

January 31, 2018

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

RE: **Supplemental Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E129, E324/SA-17-141

Dear Mr. Wolf:

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

The Joint Request of North Star Electric Cooperative and the City of Warroad to Modify Electric Service Territory Boundaries.

The petition was jointly filed on February 15, 2017 by:

North Star Electric Cooperative
P.O. Box 719
Baudette, MN 56623

and

City of Warroad
P.O. Box 50
Warroad, MN 56763

The Department recommends at this time that the Minnesota Public Utilities Commission (Commission) **deny, without prejudice** the requested service territory boundary transfer from North Star Electric Cooperative to the City of Warroad, and is available to answer any questions the Commission may have.

Sincerely,

/s/ DALE V. LUSTI
Financial Analyst

DVL/lt
Attachment



Before the Minnesota Public Utilities Commission

Supplemental Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E129, E324/SA-17-141

I. BACKGROUND

On February 15, 2017, North Star Electric Cooperative and the City of Warroad jointly filed a proposed Service Territory Agreement for approval by the Minnesota Public Utilities Commission (Commission). Extensions to comment period deadlines were filed by the Minnesota Department of Commerce, Division of Energy Resources (Department), North Star Electric Cooperative, the City of Warroad, and the Red Lake Band of Chippewa Indians.

The Minnesota Municipal Utilities Association, in addition to the above-noted entities, filed comments on or about October 17, 2017.

The Department and the City of Warroad filed reply comments on December 8, 2017.

The Commission issued a *Notice of Supplemental Comment Period* on December 12, 2017.

In its December 8, 2017 Comments, the Department provided a complete background to date of relevant information that it acquired from the City of Warroad (City), North Star Electric Cooperative (North Star or Cooperative), and the Red Lake Band of Chippewa Indians (Red Lake Band).

As noted in its December 8, 2017 Comments, the Department submitted two additional information requests (DOC 6 & 7) to the City which were unanswered as of the date of the Comments. The subject of the information requests were with regard to the City's decision to charge the New Casino \$600,000 (based on a fee of 15 mills/kWh) to receive electric service from the City rather than from its assigned provider, the Cooperative (see Attachment 5 to the Department's December 8, 2017 Comments). On December 18, 2017, the Department received the City's response which is attached to these Supplemental Comments as Attachment 1.

II. SUMMARY OF PROPOSAL

The City's and Cooperative's September 9, 2013 Service Territory Agreement in Article 3.2 states:

The Cooperative consents and authorizes and the City agrees that the City shall file the Parties' joint request under Minnesota Statute 216B.39, subd. 3, legally describing and depicting the Annexed Area, asking that the MPUC modify the service territory boundary and recognize the service territory transfer.

On September 24, 2013, the City attempted to file by e-mail with the Commission, the above-identified September 9, 2013 Service Territory Agreement. However, because an incorrect e-mail address was used, the Commission never received the service area transfer request.

On February 15, 2017, the Cooperative submitted on behalf of the City and the Cooperative, its September 9, 2013 Service Territory Agreement to the Commission for approval of the Agreement. The City and Cooperative also requested that the Commission update its official records as to the electric service territory boundaries.

III. DEPARTMENT ANALYSIS

A. TRANSFER OF THE AFFECTED AREA FROM COOPERATIVE TO THE CITY

Page 1 of the Service Territory Agreement states that the City has annexed certain real property located within Lake Township to the City of Warroad, County of Roseau, Minnesota, described as:

Government Lots one (1) and Two (2) and the South Half of the Northwest Quarter (S ½ NW ¼) of Section Thirty-three (33), Township One Hundred Sixty-three (163) North, range Thirty-six (36) West, excepting therefrom the township road right of way along the eastern and southern boundaries of said NW ¼ of Section 33; and Government Lots (5) and Seven (7), Section Twenty-eight (28), Township One hundred Sixty-three (163) North, Range Thirty-six (36) West, ("Annexed Area") (Attached Exhibit A), portions of which property is currently within the electric service territory of the Cooperative and portions of which are in an area disputed

Page 1 of the Service Territory Agreement states:

... the City wishes to provide exclusive electric service to the Annexed Area, and the Parties have agreed that the Annexed Area shall hereafter be exclusively within the electric service territory of the City....

