

November 15, 2013

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

RE: Response Comments of the Minnesota Department of Commerce, Division of Energy Resources in the Matter of a Request by Minnesota Power for a Modification to its Service Extension Tariff.

Docket Nos. E015/M-12-1359, E015/M-95-1441

Dear Dr. Haar:

On October 7, 2013, the Minnesota Public Utilities Commission (Commission) issued its *Order Modifying Service Extension Tariffs And Requiring Further Filings* (Order) in Docket No. E015/M-12-1359. The Order accepted Minnesota Power's (MP) December 26, 2012 filing as satisfying the cost-study requirements of ordering paragraph 3(a) of the October 8, 1996 Order in Docket E015/M-95-1441 and required Minnesota Power (MP or the Company) to immediately address the following Ordering Paragraphs:

2. Minnesota Power's service-extension allowance for Residential customers is revised and set at \$615.
3. Minnesota Power's service-extension allowance for Large Light and Power customers shall remain at \$30,000.
4. Minnesota Power's service-extension allowance for General Service and Municipal Pumping customers shall be set following its submission of cost studies combining data for the two classes. The Commission authorizes the Company to develop a single service-extension allowance to apply to both its General Service and Municipal Pumping customer classes based on cost studies using data from both classes. Within ten days of the date of this order, the Company shall make a filing proposing and explaining the new service-extension allowance it has developed.
7. Minnesota Power shall make a compliance filing revising its service-extension tariff to clarify how it determines the service-extension charges to be paid by individual customers requesting service to new points of delivery.

Regarding Ordering Paragraph 7, the Commission required “the Company to revise its service-extension tariffs to demonstrate that it has procedures in place to ensure accuracy, clarity, and consistency in calculating charges and in communicating these charges to customers.”¹

I. SUMMARY OF MP’S FILING

On October 17, 2013, MP submitted its compliance filing to address the immediate compliance items from the Commission’s Order. The Company stated:

The revised Extension Rules tariff sheets are provided as Attachment B (redline version) and Attachment C (clean version). They include service-extension allowances of \$615 for Residential customers, \$1,545 for General Service and Municipal Pumping, and \$30,000 for Large Light and Power, and clarification of how the service-extension costs to be paid by individual customers requesting service to new points of delivery are estimated.

To address the Commission’s Ordering Paragraph 4, the Company’s Attachment A showed the calculation of a single service-extension allowance for General Service and Municipal Pumping customers, which resulted in an average embedded cost per customer of \$1,545.

Ordering Paragraph 7 of the Commission’s Order required that MP include in its tariff an explanation of service-extension charges for individual customers. In compliance, the Company added the following section to its Tariff Section VI, EXTENSION RULES:

III. EXTENSION COST CALCULATION

The Extension Cost shall be calculated by Company as follows:

1. All single phase line extensions of 1,000 feet or less shall be calculated using a unit cost of \$12 per foot.
2. All single phase line extensions over 1,000 feet and three phase line extensions shall be estimated based on Company’s Compatible Unit Estimator (CUE), a software package that contains actual costs of materials and labor typically used to install service extensions.

The Company further explained that the current rate of \$12 per foot is based on the average cost per foot of a random sample of last year’s projects.² MP then compared its calculated average cost to the per-foot rate of neighboring utilities to ensure reasonableness.

¹ Order, page 4.

² Filing, page 2.

The Company stated that a service-extension designer chooses the necessary service-extension components for each project within its CUE program for service-extension projects over 1,000 feet.³ The cost of the extension is then estimated for the project by the CUE program using actual cost items in the Company's inventory data base and labor costs based on one lead lineman and two linemen, the typical crew used to install a new service extension. The Company stated that this method is used for both single phase and three phase extensions over 1,000 feet in length.⁴

II. DEPARTMENT ANALYSIS

The Department reviewed MP's Compliance filing and concludes that the Company addressed each of the immediate tariff changes required by the Commission's Order. Moreover, the tariff reflected the required service-extension allowance of \$615 for Residential customers and \$30,000 for Large Light and Power customers. The calculation of the service-extension allowance for General Service and Municipal Pumping customers is based on the average costs for these two combined groups and appears reasonable. Further, the result of \$1,545 was reflected in the tariff document as required.

