CASE NO. GR-2009-0355
MISSOURI GAS ENERGY

DIRECT TESTIMONY

OF

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ON BEHALF OF CONSTELLATION NEWENERGY-GAS DIVISON, LLC

SCHEDULE RJH 2

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Order Directing Filing of Permanent Small Volume Transportation Tariffs

Iowa Utilities Board
Docket No. SPU-04-01
Issued November 5, 2007

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: IOWA JOINT UTILITY MANAGEMENT PROGRAM, INC.	DOCKET NO. SPU-04-1

ORDER DIRECTING FILING OF PERMANENT SMALL VOLUME TRANSPORTATION TARIFFS

(Issued November 5, 2007)

PROCEDURAL BACKGROUND

On August 12, 2004, the Utilities Board (Board) issued an order approving a settlement agreement in Docket No. SPU-04-1, In re: Iowa Joint Utility Management Project, Inc. The settlement agreement expanded the existing small volume gas transportation pilot projects offered by MidAmerican Energy Company (MidAmerican) and Interstate Power and Light Company (IPL) to include governmental entities. (The pilot projects were initially limited to schools.) In the order, the Board also extended the pilot projects to August 31, 2007. In the August 12, 2004, order, the Board directed IPL and MidAmerican to file tariffs in compliance with draft tariffs attached to the settlement agreement. The order also required MidAmerican and IPL to file reports each year during the term of the pilot projects and a final report at the end of the pilot projects.

MidAmerican and IPL filed reports in 2005 and 2006 that provided the information about the pilot projects as directed by the Board's August 12, 2004, order. On February 14, 2007, the Board issued an order requesting additional information concerning the pilot projects from the utilities and from competitive natural gas providers (CNGPs) providing service under the pilot project tariffs. MidAmerican, IPL, Iowa Joint Utility Management Program, Inc. (IJUMP), Cornerstone Energy, Inc. (Cornerstone), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), and U.S. Energy Services, Inc. (U.S. Energy), filed responses.

On March 26, 2007, Consumer Advocate filed supplemental comments. On April 11, 2007, IJUMP filed a supplemental response and a motion to extend the pilot projects, without modification, until April 30, 2008, and to delay the effective date of any tariff changes directed by the Board until that date. On April 13, 2007, the Board issued an order directing that answers to the IJUMP motion be filed on or before April 23, 2007. Consumer Advocate, MidAmerican, IPL, and Cornerstone filed responses to the motion filed by IJUMP.

On May 14, 2007, the Board issued an order granting IJUMP's motion and extending the pilot projects to April 30, 2008. In the order, the Board established a date for filing additional comments in response to the supplemental comments of Consumer Advocate and IJUMP. IPL filed a letter in lieu of additional comments. IJUMP and MidAmerican filed additional comments. MidAmerican's comments included the results of a study concerning how well MidAmerican's monthly-metered forecasting model predicted the daily natural gas usage of a school. On June 25, 2007, MidAmerican filed the results of a more comprehensive study of monthly-metered forecasting encompassing schools, local governments, and commercial establishments.

On September 11, 2007, MidAmerican filed the information for the period ending August 2007 as required by the August 12, 2004, order. On September 12, 2007, IPL filed the information for the period ending August 2007 as required by the August 12, 2004, order.

HISTORICAL BACKGROUND

The issue of whether to require Iowa investor-owned natural gas utilities to offer a separate transportation service to small volume customers without some of the provisions contained in existing transportation service tariffs designed for large volume customers has been considered by the Board since 1996. During this time, the Board has considered small volume transportation service along two paths: (1) through an inquiry into a mandated service option for all small volume customers, including residential customers, and (2) a more limited service originally offered as a pilot project only to schools.

A. Small volume transportation and related dockets

In 1996, large and some medium volume customers were taking advantage of the opportunity to transport natural gas instead of using system gas purchased from the utility and had been doing so since the mid-1980s. Small volume transportation customers could also take service under these tariffs, but small volume customers were not transporting natural gas because of requirements in the utility tariffs that made it uneconomical for a small volume customer to take the service. These requirements included relatively high administrative fees, telemetry requirements, capacity and storage availability to marketers, marketer requirements, and billing arrangements, along with the effect of transportation on the utility's obligation to serve.

