BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Gregory Scott	Chair
Ellen Gavin	Commissioner
Marshall Johnson	Commissioner
LeRoy Koppendrayer	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Petition by Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc., for Authority to Increase Natural Gas Rates in Minnesota

ISSUE DATE: December 4, 2002

DOCKET NO. G-004/GR-02-1682

ORDER SETTING INTERIM RATES

PROCEDURAL HISTORY

On October 7, 2002, Great Plains Natural Gas Company, a Division of MDU Resources Group, Inc. (Great Plains or the Company) filed a general rate case. The Company requested a rate increase of $1,587,202, or approximately 6.9% over existing rates. Great Plains proposed for interim rates an increase of revenues of $1,385,432, or approximately 6.15% above existing revenues.

On October 17, 2002, the Department of Commerce (DOC) submitted comments stating that the Company's filing was incomplete. The DOC recommended that the acceptance of Great Plain's filing be delayed until Great Plains filed certain accounting schedules that fully comply with Minnesota Rules.[1] The DOC recommended that the rate case clock be suspended until the DOC confirmed that the Company had complied with these rules.

On October 22, 2002, the Company submitted reply comments and supplemental financial schedules.

On October 28, 2002, the DOC submitted reply comments indicating that the supplemental financial schedules submitted by Great Plains completed the filing. The DOC recommended that the Commission accept Great Plains filing and refer the matter to the Office of Administrative Hearings (OAH) for contested case proceedings.

On November 19, 2002, the Commission issued its NOTICE AND ORDER FOR HEARING, which referred the matter to the OAH for contested case proceedings.

[1] Minnesota Rules, parts 7825.4000 and 7825.4100.

On the same date, the Commission issued its ORDER ACCEPTING FILING, SUSPENDING RATES, AND SETTING EFFECTIVE DATE FOR INTERIM RATES. This Order, among other things, accepted the filing as substantially complete as of October 22, 2002, suspended rates and set December 6, 2002, as the effective date of interim rates for services rendered on and after that date.

Under Minn. Stat. § 216B.16, subd. 3, the Commission must order an interim rate schedule into effect no later than 60 days from the filing of a general rate case, unless the Commission allows the proposed rates to go into effect.

On November 21, 2002, the Commission met to set interim rates for the duration of the rate case proceeding.

FINDINGS AND CONCLUSIONS

I. The Legal Standard

Under Minn. Stat. § 216B.16, subd. 3, interim rates are established in expedited proceedings conducted ex parte. Except under exigent circumstances, the following principles control.

Interim rates are based on the proposed test year cost of capital, the proposed test year rate base, and proposed test year expenses. They are calculated using existing rate design and the rate of return on common equity authorized in the company's last general rate case. Only rate base and expense items similar in nature and kind to those allowed under the company's last general rate case Order can be included in interim rate calculations.

Interim rates are collected subject to refund. If the Company collects more in interim rates than it would have collected in final rates, it refunds the difference to ratepayers. If it collects less, it can recover the difference, but only for the time period between the final determination in the rate case and the date on which final rates go into effect.[2]

II. The Company Proposal

The Company proposed an interim rate increase of $1,385,432 based on the following revenue deficiency calculation:

Rate Base	$9,376,991
Required Rate of Return	10.914%
Required Income	$1,023,405
Operating Income	$211,126
Income Deficiency	$812,279
Gross Revenue Conversion Factor	1.705611
Revenue Deficiency	$1,385,432

[2] Minn. Stat. § 216B.16, subd. 3.

III. The Company's Most Recent Rate Proceeding

In 1987 the Commission approved a settlement regarding Great Plains' rates. The Commission found that the Company's existing rates for natural gas service in Minnesota need not be changed as a result of the federal Tax Reform Act of 1986 nor a Commission-ordered earnings investigation.

Great Plains' last rate case was in 1983, in Docket No. G-004/GR-83-465.[3] In that rate case, the Company was allowed to increase its rates by approximately $463,488, or 2.6%. Final rates in the 1983 rate case were effective June 8, 1984.

IV. Financial Issues

A. Chamber of Commerce Dues and CIP Costs

In the Company's most recent rate proceeding[4] the Commission disallowed recovery of dues for the Chamber of Commerce. The Company's response to an information request showed that $5,514 was paid for these dues in 2001. Adjusting that amount for inflation of 2.81 percent for 2002 and 2003 results in a test year expense of $5,828.

Further, the Company agreed that revenues recovering Conservation Improvement Program (CIP) costs should be increased by $12,317 so they equal the test year CIP expenses. This will ensure revenue neutrality for CIP in the test year.

B. Commission Action

Minn. Stat. § 216B.16, Subd. 3(b)(2) requires that interim rate requests should include expense items "the same in nature and kind" as those allowed in the utility's most recent rate proceeding. For this reason, the Commission will require that the dues expense be disallowed for interim rate purposes. This disallowance would reduce the proposed revenue deficiency by $5,828.

Further, the Commission will require that revenues from CIP be increased by $12,317 to make CIP revenue neutral. The revenue deficiency resulting from these two adjustments is $1,367,287.

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[3] In the Matter of the Petition of Great Plains Natural Gas Company for Authority to Change Its Schedule of Natural Gas Rates for Customers Within the State of Minnesota, Docket No. G-004/GR-83-465, FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER, June 8, 1984.

[4] See footnote 3, above.

