

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye
Marshall Johnson
Ken Nickolai
Thomas Pugh
Phyllis A. Reha

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Petition by Greater
Minnesota Gas, Inc. for Authority to Establish
Natural Gas Rates in Minnesota

ISSUE DATE: April 13, 2005

DOCKET NO. G-022/GR-04-667

ORDER SETTING RATES, ACCEPTING
AND ADOPTING ADMINISTRATIVE LAW
JUDGE'S RECOMMENDATION, AND
REQUIRING COMPLIANCE FILING

PROCEDURAL HISTORY

On April 30, 2004, Greater Minnesota Gas, Inc. made its first general rate case filing under Minn. Stat. § 216B.16. The Company had previously been exempt from state rate-regulation under Minn. Stat. § 216B.16, subd. 12, but recent additions to its customer base had placed its total number of customers over the statute's 2,000-customer limit. On August 26, 2004, the Company filed supplementary information to complete its rate case filing, and the Commission accepted the rate case as of that date.

The rate case filing stated that the Company had determined that it had an annual revenue deficiency of some \$527,563 but did not propose to increase its rates. Instead, it proposed to use this first rate case as a vehicle for achieving compliance with the requirements of the Public Utilities Act¹ and with the rules promulgated under that Act governing natural gas utilities.²

On September 14, 2004, the Commission referred the case to the Office of Administrative Hearings for record development, public hearings, and contested case proceedings, if necessary.

On February 18, 2005, the Administrative Law Judge assigned to the case, Allan W. Klein, filed his Findings of Fact, Conclusions, Recommendation, and Memorandum. He recommended that the Commission accept and adopt the final recommendations of the Department of Commerce, in which the Company concurred. Those recommendations included requiring specified filings to bring the Company into regulatory compliance, setting guidelines for the Company's next rate case, and permitting the Company to continue charging its existing rates until its next rate case.

¹ Minnesota Statutes Chapter 216B.

² Those rules would include portions of Minnesota Rules Chapters 7820, 7825, 7690.

On March 7, 2005, the period for filing exceptions to the Administrative Law Judge's report ended, and the hearing record closed under Minn. Stat. § 14.61, subd. 2.

On March 31, 2004, the case came before the Commission. The parties continued to support adopting the recommendations of the Department of Commerce. Further, neither party opposed the additional, clarifying recommendations put forward by Commission staff.

FINDINGS AND CONCLUSIONS

I. The Legal Standard

Minn. Stat. § 216B.03 sets the legal standard for Minnesota utility rates:

Every rate made, demanded, or received by any public utility, or by any two or more public utilities jointly, shall be just and reasonable. Rates shall not be unreasonably preferential, unreasonably prejudicial or discriminatory, but shall be sufficient, equitable and consistent in application to a class of consumers. To the maximum reasonable extent, the commission shall set rates to encourage energy conservation and renewable energy use and to further the goals of sections 216B.164, 216B.241, and 216C.05. Any doubt as to reasonableness should be resolved in favor of the consumer. For rate making purposes a public utility may treat two or more municipalities served by it as a single class wherever the populations are comparable in size or the conditions of service are similar.

Using these standards to determine the justness and reasonableness of proposed rate schedules, of course, turns on the analysis of a multitude of detailed, technical facts.

II. Proceedings Herein

The Company and the Department worked together to determine, analyze, and fit together the myriad facts that would determine the Company's revenue requirement, including but not limited to the following: operating costs, capital costs, investment levels, sales and revenue levels, cost differentials by customer size and location, service extension costs and policies, accounting practices and standards, conservation investments, customer service practices and standards.

The Department agreed with the Company that this analysis ultimately demonstrated a revenue deficiency, which it placed at \$513,167, slightly lower than the Company's figure. The Department also agreed with the Company that it was reasonable to forgo adjusting rates to collect that deficiency and to focus instead on laying a solid foundation for ongoing regulatory compliance and future rate cases.

The Department found no major anomalies or other cause for concern in regard to the Company's financial status, rate levels, rate structure, or record-keeping. The agency did recommend disallowing rate recovery for several expense items, found a clerical error in one account, and recommended a list of filings to demonstrate compliance with Minnesota's customer service and consumer protection rules, especially those governing disconnection during the cold weather season. The Company agreed to all the Department's recommendations.

The Commission staff, too, identified several minor errors in Company tariffs and recommended additional filings to demonstrate regulatory compliance, including a proposed notice informing customers that the rate case has been concluded with no change in rates. Here, too, the Company assented to all recommendations.

III. Commission Action

The Commission accepts and adopts the findings, conclusions, and recommendation of the Administrative Law Judge, in which all parties concur.

The Commission finds that the Company's revenue requirement has been properly determined and that the Company's proposal to continue charging its current rates, rather than raise rates to recover the revenue deficiency, is appropriate. The Commission agrees with the parties that it is reasonable to use this proceeding as a vehicle for bringing the Company into compliance with the Public Utilities Act and the rules governing natural gas utilities.