EXHIBIT A to the Service Territory Agreement is the annexation map.

Page 1 of the Service Territory Agreement indicates that the proposed transfer is a permanent transfer of service territory.

B. NOTICE

Minn. Stat. § 216B.39, Subd. 3 states “...the Commission may on its own or at the request of an electric utility make changes in the boundaries of the assigned service area, but only after notice and hearing as provided for in sections 216B.17 and 216B.18.”¹

Although according to the Cooperative there were no customers in the affected area at the time the Service Territory Agreement was signed that are being transferred from the Cooperative to the City; the City now is serving the New Casino operated by the Red Lake Band in the affected area. According to the City’s October 17, 2017 comments, the City was aware in early 2011 of the Red Lake Band’s plan for a new casino within the transferred area (New Casino). Thus, the Red Lake Band should have been noticed both back on September 24, 2013 when the City attempted to file the Petition by e-mail, and also on February 15, 2017 when the Cooperative filed the Service Territory Agreement.

It should be noted that the Service Territory Agreement is devoid of any reference to the Red Lake Band. That is, the Agreement is silent as to the Red Lake Band’s decision to construct the New Casino on property that it owned on the east side of the City in the Cooperative’s service area, or as to the Red Lake Band’s decision to close the Original Casino in Warroad that had been served by the City. There is no explanation in the Service Territory Agreement of the reasons for the annexation. The reason is in the record – the Band’s request for annexation to receive City water, sewer and electric services (see the Department’s December 8, 2017 Comments, Attachment 1, Part E on page 3 of 13).

¹ For example, Minn. Stat. § 216B.18 provides, “Service of notice of all hearings, investigations, and proceedings pending before the commission and of complaints, reports, orders, and other documents must be made personally, by electronic service as provided in section 216.17, or by mail as the commission may direct. Regulated utilities and state agencies must provide an electronic address to the commission for electronic service purposes and agree to accept electronic service as official service.”

Based on information provided in the City's, the Cooperative's, and the Red Lake Band's filings, and/or responses to Department information requests, the Department found no written indication that the Red Lake Band, as an affected customer related to this service territory proceeding, was notified that the service territory transfer needed to be approved by the Commission.

The citation to Minn. Stat. § 216B.39, Subd. 3 in the Service Territory Agreement suggests that the Cooperative and the City did know or should have known of the potential for a hearing before the Commission and that they must provide notice to the affected customers, namely the Red Lake Band.

In addition, the Commission on November 7, 2014, December 16, 2015 and December 14, 2016 issued to all investor-owned, cooperative, and municipal utilities a REMINDER TO FILE ELECTRIC SERVICE AREA CHANGES. The Commission also referenced a checklist that utilities should use when making their filings. Item 6 on the check list states:

Customers affected by this change must receive written notice, including utility contact information and Commission contact information. If notice to certain customers was of the type that does not fit into one of the categories of the chart, please explain in the joint letter to #2 above. Please indicate type and number of customers affected and the date(s) notice was or will be provided.

Article 3.3 of the Service Territory Agreement states:

If the MPUC or the Office of Energy Security raises any question or challenges any provision of this Agreement, the service territory transfer contemplated under this Agreement, or due performance thereof, the Parties shall each, at their own expense, exercise any and all lawful efforts reasonable and necessary to respond to said questions and to assure the transfer of the service territory. If for any reason the MPUC refuses to recognize the service territory described in Article 1, the Cooperative shall return any payments made by the City pursuant to Article 2, upon demand by the City.

