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March 25, 1999

BEFORE THE  
PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Wisconsin Electric Power Company for Authority to  
Increase Rates for Electric, Natural Gas and Steam Services

6630-UR-110

**FINDINGS OF FACT, CONCLUSION OF LAW,  
AND FINAL ORDER**

Wisconsin Electric Power Company (hereinafter referred to as “the Company” or “WEPCO”), Milwaukee, filed an application with the Commission on September 22, 1997, for authority under Wis. Stat. §§ 196.03, 196.20, and 196.37, to increase retail electric, natural gas, and steam rates. In that application, WEPCO further requested, under Wis. Stat. §§ 196.20, 196.39, 196.35, and 196.70, that interim increases in electric natural gas, and steam rates be granted to be effective on January 1, 1998.

On December 23, 1997, the Commission issued an interim order in this case granting interim annual revenue increases of \$134,894,000 for electric service, \$18,521,000 for natural gas service, and \$827,000 for steam service. A second interim order (Second Interim Order) was issued on April 30, 1998, approving final revenue requirement increases of \$160,177,000 for electric service, \$18,497,000 for natural gas service, and \$1,210,000 for steam service.

The Second Interim Order approved final rate designs for electric, natural gas, and steam service. The docket was left open, however, to investigate further WEPCO’s proposed additional changes to natural gas rates and tariffs. This order addresses issues related to those latter topics only.

Pursuant to due notice, prehearing conferences for this portion of the case were held on June 1, 1998, and July 9, 1998, before Hearing Examiner Donna L. Paske. Technical

conferences were also held on those dates. The prehearing conferences identified the parties who would actively participate as full parties, specified the dates for filing testimony and exhibits, identified and designated the issues, and considered other matters that would facilitate the hearing process. The technical conferences provided the parties with the opportunity for off-the-record informal discussion of the complicated, highly technical issues in the case.

Pursuant to due notice, public technical hearings related to the natural gas rate design issues were held on August 28 and 31, 1998, and on September 1, 1998, before Examiner Paske.

The parties for purposes of review under Wis. Stat. §§ 227.47 and 227.53, are listed in Appendix A to this order. Other persons who appeared are listed in the Commission's files.

The final overall revenue change for natural gas service, as well as for electric and steam service, is unchanged from that approved in the Second Interim Order. Rates for specific natural gas rate classes and natural gas tariff language are changed, however, as a result of this order and are attached as Appendix B.

## **FINDINGS OF FACT**

### **THE COMMISSION FINDS:**

#### **Applicant and Its Business**

WEPCO is a public utility as defined in Wis. Stat. § 196.01, operating as an electric, natural gas, and steam utility. It is engaged in the generation, transmission, distribution, and sale of electric energy in southeast, east central, and northern Wisconsin, and in the Upper Peninsula of Michigan. WEPCO is engaged in the purchase, distribution, and sale of natural gas to retail customers in southeast and east central Wisconsin. It also provides natural gas service to areas

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including and surrounding Prairie du Chien and to portions of Iron and Vilas counties. WEPCO also operates as a steam utility in certain areas of Milwaukee and Wauwatosa.

On January 1, 1987, WEPCO reorganized under Wis. Stat. § 196.75, as authorized by the Commission's order in docket 9402-YO-100, dated May 28, 1986. The reorganization changed WEPCO and its former subsidiary, Wisconsin Natural Gas Company, to separate subsidiaries of the parent holding company, Wisconsin Energy Corporation. The steam utility remained with WEPCO. On January 1, 1996, WEPCO merged Wisconsin Natural Gas Company into WEPCO as authorized by the Commission's orders in dockets 6630-GM-100/6670-GM-101, dated May 9, 1995.

### **Organization of the Remaining Findings of Fact**

The remaining findings of fact in this case are organized in two distinct sections. The first section discusses traditional rate design issues, such as cost-of-service studies and rate class changes. The second section addresses issues related to transportation service tariffs, such as revisions to balancing service and the monthly cashout process.

## **FINDINGS RELATED TO NATURAL GAS RATE DESIGN**

### **Final Natural Gas Rates Are Prospective Only**

The Commission determined in the Second Interim Order that the final natural gas revenues should be increased by \$18,497,000 over the revenues that would have been collected under the rates approved in the prior case (docket 6630-UR-109). This represented a 5.4 percent

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revenue increase for WEPCO's natural gas operations. The total operating sales revenues for the natural gas utility, including the approved increase, is \$360,489,000.

The Commission found in the Second Interim Order that the approved revenue increase should be passed on to each customer class via a *pro rata* allocation based on the volumetric portion of the then-current distribution service revenues:

The Commission finds the applicant's proposed allocation of the natural gas revenue requirement increase to its rate classes to be appropriate for this stage of the case. It is appropriate to allocate revenues this way at this point considering that new COSS [cost-of-service studies] will be reviewed in the upcoming proceeding<sup>1</sup>

In the Second Interim Order, the Commission also determined that natural gas rates approved at that time would not be collected subject to refund or surcharge, pending the final outcome of this proceeding:

The Commission finds that natural gas rates that are effective upon issuance of this order are final until the effective date of the final natural gas rate design order. Any further changes in natural gas revenue allocations or rate design will be made on a prospective basis only.<sup>2</sup>  
(Emphasis added.)

Although the final natural gas operating revenues remain unchanged in this proceeding from that approved in the Second Interim Order, revenue allocations are being made in this portion of the case that differ from those made in the Second Interim Order. In some cases the differences are significant. Because of this and other changes approved by the Commission in this order, natural gas rates for individual customers or rate classes may vary greatly from those approved in the Second Interim Order. However, because the Second Interim Order established

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<sup>1</sup>Application of Wisconsin Electric Power Company, Findings of Fact, Conclusions of Law, and Interim Order, Docket 6630-UR-110, at 40-41 (April 30, 1998).

<sup>2</sup> Id.

final, as opposed to interim, natural gas rates, the rate changes approved in this order are prospective only and no refunds or surcharges to customers will be required as a result of this order.

### **Rate Class Changes**

WEPCO proposed to restructure its rate offerings by eliminating certain classes. Eliminating rate classes can cause major cost shifts to other classes or to individual customers. WEPCO has proposed eliminating both partial interruptible distribution and partial interruptible sales service. It has also proposed eliminating fully interruptible distribution service for all customers except power generators. It has, however, proposed retaining its fully interruptible sales service option.

There are two types of interruption situations that a utility faces. Interruptions can be necessitated by either distribution constraints or supply constraints. The need for distribution interruptions occurs when the utility does not have enough capacity on its pipes to deliver gas from its city gate to the customer's burner tip. Supply interruptions occur when the utility cannot get enough gas from the producing areas, such as Louisiana or Oklahoma, to its city gates. Distribution interruptions are generally rare; supply interruptions occur several times per year for most Wisconsin utilities. Customers on interruptible rates get discounts on their service in exchange for allowing the utility to interrupt them.

*Partial Interruptible Service*

In docket 6630-UR-109, the Commission ordered WEPCO to eliminate the partial interruptible distribution and partial interruptible sales service options in its next rate filing. WEPCO has complied with that order provision. Under WEPCO's filing, current partial interruptible sales customers (Class Gg-3) will receive service under the Company's firm sales service (Class Cg-3). Likewise, current partial interruptible transportation customers (Class Gt-3) will receive service under the Company's firm distribution service (Class Ct-3).

This issue is being revisited in this case because of complaints levied by several customers currently on the partial interruptible rate. A partial interruptible customer agrees to interrupt 75 percent of its load when requested to do so by the utility. The remaining 25 percent is treated as firm load.

As a whole, the partial interruptible rate classes have not performed well during periods of interruptions. While some customers interrupt when requested, many do not. In the two most recent supply interruptions on the WEPCO system, 20 to 25 percent of the partial interruptible customers did not interrupt when requested to do so. In any event, even if all the customers had interrupted, WEPCO would have shed only about 1 percent of its peak load. Because there is so little system benefit associated with interrupting these customers, WEPCO rarely asks partial interruptible customers to stop taking gas. Over the past five years these customers have received firm service 99.78 percent of the time. This suggests that, despite the efforts of many customers who do respond to requests to interrupt, the partial interruptible classes provide little benefit to WEPCO's system on peak days.

The problems with partial interruptible service are not unique to WEPCO. The Commission has eliminated this type of service for other Wisconsin gas utilities in recent years. In this case, the Commission also finds that the administrative cost of the program is too high and the system benefits too low to justify retaining this service. The service should, therefore, be eliminated.

Today, partial interruptible customers receive about a 15 percent discount on distribution service and approximately a 30 percent discount on winter gas purchases. (There is no discount on gas costs in the summer.) By eliminating the partial interruptible sales and distribution rate classes on July 1, 1999, these discounts are being eliminated for these customers. This is appropriate because the partial interruptible customers have been receiving a largely unwarranted discount given their minimal impact on reducing the system peak load.

Eliminating the partial interruptible sales and distribution classes will increase bills for customers who were in these rate classes. To moderate the impacts on the customers, WEPCO proposed two mechanisms to provide some relief. The first is a one-year transition peak demand credit for partial interruptible sales customers who will be receiving service under the Company's firm sales service rate class (Cg-3). This would provide those customers with a discount in winter peak demand charges for one year, after which they would begin paying the full peak demand rate. The Commission finds that the one-year peak demand transition credit for current partial interruptible sales service is reasonable. The Commission also finds that it is reasonable that the class be closed on the effective date of this order so that only the customers currently on the rate can receive the temporary credit.

The second moderating program for partial interruptible customers is the Firm Distribution With Gas Supply Crediting Program. This three-year pilot program would provide current partial interruptible distribution and sales customers as well as current interruptible distribution customers with the opportunity to contract with WEPCO for a credit in exchange for the right to interrupt the customer. This program would allow good performers on the partial interruptible rates to recapture some, if not all, of the benefits that currently accrue to them under partial interruptible service. Poor performers are not likely to be able to qualify for significant discounts, so the program could moderate the impacts for good performers, but not for poor performers. This is economically rational.

The Commission finds that the Firm Distribution With Gas Supply Crediting Program is reasonable and should be implemented by WEPCO on a pilot basis for three years. The three-year period begins on July 1, 1999. The Commission also finds that any penalties for unauthorized use by customers who have entered into these agreements with WEPCO should be identified explicitly in the contracts. The Commission finds that WEPCO should report annually on the results of the pilot program commencing on July 1, 2000, and recommend whether it should be made a permanent program or eliminated.

Some customers expressed concern that attempting to negotiate an interruptible distribution service agreement with WEPCO would put the customer at an information disadvantage. WEPCO would know all the offers made by other customers, but the individual customers would know only their own offers. The Commission agrees that this would make negotiation difficult for the customers. WEPCO proposed to remedy this problem by publishing in its tariffs a matrix of minimum and maximum prices and other terms that it would offer in

interruptible distribution contracts. The Commission finds that WEPCO's proposal to publish a matrix of prices and contract conditions would allow customers to have a reasonable opportunity to negotiate a fair contract with WEPCO. WEPCO's proposal in this regard should, therefore, be approved as an integral part of the Firm Distribution With Gas Supply Crediting Program.

*Fully Interruptible Distribution Service*

WEPCO has also proposed eliminating fully interruptible distribution service for all its customers. This action would affect most of WEPCO's large volume customers. To date, these customers have received a significant discount on their distribution service rate in exchange for allowing WEPCO to interrupt them when WEPCO's distribution system becomes constrained. The problem with this service is that WEPCO's distribution system has not been constrained for years. (The only exception is when the gas-fired power generators are running. This issue is dealt with later in this order.) This means that interruptible customers have been receiving essentially firm service for years while paying as if they were being interrupted periodically.

