BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendrayer	Chair
Marshall Johnson	Commissioner
Ken Nickolai	Commissioner
Phyllis A. Reha	Commissioner

In the Matter of a Request by Aquila, Inc. d/b/a Aquila Networks-NMU for Approval of a Change in Demand Entitlements for 2003-2004

ISSUE DATE: August 13, 2004

DOCKET NO. G-007/M-03-1781

ORDER APPROVING DEMAND ENTITLEMENTS FOR 2003-2004

PROCEDURAL HISTORY

On November 3, 2003, Aquila Networks-NMU (NMU or the Company), a division of Aquila, Inc. (Aquila), filed its request for a change in demand entitlements for 2003-2004. Aquila requested that the amount of demand entitlement be changed due to a contract demand level change on the Northern Natural Gas Transmission (NNG) system for all the classes of service effective November 1, 2003.

On February 20, 2004, the Department of Commerce (DOC) filed comments recommending that NMU's request be denied.

On April 5, 2004, NMU filed reply comments.

The matter came before the Commission on July 29, 2004.

FINDINGS AND CONCLUSIONS

The DOC's Recommendations

The DOC made the following recommendations regarding NMU's proposed demand entitlement filing:

1. deny NMU's proposed demand entitlement filing;

2. require NMU to defer for review in the 2004 Annual Automatic Adjustment Report any penalties which may result from Aquila's negative reserve margins in Zones E-F and D and to not pass through its PGA or true up any such penalties;

3. require NMU to develop a design-day methodology that produces reasonable and consistent results on a going forward basis;

4. reject NMU's proposed allocation factors of 5.90 percent for winter firm peaking capacity and 3.97 percent for non-winter firm peaking capacity and all the related proposed capacity assignments and costs;

5. require NMU to reduce the jurisdictional capacity by direct assignments instead of the design day by direct assignments;

6. require NMU to allocate its winter entitlements based on its capacity net of direct assignments to the total Aquila capacity net of direct assignments of 5.81 percent for 2003-2004, as recommended by the DOC and shown in DOC Attachment 1E;

7. require NMU to allocate its non-winter entitlements based on NMU's design day to the total Aquila design day of 3.78 percent for 2003-2004, as recommended by the DOC and shown in DOC attachment 1E;

8. require the DOC's recommended cost recovery effective with NMU's November 1, 2003, Purchased Gas Adjustment.

II. The Company's Response

The Company did not object to the DOC's recommendation number 2, and, in regards to number 3, agreed to work with the DOC to develop a mutually acceptable methodology. The Company also agreed to allow NMU to directly assign the discounted TFX(5). The Company disagreed with the other DOC recommendations. The Company's position on the other DOC recommendations is set forth below.

NMU stated that the other recommendations involve the issue of the appropriate mechanism for allocating gas costs among four jurisdictions. It argued that in order for the Company to properly recover its gas costs, any change in allocation methodology needs to occur in a manner that allows the same changes to occur in each of the other jurisdictions. Otherwise, NMU will either over-recover or under-recover its gas costs.

The Company stated that it has filed in each of the jurisdictions the same methodology that it has used since approved by the Commission in Docket G-011/M-96-1407, with one minor change that benefitted Minnesota ratepayers (and resulted in increased costs in the other jurisdictions). The Company indicated that each of the other jurisdictions has already approved the change.

NMU stated that the change recommended by the DOC would strand $42,534 of the Company's legitimate gas costs. NMU argued that since there were no allegations by the DOC that NMU acted imprudently or that the level of entitlement was inappropriate or that NMU's methodology violated any Commission rule or policy, if the Commission were to adopt the DOC's proposal it should be implemented in the Company's 2004-2005 demand entitlement filing. This would allow NMU to make corresponding changes in other jurisdictions and thereby recover its legitimate gas costs.

The Company also argued that the DOC's proposed methodology was a material change in the previously approved allocation methodology. The Company recognized that it made a small change in its methodology only for the non-winter firm capacity costs, which made a cost reduction for firm service for Minnesota ratepayers. The Company argued that it was being penalized for making this change by the DOC's assertion that if the previous methodology is changed, then a completely different allocation procedure should be adopted. It was NMU's position that, although NMU did not agree with the DOC's methodology as presented, the Company was willing to work with the DOC to develop a mutually acceptable methodology to be used in the 2004-2005 entitlement filing.

III. Commission Action

The Commission finds that the recommendations supported by the DOC and agreed to by the Company are appropriate and reasonable and the Commission will adopt them. These recommendations require NMU to defer for review in the 2004 Annual Automatic Adjustment Report any penalties which may result from Aquila's negative reserve margins in Zones E-F and D and to not pass through its PGA or true up any such penalties, and to allow NMU to directly assign the discounted TFX(5).

The Commission will require the Company to use the DOC-recommended methodology for allocating winter and non-winter entitlements starting with the 2004-2005 year. That is, the Commission will require NMU to reduce the jurisdictional capacity by direct assignments instead of the design day by direct assignments. The Commission recognizes that to require the Company to change its methodology for the current year would place an unfair burden on the Company. It was not unreasonable for the Company to rely on the allocation process previously approved by the Commission and used by the Company for several years without material change. However, the DOC's recommendation that NMU reduce jurisdictional capacity by direct assignments rather than reducing the design day by direct assignments is reasonable and the Commission will require that this methodology be used starting with the 2004 -2005 year.

Finally, for the same reasons discussed above, the Commission will allow the cost recovery based on the Company's filed allocation effective with NMU's Northern system November 1, 2003, Purchased Gas Adjustment.

ORDER

1. NMU shall use the methodology recommended by the DOC for allocating winter and non-winter entitlements starting with the 2004-2005 year.

2. NMU shall defer for review in the 2004 Annual Automatic Adjustment Report any penalties which may result from Aquila's negative reserve margins in Zones E-F and D and shall not pass through its PGA or true-up any such penalties.

3. NMU may directly assign the discounted TFX(5).

4. The cost recovery based on the filed allocation shall be allowed effective with NMU's Northern system November 1, 2003, Purchased Gas Adjustment.

5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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