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October 17, 2016

VIA ELECTRONIC FILING

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery
Docket No.: E015/M-16-648

Dear Mr. Wolf:

Minnesota Power ("the Company"), submitted to the Minnesota Public Utilities Commission (or "Commission") its Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery on August, 1 2016. On September 20, 2016 the Minnesota Department of Commerce – Division of Energy Resources ("Department") and the Office of Attorney General ("OAG") submitted Comments in the docket. In the Comments both parties raised points of consensus as well as concerns with the Company's Petition. Minnesota Power submits these Reply Comments in response to the Initial Comments filed in the docket.

Please contact me at the number above with any questions related to this Compliance filing.

Yours truly,

David R. Moeller

DRM:sr
Attach.
cc: Official Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery	Docket No. E015/M-16-648 **REPLY COMMENTS**

I. INTRODUCTION

Minnesota Power ("the Company"), submitted to the Minnesota Public Utilities Commission (or "Commission") its Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery on August, 1 2016. On September 20, 2016 the Minnesota Department of Commerce – Division of Energy Resources ("Department") and the Office of Attorney General ("OAG") submitted Comments in the docket. In the Comments both parties raised points of consensus as well as concerns with the Company's Petition.

II. RESPONSE TO DEPARTMENT AND OAG COMMENTS

Minnesota Power appreciates the careful and thoughtful review given to its Petition. The Company believes its request is prudent and that timely action on the request is vital. The July storm in Minnesota Power's service territory was an unprecedented event and posed many challenges, both operationally and financially. These Reply Comments will address the topics raised by the Department and OAG in their Initial Comments within the docket.

Magnitude of Storm

In its Petition the Company outlined statistics related to the impact of the storm and its devastation in the Duluth, Island Lake and Cloquet areas. On October 4, 2016 Governor Mark Dayton authorized up to $3.3 million from the State Disaster Assistance Contingency Account for northern Minnesota counties and tribes for the significant damage caused by July's storms. St. Louis County is in line to receive roughly $2 million in assistance. The Company has included additional anecdotes in an attachment to these Reply Comments as to the severity and impact of the storm to both the Company and its customers[1].

Minnesota Power strongly contends that the severity and impact of this storm meet the definition of an unusual, or significant, event on its system. A litmus test for an unusual event is subject to an order of magnitude and can be compared to other such requests for deferred accounting treatment. Minnesota

[1] Attachment A

Power's need to call on Midwest Mutual Aid signals an order of magnitude greater than the vast majority of weather events that take place on the Company's system.

As stated in the Company's response to OAG IR No. 2 in the docket, Minnesota Power conducted a cursory review of other state regulatory dockets and found multiple dockets where state regulatory commissions have granted utilities deferred accounting, or similar regulatory treatment, for storm recovery costs.[2] An additional example is New York Public Service Commission's approval of Central Hudson Gas & Electric Corporation's Petition for Permission to Recover Deferred Incremental Costs Associated with a 2014 Thanksgiving Storm.[3] In this docket the Commission approved Central Hudson Gas & Electric Corporation's request to defer $5,284,073 of incremental electric storm restoration expenses related to the 2014 Thanksgiving snow storm, with carrying charges, incurred by the Company during the twelve months ending June 30, 2015. The Commission's reasoning was partially based upon the fact that "the rate plan Central Hudson was operating under at the time of the 2014 Thanksgiving Storm provided the Company a rate allowance for ordinary storms, but not for major storms like the 2014 Thanksgiving storm." Minnesota Power similarly does not currently maintain a storm reserve for such instances, unlike neighboring utilities such as Xcel who fund such a reserve. The Company has historically absorbed incremental costs into its annual budgets.

The Company also contends that the standard for deferred accounting should not be set so high that it is not feasible to attain. In Edison Electric Institute's ("EEI") 2005 AFTER THE DISASTER: Utility Restoration Cost Recovery report, EEI states; "Almost all utilities distinguish between "normal" storms and "major" storms.[4]…The general criteria for classifying a storm as "major" depends on whether the storm has a significant impact on a company's customers, i.e. a substantial number of customers are without power for a significant period of time." As evidenced by the materials presented, by Friday morning, July 22, 2016, according to Minnesota Power's outage reporting system, about 28,000 customers were without power. This equates to roughly 20% of the Company's total customer base. The economic impact to the Company of customers being "off the grid" for days at a time should be considered in conjunction with the storm damage costs when contemplating the impact of the storm to the Company.

Incremental Costs

In its Comments, the Department states " The incremental 2016 Storm costs are not significant since they are less than one percent of Minnesota Power's Minnesota jurisdictional revenue requirements or total O&M expense." Minnesota Power does not agree with the Department's assessment of its incremental 2016 Storm costs. In its Comments, the Department applied a jurisdictional allocator of 96.555 percent in its calculation of recoverable costs. As stated in DOC Information Request No. 1, Minnesota Power is only requesting deferred accounting for retail costs to restore distribution level service for retail customers. Minnesota Power incurred minimal costs to restore transmission level service at the beginning of the storm response, but will not be including those costs in any final accounting for this

[2] Attachment B: OAG IR Response No. 2
[3] Attachment C: CASE 15-E-0464
[4] Attachment D: 2005 AFTER THE DISASTER: Utility Restoration Cost Recovery

deferred accounting request. As referenced above, Minnesota Power does not currently maintain a reserve account for storm damages. Updated cost estimates show that Minnesota Power's incremental costs for the July 2016 storms now total $2,929,088.[5] This equates to roughly 13 percent of Minnesota Power's Distribution O&M budget as stated in DoC IR 13.1 in the docket.[6] When compared to another recent storm, the 2015 Nisswa Brainerd Lakes storms which had incremental costs totaling $876,788, it is clear that the 2016 storms caused substantially more damage than other events recently experienced on the Company's system.

Minnesota Power also takes exception to the approach the Department utilized in portraying the "significance" of the incremental O&M impact as discussed in Section 4 *"Significant in Amount"* discussion on pages 10-11 of its Initial Comments in the docket. The Minnesota-jurisdictional 2010 Total O&M value the Department references was $426.444 million dollars noted on page 11 of its Comments. This value was used to assert that the impact of the 2016 storm equated to less than one percent (0.59 percent) of the O&M value from Minnesota Power's last retail rate proceeding. The Company questions the fundamental premise and validity of this comparison and the implication that it suggests. Over 60 percent of the $462.444 million dollars in Total O&M reside in three O&M expenses including fuel, purchased power, and conservation improvement program expenses, which total $282.14 million dollars. These three O&M expenses in particular all have cost recovery mechanisms incorporated through the resource adjustment clause and have very stringent eligibility requirements. Aside from the previously mentioned categories, there are many other O&M cost categories included in the $462.444 million dollars from Minnesota Power's 2010 Class Cost of Service Study ("COSS"). The Company takes exception to the implication that it has the discretionary ability to either absorb or essentially redirect O&M funds to "offset" the incremental storm expense through potential shifts in the expense categories such as: rate case expense (retail), customer deposits, interest expenses on LP bills, customer accounting, etc.

Minnesota Power proposes that the Department consider evaluating the 2016 Storm O&M impact against the Distribution O&M budget, as noted previously. This evaluation weighs the $2.929 million in incremental Storm expenses against the Distribution O&M Total of $21.422 million dollars to calculate a 13 percent impact. The Company would like to note that even this method of calculating the significance of the storm event misses some necessary insights to Minnesota Power operations. The Company is providing the Distribution O&M Expense 2010-2017 Table on Page 4 "Distribution O&M Expense" to highlight Company cost categories. The amounts noted in the Table are Total Company dollars and do not include overheads, allocations or any Minnesota-jurisdictional splits. The table includes the Distribution O&M Actuals and Budget amounts (2010- 2017) by category.

[5] Attachment E: Incremental Storm Cost Estimate Spreadsheet
[6] Attachment F: DoC IR Response 13.1

Distribution O&M Expense 2010-2017 (Dollars in Millions)

Description	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Budget	2017 Budget
Internal Labor	$8.90	$8.90	$9.32	$9.23	$10.58	$9.39	$9.81	$10.30
Contract Services	$5.90	$6.00	$4.33	$5.96	$5.84	$6.67	$6.60	$6.70
Fleet	$2.70	$3.10	$2.92	$3.19	$3.50	$2.48	$3.26	$3.01
Materials	$1.60	$1.80	$1.88	$1.43	$1.63	$1.36	$1.47	$1.36
Other	$0.50	$.040	$0.50	($1.14)	($.067)	($0.02)	($0.39)	($0.40)
Total	**$19.60**	**$20.20**	**$18.50**	**$18.67**	**$20.88**	**$19.88**	**$20.75**	**$20.97**

The Distribution O&M Expense 2010-2017 Table is intended to provide the Department and other stakeholders with a quick overview to illustrate that there is very little to no discretionary O&M dollars available to utilize in order to offset the magnitude of the incremental 2016 Storm event expense. If the Company were to eliminate Internal Labor, Fleet, and Materials, as potential funding O&M sources it leaves Contract Services & Other as the only potential practical sources of O&M to offset the incremental storm expense. (Note that "Other" includes: employee expenses, training, and meter & transformer first setting O&M installation offsets) These two categories provide a net amount of $6.21 million dollars. As the Department would expect, the majority of the 2016 Contract Services category is utilized to fund the Vegetation Management program that accounts for $4.25 million dollars in the 2016 budget. This would result in less than $1.96 million in the Contract Services & Other category of Distribution O&M. The remaining dollars include numerous contract expenses for ongoing operations such as damage prevention (locating services), ground line inspections, communications & fiber pole transfers, etc. When taking these expenses into consideration, the $2.929 million dollars of incremental O&M expense represents closer to 149 percent increase in the remaining portion of Distribution O&M expenses vs. the Department's stated 0.59 percent impact.

In addition to previously stated costs to the system, the restoration efforts required Minnesota Power to allocate all of its available resources to storm recovery for multiple days. The downstream impact of this is that all contractors and available personnel working on the system were deployed for customer recovery while other projects and maintenance work were put on hold. This action has a multiplier impact to redeploy resources after the storm and reprioritize compressed work to meet timelines.

The Company considers the July 21, 2016 storm event to be a very significant and disruptive event for its customers, and by extension, a significant financial event for Minnesota Power. The Company respectfully requests that the Commission approve its request for accounting deferral.

FERC Account

Minnesota Power agrees to change its proposal to stay in line with the Department's recommended use of FERC Account 182.3, Other Regulatory Assets instead of the Company's proposed use of FERC Account 186, Miscellaneous Deferred Debits.

Carrying Charges

Minnesota Power is not requesting the recovery of carrying charges through its Petition.

OAG Feedback:

In its Comments in the docket, the OAG recommended that the Commission not allow the Company to defer costs for salaries and wages (labor only), lost time, administrative and general overhead, employee pensions and benefits, and injuries and damages, and that it should limit deferral for vehicle use and payroll taxes to a portion of those items equal to the proportion of paid overtime to salaries and wages associated with the July 21 storm. Minnesota Power agrees that costs related to lost time, administrative and general overhead, employee pensions and benefits, and injuries and damages, vehicle use and payroll taxes should not be included in the requested 2016 Storm incremental costs. The Company has revised its request to reflect more recent cost estimates and other items addressed in Initial Comments.

III. CONCLUSION

Minnesota Power maintains that its request for deferred accounting treatment for its 2016 Strom costs is reasonable and prudent. The July 21, 2016 storm was an unprecedented event and required massive amounts of time and capital to restore the system for residential and business customers in the affected areas. The Company appreciates the thoughtful feedback from both the Department and OAG and has addressed stated concerns in these Reply Comments. Minnesota Power contends that its Petition is in line with general standards for deferred accounting principles in relation to storm damage.

Dated: October 17, 2016

Respectfully submitted,

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Appendix

Comparison of Costs

The 2008-2012 Annual O&M Storm Restoration Expenses Table, as depicted below, was provided in Xcel Energy's 2013 Rate Case Docket No. E002/GR-13-868. It was offered into the record on page 14 of Stephen R. Foss - VP of Distribution Operations' direct testimony. It includes Xcel Energy's Historic Annual O&M Storm Restoration Expenses from 2008-2012.

2008-2012 Annual O&M Storm Restoration Expenses ($000,000s)

2008 Actual		2009 Actual		2010 Actual		2011 Actual		2012 Actual		Average Actual	
NSPM	MN Jur.	NSPM	MN Jur.	NSPM	MN Jur.	NSPM	MN Jur.	NSPM	MN Jur.	NSPM	MN Jur.
$0.76	$0.72	$0.51	$0.31	$2.86	$2.84	$3.89	$2.47	$2.41	$2.41	$2.09	$1.75

The 2010-2014 Annual O&M Storm Restoration Expenses Table below provides the Xcel Energy Storm restoration O&M expenses for 2010-2014. The2010-2014 Annual O&M Storm Restoration Expenses was provided as part of Xcel Energy's 2015 Rate Case Docket No. E002/GR-15-826 on page 76 of Kelly Bloch- VP Distribution Operations' direct testimony.

2010-2014 Annual O&M Storm Restoration Expenses (Dollars in Millions)

2010 Actual		2011 Actual		2012 Actual		2013 Actual		2014 Actual	
NSPM	MN Jur	NSPM	MN Jur	NSPM	MN Jur	NSPM	MN Jur	NSPM	MN Jur
$2.86	$2.84	$3.89	$2.47	$2.21	$2.21	$6.35	$6.00	$3.01	$2.80

It is the Company's understanding that the O&M expenses included in the provided Tables include Xcel Energy's incremental O&M costs (Overtime, contractors, materials, etc.).