Under appropriate circumstances, interruptible distribution customers provide a benefit to firm distribution customers by permitting the utility to avoid the costs necessary to upgrade the distribution system to provide firm service for all customers. Under current circumstances, however, WEPCO avoids no costs and firm distribution customers who pay for these discounts receive no benefit from interruptible distribution customers (other than some power generators). The Commission finds that the continuation of interruptible distribution service for all of WEPCO's distribution customers is unreasonable under these circumstances.

The other problem with the interruptible distribution rate is its system-wide availability. If WEPCO's distribution system should become constrained, it likely would occur in highly localized areas, not system-wide. In other words, interrupting a customer in Lake Mills would not relieve a distribution constraint in Kenosha. A system-wide interruptible distribution rate, therefore, does not reasonably reflect the physical reality of the utility's operations. This provides further support for the elimination of the current interruptible distribution service.

Parties opposed to the elimination of interruptible distribution service pointed out in the case that while WEPCO may not need such interruption capability today, it might need it in the future. The Commission agrees. The solution, however, is not to retain the current system-wide interruptible rate. Rather individual contracts that reflect the need for interruptible distribution in a particular region at a particular time would be a more preferable approach. This is the approach that is embodied in the Firm Distribution With Gas Supply Crediting Program, discussed earlier. This program would allow for more efficient and precise use of interruptible distribution discounts.

Some customers also testified that it would be unfair to eliminate the service because it would strand back up fuel equipment that the customers had installed. This equipment allows a business to continue operations by burning a fuel such as propane during periods when the flow of natural gas is interrupted. If interruptible distribution service no longer exists, this equipment will have very little value to that customer, they argued. The Commission disagrees with this analysis. Most of the benefits associated with interruptible gas service customer come from gas supply discounts, not distribution discounts. In other words, it is the capability to be interrupted for supply reasons that provides the real benefit to WEPCO, or to a third-party supplier. The

discounts reflect the difference in the value of these types of interruptions. The discount for interruptible supply service is about \$0.10 per therm; the discount for interruptible distribution is about \$0.02 per therm. Nothing in this order eliminates the discounts available for supply interruptions. Since over 80 percent of the current discount will still be available if the interruptible distribution rate is eliminated, it is not likely that alternative fuel equipment will be stranded as a result of the Commission's actions.

The Commission finds that system-wide interruptible distribution service is not reasonable for WEPCO's system. It is neither fair nor efficient. The Commission finds, therefore, that WEPCO's current interruptible distribution service should be eliminated. The only exception is that the service should for the time being continue to be available for power generators, as is discussed in the next section.

Although it is reasonable to eliminate the current interruptible distribution rate, the Commission is aware that the near-term rate impacts on customers currently on these rates will be significant. The Commission will moderate these impacts in two ways. As discussed earlier, the Commission is approving WEPCO's proposed Firm Distribution With Gas Supply Crediting Program. This will allow customers to negotiate interruptible rates with WEPCO on an individual basis. Second, the Commission directed its staff to prepare a rate design that results in lower rate impacts on the current interruptible customers than would result if staff's original rate design were adopted. This shifts some costs to residential and small commercial customers to cushion the blow on the large industrial customers. (Even after this cost shift, however, the rate impacts for the residential and small commercial customers are still well below those faced by the interruptible customers.) The combined effect of these two actions should alleviate to some

extent the financial impact associated with eliminating interruptible distribution service, and such action is reasonable and just.

*Interruptible Distribution Service For Power Generators*

Natural gas fired electric power generators, unlike most large volume industrial customers, can present particular problems for a natural gas distribution utility. Power generators can use huge volumes of gas for short periods on short notice to provide electricity on peak electric days; industrial customers tend to use fairly constant amounts of gas every day to fuel their processes. Power plant peaking generation is difficult to plan for; industrial process loads are not. Due to the unique nature of power generators, WEPCO proposes to retain interruptible distribution service for those customers only.

The Commission finds WEPCO's logic applies only to certain power generation customers. The Commission finds that, as some parties suggested in the case, a power plant served off a dedicated distribution line should never have to be interrupted (absent a *force majeure* situation) if the utility sized the distribution pipe correctly. Consequently, the Commission finds that continuing interruptible distribution service for these power generation customers is not reasonable.

The Commission also finds that power generators, rather than being a homogeneous group of customers, are quite heterogeneous. Some power plants use gas as the primary fuel and can run for extended periods of time when brought on line. Other plants, such as base load coal plants, use natural gas as a secondary fuel, such as when the plant is started up after extended maintenance. The Commission finds, therefore that power plants can be classified by two

characteristics: (1) the nature of the distribution service (*i.e.*, dedicated line or otherwise), and (2) the nature of gas use (*i.e.*, primary fuel or secondary fuel). Separate rate classes should be developed to accommodate all possible combinations of these factors.

In this case, however, there is not a sufficient record to develop these separate rates for these new rate classes. The Commission finds that WEPCO should develop the rate classes in this case and propose separate rates for those classes in its next major rate filing before this Commission. The Commission also finds that the power generators should be charged the new rate associated with their current rate class until more specific rates can be set in the next case.

The Commission also finds that the power generators are not given undue preferential treatment over other interruptible customers under the approved rate design, as was suggested by some parties. As was mentioned above, power generators loads are unlike those of a typical interruptible industrial customer and would, in all likelihood, require the utility to incur costs to provide firm service for such loads. Tariffs that reflect the differences between these types of loads are appropriate.

### **Crop Dryer Rates**

Over the past several years crop dryers have seen their natural gas rates change dramatically from season to season. Due primarily to highly volatile gas prices, some crop dryers saw approximately 100 percent increases in their natural gas bills from one year to the next.

Crop dryers, like power generators, are atypical customers for a gas utility. They use little, if any gas most months of the year. In the fall and early winter, however, they use

substantial amounts as they dry crops for winter storage. These customers are, therefore, not like a residential customer whose natural gas use follows weather patterns, nor are they like an industrial process customer whose demand follows long-term business cycles.

The Commission finds that a rate should be designed specifically for crop dryers. This rate should be designed to match their atypical demand patterns. WEPCO should file a proposed crop dryer rate design with the Commission on or before July 1, 1999.

### **Market-Based Rates For Interruptible Sales Customers**

In docket 05-GI-108, Phase III, the Commission found that interruptible sales customers should be charged market-based rates for gas supplies.<sup>3</sup> These customers currently pay an embedded cost rate, which includes averages of current and historic costs. Depending on trends in natural gas commodity prices, this cost can be significantly higher or lower than the market-based rates charged by marketers.

A market-based rate would put the utility's sales service on an equal footing with marketers' prices. This should alleviate concerns about WEPCO under-cutting the prices of the marketers in this competitive market. While not objecting to the concept of market-based rates for interruptible customers, WEPCO argued that it would be inefficient to develop such a rate now because interruptible sales constitute only 2.3 percent of its load.

The Commission finds that, if WEPCO's share of the interruptible load on its system stabilizes or increases, rather than continuing to decline, it should implement market-based rates

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<sup>3</sup> Docket 05-GI-108, Phase III.

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for its Ig-4 and Ig-5 interruptible sales rate classes. WEPCO should submit a plan by July 1, 1999, that describes the market-based pricing mechanism it will implement if it is required to do so and that also describes the triggering mechanism that would be used to signify that WEPCO's market share is no longer declining. If the decline in sales stops, the market-based rate should be implemented. If it continues to decline, the rate need not be implemented.

### **Natural Gas Cost-of-Service Studies**

The issues in this case relating to cost of service are: (1) whether WEPCO's new cost-of-service model is conceptually sound; (2) whether staff's cost-of-service runs developed with the WEPCO model form a reasonable cost guide for the rate design; and (3) whether the cost-of-service process needs to be more open to allow parties better access to WEPCO's analysis.

WEPCO's new cost-of-service model, after being corrected for an error discovered during an audit of the model, produces results that reasonably reflect the cost of providing natural gas service to its customers. The model complies with the Commission's order in docket 05-GI-108, Phase I. In that order the Commission required that utilities file cost-of-service studies that allocate costs to the following functional categories:

Basic Distribution;

- Competitive Supply;
- Daily Balancing;
- Peak Day Backup; and
- Enhanced and Other Services.<sup>4</sup>

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<sup>4</sup> Findings of Fact, Conclusions of Law and Phase I Order, Docket 05-GI-108, Phase I, December 4, 1995, pp. 20-22.

Commission staff testified that they audited the model and, after a correction to the programming code was made, found that the model was conceptually sound. The Commission finds that WEPCO's cost-of-service model is a reasonable tool to be used in determining the cost of providing service to its various rate classes.

Staff used WEPCO's new cost-of-service model adjusted to correct for the error and to reflect the revenue requirement increase approved by the Commission in the Second Interim Order. WEPCO did not file a new cost-of-service study because, after reviewing staff's cost-of-service results, it concluded that its results would be very close to the staff's. The Commission finds that the staff cost-of-service studies form a reasonable basis for the development of the rate design in this case.

WEPCO's cost-of-service model is proprietary. Staff, under its auditing authority, has access to the model, but other parties in the case do not. At least one party in this case claimed that this arrangement prevents it from being able to thoroughly review the cost-of-service studies filed by WEPCO. While the proprietary nature of the model may make it more difficult to review the cost-of-service results, its use by the Company and the staff is not inappropriate. All parties are free to file discovery requests on WEPCO and they can develop their own cost-of-service studies. The Commission finds, therefore, that WEPCO's use of a proprietary cost-of-service model is reasonable.

The Commission encourages cooperation among parties on technical matters such as this one. In the future WEPCO should make reasonable efforts to accommodate parties who wish to

review WEPCO's cost-of-service studies. This, of course, cuts both ways. Any intervenor doing cost-of-service analysis should reasonably accommodate WEPCO, the staff, or any other party wishing to review that intervenor's cost-of-service analysis.

### **Cost Analyses Outside the Cost-of-Service Model**

The cost-of-service model suggests class assignments for most, but not all, of WEPCO's natural gas costs. WEPCO has separate models to estimate items such as revenues by class and natural gas commodity costs, among others. The estimates that are made outside the general cost-of-service model are described in WEPCO's testimony. Staff audited these estimates and found them to be reasonable.

The Commission finds that it is reasonable for WEPCO to develop certain cost and revenue estimates outside the general cost-of-service model. To attempt to create a single super-model is not an efficient use of resources since WEPCO has already developed models and methods that reasonably estimate several items not addressed in the more general model.

### **Seasonal Collection of Pipeline Peak Demand Charges**

Currently pipeline peak demand costs are collected over the period spanning November 1 of a given year through March 31 of the subsequent year. This seasonal pricing reflects the fact that increasing demand in the peak winter season causes the utility to incur more costs than it does when demand increases in the summer season.

WEPCO proposed to change the end date of the collection period for peak demand costs from March 31 to April 30. This would not change the total amount collected. It would simply

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spread the costs over an additional month. This change would moderate to some extent the large price spike that occurs on November 1 as winter rates go into effect. It also matches the underlying cost of providing winter pipeline service.

The Commission finds that collecting pipeline demand charges over one additional month is reasonable. The approved peak demand charge, as well as all other gas cost charges, is shown in Appendix B. These rates are just and reasonable.

### **Increased Fixed Charges**

A typical natural gas rate design is made up of fixed and variable charges. Traditionally utilities have collected most of their revenue by means of the volumetric charges. WEPCO filed a rate design that set monthly fixed charges at substantially higher levels than are currently authorized. This rate design would collect significantly greater amounts of revenue on a fixed basis than would a typical rate design. Under this rate design the volumetric rates are lowered accordingly to offset the increased revenue collected by the higher fixed charges.

The Commission finds insufficient record support to adopt a high-fixed-charge type rate design in this case. In a recent Wisconsin Fuel & Light Company (WF&L) rate case, docket 6640-GR-106, the Commission approved a rate design with fixed monthly charges that were much higher than traditional levels. A key difference between this case and the WF&L case is that the rate design was closely scrutinized in the latter case. In fact, a separate proceeding was held for the sole purpose of analyzing the specific rate design components.

