

July 16, 2013

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/M-12-1279

Dear Dr. Haar:

Attached are the *Response Comments* of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

A Request by Greater Minnesota Gas, Inc. (Greater Minnesota or Company) for Approval by the Minnesota Public Utilities Commission (Commission) of a Change in Contract Demand Entitlement Units Effective November 1, 2012.

On June 17, 2013, Greater Minnesota filed *Reply Comments* to the Department's June 7, 2013 *Comments* in the above-reference matter.

To provide a complete the record in this proceeding, the Department requests that the Commission accept the Department's *Response Comments*. Based on its review, the Department recommends that the Commission:

- reject, without prejudice, Greater Minnesota's design-day analysis and find that the Company did not purchase adequate capacity to serve its firm customers on a peak day; and
- allow the proposed recovery of associated demand costs effective November 1, 2012 through the monthly Purchased Gas Adjustment.

The Department also recommends that Greater Minnesota file the following, as soon as possible, to assess Great Minnesota's need for the 2013-2014 heating season:

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- the Company's estimates for the amount of demand resources needed to serve not only existing customers but expected new customers that Greater Minnesota is adding to its system; and
- provide information about the customers the Company expects to add to its system before the end of March, 2014, including any, and all, available information about the size and expected load of the new customers.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ ADAM JOHN HEINEN
Rates Analyst
651-539-1825

AJH/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE,
DIVISION OF ENERGY RESOURCES

DOCKET No. G022/M-12-1279

I. BACKGROUND

Greater Minnesota Gas, Inc. (Greater Minnesota, GMG, or Company) originally filed its petition as a *Compliance Filing* in Docket No. G022/M-10-1165 on November 1, 2012. That docket had been closed by an *Order* of the Minnesota Public Utilities Commission (Commission) on May 17, 2011.

The Minnesota Department of Commerce, Division of Energy Resources (Department) informed the Company of the filing error in a November 26, 2012 *Letter* and opened the current docket number. Greater Minnesota submitted its initial filing on March 25, 2013.

On June 7, 2012, the Department filed *Comments* recommending that the Commission withhold a decision on Greater Minnesota's peak-day analysis and total entitlement based on issues related to the Company's design-day analysis. The Department was concerned that Greater Minnesota had not secured sufficient demand entitlements to ensure reliable firm service on a peak day and recommended that Greater Minnesota provide information substantiating its peak day analysis in its *Reply Comments*.

Greater Minnesota filed its *Reply Comments* on June 17, 2013, providing a response to the Department's concerns and an additional policy discussion.

The Department responds to the Company's *Reply Comments* below.

II. DEPARTMENT'S RESPONSE TO GREATER MINNESOTA'S *REPLY* *COMMENTS*

Minnesota Statutes § 216B.04 states the following, in part:

Every public utility shall furnish safe, adequate, efficient, and reasonable service...

This principle guides the Department in assessing demand entitlement filings (and other regulatory filings) and is applied equally across all regulated utilities. As such, the following *Response Comments* focus on the potential for Greater Minnesota's design-day analysis and approach to obtaining firm supplies to result in insufficient firm entitlements in the future. This issue is especially concerning given that Greater Minnesota did not file its petition until after the heating season was completed. The Department also responds to the policy issues raised by the Company.

A. GREATER MINNEOSTA'S DESIGN DAY ANALYSIS

As requested by the Department in our initial *Comments*, Greater Minnesota provided additional throughput data from the three previous heating seasons, including the heating season in question in this proceeding (2012-2013 heating season). According to the information provided by Greater Minnesota, the peak sendout during the most recent heating season was 5,038 Dekatherms (Dth) on January 31, 2013. It is important to note that a design-day event, modeled by the Company as an average of 90 heating degree days (HDDs) over a 24-hour period, did not occur during the 2012-2013 heating season. The Department reviewed weather data for Montgomery, MN, which is in the middle of Greater Minnesota's service territory, and, on January 31, 2013, there was an average HDD value of approximately 70 HDD (DOC Attachment R-1). The Company procured a total entitlement amount of 5,209 Dth, which is only 171 Dth greater than the peak day sendout; however, since the peak sendout occurred on a day that was significantly warmer than a design day, this fact raises the concern that Greater Minnesota would not have had sufficient firm capacity had an all-time peak day occurred.

