

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Edward A. Garvey	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayner	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of Otter Tail Power's proposed Large General Service Rider and Electric Service Agreement with Lakehead Pipeline Company, L.P.

ISSUE DATE: October 8, 2001

DOCKET NO. E-017/M-01-1039

ORDER APPROVING ELECTRIC SERVICE AGREEMENT AND LARGE GENERAL SERVICE RIDER, AS CONDITIONED

PROCEDURAL HISTORY

On February 22, 1996, the Commission issued an Order in Docket No. E-017/M-95-1454 approving the current Electric Service Agreement (ESA) between Otter Tail Power Company (OTP) and Lakehead Pipeline Company (Lakehead).

On January 24, 2000, the Commission issued an Order in Docket No. E-017/M-99-1572 approving an amendment to reduce the firm demand level in Lakehead's contract from 48 MW to 40 MW based on conservation measures implemented by Lakehead.

On November 16, 2000, Docket No. E-017/M-00-1273, the Commission approved an amendment extending the expiration date of the ESA from December 31, 2000 to June 30, 2001.

On June 8, 2001 (Docket No. E-017/M-01-430) the Commission approved an amendment extending the expiration date of the ESA from June 30, 2001 until September 30, 2001.

On June 29, 2001 OTP filed a petition requesting approval of 1) a proposed Large General Service Rider and 2) an Electric Service Agreement with Lakehead Pipe Line Company, L.P. The Company requested an effective date of October 1, 2001 for both the rider and the agreement.

On August 6, 2001, the Minnesota Department of Commerce (the Department) recommended the Commission approve OTP's petition with modifications.

On August 28, 2001, OTP filed incomplete reply comments.

On September 6, 2001, Otter Tail Power filed a public version of the electric service agreement.

On September 7, 2001, Otter Tail Power filed a public version of its reply comments.

The Commission met on September 20, 2001 to consider this matter.

FINDINGS AND CONCLUSIONS

I. OTP'S PROPOSALS

A. Service Agreement

OTP proposed a service agreement with Lakehead under which Lakehead would purchase its full requirements electric service for the seven crude-oil pumping stations in OTP's north/northwestern Minnesota service territory for the following time period: October 1, 2001 to December 31, 2003 and thereafter until terminated with a twelve month written notice.

The Service agreements contains an exit fee that protects OTP and its remaining customers from stranded costs in the event Lakehead terminates or otherwise breaches the agreement.

B. Large General Service (LGS) Tariff/Rider

OTP proposed to replace its current Time of Use (TOU) rider (tariff) with a Large General Service (LGS) Rider. Customers opting for service under the LGS Rider sign a written agreement designating their firm demand, billing demand, and on-peak and off-peak Baseline Demand. The customer will pay the standard tariff rate for energy up to the Baseline Demand, but any usage beyond the Baseline Demand is priced at the System Marginal Energy Price (SMEP) and is subject to curtailment at the Company's request.

OTP proposed to lower the minimum demand criterion from 10MW (current TOU Rider) to 1 MW. The Company explained that this change would increase number of customers eligible for the service from 3 (current 10 MW requirement) to about 300.

II. THE DEPARTMENT'S COMMENTS

A. Proposed ESA With Lakehead

The Department recommended approving the ESA but noted that the Company has agreed to provide motor-starting service to Lakehead without voltage-dampening equipment and suggested that the Company should identify customers that are in similar situations and offer them similar services when possible.

B. LGS Rider

The Department viewed the proposed LGS Rider as an improvement from the existing TOU rider, but objected to some aspects of the proposal.

- The Department objected that the relation between Baseline Energy and the market prices is asymmetric, i.e. when market energy prices are low, the customer can benefit by purchase above the baseline, but when market energy prices are high, the customer is not provided with an incentive to reduce its consumption below the baseline. The Department would prefer a well-designed real-time pricing rate, where the relationship between baseline energy and market prices would be symmetric and encourage customers to decrease energy consumption below baseline levels.
- The Department also objected that the margin is misplaced, that since it is built into the demand charge and by changing the SMEP in this manner interferes with the price signals.

Because the parties (OTP and Lakehead) agree with the proposed placement of the adder, however, the Department did not oppose the LGS Rider the 10 MW minimum demand criteria, which the Department noted was consistent with the demand criteria for the TOU rider it replaces. For the smaller customers (at least 1 MW but under 10W), however, the Department recommended against approval and suggested that OTP develop a more efficient real time pricing (RTP) rate for these customers.

III. COMMISSION ANALYSIS AND ACTION

The Commission has reviewed the ESA, finds it reasonable, and will approve it.

Regarding the LGS Rider, the Commission agrees with the Department's desire to achieve appropriate price signals. But the Commission also hears the Company's response that the rider is not designed as a real time price offering, that agreements under the rider are voluntary and would give the Company the important ability (unavailable under real time pricing) to curtail a customer in certain, non-emergency situations, and that any asymmetry is addressed by other service offerings.

The Commission finds, therefore, that the agreement reached by the parties at the hearing on this issue provides an appropriate way to move forward with these concerns. The terms of that agreement are set out in the Ordering Paragraphs.

ORDER

1. The Commission approves the Electric Service Agreement (ESA) between Otter Tail Power and Lakehead Pipeline.

2. The Commission approves Otter Tail Power Company's (OTP's) Large General Service Rider for customers with at least a 10 MW load.
3. The Commission also approves on an experimental or pilot basis for two and one-half (2 ½) years the Large General Service Rider as proposed by OTP for customers with at least a 1 MW load.
4. Within two (2) years of this Order, OTP and the Department shall file a report with the Commission regarding the experimental/pilot tariff (the Large General Service Rider for customers with at least a 1 MW load).
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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