

E-015/M-94-718 ORDER REVISING INTERRUPTIBLE SERVICE RIDER AND
AUTHORIZING ADDITIONAL INTERRUPTIBLE SERVICE

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
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Commissioner

In the Matter of a Petition by Minnesota Power
for Authorization to Offer Additional
Interruptible Service and to Revise the Rider
for Large Power Interruptible Service

ISSUE DATE: October 28, 1994

DOCKET NO. E-015/M-94-718

ORDER REVISING INTERRUPTIBLE
SERVICE RIDER AND AUTHORIZING
ADDITIONAL INTERRUPTIBLE SERVICE

PROCEDURAL HISTORY

I. The Original Service Offering

On June 17, 1993 the Commission issued an Order authorizing Minnesota Power to convert 100 megawatts of firm capacity to interruptible service for its Large Power customers.¹ The terms of the interruptible service rider approved in that Order were briefly as follows.

Customers taking interruptible service would receive a \$5 per kW monthly discount on their demand charge. They would be obligated to carry a contract demand commitment for at least four years. For the following 11 years they would be obligated to purchase at least the amount of their interruptible load from Minnesota Power. For the entire 15-year term Minnesota Power would have a right to match any offer for electric service made by any other provider.

Energy delivered under the interruptible rate would be billed at 100% of the Company's incremental energy cost if the energy was generated by the Company. If the energy was purchased from a third party, it would be billed at 110% of the Company's incremental energy cost.

Should demand for interruptible service exceed 100 megawatts, the Company would allocate available capacity based on customers' contractual demand obligations.

II. The Revised Offering Proposed by the Company

On August 3, 1994 the Company filed a petition to revise its Large Power interruptible service rider, effective May 1, 1995. The proposed revisions were as follows:

- (1) The Company would increase the total amount of interruptible power available to 200 megawatts per month;
- (2) The requirement to carry a contract demand commitment for at least four years would remain, but would be expanded to include a minimum purchase of 50% of the customer's average Measured Demand levels for the previous four

¹ In the Matter of the Petition of Minnesota Power for Approval of an Interruptible Rate for the Large Power Class, Docket No. E-015/M-93-153, ORDER PARTIALLY APPROVING AND PARTIALLY DENYING RATE PROPOSAL (June 17, 1993).

years;

(3) The eleven year purchase requirement would change from the amount of Certified Interruptible Load to the amount of Allocated Interruptible Load²;

(4) The right to match any competing offer to provide electric service would apply only to the amount of Allocated Interruptible Load instead of to all amounts purchased from any source;

(5) The timing of any billing adjustments necessary to reflect differences between Allocated Interruptible Load and Certified Interruptible Load would be changed to coincide with the Mid-Continent Area Power Pool's (MAPP's) certification process.

The Company did not seek ratemaking treatment of any revenue shortfall that might result from the offering and recommended deferring that issue to another docket.

III. Parties' Comments

A. Department of Public Service

The Department of Public Service (the Department) filed initial and reply comments recommending two modifications to the Company's proposal. First, the Department recommended requiring the Company to report at the end of the first year on how the new service offering was affecting customers. Second, the Department recommended revising the surcharge provision, which would assess a surcharge on interruptible load converted to firm load, to exempt load that customers unsuccessfully tried to have certified interruptible in the first round of MAPP certification.

B. Large Power Intervenors

The following Large Power customers intervened jointly and filed joint comments: Blandin Paper Company, Eveleth Taconite Company, Hibbing Taconite Company, Inland Steel Mining Company, and USX Corporation. They opposed changing the terms and conditions of the existing interruptible service offering and proposed the following changes to the new offering:

(1) The Company should not be allowed to condition interruptible service on four-year contract terms, but should offer it to all Large Power customers on the basis of their contract demand for each MAPP season.

(2) If allowed to condition interruptible service on a four-year contract, the Company should not be allowed to require contract demand based on a "reasonable operating level."

(3) The Commission should require clarification of the contract term "non-interruptible power" in place of "firm power" in paragraph 9.

