



June 26, 2018

**VIA ELECTRONIC FILING**

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 East Seventh Place, Suite 350  
St. Paul, MN 55101

RE: Response to Information Request  
Lake Region Energy Services, Inc.  
Petition for Small Gas Utility Franchise Exemption  
Docket No. G-6977/M-17-186  
Docket No. G-6977/M-17-829

Lake Region Energy Services, Inc. ("LRES") submitted two Petitions for Small Gas Utility Exemption pursuant to Minn. Stat. § 216B.16, Subd. 12(b) concerning the municipalities of Deer Creek and Parkers Prairie [Docket No. G-6977/M-17-186] and Dent and Miltona [Docket No. G-6977/M-17-829] on March 6, 2017 and November 30, 2017, respectively. The Commission granted these Petitions, after hearings, by subsequent orders dated July 28, 2017 and March 29, 2018.

On June 13, 2018, the Commission issued Utility Information Requests to LRES. Attached hereto please find LRES's responses to the requests. LRES thanks the Commission for its continued attention to the above-referenced dockets, and is hopeful that the information provided to the Commission herein is useful and appropriate.

Should the Commission or staff have any additional questions or requests for LRES, please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel T. Carlisle", is written over a horizontal line.

Daniel T. Carlisle, 0198481  
Ryan D. Fullerton, No. 0398363  
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**State of Minnesota  
Public Utilities Commission**

**Utility Information Request**

Docket Numbers: G-6977/M-17-186 and G-6977/M-17-829      Date of Request: June 13, 2018  
Company Name: Lake Region Energy Services                      Response Due: June 27, 2018

Requested From: Tim Thompson

RE: Commission staff is preparing a briefing paper for a Commission Meeting on natural gas utilities who have received a Small Gas Utility Franchise Exemption under Minn. Stat. § 216B.16, subd. 12(b). Please provide the following information to be filed in the 15-856 docket by June 26, 2018. If there are any questions, please do not hesitate to contact staff.

Analyst Requesting Information: Bob Brill/Jason Bonnett/Eric Bartusch

Type of Inquiry: Financial – Information Request

**REQUEST 1**

Provide the number of customers at the end of 2017 receiving natural gas services by customer class. Provide this information by customer class split between customers inside the municipal boundaries and outside the municipal boundaries (incidental service).

**RESPONSE**

LRES began servicing 156 customers in 2017. Of these, 106 are municipal customers, and 50 are rural (incidental).

Revenue Class	Municipal	Rural
Residential	93	33
Small Commercial	8	6
Large Commercial	1	0
Interruptible	4	5
Ag	0	6
Total	106	50

**REQUEST 2**

Provide the annual revenues (gas and non-gas) for 2017 by customer class split between customers inside the municipal boundaries and outside the municipal boundaries (incidental service).

**RESPONSE**

Please see the following chart:

Revenue Class	Municipal	Rural
Residential	\$15,993	\$4,937
Small Commercial	4,794	4,981
Large Commercial	18,027	0
Interruptible	50,104	125,553
Ag	0	69,490
Total	\$88,918	\$204,961

**REQUEST 3**

Provide the total 2017 throughput by customer class split between customers inside the municipal boundaries and outside the municipal boundaries (incidental service).

**RESPONSE**

Please see the following chart:

Revenue Class	Municipal	Rural
Residential	12,075	3,794
Small Commercial	4,104	4,471
Large Commercial	19,706	0
Interruptible	62,345	157,083
Ag	0	75,649
Total (therms)	98,230	240,997

#### **REQUEST 4**

Provide a comparison by customer class of the year-end 2017 actual number of customers, revenues and throughput to the company's initial projections at the time of its petition.

#### **RESPONSE**

Please see the following chart. Please note that, in its initial petitions in Docket No. G-6988/M-17-186 [Deer Creek and Parkers Prairie] and Docket No. G-6977/M-17-829 [Dent and Miltona], LRES did not provide an estimated breakdown between customer classes for either project, and instead provided initial projections of the customers anticipated within and outside each municipality.

