

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: June 15, 2017*Agenda Item #1

Company: Dooley's Natural Gas II, LLC

Docket No. G-6915/M-16-756

In the Matter of a Petition by Dooley's Natural Gas II, LLC for small gas utility franchise exemption.

Issue(s): Does Dooley's Natural Gas II, LLC meet the statutory requirements for a small gas utility franchise exemption under Minnesota Statute § 216B.16, subdivision 12?

Staff: Jason Bonnett 651-201-2235
Bob Brill 651-201-2242

Relevant Documents

Dooley's Natural Gas II, LLC – Initial Filing September 14, 2016
Department of Commerce – Comments November 15, 2016
Dooley's Natural Gas II, LLC - Reply CommentsNovember 28, 2016
Department of Commerce – Response Comments December 2, 2016
Dooley's Natural Gas II, LLC – Information Request Responses (Non-Public) April 19, 2017

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless otherwise noted.

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Statement of the Issues

Does Dooley's Natural Gas II, LLC (DNG II or the Company) meet the statutory requirements to qualify for a small gas utility franchise exemption under Minnesota (Minn.) Statute (Stat.) § 216B.16, subdivision (subd.) 12?

Background

On September 14, 2016, DNG II filed its *Petition* requesting confirmation from the Minnesota Public Utilities Commission (Commission) that it qualifies for an exemption from Commission regulation as a small gas utility franchise pursuant to Minn. Stat. § 216B.16, subd. 12. DNG II proposes to provide service within the municipal borders of Belgrade and Broosten (Municipalities) and the surrounding rural areas, located in west-central Minnesota. The Company is also requesting an exemption for incidental natural gas distribution service to the rural areas outside the borders of the municipalities it serves.

DNG II is a privately held Minnesota company with its principal place of business located in Murdock, Minnesota. DNG II shares common ownership with Dooley's Natural Gas, LLC (DNG) and Dooley's Petroleum, Inc. DNG was formed to develop a natural gas distribution system to provide natural gas service to several municipalities in west-central Minnesota. These municipalities include Clara City, Maynard, Raymond, Prinsburg, and Blomkest. DNG received initial confirmation of its exemption for small gas utility franchise in Docket No. G-6915/M-13-672, Order dated January 7, 2014. Together, the Dooley entities provide propane, fuel oil and natural gas service to homes and businesses throughout west-central Minnesota.

Each of the Municipalities have granted DNG II a non-exclusive franchise to distribute natural gas to their residents. DNG II requested the Commission grant it a small gas utility franchise exemption from Commission rate regulation pursuant to Minn. Stat. § 216B.16, subd. 12. Under this statute, DNG II would be rate regulated by the Municipalities.¹

Relevant Statutes

Minn. Stat. § 216B.02, subd. 4 - Public utility. [defined]

“Public utility” means persons, corporations, or other legal entities, their lessees, trustees, and receivers, now or hereafter operating, maintaining, or controlling in this state equipment or facilities for furnishing at retail natural, manufactured, or mixed gas or electric service to or for the public or engaged in the production and retail sale thereof.... In addition, the provisions of this chapter shall not apply to a public utility whose total natural gas business consists of supplying natural, manufactured, or mixed gas to not more than 650 customers within a city pursuant to a franchise granted by the city, provided a resolution of the city council requesting exemption from the regulation is filed with the commission. The city council may rescind the resolution requesting exemption at any time, and, upon the filing of the rescinding resolution with the commission, the provisions of this chapter shall apply to the public utility. ...

¹ See DNG II's *Petition*, Attachment A.

Minn. Stat. § 216B.16, subd. 12 – Exemption for small gas utility franchise.

- (a) A municipality may file with the commission a resolution of its governing body requesting exemption from the provisions of this section for a public utility that is under a franchise with the municipality to supply natural, manufactured, or mixed gas and that serves 650 or fewer customers in the municipality as long as the public utility serves no more than a total of 5,000 customers.
- (b) The commission shall grant an exemption from this section for that portion of a public utility's business that is requested by each municipality it serves. Furthermore, the commission shall also grant the public utility an exemption from this section for any service provided outside of a municipality's border that is considered by the commission to be incidental. The public utility shall file with the commission and the department all initial and subsequent changes in rates, tariffs, and contracts for service outside the municipality at least 30 days in advance of implementation.
- (c) However, the commission shall require the utility to adopt the commission's policies and procedures governing disconnection during cold weather. The utility shall annually submit a copy of its municipally approved rates to the commission.
- (d) In all cases covered by this subdivision in which an exemption for service outside of a municipality is granted, the commission may initiate an investigation under section 216B.17, on its own motion or upon complaint from a customer.
- (e) If a municipality files with the commission a resolution of its governing body rescinding the request for exemption, the commission shall regulate the public utility's business in that municipality under this section.