V. Capitalization and Cost of Capital

A. Company's Proposal

Great Plains proposed to use the following capital structure and cost rates for interim rates:

Type of Capital	Ratio	Cost	Weighted Cost
Long-term Debt	43.039%	9.180%	3.951%
Preferred Stock	5.274%	4.622%	0.244%
Common Equity	51.687%	13.000%	6.719%
Total			10.914%

In Great Plains' 1983 rate case the Commission allowed a 14.850% return on common equity and an overall rate of return of 12.664%.

For final rates Great Plains is requesting a return on common equity of 13.00% and an overall rate of return of 10.914%. The Company is also requesting to use its final requested return on common equity of 13% with an overall rate of return of 10.914% for interim rates.

B. Commission Action

The proposed return on equity for interim rates is below that approved in the Company's last rate case. That rate reflected the higher cost of capital at that time. The Commission finds that the Company's rate of return proposed for interim rates meets the intent of the interim rate statute.

VI. Rate Design

A. Exemption of Flexible Rate Customers

Great Plains proposed that the interim rate increase be passed on in the form of an equal percentage increase to all classes of customers, excluding the customers currently paying less than the authorized margin under flexible rate schedules. The excluded customers would be seven market rate customers, five in the City of Crookston and two in the South-13 rate area. [5]

[5] Great Plains' proposed no final increase in class revenue responsibility for these customers.

The Company argued that an increased rate for customers under the flexible rate schedule would increase the risk of losing these customers. Further, the Company argued that it is only providing transportation to these customers and these customers could by-pass the Company's system thereby having no need for Great Plains services. The Company indicated that the amount at issue is approximately $16,000.

B. Commission Action

Minn. Stat. § 216B.16, subd. 3 provides that an interim rate schedule shall include no change in the existing rate design, unless exigent circumstances exist. The Company's proposal would constitute a change in the existing rate design because the customer classes are assigned disproportionate shares of the increased revenue requirement. The Commission does not find that exigent circumstances exist which would allow this change in rate design. It is not persuaded that such a de minimis interim rate increase would result in the Company losing these customers.

The Commission will require the Company to allocate the interim rate increase equally to all customer classes.

VII. Implementing the Interim Rate Increase as a Volumetric Surcharge

A. Company Proposal

Great Plains proposed that it implement the interim rate increase as a volumetric per dekatherm (dk) surcharge. After calculating the dollar amount of each increase for each customer class in each rate area, Great Plains proposed to calculate a volumetric (per dekatherm) surcharge for each customer class.

This surcharge, when applied to customer bills, would generate an equal percentage increase from each customer class. Under this method, the surcharge would vary from class to class, and from rate area to rate area in proportion to currently authorized base energy rates (and the amount of energy consumed by each customer class).

B. Commission Action

The Commission has allowed the method proposed by Great Plains to be used by other companies.[6] This method does not change the existing rate design or the structure of the individual rate schedules. The Commission will approve it.

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[6] See In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, ORDER SETTING INTERIM RATES, October 10, 1995 and In the Matter of the Application of Northen States Power Company's Gas Utility for Authority to Change its Schedule of Gas Rates for Retail Customers Within the State of Minnesota, , Docket No. G-002/GR-92-1186, ORDER SETTING INTERIM RATES, December 31, 1992.

VIII. The Rate Increase on Customer Bills and Interim Rate Tariff Sheets

A. Company's Agreement

The Company agreed to show the interim rate increase as an "Interim Rate Adjustment" on customer bills as a separate line item. The Company also agreed to the following bill message for the Firm Gas Service-General customer class in the South-13 rate area (and equivalent messages for other areas):

> This month's bill includes an interim rate adjustment of $.4060 per dk. This adjustment represents an overall increase in rates for Great Plains of approximately 5.98% based on the average amount of gas used per year by an average customer. This increase is subject to refund pending a final decision on Great Plains' request for a rate increase by the Minnesota Public Utilities Commission.
>
> See the enclosed insert for details about Great Plains' request to change its rate.[7]

B. Commission Action

The Commission will authorize Great Plains to show the interim rate adjustment in the format and with the billing message discussed herein. Great Plains will have to modify its proposed interim rate tariff to reflect this.

ORDER

1. The interim rates proposal filed by Great Plains is hereby approved, adjusted to reflect the disallowance of Chamber of Commerce dues and the increase in CIP revenues, resulting in a final revenue deficiency of $1,367,287.

2. Great Plains shall allocate to all customer classes an equal percentage amount of the interim rate increase.

3. Great Plains is authorized to use the volumetric surcharges calculated as proposed in Statement E, pp.1-3, of the Company's Interim Rate Petition as modified by financial adjustments and rate design decisions as set out in this Order.

4. Great Plains shall submit in a compliance filing a recalculated Statement E of its Interim Rates Petition that shows the actual amount of operating revenue that would be collected using the recalculated interim rate surcharges (billing determinates).

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[7] This only needs to appear on the customer bills in the billing cycle that includes the bill insert.

5. Great Plains shall show the interim rate increase on customer bills using the format and revised billing message set forth herein. Great Plains shall modify its interim rates tariff sheets to reflect this decision.

6. Great Plains shall file with the Commission and the Department of Commerce modified tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include a proposed notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule.

7. Great Plains shall keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission.

8. Great Plains shall include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, Great Plains shall certify this fact to the Commission.

9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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