G-007/M-92-1214 ORDER APPROVING PROPOSAL TO CHANGE DEMAND ENTITLEMENTS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Cynthia A. Kitlinski	Commissioner
Dee Knaak	Commissioner

In the Matter of a Request by Northern Minnesota Utilities for Approval by the Minnesota Public Utilities Commission of a Change in Pipeline Demand Entitlements Due to Northern Natural Gas Company's New Services, Effective November 1, 1992

ISSUE DATE: September 14, 1993

DOCKET NO. G-007/M-92-1214

ORDER APPROVING PROPOSAL TO CHANGE DEMAND ENTITLEMENTS

PROCEDURAL HISTORY

On October 13, 1992, Northern Minnesota Utilities (NMU or the Company) requested permission to change its demand entitlements pursuant to Minn. Rule 7825.2910, subpart 2, by making five changes to its pipeline contracts. NMU proposed to convert its sales and transportation entitlements on Northern to New Services, eliminate its Firm Deferred Delivery (FDD) entitlement, convert its Viking sales contracts to transportation contracts, increase its Viking firm transportation entitlements by 1,500 Mcf per day and to increase its Northern entitlements by 4,000 Mcf per day. NMU also requested permission to change the allocation of demand charges between the General Service (GS) and the Large Volume Service (LVS) customer classes.

On July 21, 1993, the Minnesota Department of Public Service (the Department) filed its report and recommendation. The Department recommended that the Commission

1. approve NMU's conversion to New Services,

2. require that NMU shift 3,000 Mcf (approximately 35 percent) of its sales (SF) entitlements to seasonal service in 1993-94,

3. require that NMU pursue TFX contracts,

4. approve the elimination of FDD service and a requirement that NMU file reports,

5. approve an increase of 4,000 Mcf of firm transportation (FT)

entitlements on Northern,

6. approve the conversion of a Viking bundled sales contract to a firm transportation contract,

7. approve an increase of 1,500 Mcf per day of firm transportation entitlements on Viking for a backhaul arrangement on Northern and a requirement that NMU submit reports,

8. approve the proposed change in PGA allocation factors, and

9. allow NMU to recover undercharges due to billing errors in its annual true-up.

On August 19, 1993, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

There are several aspects of NMU's proposal that deserve separate consideration:

Conversion to New Services

The Commission will approve NMU's proposed conversion to New Services. The Commission finds that NMU has maximized the amount of seasonal transportation entitlements (TF-5 contracts) that it can get from Northern and minimized the amount of more expensive year-round firm transportation entitlements (TF-12 Base and TF-12 Variable contracts) that it uses. NMU should pursue with Northern the possibility of using negotiable seasonal (TFX) entitlements but will not be required, as the Department recommended, to convert approximately one-third of its SF sales entitlements for pipeline gas supply to 5-month seasonal contracts because SF service will not be available next year.

Elimination of FDD Storage Service

NMU proposed to completely eliminate FDD storage service from its supply portfolio because it would reduce gas costs by $214,173 per year. The Commission will allow NMU to drop FDD service but because this change may affect reliability the Commission will monitor the results. The Commission will require NMU to take the following steps:

1. NMU should fully investigate the feasibility of FDD service based on reliability, as well as price, when designing future gas portfolios, and report its findings to the Department in its annual reports; and

2. As an addendum to the Company's 1993 Annual Report (due on September 1, 1993), it should provide the following information:

   a. monthly data on cost of gas used during the 1992-93 heating season;

   b. monthly reports on savings or costs due to the elimination of FDD service;

   c. a plan for ensuring reliable firm service at all times, which specifically addresses interruptions of gas from third-party and/or jurisdictional suppliers; and

   d. other storage options that are available to it including the ones it is continuing to use.

<u>Increase Northern Entitlements by 4,000 Mcf/day</u>

NMU proposed an 4,000 Mcf increase in its year-round (TF-12 Base) entitlements on Northern. 1,500 Mcf were requested for use in a backhaul arrangement with Viking. NMU has recently extended service to Sebeka, Menahga and Park Rapids, Minnesota which caused a 6.1 percent increase in customers in 1992 and a forecasted increase of 24.9 percent in 1993.

The remaining 2,500 Mcf were requested for towns served by Northern and Great Lakes where NMU has experienced a 7.2 percent growth in the number of customers in 1992 and has forecasted an increase of 5.8 percent in 1993.

The impact of this increase was $.0726 per Mcf or $339,205 in total, for firm residential (GS) customers, and $.8045 per Mcf, or $104,263 in total, for firm large volume (LVS) customers. This is a 4.8 percent increase in demand costs for GS and LVS customers.

The Commission finds that this part of NMU's request is reasonable. The increase in entitlements is necessary for NMU to provide reliable year-round service.

<u>Conversion of Viking Contracts</u>

NMU proposed to convert its remaining bundled sales contracts (3,037 Mcf of CR-2) on Viking to transportation-only (3,037 Mcf of FT-2) contracts. All of Viking's sales customers were allowed to convert 100 percent of their firm sales contracts to firm transportation. NMU estimated that this conversion would save $784,464. The Department recommended approving the conversion but estimated that the savings would only amount to $273,794. The Commission will approve the conversion of the bundled sales contracts to transportation contracts.