Parties' Comments

On November 15, 2016, the Minnesota Department of Commerce, Division of Energy Resources (Department) submitted *Comments* discussing whether DNG II satisfies the definition of incidental service under Minn. Stat. § 216B.16, subd. 12 (b). During its review, the Department looked at two measures of incidental service: 1) the number of customers located within and outside the Municipalities' boundaries, and 2) the level of consumption within and outside the Municipalities' boundaries. The table below summarizes this information:

Table 1: DNG II's Estimated Customer Count and Consumption Inside and Outside Municipalities' Boundaries

Class	Customers Within Municipal Boundaries	Total Consumption per Therm	Customers Outside of Municipal Boundaries	Total Consumption per Therm
Residential	190	82,710	10	5,093
Commercial	22	81,271	0	0
Industrial	1	349,612	0	0
Ag. Heating	0	0	2	2,341,986
Ag. Drying	1	11,810	5	72,839
Total	214	525,403	17	2,419,918
Percent	93%	18%	7%	82%

As the table shows, approximately 93 percent of DNG II's customers will be located within the Municipalities' boundaries accounting for approximately 18 percent of DNG II's total consumption. Conversely, approximately 7 percent of DNG II's customers will be located outside of the Municipalities' boundaries accounting for approximately 82 percent of total consumption. The higher levels of consumption are generated by agricultural services such as heating and grain drying.

The high level of consumption outside the Municipalities' boundaries presents a potential obstacle to approval under Minn. Stat. § 216B.16, subd. 12 (b). As discussed below, the Department chose to focus on the location of customers rather than the amount of natural gas consumed to determine whether service outside of the Municipalities' boundaries is "incidental" pursuant to Minn. Stat. § 216B.16, subd. 12 (b).

The Department relied on the statutory language found in Minn. Stat. § 216B.01, *Legislative Findings* and focused on the phrase "to provide the retail customers of natural gas and electric service in this state with adequate and reliable services at reasonable rates"² to conclude that "the focus should be on the number of customers who are served inside and outside municipal boundaries rather than the amount of natural gas that flows to customers inside and outside municipal boundaries."³ Minn. Stat. § 216B.01 states:

Minn. Stat. §216B.01, - *Legislative Findings*

It is hereby declared to be in the public interest that public utilities be regulated as hereinafter provided in order to provide the retail consumers of natural gas and electric service in this state with adequate and reliable services at reasonable rates, consistent with the financial and economic requirements of public utilities and their need to construct facilities to provide such services or to otherwise obtain energy supplies, to avoid unnecessary duplication of facilities which increase the cost of service to the consumer and to minimize disputes between public utilities which may result in inconvenience or diminish efficiency in service to the consumers. Because municipal utilities are presently effectively regulated by the residents of the municipalities which

² See page 9 of the Department's November 15, 2016, *Comments*.

³ *Id.*

own and operate them, and cooperative electric associations are presently effectively regulated and controlled by the membership under the provisions of chapter 308A, it is deemed unnecessary to subject such utilities to regulation under this chapter except as specifically provided herein.

Thus, the Department concluded that DNG II meets the “incidental” natural gas distribution service threshold to the rural areas outside the borders of the municipalities it serves pursuant to Minn. Stat. § 216B.16, subd. 12 (b) and therefore qualifies for a small gas utility franchise exemption under Minn. Stat. § 216B.16, subd. 12.

The Department recommended the Commission approve the petition subject to the Company submitting reply comments providing assurance that they will comply with the following reporting requirements:

- Annual Cold Weather Rule reports will be filed as required under Minn. Stat. § 216B.096, subd. 11;
- Annual tariff updates with municipally approved rates will be submitted to the Commission (Minn. Stat. § 216B.16, subd. 12 (c));
- Any subsequent changes in rates, tariffs and contracts for service outside the Municipalities will be filed at least 30 days in advance of implementation (Minn. Stat. § 216B.16 subd. 12 (b)); and
- DNG and DNG II will provide annual Minnesota Natural Gas Utility Information Reporting to the Department (Required by Minn. Rules 7610.0800 – 7610.0860 to monitor reliability and costs of energy service in Minnesota) on July 1 of each year.