The Board adopted rules in Docket No. RMU-96-12, In re: Natural Gas Transportation, designed to encourage small volume transportation service. The rules established limits on administrative fees, established a threshold below which telemetering equipment could not be required, mandated that utilities establish a mechanism for handling daily imbalances, established marketer requirements, and provided options for billing arrangements. These provisions were adopted to remove several of the significant barriers that had prevented small volume customers from transporting gas. The rules gave natural gas utilities the procedural option of filing proposed tariffs offering small volume transportation service in compliance with these provisions or filing plans to implement the service. All of the utilities chose to file plans rather than tariffs in what became Docket No. NOI-98-3, In re: Small Volume Gas Transportation.

On July 18, 2003, the Board issued an order closing Docket No. NOI-98-3. In that order, the Board indicated that significant changes had occurred in the natural gas industry such that implementation of a comprehensive small volume gas transportation plan, which included residential customers, would no longer be in the public interest. The Board made this statement based upon the lack of response by small volume customers who might be interested in the service and upon the increased volatility of natural gas prices. In Docket No. RMU-03-6, In re: Revisions to Small Volume Gas Transportation Service Rules, in which the Board adopted rule establishing the certification requirements for CNGPs pursuant to Iowa Code §§ 476.86 and .87, the Board rescinded the small volume transportation rules adopted in Docket No. RMU-96-12.

On October 9, 2003, the Board opened an inquiry in Docket NOI-03-5, In re: Review Of Bill Risk Management For Natural Gas Customers, to consider what alternatives might be available to small volume customers to reduce the risk of volatile natural gas prices. The Board noted the utilities had taken some action to address this potential problem by hedging the risk of natural gas price volatility and two gas utilities began hedging volumetric risk. The Board also indicated that small volume customers continued to have the ability to transport natural gas under existing transportation tariffs, albeit subject to the requirements that tended to make this option uneconomic.

On November 29, 2004, the Board issued an order in Docket No. NOI-03-5 stating that the approval of the settlement and associated tariffs in Docket No. SPU-04-1 resolved most of the issues raised in the inquiry. The tariffs approved in the settlement allowed CNGPs the opportunity to provide transportation service to governmental entities as part of an expanded pilot project for small volume transportation and many of the changes proposed by marketers were implemented.

In the November 29, 2004, order, the Board indicated that it would be premature to propose any additional changes to permanent small volume transportation rules or tariffs until the Board had a chance to review information concerning the pilot projects approved in Docket No. SPU-04-1. The Board indicated that a review of that information should give the Board a better understanding of what changes, if any, needed to be made to Board rules and to consider what requirements for small volume transportation should be adopted if the service were to be made permanent. The Board stated that Docket No. NOI-03-5 would be held open for consideration of unresolved issues raised by marketers after the Board had completed its review of the pilot projects.

B. Pilot projects

At the same time the Board was adopting small volume transportation rules and considering whether and how to implement small volume transportation for all small volume customers, IPL and MidAmerican filed proposed tariffs to implement small volume transportation pilot projects for schools in their service areas. The Iowa Association of School Boards (IASB) contacted all of the rate-regulated natural gas utilities in Iowa encouraging them to offer natural gas transportation to schools. IASB established the Iowa Joint Utility Management Program (predecessor to the IJUMP corporation that is a party to this docket) to provide assistance to schools that chose to participate in the pilot projects. IPL, MidAmerican, and Atmos Energy Company (Atmos) filed tariffs to implement the pilot projects. Peoples Natural Gas Company (predecessor to Aquila, Inc., d/b/a Aquila Networks) (Aquila) did not implement a pilot project. Schools in Aquila's service territory took service under Aquila's existing permanent transportation tariffs, which have been modified since that time to remove many of the barriers.

