

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: January 29, 2015*Agenda Item # 11

Company: Interstate Power and Light Company (IPL)

Docket No. G001/M-14-560
In the Matter of IPL's Request for Changes in Demand Entitlements

Issues: Should the Commission approve IPL's proposed level of demand entitlement effective November 1, 2014 and allow IPL to recover the associated demand costs through the monthly Purchased Gas Adjustment?

Should the Commission accept IPL's proposal for complying with the Commission's November 14, 2013 Order concerning balancing service costs in Docket No.G-999/AA-12-756?

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Relevant Documents

IPL – Initial Filing (Public)..... July 1, 2014
Department – CommentsJuly 31, 2014
IPL – Supplemental Demand EntitlementOctober 30, 2014

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Statement of the Issues

Should the Commission approve IPL's proposed level of demand entitlement effective November 1, 2014 and allow IPL to recover the associated demand costs through the monthly Purchased Gas Adjustment?

Should the Commission accept IPL's proposal for complying with the Commission's November 14, 2013 Order concerning balancing service costs in Docket No. G-999/AA-12-756?

Minnesota Rules

Minnesota Rules require gas utilities to make a filing whenever there is a change in their entitlement to the demand-related services provided to them by a supplier or transporter of natural gas.

Minnesota Rules, part 7825.2910, Subp. 2, Filing upon a change in demand, is included in the Automatic Adjustment of Charges rules (Minnesota Rule, parts 7825.2390 through 7825.2920) and requires gas utilities to file to increase or decrease demand, to redistribute demand percentages among classes, or to exchange one form of demand for another.

Minnesota Rule part 7825.2400, Subp. 13a. Demand, defines demand as "the maximum daily volumes of gas that the utility has contracted with a supplier or transporter to receive."

Background and Party Positions

On July 1, 2014, IPL requested to change its demand entitlements, effective November 1, 2014, and requested Commission approval to implement the rate impact of its filing in the Purchased Gas Adjustment (PGA) factor, effective with November 1, 2014 usage. IPL stated that the main contributing factor for the revision in demand levels is related to changes in IPL's contract with Northern Natural Gas (NNG) which will be effective November 1, 2014. Additionally, in response to recommendations made in IPL's 2012 demand entitlement proceeding, Docket No. G001/M-12-737, IPL (1) identified that one Interruptible Sales Class customer switched to Firm service in May 2014, and (2) provided a trade secret version of the hourly raw weather data used to create the weather variables in the Company's design-day analysis.

IPL did not propose any change in its overall heating season capacity level of 14,219 Dth. With IPL's lower projected design-day requirement of 12,915 Dth, IPL projected a reserve margin of 10.1 percent.

On July 31, 2014, the Minnesota Department of Commerce, Division of Energy Resources (Department or DOC), filed comments. The Department concluded that (1) IPL's design-day analysis likely estimates sufficient capacity to serve firm need on a peak day, and (2) the Company's reserve margin is reasonable in this proceeding. The Department encouraged IPL to continue providing, in future demand entitlement filings, its analysis tying the reserve margin to the Company's design-day analysis to serve as a check on the appropriateness of its proposed reserve margin.

The Department recommended that the Commission:

- Approve Interstate's proposed level of demand entitlement; and
- Allow IPL to recover associated demand costs through the monthly PGA effective November 1, 2014.

On October 30, 2014, IPL filed a supplement including updated schedules incorporating changes in its NNG contracts since its initial filing. The changes provided in the update include the reallocation of NNG TF-12 entitlements between TF-12 Base (an increase of 1,749 Dth) and TF-12 Variable (a decrease of 1,749 Dth) rates effective November 1, 2014.

Staff Comment

Reserve Margin

IPL did not propose any change to its total peak day transportation capacity level of 14,219 Dth. However, IPL's proposal does include a change in the projected design day. Based on its design-day analysis, IPL projected a decrease of 120 Dth/day (or approximately 0.9%) in the design-day requirements from 13,035 Dth/day to 12,915 Dth/Day. This small change increases the estimated reserve margin from 9.08 percent to 10.1 percent. In its filing, IPL included calculations that attempt to tie its reserve margin to its design-day analysis. The Department reviewed IPL's reserve margin method and concluded that IPL's reserve margin is reasonable in this proceeding. As noted by the Department, substituting a 90 HDD value into IPL's design-day regression analysis yields an estimated figure of 13,330 Dth/day. Additionally, IPL indicated that an interruptible customer shifted to firm service in May 2014. When the Department's estimated design day consumption by the former interruptible customer is added to the estimated 90 HDD design-day figure, the result is an estimated design-day of approximately 13,430 Dth/day. A design-day of this magnitude would reduce the estimated reserve margin to 789 Dth, or approximately 5.87%.

Cost Recovery

Based on IPL's comparison of its proposed November 2014 PGA changes to its October 2014 PGA, included in IPL's October 30, 2014 supplemental filing, it appears that the NNG TF-12 base and variable reallocation would result in the following annual rate impacts for IPL's customers:

- Annual bill decrease of \$3.00, or approximately 2.25 percent, for the average General Service customer consuming 137 Dth annually; and
- No change in costs for interruptible and transportation customers.