In this case the record was insufficient to support higher monthly fixed charges. If WEPCO wishes to implement such a rate design in the future, a thorough record must be developed before the Commission will entertain the idea.

The only exception to this decision is that the monthly fixed charge rate for power generators should be increased to the levels suggested by the staff. The justification for high fixed charges for these very large volume customers is clearly established in this record. The high-fixed-charge rate design charges these customers for the option of using natural gas. It is economically efficient to charge these customers for the option value of using natural gas. The Commission, therefore, finds that it is reasonable that the fixed charges for the power generator classes should be increased to significantly higher levels than the current levels. The Commission also finds that it is not reasonable to implement such a rate design approach for the other classes.

### **Specific Rate Design Components**

WEPCO proposed a rate design that unbundled charges for specific service functions. Most of the cost of service , excluding the cost of gas, was allocated to the distribution function. This appropriately reflects the nature of WEPCO's business. In reviewing the reasonableness of the allocation of these cost to individual rate classes, the Commission must balance the need to reflect the underlying cost of providing service with other factors, such as rate impacts.

Relying strictly on cost-of-service results would in this case result in distribution rate changes that are too severe to be considered reasonable, especially for the largest customers. The Commission, therefore, finds staff's rate design with moderated impacts to large-volume

customers to best balance the conflicting rate design objectives. The rates proposed by staff in the hearing needed to be fine-tuned to reflect the decisions of the Commission in other areas and to generate revenues that match as closely as possible the final revenue requirement determined in the Second Interim Order in this case. The final distribution rates by class as approved by the Commission are found in Appendix B. The Commission finds these rates to be just and reasonable.

The gas supply acquisition charge is designed to recover WEPCO's cost of acquiring gas supplies. Since WEPCO procures gas supplies for sales customers, but not for transportation customers, this charge applies only to sales customers. Staff's proposed gas supply acquisition charge reasonably reflects the cost of providing this service. The final gas supply acquisition charges by class as approved by the Commission are shown in Appendix B. The Commission finds these rates to be just and reasonable.

The peak day charge is designed to reflect the cost of providing services to meet the peak day needs of sales customers taking firm (*i.e.*, non-interruptible) service. An example of these costs would be the revenue requirement associated with a propane injection plant, a plant likely to be used only on peak days. These charges apply only to firm sales customers. The staff's proposed peak day charges are appropriate. The peak day charges by class as approved by the Commission are shown in Appendix B. The Commission finds these rates to be just and reasonable.

In some cases, transportation customers want or need peak day backup services from the utility. These customers can contract for such service under the LDC Reserved Gas Supply Service rate. Staff's proposed rate adequately reflects the costs that the utility incurs in

providing such backup. The LDC Reserved Gas Supply Service rate as approved by the Commission is shown in Appendix B. The Commission finds this rate to be just and reasonable. WEPCO also proposed to change the billing period for this service from 5 months to 12 months. This would not change the annual cost of the service. It changes only the number of bills sent to each customer. The Commission finds this change to be reasonable.

The balancing service charge is designed to reflect certain system-wide balancing costs, such as the financial carrying cost on gas held in storage. Unlike some of the other charges that apply only to sales customers or only to transportation customers, this charge applies to all customers, as it should. The utility uses gas in storage to keep its system in balance. If a sales customer uses more gas than anticipated by WEPCO, or if a transporter exceeds its nomination, the utility withdraws gas from storage to make up for these shortfalls. Both types of customers, therefore, use this service, and the cost of the service should be borne by both.

Some transportation customers suggested that if they do not balance on the utility (*i.e.*, they use a third party to balance their loads), they should not be subject to this charge. The Commission finds that this argument fails to acknowledge that all transporters do balance on the utility at least for part of the time. Third-party balancing is often interrupted, especially on peak days. Therefore, on the most critical days, all transporters are most likely balancing on the utility. The Commission finds that since all customers rely to some extent on utility assets to balance their loads, all customers should pay this charge.

Staff's proposed balancing service charge reasonably reflects the cost of providing this service. The balancing service rate as approved by the Commission is shown in Appendix B. The Commission finds this rate to be just and reasonable.

Certain other miscellaneous costs are recovered via the enhanced and other services charge. An example of these costs is demand-side management costs. Staff's proposed enhanced or other services charges reasonably reflect the cost of providing these services. The enhanced or other services charges by class as approved by the Commission are shown in Appendix B. The Commission finds these rates to be just and reasonable.

WEPCO proposed that costs associated with gas lost and unaccounted for be recovered in a different way than has been done to date. Currently, these costs are recovered via the purchased gas adjustment (PGA). The problem associated with using this mechanism to collect these costs is that only the sales customers pay PGA costs. This fails to reflect that transporters' gas also escapes from the system and needs to be made up by the utility.

WEPCO proposed to collect lost and unaccounted for gas costs via a volumetric rate applicable to all rate classes. Transporters and their representatives were not opposed to paying for gas lost and unaccounted for, but they preferred to pay for it in-kind by delivering extra amounts of natural gas to the utility. WEPCO testified that it would be administratively difficult to manage the extra increment of gas that transporters would deliver.

The Commission finds that, in this case, it would be administratively difficult for WEPCO to manage the extra increment of gas that transporters would deliver to compensate the utility for lost and unaccounted for gas. The Commission finds that WEPCO's proposed lost and unaccounted for gas cost charge is reasonable and should be implemented. The Company should, however, study the feasibility of permitting a transportation customer to deliver gas in-kind, if the customer desired to do so, in lieu of paying the standard system rate. If such a practice is feasible, the utility should in its next rate case submit a plan that would permit

customers to elect this option. If the concept is not feasible, then a study supporting that conclusion should be submitted by WEPCO at that time.

### **Miscellaneous Tariff Changes**

WEPCO proposed that the current take-or-pay surcharge be eliminated because there are no longer any costs associated with this category. The Commission finds that eliminating this charge is reasonable.

WEPCO proposed that, in order to fully recover its costs of service, seasonal customers be required to pay monthly fixed charges avoided during any disconnection period if a reconnection occurs within 12 months of a disconnection. The Commission finds that such a condition is reasonable to prevent other customers from subsidizing seasonal customers.

WEPCO proposed to include in its tariffs charges for copies of its tariff books. The charges are designed to offset the cost of producing the books. The Commission finds the proposed charges to be reasonable. The Commission also finds, however, that WEPCO should make its tariffs available at no cost on its Internet web site by no later than November 1, 1999.

WEPCO proposed that the conditions under which customers can combine loads for billing practices be listed in the tariffs. It proposed that both the customer and the utility must agree that combining the loads is appropriate before such action is taken. The Commission finds this proposal to be reasonable. The general policy of this Commission has been to treat separate meters as separate accounts. Nonetheless, exceptions should be allowed when circumstances clearly warrant such treatment.

WEPCO proposed to eliminate the base pressure adjustment factor used in billing customers. This factor is used to calculate volumes based on pressure differences between that used by the pipeline and that used in the distribution system. WEPCO argued that the adjustment factor is no longer relevant since its value is very close to one (meaning that there is very little difference in the adjusted and unadjusted volumes) and because it causes customer confusion. The Commission finds that it is reasonable that this adjustment be eliminated. No purpose is served by an adjustment factor that does not adjust anything. Combining that fact with the fact that the pressure adjustment factor confuses customers argues strongly for its elimination.

WEPCO requested authorization to make its tariffs consistent with the requirements of the Gas Industry Standards Board (GISB). WEPCO needs to make certain changes to conform with recently promulgated standards. The Commission finds that these changes are reasonable.

WEPCO proposed to change its definition of the term “essential service” in its tariffs to be consistent with the Commission staff’s recommendation regarding schools. The Commission finds this change to be reasonable.

### **Gas Cost Recovery Mechanism (GCRM)**

The order in docket 05-GI-106 (the GCRM docket), issued November 8, 1996, directed that LDCs whose sales are equal to or exceed those of Superior Water, Light and Power shall use either an incentive Gas Cost Recovery Mechanism (GCRM) or a modified one-for-one GCRM. WEPCO filed testimony and exhibits proposing a modified one-for-one recovery mechanism. The proposal was considered in this rate case.

Under WEPCO's proposed GCRM, the Purchased Gas Adjustment (PGA) would continue to operate in the same manner as it does currently by tracking all collections and insuring that the collections equal the costs that have been passed to it. The major difference would be the addition of a step to determine exactly what costs are allowed to pass through the PGA for collection, and what costs WEPCO will be allowed to recover. The Commission finds this approach to be reasonable.

The GCRM consists of three categories for tracking and collecting gas costs. The rates charged to customers will consist of all three categories, along with approved true-ups from previous months for each category. The first category is for costs that will pass directly to the PGA. WEPCO proposed that reservation costs associated with transportation, storage and supply reservation costs be calculated and pass directly to the PGA. The volumes of transportation, storage and supply components subject to this automatic flow through the PGA are those volumes that have been reviewed and approved in WEPCO's annual supply plan. The reservation costs would be subject to a true-up for any variances between actual and forecasted costs, including variances resulting from changes to Federal Energy Regulatory Commission (FERC) approved tariff rates. The Commission finds this approach to be reasonable.

The second category is the treatment of capacity release revenues. An estimate of the volume of capacity releases will be made each year and filed with the Commission by July 1. This estimate will be based on a weather scenario 10 percent colder than normal. On or before September 15 of each year, WEPCO will calculate an expected revenue from the capacity release volume filed July 1. WEPCO proposed that the differences between the estimated revenues and actual revenues be subject to a sharing mechanism between ratepayers and stockholders.

WEPCO proposed that, because the estimate is based on colder weather where there is less capacity to release, the sharing mechanism should be weighted 80 percent ratepayer and 20 percent stockholder. The Commission finds that a target capacity release level based on 10 percent colder than normal weather, along with the 80/20 sharing mechanism, is reasonable.

The third GCRM cost category is the commodity benchmark. In the modified one-for-one form of the GCRM mechanism, the majority of gas costs, if prudently incurred, are directly collected from the utility's customers. The modified one-for-one mechanism includes a benchmark component for monthly gas commodity costs. The utility is authorized to collect from customers actual commodity costs at or below the monthly benchmark. Monthly commodity costs greater than the benchmark are subject to further review before being allowable.

WEPCO proposed a two-part monthly commodity benchmark. One of the benchmarks would be an estimated total monthly commodity cost of gas. The second benchmark would be a unit cost benchmark. If the actual commodity cost in a month was less than either of the benchmarks, then WEPCO would be allowed to collect the costs from its customers. Commission review of monthly commodity costs would occur only if both benchmarks were exceeded.

Commission staff objected to the double benchmark component of the proposed GCRM on several grounds. First, in many instances the total monthly commodity cost comparison provided no additional information than that provided by the unit cost comparison. Second, the use of a dual test can also lead to a false-positive result, a situation where the mechanism should indicate the need for further investigation but does not. Third, the dual comparison approach

appears to go beyond what the Commission ordered in docket 05-GI-106. The 05-GI-106 order states that “[w]hen actual costs are known after the end of the month, a unit cost for the commodity portion of cost will be calculated and compared to the benchmark used.” (05-GI-106 order at page 32). The order’s further discussion of comparing the actual commodity costs to the benchmark, and the various treatments of the actual costs, all appear based on a unit cost basis.

