STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

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

ORDER DIRECTING FILING OF PERMANENT SMALL VOLUME TRANSPORTATION TARIFFS

(Issued November 5, 2007)

PROCEDURAL BACKGROUND

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

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

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

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

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

HISTORICAL BACKGROUND

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

A. Small volume transportation and related dockets

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

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

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

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

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

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

B. Pilot projects

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

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

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

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

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

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

C. Current pilot project tariffs

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

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

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

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

BOARD DECISION

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

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

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

A. Regulatory issues

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

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

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

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

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

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

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

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

Board discussion

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

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

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

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

This data shows that the service will be taken by those entities that perceive they will benefit from the service and, judging from past participation, approximately one-third or fewer of those eligible will take the service. This information provides an indication that the numbers of customers that will take a permanent small volume transportation service will likely not be so great as to have a significant financial impact on MidAmerican or IPL and certain conditions can be placed on the service that should alleviate any remaining risk to the utilities. The primary proposed limitation would be a cap on the number of customers who can switch to the service. Imposition of a cap on the number of customers will limit the need for significant increases in expenditures by the utilities associated with the service and should reduce most of the potential financial risk that may exist. This incremental approach will also reduce the possibility of unforeseen circumstances causing significant adverse effects on PGA customers.

MidAmerican and IPL provided information regarding when the number of customers taking the service would require significant additional expenditures that provides a starting point for setting caps. MidAmerican indicated in the response to the Board's February 15, 2007, order that the total number of small volume transportation customers it could serve without adding additional staff would be approximately 1,000 customers. If staff additions were made, MidAmerican's existing billing system is projected to be able to handle about 5,000 small volume transportation customers. MidAmerican indicated in earlier filings that billing system changes would cost at least $1 million.

In response to the February 15, 2007, order, IPL indicated that it believes it could handle two to three times the number of accounts it currently has enrolled in the pilot project without a significant increase in costs. This assumes the new accounts would be similar in size to those currently taking service under the pilot.

Over the years of the pilot projects, MidAmerican and IPL should have accumulated enough information about how each pilot project has operated to address any problems with the components to be included in a permanent service. MidAmerican and IPL have been providing the service since 1998 and have made adjustments to the service over the years. There may be issues concerning the proper rates to be charged for the service, however, there is little evidence in the information presented to the Board in this docket that approval of small volume transportation service will have a significant adverse effect on MidAmerican or IPL.

One of MidAmerican's primary objections to a permanent service is that its monthly customer usage forecasts are not very accurate. MidAmerican made the choice to forecast the usage for customers under the pilot project, rather than allowing each customer to forecast its own usage. Since MidAmerican decided to perform the forecasting, it has had sufficient opportunity to refine its forecasting over the years since 1998. MidAmerican's latest filing, on June 25, 2007, purports to show that the forecast causes a daily imbalance of between 15 and 19 percent. To address this problem going forward, MidAmerican can either improve the forecasting methodology to reduce the potential for significant imbalances or it can allow small volume transportation customers to forecast their own usage.

The Board is not persuaded by MidAmerican's suggestion that the Board should wait for the cost of telemetry equipment to decline to where it makes purchasing the telemetry equipment an option for small volume transportation customers. If and when this occurs, MidAmerican can make the necessary filing to have the Board reconsider this issue. The Board is unwilling to put a decision on the issue of a permanent small volume transportation service on hold for a future event that is uncertain, at best.

The participation level under the pilot projects indicates that many, but not all, small volume customers are interested in small volume transportation service. In the absence of countervailing factors, it is generally in the public interest to supply customers with the services they want, so long as other customers are not harmed by doing so. Here, based on nearly ten years' experience with the pilot projects, it should be possible to design a small volume transportation service offering that benefits the customers who opt to use it without adversely affecting other customers.

The obligation to serve will remain in effect and IPL and MidAmerican will continue to serve as the provider of last resort. Therefore, they will be required to provide service to small volume transportation customers electing to return to system service and to provide service to small volume transportation customers in the event they experience a supply failure. Small volume customers do not have the resources to maintain backup service and are not in a position to protect themselves from failure of supply. As recognized by the Board over the years, small volume customers are less able to protect themselves in case of failure of supply and so should be allowed to return to system gas with certain reasonable restrictions. In addition, the tariffs can be structured to limit the risk of sudden shifts of customers from transportation back to system gas service.