A. *SUPPORT FOR SERVICE-EXTENSION COSTS FOR EXTENSIONS OF 1,000 FEET OR LESS*

The Department requested data to support the reasonableness of MP's Extension Cost Calculation section included in MP's revised tariff as quoted above.⁵ In response to the Department's request for data to support the \$12 per foot extension cost, the Company stated:

Company's random sampling included 24 work orders from 2012 for Line Extensions less than 1,000 feet, as shown on DOC IR 1 Attachment. For several years, the Company used a service-extension cost of \$6 per foot for extension cost calculations. Approximately five years ago the cost per foot was changed to \$7, where it remained until 2013 when it was increased to \$12 per foot. Minnesota Power's average actual cost per foot is approximately \$19, as shown on DOC IR 1 Attachment, column [d], line 26. Surrounding utilities with which Minnesota Power shares service territory boundaries such as Lake Country Power (LPC) and Xcel Energy (Xcel) provide service-extension priced between \$6 (summer) and \$14 (winter) for LPC and \$6.85 (single phase) and \$8.76 (three phase) with additional construction charge during winter for Xcel. In consideration of Minnesota Power prior rates per foot, rates

³ Filing, page 3.

⁴ *Id.*

⁵ All Department information requests referred to in these comments are included as Attachment 1 through 5.

used by the surrounding utilities, and to avoid extreme rate changes, Minnesota Power set its service-extension rate at \$12 per foot for service extensions of 1,000 feet or less starting in 2013. The \$12 per foot rate is a general guideline, and the Company makes adjustments in situations where special conditions or subsurface impediments exist.⁶

This is a reasonable explanation for the costs for service-extension projects under 1,000 feet in length. While it appears that the charge of \$12 per foot is below the average cost of these service-extension projects, this could be due to a relatively small sample size. The Department supports the Company's practice of comparing its prices to neighboring utilities and its desire to avoid imposing extreme rate changes on its customers. Further, the Company can impose additional costs where special conditions exist.

In response to the Department's information request regarding whether use of the CUE to estimate the cost for a service line extension less than 1,000 feet in length would lead to a substantially different total cost than \$12 per foot, MP stated the following:

The use of the CUE instead of the cost \$12 per foot would lead to a somewhat higher result. The weighted average cost based on the CUE methodology would be \$16.43 per foot. The weighted average of the CUE estimates is also approximately 14 percent lower than the weighted average actual cost of \$19.02 per foot for the 2012 sample.⁷

Considering MP's further justifications for the proposed \$12-per-foot rate, the Department concludes that the \$12-per-foot rate for single-phase extensions of 1,000 feet or less appears to be reasonable at this time.

B. SUPPORT FOR CUE PROGRAM USAGE FOR SERVICE EXTENSIONS GREATER THAN 1,000 FEET IN LENGTH

The Department also asked MP to provide information to support the use of the CUE program for service extensions greater than 1,000 feet in length. The Company responded as follows:

The Company began using a different method for line extensions over 1,000 feet several years ago. At that time, a review of historical service-extension costs indicated a definite distinction in project cost for service extensions above and below 1,000 feet.

⁶ DOC Attachment 1 page 2

⁷ DOC Attachment 1 Page 3

The same set-up and tear-down work is generally required whether the service extension is for 100 or 1,000 feet. The vast majority of new services are done with underground construction. In most cases, the cable used is installed using a vibratory cable plow. The plowing operation itself moves along relatively quickly; however, set up is not done quickly. The transportation of machines and materials is intensive and time-consuming. All service extensions, regardless of length, require the same set-up and tear-down, including mobilization of machines and materials use of equipment, and demobilization. Doing several shorter service extensions requires moving and remobilizing equipment, which increases the average project cost per foot. While a single 1,000-foot service-extension installation could be done in one day, five 200-foot service-extension installations totaling 1,000 feet could take two to three days depending on the location and variation of the terrain.

