

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger
David C. Boyd
Nancy Lange
J. Dennis O'Brien
Betsy Wergin

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of a Request by Minnesota Power
for a Modification to its Service Extension
Tariff

ISSUE DATE: October 7, 2013

DOCKET NO. E-015/M-12-1359

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for a Modification to its Service Extension
Tariff

DOCKET NO. E-015/M-95-1441

ORDER MODIFYING SERVICE
EXTENSION TARIFFS AND
REQUIRING FURTHER FILINGS

PROCEDURAL HISTORY

I. The Company's Compliance Filing

On December 26, 2012, Minnesota Power made a compliance filing under an order issued on October 8, 1996 in docket E-015/M-95-1441.¹ In that order the Commission had made changes to the Company's service-extension allowances—the dollar amounts the Company will spend to extend service to new points of delivery before charging the requesting customers—and required further filings. In brief, the order took the following actions:

1. Reduced the service-extension allowance for single-phase and three-phase customers in all classes but Lighting from \$2,800 to \$850.
2. Reduced the cap on extension costs automatically eligible for recoupment through guaranteed annual revenues from \$280,000 to \$30,000 and established a three-year recoupment period.
3. Reduced the extension-cost threshold triggering individual negotiations on cost recoupment from \$280,000 to \$30,000.
4. Required the Company to address in its next rate case the revenue impact of these changes, their cost basis, and whether they created any inter-class subsidies.

¹ The Company made this filing under both the original docket number (E-015/M-95-1441) and a new docket number (E-015/M-12-1359) to enable all parties to use the Commission's e-filing system, which came into operation after the October 1996 order.

5. Required the Company to make future filings whenever its average embedded costs for service extensions for any customer class changed by at least five percent.

After the order was issued, the Company changed its service-extension allowances as authorized, but it failed to make the filings required in its next rate case, either in that case or in the subsequent one.² It also failed to make the filings required when its average, embedded service-extension costs changed by five percent.

In its December 2012 compliance filing the Company stated that its failure to make these filings had been inadvertent and that it had adopted new monitoring and tracking procedures to prevent similar oversights in the future. The Company also filed the information it had been directed to file in its next rate case, as well as cost studies showing that its average, embedded service-extension costs had changed by more than five percent for all customer classes since the October 1996 order was issued.

II. Comments of the Department of Commerce

The Minnesota Department of Commerce (the Department) analyzed the compliance filing, held discussions with the Company, and ultimately recommended the following changes to its service-extension allowances:

1. Reducing the service-extension allowance for single-phase customers from \$850 to \$615.
2. Increasing the allowance for General Service, three-phase customers from \$850 to \$1,455.
3. Increasing the allowance for Municipal Pumping, three-phase customers from \$850 to \$9,125.

The Department based its recommendations on the Company's average, embedded service-extension costs for different customer classes as reported in cost studies filed with the Federal Energy Regulatory Commission in 2011 and with this Commission in the Company's 2009 rate case.

The Company concurred in all recommendations except the one to increase the Municipal Pumping allowance to \$9,125. The Company stated that it proposed to consolidate the Municipal Pumping and General Service classes in the near term and wanted to avoid the rate instability and customer confusion that could result from making two changes to the service-extension allowance in such a short time. It recommended setting the Municipal Pumping allowance at the \$1,455 rate proposed for the General Service class.

III. The Hearing

The case came before the Commission on September 4, 2013. At that point the Department stated that it would not object to setting the allowance for the Municipal Pumping class at the \$1,455 proposed by the Company, although it continued to recommend the \$9,125 figure.

² The Company has filed two rate cases since the October 1996 order, one in 2008 (E-015/GR-08-415) and one in 2009 (E-015/GR-09-1151).

FINDINGS AND CONCLUSIONS

I. Summary of Commission Action

The Commission will accept the Company's December 26, 2012 filing as satisfying the cost-study requirements of the October 1996 order and will revise the Company's service-extension allowances to reflect the cost studies' findings.

The Commission will permit the Company to use a single service extension allowance for the General Service and Municipal Pumping customer classes, but will require more detailed analysis of their combined, average service-extension costs before setting a new, combined service-extension allowance.

The Commission will require the Company to file more detailed cost studies on average, embedded service-extension costs in its next rate case, to permit examination of these costs in that context.

The Commission will continue to treat a five-percent change in service-extension costs as an event triggering reexamination of service-extension allowances, but will require an annual report on these costs instead of merely requiring notification when they cross the five-percent threshold.

