

ISSUE DATE: April 2, 1996

DOCKET NO. G-001/M-95-687

ORDER ALLOWING DEFERRAL OF COSTS AND REQUIRING FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Tom Burton
Marshall Johnson
Dee Knaak
Don Storm

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Interstate Power
Company for Deferral of Expenses Associated
with Former Manufactured Gas Plants

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PROCEDURAL HISTORY

On April 13, 1995, the Commission issued its ORDER APPROVING REQUEST FOR AUTHORITY TO DEFER COSTS AND REQUIRING FILINGS in Docket No. G-001/M-94-633.¹ In that Order the Commission granted Interstate Power Company (Interstate or the Company) the authority to defer cleanup costs for former manufactured gas plant (MGP) sites in Rochester and Albert Lea, Minnesota. The Commission denied the Company's request to defer MGP costs for sites in New Ulm, Owatonna, and Austin, Minnesota, because the Company was unable to provide necessary information regarding liability, potential costs, or insurance recovery. The Commission stated that denial of Interstate's request to defer these costs did not preclude the Company from seeking deferral at a later date.

In the April 13 Order, the Commission also determined that it would not allow the Company to allocate MGP costs between its electric and gas ratepayers in future rate case proceedings. Costs of MGP site investigation and remediation must be allocated to gas ratepayers alone.

On July 3, 1995, Interstate filed a petition seeking authority to defer costs of investigation and remediation for the New Ulm, Owatonna, and Austin MGP sites. Interstate stated that the Commission should allow deferred accounting treatment of these costs because they are substantial, unforeseen, and extraordinary.

¹ In the Matter of a Request by Interstate Power Company for Deferral of Expenses Associated with Former Manufactured Gas Plants.

On August 30, 1995, the Department of Public Service (the Department) filed comments recommending approval of Interstate's request. The Department recommended that the Commission modify the date that deferral would begin and require annual informational filings.

In comments filed on September 1, 1995, the Residential Utilities Division of the Office of Attorney General (RUD-OAG) recommended denial of Interstate's request for deferred accounting. If the Commission allows deferral of MGP costs, the RUD-OAG urged the Commission to require annual filings, clarify that carrying charges are not allowed on deferred balances, and note that costs must not be allocated to electric customers.

Interstate filed supplemental information on cost recoveries on September 5, 1995, and reply comments on September 14, 1995.²

On March 14, 1996, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND

Interstate owned and operated manufactured gas plants in Austin, New Ulm, and Owatonna, Minnesota. The Minnesota Pollution Control Agency (MPCA) has determined that MGP remediation will be necessary at these sites. Although Interstate no longer owns the properties, the MPCA has identified the Company as a potentially responsible party.

Interstate will participate in an MPCA accelerated remediation program that is intended to control remediation costs. Interstate is currently pursuing third-party recovery of investigation and remediation costs. The Company has identified insurance policies and companies and filed notice of its claims. Interstate has also filed suit against insurance carriers to recover its MGP costs.

From the date of filing its original petition for deferred accounting treatment until the filing of the current petition, Interstate had incurred \$71,000 in investigation costs for the three sites. Interstate estimates additional investigation costs of approximately \$600,000 before remediation begins. Interstate proposed recording all actual MGP costs in Account 186, Miscellaneous Deferred Debits.

Interstate asked to begin deferring accrued costs from July 11, 1994, when it first petitioned for authority to defer costs. Although the Commission denied Interstate's first request to defer the

² Although Interstate filed its reply comments after the expiration of the ten day reply period in Minn. Rules, part 7829.1400, subp. 4, no party objected to the submission of the comments. The Commission finds that the reply comments provide information that is helpful to its consideration. The Commission will therefore vary the time period and accept the late-filed comments. Minn. Rules, part 7829.1400, subp. 7.

New Ulm, Owatonna, and Austin MGP costs, the grounds for denial were the Company's failure to provide sufficient information regarding liability and recovery. The Company stated that it has now provided all relevant information, and should be allowed to defer costs from the July 11, 1994, date.

II. COMMISSION ACTION

A. Deferral of Costs

Interstate will be responsible for approximately \$600,000 in investigation costs, before the costs of remediation are calculated. Although the MGP cleanup costs are related to the provision of gas service because they are necessary expenses of Interstate's gas business, they are extraordinary in the sense that they are not ordinarily incurred gas expenses, and will one day end. The MGP cleanup costs could not have been foreseen by the Company in its long-term planning. The costs are not a product of the utility's planning, but are imposed upon the Company by environmental requirements. As late as the filing of the original petition on July 11, 1994, the Company had little or no idea of the magnitude of these costs. Although the Company has now been able to estimate its investigation costs, it is as yet unable to accurately forecast the costs of remediating the sites.