² Certified Interruptible Load is load that meets certification requirements set by the Mid-Continent Area Power Pool. Customers seeking to certify load as interruptible must demonstrate their ability to automatically shed the amount of the load at or near the utility system's peak.

(4) The MW-months in the allocation formula should be discounted to present value using the Company's cost of capital as the discount rate.

(5) The Company should be required to provide to all parties actual data on interruptions and buy-throughs since interruptible service began and pro-forma data projecting how interruptions and buy-throughs would have been affected had an additional 100 MW of interruptible power been available.

(6) The Company should be required to file any instructions it intends to distribute on how the qualification and nomination process will work, to allow prompt identification and resolution of any disputes between Company and customers.

C. Eveleth Expansion Company

Eveleth Expansion Company objected to the proposal. The company stated it did not have the financial ability to commit to a four-year take-or-pay contract and that conditioning eligibility for interruptible power on such a commitment was unreasonably discriminatory.

D. Large Light and Power Customers

The following Large Light and Power customers intervened jointly and filed joint comments: Diamond Brands, Inc., Georgia Pacific Corporation, Lamb Weston/RDD, Land O'Lakes, ME international, Midwest Timber, North Star Steel, St. Gabriel's Hospital, Upper Lakes Foods, and USG Interiors, Inc.

The Large Light and Power Customers opposed the Company's proposal. They argued it would be unfair for the Company to give Large Power customers additional discounts while proposing to eliminate the Dual Fuel discount for Large Light and Power customers in its pending general rate case.³ They also objected to contributing to any rate recovery of any revenue shortfall resulting from the interruptible service offering.

FINDINGS AND CONCLUSIONS

IV. Summary of Commission Action

The Commission finds it is in the public interest to approve the Company's proposal with the modifications and reporting requirements set forth below.

(1) The surcharge for non-certified allocated interruptible load will not apply until after the first round of MAPP certification.

(2) The Company will file a report on or before May 31, 1996 detailing how interruptible service and the additional 100 MW of interruptible load have affected customers.

³ In the Matter of the Application of Minnesota Power for Authority to Change Its Schedule of Rates for Retail Electric Service in the State of Minnesota, Docket No. E-015/GR-94-001.

(3) The Company will file actual data on interruptions and buy-throughs since interruptible service began and pro-forma data projecting how interruptions and buy-throughs would be affected by an additional 100 MW of interruptible power. The filing should clearly show the assumptions underlying the pro-forma data.

(4) The Company will file a clarification of paragraph 9 on the ranking for the distribution of energy.

The first modification, limiting the surcharge for converting interruptible load to firm, is intended to protect customers who try but fail to meet MAPP requirements to certify interruptible load. The modification will allow one dry run at the MAPP certification process before customers begin incurring substantial penalties for misjudging their ability to certify load as interruptible. This is a fair accommodation of the Company's need to ensure that load is truly interruptible and customers' needs to avoid the double penalty of losing interruptible rate treatment and incurring higher than normal firm rate treatment.

The second and third modifications are designed to ensure that the operation of the rider is carefully monitored and that any unintended consequences are identified and dealt with promptly.

The fourth modification is a housekeeping measure necessary to clarify the workings of the allocation process.

The proposal as modified will benefit all Minnesota Power ratepayers. It will increase overall revenues and enhance long-term revenue stability, providing lower rates and reducing the risk of rate shock for all customer classes.

The Commission will defer action on the ratemaking treatment of any revenue shortfall to the pending general rate case.

The recommendations of the parties not adopted by the Commission are addressed below.

A. Large Power Intervenors

1. Four-Year Contract and Minimum Purchase Requirements

The Large Power Intervenors argued the Company should be required to offer interruptible service to all Large Power customers without regard to the length of their electric service contracts. The Commission disagrees.

The purpose of the interruptible rider, and the justification for any short-term revenue shortfall it may produce, is that it helps ensure lower, more predictable energy costs and rates over the long term. It does this by providing a steady stream of revenue from the mandatory four-year contracts, minimum purchase requirements, and rights of first refusal. These features guarantee the Company and its captive ratepayers a minimum level of contribution to fixed costs now and in the future. Without that contribution, the benefits of interruptible service would be too one-sided to justify the offering.

