

ISSUE DATE: August 8, 1995

DOCKET NO. G-011/M-94-960

ORDER DENYING REQUEST FOR RECONSIDERATION

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 a Petition from Peoples Natural Gas Company, a Division of UtiliCorp United, Inc., for a Variance from Minn. Rules, Part 7825.2700, Subpart 5

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PROCEDURAL HISTORY

On October 29, 1993, Peoples Natural Gas Company (Peoples or the Company) filed a petition (the entitlements petition) requesting authority to convert its demand entitlements.

On September 12, 1994, the Commission issued its ORDER APPROVING PETITION WITH MODIFICATION in Docket No. G-011/M-93-1092 (the entitlements docket). In that Order the Commission approved Peoples' proposed conversion of entitlements to reflect the Northern Natural Gas Company's restructured pipeline services under Federal Energy Regulatory Commission (FERC) Order 636. The Order also allowed Peoples to recover its share of the pipeline's transition costs in the Company's Purchased Gas Adjustment (PGA). Finally, the Order approved Peoples' designation of four types of transition costs, including producer demand payments, as commodity charges and the allocation of these charges to firm and interruptible sales customers.

On October 17, 1994, Peoples filed a petition (the variance petition) assigned to the current docket. The Company requested a variance from Minn. Rules, Part 7825.2700, subp. 5, to allow the Company to calculate the demand adjustment portion of its PGA using Annual Normalized Sales Volumes.

On March 13, 1995, the Commission issued its ORDER GRANTING VARIANCE WITH CONDITION. In that Order the Commission explained that the September 12, 1994, Order in the entitlements docket had focused on the allocation of transition costs. Peoples' entitlements petition had gone further, however, by proposing that all demand costs, including pipeline demand costs, be allocated to both firm and interruptible sales customers. Although this part of Peoples' entitlements petition was not addressed in the September 12, 1994, entitlements Order, Peoples had assumed that it was approved along with the rest of the Company's petition. Because Peoples could reasonably have construed the Commission's silence on this issue as approval, the Commission agreed to revisit the issue in the variance Order.

Upon reviewing Peoples' variance petition, the Commission agreed to grant the requested

variance to allow the Company to use Annual Normalized Sales Volumes in calculating its PGA. The Commission determined that the public interest would not be harmed by granting the variance, if a condition recommended by the Department of Public Service (the Department) were imposed: on a going-forward basis, Peoples' interruptible customers would not be held responsible for general demand costs. The Commission stated that Peoples' proposal regarding cost recovery of general demand costs should be addressed in the Company's next general rate case, not in a miscellaneous filing. As a practical effect of the condition imposed, both firm and interruptible sales customers' Annual Normalized Sales Volumes could be used to recover Order 636 transition costs, but only firm (GS) customers' Annual Normalized Sales could be used to recover remaining general demand costs.

On April 3, 1995, Peoples filed a request for reconsideration of the March 13, 1995, Order.

On April 13, 1995, the Department filed responsive comments.

On April 21, 1995, the Commission issued its ORDER GRANTING RECONSIDERATION to allow further time to consider the Company's petition, in light of the time constraints of Minn. Stat. § 216B.27, subd. 4 (1994).

The matter came before the Commission for consideration on July 20, 1995.

FINDINGS AND CONCLUSIONS

I. POSITIONS OF THE PARTIES

A. Peoples

In its reconsideration petition, Peoples limited its comments to the Small Volume Interruptible (SVI) class, believing that the Large Volume Interruptible class is unlikely to be affected by the March, 1995, Order.

Peoples stated that reconsideration of the March, 1995, Order would bring the status quo back to the period since November, 1993, when Peoples began recovering pipeline demand costs from all sales customers, both firm and SVI. Peoples asked the Commission to reaffirm the September, 1994, Order, which could be construed as allowing this cost recovery method.

Peoples argued that in the post-636 era it only buys firm transportation (with an associated lower volumetric rate) for all sales customers, whether GS or SVI. According to Peoples, its SVI customers are now taking firm transportation, and the lower volumetric rate, without sharing in related demand costs.

At the July 20, 1995, meeting, Peoples offered what it considered a new compromise position: Peoples would charge its SVI customers the same volumetric rate as the pipeline charges its own interruptible transportation customers. Peoples argued that this increase of 19 cents per Ccf would remove the subsidy which the SVI sales class otherwise receives from the GS class.

Peoples urged the Commission to decide this issue in this proceeding, and not defer a determination to the Company's next general rate case.

B. The Department

The Department stated that interruptible sales customers have made a bargain with the system, under which they agree to be subject to curtailment in exchange for a lower rate. Retaining interruptible customers to the system is important because their loss would mean an increase in rates, including assumption of their share of 636 transition costs, for GS customers. Interruptible customers allow better management of the system, especially in the post-636 era, when gas suppliers are often outside regulatory control.

The Department argued that this docket, which arose from a request for a PGA accounting variance, is not the place to explore a major rate design change.

II. COMMISSION ACTION

Peoples seeks a major change to its rate design, which may well result in the practical elimination of its interruptible sales class. The Commission remains convinced that there are too many open questions for this matter to be determined in this forum.

Questions arise from the Company's statement that all sales customers, firm or interruptible, receive equal benefits of no-notice transport, swing supplies, and storage. Is the Company using the proper ratio of pipeline transportation, storage, and peak shaving between firm and interruptible customers? If advantages to the two classes are equal, is there a reason to continue having interruptible sales customers?

The Commission does not share the Company's confidence that FERC 636 was intended to result in situations in which customers representing 90 percent of volumes move from interruptible sales to interruptible transport. The Commission agrees with the Department that FERC 636 was meant to bring more efficiency and competition to the delivery of gas, not to make the local utility the supplier of last choice, as stated by Peoples.

The Department also notes that Peoples' "agency services," the unregulated service by which it obtains gas supplies for individual customers rather than for the system as a whole, is largely used by transportation customers. The Commission agrees with the Department that the relationship between Peoples' agency services and its choice of cost recovery methods could be explored more fully.

Peoples' emphasis on the non-gas cost differential between GS and SVI rates also raises questions regarding the Company's class cost of service study, which calculates the cost to serve

each customer class.

All these questions, and more, should be explored fully in the Company's next general rate case. Major rate design decisions must be examined in the context of the Company's overall rate design, financial picture, and rate of return.

Finally, the Commission does not believe that the Company's proposed compromise--charging SVI sales customers the same pipeline volumetric rate as the pipeline charges its own interruptible transportation customers--resolves the issues raised. Although the rate increase for SVI customers would be modified under the compromise, the same unresolved questions would remain.

Because the Company has raised no new issues on reconsideration, and the Commission continues to believe that this matter must be considered in the context of a general rate proceeding, the Commission will deny the Company's petition for reconsideration.

The Commission notes that the Company had been under the belief that the cost recovery methods it implemented in November, 1993, were authorized in the Commission's September, 1994, Order. When the Commission specifically denied the Company's proposal in the March, 1995, Order, the Company filed the present request for reconsideration. The Commission will therefore require the Company to return to its pre-November, 1993, cost recovery method on a prospective basis. Beginning with the September, 1995, PGA, Peoples must bill customers for their demand costs in the manner described in the Commission's March 13, 1995, Order.

ORDER

1. The Commission denies Peoples' April 3, 1995, petition for reconsideration.
2. Beginning with the September, 1995, PGA, Peoples must bill customers for their demand costs in the manner described in the Commission's March 13, 1995, Order
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)