The Department's minor adjustments to the Company's original schedules, to which the Company agreed, are detailed in the ordering paragraphs, as are the Commission staff's adjustments, also accepted by Company and Department.

IV. Financial Schedules

Based on the foregoing findings, the appropriate rate base summary, operating income summary, and financial summary for the test year are set forth below:

Rate Base Summary

Utility Plant in Service	
Intangible	\$3,324
Distribution	\$7,806,767
General	<u>\$105,559</u>
 Total Plant in Service	 <u>\$7,915,650</u>
 Accumulated Depreciation & Amortization	
Intangible	\$3,324
Distribution	\$624,331
General	<u>\$70,410</u>
 Total Accumulated Depreciation & Amortization	 <u>\$698,065</u>
 Net Utility Plant	 \$7,217,585
 Customer Security Deposits	 (\$420)
Contribution in Aid of Construction	(\$119,689)
Deferred Tax Asset	<u>(\$452,953)</u>
 Rate Base	 <u>\$6,644,523</u>

Operating Income Summary

Operating Revenue	
Gas Sales	
Residential	\$2,982,952
Commercial	\$90,647
Industrial	\$21,520
Agricultural	<u>\$42,612</u>
 Total Gas Sales	 <u>\$3,137,731</u>
 Unbilled Revenue	 \$167,232
Activation Fees	\$60,000
Miscellaneous Income	<u>\$1,963</u>
 Total Operating Revenue	 <u>\$3,366,926</u>
 Operating Expenses	
Cost of Gas Purchases	\$2,243,846
Distribution - Operation	\$33,699
Distribution - Maintenance	\$3,865
Customer Accounts	\$95,399
Sales Expense	\$11,225
General & Administrative	\$499,398
Depreciation & Amortization	\$184,130
Taxes Other than Income	\$154,091
Income Taxes including MN min fee	<u>\$6,530</u>
 Total Operating Expenses	 <u>\$3,232,183</u>
 Net Operating Income	 <u>\$134,743</u>

Financial Summary

Rate Base	\$6,644,523
Rate of Return	6.58%
Return on Equity	10.0%
Required Operating Income (net)	\$ 437,210
Revenue (including gas revenue)	\$3,366,926
Expenses (including gas expenses)	\$3,232,183
Operating Income	\$ 134,743
Income Deficiency	\$ 302,468
Conversion Factor	1.6966
Revenue Deficiency	\$ 513,167

V. Compliance Filing Required

The Commission will require the Company to make a compliance filing within 30 days of the date of this Order addressing the regulatory compliance issues identified in the course of this proceeding. The Commission will also set requirements for the Company's next rate case, building on the foundation laid in this case.

ORDER

1. The Commission hereby accepts and adopts the recommendation of the Administrative Law Judge in this case.
2. The Commission finds that Greater Minnesota Gas, Inc. has demonstrated a test-year revenue deficiency of \$513,167, based on an overall rate of return of 6.58%, a 72.5%/27.5% debt to equity ratio, a 5.28% cost of debt, and a 10.00% cost of equity.
3. In determining the test-year revenue deficiency, the Commission disallows rate recovery of \$11,700 of Conservation Improvement Program expenses designated as incentives for customers switching from propane to natural gas.
4. In determining the test-year revenue deficiency, the Commission disallows rate recovery of \$530 in depreciation expense as set forth in the Department of Commerce's Final Rate Review Status Report.
5. In determining the test-year revenue deficiency, the Commission disallows rate recovery of \$1,000 in marketing expenses involving load building.

6. In determining the test-year revenue deficiency, the Commission allows rate recovery of an additional \$8,449 in regulatory expense that was originally omitted due to a typographical error.
7. The Company shall establish a separate account for regulatory expenses beginning in 2004.
8. In determining the test-year revenue deficiency, the Commission disallows rate recovery of country club member dues of \$554.
9. The Company shall keep a record of bad debt expenses to permit calculation of an average amount in the Company's next rate case.
10. In its next rate case filing the Company shall include a study identifying the incremental costs of providing service upon which a flexible rate can be established.
11. The Company shall maintain records to permit it to demonstrate in its next rate case that it has correctly and consistently applied its extension tariffs and that it has appropriately accounted for extension costs added to plant.
12. In future rate case filings the Company shall provide the following information for each customer class, adjusted for billing errors:
 - a. The billing-cycle sales (energy use).
 - b. The billing-cycle number of customers.
 - c. Billing-cycle weather data (heating degree-days).
13. In determining the test-year revenue deficiency, the Commission allocates \$10,000 in payroll taxes and retirement benefits to the Company's affiliate, Greater Minnesota Synergy, Inc.
14. In its next rate case filing the Company shall include the following information:
 - a. Consolidated Balance Sheets for the base year and projected test year in a format similar to the Consolidated Balance Sheets included in the Company's August 6, 2004 Supplemental filing.
 - b. Consolidated Income Statements for the base year and projected test year in a columnar format similar to the Consolidated Income Statements included in the Company's August 6, 2004 Supplemental filing and line item format similar to the GMG Statements of Income included in Attachment 9 of the Company's initial rate case filing.
 - c. A description of the methods and factors used to assign each cost or revenue to GMG and/or GMS, as well as the dollar amount of each cost or revenue assigned to each company by each method.