A service extension longer than 1,000 feet typically takes more than one day to complete, which requires some remobilization of people and equipment. In addition, for service extensions longer than 1,000 feet, the potential of unanticipated obstacles and variation in terrain that would require different materials, equipment, and/or time to complete the project also becomes greater. The greater complexity justifies the time and effort required to make a more detailed cost estimate.

Finally, while the Company typically completes hundreds of new service installations a year, it receives thousands [of] requests to estimate the costs of service-extension installations. For the reasons described above and ease of estimating smaller projects, the threshold for using the more detailed cost estimation methodology was set at 1,000 feet.⁸

The Department concludes that this is a reasonable explanation for the use of the CUE. MP's data demonstrated that there are indeed cost savings for larger projects due to high initial fixed costs. For example, the actual average cost per foot for single phase service extensions over 1,000 feet in 2012 was \$9.10.

⁸ DOC Attachment 1 page 2

Table 1 below contains MP's random sample's estimated cost per foot for projects above and below 1,000 feet in length taken from the Company's data.

Table 1: Minnesota Power Average Service-Extension Costs per Foot⁹

	CUE Estimated Avg. Cost per foot	Actual Avg. Cost per Foot
Line Extensions Under 1,000 Feet	\$16.43	\$19.02
Line Extensions Over 1,000 Feet	\$8.61	\$9.10

MP's data indicate that there is justification for using a different service extension cost estimate method for service extensions more than 1,000 feet than is used for extensions of 1,000 feet or less. Further, the Department concludes that MP's use of CUE for estimating project costs for service extensions over 1,000 feet is reasonable.

C. EXPLANATION OF CUE COST ESTIMATION IN TARIFF

The Department asked MP to further explain how the CUE program calculates costs. In response, the Company referred the Department to its October 17, 2013 compliance filing in the current docket, which stated:

The CUE consists of Compatible Units Identifications (CU IDs), which contain descriptions and costs of service-extension components such as distribution materials, labor, and vehicle usage. The service-extension designer chooses the necessary CU IDs needed for the line extension. A total job cost is estimated using the CUE based on data for the applicable CU IDs. The distribution material cost is the actual cost of items listed in the Company's inventory data base, based on actual purchase prices. The labor cost is based on one lead lineman and two linemen, the typical crew used to install a new service-extension. The vehicle use cost is based on a percentage of labor based on prior year actual labor overheads.¹⁰

The Department concludes that this response is reasonable, and recommends that the Commission require that MP include this description in the Company's Tariff Section VI, Page No. 4 under section III: Extension Cost Calculation. Inclusion of this information would make the tariff more transparent and understandable for consumers.

⁹ DOC Attachment 1 page 4

¹⁰ Minnesota Power Compliance Filing Docket No. E-015/M-12-1359 ad Docket No. E-015/M-95-1441, October 17, 2013, Section III, page 3.

D. SERVICE-EXTENSION ANNUAL REVENUES

Section VI, page No. 4.2 of MP's Extension Rules Tariff states, "The annual revenues used in the Electric Service Agreement shall be estimated by Company and determined under the existing rate schedule for providing service to the Customer." The Department requested that MP provide further explanation regarding how the Company estimates "annual revenues." The Company responded that this section of the tariff pertains to service extensions for which costs are \$30,000 or less. Further, MP stated:

The Guaranteed Annual Revenue (GAR) is the minimum annual amount of revenue from billings under the applicable rate schedule that a Customer who enters into an Electric Service Agreement (ESA) commits to pay to Minnesota Power to support extension costs for installing a three phase line extension.

To determine the required GAR, the Company estimates the costs of the service extension from which the revenue is derived. The service-extension job is estimated using the Compatible Unit Estimator (CUE). The cost estimate is divided by three according to the three-times-annual-revenue methodology. This is the annual amount the Customer will pay under the GAR agreement.¹¹

The Department concludes that this response is reasonable and recommends that the Commission require that this clarification be added to the Tariff Section VI, page No. 4.2 to clarify the calculation of excess charges for service extensions to customers.