C. COMPENSATION

The City and the Cooperative agreed that \$600,000 was appropriate compensation to be paid for lost revenue on behalf of the Cooperative, as identified in Article 2 of the Service Territory Agreement. By letter dated September 24, 2014, the Red Lake Band learned that the City required it to pay the City of Warroad \$600,000 as a term of receiving electric service from the City rather than receiving service from the Cooperative, which was the assigned provider.

As claimed by the Red Lake Band, and without any written documentation to the contrary from either the City or the Cooperative, it appears that the September 24, 2014 letter from the City, is the first written documentation of the City's expectation that the Red Lake Band would be required to pay the entire \$600,000 for the privilege of being served by the City rather than the Cooperative. Further, it appears from its February 23, 2017 letter, that the Red Lake Band had only recently learned that in order for the City of Warroad to provide electric service to the New Casino, the Commission would need to approve the transfer of service territory.

In response to Department Information Request No. 6, the City's policy decision to impose a 15 mills/kWh fee on the New Casino is based on a policy that was prepared in February 2015 and adopted by the City Council on June 8, 2015, approximately 21 months after the Service Territory Agreement was signed by the City and the Cooperative. The City's policy decision effectively imposed a \$600,000 fee upon the Red Lake Band for the privilege of receiving electric utility service from the City.

Although the City was given ample opportunity to provide evidence that it provided the Red Lake Band with written notice that the Red Lake Band would be responsible to pay the \$600,000 lost revenue that the City agreed to pay to the Cooperative, the City was unable to find any evidence in writing.

D. CONCLUSION

From written information the Department has reviewed to date, it appears that the Red Lake Band was not informed of the City and Cooperative's negotiations regarding the additional cost the Parties' agreed that the Red Lake Band would be assigned to pay in order to be served by the City rather than by the Cooperative. Although the Red Lake Band did file the Annexation Request on November 6, 2012 (see Attachment 1 to the comments), the request was for the purpose of receiving City services, with no mention that the Cooperative had electric service rights in the area.

The Department's conclusion is based on the fact that the Parties have stated in several written documents provided to the Department, that they had many oral conversations with a specific

member of the Red Lake Band, and that this person was briefed many times that the Red Lake Band would be responsible for all of the lost revenue the Cooperative determined it should receive for agreeing to allow the City to provide electrical service to Red Lake Band; however no written documentation has been submitted to the record to support the assertions (see Attachment 4 to the Department's December 8, 2017 Comments).

The City and the Cooperative's September 9, 2013 Service Territory Agreement may have anticipated difficulty in getting Commission approval of this Petition, when it inserted Article 3.3 to the Service Territory Agreement, as referenced above.

For the reasons stated above, and based on the record to date, the Department concludes that the City and the Cooperative have not demonstrated that approval of the proposed Service Territory Agreement is consistent with the public interest and Minn. Stat. § 216B.39.

IV. RECOMMENDATION

The Department recommends at this time that the Commission deny, without prejudice, the requested service territory boundary transfer from North Star Electric Cooperative to the City of Warroad.

/lt

McGRANN SHEA CARNIVAL STRAUGHN & LAMB, CHARTERED
ATTORNEYS AT LAW

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~~~~~

CHRISTY E. LAWRIE  
KEVIN A. SCHAEKEL  
  
OF COUNSEL  
ROBERT O. STRAUGHN  
  
RETIRED  
ANDREW J. SHEA

December 18, 2017

Dale V. Lusti  
Connor Boler  
Department of Commerce  
85 7<sup>th</sup> Place East, Suite 280  
St. Paul, MN 55101-2198

VIA E-MAIL  
[dale.lusti@state.mn.us](mailto:dale.lusti@state.mn.us)  
[utility.discovery@state.mn.us](mailto:utility.discovery@state.mn.us)

Re: In re Matter of North Star Electric Cooperative, Inc. and Warroad Municipal  
Light & Power Department  
MPUC No. E129,324/SA-17-141  
Our File No: 63130-0001

Dear Mr. Lusti and Mr. Boler:

As you know, I represent the City of Warroad in this matter. On behalf of the City, I attach the responses to the Department of Commerce Information Requests 6-7, and associated attachments.