#### **Customer Count**

Revenue Class	Municipal	Initial Projection	Rural	Initial Projection
Residential	93		33	
Small Commercial	8		6	
Large Commercial	1		0	
Interruptible	4		5	
Ag	0		6	
Total	106	195	50	36

In addition, LRES did not initially provide a projection as to the expected or anticipated revenue from municipal or incidental service.

#### **Revenues**

Revenue Class	Municipal	Initial Projection	Rural	Initial Projection
Residential	\$15,993		\$4,937	
Small Commercial	4,794		4,981	
Large Commercial	18,027		0	
Interruptible	50,104		125,553	
Ag	0		69,490	
Total	\$88,918	N/A	\$204,961	N/A

Lake Region did not provide separate projections for revenue associated with the municipal and rural customers; rather, the projection was for the overall project for the first full year of operations, which was 2018. Given the limited time of operation and the time for converting customers to natural gas from propane and a strong grain drying season, 2017 results may not be indicative of the full 2018 year. LRES continues to anticipate that the 2018 year will be in line with initial projections.

## Throughput

Revenue Class	Municipal	Initial Projection	Rural	Initial Projection
Residential	12,075		3,794	
Small Commercial	4,104		4,471	
Large Commercial	19,706		0	
Interruptible	62,345		157,083	
Ag	0		75,649	
Total (therms)	98,230	63.8%	240,997	36.2%

In its petitions, LRES provided a total percentage estimate of annual throughput for the first full year of operations in 2018. It did not provide an estimate for the remainder of 2017. LRES assumed that the remainder of 2017 would follow in line for the 2018 estimate of 63.8% and 36.2% municipal to rural respectively. However, as shown above, actual results showed significant deviation from that estimate due to the lower municipal signups, delayed conversions to usage of natural gas, and strong interruptible sales from grain dryers that had not been initially forecast.

It is assumed that for full year operations in 2018, LRES will come much closer to the initial project percentages; though with continued slow adoption of natural gas in Parkers Prairie, actual throughput may be closer to approximately 50% municipal and 50% rural. This final figure will be highly dependent on the grain drying season.

### **REQUEST 5**

Provide a discussion of whether the company believes it has met or will meet in the near future its initial projections. Provide this discussion by customer class separately for customers inside the municipalities' borders and outside the municipalities' borders.

### **RESPONSE**

Please see the above answer to Request 4. LRES exceeded its initial projections for service to rural (incidental) customers in 2017 in terms of customer count. LRES encountered high levels of interest from agricultural grain dryers, and a strong grain drying season resulted in higher consumption from these rural customers than had originally been anticipated. Rural customer conversions have taken longer than expected, but LRES anticipates that the initial projection will be met in the near future, and quite possibly in 2018.

In terms of municipal use, LRES served two communities—Deer Creek, and Parkers Prairie. LRES met its projections in Deer Creek, but fell short in Parkers Prairie. The latter community has shown strong loyalty to its local propane provider. LRES expects that the customer count in Parkers Prairie will continue to grow, but that the rate of growth will be slower than originally expected. LRES now expects that the initial projection will be met within three to five years.

Now that LRES is expanding natural gas service to the south in Miltona in 2018, LRES believes

that it is likely that success there will act as a positive influence on customers in Parkers Prairie, as the two communities appear to share strong ties to one another. In addition, LRES has put programs in place to assist customers with financing the cost of converting from propane to natural gas.

**REQUEST 6**

Provide a summary and, if different, a comparison, of rates, by customer class, charged to customers inside the municipal boundaries and outside the municipal boundaries (incidental service).

**RESPONSE**

Lake Region has the same rate schedule for all customers regardless of location.