IES Utilities, Inc. (IES) (a predecessor of IPL), filed a proposed small volume transportation service pilot project tariff in October 1997 designed to allow public schools served by IES the opportunity to transport gas without installing telemetry equipment. IES indicated that the pilot project would provide a learning opportunity for marketers, small volume customers, and the company. On November 26, 1997, the Board issued an order approving the pilot project.

On November 14, 1997, MidAmerican filed its proposed IJUMP pilot project tariff, identified as TF-97-323. On December 12, 1997, the Board docketed the filing in response to an objection filed by Consumer Advocate regarding potential subsidization of the pilot project customers by system purchased gas adjustment (PGA) customers. On January 9, 1998, the Board issued an order approving a settlement agreement that resolved the issue of subsidization.

MidAmerican implemented the small volume transportation pilot project for schools in January 1998 consistent with the settlement agreement with the IASB. MidAmerican indicated in the filing that the pilot project was intended to provide MidAmerican with additional experience with natural gas unbundling for a group of customers that characteristically had greater requirements than the customers who were the subject of MidAmerican's first pilot project in 1996, the Rock Valley project.

MidAmerican indicated that the Rock Valley project demonstrated the interest of smaller customers in gas transportation and the administrative challenges facing utilities in implementing unbundled transportation service. The IJUMP pilot project was to give MidAmerican more information regarding the use of forecasts in lieu of daily telemetry, customer aggregation, and the appropriate level of charges for various services that were imposed in the unbundled environment, such as swing service and administrative fees.

Both the IES (now adopted by IPL) and MidAmerican pilot projects have been extended several times since they were implemented. The last extension in 2004 also expanded the pilot projects to include governmental entities.

C. Current pilot project tariffs

Under the current MidAmerican pilot project tariffs, a school or governmental entity taking firm service from MidAmerican may participate in the project by giving 60 days notice of the intent to transport gas and naming a pool operator (a CNGP certificated by the Board to provide small volume transportation service in Iowa). Under the tariffs, the customer is not required to install telemetry equipment for daily metering and MidAmerican uses a model to forecast daily gas consumption for each participant. Under the tariffs, MidAmerican manages any daily imbalances between the forecasted daily gas supply requirement and the customer's actual consumption caused by the difference between the actual weather and the forecasted weather. These differences are cashed out monthly based on the customer's actual usage and deliveries. MidAmerican charges the customer a swing service fee of $0.111 per Dth for this service. The swing service fee may be recalculated annually based upon actual volumes.

The customer is responsible for its share of any pipeline penalties caused by the pool operator's failure to deliver the forecasted daily gas requirement provided by MidAmerican. The customer is responsible for any identifiable additional costs associated with a return to system supply service. Customers are charged an administrative charge capped at $0.25 per Dth, which is currently $0.08 per Dth, and the fee is trued up annually. MidAmerican waived its reconnection fees associated with a pilot project customer terminating transportation service and returning to sales service. MidAmerican charges small volume transportation customers the energy efficiency cost recovery charge (EECR).

The IPL pilot project tariff provides that public schools, community colleges, and state and local governmental entities with heat sensitive load, delivered through one meter at one point of delivery, whose maximum daily requirements do not exceed 200 Dth, may take service under the pilot project. IPL also specifies the volume of natural gas to be delivered by the supplier to IPL's system. IPL provides a daily balancing service at the rate of $0.105 Dth for pilot project customers instead of requiring the customer to install telemetry equipment.

Customers taking service under IPL's pilot project are required to balance monthly and to cash out every six months. IPL charges a nomination and dispatching charge of $47 per month for each metering point. IPL allows a customer to return to system service between May 1 and July 1, or up until November 1, by paying an administrative fee of $50. For other periods, the customer must pay $500, the tariffed rate in IPL transportation tariffs. In addition, IPL requires a contract for one year and applies a customer charge, delivery (volumetric) charge, and any other pertinent charge in addition to the charges described above. IPL customers do not pay the EECR.