E. MISCELLANEOUS CLEAN-UP ITEMS

Finally, the Department identified a number of miscellaneous clean-up items in the tariff. The Department adds in redline version the following edits to MP's proposed Service Extension Tariff Section VI, pages 4 through 4.2:

- Page 4, Part I: When Conditions require extensions from or connections to lines of voltages other than the standard voltage or where line construction other than Company's standard construction is required including alternate feeders, Company reserves the right to make adjustments to these rules for such non-standard extensions such that adequate revenues are provided to fund the extension cost.;
- Page 4, Part III.2: All single phase line extensions over 1,000 feet and all three phase line extensions shall be estimated based on Company's Compatible Unit Estimator (CUE), a software package that contains actual costs of materials and the cost of labor typically used to install service extensions.

¹¹ DOC Attachment 3, page 1

- Page 4.1, Part IV: Where a line extension other than Company's standard type extension is required, including alternate feeders, a Contribution shall be required to support ~~any~~ all additional costs of such non-standard extension
- Page 4.1, Part V.2: No advance contribution for extension costs will be required, if the customer enters into a five year Electric Service Agreement where the Company's costs relating to the entire extension are equal to or less than three times the Customer's guaranteed annual revenues (GAR), or
- Page 4.2: The guaranteed annual revenues used in the Electric Service Agreement shall be estimated by the Company and determined under the existing rate schedule for providing service to the Customer.¹²

The Department recommends that the Commission required that these edits be added to MP's Extension Tariff to increase clarity and accuracy.

III. DEPARTMENT CONCLUSION AND RECOMMENDATION

Based on its review, the Department concludes that MP has complied with the Commission's Order. The Department, however, recommends that the Commission require MP to add further clarifying details to sections of the Company's Extension Rules Tariff so as to ease customer comprehension of the Company's service-extension policies.

Therefore, the Department recommends that the Commission require that MP:

- add an explanation of CUE cost calculation method to Tariff Section VI, page No. 4, Part III as stated herein;
- add an explanation of Guaranteed Annual Revenues to Tariff Section VI, page No. 4.2, Part V as stated herein; and
- add edits as described in the Miscellaneous Clean-up Items section above to Tariff Section VI, pages 4 to 4.2, as stated herein.

Sincerely,

/s/ MICHAEL ZAJICEK
Rates Analyst
Division of Energy Resources

/s/ MICHELLE ST. PIERRE
Financial Analyst
Division of Energy Resources

MZ/MS/sm
Attachments

¹² Add the definition for GAR as mentioned above following this sentence.

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Docket No. E001/M-12-1359 and
E015/M-95-1441
DOC Attachment 1
Page 1 of 4

Utility Information Request

Docket Number: E015/M-12-1359 and E015/M-95-1441

Date of Request: October 24, 2013

Requested From: Minnesota Power

Response Due: November 4, 2013

Analyst Requesting Information: Michelle St. Pierre/Michael Zajicek

Type of Inquiry: 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.	
1	<p>Reference: Compliance Filing, Attachment B (Tariff Section VI, page No. 4) in the compliance filing, Minnesota Power (the Company) added a section to the Company's Tariff on extension cost calculation. In this section, the Company describes that for single phase line extensions of 1,000 feet or less, the cost shall be calculated using a unit cost of \$12 per foot.</p> <p>Please provide the following:</p> <p>A. Data to support the \$12 per foot extension cost for single phase extensions including the Company's random sampling of complete single phase work order results used to determine this price.</p> <p>B. Explanation of the 1,000 foot cut off level for using the CUE to estimate costs including:</p> <ol style="list-style-type: none"> 1. Why was the 1,000 feet service line extension cut off chosen? 2. Why is a different method used for calculating costs for 1,000 feet or less necessary? 3. What is the average cost per foot for single phase service line extensions over 1,000 feet? 4. Would using the CUE to estimate the cost for a service line extension under 1,000 feet in length lead to a substantially different total cost than the \$12 per foot extension cost that is used? Provide all your calculations.