15. In its next rate case filing the Company shall include the information set forth below, if it proposes to continue having separate rate areas:
 - a. A Class Cost of Service Study for each rate area.
 - b. An overall Class Cost of Service Study for the entire regulated natural gas utility.
16. In its next rate case filing the Company shall include the information set forth below, if it proposes to consolidate any of its rate areas:
 - a. A Class Cost of Service Study for the consolidated areas.
 - b. A Class Cost of Service Study for the entire regulated natural gas utility, if different from the consolidated Class Cost of Service Study in ¶ 16 a.
17. Within 30 days of the date of this Order the Company shall make a filing conforming its tariffs with the rules and statutes set forth below, together with any necessary explanation:
 - a. Minn. Rules, part 7820.1200 (Temporary Disconnection of Service).
 - b. Minn. Rules, part 7820.1300 (Nonpermissible Reasons to Disconnect Service).
 - c. Minn. Rules, part 7820.1400 (Landlord-Tenant Rule).
 - d. Minn. Rules, part 7820.1750 (Deposits and Delinquency Charges Prohibited).
 - e. Minn. Rules, part 7820.1800 (Cold Weather Disconnection Restriction).
 - f. Minn. Rules, part 7820.1900 (Notices of Disconnection, Customer Rights and Declarations, and Assistance; Appeal).
 - g. Minn. Rules, part 7820.2000 (Determining Inability to Pay or Plan Eligibility).
 - h. Minn. Rules, part 7820.2100 (Payment Schedule).
 - i. Minn. Rules, part 7820.2150 (Ten Percent Payment Plan Appeals).
 - j. Minn. Rules, part 7820.2200 (Disconnection of Potentially Unoccupied Units).
 - k. Minn. Rules, part 7820.2300 (Reconnection at the Beginning of Cold Weather Months).
 - l. Minn. Rules, part 7820.2400 (Notice Requirements).
 - m. Minn. Rules, part 7820.2500 (Manner of Disconnection).
 - n. Minn. Rules, part 7820.2700 (Disputes).
 - o. Minn. Rules, part 7820.2800 (Escrow Payments for Disputes).

- p. Minn. Rules, part 7820.2900 (Waiving Right to Disconnect; Emergency Status).
 - q. Minn. Rules, part 7820.3200 (Billing Basis).
 - r. Minn. Rules, part 7820.3500 (Billing Content).
 - s. Minn. Rules, part 7820.3900, subp. 1 (Meters too Fast or too Slow) and subp. 4 (Failure to Check Faulty Meter).
 - t. Minn. Rules, part 7825.2700, subp. 8 (Refunds).
 - u. Minn. Stat. §325E.02(b) (Customer Deposits).
18. Within 30 days of the date of this Order, the Company shall file a proposed customer notice clearly explaining final rates.
 19. Within 30 days of the date of this Order, the Company shall file the revised customer bill format discussed in the course of these proceedings. The Company shall implement the new format at the same time as the final rates and tariffs approved in this docket.
 20. Within 30 days of the date of this Order, the Company shall file revised tariff sheets incorporating the decisions in this docket, including the following revisions to the Company's purchased gas adjustment clause on proposed Sheet No. 18, Section V, of its Gas Rate Tariff Book:
 - a. line 5, replace "ad" with "as."
 - b. line 8 and 9, delete the words "from time to time."
 - c. line 14, replace "MPUC Rule 7825.2400." with "MPUC Rule, parts 7825.2400 and 7825.2700, subpart 5."
 - d. line 19, replace "\$0.004 per Ccf" with "\$0.003 per Ccf" (Pursuant to MPUC Rule 7825.2700, subpart 3).
 - e. line 19, add "Monthly PGA reports are filed monthly with the Minnesota Department of Commerce."
 - f. line 31, replace "cot" with "cost".
 21. Within 30 days of the date of this Order, the Company shall file a revised base cost of gas and supporting schedules incorporating any changes made as a result of this rate case, and automatic adjustments establishing the proper adjustments to be in effect at the time final rates become effective.
 22. Within 30 days of the date of this Order, the Company shall file copies (revised as necessary) of all standard customer service agreements and contracts for inclusion in its tariff book.

23. The Company shall begin prorating its Purchased Gas Adjustment billing rates as of July 1, 2005.
24. Comments on the filings required above shall be filed within 30 days of the date on which the filings are made.
25. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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