The Commission finds that it is reasonable to modify WEPCO’s proposed GCRM mechanism to eliminate the double commodity cost benchmark component. The Commission approves a commodity cost benchmark based on a monthly unit cost comparison. At the start of each GCRM year, a general formula will be developed to calculate the benchmark price for the commodity cost of gas for each month. The benchmark formula will take into consideration the relative use of each production area WEPCO has access to each month and also the use of gas from storage. A computer program will be used to optimize the purchases of gas from each production area and the use of each storage contract for every month of the GCRM year. The relative use of the pipeline systems will be included in the volumetric part of the benchmark formula. For each month in the program year a final benchmark unit cost will be calculated using first of month index prices for the appropriate supply areas and the weighted average cost of gas from each storage field for gas from storage. Fuel costs and FERC-approved variable pipeline transportation costs will also be included in the benchmark. The indices to be used are the Inside FERC Gas Monitoring Report Prices of Spot Gas Delivered to Pipelines, published around the first of each month. The benchmark price for each month will be calculated within three working days after the first of the month.

The Commission finds that it is reasonable to require WEPCO to show the calculation of the benchmark costs and actual commodity costs in its monthly PGA standard report. Actual costs at or below the benchmark would be trued-up with minimal review by Commission staff. Actual costs above the benchmark costs would require a more detailed review. If staff determines costs to be prudent, those costs would flow through the PGA. If staff determines that costs were imprudently incurred, WEPCO may request a hearing. WEPCO shall also file a final yearly-end reconciliation within 60 days following each October 31.

WEPCO proposed to file its annual supply plan as four elements. A capacity plan would be filed by July 1 of each year, describing estimated peak day requirements and annual sales requirements and the transportation, storage, and other pipeline services proposed to meet the customer peak day and annual requirements. The supply (commodity) plan would be filed on July 1, showing the daily levels of gas supply WEPCO proposes to have under contract in each month of the gas supply plan. The July 1 commodity plan filing will have specific detail for long-term supply contracts. By September 15, WEPCO could update the commodity contract information to include detailed information on seasonal or annual supply contracts. The third element of the annual supply plan is the operation plan, to be filed after Commission approval of the capacity and commodity plan elements. Monthly customer requirements and storage injection requirements would determine how much gas is to be ordered in each month. The purpose of the operation plan is to develop the detail of how gas will be taken from each production area and each storage field for each month of the GCRM year. Information from the operation plan will be used to prepare the benchmark formula which will be used to establish monthly benchmark commodity prices for gas. The final element of the annual supply plan is

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the capacity release plan. An estimation of capacity release volumes will be filed by July 1, with the estimated revenues from capacity release to be filed by September 15. The Commission finds WEPCO's proposed annual supply plan filing schedule to be reasonable.

The Commission finds that it is reasonable for the yearly GCRM period to be November 1 to the following October 31. The initial implementation for WEPCO's GCRM shall be the shortened period of July 1, 1999, until October 31, 1999.

### **FINDINGS RELATED TO NATURAL GAS TRANSPORTATION SERVICE OFFERINGS**

#### **General Commission Policy on Natural Gas Transportation Service and Competition**

In this docket, the Commission has attempted to address regulatory problems caused by transporters and their marketers. The Commission has acknowledged that attempting to nominate accurately when weather patterns are constantly changing, or when production problems occur unexpectedly, is a difficult task. Marketers raised these same issues in this case as the basis for their claim that WEPCO's proposed transportation service rules are unreasonably stringent. Some have argued that since they could not predict or control the weather they should not be required to pay higher fees for imbalances that are caused by deviations from forecasted temperatures, for example. In docket 05-GI-103, the Commission found that regardless of the nature or scope of the difficulty transportation customers faced, the Commission will not allow sales customers to bear the consequences of those problems. The transporters must fully bear those consequences. This principle provides guidance with respect to several of the issues in this case.

If marketers can provide gas to customers in a less expensive fashion than can the utility, without imposing costs on core customers, then the Commission will take actions to encourage this result. Lowering the total cost of gas to Wisconsin consumers benefits the state's economy, something that is clearly in the public interest. If marketers are able to save their customers money only by shifting costs to core customers, then transportation service is harming core customers and is not in the public interest. Transportation service must be able to survive on a stand-alone basis without subsidies from core customers. The Commission uses that principle in reaching its determinations on transportation service issues in all cases that come before it, including this one.

With respect to claims that certain of WEPCO's proposals will create, rather than remove, barriers to competition, the Commission restates its position on that issue here. The Commission is not trying to slow further expansion of competitive natural gas markets in the state. The Commission has found in previous cases, and continues to support the concept, that barriers to competition should be removed where feasible and where they serve no greater public interest purpose.

The Commission is obligated to ensure that a utility's customers pay rates for service that are just and reasonable. With transportation volumes now at 40 percent of WEPCO's total throughput and growing, even greater scrutiny is required to ensure that transporters do not shift costs to core customers. When in doubt as to the impact of a particular action, it is prudent for the Commission to err on the side of protecting the financial interests of the utility's core customers, not the transporters.

### **Consistency With Rate Design Principles**

Some parties argued that the changes to transportation service proposed by WEPCO and supported by the staff are inconsistent with the well-established rate design principles espoused by James C. Bonbright.<sup>5</sup> In particular, claims were made that the proposals were unfair and were not based on marginal cost principles.

The Commission rejects the notion that requiring transportation customers to pay the full cost of providing service to them is unfair. The fact that in some cases transporters may have been paying marginal or incremental costs for certain services in the past does not mean that transporters are entitled to receive such pricing indefinitely. Marginal or incremental cost pricing may have been reasonable when transportation loads themselves were marginal, such as when they amounted to less than ten percent of system throughput. At 40 percent of system throughput, however, transportation customers loads are far from marginal and may soon become the predominant load on the system. Groups that represent predominant loads must be charged rates that cover all the costs associated with serving them.

It is important to note that Bonbright criticized many rate experts for focusing too much attention on marginal cost pricing. Given that the Commission designs rates to collect the embedded cost—not the marginal cost—of providing service, marginal cost pricing can play at best a minor role in ratemaking. Experience has taught that ratemaking is not a science but rather an art that requires the appropriate balancing of many conflicting objectives. In reviewing WEPCO's transportation service proposals in this case, the Commission has determined (based

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<sup>5</sup>Bonbright, James, Principles of public utility rates, Arlington, VA: Public Utilities Reports, 1988.

on the record in this proceeding) that WEPCO's proposals are consistent with the public interest and are reasonable.

### **Timing of Changes to Transportation Service**

The timing of the proposed changes to transportation service was also an issue. Some marketers testified that changes need not occur unless and until a significant problem develops. WEPCO indicated that it was important to make these changes now, before significant problems and cost shifting occurs. It appears that there is a high likelihood that some of the cost shifting problems may already be occurring. With transporters responsible for 40 percent of throughput, the Commission finds that it is reasonable to make most of the changes proposed by WEPCO now rather than waiting for problems to become more obvious.

### **Staging the Implementation of the Proposed Changes**

Some parties suggested that, due to the sweeping nature of many of the proposed changes, some of the changes be implemented now and others at a later date. This would allow those parties more time to adjust to the new operating requirements.

The Commission finds that while there is room for a limited amount of fine-tuning of the timing of the implementation of the individual changes, by and large WEPCO's proposals represent a unified, coordinated package. Implementing the new balancing service now, but delaying implementation of the new cashout process for example, could create unintended arbitrage opportunities. The Commission finds, therefore, that WEPCO's proposals should

generally be treated as a package and implemented at the same time. Exceptions to this policy are noted where applicable (*e.g.*, see the discussion of telemetering equipment costs).

Nonetheless, the Commission is concerned that, given the nature of the changes being made in this case, parties be given a reasonable opportunity to study and understand the new tariffs before they go into effect. Rather than being effective with the date of the order, as is often the case for rate orders, the Commission finds that it is reasonable to delay the implementation date to July 1, 1999. This should provide WEPCO with time to disseminate tariff language to the parties, and discuss that language with them, before the tariff changes take effect.

### **Expected Improvements in Nomination Accuracy Under the New Tariffs**

A fundamental problem that WEPCO has addressed in this case is the accuracy of transporter nominations. WEPCO is concerned that transporter nominations are currently so inaccurate that they create cost shifting and reliability problems for the system. WEPCO's proposals are designed to provide greater incentives to make nominations more accurate. The marketers disagree as to whether increasing incentives will have any effect on their ability to improve their nominations. They argue that little improvement will occur because they already have incentives to make their nominations as accurate as possible.

The record in this case fails to support this contention. Under WEPCO's current monthly cashout mechanism, transportation customers have financial incentives to match their cumulative nominations and usage as closely as possible by the end of the month. This is designed to encourage accurate nominations by the transporters. The Commission finds that the marketers'

own testimony reveals that they purposely misnominate on some days to “make up gas,” as they refer to it, for cashout purposes. Staff’s statistical analysis confirmed that transporter nominations are adjusted to make up for the prior days actual over or under-deliveries. Information presented in this case from a Northern Natural Gas case filed before the Federal Energy Regulatory Commission revealed a similar pattern.

The Commission recognizes that marketers and transporters (and utilities) cannot perfectly match daily nominations with their actual usage for that day. The Commission does, however, expect marketers and transporters to face the consequences of their nomination errors, something the current tariffs do not require. If the cost of misnominating is increased, the Commission believes that cost-conscious marketers will find ways to reduce nomination errors. The Commission finds, therefore, that marketers are likely to nominate more accurately if better incentives to do so are in place.

In analyzing this issue it is also important to consider the significant impact that the new intra-day nomination procedures will have on the marketers’ ability to nominate accurately. Instead of getting one chance per day to nominate gas supplies as they do now, marketers will soon have four opportunities per gas day, with the final one coming well into the gas day in question. Consequently, even if the marketers can make only minor improvements in their nomination accuracy under current procedures, the ability of the marketers to adjust their nominations midway through the gas day should allow for significant reductions in nomination errors.

### **Different Operating Standards for WEPCO and for the Transporters**

Marketers and transporters argued that if they are to be subject to WEPCO's proposed new, more stringent operating rules for balancing, cashout, and physical deliveries, then WEPCO acting as agent for its system sales customers should also be forced to abide by the same rules. The Commission finds that such an approach fails to recognize the fundamental difference between a regulated utility and a non-regulated marketer. WEPCO has an obligation to serve all potential distribution customers in its service territories; marketers can select the customers they wish to serve. WEPCO is responsible for maintaining the integrity of the distribution system; marketers are not. WEPCO cannot exit the market if conditions become difficult; marketers are free to leave at any time if they have fulfilled their contractual obligations to their customers. The Commission, therefore, finds that it is appropriate that WEPCO as system operator be subject to different operating rules than are the transportation customers.

### **Nomination Requirements for Large-Volume Sales Customers**

Marketers and transporters suggested that large-volume sales customers be required to nominate their loads daily to the utility, just as large-volume transportation customers are required to do. This again fails to acknowledge the fundamental difference between sales and transportation service. One of the benefits of sales service is that the customer does not have to nominate. It can rely on the utility to arrange for the supplies that the customer needs. This benefit does not come free, however. Sales customers must pay the cost of the services purchased by the utility to allow it to provide such flexible service (*e.g.*, storage and no-notice service). A large-volume, high load-factor customer willing to monitor its loads can in most

cases find a marketer that can offer gas supplies at a discount to the utility's more general gas cost package. The trade-off is that the customer must nominate every day.

Large-volume customers moved voluntarily from sales to transportation service. If they prefer not to nominate, they can return to sales service after waiting the necessary period provided by WEPCO's tariff. Most do not return to sales service because it is less expensive to be served by a marketer, even though the customers have increased administrative costs associated with preparing daily estimates of gas use. The nomination process is simply a means to enable the transporter to receive the lowest cost service possible.