Response by: Marcia Podratz

List sources of information:

Title: Director Rates

Department: Rates

Telephone: 218-355-3570

Response:

A. Company's random sampling included 24 work orders from 2012 for Line Extensions less than 1,000 feet, as shown on DOC IR 1 Attachment. For several years, the Company used a service-extension cost of \$6 per foot for extension cost calculations. Approximately five years ago the cost per foot was changed to \$7, where it remained until 2013 when it was increased to \$12 per foot. Minnesota Power's average actual cost per foot is approximately \$19, as shown on DOC IR 1 Attachment, column [d], line 26. Surrounding utilities with which Minnesota Power shares service territory boundaries such as Lake Country Power (LPC) and Xcel Energy (Xcel) provide service-extension priced between \$6 (summer) and \$14 (winter) for LPC and \$6.85 (single phase) and \$8.76 (three phase) with additional construction charge during winter for Xcel. In consideration of Minnesota Power prior rates per foot, rates used by the surrounding utilities, and to avoid extreme rate changes, Minnesota Power set its service-extension rate at \$12 per foot for service extensions of 1,000 feet or less starting in 2013. The \$12 per foot rate is a general guideline, and the Company makes adjustments in situations where special conditions or subsurface impediments exist.¹

B.

1. The Company began using a different method for line extensions over 1,000 feet several years ago. At that time, a review of historical service-extension costs indicated a definite distinction in project cost for service extensions above and below 1,000 feet.

The same set-up and tear-down work is generally required whether the service extension is for 100 or 1,000 feet. The vast majority of new services are done with underground construction. In most cases, the cable used is installed using a vibratory cable plow. The plowing operation itself moves along relatively quickly; however, set up is not done quickly. The transportation of machines and materials is intensive and time-consuming. All service extensions, regardless of length, require the same set-up and tear-down, including mobilization of machines and materials use of equipment, and demobilization. Doing several shorter service extensions requires moving and remobilizing equipment, which increases the average project cost per foot. While a single 1,000-foot service-extension installation could be done in one day, five 200-foot service-extension installations totaling 1,000 feet could take two to three days depending on the location and variation of the terrain.

¹ Minnesota Power's October 17, 2013 Compliance Filing, Attachment B, Page 4.5, Section VIII, Special Conditions, Paragraph 5.

Response by: Marcia Podratz

List sources of information:

Title: Director Rates

Department: Rates

Telephone: 218-355-3570

A service extension longer than 1,000 feet typically takes more than one day to complete, which requires some remobilization of people and equipment. In addition, for service extensions longer than 1,000 feet, the potential of unanticipated obstacles and variation in terrain that would require different materials, equipment, and/or time to complete the project also becomes greater. The greater complexity justifies the time and effort required to make a more detailed cost estimate.

Finally, while the Company typically completes hundreds of new service installations a year, it receives thousands requests to estimate the costs of service-extension installations. For the reasons described above and ease of estimating smaller projects, the threshold for using the more detailed cost estimation methodology was set at 1,000 feet.

2. Please refer to the Company's response to B.1. above.
3. A sample of service extensions above 1,000 feet from 2012 is provided in DOC IR 1 Attachment, Line Extension over 1000'. The actual average of cost per foot for single phase service extensions over 1,000 feet in 2012 was \$9.10.
4. To prepare the response to this Information Request, the 2012 sample shown in DOC IR 1 Attachment for line extensions less than 1,000 feet was used to calculate the service-extension estimates using the Compatible Unit Estimator (CUE). The use of the CUE instead of the cost \$12 per foot would lead to a somewhat higher result. The weighted average cost based on the CUE methodology would be \$16.43 per foot. The weighted average of the CUE estimates is also approximately 14 percent lower than the weighted average actual cost of \$19.02 per foot for the 2012 sample.