Minnesota Power provides in Table 1 on Page 7 an estimated summary for storm & trouble O&M expenses that the Company incurred from 2010-2016 (YTD). This Table includes only the incremental overtime, contract services, materials, etc. that are consistent with its FERC accounting procedures for the three Mutual Aid storm events noted. The OT expenses for RC 190 do not include allocations and/or overheads as requested by the Department and OAG. The incremental expense portion of the July 21st-July 28th storm is estimated at $2.929 million dollars (Row #10). The 2016 projected O&M total expense is currently estimated at $4.186 million dollars (Row #12). This single O&M storm event expense for Duluth and North Gull Lake (Row #10), when compared to Xcel Energy's Restoration Expenses, would

have exceeded Xcel Energy's entire Minnesota-jurisdictional annual storm restoration expenses for every year between 2008-2014, except for 2013 when Xcel reached $6.00 million dollars. Minnesota Power has currently accrued $4.186 million dollars in restoration expenses through September 2016. Minnesota Power contends that this provides the Commission with another reference point as to the relative magnitude and significance of the storm event that impacted Minnesota Power in July 2016.

Table No. 1

Estimated MP Storm & Trouble Restoration O&M Expenses with Incremental Expenses Only

2010 - 2017 Actuals & Budget (Dollars)

Row No.	Estimated Historic Incremental O&M Storm & Trouble Restoration Expenses	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 # Actual & (Est.)++	2016 # YTD & (Est.)++	2017 (Budget)++
1	Total - Overtime OT Labor Expense**	$ 1,458,990	$1,456,992	$ 1,533,656	$ 1,426,756	$ 1,649,668	$ 1,791,769	$ 1,907,657	N/A
2	Total - Stipends / OT Meal Expense**	$ 19,227	$ 21,960	$ 54,212	$ 29,980	$ 20,593	$ 87,910	$ 78,424	N/A
3	Total - Prearranged OT Labor (Planned Overtime)**	N/A	N/A	$ 93,642	$ 126,710	$ 213,799	$ 209,490	$ 98,761	N/A
4	Unplanned - Overtime OT Labor Expense	N/A	N/A	$ 1,440,014	$ 1,300,045	$ 1,435,869	$ 1,582,278	$ 1,808,896	N/A
5	Unplanned - Employee Stipends / OT Meals Expense	N/A	N/A	$ 50,902	$ 27,317	$ 17,924	$ 77,631	$ 74,364	N/A
6	Unplanned - Total Overtime Labor & OT Expenses	N/A	N/A	$ 1,490,916	$ 1,327,363	$ 1,453,793	$ 1,659,910	$ 1,883,259	N/A
7	O&M - Overtime Labor & OT Expense*	N/A+	N/A+	$ 1,192,733	$ 1,061,890	$ 1,163,035	N/A#	N/A#	N/A#
8	O&M - Overtime Labor & OT Expense - Estimated++						$ 1,139,219	$ 1,139,219	$ 1,139,219
9	O&M - Actual Storm (Nisswa - July 12, 2015)!						$ 876,788		
10	O&M - Actual Storm (Duluth / North Gull Lake - July 21, 2016)!							$ 2,929,088	
11	O&M - Actual Storm (Nisswa / Pine River - August 4, 2016)!							$ 118,223	
12	O&M - Total Storm & Trouble Restoration Expense	N/A+	N/A+	$ 1,192,733	$ 1,061,890	$ 1,163,035	$ 2,016,007	$ 4,186,530	
13	O&M - Overtime Budget for Line workers (RC-190)**	$ 1,004,550	$ 512,000	$ 518,000	$ 800,000	$ 825,000	$ 696,300	$ 696,300	$ 876,300
14	O&M - Variance (Budget to Actual)	N/A		$ (674,733)	$ (261,890)	$ (338,035)	$ (1,319,707)	$ (3,490,230)	

Notes:

++ Average O&M Based on 2012 -2014 Actuals $ 1,139,219

* Estimated Historic O&M vs. Capital - "Call out" 80%

** OAG IR # 003 - MP Response (MPUC Docket No. E015/M-16-648)

# Denotes 2015 and 2016 when MP requested Mutual Aid for Storm Events

! O&M Actual Incremental Expenses for Storm Events Noted in 2015 & 2016

\+ Prearranged / Planned OT was not tracked separately in 2010 and 2011 in the previous MP accounting system all OT was included in the total RC 190

# Denotes 2015 and 2016 when MP request Mutual Aid for Storm Events

Worksheet Formulas:	
R4 = R1 - R3	R7 = R6 * 80%
R5 = (R4 / R1) * R2	R8 = Average(R7) - 2012, 2013, 2014
R6 = R4 + R5	R12 = R7 + R8 + R9 + R10 + R11

Devastation: Severe storms leave widespread damage in Northland; for some, power may be out for days

By News Tribune staff on Jul 21, 2016 at 8:10 p.m.

Violent thunderstorms roared through parts of the Northland with hurricane-force winds early Thursday, downing trees and power lines and damaging homes and cars on a scale that left many residents stunned.

“That was the scariest storm,” said Mary Fisher of Duluth, who heard the pines snapping outside her Congdon Park home as the storms rolled through at about 3:30 a.m., but could not see what was happening in the darkness. “It was like ‘War of the Worlds.’ ”

At first light, the scope of the damage became clear in the hardest-hit areas, where the sound of chainsaws soon echoed on the humid morning as the cleanup got underway.

The storms, which caused two fatalities in Ontario’s Quetico Provincial Park, left more than 75,000 customers without power in the Northland. Utility crews faced a daunting task of working their way through a mess of broken poles, downed lines and fallen trees to restore power. Minnesota Power reported that it may be three to four days before electricity is restored to all Duluth residents. City and county crews were kept busy, too, along with tree service businesses and homeowners.

“It’s like a snowstorm. We clear the main drags first and then work our way down. All we can do is clear the road right of way and clean up and move on. We don’t have time to help people open up their driveways," said Doug Rosas, who was working a chainsaw for the city of Duluth. “We’ve been at it since 5 a.m. We’ll eventually get to the side streets and the alleys, but it’s going to take a long time.”

Most main streets in Duluth and vicinity appeared passable by mid-morning but many side streets, avenues, alleys and driveways remained blocked until later in the day — if they were able to be cleared at all by nightfall.

The straight-line winds reportedly reached 100 mph in some parts of the region, leaving a wide swath of damage from Leech Lake east to the Twin Ports, and continuing into Northwestern Wisconsin. Areas on the north and east side of Duluth, along with the city of Rice Lake and Lakewood Township, were particularly hard-hit.

Mimi Larson, an assistant professor at the University of Wisconsin-Superior, found three trees had fallen in her yard along Greysolon Road in Duluth — one onto her son's car.

"I've lived here 30 years and don't remember a storm like that one," she said. "The lightning was right on top of us and the winds were amazing."

The trees were bending so hard, Larson left her upstairs bedroom for cover in a lower floor.

"We got a little sense of what they experience in Tornado Alley," she said.

Power outages

A weather station on top of the St. Louis County Government Services Center in downtown

Duluth clocked wind gusts in excess of 100 mph, the county reported. Dan Miller, science and operations leader at the National Weather Service in Duluth, said damage he observed indicated winds as strong as 90 mph.

The highest official gust was 69 mph at Duluth International Airport and 72 mph was reported by a ship on Lake Superior. The Duluth Aerial Lift Bridge reported winds over 70 knots, or more than 80 mph.

The downed trees and power lines prompted city and county officials to advise no unnecessary travel for much of the day Thursday. Later in the day, cooling centers were set up in a number of communities, including at the Duluth Entertainment Convention Center, to help residents without power who were sweltering without fans or air-conditioning as temperatures climbed into the upper 80s and low 90s.

As of 1 p.m., Minnesota Power, Lake Country Power and Xcel Energy reported a combined total of more than 75,000 customers without power across the region; that number was down to about 54,000 by 8 p.m.

Minnesota Power estimated that a third of the Duluth's 65,000 customers were without power at one point Thursday morning — the worst storm to affect the city's electrical grid in 15 years, since the April 2001 ice storm. The utility was using helicopters in addition to ground crews to assess the damage.

About 100 power poles were damaged by the storm and will need to be replaced, Minnesota Power reported, in addition to many more downed lines.

With the extent of the damage, the utility was predicting multi-day outages for some customers.

"Outside of Duluth, we're hoping to get power back in the next 24 hours," Minnesota Power spokeswoman Amy Rutledge said Thursday afternoon. "In the city, for some it's looking like three to four days."

Minnesota Power had 40 lineworkers out working on repairs Thursday in the city of Duluth. They'll be joined by 90 more Friday— some from as far away as Missouri.

Rutledge said people should stay away from power lines because as crews work to restore the system, lines that aren't energized could go live.

Outside of Duluth, “this could be long haul, a couple days, maybe longer,” said Tami Zaun, a spokeswoman for Lake Country Power. “We’re working quickly and safely as we can.”

“It is a tangled mess out there,” Zaun said. “We’ve had a lot of storms this summer but last night was by far the worst and most widespread.”

The outages affected the Duluth antenna farm, knocking most Duluth TV and radio station off the air for varying lengths of time.

Power also was out at the city’s main Lakewood water pumping station for much of the day, which meant no new water was being pumped into the city’s massive reservoir and water tower system. Duluth city officials on Thursday had asked all residents to conserve water as much as possible; power was restored to the pumping station by Thursday night.

Assessing the damage

It was an eerie scene in downtown Duluth at dawn, with trees down in the Civic Center and several traffic signals blown over — but still alternating green, yellow, red from their prone position.

Over the hill, the canopy of the Holiday gas station at the corner of Rice Lake and Arrowhead roads was partly torn apart by the winds.

And in neighborhoods around the city, residents assessed the damage. Mary Fisher, the Congdon Park neighborhood who had said the storm was like “The War of the Worlds,” lost four large trees during the storm, from her front yard and the boulevard in front of her house on the 3000 block of East First Street. But none of them hit a 1982 Toyota Celica collector car parked out front, belonging to her 16-year-old son. The car was sandwiched in between downed branches.

“Look at that,” she marveled Thursday morning. “Nothing fell on it.”

That block of First Street had trees blocking passage in two different locations. Andrea Black, who lives on the block, said all three of her kids slept through the storm, and Thursday was “a gratitude day.”

On their block, “no cars were damaged, and no one got hurt,” she said.

Bill Harlander, who lives on 55th Avenue East, spent Thursday morning working to remove an uprooted 60- to 70-foot tall Colorado blue spruce from his deck. The same tree also yanked out the electrical service to his home.

“I heard kind of a groan when it pulled the power out of our house. ”It made me sit up in bed,” he said.

Harlander, who has lived in Lester Park for more than 40 years, said the storm was the most violent one he could recall striking his neighborhood.

"Holy moly," gasped Woodland neighborhood resident Rachel Barbot, surveying tree damage at her home Thursday morning. "A lot less privacy from the neighbors now."

She had just returned from an overnight shift at Essentia Health-St. Mary's Medical Center, where she works on the obstetrics floor.

"It was busy," Barbot said. "When the pressure changed with the storm, a lot of women went into labor."

In the Kenwood neighborhood, Chuck Richards said the storm woke his family up and they were closing windows downstairs when they heard a big crash. A giant black walnut tree had uprooted and toppled onto, or more like into, their home.

“It went through the roof about two feet from where I sleep,’’ Richards said. He was the first victim of the storm to call Rick’s Tree Service “at about 5 a.m.” and was among the first to have a crew working to remove the tree by 8 a.m.

Elias Trigas and his family along Arrowhead Road were awakened by the noise of storm's powerful winds. They were in the basement when a large ash tree fell across their driveway, blocking access to the street. Trigas was busy with a chainsaw at 7 a.m. to clear the way so he and his wife could get to work.

“The storm was just on top of us like that. We got downstairs as fast as we could. It was pretty intense there for a few minutes. ... What a mess,” he said. “I wish I would have got the new chain on here when I could have.”

Kathy Gagnon, manager of Acme Tools in West Duluth, said three customers were waiting in the parking lot at 6:45 a.m. for the store to open. Chainsaws and generators were in high demand throughout the day.

“We’ve been extremely busy,” she said.

With generators running in short supply, Gagnon said a truckload from a sister store in Plymouth was en route to restock the inventory in Duluth by mid-morning Thursday.

“We have to take care of our customers,” she said.

Why no sirens?

Duluth’s storm sirens didn’t go off as the storms hit, prompting some questions from residents.

The sirens generally don’t go off for severe thunderstorm warnings, said David Montgomery, Duluth’s chief administrative officer. The sirens are sounded for tornado warnings.

In any case, Duluth Deputy Fire Chief Shawn Krizaj said the wind damaged the city’s operational tower that would have transmitted the warning to the siren.

“The sirens were actually impacted by the storm as well,” Krizaj said.

Duluth put out an alert through its CodeRED alert system, an opt-in system for residents.

