ISSUE DATE: June 7, 1996

DOCKET NO. G-008/M-95-1144

ORDER APPROVING CHANGE IN DEMAND ENTITLEMENTS AND DENYING
REQUEST TO
CONSOLIDATE PGA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

In the Matter of a Request by Minnegasco for Approval to Increase Its Pipeline Demand Entitlements, Change Its Portfolio of Capacity Services, Reduce Its Overall Pipeline Demand Charges, and Consolidate Its Viking Pipeline Company and Northern Natural Gas Pipeline Company Service Area Rates

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PROCEDURAL HISTORY

On November 1, 1995, Minnegasco filed a request for permission to increase its demand entitlements, including pipeline, peak-shaving capacity, and storage. Minnegasco also proposed a reduction in its total demand costs. Finally, Minnegasco proposed combining its purchased gas adjustment (PGA) for the Viking Gas Transmission Company (Viking) rate area and Northern Natural Gas Company (Northern Natural) rate area into one consolidated PGA.

On January 2, 1996, the Department of Public Service (the Department) submitted comments supporting the Company's request to increase its demand entitlements and reduce associated costs, and opposing Minnegasco's request to consolidate its PGA.

On January 12, 1996, Minnegasco filed reply comments. On February 26 and March 18, 1996, Minnegasco filed supplemental information on the rate impact of the proposed PGA consolidation.

On April 25, 1996, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. CHANGE IN DEMAND ENTITLEMENTS AND RECOVERY OF ASSOCIATED COSTS

No party questioned Minnegasco's need for increased pipeline capacity. Neither did any party dispute the Company's proposed recovery of associated costs.

The Commission finds that Minnegasco's request for a change in demand entitlements and recovery of associated costs is appropriate and will be granted.

II. MINNEGASCO'S PROPOSED PGA CONSOLIDATION

A. Factual Background

In July, 1993, the Commission approved Minnegasco's exchange of certain property for Minnesota service territory served by Midwest Gas Company (Midwest). Docket No. G-008, 010/PA-93-92.

In Minnegasco's last general rate case, the Commission approved the consolidation of two groups of Northern customers--those traditionally served by Minnegasco and those formerly served by Midwest. Docket No. G-008/GR-93-1090. Minnegasco did not at that time propose including the Viking service area in its consolidation.

Minnegasco's Viking service area consists of approximately 1,000 customers in the towns of Dalbo, Foreston, Milaca, and Pease. These towns are directly connected to and served by the Viking pipeline system. They were formerly served by Midwest before the utilities exchanged properties in 1993.

B. Positions of the Parties

1. Minnegasco

Minnegasco estimated a rate increase of approximately $10 per year for the 1,000 customers in the Viking rate area if the Northern Natural and Viking PGAs were consolidated. Minnegasco implemented the proposed rate change and consolidation, effective November 1, 1995, subject to possible Commission adjustment, pursuant to Minn. Rules, part 7825.2920, subp. 1.

Minnegasco offered a number of reasons that the PGA consolidation should be approved by the Commission. First, there is increased physical linkage between the Viking and Northern Natural parts of Minnegasco's distribution system. The combined system contains three linkages which were not available when Midwest Gas was serving the Viking areas. Minnegasco stated that it is now possible to move gas back and forth freely along the distribution system. Minnegasco argued further that it purchases gas supplies for the Viking and Northern Natural areas on an integrated basis and the costs should therefore be consolidated.

Second, Minnegasco argued that the administrative costs of approximately $10 per customer associated with maintaining two separate PGAs exceeds the Department's estimated rate savings of $0.48 per year per Viking customer under the two-rate system. The Company noted that the Department's estimate shows that gas costs for the two areas would be quite similar under consolidation.

2. The Department

The Department urged the Commission to deny Minnegasco's request to consolidate the Northern Natural and Viking rate areas.

The Department stated that Minnegasco's Viking and Northern Natural systems are not fully integrated because the Company could not serve 100% of the Viking area's peak-day gas requirements through the use of back-haul contracts on Northern. Until full integration is reached, the costs of service in the two areas will be different and the costs should be reflected in separate rates.

According to the Department, the Viking customers are not sufficiently benefitted from the consolidation with the Northern system to justify the rate increase of approximately $0.48 per year.

The Department recommended that the Commission explore these issues in the Company's next general rate case. In the meantime, the Commission should continue to follow its established precedent and require separate PGAs.

C. Commission Action

With its proposed PGA consolidation, Minnegasco is requesting a potentially significant rate design change. In order to address the request, the Commission must examine a number of related issues--issues such as the significance of "sufficient integration" and the benefits of consolidation to the general system and ratepayers as a whole as compared to the rate impact on Viking customers.

The Commission agrees with the Department that a significant rate design question such as this should be examined in the full context of a general rate proceeding. The Commission will deny Minnegasco's request at this time. The Company is free to raise the issue again in its next general rate case.

ORDER

1. The Commission approves Minnegasco's change in demand entitlements and recovery of associated costs in its PGA.

2. The Commission denies Minnegasco's proposal to consolidate its PGA for the Viking and Northern Natural rate areas. Minnegasco will be required to resume separate gas cost recovery for the two rate areas, and to reconcile the differences in costs between the two rate areas in its 1996 true-up filing.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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