charges, which are tied to energy consumption) would diminish consumer incentives to conserve energy.

According to the RUD-OAG, analysis of a rate design proposal demands a balancing between the need for revenue stability and overriding conservation goals. The RUD-OAG also argued that if a reliance on variable charges caused under-recovery in years with above-normal temperatures, this would eventually be balanced by over-recovery in years of below-normal temperatures.

The ALJ recommended that Peoples' proposed customer charge increase be approved. In his analysis, the ALJ reviewed Bonbright's three criteria cited by the parties. The ALJ stated that the first criterion, capital attraction, supported an increase in the customer charge. The ALJ noted that a rate design which recovers all of the utility's fixed cost through a monthly customer charge and all of the variable cost through a commodity charge would generate revenues matching the revenue requirement. Since \$6.00 is closer than \$4.00 to the fixed cost of approximately \$16.50, the increase is appropriate under this criterion.

The ALJ stated that the second Bonbright criterion, consumer rationing, supported a customer charge which remained at \$4.00. The ALJ agreed with the RUD-OAG that lowering the proportion of fixed cost supported by the monthly charge might lower consumer incentives for conservation.

The ALJ stated that the third criterion indicated that an increase in customer charge would be appropriate. Increasing the monthly charge would limit inappropriate shifting of cost from low-usage to high-usage customers.

3. Commission Analysis

A rate design decision requires exercise of the Commission's legislative function. The Commission must weigh the facts in evidence to determine if the rate design proposed by the utility

is justified and will result in just and reasonable rates.

The Commission agrees with the ALJ that Peoples' proposed increase to the residential customer charge should be approved. This position is reasonable and equitable, is not inconsistent with the facts in evidence, and is in line with prior Commission decisions.

In the 1992 Interstate rate case⁶ the Commission adopted the Company's proposal for an increase to the residential customer charge, against opposition from the RUD-OAG. In that Order the Commission stated:

The Commission notes that customer charges are substantially below cost for all classes of customers. **** As a result, the Commission believes an active step should be taken in this case to move these charges closer to cost. Moving prices toward cost is a reasonable policy which sends the proper price signals, spreads costs in an equitable fashion, and tends to eliminate intraclass cost subsidization.

Order at p. 44.

The Commission notes that in this case the present monthly residential customer charge is \$4.00 and the fixed cost is approximately \$16.50. A move toward cost is warranted in this case and will promote the goals cited in the Interstate Order.

The Commission is aware of its statutory mandate, stated in Minn. Stat. § 216B.03, to set rates to encourage energy conservation. It is possible that an increase in the customer charge may have some secondary effect which is contrary to conservation goals. Acting in its legislative mode, however, the Commission must view any rate design proposal in its full context. The Commission must balance such factors as fairness to ratepayers, conservation goals, revenue and rate stability, and utility investment needs when making a rate design decision. Having weighed these factors in this case, the Commission finds that Peoples' proposed increase in the residential customer charge will result in just and reasonable rates. The Commission will approve Peoples' increase.

D. SFAS 106

In December, 1990, Statement of Financial Accounting Standards (SFAS) 106 was issued by the Financial Accounting Standards Board, the body which sets accounting standards for American finance and business. SFAS 106 changed the accounting treatment

⁶ In the Matter of the Application of Interstate Power Company for Authority to Increase Its Rates for Electric Service in the State of Minnesota, Docket No. E-011/GR-91-605, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (June 12, 1992).

of other post-employment benefits (OPEBs) for most American companies, including Minnesota regulated utilities.

Peoples changed its treatment of OPEBs from pay-as-you-go to SFAS 106 accrual accounting in 1991. At the same time, Peoples reorganized its benefit program to eliminate its retiree medical plan for all employees under age 55 and to freeze Company premium contribution for current retirees and employees aged 55 and older. Future premium increases will be borne by the participants in the plan.

On September 22, 1992, the Commission addressed SFAS 106 accounting treatment for Minnesota utilities in its ORDER ADOPTING ACCOUNTING STANDARD AND ALLOWING DEFERRED ACCOUNTING.⁷ In that Order the Commission adopted SFAS 106 accrual accounting for Minnesota utility recordkeeping and ratemaking purposes, subject to Commission review for prudence and reasonableness of the OPEB programs, expense, and all calculations in future rate cases. The Commission also decided that the treatment of the transition obligation⁸ and the method of funding the OPEB obligation would be decided for each utility on a case by case basis.

In the current rate case Peoples proposed the inclusion of costs calculated using the SFAS 106 accrual method for test year OPEB benefits. Under this proposal, test year OPEB costs would increase by \$58,122 over pay-as-you-go costs. Peoples proposed amortizing the transition costs over 20 years and employing an internal funding mechanism with an associated \$17,300 reduction in rate base. Peoples agreed that it would not include \$278,929 for post-employment retirement prescription drug costs after these costs were inadvertently excluded from its original filing.