At this point, the city isn't planning to apply for financial disaster relief and is still in the process of assessing the damage. City facilities are relatively intact, Montgomery said. Mayor Emily Larson was out of town Thursday on a previously scheduled trip

The city is in the process of assessing what is needed for cleanup. Typically, tree debris is brought to Western Lake Superior Sanitary District facilities, but the magnitude of the debris in the city means a different option is needed — and the city plans to provide information to residents on that in the coming days, Montgomery said.

"We ask that everybody be careful over the next couple of days as the cleanup continues. … Stay away from any downed power lines. Assume that they're live. Be careful (while) clearing trees," he said. "Be patient. We're working hard. City crews, county crews, Minnesota Power are throwing all our resources at cleaning this up and getting the city safe once again for everybody."

St. Louis County Sheriff Ross Litman said no serious injuries or fatalities were reported in the county from the storms — the second time in two weeks the county has endured severe thunderstorms without any serious injuries.

"That truly is a miracle," he said.

Litman urged residents to stay off roads Thursday night unless "absolutely necessary" because of potential safety hazards associated with downed trees and power lines.

Authorities also reminded drivers that when traffic signals are out, intersections should be treated as four-way stops.

The forecast for the Northland calls for highs near 90 degrees again Friday. Slightly cooler conditions are forecast for Saturday — but there will be a chance of thunderstorms and some could become severe, the Weather Service reported, with damaging winds, large hail and torrential rainfall possible.

John Myers, Peter Passi, Jana Hollingsworth, Brady Slater, Kier Zimmerman, Lisa Kaczke, Sam

Cook and Andrew Krueger of the News Tribune staff contributed to this report.

Storms take out power in northern Minnesota

By Forum News Service
Published 6:45 pm Saturday, July 23, 2016

DULUTH (FNS) — Utility crews made steady progress Friday in restoring electricity to tens of thousands of

Northland homes and businesses left without power after severe storms swept across the region on Thursday.

But thousands of other people still were immersed in an unplanned move off the grid, without electricity — and, in some cases, water as well — for a second straight sweltering day.

“I’m going crazy,” said Duluth’s Janet Young — her husband, Al, retired from dentistry for 19 years, within earshot at their Hunters Park home. “I literally am going crazy. I have one speed: ahead. Everything I do — vacuuming, cooking, everything — requires power.”

In the Lakeside neighborhood, Dana Sterner’s three daughters — ages 9, 11 and 14 — were tired of their lack of electricity, and the lack of a powered battery in their electronic devices. It’s been “a little nervewracking” trying to ensure the girls are kept both busy — and comfortable, with temperatures near 90 — without power, Sterner said.

“It’s hard to keep the three kids cool in the house and they’re kind of over it at this point,” she said Friday afternoon, about 36 hours after the power went out.

The storms early Thursday brought hurricane-force winds to the Twin Ports and elsewhere in the Northland, downing trees and power lines on a scale not seen in years.

Combined, the three largest power companies in the Northland — Minnesota Power, Lake Country Power and Xcel Energy — reported about 36,600 customers without electricity as of 7:30 p.m. Friday.

That was down from about 47,700 as of 8 a.m. Friday, and down from more than 75,000 at the peak of the storm aftermath on Thursday.

Minnesota Power reported Friday that it expected most customers in areas outside Duluth — including the Cloquet, Nisswa, Pequot Lakes, Walker and Tower areas — would have power restored by the end of the day.

But in Duluth, the damage was severe, with a number of broken poles and fallen trees still obstructing access.

“As crews are restoring service to residential customers they are discovering that the damage is more extensive than first thought,” the utility reported in a news release. “Restoring power to some pockets in rural Duluth and other severely damaged neighborhoods may be extended through the weekend.”

Reinforcements from Missouri — 50 lineworkers and 25 heavy trucks from the utility company Ameren — arrived Friday to help Minnesota Power crews in repairing the worst damage the utility has seen since an April 2001 ice storm.

“Power restoration in this situation is a phased approach,” Minnesota Power reported. “Public safety and critical infrastructure is the first priority. Crews begin with the larger transmission lines, move to the primary distribution lines, then move into neighborhoods to repair individual services.”

sota to receive state storm aid

By News Tribune on Oct 4, 2016 at 4:36 p.m.

City workers clean up limbs from a fallen tree in front of City Hall after the July 21 storm. At left is a streetlamp that was also knocked over by the wind from the storm. Bob King / rking@duluthnews.com

Northern Minnesota is now set to receive state disaster assistance to cover cleanup costs and public infrastructure repairs in the wake of the July 21 windstorm.

Gov. Mark Dayton on Tuesday authorized up to $3.3 million from the State Disaster Assistance Contingency Account for northern Minnesota counties and tribes after severe thunderstorms, high winds and flooding led to significant damage and the need for debris removal.

The July 21 windstorm caused damage across a wide area of the Northland and hit the Duluth, Rice Lake, Hill City and Ely areas particularly hard, with straight-line winds uprooting trees and causing thousands of residents to go days without electricity. A weather station on top of the St. Louis County Government Services Center in downtown Duluth clocked wind

gusts in excess of 100 mph.

Under Minnesota law, the state reimburses 75 percent of eligible costs for storm cleanup and public infrastructure repairs; local governments are responsible for covering the remaining 25 percent.

The state announced Tuesday that St. Louis County is in line to receive a little more than $2 million in assistance, to cover storm damage and cleanup costs estimated at more than $2.7 million.

Other counties and tribes receiving state money include the Fond du Lac Band of Lake Superior Chippewa, $48,750; Lake County, $182,741; and Aitkin County, $228,225. The Bois Forte Band of Chippewa applied for funding in conjunction with St. Louis County, according to the state.

The exact final reimbursements from the state will depend on final documentation of expenses from the counties and tribes.

Explore related topics: NEWS MINNESOTA STORMS

Mayor's view: Duluth rallied after the storm — just as we all expected

By Duluth Mayor Emily Larson on Aug 2, 2016 at 11:00 p.m.

Life has taught me to expect the unexpected. Every week I'm in this job, that truth is reinforced. Storms arrive on their own timeline, often inconveniently. As a community we've lived through this before, and we know that natural disasters bring their share of very real challenges — along with the opportunity for people and neighbors to grow closer and for communities to be made stronger and more resilient.

Back in 2012, our community was flooded with raging streams, broken streets and countless stories of submerged basements. We came through it thanks to grit, a united community response, patience and coordinated partnerships.

Two weeks ago, parts of our city were tested again with a storm that affected the power of 40 percent of Duluth residents. The storm's 100 mph winds permanently altered the landscapes of many neighborhoods by destroying thousands of trees and creating significant personal property damage. Unexpected change.

As we continue to recover and clean up from the storm, I simply cannot say enough about what it means to have the honor to live here, to be colleagues with incredibly dedicated citystaff, and to be neighbors with all of you. In ways large and small, we solidified our commitment to one another. Through 12- or 16-hour workdays by our city staff (some of whom were among the very last to get power back themselves), homemade thank-you signs neighbors placed in front yards, the kindness of sharing freezers or extension cords, or the simple gesture of just checking in with one another, we demonstrated our dedication, kindness and fortitude.

It feels good to know that while we have each other, we are not alone. St. Louis County Public

Health Nursing staff knocked on doors at senior high-rises, Minnesota Power activated its network to bring in more than 200 line workers from as far away as Missouri, and our governor and congressional delegation reached out immediately. Together, we invested in a recovery plan that operated nearly 24 hours a day for a week straight. Time and again were the stories of gratitude from our community and a willingness to be patient and dig deep to make sure everyone came through it intact. And we did.

Earning appreciation were several community partners, including the Duluth Entertainment Convention Center, the Duluth Transit Authority, Damiano Center, Duluth YMCA, the Great Lakes Aquarium and businesses that did their part to provide comfort for residents during the heat wave and power outage. The Red Cross, Salvation Army and Head of the Lakes United Way 211 aligned to accept calls for help from neighbors and activate volunteers to meet needs.

The city continues to offer help with debris clearing. We are proud to provide this because it's simply the right thing to do with this particular storm and the amount of debris it created. We with the city are as motivated as you are to get this collection completed, in part because the staff doing this long and arduous work are not able to do their normal, everyday tasks — such as street work. You can help by doing what you can on collection and debris drop-off and by limiting your items to what is from the storm.

Thank you for being an amazing community that believes in taking good care of each other.

Thank you to the city staff members who quickly mobilized on many fronts to serve the public and ensure the health and safety of residents while forgoing storm recovery at their own homes.

The unexpected storm brought out our best as a community — but who is even remotely surprised by that? We are Duluth, and we've come to expect that from one another.

Emily Larson is mayor of Duluth. She wrote this for the News Tribune.

OAG No. 002

State Of Minnesota
Office Of The Attorney General
Utility Information Request

Requested from:	**MPUC Docket No.**	**E015/M-16-648**

David Moeller

In the Matter of a Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery.

By:	Joseph C. Meyer	**Date of Request:**	August 3, 2016
Telephone:	(651) 757-1433	**Due Date:**	August 15, 2016

For all responses show amounts for Total Company and the Minnesota jurisdictional retail unless indicated otherwise. Total Company is meant to include costs incurred for both regulated and non-regulated operations.

Indicate every instance Minnesota Power is aware of in which the Minnesota Public Utilities Commission has granted deferred accounting for storm recovery costs. Include the docket number and the date of any order issued which supports your response.

Also, indicate every instance Minnesota Power is aware of in which any other state regulatory commission has granted deferred accounting for storm recovery costs. Include the docket number and the date of any order issued which supports your response.

RESPONSE:

As cited in the Petition, the MPUC granted IPL deferred accounting for its 2008 flood damage. MPUC Docket No. E,G001/M-08-728. The MPUC has granted deferred accounting treatment for many other types of projects and policy requirements as noted in Xcel Energy's April 12, 2012 Reply Comments in Docket E002/M-11-1263 (Attachment A) and MPUC Staff Briefing Papers dated June 7, 2012 noting in response to Xcel's comparison of property taxes to storm

Response by:	David Moeller
Title:	Senior Attorney
Department:	Legal
Telephone:	218-723-3963

damages: “Staff believes that Xcel’s argument is misplaced. The storm damage likely was from a significant and unusually severe storm not the normal storms that occur each year.”

Minnesota Power conducted a cursory review of other state regulatory dockets and found the following dockets where state regulatory commissions have granted utility’s deferred accounting or similar regulatory treatment for storm recovery costs. There are is very likely many more examples and Minnesota Power is not asserting that these state decisions are directly applicable to the Company’s request for the 2016 Storms. In addition, EEI published a report in February 2005 entitled After the Disaster: Utility Restoration and Cost Recovery that provides other state examples (available at: https://www.efis.psc.mo.gov/mpsc/commoncomponents/viewdocument.asp?DocId=4048185).

Hawaii Public Utilities Commission

In Re Establishment of Self-Insured Prop. Damage Reserve for Pub. Utilities, 13793, 1995 WL 217182 (Mar. 6, 1995) (noting that 1993 Kauai Electric Division of Citizens Utility Company requested and the Commission granted deferred accounting for damages from Hurricane Iniki).

Kansas State Corporation Commission

Kansas Gas and Electric Company (Docket No. 173,630-U) for the extraordinary expenses associated with tornado and wind storm damage that occurred during the spring of 1990.

In Re Westar Energy, Inc., 05-WSEE-645-ACT, 2005 WL 858946 (Mar. 22, 2005)

Kentucky Public Service Commission

Ike and Ice, the Kentucky PSC Report on the September 2008 Wind Storm and the January 2009 Ice Storm (available at: https://psc.ky.gov/IkeIce/Report.pdf) that included the finding:
A5. RECOVERY OF UNREIMBURSED STORM EXPENSES (126) Finding: A number of utilities have unreimbursed storm expenses that have not been submitted to the Commission for accounting deferral and possible consideration for recovery in a future rate case. Recommendation: Any utility wishing to recover unreimbursed storm restoration expenses should request Commission authorization to defer such expenses as soon as practical.

Michigan Public Service Commission

Attorney Gen. v. Pub. Serv. Comm'n, 262 Mich. App. 649, 686 N.W.2d 804 (2004); affirming In the Matter of the Application of the Detroit Edison Co. for Voluntary Rate Reduction &

Response by: David Moeller
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Accounting & Ratemaking Auth. to Amortize Storm Expenses., U-11588, 1997 WL 34901582 (Nov. 25, 1997).

North Carolina Utilities Commission

In re Progress Energy Carolinas, Inc., NCUC Docket No. E-2, Sub. 843, (December 23, 2003) (combined request for hurricane and ice storm damage).

Carolina Industrial Group for Fair Utility Rates v. Carolina Power & Light Company, Order Approving Accounting Adjustments, NCUC Docket No. E-2, Sub 699 (1996) (deferral allowed for $39.7 million of costs related to Hurricane Fran in September, 1996, with amortization of such costs over 40 months, beginning in September 1996).

In re: Request for Approval of Accounting for Storm Damage Costs, Order Establishing Accounting Procedure, Docket No. E-7, Sub 460 (1990) (deferral allowed for $3.5 million costs of repair resulting from a tornado in May 1989, and $20 million for Hurricane Hugo in September 1989, with amortization of such costs over a five-year period, beginning in May and September 1989, respectively).