Prompt attention to the MGP site remediation will likely benefit gas ratepayers by minimizing environmental litigation or fines. The Company is strongly pursuing third party recovery by identifying and pursuing insurance claims and initiating legal action when necessary. Interstate is cooperating in the MPCA-sponsored accelerated remediation program, a process which is meant to shorten the cleanup process and control costs.

The Commission finds that in this case Interstate's MGP costs are substantial, extraordinary, and unforeseen. Deferral of these costs will be consistent with the public interest. The Company is pursuing every reasonable means of mitigating its expenses. For all of these reasons, the Commission finds that it is appropriate in this instance to grant Interstate an exception to the Uniform System of Accounts under Minn. Rules, part 7825.0300, subp. 4. Granting the exception will allow Interstate to defer costs of MGP cleanup of the New Ulm, Owatonna, and Austin sites. The decision is based upon careful consideration of the specific facts pertaining to these sites.

The Commission will allow deferral, a special accounting treatment, so that the Company's extraordinary costs can be considered in the context of a general rate case. In the rate case venue, the parties can develop all MGP issues, such as prudence and reasonableness of the expenses and proper amortization of the deferred expenses. The Commission emphasizes that it will scrutinize these deferred costs in the rate case setting; allowing deferral of the costs at this time in no way guarantees eventual rate recovery.

B. Cost Allocation

In the April 13, 1995, deferral decision and in the Order confirming the decision upon

reconsideration³, the Commission stated that Interstate must allocate its MGP cleanup costs to its gas ratepayers alone. The Commission restates this finding for any future rate case consideration of the New Ulm, Owatonna, and Austin expenses.

C. Carrying Charges

If the Commission allows future rate case recovery of the New Ulm, Owatonna, and Austin MGP costs, the Commission will not allow carrying charges on the unamortized deferred balance. The Commission will treat this issue in a manner consistent with its finding in the recent Interstate gas utility rate case, Docket No. G-001/GR-95-406.⁴

D. The Start of Deferral

Interstate asked to be allowed to begin deferral from the date of filing its original petition in Docket No. G-001/M-95-687. According to Interstate, nothing distinguishes the two filings except the level of information provided. Interstate argued that it has now supplied the information lacking when the Commission denied its original deferral request. Interstate asked that the Commission consider the first filing date controlling, so that the \$71,000 in investigation costs the Company incurred before filing its second petition could be deferred along with the rest of its MGP expenses for the three sites.

The Commission will modify Interstate's deferral proposal and require deferral to begin as of the filing date of the current petition, July 3, 1995. The Commission denied deferral of the three sites in Docket No. G-001/M-94-633. When it did so, it did not keep the docket open or hold it in abeyance pending the receipt of further information. With the filing of the July 3, 1995, petition, a new docket was opened and a new matter commenced. By allowing deferral to commence from the date of the current petition, the Commission is acting in a manner consistent with its prior treatment of deferral for Interstate and other gas utilities.

³ ORDER AFTER RECONSIDERATION (August 21, 1995)

⁴ In the Matter of the Request of Interstate Power Company for Authority to Change Its Rates for Gas Service in Minnesota, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (February 29, 1996).

E. Annual Informational Filing

The Department and RUD-OAG recommended that the Commission require Interstate to submit annual informational filings on MGP cleanup and recovery. The Company agreed with the concept. The Commission finds that the annual filings are a reasonable means of monitoring Interstate's MGP cleanup activities and efforts for third-party recovery. The Commission will require the annual filings.

ORDER

1. The Commission grants Interstate authority for deferred accounting of MGP investigation and remediation costs and third party recovery for the New Ulm, Owatonna, and Austin MGP sites, with deferral beginning July 3, 1995.
2. On or before May 1, 1996, and annually by May 1 thereafter, Interstate shall file an analysis of the Miscellaneous Deferred Debits Account, which includes the amount of its expenditures for MGP cleanup activities for the prior calendar year. The annual report shall explain and show the types of costs by site sub account and what amounts were recovered from insurance companies and other parties. Interstate shall prepare a schedule detailing planned or anticipated further activities for insurance and third party recovery of costs extending in time to when Interstate expects all remediation to be complete, suits resolved, and all cost recovery efforts completed.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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