And finally, the Commission will require a filing clarifying Company practices and procedures for determining service-extension costs in individual cases and communicating those costs to customers.

These actions are explained below.

II. Filing Accepted; New Service-Extension Allowances Set

The Commission concurs with the Department that the service-extension cost studies in the Company's December 2012 filing meet the requirements of the 1996 order, i.e., they show the Company's average, embedded service-extension costs. The studies also show that these costs have changed since the 1996 order set the Company's current service-extension allowances and that these allowances should be updated.

The Commission concurs with the parties that the residential allowance should be reduced from \$850 to \$615 to reflect the best cost data currently available. The Commission also agrees that the Company should be permitted to develop a single service-extension allowance for its General Service and Municipal Pumping customer classes, since it proposes to soon combine them. It would risk unnecessary customer confusion to set separate service-extension allowances for the two classes at this point.

At present, however, it is not clear what the combined allowance for the two classes should be, since both the \$1,455 and \$9,125 amounts are supported by cost studies for the current General Service and Municipal Pumping classes. The Commission will therefore require the Company to conduct combined cost studies for the two classes, analyze their results, recalculate the combined service-extension allowance, and make a filing explaining and supporting its new, proposed service-extension allowance. That filing will be required on a ten-day time frame.

III. Filings Required in Next Rate Case

The Commission will require the Company to include in its next rate case filing the cost studies required in the October 1996 order—fully embedded, average cost studies separated by single-phase and three-phase service and by customer class. Service-extension allowances merit periodic scrutiny to ensure that they are fair and reasonable, are credibly grounded in actual costs, and do not result in undue subsidies between customer classes or between new and existing customers.

IV. Monitoring and Responding to Changes in Service-Extension Costs

The October 1996 order required the Company to make a filing that would initiate review of its service-extension charges every time service-extension costs for any customer class changed by at least five percent. The Company failed to make these filings even though costs for all customer classes changed by more than five percent between the 1996 order and the Company's 2012 filing.

The five percent threshold for reviewing service-extension cost changes remains sound, but a more reliable notification method is clearly required. The Commission will therefore require the Company both to file notice when service-extension costs change by at least five percent for any customer class and to make an annual letter-filing informing the Commission when they have not. This should prevent future oversights like the one in this case.

V. Calculating Service-Extension Charges in Individual Cases

As this filing moved forward the Commission's Consumer Affairs Office raised concerns as to how the Company's field and customer service personnel calculate service-extension charges and how they communicate these charges to customers.

The office had received a complaint alleging that one customer seeking new service had received at least five different estimates of service-extension charges, ranging from \$11,000 to \$38,000. While the complaint was ultimately resolved to the satisfaction of the customer and the Company—and consistent with the tariff and the public interest—consumer affairs staff recommended requiring clarifying filings on how Company personnel calculate and communicate service-extension charges.

The Commission concurs. The Commission will require the Company to revise its service-extension tariffs to demonstrate that it has procedures in place to ensure accuracy, clarity, and consistency in calculating service-extension charges and in communicating these charges to customers.

ORDER

1. The Commission accepts Minnesota Power's December 26, 2012 filing as satisfying the cost-study requirements of ordering paragraph 3 (a) of the October 8, 1996 order in docket E-015/M-95-1441.
2. Minnesota Power's service-extension allowance for Residential customers is revised and set at \$615.

3. Minnesota Power's service-extension allowance for Large Light and Power customers shall remain at \$30,000.
4. Minnesota Power's service-extension allowance for General Service and Municipal Pumping customers shall be set following its submission of cost studies combining data for the two classes. The Commission authorizes the Company to develop a single service-extension allowance to apply to both its General Service and Municipal Pumping customer classes based on cost studies using data from both classes. Within ten days of the date of this order, the Company shall make a filing proposing and explaining the new service-extension allowance it has developed.
5. Service-extension allowance tariff provisions not revised under the terms of this Order shall remain in effect.
6. Minnesota Power shall promptly file a report with the Commission when its average, embedded service-extension costs for any customer class change by at least five percent. If these costs do not change over the course of a year, the Company shall make a letter-filing stating that they have not changed.
7. Minnesota Power shall make a compliance filing revising its service-extension tariff to clarify how it determines the service-extension charges to be paid by individual customers requesting service to new points of delivery.
8. In its next rate case filing, Minnesota Power shall include a fully embedded, average cost study of service-extension costs by customer class and by single-phase and three-phase service.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary



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