Increase Viking Entitlement by 1,500 Mcf/day

NMU proposed a 1,500 Mcf per day increase in its Viking entitlement. NMU also has a backhaul agreement with Northern for 1,500 Mcf per day. Viking is a capacity constrained pipeline. Without the backhaul arrangement NMU would not be able to get the additional capacity it needs to provide service in Park Rapids and elsewhere.

These additional entitlements will increase NMU's total gas costs, i.e. demand and commodity costs combined, by approximately $0.0216 per Mcf for GS customers ($100,921 annually or .6 percent) and $0.0408 per Mcf for LVS customers ($5,287 annually or .2 percent).

The Commission will approve the proposed increase but continues to have some concern about the overall reliability of backhaul arrangements during cold weather peak-day conditions. The Commission will order NMU to comply with the same reporting requirements that were required of Peoples and Midwest Gas when their backhaul contracts were approved. See Ordering Paragraph 8.

During the next round of entitlement filings for the 1993-94 contract year, it will be helpful for the Department to review whether it is necessary to continue requiring the utilities to make these reports and, if not, to suggest a sunset date for this reporting requirement.

Change in PGA Allocation Factors

NMU requested permission to reallocate its demand charges between its GS and LVS customer classes. Since its last rate case NMU has only increased the allocation to the LVS customer class when the LVS customer class' entitlements increased without increasing the allocation to the GS customer class.

The reallocation would have the following impact on demand costs for NMU's customers:

	GS customers	LVS customers
per/Mcf	+ $ .1282/Mcf	- $ 4.6207/
total annual cost	+ $ 598,982	- $ 598,842
percent of demand cost	+ 8.3 percent	- 27.1 percent

It does not appear fair to increase the allocation only for LVS customers between rate cases. Demand charges should accurately reflect cost causation and the Company should be allowed to reallocate at this time.

Therefore, the Commission will allow NMU to reallocate demand charges between the two customer classes based on customer demand levels from NMU's peak-day study. NMU will be required to make a reallocation proposal every time it files for an increase in demand entitlements pursuant to Minn. Rule 7825.2910, subpart 2. That rule states in part that "gas utilities shall file for a change in demand .... to redistribute demand percentages among classes...."

Miscellaneous Billing Errors

NMU undercharged its customers in November when it implemented New Services in rates for the first time. The total billing error for the month of November was - $440,635. NMU will be allowed to recover this in its annual true-up filing during the 1993-94 gas year.

Overall Impact on Rates

The following is a summary of the impact these proposals would have on NMU's demand cost of gas:

	GS customers	LVS customers
per/Mcf	+ $ .0826/Mcf	- $ 5.1265
total annual demand cost	+ $ 385,928	- $ 664,394
percent of demand cost	+ 5.2 percent	- 29.2 percent

ORDER

1. Northern Minnesota Utilities' (NMU's or the Company's) conversion to New Services is approved.

2. The Minnesota Department of Public Service (the Department) shall monitor NMU's use of pipeline and third-party gas supplies to ensure appropriate decisions concerning the provision of swing service are made based on price and reliability.

3. NMU shall pursue TFX contracts in the future where feasible.

4. NMU shall file annual reports and addenda to those reports as follows:

    a. NMU shall fully investigate the feasibility of FDD service based on reliability, as well as price, when formulating its future gas supply portfolios, and include its findings in its annual reports to the Department; and

    b. as an addendum to the Company's 1993 Annual Report (due on September 1, 1993), it should provide the following information:

1) monthly data on cost of gas used during the 1992-93 heating season;

2) monthly reports on savings or costs due to the elimination of FDD service;

3) a plan for ensuring reliable firm service at all times, which specifically addresses interruptions of gas from third-party and/or jurisdictional suppliers; and

4) other storage options that are available to it including the ones it is continuing to use.

5. On the condition that NMU make reports to the Department as required in Ordering Paragraph 4, the elimination of FDD service is approved.

6. The 4,000 Mcf/day entitlement increase in Northern TF-12 Base transportation contracts is approved.

7. The conversion of Viking bundled sales service contracts to transportation service contracts is approved.

8. The increase in Viking entitlements by 1,500 Mcf/day with additional reporting requirements to monitor the backhaul arrangement is approved. Those reporting requirements are as follows:

    1. a plan for ensuring reliable firm service at all times, which specifically addresses gas flow interruption caused by backhauls; and

    2. monthly reports to monitor reliability of backhauls which include:

        a. the amount of gas supply transferred among pipeline systems;

        b. the related receipt and/or delivery points for each gas transfer;

        c. a complete description of any interruptions of gas flow; and

        d. a full narrative of any disputes between the distributor and the pipeline involved in the backhaul contract.

9. The change in the demand cost allocation factors is approved.

10. NMU is authorized to recover undercharges to customers in the annual true-up.

11. The Department shall make a full report of its analysis of NMU's Annual report.

12. During the next round of entitlement filings for the 1993-94 contract year, the Department shall review whether it is necessary to continue requiring these reports and if not to suggest a sunset date for this reporting requirement.

13. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Susan Mackenzie
Acting Executive Secretary

(S E A L)