

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 a Petition by Peoples Natural Gas Company, a Division of UtiliCorp United Inc., to Continue its Aggregation Service, and a Petition by Northern Minnesota Utilities, a Division of UtiliCorp United Inc to Initiate an Aggregation Service

ISSUE DATE: May 7, 2002

DOCKET NO. G-007, 011/M-01-1970

In the Matter of a Petition by Peoples Natural Gas Company and Northern Minnesota Utilities, Divisions of UtilitiCorp United Inc., for Authority to Increase Natural Gas Rates in Minnesota and to Consolidate the Two Utilities

DOCKET NO. G-007, 011/GR-00-951

ORDER APPROVING AGGREGATION SERVICE OFFERINGS AND REFERRING RATE ISSUE TO RATE CASE

PROCEDURAL HISTORY

On December 28, 2001, Peoples Natural Gas Company (Peoples) and Northern Minnesota Utilities (NMU), both operating divisions of UtiliCorp United Inc., filed a petition containing two proposals: (1) to convert Peoples' aggregation service for transportation customers from a pilot project to a permanent service; and (2) to add aggregation service as a permanent service offering to NMU's tariff books.

Aggregation service permits an energy marketer or other third party to combine individual transportation customers into a group and have the group treated as a single customer for purposes of nominating daily gas supplies and determining pipeline penalties for consumption over or under the amounts nominated. Within the group, individual incidents of over- and under-consumption tend to offset one another, producing greater stability and lower total penalties. Use of this service may allow customers more flexibility and allow smaller customers to take transportation service.

On February 28, 2002, a group of UtiliCorp transportation customers filed joint comments supporting the petition. They stated that they found aggregation service a valuable tool for controlling energy costs and remaining competitive within their individual industries. The customers making up the group are listed below.

- Twin City Silica
- Gopher Resource Co.
- Ecolab
- Foremost Farms-USA
- Lakeside Foods, Inc.
- IGH Distribution Center
- Tiller Corp.
- Bergquist Company
- Public Utilities Commission Fairmont
- Lake O Lakes, Inc.
- Plainview Milk Products Cooperative
- Textile Care Services
- Bauerly Brothers, Inc.
- Crenlo, Inc.
- Seneca Foods, Corporation
- ATOFINA Chemicals, Inc.
- Marigold Foods, LLC

On March 22, 2002, the Department of Commerce (the Department) filed comments. The Department recommended continuing the aggregation service program for Peoples and extending the program to NMU. Because the agency considered the companies' cost documentation inadequate, however, the Department was unable to conclude that the proposed rates were fair and reasonable. (The companies' proposal was to make permanent for both companies Peoples' pilot rate of \$.04 per Mcf.)

The agency therefore recommended maintaining both companies' programs as pilot projects, retaining the \$.04 per Mcf rate, establishing semi-annual reporting requirements to clarify costs, and capping the annual revenues the companies could retain from the combined programs at \$115,000, the test year revenue number for aggregation services agreed to by the parties in the companies' ongoing general rate case.¹ The agency recommended that annual revenues exceeding \$115,000 be distributed through the Purchased Gas Adjustment to firm sales customers.

On April 1, 2002, the companies filed reply comments stating that their filing had adequately documented their costs and challenging the legality of using the Purchased Gas Adjustment to return any part of the programs' revenues to ratepayers.

On April 25, 2002, the petition came before the Commission.

¹ In the Matter of a Petition by Peoples Natural Gas Company and Northern Minnesota Utilities, Divisions of UtilitiCorp United Inc., for Authority to Increase Natural Gas Rates in Minnesota and to Consolidate the Two Utilities, Docket No. G-007, 011/GR-00-951.

FINDINGS AND CONCLUSIONS

None of the parties dispute the companies' claim that offering aggregation services is in the public interest, and all parties agree that Peoples' aggregation services program should both continue and be extended to NMU. The Commission concurs.

As the filing of the transportation customers illustrates, aggregation services can be an important tool for businesses seeking to control their energy costs, especially for smaller businesses that do not have energy specialists on staff to help them navigate the complexities of standard transportation services. The Commission will therefore approve Peoples' proposal to continue offering aggregation service and NMU's proposal to begin offering it. Both offerings will be approved as permanent service offerings.

At the same time, the Commission shares the Department's concern that the rates for these services be examined in greater detail, especially in light of their permanent status. This is important to protect against over-earning, to prevent potentially inappropriate inter-class subsidies, and to avoid disrupting what will rapidly become the settled expectations of aggregation customers.

For purposes of administrative efficiency the Commission will refer this issue to the Office of Administrative Hearings, asking the Administrative Law Judge hearing the companies' ongoing rate case to include in that proceeding the issue of the appropriate rates for aggregation services. While the rate case is not ideally suited to this inquiry – the test year data, for example, will have to be supplemented by current, actual data and projected 2002 data on aggregation services – it is the best vehicle available. The parties to both cases are identical, the witnesses may be the same, and the Administrative Law Judge is already familiar with the companies' financial data.

Of course, at this stage in the rate case most issues have already been fully developed. The Commission emphasizes that it does not seek to expand the scope of live issues beyond the aggregation services rate issue. In fact, the Commission urges the Administrative Law Judge hearing the case to limit his inquiry in response to this referral to the single issue of the appropriate rates for the two companies' aggregation services, unless a significant and material impact upon other ongoing rate case issues is shown.

The Commission will so order.

ORDER

1. The Commission grants the petition of Peoples Natural Gas Company to convert its aggregation service for transportation customers from a pilot project to a permanent service.

2. The Commission grants the petition of Northern Minnesota Utilities to add aggregation service as a permanent service offering to its tariff books.
3. Both companies shall promptly file tariff changes reflecting these decisions.
4. The Commission refers the issue of the appropriate rates for both companies' aggregation services to the Office of Administrative Hearings for inclusion in the companies' ongoing rate case, In the Matter of a Petition by Peoples Natural Gas Company and Northern Minnesota Utilities, Divisions of UtiliCorp United Inc., for Authority to Increase Natural Gas Rates in Minnesota and to Consolidate the Two Utilities, Docket No. G-007, 011/GR-00-951.
5. The rate issue referred above shall be developed on the basis of current, actual data and projected 2002 data on aggregation services.
6. The Commission urges the Administrative Law Judge hearing the case to limit his inquiry in response to this referral to the single issue of the appropriate rates for the two companies' aggregation services, unless a significant and material impact upon other ongoing rate case issues is shown.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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