The Department analyzed these concerns in greater detail by using customer count data from the most recent heating season and sendout per customer data from the Company's current all-time peak-day sendout. Based on the discussion in Greater Minnesota's *Reply Comments*, it appears that there were approximately 5,000 firm customers during the most recent heating season. When this customer count is multiplied by the all-time peak day sendout during the 2008-2009 heating season (1.1315 Dth/day), which also happened on a day warmer than a design day, it results in an estimated throughput amount of 5,658 Dth/day (5,000 x 1.1315). This result suggests that if a peak-day event similar to what occurred during the 2008-2009 heating season had happened during the most recent heating season, Greater Minnesota would not have been able to ensure firm reliability.

In addition, the Department analyzed potential peak-day usage using data strictly from the 2012-2013 heating season. After removing baseload consumption (301 Dth/day)¹ from peak day usage of 5,038 Dth, and assuming consistent usage at each degree day, the result is consumption on a 90 HDD design day of approximately 6,392 Dth/day,² which is 1,185 Dth greater than the Company's procured entitlement level. This estimated entitlement figure suggests that the Company's firm customers would have been at significant risk if a 90 HDD design day had occurred during the most recent heating season.

Greater Minnesota downplayed the lack of sufficient demand entitlements in its *Reply Comments* and made various statements intended to explain the capacity deficiency. The Company's main point was that the high level of consumption was driven by unexpected customer growth. In response, the Department notes that the reserve margin is designed to account for this type of scenario and should be large enough that a utility can sustain unexpected customer growth without putting firm ratepayers at risk by using the reserve margin at relatively warm temperatures. Further, utilities should use information about expected growth in planning for their system needs. Moreover, when Greater Minnesota became aware that customer growth was much higher than forecasted, the Company should have contacted the Department and the Commission to ensure that both were aware of how the Company was dealing with this unexpected customer growth and accompanying increase in consumption.

The Company's response regarding what would occur on a Commission-defined peak day (90 HDD on average for 24 hours) was also troubling. Greater Minnesota stated that even if the reserve margin would have been exceeded, its firm customers would have continued to have heat, but the Company would have sustained economic penalties from the interstate pipeline. This response is troubling on two levels. First, the response ignores the fact that on a Commission-defined peak day, natural gas demand across the entire region will be great and all natural gas utilities will be using all, or nearly all, of their demand entitlements. Under this scenario, which is a key scenario demand entitlement filings are required to consider, it is very unlikely that Greater Minnesota could have assured firm reliability during the most recent heating season. Second, assuming the Company was able to purchase emergency firm entitlements, the penalties that it would have incurred would have been significant and these costs would have been passed onto customers. Luckily this event did not occur; however, it would be unreasonable for ratepayers to be burdened with penalty costs if these penalties exceeded the costs of procuring a reasonable level of firm entitlement prior to the heating season. Finally, pipeline penalty costs are examined on an ongoing basis in the Annual Automatic Adjustment (AAA) Report filed each year by the various regulated utilities. Given the

¹ See DOC Attachment 1 in its June 7, 2013 *Comments*.

² This figure is calculated as follows:

1. $5,038 - 301 = 4,737$
2. $4,737 / 90 \text{ HDD} = 52.633$
3. $52.633 \times 20 = 1,053$
4. $1,053 + 5,038 = 6,091$
5. $6,091 + 301 = 6,391$.

procurement issues identified in this proceeding, the Department will examine Greater Minnesota's costs in greater detail to ensure that firm ratepayers are not charged unreasonably based on the Company's procurement strategy.