SMS (balancing service) Charges

In reviewing the filings in this docket, staff also looked at IPL's November 2014 Purchased Gas Adjustment (PGA) filing (Docket No. 14-931) to see what costs IPL included in the demand charge. Staff noted that IPL's November 2014 PGA filing included Northern Natural Gas System Management Service (SMS, or balancing service) costs in the demand charge allocated and charged solely to firm sales service customers.

Staff believes including the SMS costs in the demand portion of the PGA that is charged just to firm customers is inconsistent with the Commission's November 14, 2013 ORDER ACCEPTING GAS UTILITIES' AUTOMATIC ADJUSTMENT REPORTS AND TRUE-UP PROPOSALS, AND SETTING FURTHER REQUIREMENTS (Order) in Docket No. G-999/AA-12-756. The Order required all regulated natural gas utilities to recover balancing service costs through the commodity portion of the PGA effective with the earliest monthly PGA that can reasonably be implemented. Further, the Order directed Minnesota's regulated gas utilities to allocate the cost of balancing services in the same manner as they allocate the commodity cost of gas.

Based on a limited review of other companies' PGA filings, it does not appear that any other regulated natural gas utility is charging SMS costs to only firm customers. When questioned, IPL indicated to staff that it had not interpreted the Order as applying to the fixed portion of SMS costs that it had previously included in the demand charge billed to firm customers. However, IPL indicated that it would change the allocation of the SMS costs in future PGAs to allocate them to both firm and interruptible customers.¹ That leaves the question of what to do about the time period before the change was made. Staff asked IPL how it would propose to correct, or refund, the overcharges to firm ratepayers. Staff's understanding of IPL's response is that:

- For purposes of recording actual costs for July 2014 through December 2014, IPL would allocate the SMS charges to both interruptible and firm customers, thus in the 2015 true-up filing they would be allocated between the two.
- The earliest that IPL would have been able to implement the Order would have been January 2014.
- If it had allocated the January 2014 through June 2014 SMS costs to both firm and interruptible customers, the interruptible customer classes would have been allocated approximately \$4,447 more of costs and the firm classes that much less.
- IPL would propose to make a prior-period adjustment to the balances in the 2015 true-up filing to correct the allocation of the January 2014 through June 2014 SMS costs between firm and interruptible customers.

Staff believes IPL's proposal sounds reasonable for such a small amount. Since IPL's proposed

¹ Staff notes that IPL appears to have changed the allocation of SMS costs in its January 2015 PGA filed on December 30, 2014 in Docket No. 14-1072.

method of correcting the SMS cost allocation is brought up for the first time in these briefing papers, the Commission may wish to give the Department an opportunity at the agenda meeting to respond to IPL's proposal and confirm on the record whether they believe this method is reasonable.

Staff notes that, if the sale of IPL's distribution assets goes forward, Minnesota Energy Resources Corporation (MERC) may be filing the 2015 true-up rather than IPL. Thus, if the Commission accepts IPL's proposal, it may want to require IPL to maintain and provide to MERC all of the relevant information. Further, staff notes that there is an automatic adjustment error rule and a billing error rule that may apply.

The automatic adjustment error rule, found in Minn. R. 7825.2920, Sup. 2, states:

Subp. 2. **Errors.** Errors made in adjustment must be refunded by check or credits to bills to the consumer in an amount not to exceed the amount of the error plus interest computed at the prime rate upon the order of the commission if (1) the order is served within 90 days after the receipt of the filing defined in part [7825.2900](#) or [7825.2910](#) or at the end of the next major rate proceeding, whichever is later, and (2) the amount of the error is greater than five percent of the corrected adjustment charge.

Staff notes that, based on IPL's November 2014 PGA, if the SMS charges had been allocated to both interruptible and firm customers like allocated demand or commodity, it would not have changed either the monthly firm demand rate of \$0.952,² or the total monthly rate of \$5.1377, by more than five percent. It also, appears that it would not have changed the total firm demand adjustment or total adjustment charge by more than 5 percent. Thus, this rule does not appear to apply in this case.

The customer service natural gas billing error rule, found in Minn. R. 7820.4000, states:

Subpart 1. **Errors warranting remedy.** When a customer has been overcharged or undercharged as a result of incorrect reading of the meter, incorrect application of rate schedule, incorrect connection of the meter, application of an incorrect multiplier or constant or other similar reasons, the amount of the overcharge shall be refunded to the customer or the amount of the undercharge may be billed to the customer as detailed in subparts 2 through 4.

Subp. 2. **Remedy for overcharge.** When a utility has overcharged a customer, the utility shall calculate the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, plus interest, for the period beginning three years before the date of discovery. Interest must be calculated as prescribed by Minnesota Statutes, section [325E.02](#), paragraph (b). If the recalculated bills indicate that more than \$1

² Allocating the SMS costs between firm and interruptible load would have reduced the November 2014 firm demand rate of \$0.952 per MCF (Firm rate of \$5.1377 less interruptible rate of \$4.1857 = firm demand rate of \$0.952) to \$0.946, or by \$0.006 per MCF.

is due an existing customer or \$2 is due a person no longer a customer of the utility, the full amount of the calculated difference between the amount paid and the recalculated amount shall be refunded to the customer. The refund to an existing customer may be in cash or as credit on a bill. Credits shall be shown separately and identified. If a refund is due a person no longer a customer of the utility, the utility shall mail to the customer's last known address either the refund or a notice that the customer has three months in which to request a refund from the utility.

