

STATE OF MINNESOTA
OFFICE OF ADMINISTRATIVE HEARINGS

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION

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

**REPORT OF THE
ADMINISTRATIVE LAW JUDGE**

INTRODUCTION

This matter was referred to the Office of Administrative Hearings by the Commission on September 29, 2000 in the Commission's Notice of and Order for Hearing. Various entities intervened in the proceeding, prehearing conferences were held, and three parties filed testimony.^[1]

At the same time the parties were preparing for hearing, they were also negotiating in an attempt to resolve most, if not all, of the issues without the need for a hearing. The three filing parties were, in fact, able to reach agreement on all issues, which agreement was reduced to a Stipulation and Agreement dated February 8, 2001.^[2]

Pursuant to discussions among the Commission staff, the Administrative Law Judge, and the parties, a hearing was held on March 14, 2001 in St. Paul to allow Commission staff to propound questions to the companies and the Department. This proceeding lasted until the staff had received answers to all of its questions. In addition, on March 14, the parties introduced numerous exhibits, including prefiled testimony and discovery materials to provide evidentiary basis for the Stipulation and Agreement.

Public hearings were held in December, 2000, prior to the time that any settlement had been negotiated. In addition, members of the public were informed that they could send written comments to the Administrative Law Judge until February 16. Statements made during those public hearings and in those written comments are part of the record of this proceeding. However, the public hearings were tape recorded (and video recorded), but no transcript has been prepared. Therefore, in order to assist the Commission in utilizing those comments while considering the proposed settlement, the Administrative Law Judge will summarize them below.

PUBLIC TESTIMONY AND COMMENTS

Public hearings were held according to the following schedule:

<u>Date</u>	<u>Location</u>	<u>Number of Persons Speaking</u>
December 6	Rochester	0
December 7	Cloquet	2
December 12	Eagan	1
December 13	St. Paul	0
(video)	Bemidji	0
	Detroit Lakes	0
	Thief River Falls	0
	Grand Rapids	1
	Worthington	1

In addition to those five people, the Administrative Law Judge received six written comments. The oral and written comments, taken together, raised the following issues:

1. The size of the proposed rate increase was too large. The “bill stuffer” that was mailed in October or November indicated that for Peoples the proposed residential rate class would have its average rates raised between 8.1% and 15.7%, depending upon location. For Northern Minnesota Utilities, the residential rate would go up 7.7% while the rural residential rate would go up 10.8%. This prompted persons to suggest that these increases were too large, and they should be reduced.

2. A second issue that arose related to the monthly customer charge. For example, a family farmer from the Rushford area noted that his farm used natural gas for grain drying only several weeks each year, yet there was going to be a 15% increase in the base monthly charge. Another farm operator from the Garden City area noted that some of the large volume users were receiving only very slight increase, and in some cases a substantial decrease, yet his farm tap used for corn drying was going to increase.

3. Another general area of discussion related to the very large increase which some customers had seen in their recent monthly bills, along with warnings that their monthly bills were going to increase even more. When this was voiced in person, there was an opportunity for the company, the department, and the Commission staff to respond by noting that a large portion of every monthly bill was just the cost of the gas itself, and that the company was not making a profit on that portion. Instead, the company’s cost from producers was being passed on to the customers in an exact 1-to-1 pass through.

4. A number of persons were either senior citizens themselves, or were concerned about their parents or other seniors. They noted that many seniors trying to get by on fixed incomes were being hit with high prescription drug prices at the same

time that their heating bills were suddenly increasing dramatically. While these commentators accepted the explanation of the dramatic rise in the cost of natural gas paid to producers, they still believed that the company should keep its costs down and its portion of the cost increases as low as possible. One customer, who was on “streamline”, an automatic bank transfer program, noted that the company still sent her a bill payment return envelope each month, along with “sheets of extra information”. She believed that the company could cut out some waste.

5. A customer from Eveleth pointed out that in his town, the gas company has a monopoly. He noted that some large industrial customers could burn natural gas, wood, oil or even coal, changing between them from time to time as prices warranted. But residential customers do not have the same flexibility, and most of them are stuck with natural gas once they install it. He wanted the Commission to keep that in mind as they considered the proposed rate increase.

All members of the public who expressed an opinion felt that the proposed rate increase was too high, and that the Commission should either keep rates the same, or give the proposed rate increase a “hard look”.

Dated this 21st day of March, 2001.

ALLAN W. KLEIN
Administrative Law Judge

^[1] The three parties filing were the companies, the Department of Commerce, and the LPI Group. For greater detail of the prehearing activities, see Ex. 1, at pp. 1-4.

^[2] Ex. 1.