The record is clear that Greater Minnesota did not procure sufficient entitlements to serve firm demand on a peak day. Based on the Department's calculations detailed above, Greater Minnesota could have been short between approximately 400 Dth/day and 1,000 Dth/day if a Commission-defined peak day had occurred during the 2012-2013 heating season. As such, and as articulated in the Department's *Comments*, the cost recovery proposed by Greater Minnesota in its original filing is reasonable, because all of those costs were needed to serve firm demand and, in fact, additional capacity and associated costs would have been justified.

Therefore, the Department recommends that the Commission approve the proposed recovery of demand costs but reject, without prejudice, Greater Minnesota's design-day analysis and find that the Company did not purchase adequate capacity to serve its firm customer on a peak day.

Alternatively, it may be reasonable to simply accept Greater Minnesota's petition, taking no specific action on the analyses therein, and allow the Company to recover the proposed demand costs. Either option would end the current proceeding and allow all parties to move forward and improve future analyses. However, given the extent to which the Company put its ratepayers at risk during the 2012-2013 heating season, the Department believes rejection, without prejudice, of Greater Minnesota's design-day analysis, while still approving the recovery of demand costs, is the most appropriate solution at this time.

B. FUTURE DESIGN DAY ANALYSIS

Greater Minnesota acknowledged in its *Reply Comments* that it had a lower reserve margin than was desirable. As part of its discussion, the Company stated that its current design-day analysis, which is based on Ordinary Least Squares (OLS) regression, may not be suitable for the system growth it is experiencing and a new type of analysis should be considered. The Company subsequently requested that the Commission order the Department and Greater Minnesota to review Greater Minnesota's current circumstances and anticipated growth and work together to determine the appropriate level of demand entitlement contracts needed for the upcoming 2013-2014 demand entitlement heating season. The Company stated that it believes this will be an effective use of resources and that working together will leverage the Department's knowledge base and balance the broader public interest needs of rural Minnesota natural gas customers.

The Department agrees with Greater Minnesota that refinements to the Company's design-day analysis may be appropriate given its anticipated growth rate. The Department will certainly be available to discuss design-day approaches that Greater Minnesota identifies. To make this process work, and given that the utility has the burden to support its design-day methodology, the Department recommends that Greater Minnesota provide to the Department and Commission, as soon as possible, and certainly before November 1, the Company's estimates for

the amount of demand resources needed to serve not only existing customers but expected new customers that Greater Minnesota is adding to its system. Greater Minnesota should also provide information about the customers the Company expects to add to its system before the end of March, 2014. Such information, along with any available information about the size and expected load of the new customers is necessary to estimate how much demand Greater Minnesota will need.

C. REGULATORY FILING IMPROVEMENT

Greater Minnesota acknowledged in its *Reply Comments* that there have been issues with its performance regarding regulatory filings. The Company stated that it has been addressing this issue and has recently hired new staff “whose primary job responsibilities will include meeting the regulatory mandates required by the Department.” The Department clarifies for the Company that the regulatory filing deficiencies noted in our *Comments* refer to filing requirements set by statute, rule, and/or Commission *Order*.³ The Department appreciates the efforts made by Greater Minnesota and will monitor the Company’s regulatory performance going forward.

D. POLICY RECOMMENDATIONS

Greater Minnesota included, as part of its *Reply Comments*, a policy discussion regarding natural gas service in rural Minnesota. The Company’s discussions were based on three points: 1) the current regulatory structure is designed for non-rural utilities; 2) the current regulatory structure does not meet the needs of rural natural gas providers; and 3) the current provision of natural gas in rural Minnesota is a public good. The Department appreciates Greater Minnesota’s discussion and provides a brief response below.