New Jersey Board of Regulatory Commissioners

In the Matter of the Boards Review of the Prudency of the Costs Incurred by New Jersey Util. Companies in Response to Major Storm Events in 2011 & 2012 in the Matter of the Boards Establishment of A Generic Proceeding to Review the Prudency of the Costs Incurred by New Jersey Nat. Gas Co. in Response to Major Storm Events in 2011 & 2012, AX13030196, 2014 WL 5429393 (Oct. 22, 2014)

New York Public Service Commission

Petition of Cent. Hudson Gas & Elec. Corp. for Comm'n Approval to Defer Storm Restoration Expenses for the Rate Year Ended June 30, 2012. Petition of Cent. Hudson Gas & Elec. Corp. for Approval of the Deferral & Recovery of Incremental Costs Associated with the Oct. 29, 2011 Snow Storm., 11-E-0651, 2014 WL 1346388 (Apr. 2, 2014)

Ohio Public Utilities Commission

In the Matter of the Application of the Dayton Power & Light Co. for Auth. to Modify Its Accounting Procedure for Certain Storm-Related Servs. Restoration Costs., 08-1332-EL-AAM, 2009 WL 124214 (F.E.D.A.P.J.P. Jan. 14, 2009)

Response by: David Moeller
Title: Senior Attorney
Department: Legal
Telephone: 218-723-3963

Oregon Public Utility Commission

In the Matter of Pacificorp, DBA Pac. Powers Order Request for Deferred Accounting Order for Network Damage from Nov. 2012 Storm., UM 1634, 2012 WL 6644233 (Dec. 18, 2012)

Pennsylvania Public Utility Commission

Petition of PPL Electric Utilities Corporation for Authority to Defer for Accounting and Financial Reporting Purposes Certain Losses from Extraordinary Winter Storm Damage and to Amortize Such Losses, Pa PUC Docket No. P-00052148, Order entered August 26, 2005.

Petition of Columbia Gas of Pennsylvania, Inc. for Auth. to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage, Pa PUC Docket No. P-2011-2249757, 2011 WL 4437145 (Aug. 25, 2011).

Petition of Ugi Utilities, Inc. - Elec. Div. for Authorization to Defer, for Accounting Purposes, Certain Unanticipated Expenses Relating to Storm Damage, Pa PUC Docket No. P-2011-2269911, 2011 WL 6740815 (Dec. 15, 2011).

Petition of Metro. Edison Co. for Authorization to Defer for Regulatory Accounting & Reporting Purposes Certain Losses from Extraordinary Storm Damage, ID178390, 2014 WL 2427068 (May 22, 2014).

South Carolina Public Service Commission

In Re: Petition of Progress Energy Carolinas, Inc. to Defer & Amortize Storm Damage Expenses., 2004-367(A), 2004 WL 6400458 (Oct. 8, 2004).

South Dakota Public Utilities Commission

In the Matter of the Application of Black Hills Power, Inc. for Approval of Deferred Accounting for Costs Incurred Due to Winter Storm Atlas Damage & to Transfer the Remaining Plant Balance for the Soon to Be Decommissioned Neil Simpson i, Osage, & Ben French Plants to A Regulatory Asset, EL13-036, 2014 WL 2159061 (Jan. 9, 2014).

Public Utility Commission of Texas

Entergy Texas, Inc. v. Pub. Util. Comm'n of Texas, 490 S.W.3d 224 (Tex. App. 2016); Application of Entergy Texas, Inc. for Auth. to Change Rates, Reconcile Fuel Costs, & Obtain Deferred Accounting Treatment, 39896, 2012 WL 5462941 (Nov. 1, 2012).

Response by: David Moeller
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Washington Utilities and Transportation Commission
In the Matter of the Petition of Washington Water Serv. Co., Petitioner, for an Accounting Order to Defer Severe Weather Expenditures, 01, 2008 WL 2113650 (May 15, 2008).

Response by: David Moeller
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Department: Legal
Telephone: 218-723-3963

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on January 21, 2016

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair
Patricia L. Acampora
Gregg C. Sayre
Diane X. Burman

CASE 15-E-0464 - Petition of Central Hudson Gas & Electric Corporation for Permission to Recover Deferred Incremental Costs Associated with the 2014 Thanksgiving Storm.

ORDER APPROVING DEFERRED ACCOUNTING TREATMENT FOR INCREMENTAL STORM RESTORATION COSTS

(Issued and Effective January 22, 2016)

BY THE COMMISSION:

INTRODUCTION AND BACKGROUND

On August 7, 2015, Central Hudson Gas & Electric Corporation ("Central Hudson" or the "Company") filed a petition requesting the State of New York Public Service Commission ("Commission") to allow it to defer $5,284,073 of incremental electric storm restoration expense related to the 2014 Thanksgiving snow storm, with carrying charges, incurred by the Company during the twelve months ended June 30, 2015.

On November 26-27, 2014, the Hudson Valley area of New York State was hit by a snow storm that delivered heavy, wet snow causing approximately 45,000 service outages in Central Hudson's service territory. The Company contracted with numerous mutual aid and line clearance crews to complete the restoration effort, which began on Thanksgiving Day and was completed within three days. In addition, a large number of the

Company's office personnel assisted in the restoration efforts supporting the crews and communication efforts. The combined efforts of the mutual aid crews and Company employees resulted in restoration of service for many customers in time to enjoy the Thanksgiving holiday.

At the time of the storm, Central Hudson was operating under a three year rate plan established in a Joint Proposal that was approved by the Commission in June 2010.[1] This rate plan was originally scheduled to expire on June 30, 2013, but was extended two additional years in the Order that approved the acquisition of the Company by Fortis, Inc.[2]

Central Hudson states that their filing meets the Commission's three part test in order to qualify for deferral accounting treatment. The Company also proposes that the deferred storm expense and associated carrying charges be offset against the electric net regulatory liability account established in its rate proceeding decided in June 2015.[3]

NOTICE OF PROPOSED RULE MAKING

Pursuant to the State Administrative Procedure Act (SAPA) §202(1), a Notice of Proposed Rulemaking was published in the State Register on September 2, 2015 [SAPA No.{15-E-0464SP1}]. The time for submission of comments pursuant to the Notice expired on October 17, 2015. No comments were received.

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[1] Case 09-E-0588, et al., Central Hudson Gas & Electric Corporation – Rates, Order Establishing Rate Plan (issued June 18, 2010).

[2] Case 12-M-0192, Central Hudson Gas & Electric Corporation, Order Authorizing Acquisition Subject to Conditions (issued June 26, 2013).

[3] Case 14-E-0318, et al., Central Hudson Gas and Electric Corporation - Rates, Order Approving Rate Plan (issued June 17, 2015) (2015 Rate Order).

DISCUSSION AND CONCLUSION

The rate plan Central Hudson was operating under at the time of the 2014 Thanksgiving Storm provided the Company a rate allowance for ordinary storms, but not for major storms like the 2014 Thanksgiving storm. As a result, the Company filed a deferral petition to recover their incremental costs. In recent years, the Commission has moved away from requiring electric utilities to file such petitions to recover major storm costs by permitting them to recover major storm costs through a reserve for major and/or extraordinary storm events established in rate proceedings. Central Hudson was the last of the state's major utilities to receive such permission, receiving it for the first time in the 2015 Rate Order that became effective July 1, 2015.

Central Hudson's filing provided a schedule of restoration costs organized by mutual aid groups, trimming crews, weekly & management payroll, materials and miscellaneous charges for housing, food and communications. Staff reviewed all mutual aid invoices, which comprised 73% of the Company's requested deferral amount, as well as a sample of the remaining incremental costs, and did not identify any material issues with the incremental costs requested for deferral treatment.

The Company's petition claims to meet the following three criteria generally applied by the Commission to determine whether deferred accounting treatment is appropriate:

1. The expense is incremental to the amount allowed in current rates;
2. The incremental amount is material to earnings, extraordinary in nature; and,
3. The utility is not over-earning.

For the first criterion, Central Hudson states that the rate allowance for storm events of this magnitude is zero,

and therefore, the entire $5.3 million in incremental. The Commission agrees with the Company's position that its rate plan in effect at the time of the storm did not provide a rate allowance for storms of this magnitude. Therefore, the first criterion is met as the restoration costs for the 2014 Thanksgiving snow storm are determined to be incremental to what is provided for in rates.

The second criterion that must be met for deferral treatment is that the amount must be material to the Company's earnings and extraordinary in nature. Historically, the Commission's standard on materiality is that the incremental cost net of related income taxes must exceed 5% of the Company's net income available for common shareholders, prior to the extraordinary event, in order to qualify for the deferred accounting treatment. As shown below, the incremental storm restoration cost incurred by Central Hudson for the Thanksgiving storm during the twelve months ended June 30, 2015 equals 13.5% of the net income available to common shareholders before incurrence of these expenses, and therefore, meets the Commission's materiality threshold.

Central Hudson Gas & Electric Corporation
Materiality Analysis
Twelve Months Ended June 30, 2015

Net Incremental Storm Cost	$	5,284,703
State Income Taxes 6.5%		(343,506)
Federal Income Taxes 35%		(1,729,419)
Net of Tax Amount	$	3,211,778
Net Income Available for Common	$	23,798,796
Net Impact as a % of Net Income Available for Common		13.5%

The requested deferral must also be extraordinary in nature, which is defined in the general instructions section of

the Uniform Systems of Accounts for Class A Electric and Gas Companies to include:

> Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future.[4]

The Company's petition reported about 1,000 outage cases, which resulted in service interruptions to about 45,000 customers for this storm. This made restoration a more challenging effort due to the number of individual repairs which were necessary, as well as the coordination of over 500 mutual aid workers, in addition to Central Hudson's crews, whose efforts were needed in order to achieve full restoration. Finally, this event was considered a major storm under the reporting requirements of our regulations.[5] Based on the information contained in the petition, and responses to Staff interrogatories, it was apparent that this storm was extraordinary in nature.

The third criterion that must be met for deferred accounting treatment is that the utility cannot be over-earning. Central Hudson provided a calculation of its electric operations regulatory return on common equity (ROE) for its rate year ended June 30, 2015, which showed a calculated ROE of 7.24%. The

[4] Uniform System of Accounts, Electric & Gas, Part 101.7, 18 CFR Ch. I (4-1-98 Edition).

[5] 16 NYCRR 97.1(c) States: A major storm is a period of adverse weather during which service interruptions affect at least 10 percent of the customers in an operating area and/or result in customers being without electric service for durations of at least 24 hours.

Company is authorized to earn a 10% ROE before earnings sharing, and therefore, is not over-earning. If the Company were not allowed deferral accounting treatment and recovery of the incremental storm costs, the regulatory return on common equity would drop to 6.42%.

After reviewing the petition, the Commission finds that the electric storm restoration expenses that Central Hudson requests to defer meet all of the Commission's criteria for approving deferral accounting treatment. As a result, we authorize Central Hudson to defer $5,284,073 of incremental storm restoration costs ($3,211,778 net of income tax effect) with carrying charges, based on the Company's allowed pre-tax rate of return, being accrued on the net of income tax balance until these storm costs and accumulated carrying charges are recovered from ratepayers.

We deny the Central Hudson's request to offset the deferred balance of storm costs and carrying charges against the electric net regulatory liability account established in the 2015 Rate Order. The recovery of these costs will instead be determined in the Company's next rate filing when the Commission will be able deal with these kinds of rate matters in a more comprehensive manner. This will allow us to better control the timing of the disposition of regulatory assets and liabilities that is in the best interests of ratepayers.

The Commission orders:

1. Central Hudson Gas & Electric Corporation to defer $5,284,073 of incremental storm restoration expense for the 2014 Thanksgiving Storm in the manner described in the body of this Order.

2. This proceeding is closed.

By the Commission,

(SIGNED) KATHLEEN H. BURGESS
Secretary

EDISON ELECTRIC INSTITUTE

AFTER THE DISASTER:

Utility Restoration Cost Recovery

February 2005

Prepared by:
Bradley W. Johnson
ACN Energy Ventures LLC

Prepared for:
Edison Electric Institute
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Bradley W. Johnson is president of ACN Energy Ventures LLC, which provides independent energy consulting services to government, utility and power technology clients. Mr. Johnson is the former president of Pepco Technologies, a non-regulated utility subsidiary.

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

Several methods currently are used by utilities to lessen the financial impact of disaster restoration costs. But there is little consistency in how these methods are applied throughout the industry, or even within a company, from disaster to disaster. This creates uncertainty and invites political intervention. A formal and uniformly applied structure for disaster restoration cost recovery is needed.

When large storms or other disasters damage electric systems, utilities launch massive round-the-clock efforts to restore power as quickly as possible. The logistics associated with these restoration efforts can be daunting. In addition to deploying their own crews, utility companies must call upon crews from other parts of the country to help, with the "host utility" paying for wages, equipment rental, transportation, hotel rooms, meals and even laundry. Added to that are equipment costs, miles of new wire, thousands of new poles, new transformers, cross arms, fuses—the list goes on and on and so do the costs.

The key is restoring power as quickly as possible. Utilities mobilize outside resources at substantial additional costs in their effort to shorten the duration of power outages. When the final costs are tallied, the utility gets a bill that can be devastating financially.

Often there is not an established plan for how this bill will be paid. When the utilities meet with their regulators to discuss disaster restoration costs, the process often becomes highly politicized, and in at least one instance, the ensuing uncertainty has invoked a negative reaction from Wall Street.

To better understand the costs of disasters to utilities and their financial consequences, this report examines restoration cost data for 81 major storms that occurred between 1994 and 2004. The report also summarizes techniques used throughout the electric utility industry to mitigate the potentially devastating financial impacts of these storms and calls for the development of a more consistent and predictable method for recovering the cost of restoration when disaster strikes.