On November 28, 2016, DNG II submitted its assurances and information requested by the Department.

On December 2, 2016, the Department submitted *Response Comments* to DNG II’s filing reaffirming its recommendation to approve DNG II’s request for a small utility franchise exemption pursuant to Minn. Stat. § 216B.16, subd. 12.

Commission Staff Comments

In order for DNG II to qualify for an exemption from state regulation, the requirements of Minn. Stat. § 216B.16, subd. 12, **Exemption for small gas utility franchise**, (a) and (b) must be fulfilled.

Requirements of Minn. Stat. § 216B.16, subd. 12 (a)

A municipality may file with the commission a resolution of its governing body requesting exemption from the provisions of this section for a public utility that is under a franchise with the municipality to supply natural, manufactured, or mixed gas and that

serves 650 or fewer customers in the municipality as long as the public utility serves no more than a total of 5,000 customers.

The Municipalities have requested confirmation from the Commission for an exemption from Commission rate regulation related to the provision of natural gas services provided by DNG II within the boundaries of these communities and have filed the required franchise agreements. Resolutions were also provided where the Cities requested the Commission to exempt the Company from regulation. In each Municipality, less than 650 customers will be served (see Table 1). DNG II is requesting the Commission approve its statutory exemption for services provided within the Municipal boundaries.

Staff agrees with the Department and DNG II that the criteria for an exemption within the municipal borders (subd. 12 (a)) has been satisfied; however, the criteria for incidental services provided to rural areas outside of the municipal boundaries (subd. 12 (b)), remains an open question.

Requirements of Minn. Stat. § 216B.16, subd. 12 (b)

The commission shall grant an exemption from this section for that portion of a public utility's business that is requested by each municipality it serves. **Furthermore, the commission shall also grant the public utility an exemption from this section for any service provided outside of a municipality's border that is considered by the commission to be incidental.** The public utility shall file with the commission and the department all initial and subsequent changes in rates, tariffs, and contracts for service outside the municipality at least 30 days in advance of implementation. [Emphasis added]

The Company states that the ability to serve the incidental areas with existing infrastructure by adding customers will result in lower rates for all customers.⁴ This is due to the “one-system rate structure” that has been adopted by DNG II and the Municipalities. The rate structure is based on system-wide costs. The same rate for distribution service would apply to all customers within a specific rate class. For example, the rate for residential sales service will be the same in each Municipality and the incidental areas.

The term “incidental” is defined in the American Heritage College Dictionary as: “1. Occurring or likely to occur as an unpredictable or minor accompaniment. 2. Of a minor, casual, or subordinate nature.”⁵ Black’s Law Dictionary defines “incidental” as, “depending upon or appertaining to something else as primary.”⁶

Staff concludes that Minn. Stat. § 216B.16, subd. 12 (b) use of the term “incidental” could be interpreted as meaning that either:

⁴ During its review of this docket, Commission staff determined that the Company did not fully identify all of the municipalities, townships, and unincorporated areas that will receive service. In response, Commission staff issued information requests seeking the information. The Company’s responses are attached to these briefing papers.

⁵ The American Heritage College Dictionary 687 (3rd ed. 1993).

⁶ Black’s Law Dictionary 762 (6th ed. 1990).

- 1) the number of customers outside of the municipal boundaries may be small in comparison to the number of customers within the municipal boundaries; and/or
- 2) the customer usage outside of the municipal boundaries may be small in comparison to the customer usage within the municipal boundaries.

Pursuant to Minn. Stat. § 216B.16, subd. 12 (b), the Commission has the discretion to determine what constitutes “incidental” service to areas outside the boundaries of the Municipalities on a case-by-case basis. Thus, the Commission could choose to rely on either one of the requirements discussed above or, use both requirements in its determination regarding whether the proposed service to areas outside of the Municipalities boundaries is “incidental” pursuant to Minn. Stat. § 216B.16, subd. 12 (b).