Generally speaking, each of the three areas speaks to issues that should be addressed at the legislative level. If the Company believes that the current regulatory structure is unsuitable for smaller utilities, or Greater Minnesota believes that natural gas service should be available to more rural customers, the Company could petition the Legislature to amend Minnesota Statute 216B. The study areas that the Company proposed are potentially interesting, and could inform any potential proposed legislation. In the meantime, statutory requirements govern such regulatory questions.

In terms of the current regulatory structure, the idea of providing service to uneconomic areas has been reviewed previously by the Commission. In its March 31, 1995 *Order Terminating Investigation and Closing Docket* in Docket No. G999/CI-90-563, the Commission summarizes its findings and conclusions in that proceeding (DOC Attachment R-2). This investigation was launched in response to competition between two regulated utilities and whether service inducements offered to various customers were prohibited by existing extension policies at the

³ The Department does not create regulatory mandates.

time. Of particular relevance to this docket, the Commission investigation led to the creation of New Service Area (NSA) charges. The Commission subsequently approved several NSAs for different regulated gas utilities in the State. As such, if a community approaches Greater Minnesota and asks for natural gas service, even if the cost of service is uneconomic, there are structures that exist within the current regulatory structure that may facilitate expansion.

In addition, on the topic of competition between providers, the Commission considered many of the public good questions (*e.g.*, low-cost of natural gas compared to alternatives) discussed by Greater Minnesota in its *Reply Comments*. Ultimately, the Commission found that judgment on these subjects was not required. Specifically, the Commission noted that there is no statutory prohibition against competition between two or more gas utilities (conceivably this would also extend to non-regulated entities such as propane dealers). Minnesota Statutes §§ 216B.37 through 216B.43 lay the frame work for service territory as they relate to electric utilities, but the Legislature provides no laws governing service territory for natural gas utilities. The Commission also found that it has the capacity to balance the interest of utilities, competed-for customers, and current customers on a case-by-case basis.

Regarding the policy considerations raised by the Company, the Department does not believe an in-depth investigation is warranted. The issues raised by Greater Minnesota are interesting; however, the Department believes Legislative action is necessary to address the issues raised by the Company.

III. THE DOC'S RECOMMENDATIONS

The Department recommends that the Commission:

- reject, without prejudice, Greater Minnesota's design-day analysis and find that the Company did not purchase adequate capacity to serve its firm customers on a peak day; and
- allow the proposed recovery of associated demand costs effective November 1, 2012 through the monthly Purchased Gas Adjustment.

The Department also recommends that Greater Minnesota file the following, as soon as possible, to assess Great Minnesota's need for the 2013-2014 heating season:

- the Company's estimates for the amount of demand resources needed to serve not only existing customers but expected new customers that Greater Minnesota is adding to its system; and

- provide information about the customers the Company expects to add to its system before the end of March, 2014, including any, and all, available information about the size and expected load of the new customers.

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Oct 12, 2012	51	23		
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Aug 17, 2013	m	m			
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Aug 20, 2013	m	m			
Aug 21, 2013	m	m			
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Aug 24, 2013	m	m			
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Aug 26, 2013	m	m			
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March 31, 1995

DOCKET NO. G-999/CI-90-563

ORDER TERMINATING INVESTIGATION AND CLOSING DOCKET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Don Storm	Chair
Tom Burton	Commissioner
Joel Jacobs	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner

In the Matter of an Inquiry into Competition
Between Gas Utilities in Minnesota

ISSUE DATE: March 31, 1995

DOCKET NO. G-999/CI-90-563

ORDER TERMINATING INVESTIGATION
AND CLOSING DOCKET

PROCEDURAL HISTORY

On June 28, 1990, the Commission issued its ORDER ASSERTING JURISDICTION AND ESTABLISHING COMMENT PERIOD In the Matter of the Joint Venture between Rahr Malting and Western Gas Utilities to Construct a Seven-Mile Gas Pipeline in Scott County, Minnesota, Docket No. G-012/DI-90-227 (the Rahr Malting docket). That docket concerned, among other things, competition between Minnegasco and Western Gas Utilities, Inc. (Western) for the same customers in Scott County, Minnesota. In its June 28 Order, the Commission sought input regarding the issue of two gas utilities competing for customers in the same area. All regulated gas utilities in Minnesota were asked to submit comments on the following two questions:

