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September 18, 2009

The Honorable Representative Kent Eken
Minnesota House of Representatives
575 State Office Building
St. Paul, MN 55155

The Honorable Senator Yvonne Prettner Solon
Minnesota Senate
G-9 State Capitol Building
St. Paul, MN 55155

The Honorable Representative Bill Hilty
Minnesota House of Representatives
559 State Office Building
St. Paul, MN 55155

The Honorable Senator Satveer Chaudhary
Minnesota Senate
205 State Capitol Building
St. Paul, MN 55155

RE: Report on Gas Utility Infrastructure Costs Recovery Mechanisms

Dear Representative Eken, Representative Hilty, Senator Prettner-Solon & Senator Chaudhary:

Pursuant to 2005 Minnesota Laws Chapter 97 Article 10 Section 2, the Office of Energy Security is required to review the operation and impact of the gas utility infrastructure costs (GUIC) recovery mechanism established under Minnesota Statutes, section 216B.1635¹, on ratepayers and the utility and submit a report of its findings and recommendations to the legislature four years after the effective date of this section. To date, no regulated natural gas has applied for or received Minnesota Public Utilities Commission approval to implement a GUIC recovery mechanism.

If you have any questions about these reports, please contact me at (651) 296-0404 or vincent.chavez@state.mn.us.

Sincerely,

Vincent Chavez
Special Assistant to the Director
Office of Energy Security
Minnesota Department of Commerce

¹ See Attachment 1

216B.1635 RECOVERY OF GAS UTILITY INFRASTRUCTURE COSTS.

Subdivision 1. **Definitions.** (a) "Gas utility" means a public utility as defined in section 216B.02, subdivision 4, that furnishes natural gas service to retail customers.

(b) "Gas utility infrastructure costs" or "GUIC" means gas utility projects that:

(1) do not serve to increase revenues by directly connecting the infrastructure replacement to new customers;

(2) are in service but were not included in the gas utility's rate base in its most recent general rate case; and

(3) replace or modify existing infrastructure if the replacement or modification does not constitute a betterment, unless the betterment is required by a political subdivision, as evidenced by specific documentation from the government entity requiring the replacement or modification of infrastructure.

(c) "Gas utility projects" means relocation and replacement of natural gas facilities located in the public right-of-way required by the construction or improvement of a highway, road, street, public building, or other public work by or on behalf of the United States, the state of Minnesota, or a political subdivision.

Subd. 2. **Filing.** (a) The commission may approve a gas utility's petition for a rate schedule to recover GUIC under this section. A gas utility may petition the commission to recover a rate of return, income taxes on the rate of return, incremental property taxes, plus incremental depreciation expense associated with GUIC.

(b) The filing is subject to the following:

(1) A gas utility may submit a filing under this section no more than once per year.

(2) A gas utility must file sufficient information to satisfy the commission regarding the proposed GUIC or be subject to denial by the commission. The information includes, but is not limited to:

(i) the government entity ordering the gas utility project and the purpose for which the project is undertaken;

(ii) the location, description, and costs associated with the project;

(iii) a description of the costs, and salvage value, if any, associated with the existing infrastructure replaced or modified as a result of the project;

(iv) the proposed rate design and an explanation of why the proposed rate design is in the public interest;

(v) the magnitude and timing of any known future gas utility projects that the utility may seek to recover under this section;

(vi) the magnitude of GUIC in relation to the gas utility's base revenue as approved by the commission in the gas utility's most recent general rate case, exclusive of gas purchase costs and transportation charges;

(vii) the magnitude of GUIC in relation to the gas utility's capital expenditures since its most recent general rate case;

(viii) the amount of time since the utility last filed a general rate case and the utility's reasons for seeking recovery outside of a general rate case; and

(ix) documentation supporting the calculation of the GUIC.

Subd. 3. Commission authority; rules. The commission may issue orders and adopt rules necessary to implement and administer this section.

History: 2005 c 97 art 10 s 1

NOTE: This section as added by Laws 2005, chapter 97, article 10, section 1, expires June 30, 2015. Laws 2005, chapter 97, article 10, section 3.