<b>TARIF F</b>	<b>RATE CLASS</b>	<b>MONTHLY RATE</b>
<b><i>Rate 1</i></b>	<b><i>Residential</i></b>	
	<b>FACILITY CHARGE</b>	\$10.00
	DELIVERY CHARGE PER THERM	\$0.67
	COST OF GAS	<u>\$0.45</u>
	TOTAL COST OF GAS PER THERM	<u>\$1.12</u>
<b><i>Rate 2</i></b>	<b><i>Small Commercial (less than 5000 therms annually)</i></b>	
	<b>FACILITY CHARGE</b>	\$20.00
	DELIVERY CHARGE PER THERM	\$0.62
	COST OF GAS	<u>\$0.45</u>
	TOTAL COST OF GAS PER THERM	<u>\$1.07</u>
<b><i>Rate 3</i></b>	<b><i>Large Commercial (greater than 5000 therms annually)</i></b>	
	<b>FACILITY CHARGE</b>	\$45.00
	DELIVERY CHARGE PER THERM	\$0.47
	COST OF GAS	<u>\$0.45</u>
	TOTAL COST OF GAS PER THERM	<u>\$0.92</u>
<b><i>Rate 4</i></b>	<b><i>Agricultural Heating &amp; Drying (greater than 5000 therms annually)</i></b>	
	<b>FACILITY CHARGE- LESS THAN 120,000 THERMS</b>	\$45.00
	DELIVERY CHARGE PER THERM	\$0.47
	COST OF GAS	<u>\$0.45</u>
	TOTAL COST OF GAS PER THERM	<u>\$0.92</u>
<b><i>Rate 5</i></b>	<b><i>Interruptible</i></b>	
	<b>FACILITY CHARGE</b>	\$50.00
	DELIVERY CHARGE PER THERM	\$0.44
	COST OF GAS	<u>\$0.37</u>
	TOTAL COST OF GAS PER THERM	<u>\$0.81</u>

## **REQUEST 7**

Provide the company's Net Plant in Service, by year, starting from the inception of service. (Net Plant in Service = Total Plant in Service – Accumulated Depreciation – Deferred Income Taxes).

## **RESPONSE**

In the initial year of operation for LRES (2017), Net Plant in Service as of December 31, 2017 was as follows: \$1,408,144.00.

## **REQUEST 8**

Provide a discussion of each municipalities' governance structure for overseeing the setting of rates, tariffs, and terms and conditions of service for natural gas service. Include in this discussion the number of times the overseeing body has met, the number of board members that attend, the number of citizens that attend, and the type of notice that was provided to utility customers for these rate setting meetings.

## **RESPONSE**

Lake Region did not start delivering natural gas until September 2017. Prior to the commencement of operations, both municipalities, Deer Creek and Parkers Prairie, were provided with the natural gas Rate Book. Individual meetings were held with the mayors of each municipality to discuss the rates and the review process.

As Lake Region is in the initial year of providing service, there has not been a formal rate review board meeting at this time; however, each community will have a member on the Board and any rate changes would be discussed and communicated in advance. Lake Region does not have any plans, at present, to change its rate tariff, but plans to engage with both communities in late 2018 to schedule the rate review and structure.

## **REQUEST 9**

Provide a summary of all complaints (including complaints from current customers and potential customers) submitted orally, electronically or in writing by customers separated between inside and outside the municipality's borders, along with an explanation of the resolution or status of these complaints. Please provide a summary of the complaints by general category (type), e.g. interruption of service, delay in restoring service, expense of service extensions, bill amount, etc.

## **RESPONSE**

LRES is pleased to report very few complaints, inquiries, or sources of customer confusion during the 2017–2018 winter. LRES received a total of 17 complaints or inquiries (referred to as “complaints” hereafter), which generally arose from two areas: (1) initial clarification over the cost of natural gas; and (2) clarification of the wording contained on LRES's billing statements. These two areas are detailed further below.

*Customer Complaints or Inquiries, 2017–2018*

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Nature of Complaint: Billing

Customers by Type: Municipal (3) / Rural/Incidental (2)

Summary: These customers made inquiries regarding bills which were higher than they had expected. Some had been misinformed by contractors when they converted to natural gas, who apparently advised the customers, erroneously, that the bills would “never be higher than \$20.00.”