The “incidental” issue has been addressed by the Commission in a number of dockets. The first time was in the 2016 United Natural Gas (UNG) request for a small gas utility franchise exemption (G-6960/M-16-214). In that proceeding, the Commission granted UNG’s exemption and required UNG to submit a report within one year on the actual number of incidental customers and their gas consumption.⁷

If the Commission approves DNG II’s *Petition*, the 17 customers located outside the Municipalities would not be completely without recourse or protection against DNG II charging unfair or unreasonable rates.

- First, no one is required to switch to natural gas.
- Second, under the small gas utility exemption statute (Minn. Stat. § 216B.16, subd. 12), the Commission may initiate an investigation of DNG II under Minn. Stat. § 216B.17, on the Commission’s own motion or upon complaint from a customer.
- Third, DNG II is still subject to annual Cold Weather Rule reports (Minn. Stat. § 216B.16, subd. 12 (c)), notice to cities of utility disconnection (Minn. Stat. § 216B.0976), and residential customer protections (Minn. Stat. § 216B.098).

Finally, Staff notes that Attachment B of the Company’s *Petition* shows that the DNG II system is divided into two non-contiguous service areas with the Municipalities residing in the northern service area.⁸ At its closest point, the two service areas are separated by approximately 7 miles. The Company informed Staff that the reason the system was constructed in this fashion was because the interstate pipeline providing service to DNG II did not have enough capacity to provide service using a single interconnection.⁹

⁷ The first report was submitted on May 3, 2017.

⁸ The Company’s response to Department information request no. 3 also contains a map showing the non-contiguous nature of the DNG II system. The map is shown in Attachment 3 of the Department’s November 15, 2016, *Comments*.

⁹ Telephone conversation on February 23, 2017.

Staff inquired as to the customer and consumption breakdown of customers located outside of the municipal boundaries for both the northern and southern service areas.¹⁰ For ease of use and comprehension, Staff added the requested data to the table provided by the Department in its *Comments*. As you will notice, the northern and southern service area data sums to the system-wide data from the Department's table, as shown below.

Table 2: Total System Customer Count and Consumption – With Further Breakdown of the Northern and Southern Customers Located outside the Municipalities' Boundaries

System Total					Northern Area		Southern Area	
Customer Class	Customers within Municipal Boundaries	Total Consumption per therm	Customers outside Municipal Boundaries	Total Consumption per therm	Customers outside Municipal Boundaries	Total Consumption per therm	Customers outside Municipal Boundaries	Total Consumption per therm
Residential	190	82,710	10	5,093	4	1,064	6	4,029
Commercial	22	81,271						
Industrial	1	349,612						
Ag. Heating	0	0	2	2,341,986	1	1,177,773	1	1,164,213
Ag. Drying	1	11,810	5	72,839	3	69,103	2	3,736
Total	214	525,403	17	2,419,918	8	1,247,941	9	1,171,977
Percent	93%	18%	7%	82%	3%	42%	4%	40%

Staff notes that none of the customers in the southern service area are located within the boundaries of either of the two Municipalities requesting exemption. This raises the question of whether a service area can be considered “incidental” under Minn. Stat. § 216B.16, subd. 12 (b), if it is not physically connected to a pipeline system serving a Municipality requesting exemption.

Staff notes that the Commission has determined in previous proceedings regarding this issue that it has the authority to define incidental service using its “quasi-legislative” authority and has chosen to do so on a case-by-case basis. However, this docket is the first franchise exemption request where the gas utility has two physically separate systems. Staff believes that the Commission may wish to address DNG II's separate systems before rendering its decision.

Even if the southern service area was somehow removed from the Company's request, the table below shows that the consumption from customers outside the municipal boundaries for the northern service area would still be approximately 70 percent which continues to raise questions regarding whether the service should be considered “incidental”.

¹⁰ Staff requested this information during the February 23rd, 2017 telephone conversation and the Company provided the customer information via telephone call later in the day on February 23rd and the consumption information via email on February 27th.