The Summary Points

- Utilities incur substantial costs to repair their systems after disasters strike. Based on survey data obtained for 81 major storms from 14 utility respondents, these disasters cost utilities approximately $2.7 billion (in constant $2003) between 1994 and 2004.

- The economic impact of not having electric service in an area hit by a disaster is much larger than the cost of repairing the damage. This suggests that the utilities' current practice of incurring additional costs to mobilize outside resources to restore power as quickly as possible is appropriate.

- The financial impact of disaster restoration can be devastating if it is not mitigated. For some companies, restoration costs can exceed net operating income for the year

- Several utilities rely on special storm reserves and/or deferred accounting treatment to lessen the financial impact of disasters.

- In at least one instance, Wall Street changed its credit outlook for a utility, in part because of concerns over how quickly a decision favorable to the utility would be reached to mitigate the financial impact of restoration expenses.

- There is little consistency in establishing which events do, or do not, qualify for disaster mitigation. For example, one company was required to expense approximately $160 million of O&M storm costs associated with a major hurricane against current year earnings, while another utility was allowed to recover a $1 million storm expense over a four-year period.

- Storm reserves provide a type of self-insurance to pay for major storms, however, they may not be funded sufficiently to pay for catastrophic storms. In most instances these reserves do not provide a ready source of cash to pay for storms.

- When faced with significant O&M restoration costs that could require a substantial write-off, many companies are granted permission by their commissions to defer these costs, but there is often a lengthy delay in providing this relief and the approval process can become politicized.

INTRODUCTION

Over a six-week period beginning Aug. 13, 2004, four hurricanes struck Florida. Never before in the state's history had so many hurricanes hit in a single season. The scale of the destruction caused by the storms was also unprecedented, with one in five homes suffering damage.

The impact on Florida's investor-owned electric utilities was equally destructive. The hurricanes required the state's investor-owned utilities to replace more than 3,000 miles of wire—enough to reach from Tampa to San Diego, almost 32,000 poles and more than 22,000 transformers. *(See Figure 1.)*

Figure 1
Florida 2004 Hurricane Damage[1]

	Poles Replaced	Transformers Replaced	New Conductor (Miles)
Hurricane Charley			
FPL	7,100	5,100	900
Progress Energy	3,820	1,880	667
Hurricane Frances			
FPL	3,800	3,000	550
Progress Energy	2,800	1,560	500
Hurricane Ivan			
Progress Energy	100	570	N/A
Gulf Power	5,060	3,175	225
Hurricane Jeanne			
FPL	2,300	3,000	250
Progress Energy	6,720	4,010	100
TOTAL	31,700	22,295	3,192

Source: Company reports

[1] Comparable storm damage data for Tampa Electric is not available

The combined storm costs totaled more than $1 billion for Florida Power & Light and Progress Energy alone. Uncertainty over how this bill would be paid caused Standard and Poor's to downgrade its outlook for Progress Energy from stable to negative, citing "uncertainties regarding the timing of hurricane costs" as one of the triggering events for the outlook revision.[1]

FPL fared better. It went into the hurricane season with approximately $345 million ($211 million in cash and $134 million in deferred taxes) set aside in a special storm reserve fund that it had established in the 1940s. Still, FPL was left with a repair bill of more than $545 million. Fortunately for FPL, the Florida Public Service Commission allowed it to carry the remainder of the unpaid storm bill as a negative balance in

[1] "Progress Energy Florida, Inc's Petition for Approval of Storm Cost Recovery Clause for Extraordinary Expenditures Related to Hurricanes Charley, Frances, Jeanne, and Ivan," Nov. 2, 2004, Florida Public Service Commission.

its storm fund thereby negating the earnings impact of the loss.[2] Questions remain on just how this bill will be paid and how the storm reserve will be refunded to provide a cushion for the next hurricane strike.

When the hurricanes struck Florida—and for that matter, whenever a major storm strikes—the affected utility is expected to mobilize a huge workforce to repair the storm damage as quickly as possible, with little or no consideration being given to the cost of the restoration effort.

There are vastly different policies in place around the country on how utilities recover these costs. In some cases, utilities are expected to pay for the costs and charge them against current year earnings. Had this been the policy in Florida, the financial consequences could have been devastating.

Paying for Storms in Hurricane Alley

FPL's service territory encompasses almost the entire east coast and parts of the west coast of Florida, making the company particularly vulnerable to damage from hurricanes. To help mitigate the financial impact of a catastrophic storm, FPL funds its storm reserves with cash payments invested in interest-bearing accounts. FPL is unique in the industry in this regard. This "funded" reserve minimizes the earnings impact of major storms and provides a source of cash to pay for storm costs.

In other instances, there appears to be an unwritten rule that when restoration costs become significant, the utility will be allowed to petition its utility commission to recover its prudently incurred costs by assessing its customers a surcharge or paying for the costs out of earnings over a fixed period of time, usually two to five years. There are also a number of companies, like FPL, whose commissions authorize the creation of special storm reserves that are credited each month. When disasters strike, these funds act as a form of insurance, mitigating the one-time financial impact.

The goal of this report is to look beyond Florida to assess the impact that disasters have on the broader electric utility industry and provide insight into how to pay the heavy price tag incurred as a result of these events. The report contains three major sections. The first summarizes a recent industry survey and provides a historical perspective on storm restoration costs. The second presents data showing the potential financial impact of these storms. The final section of the report looks at how storms are paid for and examines the accounting treatment for major storm costs and the cost-recovery policies that have been developed to help address the devastating financial impact of major storms on utilities.

[2] The Florida Public Service Commission also allowed Progress Energy, Tampa Electric and Gulf Power to carry negative balances in their storm reserve accounts.

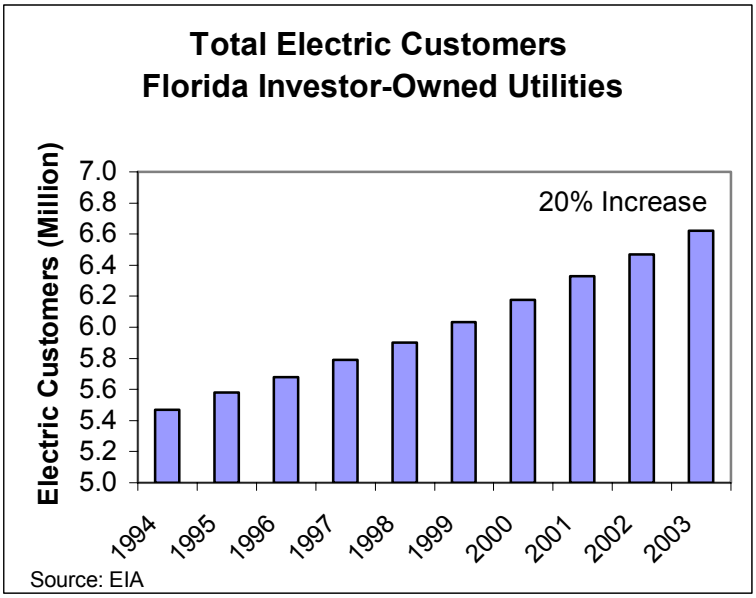
HISTORICAL PERSPECTIVE ON MAJOR STORM COSTS

To obtain a better understanding of the financial impact of major storms at a broader industry level, EEI member companies were asked to complete a survey providing information on storm costs and customer impacts. (*See sample survey in Attachment A, page 17.*) This data was then correlated with financial data obtained from FERC Form 1s to develop several key financial measures of the overall impact of major storms. Figure 2 provides a compilation of the data received from 14 companies for 81 major storms that caused almost $2.7 billion ($2003) in damage. (*See page 4.*)

Figure 3 summarizes major storm costs in constant $2003 obtained from the survey between 1994 and 2004. For the entire period, the average cost of a major storm was $48.7 million. The cost of an individual storm was as high as $890 million. If the five largest storms are deleted however, the average storm cost decreases by over 60 percent to $18.2 million. Four out of the five most expensive storms identified in the survey occurred since 2000 and three of those four were hurricanes. (*See page 5.*)

Increasing Storm Costs

In addition to the frequency and severity of a storm, another major driver in storm costs is customer growth. As populations expand, utilities are required to expand their electric systems to serve more new customers. As a result, even if the severity and frequency of storms remains consistent with historical levels, storm costs can be expected to increase simply because there is more electric equipment subject to damage from storms.



For example, during the 10-year period from 1993 to 2004, Florida utilities expanded their electric systems to serve approximately 1 million additional customers. This 20 percent increase in customers likely contributed significantly to the total costs Florida utilities incurred to repair their electric systems after the 2004 hurricanes.

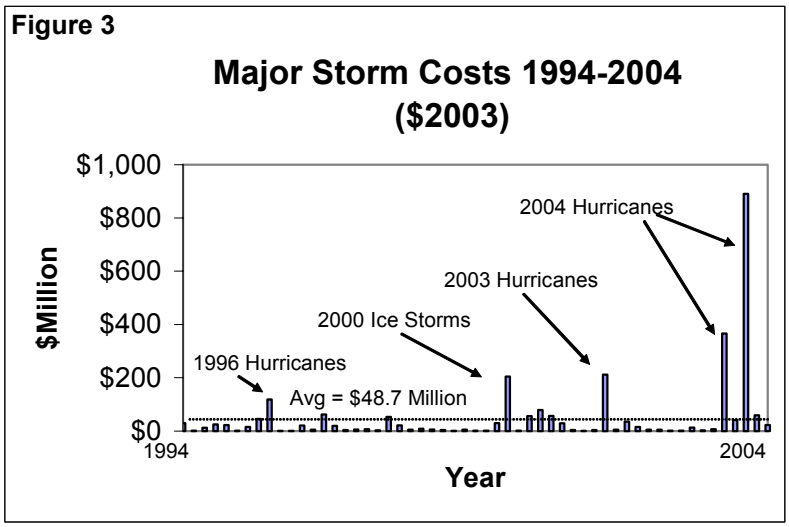
Figure 2: Storm Survey Summary Results (Current Year $)

Major Storm Event	Date	Storm Data: Outage Duration (Days)	Storm Data: Restoration Cost ($Million)	Storm Data: Accounting Treatment	FERC Form 1 Data: T&D O&M Expenses ($Million)	FERC Form 1 Data: Total Earnings From Electric Operations ($Million)
Ice Storm	Feb-94	16	$25.3	Reserve	$53.9	$216.6
Thunderstorm	Jun-95	4	$1.9	Expensed	$41.2	$167.0
WIND STORM & SNOWSTORM	Oct-96	6	$11.3	Deferral	$41.4	$177.9
Ice Storm	Nov-96	10	$21.8	Expensed	$45.7	$112.3
Snow/ice storm	Dec-96	6	$19.6	Deferral	$86.1	$200.6
WINTER STORMS	1996	6	$1.6	Expensed	$31.5	$66.9
HURRICANES & ICE STORM	1996	9	$14.1	Expensed	$147.7	$773.3
HURRICANE & ICE STORM	1996	17	$40.4	Expensed	$218.7	$858.5
HURRICANES	1996	14	$103.6	Deferral	$86.2	$514.1
Thunderstorm	Jun-98	2	$1.3	Expensed	$45.3	$184.2
Hurricane	Aug-98	4	$18.4	Deferral	$98.7	$604.0
Wind storm	Nov-98	2	$4.8	Expensed	$84.8	$218.1
Ice Storm	1998		$56.0	Deferred	$68.6	$98.6
HURRIANE & ICE STORM	1998	13	$18.1	Expensed	$169.3	$600.7
SUMMER STORMS	1998	5	$4.1	Expensed	$34.8	$115.5
Ice Storm	Jan-99	4	$5.4	Expensed	$176.1	$933.9
Ice Storm	Jan-99	5	$6.9	Reserve	$63.5	$138.5
Thunderstorm	Jul-99	5	$3.2	Expensed	$51.6	$224.5
Hurricane	Sep-99	6	$48.0	Deferral	$119.4	$589.4
HURRICANES	1999	13	$20.4	Expensed	$208.7	$751.4
WIND STORMS	1999	2	$4.4	Expensed	$93.4	$227.0
SUMMER & WINTER STORMS	1999	12	$8.4	Expensed	$36.5	$130.5
Ice Storm	Jan-00	4	$5.7	Expensed	$195.1	$824.4
Thunderstorm	May-00	4	$3.4	Expensed	$35.1	$65.3
Thunderstorm	Jul-00	2	$1.2	Expensed	$37.3	$142.2
SUMMER STORMS	Aug-00	8	$5.0	Expensed	$57.5	$139.6
Windstorm	Dec-00	2.9	$2.1	Expensed	$49.3	$143.6
Wind Storm	Dec-00	3	$2.3	Expensed	$88.3	$309.4
WINTER STORM & THUNDERSTORM	2000	13.5	$28.0	Expensed	$210.5	$945.9
ICE STORMS	2000	16	$190.0	Reserve	$78.8	$211.6
Thunderstorm	Jun-01	3	$1.6	Expensed	$62.1	$196.7
Ice Storm	Jan-02	9	$54.7	Deferral	$62.1	$196.7
Ice Storm	Dec-02	9	$77.0	Expensed	$259.5	$895.3
Ice Storm	Dec-02	6	$55.0	Deferral	$145.1	$663.1
HURRICANE & TROPICAL STORM	2002	11	$28.4	Reserve	$21.0	$85.6
WINTER STORMS	2002	11	$4.5	Reserve	$32.5	$51.4
Wind/tornado	May-03	2	$1.4	Expensed	$62.1	$196.7
Tropical Storm	Jun-03	3	$4.3	Reserve	$35.7	$84.2
Hurricane	Sep-03	14	$208.5	Expensed	$293.4	$853.9
WIND STORMS & THUNDERSTORM	2003	11	$4.7	Expensed	$41.9	$32.1
HURRICANE, WIND & ICE STORMS	2003	9.5	$34.9	Expensed	$275.4	$892.8
WIND STORMS	2003	7	$15.2	Deferral	$101.2	$213.3
Wind Storm	Jan-04	5	$5.4	Expensed	$101.2	$213.3
Wind Storm	Mar-04	2.5	$5.0	Expensed	$275.4	$892.8
Thunderstorm	Jun-04	3	$1.6	Expensed	$62.1	$196.7
Hurricane	Sep-04	3	$0.6	Reserve	$35.7	$84.2
Wind Storm	Dec-04	1	$2.0	Expensed	$95.3	$195.7
Ice Storm	Dec-04	5	$14.0	Reserve	$67.0	$223.0
Wind Storm	Dec-04	2	$2.9	Deferral	$101.5	$199.2
SUMMER STORMS	2004	10.1	$7.6	Expensed	$40.6	$119.3
HURRICANES	2004		$890.0	Reserve	$291.6	$917.7
HURRICANES	2004	15	$42.2	Deferral*	$119.0	$830.5
HURRICANES	2004	26	$366.4	Reserve	$120.6	$352.0
HURRICANES	2004		$60.0	Reserve	$45.4	$212.6
ICE STORM & SUMMER STORMS	2004	14	$23.1	Deferred	$70.4	$196.2