The Board previously addressed the issue of the utility's obligation as the provider of last resort in the "Order Adopting Amendments" issued February 19, 2001, in Docket No. RMU-00-07, In re: Natural Gas Market Certification. In that docket and in the "Order Adopting Amendments" issued April 8, 2004, in Docket No. RMU-03-6, the Board stated that the utility has the obligation to supply gas to small volume transportation customers who wish to return to system gas or who wish to continue to transport and experience supply failure. Therefore, this issue had been addressed and resolved before the settlement was approved in Docket No. SPU-04-1. In addition, MidAmerican and IPL have in place tariffs that establish replacement costs to be paid when small volume transportation customers lose their supply. These tariffs were filed as required in 199 IAC 19.14(6)"g" and were approved by the Board in 2003 when Docket No. NOI-98-3 was closed. They are intended to recover costs associated with procuring short-term emergency supply and should not affect PGA customers.

As indicated earlier, reasonable conditions can be placed in permanent tariffs to limit when and under what conditions a small volume transportation customer may switch back to system gas. PGA customers can also be protected by reasonable small volume transportation switching conditions in permanent tariffs. The Board considers these protections sufficient to protect PGA customers from existing risks of significant cross-subsidization. Removal of the provider of last resort requirement would be a substantial barrier that would prevent many small volume customers from transporting gas.

Finally, the Board has held enough workshops and opened enough dockets that it is not necessary to delay a decision to allow for further discussion. MidAmerican has suggested the Board conduct surveys of small volume customers to find out what they think about the service. The Board considers the number of customers taking the service under the pilots and the inquiries it has received about expanding the service to other small volume customers to be sufficient indication that the service is perceived as beneficial by some customers. The fact that customers continue to take the service and have taken the service since 1998 also shows that some customers find the service beneficial. If the service is offered and customers do not use the service, then MidAmerican will experience less of its perceived risk.

B. Tariff issues

1. Standby service

MidAmerican concurs in the recommendation of Consumer Advocate that the Board remove the obligation to standby under 199 IAC 19.14(6)"g" in the event a customer's alternative supply is not delivered. MidAmerican points out that under the pilot project tariff, a monthly-metered customer that fails to receive gas from its supplier must pay firm supply standby service charges when it takes gas, but is not required to elect an amount of standby reserve. MidAmerican contends that monthly-metered customers should be required to provide or pay for firm capacity that can be delivered in the future.

MidAmerican asserts that even though IJUMP claims not to have had any failures of supply to its customers, the customers may not always have firm capacity to ensure future deliverability. IJUMP primarily relies on zone delivery, which is acceptable when interstate pipelines are not requiring delivery on a primary point basis; however, zone delivery may pose delivery reliability issues during periods when capacity is tight. MidAmerican indicates that it has seen tightening of available pipeline capacity recently. If significant migration to or from monthly-metered service should occur, per unit costs for MidAmerican to retain capacity as the supplier of last resort may increase. If MidAmerican is forced to retain capacity to serve existing monthly-metered customers, MidAmerican's total capacity reserve margin would likely exceed the 5 percent tolerance level approved by the Board.

The Board is not convinced that monthly-metered customers should be required to pay for firm capacity that can be delivered in the future. There are other options for limiting the risk to MidAmerican and IPL associated with small volume transportation customers coming back on the system. Limits can be set on when and how often a customer may make the switch back to system gas. If the zone delivery or the reserve margin issues become a problem for MidAmerican or IPL, those issues can be addressed in the future.

2. Predictability of load

MidAmerican indicated that it conducted an analysis to determine whether IJUMP's statement that schools and local governments have predictable load was accurate. MidAmerican states that this analysis shows this statement is not correct.

MidAmerican states that it conducted the analysis to determine how well the monthly-metered forecasting model predicted daily usage of a school by developing monthly-metered forecasts for six daily-metered schools. MidAmerican then used the monthly-metered forecasting model to calculate a daily-metered customer school account and developed a profile for six schools. On June 25, 2007, MidAmerican filed the results of an expanded study on this question.

The results of MidAmerican's analysis are shown on three attachments to the May 24, 2007, filing. The data shows that the six schools have heat sensitive loads; that the absolute average daily imbalance for the six schools was 17 percent, depending on the month; and that the variance ranged from 12 to 29 percent throughout the heating season. As another test, MidAmerican developed profiles using the actual weather and the actual usage for the six schools during the same comparison period of November 2006 to March 2007. The results show the absolute daily imbalance to be 25 percent.

MidAmerican suggests that this analysis indicates that weather is not the primary factor in the imbalance variance. It is only one of several variables, such as changes in the use of the school facilities, vacation and snow days, and special events. MidAmerican points out that less accurate forecasting or more erratic usage, or both, bring larger daily imbalances that must be covered by the PGA swing assets supporting the balancing charges being charged by MidAmerican in the pilot project.