To require sales customers to nominate simply because transporters must do so is not reasonable in light of the nature and cost of the service provided by the utility. The Commission finds, therefore, that it is not reasonable to require all large-volume sales customers to nominate their gas supplies to WEPCO.<sup>6</sup>

### **Operating Zones**

WEPCO currently has six regulatory districts that define distinct areas of its service territory. Marketers can combine customers within the same areas into pools for the purpose of aggregating loads for the purpose of calculating imbalance charges. Pooling across regulatory districts is not allowed. Marketers must also deliver the customer's natural gas supplies to a city gate that serves the district where the customer is located.

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<sup>6</sup> The Commission notes that it has allowed Wisconsin Gas to require its large-volume interruptible customers to nominate daily. This is consistent with the market-based nature of Wisconsin Gas Company's interruptible sales service. WEPCO's interruptible sales service is not market-based at this point, so requiring nominations is not necessary.

The six regulatory zones do not reflect the physical limits of its system. Currently, pressure differences on the distribution system will allow natural gas delivered to a particular gate to physically flow to only certain areas within each regulatory district. When transportation loads were small relative to sales loads, having marketers deliver gas to a gate from which gas cannot flow to a particular customer posed little difficulty for WEPCO. WEPCO simply rebalanced its loads to accommodate the physical imbalance created by the marketer. With transportation throughput now up to 40 percent of total system volume, however, this situation is becoming more of a problem. The ability of WEPCO to adjust its ever-shrinking natural gas supplies to balance the transporters' ever-increasing loads is becoming more and more limited. At some point, it will not be physically possible for the LDC to accomplish this feat.

A second problem results under the current arrangement. Transporters look for the least-expensive natural gas supplies and try to bring as much natural gas as they can to the city gates that are connected to lower-cost supply basins. Marketers have an economic incentive to over-deliver on gates served by lower-cost sources and under-deliver on gates served by higher-cost sources. When this occurs, WEPCO must adjust the quantity of gas it takes from the various city gates to offset the transporters' takes in order to keep the system in balance. As a result of the actions of the marketers, WEPCO is forced to take more gas from the high-cost gates and less gas from the low-cost gates and its sales customers must pay more for gas supplies (and the transporters less) than if the deliveries better matched the physical location of the marketers' customers.

This cost shifting is not new; however, effects that were tolerable when the volumes of transportation gas were small becomes grossly unreasonable to system sales customers when

transportation volumes rise to their current level. To solve both of these problems, the LDC is proposing to replace its six regulatory areas with ten operating zones or physical delivery areas. Unlike the regulatory areas, these operating zones are designed so that gas delivered to a city gate in that zone can physically reach the customer. Transportation customers would be allowed to pool customers only within each zone.

The Commission finds that it is reasonable for WEPCO to replace its current six regulatory service areas with its proposed ten operating zones or physical delivery areas. This is a prime example of the type of operating change that is necessitated by the impacts associated with increased transportation throughput on WEPCO's system.

### **Super-Pooling Within Zones**

While the Commission finds that major changes need to be made to insulate core customers from the impacts of transportation customers, it is also interested in moderating, where possible, the impacts of these changes on the transporters and marketers. In an attempt to moderate the impact of WEPCO's implementation of ten operating zones on marketers and transporters, staff proposed that WEPCO be required to pool all the marketer pools within each of the ten operating zones (super-pooling). Such pooling of pools would allow marketers to share diversity benefits among the pools. This would serve to reduce the imbalance charges for transporters as a whole. The Commission finds that the super-pooling concept is a reasonable mitigating mechanism and WEPCO should investigate the feasibility of implementing such an approach.

The record in this case does not contain sufficient evidence to allow the Commission to approve a specific super-pooling mechanism at this time. The Commission, therefore, finds that WEPCO should submit to the Commission by July 1, 1999, a plan to implement a super-pooling mechanism. If WEPCO believes that a different mechanism would better provide the necessary moderating effect on transporter imbalances resulting from implementation of the ten operating zones, it should submit a plan to implement that mechanism in lieu of the super-pooling plan. An example of a possible alternative is a mechanism that would allow imbalance trading among marketers or transporters operating in the same zone.

#### **Application of the Ten Operating Zones to System Sales Customers**

Several parties argued that, if the ten-zone approach is approved, WEPCO in its role as agent for sales customers should be subject to the restrictions associated with these zones. WEPCO testified that it is already subject to the physical constraints imposed by the zones (it cannot force gas to move from low pressure to high pressure), so such a condition is unnecessary.

The Commission finds that while WEPCO is physically constrained to operate within the limitations of the zones, it is able to pool its sales loads across zones served by the same pipeline when it balances on the pipeline. This is something marketers or transporters cannot do under WEPCO's proposal. However, notwithstanding this difference, the Commission finds that it is not reasonable to require that WEPCO be subject to the ten-zone requirements for pooling purposes. This again reflects the differing aspects of sales versus transportation service. Sales customers pay for enhanced transportation service—a service which permits a utility to combine

loads across multiple gates for balancing purposes. Transportation customers typically would not pay for such a premium service. System sales customers also pay a rate for gas service which is an average of all of the utility's costs for providing service. Transporters pay for gas under contract. What transporters pay depends on the cost of providing service to them given their particular operating characteristics and on their respective negotiating abilities. Marketers do not blend all their gas costs together to charge everyone a single rate, as does the utility.

At this point the Commission finds no compelling reason to depart from the system average cost of gas approach that has been used traditionally for sales customers. These costs are typically higher than those paid by transporters and reflect a higher level of service. Therefore, the Commission will not order WEPCO to apply the ten-zone concept to sales customers for balancing purposes.

### **Daily Balancing**

#### *Contractual Swing Quantity (CSQ)*

Under the current system, transporters pay for imbalances by means of a volumetric rate charged on an as-occurred basis. WEPCO's proposal is to require transporters to now nominate an annual Contractual Swing Quantity (CSQ) amount. This amount of balancing service would be paid for on a fixed-charge basis and would be available for balancing every day. There would also be low volumetric rates that would apply to the actual imbalances. Any imbalances outside the CSQ limit would be subject to unauthorized use penalties. Under the CSQ proposal, these penalties would apply 365 days per year.

WEPCO's objective in pricing its balancing service this way is to force the marketers to reveal to the utility how much balancing service they actually need. As WEPCO's role as a natural gas merchant declines, the likelihood of it having to begin to contract directly for balancing capacity for transporters increases. Today, the transporters use the balancing assets that WEPCO has purchased primarily for its system sales customers. If the utility has no sales customers, or if the number of customers is small, the utility will have to arrange for pipeline balancing service for the transporters and the transporters will have to pay full cost for that service. Under those conditions WEPCO will need to know how much balancing capacity needs to be contracted for with the pipeline. The CSQ proposal is a step toward that eventuality.

The Commission finds that WEPCO's CSQ approach to daily balancing is reasonable. This is yet another change that is made necessary by the increasing proportion of system throughput that transportation loads represent. The current system provides WEPCO with no information about the amount of balancing services that it would need to purchase for transporters in a deregulated world. The CSQ is an important step toward providing that type of information.

#### *Interruptible Nature of the CSQ Service*

WEPCO proposed to offer its CSQ service on a firm basis. That means that the CSQ nomination amount would be available 365 days a year. The current balancing service is available most, but not all, days of the year. WEPCO currently interrupts its balancing service on peak days when there is little, if any, extra capacity on the pipelines. Offering CSQ on an interruptible basis retains the current nature of LDC-provided balancing service; namely, that it

is available most days of the year but is not available on those few days when capacity is constrained and all transporters (including the utilities) must be limited to their nominations or be subject to severe penalties.

The Commission finds that it is not reasonable for WEPCO to offer CSQ on a firm basis. If it were to be offered as firm service, the price of the service would need to be increased many fold to cover the full cost of the firm pipeline capacity that would be needed to provide this service. If WEPCO wishes to offer firm CSQ service in the future, it should submit a proposal that would require the transporters to pay firm service pipeline rates for every dekatherm of balancing capacity purchased.

#### *Rate Design Components for CSQ Service*

Unlike traditional balancing service that consists only of volumetric charges, the CSQ service would contain a fixed charge as well as a variable charge. Since some of the cost of balancing service would be collected under the CSQ fixed charge, the associated volumetric charge can be reduced accordingly.

The only way in which the CSQ will reveal the amount of balancing capacity that a transporter needs is if it contains a fixed charge. Otherwise WEPCO would be left in the same position it is today. That is, without a fixed charge, balancing service would be provided solely on an as-needed basis. This provides no up front indication of the amount of capacity needed to provide this service. The Commission finds, therefore, that a fixed charge component in the CSQ rate design is reasonable and necessary.

The Company proposes to set annually the CSQ fixed charge rate ranging between \$0.01 per therm per month and \$0.12 per therm per month. The CSQ fixed charge rate will be set by the utility within this range and will be charged to all customers using CSQ service. The Commission finds that, given the interruptible nature of the service, this pricing approach is reasonable. The flexibility should not allow WEPCO to change the price once a customer has contracted for a year's worth of CSQ service. The price may be changed, however, at the next annual nomination. The volumetric charges proposed by the applicant for CSQ service are also reasonable.

*Unauthorized Use Penalties in the CSQ Mechanism*

WEPCO proposed that any usage that exceeds the CSQ level should be subject to unauthorized use penalties of \$2.00 to \$10.00 per therm per day. This is more consistent with firm service, as WEPCO had viewed the CSQ service. With the decision to make CSQ interruptible, the need for the highest penalties is diminished. It is also not necessary that unauthorized use penalties be as high in the off-peak season as they are in the winter peak season. The Commission, therefore, finds that for nonconstraint days a rate of \$2.00 per therm should apply in the six winter months (November through April) and that a rate of \$0.50 per therm should apply in the remaining six summer months. For constraint days, constraint day penalties will apply to all unauthorized use of gas. Over time it may be appropriate to adjust these prices as more experience is gained with the program.

Some parties suggested that it is inappropriate to charge unauthorized use penalties on other than constraint days. Such penalties should apply only when demand on the system is at

capacity, they argued. The Commission does not agree with this logic. If WEPCO is to get accurate estimates of a transporter's balancing service needs, it must provide incentives for the transporter to produce such accuracy. This is a specific example of the need to send proper economic signals to ensure nomination accuracy. A very low penalty for exceeding the CSQ would likely produce CSQ nominations that were too low. A low CSQ nomination would reduce the transporter's up front fixed cost payments for balancing. If the cost of exceeding the CSQ level is small, it would then be economic for the transporter to ask for less CSQ balancing than it would actually need, and then pay the small charges for exceeding the CSQ level.

If the penalty for being outside the CSQ level is high, however, the transporter will have a strong incentive to select a CSQ range that will absorb most or all of its daily imbalances. That is the goal of the CSQ program—to identify as accurately as possible the amount of balancing capacity that WEPCO needs to serve transportation customers. The Commission, therefore, finds that it is reasonable to charge unauthorized use penalties on imbalances outside the CSQ level on all days that CSQ is available. The rates proposed by staff for this purpose are just and reasonable.

#### *Nomination Subscription Term*

WEPCO proposed that transporters be required to nominate an annual CSQ level. This level of swing would be available every day of the year. The Commission finds that, considering its decision to make CSQ interruptible, this amount should be available on every day of the year except when the service is interrupted.

Several parties objected to the fact that an annual nomination is required under the proposal. They believe that a shorter period of time is appropriate. The Commission finds that an annual subscription period is appropriate for now. Most contracts for pipeline capacity are at least one year in length, so a shorter CSQ nomination period would not match well with the underlying contracting that WEPCO must do to provide this service. The Commission is interested in seeing proposals for a shorter subscription term if they can be justified. WEPCO, or any other party, should file proposals for shorter subscription periods if they believe they can provide such justification.

*Limits on the Amount of CSQ Available to Each Customer*

The LDC proposed to limit a customer's CSQ nomination to no more than 25 percent of the customer's maximum demand. It is reasonable to have some limit on the amount of CSQ that is available since WEPCO has a finite amount of pipeline space necessary to provide this service.