Note: CAPITALIZED STORMS indicate multiple major storms in a year

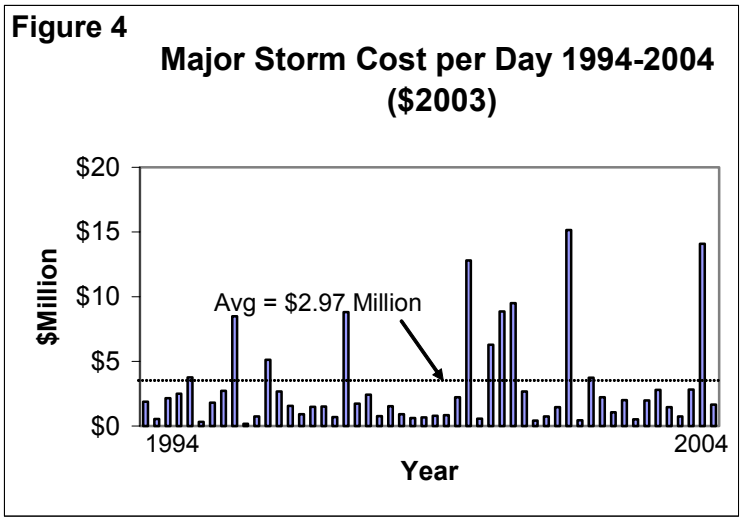
**Assumes storm costs deferred based on commissions prior treatment of costs for major storms*

Figure 3



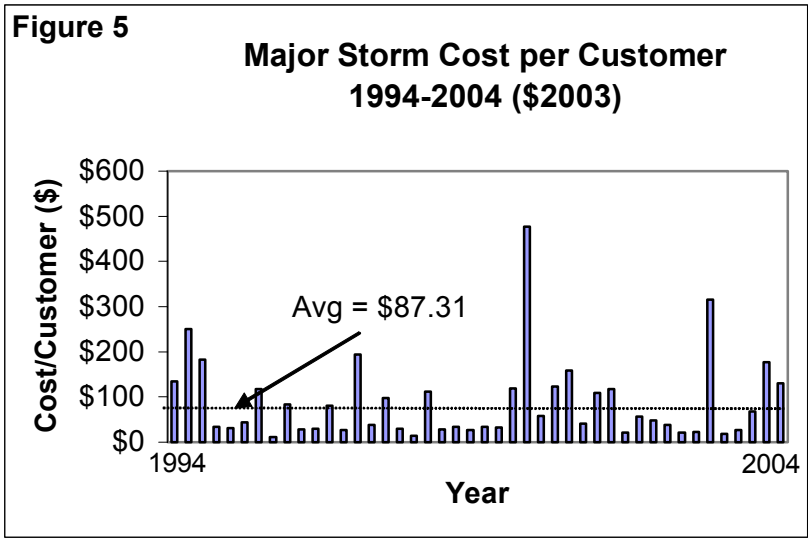
For another perspective on storm costs, consider that on average, utilities spent almost $3 million a day (constant $2003) to repair their systems, but several storm costs exceeded the $10 million per day range (*Figure 4*).

Figure 4



A final perspective on historical storm costs is obtained by calculating storm costs per customer. Figure 5 compares the total costs of the storm (in constant $2003) to the peak number of customers affected by the storm.[3] Average storm cost per peak customer from 1994 to 2004 was approximately $87—about the same amount of revenue that a utility receives each month from a typical residential customer.

Figure 5



Several important conclusions can be drawn from the historical data presented in these charts:

1. Based on the sample of storm data obtained from the surveys, it is evident that utilities incur substantial costs to repair their systems after major storms. Total storm costs between 1994 and 2004 were approximately $2.7 billion ($2003). A large portion of this cost is the result of the huge damage inflicted by a handful of storms that have occurred since 2000.
2. The magnitude of storm restoration costs appears to be random and varies greatly with the type and severity of storms.
3. Utilities mobilize substantial resources to repair their systems after major storms, as is evidenced by the rate at which utilities incur costs during a storm restoration.
4. Average utility storm restoration costs are significant from both a customer and a utility perspective as measured by a storm's cost per customer.

[3] "Peak customers" is used instead of "total customers" because total customers includes customers that incur power outages resulting from utility restoration efforts that may not be related to the storm, e.g. feeder switching.

DETERMINING THE POTENTIAL FINANCIAL IMPACT OF MAJOR STORMS

At an industry level, little is known about the financial impact of major storms. Based on recent media reports of major storms, the potential financial impacts are substantial, even catastrophic.

To better gauge the potential financial impact of major storms, let's examine the impact that very large storms occurring since 2000 had on four companies. Figure 6 evaluates company transmission and distribution (T&D) expenses and net earnings using data from media accounts of storm costs and FERC Form 1 financial data to compare the cost (including capital) of four large storms that occurred since 2000.

The data indicates that storm costs can have a large and potentially devastating financial impact. In some instances, storm costs exceed a company's total earnings and T&D expenses for the entire year.

Figure 6

Storm Description	Date	Storm Cost $Million ($2003)	Financial Impact	
			% of Annual T&D Expenses	% of Net Operating Income
Progress Energy NC Ice Storms	2000	$ 205	259.8%	96.7%
Dominion Energy Hurricane Isabel	2003	$ 212	72.3%	24.8%
Progress Energy Florida Hurricanes	2004	$ 366	303.8%	104.1%
FPL Hurricanes	2004	$ 890	305.2%	97.0%

Source: Press Accounts and FERC Form 1 Data

To assess the potential financial significance of major storms, storm-cost data was compared to net utility operating income and T&D expenses for each company that reported a major storm. *(See Figure 2, page 4.)* If a company reported more than one major storm in a year, the storm costs were combined. These results are summarized in the following charts.

Figure 7 compares storm costs to income and indicates that storm costs could have a significant impact on a utility company's earnings if all of the storm's cost were written off against current earnings. Average storm costs for the 1994-2004 period were approximately 13 percent of net utility operating income. (*See page 8.*)

The chart also indicates considerable volatility from year to year in the potential earnings impact of major storms. In many years, storm costs were significantly less than the 13 percent average, but in other years costs were significantly above average. For three storms, costs nearly equaled the company's operating income for the entire year.

Figure 7

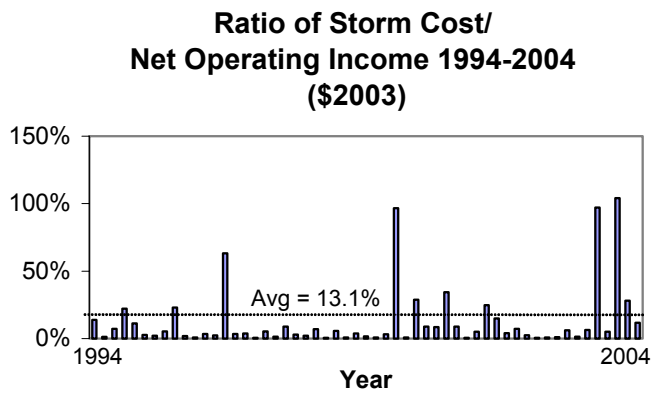
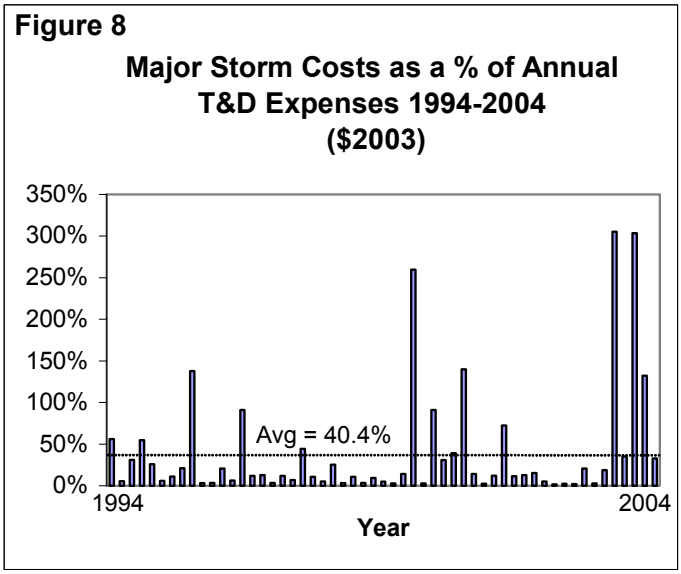


Figure 8 provides another way of gauging the potential impact of major storms by comparing the storm's costs to what the utility spends each year to operate and maintain its entire transmission and distribution system. The data provides another indication of the significant financial impact a storm can have on a utility's financial condition. For those companies hit by a major storm between 1994 and 2004, the costs averaged 40 percent of what the company spent during the year to operate and maintain its entire transmission and distribution system. Several storms exceeded company expenditures for T&D for the year.

Figure 8



The data depicted in these charts does not present a true picture, however, of the actual financial impact of a major storm on a utility. Many regulatory commissions allow accounting policies and special rate treatments that minimize the potentially significant financial costs that storms can inflict. Greater insight into these policies and practices and how they are deployed in the industry is provided in the next section of the report.

PAYING FOR MAJOR STORM RESTORATION

Special accounting and regulatory treatments for storm costs can play a major role in helping utilities recover from the financial impact of a major storm.

Even with the $1.4 billion price tag that the major Florida utilities were faced with for restoring their systems after the 2004 hurricanes (*Figure 9*), Wall Street did not feel compelled to change the credit ratings of any of the major Florida utilities. In deciding to maintain its current ratings, Standard and Poor's cited "storm damage reserves maintained by the utilities, the ability to recover storm-related expenses through rates, a favorable regulatory history with such recovery, and sound liquidity."[4]

However, Standard & Poor's did change its outlook for Progress Energy from stable to negative because of concerns that costs associated with the 2004 hurricanes would delay the company's progress in paying down its high debt levels. Moody's also put the company's ratings under review for possible downgrade, citing the timing of the recovery of storm costs as one of their concerns.

Figure 9
Cost of 2004 Hurricanes for Florida Investor Owned Utilities

	Storm Cost $Million
Florida Power & Light	$ 890
Progress Energy Florida	$ 366
Tampa Electric	$ 60
Gulf Power	$ 109
Total Storm Cost	$ 1,425

Source: Company reports

Accounting for Normal vs. Major Storms

Almost all utilities distinguish between "normal" storms and "major" storms. While there is an IEEE standard definition of a major storm, it is relatively new and not widely used. The general criteria for classifying a storm as "major" depends on whether the storm has a significant impact on a company's customers, i.e. a substantial number of customers are without power for a significant period of time. Baltimore Gas and Electric, for example, defines a major storm as one in which 10 percent of its customers are without power for a day or more. Public Service of New Hampshire defines a major storm as one that results in either (a) 10 percent or more of its customers losing power, resulting in 200 or more reported troubles, or (b) 300 or more reported troubles.[5] Storms that are not classified as major fall under normal accounting rules. Major storms, however, often receive special accounting treatment.

Distinguishing Between Storm Capital and O&M Costs

Major storm expenses are separated into capital and operations and maintenance (O&M) components. Storm capital costs, such as pole and transformer replacements, are treated similarly throughout the industry. They are capitalized on a company's books as a depreciable asset and in most cases are eligible for inclusion in a utility's rate base. Once these costs are included in the rate base, the utility can recover the capital portion of major storm costs from its rate payers.

[4] "Storms Likely to Have Little Effect on U.S. Utility Credit", Sept. 21, 2004, Jodi E. Hecht, Standard & Poor's, New York, New York.
[5] Information provided in company interviews.

