

ISSUE DATE: June 23, 1995

DOCKET NO. G-001/GR-95-406

ORDER SETTING INTERIM RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of the Request of Interstate Power
Company for Authority to Change Its Rates for
Gas Service in Minnesota

ISSUE DATE: June 23, 1995

DOCKET NO. G-001/GR-95-406

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On May 1, 1995, Interstate Power Company (Interstate or the Company) filed a general rate case for its gas utility. In its filing Interstate requested a rate increase of \$2,365,280, or approximately 29.8 percent over existing rates. Interstate proposed a historical test year ending December 31, 1994.

The Company also filed a proposed interim rate schedule to be effective June 30, 1995. The requested interim rates would increase present revenues by \$1,560,605, or approximately 19.7 percent.

On June 20, 1995, the Commission issued its ORDER ACCEPTING FILING AND REQUIRING FURTHER FILINGS. In that Order the Commission accepted Interstate's rate case filing as substantially complete. The Commission also required that Interstate file certain supplemental and clarifying documents within ten days of the issuance of the Order.

On June 22, 1995, this matter again came before the Commission for consideration.

On June 23, 1995, the Commission issued its NOTICE AND ORDER FOR HEARING, in which the Commission referred the general rate case to the Office of Administrative Hearings for contested case proceedings.

On June 23, 1995, the Commission also issued its ORDER SUSPENDING RATES AND ESTABLISHING DISCOVERY TIME FRAMES in this proceeding.

Under Minn. Stat. § 216B.16, subd. 3 (1994), if rates are suspended the Commission must set an

interim rate schedule within 60 days of the Company's initial rate petition.

FINDINGS AND CONCLUSIONS

I. THE INTERIM RATE STATUTE

Minn. Stat. § 216B.16, subd. 3 (1994) states in part as follows:

Unless the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design.

II. THE COMPANY PROPOSAL

The Company proposed an interim rate increase of \$1,560,605, based on the following revenue deficiency calculation:

Rate Base	\$7,472,031
Operating Revenues	7,937,647
Operating Expenses	8,189,269
Operating Income	-251,622
Rate of Return	8.878
Operating Income Req.	663,367
Income Deficiency	914,989
Revenue Conversion Factor	1.7056
Revenue Deficiency	\$1,560,605

III. THE COMPANY'S MOST RECENT RATE PROCEEDING

The Company filed its most recent gas utility general rate case on September 28, 1990, in Docket No. G-001/GR-90-700. The Commission issued its ORDER ACCEPTING AND ADOPTING STIPULATION AND SETTLEMENT in that matter on June 27, 1991. An annual increase of \$545,208 was authorized in that Order.

IV. FINANCIAL ISSUES

A. Rate Base

In its interim rate filing, Interstate proposed a rate base of \$7,472,031 for the test year ending December 31, 1994. The rate base approved in the last gas general rate case was \$3,461,469. The increase in the Company's rate base is due to:

Utility Plant Additions, Net	\$3,308,682
Accumulated Deferred Inc. Taxes	-281,991
Cash Working Capital	641,702
Unamortized Rate Case/CIP	384,941
Miscellaneous	-42,782
TOTAL	\$4,010,552

1. Utility Plant Additions

Interstate stated that the proposed plant additions are largely due to pipe replacements to meet new government standards and to the piping of new towns.

2. Cash Working Capital

The Company included \$552,874 for gas purchases of storage gas which it began acquiring as a result of FERC Order 636. Although the Company did not have gas storage per se at the time of its last gas rate case, it did have propane fuel in inventory for use as necessary for peaking purposes. The Commission considers that the stored gas inventory is sufficiently similar in nature and kind to the propane fuel inventory and that this proposed inclusion thus fulfills the statutory requirements.

3. Unamortized Rate Case/CIP Costs

Although unamortized rate case costs were allowed in interim rates in Interstate's last gas rate case, the costs were not included in rate base in the Order accepting the rate case final settlement. The governing statute requires rate base or expense items to be the same in nature and kind as those allowed by a currently effective Order of the Commission in the utility's last rate case.