Table 3: Northern Customers Located outside the Municipalities Boundaries

Northern Area				
Customer Class	Customers within Municipal Boundaries	Total Consumption per therm	Customers outside Municipal Boundaries	Total Consumption per therm
Residential	190	82,710	4	1,064
Commercial	22	81,271		
Industrial	1	349,612		
Ag. Heating	0	0	1	1,177,773
Ag. Drying	1	11,810	3	69,103
Total	214	525,403	8	1,247,941
Percent	96%	30%	4%	70%

The Company did not discuss the issue of separate service areas in its *Petition* nor did the Department address the issue in its *Comments*. Thus, in an attempt to develop a more robust record, Commission staff issued information requests on this topic. The Company's response to the question regarding whether the southern service area meets the definition of "incidental" is attached to these briefing papers in its response to IR #1 and is also available via eDockets.

In determining whether DNG II meets the incidental service requirement of Minn. Stat. § 216B.16, subd. 12 (b), the Company stated its preference for the number of customers served within and outside of municipal boundaries approach, rather than basing the decision on a geographic or load based metric.

At the June 15th Commission agenda meeting, the Commission may wish to solicit comments from the Department and other interested parties regarding the Company's responses to Commission information requests. Further, the Commission may wish to solicit comments regarding whether or not the northern and southern service areas qualify for an exemption jointly or separately.

If the Commission denies DNG II's request for a small gas utility franchise exemption, the Company may need to file a general rate case, or some other such measure the Commission deems appropriate, to establish the reasonableness of its rates.

Miscellaneous Items

The Commission may wish to clarify two additional items from DNG II's information request responses. First, in response to information request nos. 4 and 6, the Company listed additional municipalities and townships located within DNG II's service area. To the extent that the Commission would find it useful it may wish to require the Company to include these additional municipalities and townships in its proposed tariff. Specifically, Section II – Service Area.

Second, in response to information request no. 12, DNG II states “[t]o protect existing customers, DNG II requires new customers outside of the Cities to fund 100% of the cost of the connection. DNG has not denied any requests for service from any customer located outside the municipal boundaries of the Cities of Belgrade and Brocton where the customer has agreed to pay for the cost of connection.”

In an effort to clarify that similarly situated customers either within or outside of a municipal boundary are being treated equally, the Commission may wish to ask the Company to clarify its statement and confirm that all customers are being treated similarly subject to the procedures and requirements of DNG II’s proposed tariff. Specifically, for example, the gas service line extension of the proposed tariff (Sections XVII – Gas Mains and XVIII- Gas Service Lines).

In addition, the Commission may wish to require the Company, in a compliance filing 30 days after the Commission issues its Order, to provide a list of customers who have been denied a request for service and the reason for denying service. Additionally, the Commission may wish to inquire from DNG II whether it is assessing its main and service line extension tariff correctly. Whether DNG II has given all customers the proper extension allowance of 75 feet and properly used its tariffed formula in calculating Contribution-In-Aid-of-Construction payments from all customers outside of the municipalities.

Decision Options

1. Approve DNG II’s petition for a small gas utility franchise exemption under Minn. Stat. § 216B.16, subd. 12 and clarify in its Order that approval is limited to this docket and that any future decisions involving interpretation of the term incidental service will be made on a case-by-case basis.
2. Approve DNG II’s petition for a small gas utility franchise exemption under Minn. Stat. § 216B.16, subd. 12 for the northern service area and deny the petition for the southern service area.
3. If the Commission adopts alternative one or two, then clarify in its Order that DNG II is subject to the following statutory reporting requirements:
 - Annual Cold Weather Rule reports will be filed as required under Minn. Stat. § 216B.096, subd. 11 and Minn. Stat. § 216B.16, subd. 12 (c);
 - Annual tariff updates with municipally approved rates will be submitted to the Commission (Minn. Stat. § 216B.16, subd. 12 (c));
 - Any subsequent changes in rates, tariffs and contracts for service outside the Municipalities will be filed at least 30 days in advance of implementation (Minn. Stat. § 216B.16 subd. 12 (b));
 - Provide annual Minnesota Natural Gas Utility Information reporting to the Department (required by Minn. Rules 7610.0800 – 7610.0860 to monitor reliability and costs of energy service in Minnesota) on July 1 of each year;

- Notification to the Commission should its customer base expand beyond the 5,000 customer threshold (Minn. Stat. § 216B.16, subd. 12 (a);
 - Notice to cities of utility disconnection (Minn. Stat. § 216B.0976); and
 - Residential customer protections (Minn. Stat. § 216B.098).
4. If the Commission adopts alternative one or two, require DNG II to submit a compliance filing updating its tariff including the additional municipalities and townships discussed in response to Commission information requests. Additionally, require the Company to provide a list of customers who have been denied service and the reason for the denial in a compliance filing within 30 days of the Commission's Order.
 5. Deny DNG II's petition for a small gas utility franchise exemption under Minn. Stat. § 216B.16, subd. 12.