Staff's analysis of actual transporter imbalances reveal that a 25 percent imbalance occurs only about seven percent of the time, based on metered usage. Since metered usage is on most days less than the customer's maximum demand, this analysis overstates the likelihood that a customer would exceed 25 percent of its maximum demand. There also should be less need for wide CSQ levels once the intra-day nomination procedure is in place. This argues further that the analysis of the historic data on actual imbalance overstates the amount of balancing service that actually will be needed. The Commission finds that the 25 percent per customer limit on CSQ service is reasonable.

*Calculation of Imbalances*

WEPCO proposed that imbalances be calculated as a percent of actual usage. That is if the customer nominated 1,000 therms but used only 800 therms, the imbalance would be 25 percent (200 therm absolute imbalance divided by 800 therms of metered use). Certain parties argued that the nomination should be the denominator. In the example above, the imbalance would be 20 percent (200 therm absolute imbalance divided by 1000 therms).

The Commission finds that it is reasonable to use metered usage as the denominator when calculating imbalances. Using metered usage instead of the nomination as the denominator reduces the influence that purposeful misnominations can have on the imbalance percentage.

**Limitations on Customers Moving Between Balancing Services**

WEPCO proposed to limit the movement of customers from Gas Supplier/Demand Aggregator Balancing Service (DABS) to Comprehensive Balancing Service (CBS). The former service is used for marketer pools while the latter service is WEPCO's pool for transporters not served by a marketer. WEPCO proposes that customers be required to stay within their respective balancing service for at least one month, and that any movement between services occur only at the beginning of the month.

The Commission finds this proposal to be reasonable. The administrative costs of frequent switching between services is likely to be high and such action should, therefore, be restricted.

## **Cashout**

WEPCO proposed in this case to change the frequency of its cashout process from monthly to daily. WEPCO argued that such a change is necessary because monthly cashout creates substantial arbitrage opportunities. In staff's view, daily cashout would reduce arbitrage opportunities to some extent, but not nearly as well as would a market-based cashout price. WEPCO stated that it is interested in moving toward a market-based price for cashout, but it needs time to work out the details of such an approach. The marketers argued that no change to the cashout process is necessary because the evidence of arbitrage is spotty at best.

The Commission finds that arbitrage is a real problem associated with the current monthly cashout process. The marketers admit that they compare current market prices of gas to the utility's weighted average cost of gas in deciding whether to deliver more or less gas than is necessary to meet the needs of their customers. This can shift costs to core customers and should be prevented.

The Commission finds that a daily cashout process is reasonable.<sup>7</sup> With daily cashout a marketer has no incentive to adjust the nomination today to offset imbalances occurred earlier in the month. For now, WEPCO can use a weighted average gas cost as the cashout reference price. Commissioner Mettner dissents.

The Commission is interested in using market-based pricing for cashout but finds no specific proposal on the record. The Commission finds that WEPCO should submit a study that shows how monthly cashout with market-based prices would have worked based on actual historic data. One alternative that the Commission would like to see analyzed is a cashout with

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<sup>7</sup> The billing for cashout can still occur on a monthly basis, although the dollar amounts would be calculated daily.

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monthly marketer purchases made at the highest daily market price for that month and monthly sales to the utility made at the lowest daily market price for that month. The study should be submitted to the Commission by July 1, 1999.

### **Constraint Day Notification Requirements**

WEPCO proposed that it be allowed to call constraints no less than one hour before the start of a high-flow or low-flow period. This one-hour notice requirement would apply to intra-day nomination periods, as well as to entire gas days, as conditions warrant.

The Commission finds this proposal to be reasonable. As the gas planning period moves from days to hours, it is critical that WEPCO be able to make adjustments more quickly than was necessary in the past.

WEPCO also noted that it will make every reasonable attempt to notify by telephone all customers subject to the constraint. The Commission finds that this is reasonable. WEPCO is actually under no obligation to notify the customers—it is required by the order in docket 05-GI-105 to notify the pool administrators when constraints are called.<sup>8</sup> The Commission acknowledges that WEPCO is providing good customer service by voluntarily agreeing to make a good faith effort to contact the customers as well.

Some marketers requested that WEPCO be required to place in its tariffs the conditions that must be met before calling a Level I or Level II constraint period. A charge of at least

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<sup>8</sup> Docket 05-GI-105, Investigation on the Commission's Own Motion into the Need for Changes in Tariff Terms and Conditions Necessitated by Recent Changes in the Structure of Pipeline Services Provided to All Gas Utilities, Second Interim Order, Page 28, 41.

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\$2.00 per therm applies to unauthorized use during Level I constraints; the charge increases to at least \$10 per therm during Level II constraints. The Commission is in favor of making the tariffs as explicit as is reasonable, but also does not wish to restrict the utility's ability to deal with unforeseen circumstances. The Commission does not find it to be reasonable to include in the tariffs binding conditions to be met before calling different levels of constraints. The Commission does find, however, that the tariffs should contain nonbinding examples of the types of conditions that would typically give rise to Level I and Level II constraint periods.

WEPCO proposed that Wisconsin gas utilities should be required to coordinate calling of constraint days to prevent arbitrage across utility systems. The Commission finds that such an order provision is beyond the scope of this case.

### **Unauthorized Use Penalties**

WEPCO proposed that if a transporter's nomination to the pipeline differs from its nomination to the utility, WEPCO should have the right to use the transporter's nomination to the utility as the basis for allocating pipeline penalties. The Commission finds that it is reasonable to use the nomination to WEPCO in such a situation. The Commission also finds, however, that the use of the nomination to WEPCO should be mandatory, not discretionary, under these circumstances.

One party argued that WEPCO's definition of incremental cost in its tariffs relating to unauthorized use was vague. The Commission finds that it is reasonable to require WEPCO to define specifically in the tariffs the term incremental cost as it applies to unauthorized use penalties.

WEPCO proposed without opposition that all revenue from unauthorized use penalties be credited back to system sales customers rather than flowing to the shareholders. The Commission finds this proposal to be reasonable. There is no justification for shareholders to profit from unauthorized use of natural gas.

WEPCO also proposed without objection to have the right to waive penalty charges caused by faulty utility equipment and to explicitly state in the tariffs that it has the right to valve off customers taking unauthorized gas. The Commission finds that these proposed changes are reasonable.

### **Nomination Procedures**

WEPCO proposed that its tariffs require that nominations be delivered via the Internet. Several parties were concerned that they would be held responsible for missed nominations if the Internet were unavailable or not functioning properly. The Commission finds that submitting nominations via the Internet is an efficient way to transmit such information. It is reasonable that this be the primary mode of data transfer. The Commission also finds that a back-up system must be available in cases where nominations cannot be submitted via the primary mode.

WEPCO testified that some nominations come to the utility with incomplete information. Other nominations may contain the appropriate information, but in a format that is atypical. WEPCO proposed to require standard information requirements that would have to be submitted for the nomination to be accepted. WEPCO is not asking the transporters to provide any information that is not already provided to other parties in the gas procurement and delivery process. The Commission finds this proposal to be reasonable. Standardizing the form of the

information submitted should lead to administrative efficiencies not available with more free form approaches.

WEPCO proposes to split transporters into two groups for the purpose of defining the term “customer demand nomination” for the balancing process. For the more standard case where the transporter balances on the utility system, the demand nomination would equal the transportation service provider’s nomination for that customer. This is the conventional treatment of transporter nominations. WEPCO argues that for customers who balance on third parties, however, the customer demand nomination should be the amount of gas estimated to be consumed, not the amount of gas delivered to the utility system.

The new treatment is necessary, WEPCO argues, because marketers who have third party balancing can over-deliver large quantities of gas to WEPCO’s city gate and then sell it to other marketers. That is to say, in some cases the marketer has no intention of using all the gas to supply its customers. Gas delivered to accomplish such trades would be fairly easy to identify when the marketer balances on WEPCO. It is nearly impossible to identify when a third party does the balancing for the marketer.

Over-delivering to the city gate allows the marketers to use that location as a mini-hub to make gas trades. The Commission finds that city gate trades are appropriate, but WEPCO must be made aware that some of the gas being delivered is for sales to other parties at the wholesale level and not for retail consumption. The Commission finds, the refore, that separate treatment of transportation customers who balance on the utility and those who balance on a third party is appropriate. The Commission finds WEPCO’s proposal in this regard to be reasonable.

WEPCO proposed without opposition to define or clarify the following terms in its tariffs: city gate gas supply trading; confirmed pipeline nomination; customer demand nomination; delivery location; downstream identifier code; operating system; pipeline nomination; pipeline scheduled nomination; receipt location; supply nomination; and upstream identifier code. The Commission finds that the proposed definitions are reasonable and should be listed in WEPCO's tariffs.

WEPCO proposed to levy an additional charge on any excessively inaccurate transporter nominations to provide additional discipline to the marketplace. The Commission does not find this charge to be necessary. The major changes approved in this order should provide ample discipline to the market, and this additional charge could be viewed as punitive. If WEPCO can show in a future case that such a fee is necessary to cure a particular problem in the market, the Commission will review the specifics of the situation at that time.

### **Intra-Day Nominations**

The new GISB standards require pipelines to allow customers to revise their nominations three times after having submitted their initial nominations. WEPCO proposed the following deadlines for submission of nominations:

- Timely nomination                      9:30 a.m. to take effect at 9:00 a.m. the following day
- Evening nomination                      4:00 p.m. to take effect at 9:00 a.m. the next day
- Intra-day 1 nomination                      8:00 a.m. to take effect at 5:00 p.m. the same day
- Intra-day 2 nomination                      3:00 p.m. to take effect at 9:00 p.m. the same day

These nomination deadlines occur two hours prior to the respective pipeline nominations. This allows WEPCO more time to keep its system in balance. Some parties argued that this time period was too long.

The Commission finds these deadlines to be reasonable, especially considering that this is a new process. WEPCO should attempt to close the gap between its nomination deadline and the pipeline's deadline as it gains more experience with the process. The Commission also finds that it is reasonable that WEPCO implement the intra-day nomination procedure as soon as possible after having thoroughly tested the ability of its systems to efficiently and accurately process the information flow associated with intra-day nominations.

WEPCO proposed to require standard information on intra-day nominations, just as it had for the initial nominations. The Commission finds this requirement is reasonable and should enable the process to work more efficiently.

WEPCO proposed that, when a transporter's intra-day nomination does not match the pipeline's intra-day nomination, it be given the right at its sole discretion to confirm the lesser of the two. The Commission acknowledges that the intra-day nomination process is a new one. Accordingly, the Commission will allow WEPCO some discretion in this regard. The Commission finds that, as long WEPCO acts in good faith, WEPCO's proposal with respect to dealing with intra-day nomination discrepancies is reasonable.

WEPCO suggested that it not be required to modify its intra-day nomination procedures if one of the pipelines serving it changes its intra-day procedures. The Commission finds no reason to address this issue in the abstract. If such a change occurs, the Commission will

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consider the specific circumstances involved in determining whether to modify WEPCO's procedures.

### **City Gate Trading Information Requirements**

Earlier in this order the Commission addressed some of the problems associated with balancing when marketers trade supplies at the city gate. In addition to the balancing problems, city gate trades made under the current tariffs often present administrative difficulties for WEPCO. Gas may be traded multiple times, split into smaller packages and resold, and then sold again and moved away from the city gate. WEPCO attempts to keep track of these trades so that it can attribute gas deliveries to the proper party. It sometimes needs to spend inordinate amounts of time trying to track down all the relevant information associated with these trades.

WEPCO proposed a set of requirements that would clearly identify buyers and sellers and any volumes involved, among other items, for any and all city gate trades. It also recommends that mismatches between buying and selling quantities create an imbalance attributable to the seller. The Commission finds these recommendations to be reasonable. WEPCO should not be required to track down any information related to these trades. If the marketers cannot provide complete information in a standard form, they should not expect to be able to trade at the utility's city gate.

