

## Memo

To: Darrell Nitschke

From: Mike Diller

Date: November 13, 2014

Re: Natural Gas Interruptible Service Tariff (Case No. PU-14-626)

NSP filed proposed modifications to its natural gas interruptible service tariffs on July 17, 2014 to increase the penalty for using gas during curtailment periods from \$1 per Therm to \$5 per Therm and to specify telemetry requirements for reading and transmitting meter data. The tariff changes are applicable to NSP's small and large interruptible services and its large commercial interruptible transportation service. The commission issued a Notice of Filing and Notice of Opportunity for Hearing on September 17, 2014. No requests for a hearing were received. Staff recommends approval of the proposed changes and will include a Motion to approve on the November 20 commission meeting agenda.

### Analysis

Interruptible customers receive natural gas service at a discount in exchange for allowing NSP to curtail gas when necessary to continue serving firm service customers. Currently, if an interruptible customer fails to curtail when called upon, NSP assesses a charge of \$1 per Therm for any gas used during the curtailment period. Failure to curtail puts service to firm service customers at risk and many of these customers do not have alternative heat sources. NSP reports that 40% of its North Dakota interruptible customers took unauthorized gas during curtailment periods during the last heating season. The current penalty charge is clearly insufficient to ensure a better customer response to calls for curtailment. Because of the consequences to firm customers if gas supply is short, staff agrees that a more severe penalty is in order for ignoring the call to curtail gas use.

As proof of an insufficient price signal, a common alternative heat source for interruptible customers is propane. It is not uncommon to pay \$1.75 per gallon for propane in the winter months. It takes 10.9 gallons of propane to generate the same heat as one Dekatherm of natural gas. Therefore, the natural gas equivalent cost of \$1.75 propane for one Dekatherm of heat is about \$19. There is little reason to switch fuel sources, other than for moral contractual reasons, when natural gas is delivered for about \$5 per Dekatherm and the penalty only adds another \$10 per Dekatherm. Last season, propane prices peaked at about \$4.5 a gallon or about \$49 for the same heat content of 1 Dekatherm of natural gas.

NSP has proposed to increase the penalty charge from \$1 per Therm to \$5 per Therm or \$50 per Dekatherm. If the interruptible class continues to ignore the higher rate, NSP would collect an additional \$420,000 in revenues per year assuming last year's non-curtailed volumes. Any additional revenue collections would be passed back to firm retail customers through the cost of gas rider. That said, Staff fully expects that a \$5 per Therm penalty will change the way customers are responding to calls for curtailment. Please note that Montana-Dakota Utilities Company already employs a \$5 per Therm penalty for its North Dakota interruptible gas service customers using gas during curtailment periods.

Given the history of NSP's interruptible customers failing to adhere to curtailment protocol, staff recommends that NSP take additional steps to apprise customers of the tariff changes to avoid unnecessary confusion and bad will. Staff is concerned that the interruptible class will not notice the tariff changes absent additional notification and the resulting cost increases could be significant to them. Staff recommends that the Company make direct contact with those customers who failed to curtail during the last heating season and explain the consequences of the new tariffs. NSP has agreed to take these measures and more to ensure understanding and better compliance to calls for curtailment of gas in the future.

With regard to the telemetry requirements, the proposed language makes clear the phone and electric services necessary for NSP to provide interruptible service. Without proper connectivity to NSP's meter data collection system, it is not possible for NSP to offer interruptible service and properly bill for use during curtailment periods.