

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of the Petition of Aquila
Networks-PNG for Approval of a Change in
Demand Entitlements for its Customers Served
by Northern Natural Gas Pipeline System

ISSUE DATE: July 21, 2006

DOCKET NO. G-011/M-05-1728

ORDER APPROVING CHANGE IN
DEMAND ENTITLEMENT LEVEL WITH
CONDITIONS

PROCEDURAL HISTORY

On November 1, 2005, Aquila Networks-PNG (Peoples), a division of Aquila, Inc. (Aquila) filed a request that the Commission approve changes in demand entitlements for Peoples' Minnesota customers served off the Northern Natural Gas (Northern) system.¹ Peoples requested that the Commission approve the requested changes to be recovered in the purchased gas adjustment (PGA) effective on November 1, 2005.

On January 3, 2006, the Department of Commerce (the Department) filed comments and recommendations.

On January 13, 2006, Aquila filed reply comments agreeing, and/or not objecting to the Department's recommendations.

On July 13, 2006, the Commission met to consider the matter.

FINDINGS AND CONCLUSIONS

I. The Department's Recommendations

¹ The filing was made pursuant to Minnesota Rule 7825.2910, subp. 2.

On January 3, 2006, the Department filed comments recommending that the Commission approve Peoples' proposed demand entitlement levels. Specifically, the Department recommended that the Commission:

1. Approve Peoples' proposed overall demand entitlement level for the Northern system, as filed;
2. Require Peoples to defer any pipeline penalties which may result from Aquila's negative reserve margin in Zone D for review in Peoples' fiscal year 2006 Annual Automatic Adjustment Report due on September 1, 2006, and to not pass through Peoples' PGA or true up any such penalties.
3. Approve the use of the proposed allocation factors of 45.27 percent for allocating winter demand costs and 33.71 percent for allocating non-winter demand costs to Peoples' Northern system customers; and
4. Approve the PGA recovery of costs associated with People's proposed demand entitlement level effective November 1, 2005.

Aquila agreed with the Department's first, third and fourth recommendations, and did not object to the second recommendation.

II. Commission Action

A. Uncontested Recommendations

The Commission finds that the recommendations supported by the Department and agreed to by the Company are reasonable, appropriate, and will adopt them with the conditions set forth below.

B. Design Day Entitlements

Peoples argued that its total entitlement level decreased due to a change in the Minnesota design day as a percentage of the total Northern system design day.² The Commission is concerned, however, that might be only partly the case.

In 2004-2005, Minnesota's design day was 33.79 percent of the system total. In 2005-2006, Minnesota's design day was 33.71 percent of the total. However, that change accounts only for 501 Mcf³ of the total decrease of 9,856 Mcf. It seems likely that the primary reason the entitlement level

² Design day is a calculated forecast used to determine the firm capacity requirements, given the coldest adjusted heating degree day experienced in 20 years.

³ Mcf is one thousand cubic feet, a unit of measure for natural gas.

dropped was that the total entitlements on the Northern system decreased from 651,092 Mcf to 623,310 Mcf.⁴

The Commission is aware that the reliability of Aquila's design day forecast has been a concern in the past. In the Commission's Order in Docket No. G-011/M-02-1919,⁵ the Commission directed that:

For demand entitlement filings made after the Order in this docket, the Company shall develop a design day methodology that produces reasonable and consistent results on a going forward basis.

Peoples did develop a new methodology following the above Order, and the 2004-2005 filing showed reasonable results. The Commission has some concerns, however, with the current filing. Peoples reports a decrease of 3.76 percent in design day usage combined with a 3.07 percent increase in customers over a single year. While the Commission is certainly aware that average use per customer may have decreased due to a number of factors, the *decrease* in design day usage juxtaposed with the *increase* in customers does not on its face appear to be a logical result.

Moreover, the period of time utilized by Peoples in its regression analysis was only from November 2004 to March 2005, and may have been inadequate with respect to the number of data points included.

Therefore, the Commission will approve the demand entitlement level, subject to the Company reevaluating its design day methodology prior to its next filing.⁶

ORDER

1. Aquila's proposed overall demand entitlement level for the Northern system is approved, conditioned upon its reevaluation of its design day methodology prior to its next filing.
2. Aquila's proposed allocation factors of 45.27 percent for winter demand costs and 33.71 percent for non-winter demand costs to Peoples' Northern system customers are approved.
3. PGA recovery of costs associated with Aquila's proposed demand entitlement level is

⁴ On a Northern served system wide basis, Aquila has a reserve margin of 0.7 percent.

⁵ *In the Matter of a Request by Aquila Networks - PNG for Approval of a Change in Demand Entitlements on the Northern Natural Gas System for 2002/2003*, Docket No. G-001/M-02-1919 (April 19, 2004).

⁶ The Commission approved the sale of the Company to Minnesota Energy Resources Corporation (MERC) in a June 1, 2006 Order. Thus, the current filing may well be the final demand entitlement filing made by Aquila.

approved effective November 1, 2005.

4. Peoples shall defer any pipeline penalties which may result from Aquila's negative reserve margin in Zone D for review in Peoples' fiscal year 2006 Annual Automatic Adjustment Report due on September 1, 2006.
5. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

This document can be made available in alternative formats (i.e., large print or audio tape) by calling (651) 201-2202 (voice) or 1-800-627-3529 (MN relay service).