In few instances, companies incurring extraordinary storm costs have been allowed to defer capital storm costs and recover them through a special customer surcharge.[6]

While the ratio of capital to O&M costs can vary significantly from storm to storm, a general rule of thumb appears to be that the capital component of a major storm's costs is approximately 20-25 percent of total storm costs.

Recovery of major storm-related O&M costs is different from capital costs. For many companies, expensing major storm costs in the period in which they occur could result in a huge financial burden that could jeopardize the financial standing of the company. The reaction on Wall Street, for example, would have likely been much different if the Florida utilities had been required to expense the O&M component of the 2004 hurricane costs in 2004. Even the possibility of having to incur such a charge could significantly change the level of risk that bondholders and stockholders perceive for a company and increase its overall financing costs.

Storm Insurance

Until Hurricane Andrew in 1992, commercial insurance was widely available at affordable rates to protect against catastrophic storms. FPL, for example had a transmission and distribution system policy with a limit of $350 million per occurrence. The 1992 premium for this policy was $3.5 million. After Hurricane Andrew, commercial insurance carriers stopped writing such policies altogether or made them so expensive that they could not be justified. For example, the quote FPL received in 1993, the year after Hurricane Andrew, was for $23 million for a transmission and distribution system policy with an aggregate annual loss of $100 million.

In lieu of paying for expensive storm insurance, FPL elected to self-insure. It currently funds its storm reserve account at a level of about $20 million a year. This amounts to about 20 cents per month for a typical residential customer.

To help minimize the potential financial consequences of major storms, some utility regulators have allowed their utilities to employ different types of accounting treatments for major storm O&M costs. Generally, major storm O&M expenses that are not expensed receive one of two types of accounting treatments:[7]

1. They are charged to a special storm reserve account, or
2. They are deferred and paid back over an extended period of time.

Each of these accounting treatments is described in more detail on the next page.

[6] Both FPL and Progress Energy Florida have requested that they be allowed to recover their incremental capital costs as well as O&M costs associated with the 2004 hurricanes through a special customer surcharge. In the past, the Florida Public Service Commission allowed capital costs associated with Hurricane Andrew to be recovered through storm reserve accounts.

[7] Co-ops and municipal utilities are an exception. They are eligible to recover 75 percent of their storm costs through FEMA

Utility Storm Reserves

A large number of investor-owned utilities were surveyed to determine how they were accounting and paying for major storm costs. Of the 28 companies contacted, approximately 12, or slightly less than half, indicated that their commissions allowed them to establish special storm reserves (*Figure 10*).

What are these reserves and how do they work?

A storm reserve is an accounting technique that allows utilities to smooth out the earnings impact of major storms. With the exception of FPL, storm reserves are not funded with cash and therefore do not minimize the cash-flow impact of having to pay the costs of a major storm.

When a utility establishes a storm reserve, it credits a fixed amount each year to the reserve through monthly accruals.[8] These monthly accruals are deducted from the current month's earnings even though no actual storm costs are incurred. When a major storm strikes, the storm costs are charged against the balance in the storm reserve account. The reserve, however, provides no cash to pay the actual storm costs.[9]

The big benefit of this type of accounting treatment is that it allows utilities to smooth out the earnings impact of major storms. When a big storm strikes, the only charge to earnings the utility incurs is its normal monthly accrual to its storm reserve account, assuming that it has a balance in its storm reserve account.

Figure 10
Companies with Storm Reserves

Company	Storm Reserve?[1]
Alabama Power	Yes
Avista	No
Baltimore Gas & Electric	No
Black Hills	No
Central Hudson	No
Central Maine Power	No
Cleco	Yes
Connecticut Light & Power	Yes
Duke Power Company	No
Entergy Arkansas	Yes
Florida Power & Light	Yes
Georgia Power	Yes
Gulf Power	Yes
Mississippi Power	Yes
Progress Energy Florida	Yes
Public Service New Hampshire	Yes
Puget Sound Energy	No
Rochester Gas & Electric	Yes
Sierra Pacific	No
Tampa Electric	Yes
Westar	Yes
Western Mass Electric	No
Conectiv	No
Progress Energy Carolinas	No
Dominion	No
Nevada Power	No
Kansas City Power & Light	No
Duquesne Power & Light	No

[1] Note: Many companies have the opportunity to petition their commissions for deferrals of "significant" storm costs, but do not have a formal policy in place to establish a reserve or deferral. Only those companies with established policies for storm reserves are identified in this column.

With the 2004 hurricanes, FPL, Progress Energy Florida, Tampa Electric and Gulf Power all incurred storm related O&M costs that exceeded the balance in their storm reserve accounts. (*See Figure 11, page 12.*) To avoid charging these non-accrued amounts against current earnings, the Florida Public Service Commission allowed each of the Florida utilities to account for the excess as a negative balance in the companies' storm reserve accounts. The Florida Commission indicated that it viewed the negative balance in the storm reserve account as a temporary solution until "an alternative accounting treatment for recovery of prudently incurred

[8] Most companies appear to accrue less than $5 million year. The highest accrual identified was $20 million per year for FPL.

[9] Even with the magnitude of the storm costs that FPL and Progress Energy incurred, rating agencies did not see these costs as a serious threat to overall liquidity; in other words, both companies had sufficient access to commercial paper and bank lines to pay the cash costs of the storms.

storm damage costs…" could be established.[10] This treatment allowed all three companies to avoid taking a charge to earnings in 2004 and helped the companies maintain their credit ratings.[11]

Figure 11
2004 Hurricane Costs vs. Reserve Balances

	Total Storm Cost ($Million)	Reserve Balance Before Storms ($Million)
FPL	$ 890.0	$ 345.0
Progress Energy Florida	$ 366.0	$ 45.4
Tampa Electric	$ 60.0	$ 42.7
Gulf Power	$ 109.0	$ 28.0

Had these reserve funds not been in place and had the Florida Commission not signaled that it was willing to work with the Florida companies to work out a plan for recovering prudently incurred storm costs carried as negative balances in storm-reserve accounts, it is likely that the companies would have suffered a much greater financial impact, which could have jeopardized their ratings and increased their financing costs.

Special Deferrals of Storm Costs

Another accounting technique used to minimize the financial impact of major storms is to defer all or a portion of the storm-related O&M costs. Unlike credits to storm reserve accounts, deferrals typically are not routine events and typically require the utility to ask its commission for special accounting treatment after a major storm causes a significant financial impact on the utility.

When a deferral is established, all or a portion of the storm-related O&M costs are amortized over an extended time period, usually two to three years. The rationale for establishing the deferral is to smooth out the earnings impact of the storm.

Storm costs that are deferred may or may not be recoverable from rate payers. In many instances, the deferred costs are paid for through a special surcharge assessed on each customer's bill until the storm reserve is paid off. Some utilities, however, are expected to pay off the deferred storm costs out of their earnings.

[10] Florida Public Service Commission order in Docket No. 041057-EI, Sept. 21, 2004.

[11] In November 2004, both FPL and Progress Energy requested permission from the Florida Public Service Commission to amortize the negative balances they were carrying in their storm reserve accounts over a two-year period. The amortization would result in a surcharge beginning in January 2005 of $2.09 per month for FPL customers and $3.81 per month for Florida Progress customers.

Figure 12
Examples of Deferred Treatment for Storm Costs

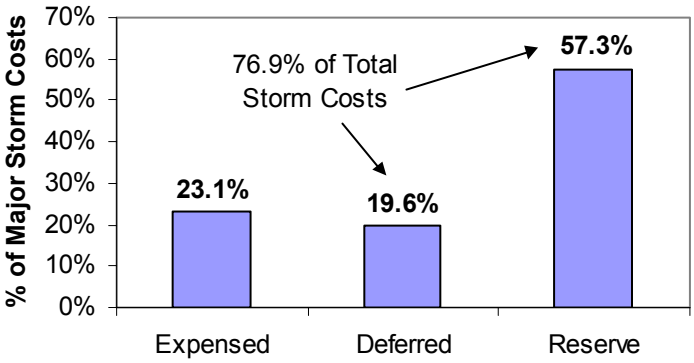
Company	Storm Cost Treatment
Central Maine Power	Total costs for 1998 ice storm were $56 million. FEMA reimbursed $20 million through the state, and $34 million O&M balance was deferred over three years.
Progress Energy Carolina	Usually expenses the first $10 million of O&M costs for large storms. Defers remainder of O&M costs for three years with utility commission approval.
Central Hudson	Deferred expenses for large snowstrom in 1997 and for Hurricane Floyd in 1999.
Kansas City Power & Light	Amortized expenses for 2002 ice storm over five years
Sierra Pacific	O&M portion of 2002 snowstorm ammortized over 4 years
Puget Sound Enegy	Deferred expenses for wind storms in 1996, 1999 and 2003
Conectiv and BG&E	In Maryland, Conectiv and BG&E are allowed to include a historical average of their previous storm costs in the test year costs they use for determining future revenue requirements.

Figure 12 summarizes the deferral accounting treatment some companies have received that allows them to defer their storm costs. Included in the table, even though it is not technically a deferral, is a summary of the special accounting treatment that Conectiv and BG&E receive from the Maryland Public Service Commission that allows them to include an average of historical storm costs in the test year they use for rate cases.

This accounting treatment essentially allows these companies to pre-pay at least a portion of their storm costs by collecting revenues from their customers to pay for storms that have not yet occurred. One shortcoming of this technique is that it does little to smooth out the earnings impact of severe storms such has Hurricane Isabel, which struck in 2003 and required both companies to incur significant charges to earnings in 2003.

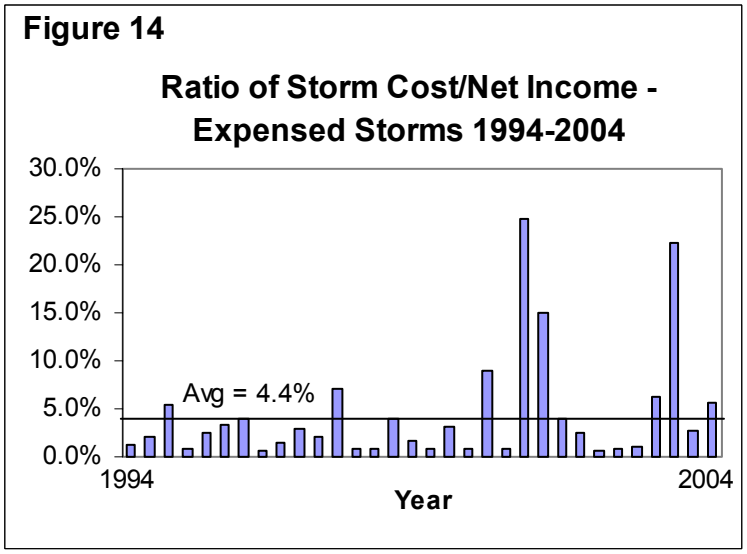
Based on the survey results presented in Figure 2, it appears that substantial portions of storm costs were recovered through existing storm reserves or were eligible for deferred accounting treatment. The data on storm cost accounting treatment is summarized in Figure 13 and indicates that almost 75 percent of total storm costs were covered by some type of storm reserve or deferred accounting treatment. *(See page 14.)* This significantly reduces the financial impact of the storm.

Figure 13



The remaining storms' costs are expensed. While the costs of these expensed storms were significant, they appear "manageable." Figure 14 compares the ratio of storm costs obtained from the survey to net operating income. On average the major storm costs that were expensed equaled 4.4 percent of net operating income. This is about a third of what the average would have been if the storm costs eligible for storm reserve and deferred accounting treatment had been included. (*See Figure 7, page 8.*) Equally significant, only a handful of the expensed storms were significantly above the 4.4 percent average.

Figure 14



There are no assurances, however, that utilities will continue to receive the favorable regulatory treatment for recovery of storm costs that they received in the past. The whole issue of storm cost recovery appears to be becoming more politicized in the current environment. For example, on Nov. 17, 2004, the Florida Office of Public Counsel and the Florida Industrial Power Users Group filed motions with the Florida Public Service Commission requesting that it deny FPL's and Progress Energy Florida's petitions to establish special customer surcharges to pay for hurricane costs.

CONCLUSION & RECOMMENDATIONS

Storms are expensive. The EEI survey identified 81 storms between 1994 and 2004 that caused approximately $2.7 billion ($2003) in damage to electric utility systems. While this is a big number, it is only a fraction of the regional economic losses resulting from being without power in the aftermath of a large storm. With this kind of societal impact, it is clearly in everyone's best interest to restore power as quickly as possible.

Because of the high costs utilities incur in their storm restoration efforts, there is a potential for large financial losses for individual utilities. For more than 75 percent of the major storm costs identified in the survey, the financial impacts were mitigated through storm reserves or deferral of storm costs. For the 25 percent of storm costs that were written off, the financial impact, with a few exceptions, did not appear to present a major financial hardship.

Of concern, however, is the uncertainty that surrounds storm cost recovery and the degree to which storm recovery is becoming politicized. The industry knows that large storms will occur and it knows that the financial consequences of these storms could be significant and in some cases catastrophic. Despite this, recovery of costs for most major storms is dealt with after the fact. This makes it difficult for utility managers to plan and creates uncertainty on Wall Street.

What is ironic, given the importance of storm restoration, is that more established and consistent policies regarding storm cost recovery are not in place. From a cost recovery standpoint, why is recovery of storm restoration costs any different than recovery of insurance premiums? Both represent a cost item for operating a modern utility. Yet, the industry has vastly different philosophies regarding cost recovery of these two items.