1. Will the "race" between Minnegasco and Western to capture new customers lead to a wasteful duplication of facilities? If so, does the Commission have the authority to prevent it?
2. Are the inducements currently offered by Minnegasco and Western to potential customers prohibited by their extension policies as approved by the Commission? If not, should the Commission attempt to impose stricter, more consistent policies on all regulated gas utilities?

All regulated gas utilities were also required under the June 28 Order to submit their current service extension tariffs and a description of their current service extension policies.

The eight rate regulated gas utilities in Minnesota¹ submitted tariffs in response to the Commission's Order. All the utilities except Great Plains and Interstate submitted responsive comments.

On August 6, 1990, the Commission issued its ORDER APPROVING OWNERSHIP AND CAPACITY LEASE AGREEMENTS AND REQUIRING FILINGS in the Rahr Malting docket. In that Order, the Commission established the docket herein to address the general subject of competition among gas utilities.

On April 1, 1991, the Commission issued its ORDER CONCLUDING INVESTIGATION In the Matter of Midwest Gas Service Extension Complaints, Docket No. G-010/CI-90-148. In that Order the Commission deferred consideration of issues related to gas service extension to the current docket, G-999/CI-90-563. Complainants had raised concerns regarding the "levelization" of gas hookup charges between residential customers with small lots and those with large lots. The Commission felt that concerns regarding possible subsidization of large lot homeowners by small lot homeowners would be best addressed in the present generic investigation of competition among gas utilities.

On June 4, 1991, the Commission issued its ORDER INITIATING STUDY GROUP in this docket. The Commission found that a number of important policy issues had been raised in this matter and created a study group to look at those issues. Those issues were:

1. Is "levelization" or equal sharing of the costs of gas service extension for all new customers, whether with large lots or small, unfair to customers with smaller lots?
2. Is open competition between local distribution companies of benefit or a detriment to consumers?
3. Should the Commission encourage the use of natural gas fuel by facilitating the piping of more towns and allowing the companies to use incentives for new customers?
4. Does duplication of facilities by competing gas utilities result in economic waste or safety hazards?

¹ At the time, there were eight: Minnegasco, Western, Great Plains Natural Gas Company (Great Plains), Interstate Power Company (Interstate), Midwest Gas Company (Midwest), Northern Minnesota Utilities (NMU), Northern States Power Company (NSP), and Peoples Natural Gas Company (Peoples). With the purchase and absorption of Midwest by Minnegasco, there are now seven.

5. Should there be a uniform service extension tariff and policy?

The study group met several times in 1991. All Minnesota local distribution companies (LDCs) and relevant state agencies were invited to attend these meetings. Various other interested parties were involved in the study group as either participants or invited speakers. In addition, all of the LDCs responded to a survey that asked about the areas in which they provide service and that are served by at least one other utility.

On February 24, 1995, Commission Staff served its Report on the Inquiry into Competition Between Gas Utilities on all parties to this proceeding, recommending that the docket be closed.

On March 23, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

The question before the Commission at this time is whether this docket should be continued or closed. The Commission finds that this investigation should be terminated and the docket closed. The analysis supporting this conclusion examines the issues raised in the docket under three categories:

- 1) service to areas not currently served,
- 2) Commission response to multiple service providers in an area, and
- 3) review of LDC service extension contracts.

A. SERVICE TO AREAS NOT CURRENTLY SERVED

A brief summary of the developments in this area subsequent to formation of the work group is in order:

The study group explored how to extend gas service to communities that request gas service but cannot be served economically at tariffed rates. In response to this question, three LDCs in 1991 proposed a surcharge mechanism to cover the cost of extending service to new communities.