### **Transportation Administration Charge**

Billing transportation customers is more complex than billing traditional sales customers. In addition to distribution service charges, transportation customers are also subject to daily balancing and either daily or monthly cashout charges. The utility must obtain nominations from

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transporters on a daily basis. This will soon change to an intra-day basis, further complicating the handling of these accounts.

The Commission allows utilities to charge a transportation administration charge to cover the cost of providing billing and other services to the transportation customers. The charge is currently \$75 per customer per month. WEPCO proposes to increase the charge to \$150 per customer per month.

The Commission finds that an increase in the transportation administration charge is in order. WEPCO has shown that the fully allocated cost basis for these services is approximately \$275 per customer per month. The fully allocated cost basis used in this analysis is valid. WEPCO used a fully allocated cost basis to reduce costs paid by transporters in the prior case. In developing the gas supply acquisition charge, which only sales customers pay, WEPCO used fully allocated costs to determine the level of costs supporting that charge. While most Wisconsin utilities suggest that gas supply acquisition charges cost them about \$1 to \$2 million per year, WEPCO found these costs to be about \$11 million per year.

By using a fully allocated cost approach to develop the gas supply acquisition charge, WEPCO saved its transportation customers about \$10 million per year relative to that which they would pay for this item if they were served by other Wisconsin gas utilities. Since a fully allocated cost approach was used to determine which costs the transporters did not cause, symmetry argues that the same approach should be used in estimating costs that they do cause. This yields the \$275 per customer per month charge developed by WEPCO. To moderate the impacts on transportation customers, WEPCO suggested raising the charge to \$150 rather than \$275.

The Commission finds that moving toward the fully allocated cost figure is appropriate. The rate at which this charge is approached is the key question. While accepting WEPCO's logic as to the costing methodology, the Commission must consider factors other than cost in setting rates. The Commission finds that a \$125 per customer per month charge balances the need to reflect the underlying cost of service with the need for more gradual rate changes. A \$125 charge is, therefore, just and reasonable.

### **Telemetering Equipment and Related Charges**

Transportation service requires an additional level of complexity that again is not necessary to serve most sales customers. Since transporters must balance daily on the system, WEPCO must know the transporters' consumption on a daily basis. Manually reading each transporters' meter every day would be prohibitively expensive. A more efficient method involves the use of remote meter reading with telemetry.

The transporter is assessed the cost of the telemeter when it switches from sales to transportation service. (The only exception would be for interruptible sales customers who have already had a telemeter installed by WEPCO.) The current cost of the telemeter and related equipment is \$2,300 per meter. WEPCO proposes in this case to raise the charge to \$4,310 per meter to recover the cost of better equipment.

While WEPCO suggests that customers will obtain improved service from the newer equipment, the record does not provide any substantial support for this claim. If the Commission is to approve an almost 100 percent increase in a charge such as this, it will need to see well-documented evidence of the cost effectiveness of the equipment. Telemetry costs represent

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a barrier to competition for many customers and the Commission does not wish to arbitrarily increase this barrier. WEPCO may attempt to provide a justification for this equipment in a future case. Absent such information in this case, however, the Commission finds it inappropriate to raise the per customer telemeter charge as proposed by WEPCO. The Commission finds that the current \$2,300 charge is reasonable.

### **Notification Period Required to Switch From Sales to Transportation Service**

Currently a WEPCO customer wishing to move from sales to transportation service must give notice 12 months prior to November 1 before the customer can switch to transportation service. This period allows WEPCO to make the necessary administrative changes and to rearrange its supply portfolio to reflect its reduced load.

Marketers and transportation customer representatives suggest that such a period is unreasonably long. If a customer were to give notice on November 15, 1999, it would not satisfy the 12-month notice requirement as of November 1, 2000, (*i.e.*, it would be 14 days short of 12 months). This customer would have to wait until November 1, 2001, before switching to transportation under the current rules. It is unclear to the marketers why the utility needs such a long time to prepare for the service switch, especially for interruptible sales customers for whom the utility does not hold pipeline capacity.

The Commission finds that the current waiting period is too long and also finds that the utility should work to reduce it. For interruptible sales customers, notice by April 1 of a given year should provide sufficient notice to the utility to enable the customer to switch to transportation service by November 1 of the same year. There is no pipeline capacity for these

customers, and since the gas storage injection season begins April 1, notice prior to that date would allow the utility to adjust its storage injections accordingly.

The notice period for firm sales customers is more complicated. In the case of firm sales customers, there are often long-term pipeline contracts that have been entered into to serve those customers. While WEPCO could probably manage its contracts to accommodate a slow, gradual movement to transportation service, any kind of mass exodus, even under the current waiting period, could present significant stranded cost problems for it and its remaining sales customers.

While the Commission would like to see the waiting period reduced from the current level, it will not order WEPCO to set a shorter period in its tariffs. The Commission finds it is a reasonable goal for WEPCO to reduce the waiting period to simply one year, rather than one year from November 1. The Commission finds that WEPCO should make it clear in its tariffs that the current waiting period is the maximum required time and that shorter periods may be permitted when conditions allow. The Commission will also order WEPCO to develop alternative buyout proposals that would allow customers to compensate the utility for potentially stranded costs should they move to transportation service more quickly than the utility can naturally accommodate such a move.

### **Non-Telemetered Transportation Service**

As just mentioned, the cost of a telemeter can represent a barrier to competition for some customers. This is especially true for smaller-volume customers. To remove this barrier some utilities have developed non-telemetered transportation service for small volume customers.

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Under these programs an algorithm is used to convert monthly meter reads into daily usage amounts for balancing purposes.

WEPCO currently does not offer a non-telemetered transportation service. Several marketers recommended that WEPCO be required to offer such a service for small volume customers. The Commission has recently ordered other utilities to study the possibility of offering such a service.

The Commission finds that WEPCO should submit to the Commission by July 1, 2000, a study on the feasibility of offering non-telemetered transportation service to its small volume customers. If it is found to be feasible, the study should include an implementation schedule for the service. Any conclusion suggesting that such a service offering is not feasible for WEPCO must be based on technical grounds.

### **Marketer Certification Requirements**

WEPCO proposed to establish key measures of financial integrity as a means of certifying marketers supplying gas to its system. It recommended deferring consideration of all other measures pending the Commission's decision in its marketer certification docket 05-GI-106.

The Commission finds it to be premature to deal with marketer certification issues until the issues are resolved in docket 05-GI-106. Nonetheless, the Commission finds it to be reasonable under any circumstances that WEPCO be allowed to require that any customers that it deals with provide a showing of financial integrity.

## **FINDINGS OF ULTIMATE FACT**

### **THE COMMISSION FINDS:**

1. Natural gas rates should be designed to produce total operating sales revenues of \$360,489,000, as was determined in the second interim order.
2. Rates authorized by this order shall be prospective only.
3. It is reasonable that the partial interruptible sales class be closed on the effective date of this order so that only the customers currently on the rate can receive the temporary peak demand credit.
4. It is reasonable that the partial interruptible rate classes be eliminated on July 1, 1999. After this date, current customers receiving service under WEPCO's partial interruptible sales service (Class Gg-3) will receive service under WEPCO's firm sales service (Class Cg-3). Likewise, current customers receiving partial interruptible distribution service (Class Gt-3) will receive service under WEPCO's firm distribution service (Class Ct-3).
5. It is reasonable for customers who are transferred from WEPCO's current partial interruptible sales service to WEPCO's firm sales service to receive a one-year peak demand transition credit.
6. The Firm Distribution With Gas Supply Crediting Program is reasonable and should be implemented by WEPCO on a pilot basis for three years. The three-year period begins on July 1, 1999, with annual progress reports filed by WEPCO in accordance with the Findings of Fact.

7. It is reasonable that any penalties for unauthorized use by customers who have entered into these agreements with WEPCO under the Firm Distribution with Gas Supply Crediting Program be identified explicitly in the contracts.

8. It is reasonable that WEPCO's current interruptible distribution service be eliminated, except for power generators.

9. It is reasonable that the rate design in this case be developed in such a way as to moderate impacts on the large-volume customers who are currently served under interruptible distribution rates.

10. The rates shown in Appendix B to this order are just and reasonable.

11. It is reasonable that WEPCO develop the separate power generator rate classes in this case that reflect the different types of natural gas use by power generators. The power generators should be charged the new rate associated with their current rate class until more specific rates can be set in the next case.

12. It is reasonable that WEPCO develop a rate designed specifically for crop dryers. WEPCO should file a proposed crop dryer rate design with the Commission on or before July 1, 1999.

13. It is reasonable that if WEPCO's share of the interruptible load on its system stabilizes or increases, rather than continuing to decline, it should implement market-based rates for its Ig-4 and Ig-5 interruptible sales rate classes. WEPCO should submit a plan by July 1, 1999, that describes the market-based pricing mechanism and that also describes the triggering mechanism that would be used to signify that WEPCO's market share is no longer declining.

14. WEPCO's cost-of-service model is a reasonable tool to be used in determining the cost of providing service to its various rate classes. WEPCO should make reasonable accommodations in future cases for parties who wish to review WEPCO's cost-of-service studies, as should any intervenor who submits a cost-of-service analysis.

15. The staff's cost-of-service studies developed with WEPCO's model using the correct revenue requirement and the corrected programming algorithm form a reasonable basis for the development of the rate design in this case.

16. It is reasonable for WEPCO to develop certain cost and revenue estimates outside the general cost-of-service model.

17. Collecting pipeline demand charges over six months is reasonable.

18. There is insufficient record support in this case to adopt a high-fixed-charge type rate design, except for the power generator classes.

19. It is reasonable that WEPCO study the feasibility of permitting a transportation customer to deliver gas in kind, if the customer desires to do so, in lieu of paying the standard system rate for gas lost and unaccounted for.

20. It is reasonable that WEPCO eliminate the current take-or-pay surcharge tariff.

21. It is reasonable that WEPCO require seasonal customers to pay monthly fixed charges avoided during any disconnection period if a reconnection occurs within 12 months of a disconnection.

22. It is reasonable that WEPCO be allowed to charge for copies of its tariff books. It is also reasonable that WEPCO make its tariffs available at no cost on its Internet web site by no later than November 1, 1999.

23. It is reasonable that both the customer and the utility agree that combining the loads of separate meters is appropriate before such action is taken.

24. It is reasonable that the base pressure adjustment factor used in billing customers be eliminated.

25. It is reasonable that WEPCO make its tariffs consistent with the requirements of the Gas Industry Standards Board (GISB) as outlined by the Company in the record.

26. It is reasonable that WEPCO change its definition of the term “essential service” in its tariffs to be consistent with the Commission staff’s recommendation regarding schools.

27. It is reasonable for WEPCO to calculate a single unit cost benchmark for gas commodity cost to be used for monthly comparison purposes in its GCRM.

28. It is reasonable that WEPCO’s monthly gas commodity cost charged to customers shall be interim pending review by the Commission to determine if such costs were prudently incurred.

29. It is reasonable that the yearly period for WEPCO’s GCRM shall be November 1 until the following October 31. The initial implementation for WEPCO’s GCRM, however, should be for the shortened period of July 1, 1999, until October 31, 1999.

30. Given the complexity of the tariffs, it is reasonable that the effective date of the changes authorized in this order be July 1, 1999.

31. It is reasonable for WEPCO to implement its proposed 10-operating-zone approach as a replacement for its current 6 regulatory service areas.

32. The super-pooling concept is reasonable and WEPCO should investigate the feasibility of implementing such an approach.

33. WEPCO should submit to the Commission by July 1, 1999, a plan to implement a particular super pooling mechanism. If WEPCO believes that a different mechanism would solve this problem more efficiently, it should submit a plan to implement that mechanism in lieu of the super-pooling plan.