This question is:

Trade Secret

X

Public

**State of Minnesota
Public Utilities Commission**

Utility Information Request

Docket Number: G-6915/M-16-756

Date of Request: April 5, 2017

Requested From: Dooley's Natural Gas II, LLC

Response Due: April 17, 2017

Analyst Requesting Information: Jason Bonnett

Type of Inquiry:

<input type="checkbox"/>	Financial	<input type="checkbox"/>	Rate of Return	<input type="checkbox"/>	Rate Design
<input type="checkbox"/>	Engineering	<input type="checkbox"/>	Forecasting	<input type="checkbox"/>	Conservation
<input type="checkbox"/>	Cost of Service	<input type="checkbox"/>	CIP	<input checked="" type="checkbox"/>	Other: Legal

If you feel your responses are proprietary, please indicate.

Request Number	
1	Please fully explain how and why the Company's service to the southern service area (served by the Grove City interconnect) meets the definition of "incidental" pursuant to Minnesota Statute §216B.16, subdivision 12(b)? As part of the response, please address the issue of the southern service area being physically separate from the municipalities requesting the exemption.

DNG II Response:

Service to rural customers outside Brooten and Belgrade can be appropriately categorized as "incidental" under Minn. Stat. § 216B.16, Subd. 12 based on the unique facts circumstances presented by the DNG II system.

Initially, DNG II agrees with the Department's analysis that the focus should be on the number of customers located outside the Cities of Brooten and Belgrade – rather than any geographic or load based metric. The exemption for small gas utilities provided for in Minnesota Statutes is very clear that qualification is tied to the number of customers the small utility serves. In particular, Minn. Stat. § 216B.16, Subd. 12(A) provides:

A municipality may file with the commission a resolution of its governing body requesting exemption from the provisions of this section for a public utility that is under a franchise with the municipality to supply natural, manufactured, or mixed gas and that serves ***650 or fewer customers*** in the municipality as long as the public utility serves no more than a ***total of 5,000 customers***. [Emphasis added.]

As is apparent, the sole focus is on number of “customers” served. There is no geographic or load based metric or threshold in the statute. Therefore, any determination regarding whether service outside the Cities is “incidental” is appropriately focused on the number of customers that receive “service provided outside of a municipality's border.”

In this case, there are twenty-one (21) customers outside the municipal boundaries of Brooten and Belgrade – only thirteen (13) of which are served by the “southern system.”¹ This is less than 9% of the current customers on the system. Each of these customers decided it was in their interests to take gas service from DNG II based on the current rate structure and with the understanding that the Cities would regulate the system.

In exercising its discretion in determining what constitutes “incidental” service, the fact that DNG II serves less than 25 customers outside the Cities is an important fact for the Commission to consider. In defining what constitutes a “public utility” subject to Commission regulation, Minn. Stat. § 216B.02, Subd. 4 provides that “no person shall be deemed to be a public utility if it produces or furnishes service to less than 25 persons.” In this respect, regulation by the Commission is again tied to the number of customers served by the utility. Brooten and Belgrade would be the regulating entity for less than 25 customers – fewer than would subject a “person” to being designated a “public utility” under Minn. Stat. § 216B.02, Subd. 4.

Furthermore, it is noteworthy that a “person” could theoretically supply gas to DNG II’s twenty-one (21) rural customers without any meaningful regulatory oversight by the Commission. In contrast, under the small gas utility exemption, these customers may raise any concerns with DNG II rates or terms and conditions of service with the Commission. In particular, Minn. Stat. § 216B.16, Subd. 12(D) provides that “[i]n all cases covered by this subdivision in which an exemption for service outside of a municipality is granted, the commission may initiate an investigation under section 216B.17, on its own motion or upon complaint from a customer.” Coupled with the small number of customers served by DNG II, this fact mitigates any impact due to the systems being geographically separate.