BOARD DECISION

The settlement reached in Docket No. SPU-04-1 expanded the types of customers eligible for the pilot projects to include governmental entities, extended the pilot projects until August 31, 2007, and changed some of the conditions in the pilot project tariffs. The Board has now extended the pilot projects until April 30, 2008, to allow time to complete its analysis and to allow CNGPs time to adjust to the Board's decision about permanent tariffs before the 2008-2009 winter heating season. As the Board indicated in the order approving the settlement agreement, it is time to make a decision about whether to require utilities to provide small volume transportation as a permanent service. It is not good regulatory policy to continue to extend the pilot project for the benefit of only one or two types of customers, and the Board has gathered sufficient information over the years to render a decision on this issue.

The "Historical Background" section above shows that the pilot projects allowing schools and then schools and governmental entities to take transportation service have been in effect since 1997. MidAmerican and IPL have been providing service under these pilot projects while the Board has been through several dockets to determine whether a permanent small volume transportation service open to all small volume customers, including residential customers, should be established. The Board closed those dockets when it became clear that transportation service to all small volume customers, including residential service, was not a viable option and not in the public interest. However, the pilot projects have shown that small volume transportation service for some MidAmerican and IPL customers is desired and will be utilized by those customers who find that the service provides a benefit to them.

The issues that need to be addressed to determine whether to require MidAmerican and IPL to file permanent tariffs can be separated into two categories: regulatory issues and tariff issues. The Board's discussion of the issues focuses on the comments of MidAmerican and IPL since they include the significant issues raised by other parties. The Board has summarized the issues below and has reviewed and considered all of the comments of the parties in making its decision.

A. Regulatory issues

MidAmerican sees the Board's decision concerning a permanent small volume transportation service as a fundamental change to natural gas regulation. MidAmerican suggests that expansion of small volume transportation service, on a monthly-metered basis, could potentially involve a substantial part of utility sales load. MidAmerican cautions that the Board should restructure the retail gas market only to the extent that such a determination is in the public interest, will not result in remaining PGA customers subsidizing transportation customers, not otherwise lead to increases in PGA costs, nor increase the risk profile of the gas business leading to a higher cost of capital that would adversely affect PGA and transportation customers alike.

MidAmerican states that it does not support expanding monthly-metered transportation service or making the pilot project service permanent at this time because there is not enough information to do so. MidAmerican states that it has completed an analysis that suggests that the forecasting mechanism it utilizes does not accurately forecast daily usage and results in cross-subsidies between monthly-metered participants and PGA customers. MidAmerican suggests that the Board should consider the possibility that decreases in the cost of telemetry equipment may make daily metering a more affordable option for the typical customer in the future which could reduce the desire for a monthly-metered option. MidAmerican states that if the Board decides to make the service permanent, the Board should make findings that the service in is in the public interest and address the utility's obligation to serve and, as argued by Consumer Advocate, ensure that there are no substantial cross-subsidies that could adversely affect PGA customers.

Under current Board rules and decisions, utilities are required to serve small volume customers who wish to return to system gas service and also customers who experience supply failure. MidAmerican contends that when these decisions were made, the settlement agreement in this docket had just been signed and there was no expectation of significant interest in small volume transportation. If the utility is to remain the provider of last resort for small volume transportation customers, the costs of standby service should be determined and charged to this group of customers.

MidAmerican argues that the question of the precise benefits customers seek when they participate in monthly-metered transportation service has not been fully explored and recommends that the Board solicit objective information from monthly-metered service customers and other customers who could qualify for the service, through workshops, interviews, surveys or other means, to try to determine why customers are participating in the pilot project. In addition, MidAmerican suggests that clear signals that small volume transportation customers will not be subsidized by PGA customers need to be sent so that financial markets understand that no cross-subsidization will occur. MidAmerican suggests that the ability of a customer to leave the system for another supplier is, essentially, granting of an option to the customer by the utility and the utility's customers. MidAmerican argues that without clear signals to prohibit this option, the financial markets may see this as additional risk for the utility and increases in capital cost will follow, to the detriment of the utility and its remaining gas service customers. MidAmerican recommends that the Board conduct further proceedings to consider these concerns.