Response by: Marcia Podratz

List sources of information:

Title: Director Rates

Department: Rates

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Minnesota Power

Docket No. E015/M-12-1359 and E015/M-95-1441

Line Extensions under 1000'

	[a]	[b]	[c]	[d]	[e]
Line No.	Work Order Number	Footage	Estimates Using the CUE 1/	Actual Cost of the Extension Service	Cost per Foot [d] / [b]
1	A	230	\$5,799.53	\$5,337	\$23.20
2	B	375	\$6,286.55	\$23,309	\$62.16
3	C	110	\$514.45	\$668	\$6.07
4	D	400	\$5,666.11	\$5,446	\$13.62
5	E	727	\$10,054.25	\$10,270	\$14.13
6	F	40	\$263.83	\$363	\$9.08
7	G	400	\$7,329.01	\$8,993	\$22.48
8	H	600	\$9,589.80	\$8,720	\$14.53
9	I	70	\$3,610.71	\$4,657	\$66.53
10	J	35	\$374.44	\$708	\$20.23
11	K	150	\$1,926.37	\$1,987	\$13.25
12	L	400	\$6,697.37	\$7,488	\$18.72
13	M	370	\$6,435.69	\$7,523	\$20.33
14	N	30	\$330.06	\$908	\$30.27
15	O	390	\$1,380.46	\$767	\$1.97
16	P	374	\$4,808.98	\$5,500	\$14.71
17	Q	227	\$4,918.13	\$6,639	\$29.25
18	R	10	\$1,148.91	\$1,446	\$144.60
19	S	195	\$1,814.71	\$2,305	\$11.82
20	T	410	\$6,348.51	\$4,869	\$11.88
21	U	175	\$4,687.77	\$5,007	\$28.61
22	V	10	\$1,248.41	\$1,282	\$128.20
23	W	220	\$6,292.87	\$2,579	\$11.72
24	X	735	\$12,276.56	\$10,343	\$14.07
25	Total	6,683	\$109,803.48	\$127,114.00	
26	Avg. Cost per Foot		\$16.43	\$19.02	

Line Extensions over 1000'

	[a]	[b]	[c]	[d]	[e]
Line No.	Work Order Number	Footage	Estimates Using the CUE 1/	Actual Cost of the Extension Service	Cost per Foot [d] / [b]
27	A1	1,575	\$13,542.50	\$18,077	\$11.48
28	B1	1,630	\$13,668.66	\$14,151	\$8.68
29	C1	1,165	\$12,000.00	\$17,029	\$14.62
30	D1	1,545	\$13,000.00	\$8,819	\$5.71
31	E1	1,370	\$9,000.00	\$9,555	\$6.97
32	F1	1,675	\$9,300.00	\$7,490	\$4.47
33	G1	1,140	\$16,482.00	\$16,770	\$14.71
34	Total	10,100	\$86,993.16	\$91,891.43	
35	Avg. Cost per Foot		\$8.61	\$9.10	

1/ CUE: Compatible Unit Estimator

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: E015/M-12-1359 and E015/M-95-1441

Date of Request: October 24, 2013

Requested From: Minnesota Power

Response Due: November 4, 2013

Analyst Requesting Information: Michelle St. Pierre/Michael Zajicek

Type of Inquiry: 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.	
2	<p>Reference: Compliance Filing, Attachment B (Tariff Section VI, page No. 4) states that for single phase line extensions over 1,000 feet and all three phase line extensions, the costs are estimated using the Company's Compatible Unit Estimator (CUE) software package.</p> <p>Please Provide the Following:</p> <p>A. Please provide a brief explanation of how the CUE estimates costs including all inputs into the program for insertion into the tariff.</p> <p>B. How long has Minnesota Power used the CUE to estimate costs?</p> <p><u>Response:</u></p> <p>A. Please refer to Minnesota Power's Compliance Filing dated October 17, 2013, Section III, page 3 for the explanation of the Compatible Unit Estimator (CUE) program.</p> <p>B. Minnesota Power has been using the CUE since about 1998, which coincides approximately with the implementation of the Maximo application, the Company's Asset Management System.</p>

Response by: Chuck Kimball

List sources of information:

Title: Manager – Distribution Resources

Department: Distribution Engineering & Operations

Telephone: 218-355-2554

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Docket No. E001/M-12-1359 and
E015/M-95-1441
DOC Attachment 3
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Utility Information Request

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Response Due: November 4, 2013

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Type of Inquiry: 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.	
3	<p>Reference: Compliance Filing, Attachment B (Tariff Section VI, page No. 4.2) states “The annual revenues used in the Electric Service Agreement shall be estimated by Company and determined under the existing rate schedule for providing service to the Customer.”</p> <p>A. Please provide a full definition for the tariff term “Guaranteed Annual Revenues” (GAR) for insertion into the tariff.</p> <p>B. Please provide an example of how GAR is estimated.</p>

Response:

Attachment B, Tariff Section VI, page No.4.2 reference: “The annual revenues used in the Electric Service Agreement shall be estimated by Company and determined under the existing rate schedule for providing service to the Customer” pertains to service-extension where costs are \$30,000 or less.