The Commission was encouraged by these attempts to respond to this problem but found it necessary to reject the three filings.² Instead, the Commission directed the Department and Commission Staff to conduct a study and file a report identifying the policy issues involved in establishing an appropriate regulatory framework for the provision of natural gas service in areas where service is not currently provided because it is not economically justified under currently tariffed rates.

On March 12, 1992, the Department and Commission Staff submitted their Report on Issues for New-area Rates. The report covered financial issues, rate design and various compliance and reporting issues concerning these new rates.

Subsequently, the Commission has received, reviewed and approved new area rates proposals from Northern Minnesota Utilities (NMU), Northern States Power, and Midwest Gas (now Minnegasco).³ An additional new area rates proposal by Minnegasco is pending: Docket No. G-008/M-94-1075.

In view of these developments, the Commission finds that the question of how to encourage natural gas service to new areas has been adequately addressed.

² See the Commission's March 10, 1991 ORDER REJECTING PROPOSED TARIFFS AND REQUIRING REPORTS in three joined matters: In the Matter of a Request by Peoples Natural Gas for Approval of a New Town Least Cost Energy Rate, Docket No. G-011/M-91-296; In the Matter of a Request by Northern Minnesota Utilities for Approval of a New Town Rate, Docket No. G-007/M-91-460; and In the Matter of a Request by Minnegasco for Approval of a New Area Surcharge, Docket No. G-008/M-91-575.

³ In the Matter of a Request by Northern Minnesota Utilities for Approval of a New Town Rate, Docket No. G-007/M-92-212, ORDER APPROVING TARIFF WITH MODIFICATIONS AND REQUIRING FURTHER FILING (May 6, 1992); In the Matter of a Request by Midwest Gas Company for Approval of a New Town Rate Surcharge and a Request for Variance, Docket No. G-010/M-92-785, ORDER APPROVING TARIFF WITH MODIFICATIONS AND REQUIRING FURTHER FILINGS (November 10, 1992); and In the Matter of a Request from Northern States Power Gas Utility for a Miscellaneous Rate Change to Establish a New Area Surcharge, Docket No. G-002/M-94-156, ORDER APPROVING AND MODIFYING NEW AREA SURCHARGE TARIFF (May 13, 1994).

B. SERVICE IN AN AREA BY MORE THAN ONE PROVIDER

Minnesota statutes have not established exclusive gas service areas nor required that gas utilities get certificates of authority from the Commission before extending service to any new area, whether that area is already served by another gas utility or not. Service to an area by more than one provider has occurred in approximately a dozen different places in Minnesota.

Sometimes, in a race to hook up new customers, LDCs drop the excess footage charges or offer to convert a customer's furnace and appliances to natural gas free of charge. On the surface it would appear that there might be wasteful duplication of service and higher per customer costs since there is duplication of large lateral mains running to the area and of regular mains when more than one utility is on the same street.

In addition, competitive situations can tempt utilities to "waive" certain tariffed charges for new customers to the detriment of their current customers. If an LDC, in a race to capture market share and expand its business, neglects to charge for service extensions that the tariffs indicate the LDC should be charging for, then the LDC's other customers wind up paying for the LDC's gain in market share because the excess facilities get put into rate base.⁴

On the other hand, it appears that allowing this level of competition may help promote wider access to natural gas, which is a substantially less expensive fuel than other fuel options such as propane and heating oil. In this light, providing access to natural gas for a greater number of people and, hence, reducing these customers' heating costs may, on balance, outweigh the concern that the competition may result in provision of service somewhat above the lowest possible cost.

No ultimate judgment on this subject is required. First, while recognizing the negative potential cited above, the fact remains that there is no statutory prohibition against competition by two or more gas providers in the same territory. Moreover, it appears that the Commission has the capacity to balance the interests of the utilities, competed-for customers, and current customers on a case by case basis.