For this reason, the Commission will not allow unamortized rate case costs to be included in rate base for interim rate purposes. This adjustment will result in a reduction of \$134,132 to the Company's proposed rate base.

The Commission will also not allow the inclusion of Interstate’s CIP tracker balance in interim rates because the tracker balance was not included in rate base in the prior case. In addition, the tracker balance is unique in that it includes a carrying charge. The Commission will deduct these costs of \$240,809 from rate base for interim rate purposes.

B. Income Statement

Interstate proposed a test year net income of -\$251,622 for interim rate purposes. This amount compares with \$339,225 approved for final rates in the Company’s last gas general rate case. The difference between interim and final net income is attributable to FAS 106 costs, MGP cleanup costs, and the related tax effects of these costs.

V. RATE OF RETURN

Interstate proposed the following capital structure and cost rates for interim rates:

Type of Capital	Ratio %	Cost %	Weighted Cost %
Short Term Debt	7.593	6.070	0.461
Long Term Debt	43.972	7.802	3.431
Preferred and Preference Stock	7.379	7.225	0.533
Common Equity	41.057	10.900	4.475
Total			8.90%

The capital ratios and cost rates for all components except common equity are those proposed by Interstate for the test year. The rate of return on common equity, 10.9%, is the rate of return authorized by the Commission in Interstate’s most recent general rate case, Docket No. E-001/GR-91-605, for the electric utility. This rate of return is significantly lower than the rate set in the Company’s last gas utility general rate case. The Commission finds that the Company’s rate of return proposed for interim rates meets the intent of Minn. Stat. § 216B.16, subd. 3 (1994).

VI. RATE DESIGN

Minn. Stat. § 216B.16, subd. 3 (1994) provides that there shall be no change in existing rate design for interim rates, unless the Commission finds that exigent circumstances exist.

Under Interstate's proposal, the burden of the interim increase would vary greatly among classes of service. The effect would range from 0% for the Firm Transportation class to 70.6% for Interruptible Transportation. The interim increase would also apply unequally among members of rate classes, depending upon usage. The burden of the interim increase would fall most heavily upon low usage customers. Calculating refunds, if necessary, would be difficult because each customer would have paid a different interim increase.

The Commission finds that Interstate's proposal does not follow the requirements of Minn. Stat. § 216B.16, subd. 3 (1994). Interstate has not offered any showing of exigent circumstances to justify the departure from previous rate design. The Commission will therefore reject Interstate's proposed rate design and require Interstate to implement interim rates through a uniform percentage increase to each customer's bill.

VII. COMMISSION ACTION

Based on the findings and conclusions above, the Commission authorizes an interim rate increase of \$1,502,316 for Interstate, based on the following financial summary which includes the adjustments detailed in this Order.

Rate Base	\$7,087,090
Operating Revenues	7,937,647
Operating Expenses	8,189,269
Operating Income	-251,622
Rate of Return	8.878
Operating Income Requirement	629,192
Income Deficiency	880,814
Revenue Conversion Factor	1.7056
Revenue Deficiency	\$1,502,316

The Commission will require Interstate to implement its interim rates through a uniform percentage increase to customer bills.

Interim rates are collected subject to refund in the event the interim rate level exceeds the final rate level allowed in the general rate case. Minn. Stat. § 216B.16, subd. 3 (1994).

ORDER

1. Interstate is authorized to collect \$1,502,316 in additional annual revenues in interim rates. The interim rate schedule will be effective for service rendered on or after June 30, 1995.
2. Within seven days of the date of this Order, the Company shall file with the Commission and the Department of Public Service interim tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing shall include a proposed notice to customers, approved by Commission Staff, regarding the rate change under the interim rate schedule.
3. The Company shall keep such records of sales and collections under interim rates as will facilitate computation of a refund, if necessary. Any refund shall be made within 120 days of the effective date of the Commission's final Order, in a manner approved by the Commission.
4. The Company shall include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by Commission Staff. Upon completion of this task, the Company shall certify this fact to the Commission.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)