The Board understands MidAmerican's point that forecasting daily usage is not 100 percent accurate, however, that fact is not, by itself, a reason to deny small volume transportation customers the benefits of transportation service. First, it is possible that forecasting accuracy will improve with increased experience and a larger, more diverse customer class. In addition, MidAmerican charges a swing service fee to compensate for any imbalances, that have occurred throughout the month. These imbalances are also cashed out each month. It appears that the swing service fees and other charges should cover the imbalances as demonstrated by MidAmerican's studies. Also, MidAmerican has the option to propose an alternative tariff requirement that places the forecasting requirement on customers. For all these reasons, this problem has not been shown to be so severe as to prevent the provision of a permanent small volume transportation service. These issues can be addressed in the development of the permanent tariffs.

MidAmerican also argues that IJUMP is wrong when it suggests that snow days and other erratic changes in usage benefit PGA customers since the PGA customers can use the unwanted gas. MidAmerican states that it must balance each gas day with the pipelines and this becomes more burdensome and costly when schools have reduced usage due to unanticipated closings.

The Board recognizes that schools can have unique problems with daily balancing that can affect the ability of the utility to stay in balance on a daily basis. However, as noted above, this problem may be alleviated by opening small volume transportation to a more diverse group. It can also be addressed through adjustments or accommodations in the permanent tariffs such as the weekend swing service discussed below.

3. Weekend swing service

MidAmerican supports the establishment of an optional weekend swing service with proper allocation of costs to a permanent monthly-metered service.

This is an issue that was raised by MidAmerican in meetings with Board staff last year. Some type of optional swing service could help to address the forecasting problem. This is an issue MidAmerican can address by working with the CNGPs and developing proposed tariff provisions for the Board's consideration.

4. Use of affidavits to establish firm capacity

MidAmerican agrees with IJUMP that CNGPs could provide an affidavit to the utility that customers have only used "primary firm pipeline capacity" for service as long as the capacity provides for point deliveries, rather than primary zone deliveries.

On this record, it is not clear that the issue of point deliveries to zone deliveries is a current problem. If MidAmerican and IPL believe it is, they can propose a requirement in permanent tariffs that small volume customers, or the CNGPs on behalf of the customer, provide an affidavit that they only use "primary firm pipeline capacity."

5. Penalty mechanism

MidAmerican states that it has a tiered penalty mechanism in place with two penalty charges: one applicable to over-and under-deliveries on non-critical days ($5 per Dth) and the other for failure to deliver the forecasted requirement on critical days

($30 per Dth, or three times the Chicago index price). MidAmerican states that it does not see any reason to change this tier system, as suggested by IJUMP. The two-tiered penalty mechanism gives a strong incentive for transporters to perform during critical periods.

Based on this record, the Board is satisfied with the two-tiered penalty mechanism MidAmerican has in place. This issue can be reviewed when proposed permanent tariffs are filed, if necessary.

6. Pipeline capacity concerns

MidAmerican questions whether IJUMP has presented two inconsistent recommendations concerning pipeline capacity. First, according to MidAmerican, IJUMP states that customers should pay for capacity acquired to serve customer needs as a sales service customer for either one year or for a lesser period if proper advance notice has been provided. Second, IJUMP wants its customers to have the right to freely jump back and forth between sales and transportation service with 60 days' notice by paying a $25 switching fee to be charged only after switching for the third time in a 12-month period. MidAmerican states that there should be a corresponding capacity charge to be applied at all times (both while the customer takes sales service and while the customer takes monthly-metered small volume transportation service) or else the utility will be forced to pass the capacity costs on to PGA customers.

The Board agrees that reasonable limits will need to be placed on a small volume transportation customer's ability to return to system gas. However, the Board is concerned that a capacity charge that includes future capacity for the small volume customer may be a barrier to the small volume customer being able to take the service and will not establish this requirement as part of the permanent service.

7. Administrative charges

MidAmerican states that IJUMP's suggestion that monthly administrative per-customer charges should be minimal, as low as $10 per account, is not based on utility cost of service. MidAmerican contends that cost of service is the most appropriate basis for setting charges for monthly-metered transportation service and that the cost of providing monthly-metered transportation service may depend more on the number of customers than on the volume of gas taken.

This is an issue that will need to be addressed separately for each utility. It appears that MidAmerican may need to adjust its rates if a permanent service is approved. MidAmerican has a volumetric charge in its pilot project tariffs while IPL has a fixed charge. IPL's current rate structure may recover the costs more accurately because the cost of providing monthly-metered service may depend more on the number of customers than the volume of natural gas transported. The Board will allow a cap to be placed on the number of customers who can take the small volume transportation service to limit the overall potential impact on MidAmerican and IPL; this should make it possible to estimate a reasonable monthly administrative charge.