Neither the Department nor the RUD-OAG disputed the prudence of Peoples' OPEB costs or the accuracy of the Company's supporting data. Neither agency opposed the Company's recovery of the transition obligation in this rate case.

The ALJ recommended the approval of Peoples' OPEB cost proposal. The ALJ noted that all parties agreed that the Company's OPEB expenses were prudent. The ALJ also noted that the expense of creating and maintaining an external fund would nearly equal the amount of the OPEB increase; external funding would therefore not be cost-beneficial in this case. The ALJ found appropriate the

⁷ In the Matter of the Accounting and Ratemaking Effects of the Statement of Financial Accounting Standards No. 106, Docket No. U-999/CI-92-96.

⁸ The transition obligation is defined in the Commission's September 22, 1992 Order as "the amount accrued for OPEB benefits from employee service already rendered, on the first day of a year in which a company moves from pay-as-you-go treatment of OPEBs to the accrual method."

reduction of rate base by \$17,300, the after-tax, average difference between SFAS 106 and pay-as-you-go expenses. According to the ALJ, an adjustment to rate base is appropriate because the increased expense due to SFAS accounting represents ratepayer-supplied capital.

The Commission finds that Peoples' OPEB cost proposal, including the treatment of the transition obligation and funding methodology, is sufficiently supported in the record and will result in just and reasonable rates. The Commission accepts and adopts ALJ's Findings 33 through 43 and approves the Company's OPEB cost treatment.

E. Eligibility Requirements for Large Volume Customers

Under Peoples' original proposal, a company which wished to avail itself of the Large Volume rate must have the capacity to take 200 Mcf per day and must consume a minimum of 20,000 Mcf per year. The Department disagreed with the second half of the eligibility requirement. According to the Department, a minimum annual consumption requirement could discourage customers from conserving gas. The requirement could also increase administrative costs.

Peoples amended its proposal to eliminate the minimum consumption criterion. Under the amended proposal, a Large Volume customer must have the capacity to take 200 Mcf per day and must take at least 200 Mcf on at least one day within a calendar year. No party opposed the amended proposal.

The ALJ recommended acceptance of Peoples' amended proposal. The ALJ stated that Peoples' amended Large Volume eligibility requirement did not affect the overall revenue requirement and was reasonable.

The Commission accepts and adopts the ALJ's Finding Number 45 and approves the Company's amended Large Volume eligibility requirement.

F. Ratemaking and Accounting Treatment of Pension Expenses

In calculating its revenue requirement, Peoples based its pension expense on test year contributions to the pension fund, instead of on amounts recorded for financial reporting purposes. The Company did this because the financial accounting standard governing the reporting of pension expense, SFAS 87, can result in large fluctuations of pension expense from year to year, even if actual contributions do not vary significantly. Using forecasted contributions, instead of recorded expenses, will reduce test year pension expense by approximately \$600,000. The Administrative Law Judge recommended explicitly approving this departure from generally accepted accounting principles for ratemaking purposes. No party opposed such treatment.

The Commission accepts and adopts Administrative Law Judge's Finding Number 44 and approves the Company's proposal to base pension expense on forecasted test year contributions.

XIII. OVERALL FINANCIAL SUMMARIES

A. Rate Base Summary

In its original filing, Peoples proposed a test year rate base of \$68,208,154. The Commission's finally determined rate base of \$69,122,805 includes the rate base effect of the following adjustments:

Contribution in Aid of Construction	\$ (712,645)
Post Employment Benefits, SFAS 106	(17,300)
Stored Gas Inventory	1,718,076
Accumulated Depreciation	(150,473)
Deferred Taxes	6,083
Cash Working Capital	<u>70,910</u>
Total	<u>\$ 914,651</u>

Based on the foregoing findings, the Commission concludes that the appropriate rate base for the test year is \$69,122,805 as shown below:

UTILITY PLANT IN SERVICE	
Intangible	\$ 2,412,297
Manufactured Gas Production	1,252,149
Transmission	1,015,313
Distribution	94,367,157
General	<u>8,033,465</u>
Total Plant in Service	\$107,080,381
ACCUMULATED DEPRECIATION	
Intangible	\$ 1,239,809
Manufactured Gas Production	900,553
Transmission	103,351
Distribution	30,474,942
General	<u>3,652,544</u>
Total Accumulated Depreciation	\$ 36,371,199
NET PLANT IN SERVICE	\$ 70,709,182
OTHER RATE BASE ITEMS	
Construction Work in Progress	877,762
Accumulated Deferred Income Tax	(3,274,379)
Post Retirement/Customer Advance	(439,211)
Cash Working Capital	(1,146,211)
Materials and Supplies	2,154,911
Prepayments	<u>240,751</u>
TOTAL RATE BASE	<u>\$ 69,122,805</u>

B. Operating Income Statement Summary

In its original filing, Peoples proposed a test year net operating income of \$3,715,507. The Commission's finally determined operating income of \$4,372,225 includes the income effects of the following adjustments:

Test Year Unbilled Revenue	\$ 37,053
Manufactured Gas Plant	297,660
Contributions	4,682
Rate Case Expense	34,727
Conservation	33,214
AFUDC	58,943
Connect/Reconnect Fees	(10,787)
Taconite Line Depreciation	55,550
Membership Dues	26,097
Economic Development	43,756
Advertising	43,171
Revenue Forecast	148,830
Rate Design Related	45,251
Depreciation	(179,159)
Interest Synchronization	<u>17,730</u>
Total	<u>\$ 656,718</u>

Based on the foregoing findings regarding the Stipulation and the Commission's findings on the disputed issues, the Commission concludes that the appropriate Minnesota jurisdictional operating income for the test year under present rates is \$4,372,225 as shown below:

OPERATING REVENUES	
Gas Sales	\$93,227,833
Other Operating Revenue	<u>383,225</u>
Total Operating Revenues	\$93,611,058
OPERATING EXPENSES	
Purchased Gas Cost	\$63,755,845
Manufactured Gas Production	62,661
Transmission	2,591
Distribution	6,095,824
Customer Accounts	2,413,189
Customer Service, Information	739,999
Sales	255,225
Administrative & General	7,868,647
Depreciation & Amortization	3,858,115
Taxes Other Than Income	<u>3,465,337</u>
Total Operating Expenses	\$88,517,433
INCOME TAXES	
State	\$ 174,700
Federal	<u>546,700</u>
Total Income Taxes	\$ 721,400
OPERATING INCOME	<u>\$ 4,372,225</u>

C. Gross Revenue Deficiency

The above Commission findings and conclusions result in Minnesota jurisdictional gross revenue deficiency for the test year of \$5,044,589 as shown below:

Average Rate Base	\$69,122,805
Rate of Return	10.67%
Required Operating Income	7,375,403
Test Year Operating Income	4,372,225
Income Deficiency	3,003,178
Gross Revenue Conversion Factor	1.679750
Gross Revenue Deficiency	<u>\$ 5,044,589</u>

ORDER

1. Peoples Natural Gas Company is entitled to increased gross annual Minnesota jurisdictional revenues of \$5,044,589 in order to produce total annual gross operating revenues of \$98,655,647.
2. Within 30 days of the date of this Order, the Company shall file with the Commission for its review and approval, and serve on all other parties in this proceeding, revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions contained herein, along with the proposed effective date. The Company shall also provide schedules detailing the approved revenue distribution by customer class, with Fairmont customers shown separately and by pipeline. These schedules shall include but not be limited to total revenues by class, revenues from the customer charge, and revenues from sales. The Company shall include proposed customer notices explaining the final rates. Parties shall have 15 days to comment on the compliance filing.
3. Within 30 days of the date of this Order, the Company shall file a plan with the Commission for its review and approval, and serve upon all parties to this proceeding, a proposed plan for refunding to affected customers, with interest, the revenue collected during the interim rate period in excess of the amount authorized herein minus the adjustment authorized in this Order, i.e. \$86,442, the amount in the CIP tracker account. Following the filing of this plan, the parties shall have 15 days to comment.

4. Within 30 days of the date of this Order, Peoples Natural Gas Company shall file with the Commission and serve on the parties, with its revised rates and charges, a revised base cost of gas and supporting schedules incorporating the changes made herein. Peoples Natural Gas Company shall also file its automatic adjustment establishing the proper adjustment to be in effect at the time final rates become effective. Parties shall have 15 days to comment on these filings. The Department shall review these filings in the same manner as any other automatic adjustment filings submitted to them.
5. Within 30 days of the date of this Order, Peoples Natural Gas Company shall file with the Commission and serve on the parties its proposal to assure that no double recovery of the carrying costs associated with storage gas in inventory will occur through the inclusion of storage gas in rate base, as agreed in the stipulation, and through the purchased gas adjustment. Parties shall have 15 days to comment on this filing.
6. The conservation cost recovery charge (CCRC) is \$.00867 per Mcf, calculated by dividing test year conservation expense (\$544,208) by test year sales volumes (62,587,691 Mcf).
7. Within 30 days of the date of this Order, Peoples Natural Gas Company shall file with the Commission and serve on the parties its filing detailing the factors and calculations for determining lost margins and net benefits due to conservation efforts. Parties shall have 30 days to comment on this filing.
8. Peoples Natural Gas Company shall file with the Commission and serve on the parties its actual calculations of lost margins and net benefits due to its conservation efforts. The first filing shall be made no later than November 1, 1994, with annual filings thereafter. Parties shall have 30 days to comment on this filing.
9. On an annual basis, beginning no later than November 1, 1993, Peoples Natural Gas Company shall file with the Commission and serve on the parties its report of conservation costs incurred, the conservation costs recovered, and the balance in the tracker account. Parties shall have 30 days to comment on this filing.
10. This order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

(S E A L)

Attachment: Stipulation Agreement