For the same reasons, the Commission approves the "reasonable operating level" requirement. Allowing Large Power customers to purchase interruptible service on the basis of token firm commitments would do little to secure meaningful contribution to fixed costs that must otherwise be borne by captive ratepayers.

2. Discounting Value of Long Term Commitments

The Large Power Intervenors recommended discounting future contract commitments to present value, using the Company's current cost of capital, in allocating interruptible load. They argued that the value of long term commitments is lower than the value of current commitments, that it is impossible to know what such commitments will be worth in the future, and that they should therefore be discounted.

While placing the same value on present and future commitments is admittedly imprecise, so is discounting future commitments on the basis of today's cost of capital. Treating all committed megawatts equally is fair, administratively efficient, and at least as accurate as the discount method proposed by the Large Power Intervenors. It also acknowledges the importance of long term commitments, which after all is the driving force behind the interruptible offering. The Company's proposal to treat all megawatts equally is approved.

3. Changing Existing Tariffs

The Large Power Intervenors opposed changing the terms and conditions of the current interruptible rider under which three Large Power customers are receiving service. The Commission finds the proposed changes are the types of modifications that can be anticipated in the normal course of regulatory practice and will approve them.

All contracts executed under the rider, like all electric service agreements, state that their terms and conditions are subject to modification by the Commission. Rates, for example, change from rate case to rate case. The Large Power Intervenors agree that the changes proposed by the Company are within the Commission's authority, but urge the Commission to establish two riders, old and new, nevertheless, in the interests of fairness.

Most of the proposed changes to the rider favor interruptible customers, not the Company. The right of first refusal and the eleven-year minimum purchase requirement are substantially reduced in the Company's proposal. The Large Power Intervenors claim it is unfair to customers who rejected the original interruptible offering as too burdensome to liberalize its terms and conditions now.

The Commission disagrees. A year's experience with the rider has convinced the Company that specific provisions can be liberalized without adversely affecting the Company or its ratepayers. Fairness does not require perpetuating unnecessarily stringent terms because they may have influenced earlier customer choices. If it is good policy to change the terms of the rider, the terms of the rider should be changed. The Commission will approve the changes proposed by the Company.

B. Eveleth Expansion Company

Eveleth claimed that conditioning eligibility for interruptible service on executing long term contracts unreasonably discriminates against customers who do not have the financial stability necessary to make long term commitments. The Commission disagrees.

The rider meets the fundamental fairness test of treating similarly situated customers similarly. It does differentiate between customers, but it does so on the basis of clear differences firmly related to the legitimate long term interests of the utility's system and its ratepayers. This is not "unreasonably preferential, unreasonably prejudicial or discriminatory" under Minn. Stat. § 216B.03 (1992) and will be approved.

C. Large Light and Power Customers

The Large Light and Power customers argued it would be unfair for the Company to give Large Power customers additional discounts while proposing to eliminate the Dual Fuel discount for Large Light and Power customers in its pending general rate case. They also objected to contributing to any rate recovery of any revenue shortfall resulting from the interruptible service offering.

These are ratemaking issues of the highest importance and they will be treated as such in the pending general rate case. Today's decision does not address the recoverability of any revenue shortfall that may result from the rider or how any shortfall found to be recoverable would be collected from ratepayers.

ORDER

1. The Company's proposal is approved, modified as follows:
 - (a) The surcharge for non-certified allocated interruptible load will not apply until after the first round of MAPP certification.
 - (b) On or before May 31, 1996 the Company shall file a report detailing how interruptible service generally and the additional 100 MW of interruptible load approved herein have affected customers.
 - (c) Within 30 days of the date of this Order the Company shall file actual data on interruptions and buy-throughs since interruptible service began and pro-forma data projecting how interruptions and buy-throughs will be affected by an additional 100 MW of interruptible power. This filing shall clearly show the assumptions underlying the pro-forma data.
 - (d) Within 30 days of the date of this Order the Company shall file a clarification of paragraph 9 on the ranking for the distribution of energy.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)