Resolution: LRES representatives provided an explanation of how the bills are calculated, the amount of gas used, the number of heating days for the month, and how much of the customer’s prior heating source would have been used under the same circumstances. The customers then understood LRES’s billing practices, and LRES considers those complaints/inquiries resolved.

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Nature of Complaint: Billing Statement Language

Customers by Type: Municipal (8) / Rural/Incidental (4)

Summary: LRES initially separated the “Cost of Gas” and “Delivery Costs” as two separate line items on monthly customer bills. Some customers expressed confusion as to the charge for “Delivery Costs” as LRES does not deliver natural gas by truck or by similar means.

Resolution: LRES representatives explained to these customers the purpose of the “Delivery Costs” item. LRES has subsequently changed its billing statement to combine the two line items into a single line listed as “Cost of Gas,” and has updated the terms and definitions on the back of the billing statement accordingly. LRES considers these complaints/inquiries resolved.

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## **REQUEST 10**

Does your company have a *tariffed* service extension policy for new customers that includes the cost of installing new mains and service lines?

- If so, provide a discussion of the policy, include in the discussion how many feet of the extension is paid for by the company (line extension allowance) and how the company charges for footage over the line extension allowance (if there is an allowance), i.e. Is there a set per foot charge for extensions or some other calculation.
- If not, provide a discussion why the company does not have a line extension policy and how the company charges for line extensions when requested.

## **RESPONSE**

Under LRES's tariff policy, the first 100 feet of extension is provided to customers without charge. Distances over 100 feet are charged at \$5.00 per foot.

In a promotional effort to encourage conversion to natural gas, LRES provided up to 200 feet of extension for customers without charge during the first year of construction, when our contractors are present. LRES will replicate this policy for the 2018 new expansions in the cities of Dent and Milona and also plans to make the program available for the communities of Deer Creek and Parkers Prairie as an additional incentive to sign up for natural gas.

## **REQUEST 11**

Provide the number of incidental customers that paid for line extensions where the extension exceeded the company's line extension allowance and the number of incidental customers where the line extensions did not exceed the company's line extension allowance.

## **RESPONSE**

Six incidental customers paid for a line extension out of a total of 50 incidental customers.

## **REQUEST 12**

Provide the highest amount paid by an incidental customer for a line extension and the average amount paid by incidental customers for line extensions.

## **RESPONSE**

The total amount paid for line extensions was \$4,475.00 for rural/incidental customers. The highest amount paid for a single line extension was \$1,625.00.

The average amount paid for a line extension for the six customers was \$745.00. The average amount paid for a line extension amounts to \$569.00 when the highest amount paid is excluded

from the calculation.

### **REQUEST 13**

The Commission is considering establishing a uniform annual compliance filing for all small gas utility franchise exempt companies. In order to assist the Commission, provide a discussion on what information should be included in these annual compliance filings and appropriate timing of these compliance filings.

### **RESPONSE**

LRES submitted its first annual compliance filing in Docket No. 17-186, and continues to believe that the information requested and provided therein is appropriate. The information provided in that docket included the following:

1. Customer county by customer class, including applicable rates for each class.
2. The associated annual gas and non-gas revenues by customer class.
3. Net Plant in Service by year and on an accumulated basis from when LRES began construction on its natural gas systems.

LRES believes that this information should be required annually in April or May to comport with other information-gathering requirements.

LRES manages its natural gas business together as one operation, and does not internally discern between municipal and incidental customers. While, LRES has locations mapped to permit LRES to sort its internal data to effectively comply with the instant information request, it is not an intuitive process. Therefore, it is the preference of LRES that the information above continue to be required, but that further delineation between the municipal and rural/incidental customers be determined by the Commission to be unnecessary.

LRES of course understands that it has a continuing obligation to notify the Commission should its customer base expand beyond the 5,000 customer threshold provided by statute, among other statutory and regulatory obligations.

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Dated: June 26, 2018



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Tim Thompson, CEO  
Lake Region Energy Services, Inc.  
1401 South Broadway  
Pelican Rapids, MN 56572

Respectfully submitted,



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