34. WEPCO's CSQ approach to daily balancing is reasonable and should be offered on an interruptible basis.

35. It is reasonable to charge unauthorized use penalties on imbalances outside the CSQ level on all days that CSQ is available. The unauthorized use charges under the CSQ program should vary by season. The seasonal charges proposed by the staff are just and reasonable.

36. It is reasonable that WEPCO be allowed to limit a customer's CSQ nomination to no more than 25 percent of the customer's maximum demand.

37. It is reasonable to use metered usage as the denominator when calculating imbalances.

38. It is reasonable to restrict the movement between the Gas Supplier/Demand Aggregator Balancing Service (DABS) to Comprehensive Balancing Service (CBS) as specifically discussed in the findings of fact.

39. It is reasonable to change the frequency of its cashout process from monthly to daily and that WEPCO use the weighted average gas cost as the cashout reference price.

40. It is reasonable to require WEPCO to submit a study that shows how monthly cashout with market-based prices would have worked based on actual historic data. The study should be submitted to the Commission by July 1, 1999.

41. It is reasonable to permit WEPCO to call constraint periods no less than one hour before the start of a high-flow or low-flow period. This one-hour notice requirement shall apply to intra-day nomination periods, as well.

42. It is reasonable that WEPCO be required to place in its tariffs non-binding examples of the types of conditions that could result in the implementation of Level I and Level II constraint periods.

43. When a transporter's nomination to WEPCO is different from that customer's confirmed pipeline nomination, it is reasonable that WEPCO use the transporter's nomination to the utility as the basis for allocating unauthorized use penalties charged by the pipeline.

44. It is reasonable to require WEPCO to define specifically in the tariffs the term "incremental cost" as it applies to unauthorized use penalties.

45. It is reasonable that all revenue from unauthorized use penalties be credited back to core customers rather than flowing to the shareholders.

46. It is reasonable that WEPCO explicitly state in its tariffs that it has the right to waive penalty charges caused by faulty utility equipment and that it has the right to valve off customers taking unauthorized gas.

47. It is reasonable that transporter nominations be delivered via the Internet as long as a back up system is available.

48. It is reasonable that standard information requirements for transporter nominations to the utility be implemented.

49. If a transporter balances on the utility system, it is reasonable that the demand nomination equal the transportation service provider's nomination for that customer. It is also

reasonable for customers who balance on third parties that the demand nomination should be the amount of gas estimated to be consumed, not the amount of gas delivered to the utility system.

50. It is reasonable that WEPCO define or clarify in its tariffs key definitions of terms related to the provision of transportation service, as discussed in the Findings of Fact.

51. WEPCO's proposed deadlines for the submittal of intra-day nominations is reasonable.

52. It is reasonable that WEPCO attempt to close the gap between its nomination deadline and the pipeline's deadline as it gains more experience with the intra-day nomination process.

53. It is reasonable that WEPCO implement the intra-day nomination procedure as soon as possible after having thoroughly tested the ability of its systems to efficiently and accurately process the information flow associated with intra-day nominations.

54. It is reasonable that WEPCO require standard information on intra-day nominations, just as it had for the initial nominations.

55. In the case where a transporter's intra-day nomination does not match the pipeline's intra-day nomination, WEPCO should be given the right to confirm the lesser of the two nominations.

56. It is reasonable that marketers be required to supply WEPCO with information requirements that would clearly identify buyers and sellers and any volumes involved, among other items, for any and all city gate trades.

57. It is not reasonable to increase the telemetry charge for transporters from \$2,300 per meter to \$4,310 per meter.

58. It is reasonable that WEPCO attempt to reduce the length of the notification period for customers wishing to move from sales service to transportation service. A reasonable goal is to reduce the period to no more than one year for firm customers. It is also reasonable that the notice period for interruptible customers be changed to April 1, as discussed in the Findings of Fact.

59. It is reasonable that WEPCO develop alternative buyout proposals that would allow customers to compensate the utility for potentially stranded costs should the customers wish move to transportation service more quickly than the utility can naturally accommodate such a move.

60. It is reasonable that WEPCO submit to the Commission within one year of the effective date of this order a study on the feasibility of offering non-telemetered transportation service to its small volume customers, as discussed in the Findings of Fact.

## **CONCLUSION OF LAW**

### **THE COMMISSION CONCLUDES:**

That it has authority pursuant to Wis. Stat. §§ 1,11, 196.03, 196.20, 196.37 and 196.395, to enter an order authorizing WEPCO to place in effect the rates and rules for gas utility service authorized in this order and that such rates and rules are just and reasonable.

**ORDER**

**THE COMMISSION ORDERS:**

1. WEPCO is authorized to substitute for its existing rates for natural gas service the rates contained in Appendix B attached hereto and made a part thereof.

2. WEPCO is authorized to apply the rates and rules specified in Appendix B to this order to bills for natural gas service under jurisdiction of the Commission. The authorized natural gas rates and rules shall be effective on July 1, 1999. The authorized natural gas rates and rules shall be filed with the Commission and placed in all offices and pay stations of the utility by such date in accordance with Wis. Stat. §§ 196.21 and 196.40. WEPCO shall immediately inform the Commission in writing of the date the newly authorized rates and rules take effect.

3. This order shall be effective one day after issuance. WEPCO shall file for Commission staff approval compliance tariffs within 45 days of the effective date of the order.

4. WEPCO shall prepare bill inserts that properly identify the rates authorized herein. Copies of such inserts shall be sent to the Commission.

5. WEPCO shall close the partial interruptible sales class as of the effective date of this order to prevent customers not currently on this service from receiving the one-year transition credit. WEPCO shall eliminate the partial interruptible sales and distribution classes effective on July 1, 1999.

6. WEPCO shall implement its Firm Distribution With Gas Supply Crediting Program on a pilot basis consistent with the Findings of Fact. The term of the pilot shall be

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July 1, 1999, through June 30, 2002. WEPCO shall report on the results of this pilot annually commencing on July 1, 2000.

7. WEPCO shall cancel the It-4 and It-5 interruptible transportation classes effective July 1, 1999.

8. WEPCO shall separate its power generator customers into the following classes: (1) dedicated distribution service, gas primary fuel; (2) dedicated distribution service, gas secondary fuel; (3) non-dedicated distribution service, gas primary fuel; (4) non-dedicated distribution service, gas secondary fuel. WEPCO shall have sales and transportation classes for each of these four categories. In the next rate case WEPCO shall submit specific rate designs for each of these power generator classes. The respective rates approved for the Pg-1, Pg-2, Pt-1, and Pt-2 classes in this order shall be used as the rates for the new classes until the next rate case.

9. WEPCO shall file no later than July 1, 1999, a proposed rate for crop dryers.

10. WEPCO shall file in its next rate case a study analyzing the feasibility of allowing transportation customers to make up for gas lost and unaccounted for on an in-kind basis, rather than paying a fee to WEPCO.

11. WEPCO shall file by July 1, 1999, a proposal to implement market-based rates for its customers in its Ig-4 and Ig-5 interruptible sales classes. The proposal shall contain recommendations as to the precise circumstances that would trigger the implementation, consistent with the Commission's Findings of Fact on this issue.

12. WEPCO shall make its natural gas tariffs available on its Internet web site no later than November 1, 1999. There shall be no charge to users for access to these tariffs on its Internet web site.

13. WEPCO shall include in its tariffs the conditions under which customer loads at separate meters can be combined for billing purposes.

14. WEPCO shall eliminate the take-or-pay surcharge billing category.

15. WEPCO shall require any seasonal customer that requests a reconnection within 12 months of a disconnection to pay monthly fixed customer charges avoided during any disconnection period for the class of service under which the customer is served.

16. WEPCO shall eliminate the base pressure adjustment factor in its tariffs.

17. WEPCO shall make the changes to its tariffs to make those tariffs consistent with GISB requirements as outlined by the Company in the record.

18. WEPCO shall file with the Commission the tariff changes necessary to put the approved Gas Cost Recovery Mechanism (GCRM) into effect on July 1, 1999.

19. WEPCO shall file with the Commission a document describing the operation of the GCRM that reflects the decision in this proceeding on or before June 1, 1999.

20. WEPCO shall work with Commission staff to develop an estimate of capacity release revenue to include in the initial GCRM period of July 1 to October 31, 1999.

The review of commodity costs to be recovered under WEPCO's GCRM shall be delegated to Commission staff.

21. WEPCO shall make the appropriate GCRM filings as described in the Findings of Fact.

22. WEPCO shall replace its six regulatory service areas with its proposed ten operating zones.

23. WEPCO shall file with the Commission by July 1, 1999, a proposal to allow super-pooling of transporter loads with each operating zone. WEPCO may in that filing propose a proposal for an alternative to super-pooling, such as imbalance trading, if it believes that the alternative would be preferable.

24. WEPCO shall implement an interruptible CSQ program for balancing service consistent with the Findings of Fact on that issue.

25. WEPCO shall include in its tariffs limitations on the movement between Gas Supplier/Demand Aggregator Balancing Service (DABS) and Comprehensive Balancing Service as described in the Findings of Fact on this issue.

26. WEPCO shall implement a daily cashout mechanism consistent with the Findings of Fact on that issue.

27. WEPCO shall file with the Commission by July 1, 1999, a study documenting the results of a monthly cashout with market-based prices.

28. WEPCO shall provide notice of a constraint period at least one hour prior to the beginning of the period. This shall apply to intra-day periods as well as longer periods.

29. WEPCO shall include in its tariffs non-binding examples of the conditions that could result in the implementation of Level I and Level II constraints.

30. When a transporters' nomination to the pipeline differs from the nomination to the utility, WEPCO shall use the nomination to the utility as the basis for allocating pipeline penalties to customers.

31. WEPCO shall clearly define in its compliance tariffs the term "incremental cost" as it relates to unauthorized use penalties.

32. WEPCO shall use the transportation service provider's nomination as the customer demand nomination when a transporter balances on the utility. When a transporter balances on a third party, WEPCO shall use the amount of gas estimated to be consumed, not the amount of gas to be delivered, as the customer's demand nomination.

33. WEPCO shall define and clarify in its tariffs certain terms related to transportation service, as discussed in the Findings of Fact.

34. WEPCO shall implement an intra-day nomination procedure with the deadlines discussed in the Findings of Fact. WEPCO shall implement this process as soon as possible after a thorough test of the system.

35. WEPCO shall credit all revenue from unauthorized use penalties to system sales customers.

36. WEPCO shall include in its tariffs its rights to waive penalty charges caused by faulty metering and to valve off customers who take unauthorized gas.

37. WEPCO shall require transporters to submit a complete set of standard information before accepting a nomination. This shall apply to initial nominations as well as intra-day nominations.

38. WEPCO shall have the right to confirm the lower of two intra-day nominations when the transporter's nomination does not match the pipeline's.

39. WEPCO shall require transporters conducting trades at WEPCO's city gate to submit the information discussed in the Findings of Fact.

40. WEPCO shall keep its charge for telemetry equipment for transportation customers at \$2,300 per customer.

41. WEPCO shall attempt to reduce the notification period required for customers wishing to move from firm sales to transportation service to one year. WEPCO shall change the notification period for interruptible sales customers wishing to move to transportation service to April 1 to be effective November 1 of the same year.

42. WEPCO shall within one year of the effective date of this order submit a study of the feasibility of offering non-telemetered transportation service for its small volume customers. A conclusion of unfeasibility must be based on technical grounds. If such a service is found to be feasible, WEPCO shall at the same time submit a plan for its implementation.

Dated at Madison, Wisconsin, \_\_\_\_\_

By the Commission:

\_\_\_\_\_  
Lynda L. Dorr  
Secretary to the Commission

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98