8. Pool operator charge

MidAmerican disagrees with IJUMP that administrative charges should not be charged on a per customer basis but, instead, through a single pool operator charge where each pool operator pays a flat charge of $2,500 per month. MidAmerican believes that administrative costs are more customer-related and should be charged on a per customer basis. MidAmerican suggests that the IJUMP proposal would be a disincentive to new participants who would be faced with a large fixed expense regardless of the number of customers they served.

Based on this record, the Board agrees that administrative charges should be charged on a per customer basis. Whether a flat rate charge would be appropriate is an issue that can be considered in future rate cases, if necessary.

9. IPL's proposed options

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

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

If IPL believes that the pilot project tariffs should be modified when it proposes permanent tariffs, it may propose those changes as part of that filing. In this order, the Board is providing some guidance regarding the conditions it considers reasonable, if the pilot project tariffs are to be modified. This does not preclude IPL or MidAmerican from making other proposed changes; however, they will need to provide sufficient support for these changes.

PERMANENT SMALL VOLUME TRANSPORTATION SERVICE

Based upon consideration of the information provided in the docket and the history of the dockets addressing small volume transportation service, the Board has determined that MidAmerican and IPL should be required to offer a small volume transportation service on a permanent basis, in a manner similar to the pilot project service. The history of the Board's investigation into this issue shows that further discussion of the general issues involved in small volume transportation is not necessary. The Board has conducted workshops, adopted rules, opened inquiries, and reviewed many filings addressing this issue. This process has sufficiently analyzed the issues and has narrowed the focus of what service is reasonable. Several issues concerning the components of a permanent service will need to be worked out individually for each utility, but the question of whether the Board should mandate a permanent small volume transportation service has been fully explored and has been answered.

MidAmerican and IPL will be directed to file the current pilot project tariffs as permanent tariffs for small volume transportation service that include, at a minimum, the following three provisions:

(1) The tariffs should be available to all small volume customers, except residential customers, as defined by the tariffs. The utility should provide some factual support or a rationale for the volumes used to determine the eligibility of the small volume customer for the service. Reference should be made to the definition of small volume customer in 199 IAC 19.14(1).

(2) Utilities may propose a reasonable cap on the number of customers who may take service under the permanent small volume transportation tariffs. Any proposed cap should be supported by cost data and the utility should explain any differences from the information previously provided in this docket.

(3) The tariffs should provide that all small volume transportation customers will pay the same EECR factor they would pay as a system customer and that they will be able to participate in the energy efficiency programs offered by the utilities.

MidAmerican or IPL may also propose modifications to the pilot project tariffs consistent with the conditions discussed below. The proposed modifications may include, but are not limited to, the following provisions:

(1) Provide for a reconnection charge that is cost-based and is not a barrier to a small volume customer that decides to return to system gas. The utility may propose to charge the customer a higher charge during the winter heating season or provide some other condition of service that protects the utility and system customers from identifiable costs that would be generated by the customer switching back to system gas service. (As an example, Aquila has a $5 reconnection charge.)

(2) Include a bundled volumetric rate for nomination, dispatching, balancing, administration, and other costs (similar to the Aquila small volume transportation tariff), with cost support, or provide an explanation and cost support for separate charges for these components.

(3) Require that small volume transportation customers provide proof of firm interstate pipeline capacity, such as an affidavit. If the utilities consider this administratively impractical, then provide terms of service that address this issue to protect both the small volume transportation customer and system customers.

(4) Service may be offered to all small volume customers, not just heat-sensitive customers.

(5) Address any other terms of service that the utility considers necessary to make small volume transportation service a permanent and workable option.

The Board will require MidAmerican and IPL to prepare and file proposed permanent tariffs. Any issues left unresolved by this order or that are specific to the proposed tariffs can be raised after those filings are made. The proposed tariffs shall be filed on or before December 31, 2007, with a proposed effective date of April 30, 2008, which will allow the utilities and interested parties an opportunity to meet and discuss the proposed tariffs. This schedule will bring this matter to a conclusion and remove the uncertainty of whether the service will continue after the pilot projects end.

ORDERING CLAUSE

IT IS THEREFORE ORDERED:

MidAmerican Energy Company and Interstate Power and Light Company shall file proposed permanent small volume transportation tariffs consistent with this order on or before December 31, 2007, with an effective date of April 30, 2008.

UTILITIES BOARD

/s/ John R. Norris

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

Dated at Des Moines, Iowa, this 5th day of November, 2007.