Applying a geographic metric would also fail to recognize the fact that unserved areas of Minnesota are rural, sparsely populated and largely agricultural. Gas must be delivered over a long distance from an interstate pipeline to serve disparate pockets of customers. DNG II decided not to connect its two distribution pipelines because there is not sufficient load between the two systems to make it economical for all customers. Connecting the pipeline for the purpose of meeting an “incidental” threshold would simply raise costs for all customers.

In addition, applying a geographic or load based metric can lead to unintended and anomalous results that would undermined the small utility exemption. Rural or “incidental” customers along the route should not be denied service because of some fear that a load or distance based metric could be triggered that would defeat the exemption. Deciding, for instance, not to add a large customer along the route simply because it (1) may increase the “incidental” load served beyond some predetermined threshold; or (2) is geographically distant from the regulating City, is not good policy and would undermine legislative goals.

Through recent actions, the Minnesota legislature has emphasized the goal of expanding economic opportunities for rural Minnesota through the provisions of natural gas service as an alternative to propane. This is reflected in the recent amendment to Minn. Stat. § 216B.16, Subd. 12 which increased the total customer limit

¹The customer numbers shown in responses to Information Requests Nos. 5 and 7 shows that there are thirteen (13) customers outside of the Cities on the “northern system” and seventeen (17) on the “southern system.” However, this count overstates the number of customers because a single agricultural customer represents five (5) customers in each territory because it has operations in five (5) different townships in both the northern and southern areas.

from 2,000 to 5,000. There is a clear recognition that there is value in exempt utilities providing gas service to previously unserved areas in rural Minnesota. DNG II believes that such intent should factor into the Commission's decision-making process.

Response By: Brian Meloy, Counsel for DNG II

This question is:

Trade Secret

 X

Public

**State of Minnesota
Public Utilities Commission**

Utility Information Request

Docket Number: G-6915/M-16-756

Date of Request: April 5, 2017

Requested From: Dooley's Natural Gas II, LLC

Response Due: April 17, 2017

Analyst Requesting Information: Jason Bonnett

Type of Inquiry:

<input type="checkbox"/>	Financial	<input type="checkbox"/>	Rate of Return	<input type="checkbox"/>	Rate Design
<input type="checkbox"/>	Engineering	<input type="checkbox"/>	Forecasting	<input type="checkbox"/>	Conservation
<input type="checkbox"/>	Cost of Service	<input type="checkbox"/>	CIP	<input checked="" type="checkbox"/>	Other: Legal

If you feel your responses are proprietary, please indicate.

Request Number	
4	Please provide a list of any, and all municipalities, townships, towns, and unincorporated communities located within the northern service area (served by the Roscoe interconnect) of the service territory of Dooley's Natural Gas II, LLC.

DNG II Response:

Munson, Township	Roscoe, MN	Roseville, Township
Zion, Township	Regal, MN	Burbank, Township
Hawick, MN (unincorporated)	Lake Henry, Township	Crow River, Township
Crow Lake, Township	North Fork, Township	Belgrade, MN
Brooten, MN		

Response By: Randy Dooley, President

This question is:

☐

Trade Secret

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<input type="checkbox"/>	Cost of Service	<input type="checkbox"/>	CIP	<input checked="" type="checkbox"/>	Other: Legal

If you feel your responses are proprietary, please indicate.

Request Number	
6	Please provide a list of any, and all municipalities, townships, towns, and unincorporated communities located within the southern service area (served by the Grove City interconnect) of the service territory of Dooley's Natural Gas II, LLC.

DNG II Response:

Acton, Township	Litchfield, MN	Swede Grove, Township
Manannah, Township	Union Grove, MN	Paynesville, Township

Response By: Randy Dooley, President

This question is:

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Trade Secret

X

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If you feel your responses are proprietary, please indicate.

Request Number	
12	Please fully identify and describe your policy for extending service to customers outside the municipal boundaries of the Cities of Belgrade and Brooten, MN? Have you denied any requests for service from customers outside the municipal boundaries of the Cities of Belgrade and Brooten, MN and, if so, for what reasons?

DNG II Response:

To protect existing customers, DNG II requires new customers outside of the Cities to fund 100% of the cost of the connection. DNG has not denied any requests for service from any customer located outside the municipal boundaries of the Cities of Belgrade and Brooten where the customer has agreed to pay for the cost of connection.

Response By: Randy Dooley, President