⁴ See In the Matter of the Petition of Midwest Gas to Change its Rates for Service Installations and Residential Gas Main Extensions, Docket No. G-010/M-89-374, ORDER APPROVING TARIFF CHANGES AS MODIFIED (August 30, 1989).

C. NEW CUSTOMERS' RIGHTS TO FAIR SERVICE EXTENSION POLICIES AND TARIFFS

Minnesota LDCs provide service to new customers under individual company service extension tariffs. The purpose of a tariffed service extension policy is to ensure that all new customers receive the same treatment. These tariffs specify what length and size of main and service line extension each new customer is entitled to receive without charge and how much they will have to pay for extensions that exceed the free footage allowance.

On the basis of its work in this docket, the Commission finds that its approach to designing LDC service extension rates and policies is reasonable. The Commission's method provides a balance between the two main approaches to service extension rate design.⁵

At the same time, the Commission clarifies that this docket has not reviewed each LDC's service extension policies and tariffs for consistency in terms of service, the fairness of refund provisions, and the inclusion of a customer financing option. The Commission believes that such reviews would be beneficial and will require them in future rate cases. In addition to such reviews, the Commission's Consumer Affairs Office will continue to handle any individual consumer complaints as appropriate.

With respect to the reviews to be conducted in future rate cases, the Commission would like the Department and the parties to address the following kinds of questions:

- Should the "free" footage or service extension allowance include the majority of all new extensions with only the extremely long extensions requiring a customer contribution-in-aid-of-construction (CIAC)?

⁵ The two main theoretical approaches are 1) the rolled-in-rates approach which allows LDCs to extend service to new customers without charge and 2) the incremental-rates approach which requires all new customers to pay their own way, i.e. the full cost of their service extensions, at the time they connect to the LDC's system. The method used by Minnesota LDCs is a compromise between these two opposing approaches.

The Minnesota approach recognizes that residents benefit from having access to natural gas service and Minnesota LDCs benefit from being able to provide that service. In addition, the LDC's policies try to balance the interests of existing customers with new customers so that both groups are able to receive reasonably priced service. Consideration is also usually given to making service extension policies as simple as possible for customers to understand and for utilities to administer.

- How should the LDC determine the economic feasibility of service extension projects and whether the excess footage charges are collected?
- Should the LDC's service extension policy be tariffed in number of feet without consideration to varying construction costs amongst projects or should the allowance be tariffed as a total dollar amounts per customer?
- Is the LDC's extension charge refund policy appropriate?
- Should customers be allowed to run their own service line from the street to the house (or use an independent contractor) if it would be less expensive than having the utility construct the line?
- Should the LDC be required to offer its customers financing for service extension charges? This could be offered as an alternative to paying extension charges in advance of construction.

Finally, the Commission has concern about the impact of service extension-related additions (projects involving multiple customers) on the company's rate base. In future rate cases, the Commission will request the Department to investigate the company's service extension-related additions to rate base to make sure

1. that LDCs are applying their tariffs correctly and consistently,
2. that they are appropriately cost and load justified, and
3. that wasteful additions to plant and facilities are not allowed into rate base.

D. COMMISSION ACTION

On the basis of the foregoing review, the Commission finds that the issues raised in the course of this investigation either have been adequately addressed or are suitably pursued in other proceedings, as indicated in the text of this Order. Accordingly, the Commission will terminate its investigation and close this docket.

In future rate cases initiated by Minnesota regulated gas utilities, the Department and other parties to such proceedings will be invited to develop the record with respect to the issues raised in this Order. As is customary in such proceedings, the Commission's NOTICE AND ORDER FOR HEARING (referral to the Office of Administrative Hearings for contested case proceedings) will contain specific directives regarding issues to be addressed by the parties.

ORDER

1. The Commission's investigation into competition between gas utilities is hereby terminated and the docket created for it (G-999/CI-90-563) is closed.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(SEAL)

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. G022/M-12-1279

Dated this 16th day of **July, 2013**

/s/Sharon Ferguson

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