Given the lack of commercially available storm insurance at affordable rates, the industry should adopt a self-insurance mechanism for storms, either within individual companies or possibly on an industry basis. Looking at the establishment of a storm reserve with regulatory approvals for monthly reserve accruals or possibly even cash deposits is a good starting point.

The storm reserve funds identified in this report do what they were intended to do—minimize the financial impact of major storms at an affordable cost ($.20/month for a typical FPL residential customer). With Wall Street starting to focus on this issue, consideration must be given to establishing reserves as a type of "rainy day fund" for when it becomes necessary to offset the serious economic impact of future storm restoration.

ATTACHMENT A: SAMPLE SURVEY

EEI Major Storm Restoration Cost Survey

EEI is seeking member company support in obtaining historical data that can be used to quantify the financial impact of major storms on utilities and their customers (e.g. Hurricane Isabel, 2002 North Carolina ice storm).

Please complete the following survey form for the 10 most severe storms your company has experienced since 1994. Use peak number of customers out of service to rank storm severity. Please provide all storm data at the operating company level, not the holding company level. Holding companies should complete a separate survey form for each operating company they are providing storm data for.

Completed surveys should be e-mailed to William Mayer at wmayer@eei.org by ***November 5, 2004*** .
All questions should be addressed to William Mayer at 202-508-5563

Note: All specific company data will remain confidential. No company names will be released in any storm-data reports.

Operating company name: _____

Name of individual completing survey: _____
Individual contact information:
Phone number: _____
E-mail address: _____

MAJOR STORM RESTORATION COST DATA

		STORM IMPACT					STORM COST
				CAIDI Data		MWhrs of	
Major Storm Event	Date	Outage Duration (Days)	Peak # Customers Out	Sum of Customer Outage Durations (Hours)	Total Customers Interrupted During Storm	load not served (MWhrs)	Restoration Cost (Storm Yr $)
Hurricane 1 (Sample Data)	Oct-97	6	310,000	22,500,000	450,000	648,000	$ 42,000,000

METHOD OF RECOVERING STORM COSTS

Major Storm Event	Method of Cost Recovery (expensed, reserve account, deferral account, other)	Brief summary of any special actions taken with respect to recovering storm costs
Hurricane 1	Expensed	Commission did not allow deferral of storm costs

Survey Instructions

Please complete the attached storm restoration survey form. All data should be provided at the operating company level. For holding companies, separate survey forms should be completed for each operating company for which storm data is being provided.

Major Storm Event:
A major storm event is defined as a storm resulting in a multi-day outage for a significant percentage of total customers. Please indicate the type of storm, e.g. hurricane, ice storm, snowstorm, or wind and lightning storm in your response.

Date:
Please indicate the month and year storm restoration work was completed.

Outage Duration:
Number of days to restore system following the storm.

Peak Number of Customers Out:
The largest number of customers simultaneously without power during the storm event.

Total Duration of Customer Interruptions:
The duration of customer outages is calculated by adding the customer-hours of interruptions experienced during the storm period. For example, if 200 customers were out of power for 30 hours and 500 customers were out of power for 20 hours, the duration of customer outages would be (200 x 30) + (500 x 20) = 16,000 customer hours. (Calculate in the same manner as the duration of customer interruptions is calculated for the CAIDI Index).

Total Customers Interrupted:
The total number of customers without power at some point during the storm event. Note: some customers may experience multiple outages during a storm event. These outages should be treated as separate outage incidents attributed to the storm. (Calculate in the same manner as the total number of customers is calculated for the CAIDI Index).

MWhrs of Load Not Served:
The estimate of the difference between the MWhr sales to ultimate customers that actually occurred during the storm restoration period and the sales that would have occurred if the storm had not happened.

Restoration Cost:
The estimate of the total direct costs incurred to provide storm restoration. Costs should be reported in storm year dollars, i.e. no escalation for inflation.

Accounting Treatment of Storm Costs:
Briefly describe how storm costs are accounted for, i.e. expensed against current year earnings, charged to a special reserve account set up to pay for storm costs, deferred through a special reserve account or any other accounting treatments that have been used for storm related costs. Briefly describe any special actions taken with respect to recovering storm costs such as requesting a rate increase to recover storm related costs.

EDISON ELECTRIC INSTITUTE

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9/9/2016

Nisswa 2015 & Duluth 2016 Storm Cost Reporting Summary Estimates

	July 21- 28, 2016 Duluth and North Gull Lk (65% O&M) WO 2091660 and 2092222			July 12-18, 2015 Nisswa (30% O&M)			
Cost Type	**Total= Capex+ O&M**	**Adjusted Vehicle**	**O&M Only**	**Total= Capex+ O&M WO 1985108**	**WO 1994768**	**Adjusted Vehicle**	**O&M Only**
1100 Salaries & Wages - Labor Only	308,093.75		200,260.94	193,397.43	70,483.31		79164.22
1200 Lost Time	44,156.47		28,701.71	29,202.98	10,642.93		11953.77
1370 Non-Overheaded Employee Wages	199,113.77		129,423.95	109,656.36			32896.91
2600 Vehicle Use-Fleet Alloc Only	283,182.64		184,068.72	181,475.11	18,086.43		59868.46
3340 Gifts - Employee - Other	11,912.5		7,743.13	1,774.50			532.35
4650 Admin & General OH	179,915.92		116,945.35	209,334.28	148,490.61		107347.47
9100 Employee Pensions & Benefits	79,640.96		51,766.62	70,009.85	25,514.97		28657.45
9200 Payroll Taxes	105,448.01		68,541.21	73,482.24	6,385.59		23960.35
9850 Injuries and Damages	4,129.51		2,684.18	2,320.75	845.32		949.82
Total Non-Incremental O&M			**790,135.79**				**345,330.80**
Incremental Costs- Only							
1400 Paid Overtime	890,817.86		579,031.61	621,261.57	1,502.33		186829.17
1510 Business Meals	63,462.2		41,250.43	5,013.67	2,185.25		2159.68
1540 Employee Recognition Meals			0.	881.96	1,135.52		605.24
1560 Refreshments	13,469.81		8,755.38	252.90	61.15		94.22
1569 Refreshments Exec Compliance	18.92		12.3				0.00
1570 Overtime Meals	7,063.8		4,591.47	7,397.40	4,291.48		3506.66
1580 Overtime Meals	459.1		298.42	2,277.06	2,508.55		1435.68
1820 Misc. Employee Expenses	3,348.38		2,176.45	164.92	292.91		137.35
2110 Lodging Business	125,902.47		81,836.61	26,434.12	60,804.13		26171.48
2139 Lodging Emp Recognition Exec			0.	761.63			228.49
2210 Personal Mileage - Business	14,263.01		9,270.96	14,011.68	7,121.54		6339.97
2239 Pers Mileage - Emp Recognition Exec			0.	59.80			17.94
2240 Pers Mileage - Cust or Comm	585.9		380.84		1,422.61		426.78
2310 Rental Car, Taxi - Business	1,376.7		894.86	1,975.74			592.72
4100 Contractor/Prof Services	3,048,475.73		1,981,509.22	414,850.84	1,327,963.37		522844.26
4200 Materials-Purchased	86,714.59		56,364.48	308,454.25	7,236.72		94707.29
4310 Lease Expense			0.		300.00		90.00
4320 Rental Expense	18,877.58		12,270.43				0.00
4410 Office Supplies	2,352		1,528.48				0.00
4420 Postage, UPS	108.5		70.53	125.88			37.76
4600 Materials-STORES ISSUES ONLY	240,410.1		156,266.57	65,691.91	1,960.68		20295.78
4690 Material Handling Overhead	30,203.97		19,632.58	34,354.85	870.60		10567.64
4800 Licenses, Permits, Court Costs			0.	15.60	15.60		9.36
4900 Miscellaneous Expenses	2,581.07		1,677.7	-2,397,908.89	2,399,096.02		356.14
6400 CIAC	-44,202.58		-28,731.68		-2,219.64		-665.89
Total Incremental O&M			**2,929,087.6**				**876,787.71**
Grand total incremental O&M for both events							**3,805,875.32**
Total	**$ 5,721,882.15**		**$ 3,719,223.40**	**$ (23,269.61)**	**$ 4,096,997.98**		**$ 1,222,118.51**

State of Minnesota

DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Nonpublic [ ]
Public [X]

Utility Information Request

Docket Number: E015/M-16-648 Date of Request: 8/31/2016

Requested From: Minnesota Power Response Due: 9/12/2016

Analysts Requesting Information: Nancy Campbell/Angela Byrne

Type of Inquiry:

[X] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
13	Reference: N/A Subject: O&M costs for transmission and distribution Please provide the O&M costs for transmission and the O&M costs for distribution approved in the Company's last rate case. Please include total Company and the retail portion with support for the allocator used.

RESPONSE:
The requested amounts are provided below. Attached as DoC IR 13.1 Attachment.pdf is an excerpt from Minnesota Power's March 7, 2011 Compliance Filing in the Company's last rate case (Docket No. E-015/GR-09-1151). The total transmission O&M is allocated on two allocators on lines 13 and 14 and total distribution O&M is allocated on three allocators on line 16, 17 and 18 as shown in DoC IR 13.1 Attachment.pdf. The effective percentage allocations are shown below.

	Total Company $	MN Jurisdiction $	Effective Allocation
Transmission O&M	33,449,279	26,008,617	77.755%
Distribution O&M	22,186,889	21,422,500	96.555%

Response by: Stewart Shimmin
Title: Supervisor, Revenue Requirements
Department: Rates
Telephone: 218-355-3562

List sources of information:

MINNESOTA POWER
ELECTRIC COST OF SERVICE STUDY
CALENDAR 2010 GENERAL RATES

SUMMARY

		ALLOC	TOTAL COMPANY (1)	MINNESOTA JURISDICTION (3)
	OPERATING EXPENSES-10			
	OPERATION & MAINTENANCE EXPENSE			
	STEAM PRODUCTION			
1	DEMAND	DPROD	56,864,089	46,638,220
2	ENERGY	EPROD	18,663,920	15,653,803
3	TOTAL STEAM		75,528,009	62,292,023
	HYDRO PRODUCTION			
4	DEMAND	DPROD	4,785,397	3,924,839
5	ENERGY	EPROD	980,640	822,482
6	TOTAL HYDRO		5,766,037	4,747,321
7	WIND PRODUCTION	DPROD	1,111,330	911,480
	OTHER POWER SUPPLY			
8	PRODUCTION DEMAND	DPROD	3,579,866	2,936,099
	PURCHASED POWER			
9	DEMAND	DPROD	44,648,904	36,619,692
10	ENERGY	EPROD	120,580,037	101,132,889
11	TOTAL PURCHASED POWER		165,228,941	137,752,580
12	FUEL	EPROD	166,631,695	139,757,335
13	TRANSMISSION	TRANPLT	33,406,208	25,975,207
14	REGIONAL TRANSM AND MARKET	DTRAN	43,071	33,410
15	DISTRIBUTION			
16	METERS	CMETERS	1,770,672	1,744,716
17	BULK DELIVERY	DSUB46	2,347,865	1,679,761
18	OTHER DISTRIBUTION	DISTPLMS	18,068,352	17,998,023
19	TOTAL DISTRIBUTION		22,186,889	21,422,500
20	CUSTOMER ACCOUNTING	CACCTS	7,279,426	7,081,349
21	CUSTOMER SERVICE & INFORMATION	CUSTSERV	4,266,923	3,963,328
22	CONSERV IMPROVE PROG - ENERGY	CIPEXPE	4,624,108	4,624,108
23	SALES	CSALES	40,482	40,482
	ADMINISTRATIVE & GENERAL			
24	PROPERTY INSURANCE	PLANT	5,319,449	4,476,014
25	REGULATORY EXPENSES - MISC	PLANT	476,210	400,704
26	REGULATORY EXPENSES - MIS0	DTRAN	480,348	372,606
27	ADVERTISING	LABLAG	15,000	12,925
28	FRANCHISE REQUIREMENTS	RSALESJ	1,117,000	1,117,000
29	RATE CASE EXPENSE (FERC)	RSALESR	133,560	0
30	RATE CASE EXPENSE (RETAIL)	RSALESJ	1,996,894	1,996,894
31	GENERAL PLANT	LABLAG	7,322,068	6,309,224
32	OTHER ADMIN & GENERAL	LABLAG	40,928,449	35,266,913
33	TOTAL ADMINISTRATIVE & GENERAL		57,788,978	49,952,279
34	CUSTOMER DEPOSITS	CUSTDEP	18,000	18,000
35	DONATIONS	LABLAG	515,265	443,990
36	INTEREST ON LP BILLS & INTERIM RATE	LABLAG	572,000	492,877
37	TOTAL OPERATION & MAINTENANCE EXP		548,587,228	462,444,367

STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	ELECTRONIC FILING and
COUNTY OF ST. LOUIS	)	US MAIL

Susan Romans of the City of Duluth, County of St. Louis, State of Minnesota, says that on the **17th day** of **October, 2016**, she served Minnesota Power's Reply Comments in Docket No. **E015/M-16-648** on the Minnesota Public Utilities Commission, the Energy Resources Division of the Minnesota Department of Commerce and individuals on the Official Service List via electronic filing or paper copies if noted.

Susan Romans

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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