IPL generally supports making the tariffs permanent if it can be shown that customers benefit from the small volume transportation service. IPL recommends the Board evaluate what benefits the customers are receiving. If the main benefit is a fixed and predictable bill, rather than gas cost savings, for example, IPL recommends a more direct approach to addressing the customer's need. IPL expresses concern about its continuing obligation to serve customers who join the small volume transportation project and believes implementing this pilot project on a permanent basis could, among other things, have a revenue impact on IPL's operations. IPL suggests being allowed to evaluate the transportation tariff in total within a revenue requirements rate case, rather than this docket.

For purposes of this proceeding, IPL recommends two possible approaches if the service is made permanent. IPL indicates that it currently offers a transportation option to non-residential customers based upon usage. To qualify for the large transportation rate, the customer's daily requirement must exceed 200 Dth average for a six-month period during any consecutive 12 months. The small volume transportation (SVT) customer qualification is a maximum of 200 Dth or less per day. IPL points out that these are the same volume qualifications for IPL's General Service and Large General Service system rates. The current SVT customer qualification requirements are similar to the qualifications for customers to participate in the pilot project (Pilot SVT). The rates between the current SVT and the Pilot SVT are similar, however, there are differences that benefit the Pilot SVT customer.

IPL suggests that under the first approach it would consolidate the two small volume offerings and determine best practices from the two projects to form a single SVT offering. To adopt this option, IPL would need to know at what level telemetering and daily balancing would be required, who should be performing the nomination function, and if the individual customer usage level were to be set too high, IPL would recommend a cap on overall participation.

The second approach would be for IPL to establish differing usage break points given the smaller size of the pilot project's customers. IPL recommends establishing a rough estimate of usage to illustrate the differences between the customers taking service under the current SVT and the Pilot SVT.

Board discussion

When the pilot projects were originally approved, the Board was actively considering whether to require utilities to remove the barriers to transportation service for small volume natural gas customers, including residential customers, found in existing transportation tariffs. In this docket, MidAmerican is raising many of the same issues that have been raised over the years in opposition to making small volume transportation service economical for small volume customers. The Board has considered these arguments in the past and recognized that many of them were persuasive when they were considered in the context of a mandated small volume transportation service open to all small volume customers, including residential customers. These arguments are not so persuasive when they are considered on the more limited basis presented in this docket. MidAmerican and IPL have questioned whether small volume customers would benefit from a small volume transportation service. IPL has also raised issues that relate to the conditions that should be included in permanent tariffs and those issues will be considered in the "Tariff Issues" section below.

In considering whether small volume customers were receiving a benefit from the small volume service, the Board has concluded that the number of customers who have taken transportation service under the pilot projects over the years demonstrates that the service provides benefits to some customers. In this docket, the suppliers of the service, CNGPs, have indicated they are generally satisfied with the terms and conditions of the service and these companies currently have customers who believe the service provides some benefit beyond what can be offered by the utilities. One benefit that suppliers have reported is that customers like the ability to stabilize the cost of gas for budgeting purposes.

Both IPL and MidAmerican have suggested that the Board conduct a study by contacting the small volume customers to determine what benefit they are receiving under the pilot project tariffs. The Board is reluctant to question the business judgment of these customers and considers a customer's voluntary participation in the pilot project to be sufficient evidence that the customer has determined it is receiving benefit from the service.

An evaluation of the number of customers taking service under the pilot project tariffs as compared to the total number of customers eligible for the service does not support MidAmerican's statements about the potential market for small volume transportation service and the effect it could have on natural gas utilities if the service were to be made permanent. In 2005, MidAmerican had 1,570 schools and 2,760 governmental entities that were eligible to take part in the project. The data shows that 566 schools and 175 governmental entities took the service in 2006. In 2006, IPL had 616 schools and 898 governmental entities eligible to take part in the project. The data shows 148 schools and no governmental entities took the service.

This data shows that the service will be taken by those entities that perceive they will benefit from the service and, judging from past participation, approximately