A. The Guaranteed Annual Revenue (GAR) is the minimum annual amount of revenue from billings under the applicable rate schedule that a Customer who enters into an

Response by: Chuck Kimball

List sources of information:

Title: Manager – Distribution Resources

Department: Distribution Engineering & Operations

Telephone: 218-355-2554

Electric Service Agreement (ESA) commits to pay to Minnesota Power to support extension costs for installing a three phase line extension.

- B. To determine the required GAR, the Company estimates the costs of the service extension from which the revenue is derived. The service-extension job is estimated using the Compatible Unit Estimator (CUE). The cost estimate is divided by three according to the three-times-annual-revenue methodology. This is the annual amount the Customer will pay under the GAR agreement.

Example: Customer is requesting three phase service for a new grocery store with a line extension length over 1,000 feet. Minnesota Power's Distribution Service Representative (DSR) meets with the Customer on site and determines the materials needed to build the line extension to provide power to the new grocery store. The DSR estimates the job in CUE, and the job cost totals \$24,000. The \$24,000 extension cost is divided by three to equal \$8,000 of required GAR. Customer signs a five-year ESA agreeing to pay \$8,000 per year in revenue for five years to meet the GAR commitment.

Response by: Chuck Kimball

List sources of information:

Title: Manager – Distribution Resources

Department: Distribution Engineering & Operations

Telephone: 218-355-2554

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Request No.	
4	<p>Reference: Compliance Filing, Attachment B (Tariff Section VI, page No. 4.2) states "Customers expected to take Temporary Service for more than one year but less than five years will be served under the Company's standard rate schedules. Such customers with requirements of 500 kW or more shall enter into a contract for a minimum term of one year."</p> <p>A. Please explain over what period of time are the requirements of 500 kW.</p> <p><u>Response:</u></p> <p>The minimum term is one year.</p>

Response by: Micheline Bayiha

List sources of information:

Title: Cost & Pricing Analyst

Department: Rates

Telephone: 218-355-3121

State of Minnesota
DEPARTMENT OF COMMERCE
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If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
5	<p>Reference: Compliance Filing, Attachment B (Tariff Section VI, page No. 4.5) states "The amount of Extension Costs relating to the extension which will be recovered by the Company through application of its rate schedule will be determined on an individual customer basis."</p> <p>Please fully explain whether the above referenced recovery is over an initial ten-year period or some other period.</p> <p><u>Response:</u></p> <p>The above reference applies to permanent service where extension costs exceed \$30,000. In addition to that reference, the tariff sheet states that "Electric Service Agreements will be required and will be for sufficient duration and at sufficient revenue levels to support extension and other costs required to provide service."</p> <p>In general, Electric Service Agreement (ESA) terms will vary between one (1) year and five years (5). The required term varies based on the extension costs and projected customer load and revenue levels. However, in the rate book, Section V, page 24.1, Revision 36, for Large Power rate class customers, it is stated that: "Unless otherwise specifically approved by the Commission, each ESA shall have an initial minimum term of ten (10) years and shall continue in force until either party gives the other party written notice of cancellation at least four years prior to the time such cancellation shall be effective."</p>

Response by: Micheline Bayiha

List sources of information:

Title: Cost & Pricing Analyst

Department: Rates

Telephone: 218-355-3121

CERTIFICATE OF SERVICE

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

**Minnesota Department of Commerce
Response Comments**

Docket No. E015/M-12-1359 and E015/M-95-1441

Dated this 15th day of November, 2013

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_12-1359_12-1359
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_12-1359_12-1359
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Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_12-1359_12-1359
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_95-1441_1
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_95-1441_1
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	No	OFF_SL_95-1441_1