Subp. 3. Remedy for undercharge. When a utility has undercharged a customer, the utility shall calculate the difference between the amount collected for service rendered and the amount the utility should have collected for service rendered, for the period beginning one year before the date of discovery. If the recalculated bills indicate that the amount due the utility exceeds \$10, the utility may bill the customer for the amount due. But a utility must not bill for any undercharge incurred after the date of a customer inquiry or complaint if the utility failed to begin investigating the matter within a reasonable time and the inquiry or complaint ultimately resulted in the discovery of the undercharge. The first billing rendered shall be separated from the regular bill and the charges explained in detail.

Subp. 4. Exception if error date known. If the date the error occurred can be fixed with reasonable certainty, the remedy shall be calculated on the basis of payments for service rendered after that date, but in no event for a period beginning more than three years before the discovery of an overcharge or one year before the discovery of an undercharge.

An average firm General Service customer consuming 137 Dth annually would have overpaid approximately \$0.82 on an annual basis. Since this is an average, some customers likely will have overpaid by more than \$1. If the SMS costs had been allocated to firm and interruptible customers during 2014, approximately \$8,734 of costs would have shifted from firm to interruptible on an annual basis. If the Commission believes the billing error rule applies to automatic adjustments, but also believes that IPL's proposal to correct the allocation error through the 2015 true-up is reasonable, it may wish to grant IPL a variance to the billing error rule.

Minnesota Rule part 7829.3200 provides the requirements that must be met for the granting of a variance, and states, in part:

Subpart 1. When granted. The commission shall grant a variance to its rules when it determines that the following requirements are met:

- A. enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- B. granting the variance would not adversely affect the public interest;

and

- C. granting the variance would not conflict with standards imposed by law.

Considering the relatively small amount of the misallocation, enforcing the billing error rule may impose an excessive burden upon IPL by requiring IPL to:

- determine the amount each customer overpaid, or underpaid, to determine if the \$1.00 and \$2.00 for an overcharge and \$10.00 for an undercharge thresholds for refunds and surcharges in the billing error rule have been met with respect to each individual customer;
- set up a process for bill credits or surcharges to current customers, and refunds to customers no longer on IPL's system if necessary; and
- make a proposal for those customers who are under the thresholds contained in the rule.

Staff believes granting the variance would not adversely affect the public interest and would not conflict with standards imposed by law.

Staff notes that if IPL (or MERC) files a proposal in the 2015 true-up to make a prior period adjustment, it may need to request a variance to Minn. R. 7825.2700, subp. 7³ at that time.

Finally, adding interest to the overcharges to firm customers has not been addressed. If the Commission accepts IPL's proposal and grants IPL a variance to Minn. R. 7820.4000, it may also wish to determine at this time whether or not, in making the prior period correction in the 2015 true-up filing IPL should be required to add interest to the overcharges to firm customers, or whether it is also varying this part of the billing error rule. Alternatively, the Commission may wish to leave the issue of interest to be determined in the Annual Automatic Adjustment and true-up dockets and require IPL to address the issue in its 2015 true-up filing.

³ This rule part addresses the true-up of costs and credits arising within the relevant reporting year.

Decision Alternatives

IPL's proposed level of demand entitlement and recovery of associated demand costs

1. Approve IPL's proposed level of demand entitlements as proposed in its Supplemental Filing. [Since IPL has included SMS entitlements in its list of demand entitlements, the Commission may also wish to note that the SMS costs should be allocated like commodity costs to firm and interruptible customer classes]; and
2. Allow IPL to recover associated demand costs through the monthly Purchased Gas Adjustment effective November 1, 2014.

Correction to the SMS cost allocation

3. Accept IPL's proposal to correct the SMS cost allocation in its 2015 true-up filing and grant IPL a variance to Minn. Rule 7820.4000 as necessary to make this correction to the allocation of SMS costs, and
4. Require IPL to transfer all relevant information regarding SMS charges and allocations to MERC if the sale of IPL's assets to MERC is consummated before the 2015 true-up filing is due, and
5. Require IPL (or MERC if the sale/purchase has transpired) to correct the SMS cost allocation in the 2015 true-up filing. or
6. Do not accept IPL's proposal to correct the SMS allocation in its 2015 true-up filing and require IPL to follow the provisions of Minn. R. 7820.4000 with respect to the allocation of SMS costs. or
7. Take some other action the Commission thinks is appropriate.

Inclusion of interest on overcharges

8. Require the 2015 true-up filing party (IPL or MERC) to include, in the 2015 true-up filing correction, interest on the overcharges, or
9. Require the 2015 true-up filing party (IPL or MERC) to address interest on the overcharges in the 2015 true-up filing correction, or
10. Do not require interest to be calculated on the SMS overcharges.