Please feel free to contact me if you have any questions or difficulties in opening the attachments.

Sincerely,



Kaela Brennan

cc: Kathy Lovelace  
Steven Anderson, Esq.



**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

Docket Number: E129,324/SA-17-141  
Requested From: City of Warroad  
Type of Inquiry: Financial

☐ Nonpublic ☒ Public  
Date of Request: 12/7/2017  
Response Due: 12/18/2017

Requested by: Dale Lusti  
Email Address(es): dale.lusti@state.mn.us  
Phone Number(s): 651-539-1829

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**Request Number: 6**

Topic: Payment of \$600,000 to North Star Electric Cooperative for the Transfer of Service Rights to the City of Warroad to Serve the New Casino  
Reference(s): City of Warroad's October 17, 2017 Comments, at Page 4

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**Request:** On page 4 the City states:

The City's policy decision to impose a 15 mills/kWh fee links the rates to the parties benefited.

- A. Is the above referenced City policy decision "to impose a 15 mills/kWh fee" based on a specific written City policy that is applicable to all service area annexations in the City of Warroad?
- B. If the response to (A) above is yes; please provide a copy of the policy, identify the date the policy was approved, and provide its effective date.
- C. If the response to (A) above is no; please identify what the decision to impose a 15 mills/kWh fee was based on.
- D. If the response to (A) above is yes; please provide a copy of the previous policy (if any), identify what the previous policy (if any) was, the date it was approved, and provide its effective date.

**Response:**

- A. Yes.
- B. Please see enclosed policy. The policy was prepared in February 2015 and adopted by the City Council on June 8, 2015. The policy does not state an effective date, but because the policy is consistent

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Response Date: December 18, 2017

Response by: Kathy Lovelace, City Administrator

Email Address: warroad@mncable.net

Phone Number: 218-386-1454

Ms. Lovelace may be contacted through counsel: Kaela Brennan, [kmb@mcgrannshea.com](mailto:kmb@mcgrannshea.com), 612-338-2525

**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

Docket No. E129, E324/SA-17-141  
Attachment 1  
Page 3 of 10

|                    |                        |                                                                               |
|--------------------|------------------------|-------------------------------------------------------------------------------|
| Docket Number:     | E129,324/SA-17-141     | <input type="checkbox"/> Nonpublic <input checked="" type="checkbox"/> Public |
| Requested From:    | City of Warroad        | Date of Request: 12/7/2017                                                    |
| Type of Inquiry:   | Financial              | Response Due: 12/18/2017                                                      |
| Requested by:      | Dale Lusti             |                                                                               |
| Email Address(es): | dale.lusti@state.mn.us |                                                                               |
| Phone Number(s):   | 651-539-1829           |                                                                               |

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with the City's past practices of linking costs with the associated electrical load, the intent was for the policy to be on-going.

C. Not applicable.

D. The City historically has approached electric rates to recover its costs. The City is a non-profit entity, and it does not seek a profit for shareholders. Instead, the City's rates are designed to recover its costs, and to continue its operations. In addition, rates assign costs to the parties receiving the services. The City adopted the policy provided under response B after the Red Lake Band expressed a view contrary to the assurances of Ray Brenny that the Band would pay the service territory transfer costs. This policy is consistent with the City's past practices.

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Response Date: December 18, 2017  
Response by: Kathy Lovelace, City Administrator  
Email Address: warroad@mncable.net  
Phone Number: 218-386-1454  
Ms. Lovelace may be contacted through counsel: Kaela Brennan, [kmb@mcgrannshea.com](mailto:kmb@mcgrannshea.com), 612-338-2525

**Policy:**

It is the policy and obligation of the City of Warroad to provide electric and water services to all customers within its service area boundaries as defined by the Minnesota Public Utilities Commission, City ordinance, or to property owned by the City of Warroad, Minnesota. The City may provide services to customers outside these boundaries on a case-by-case basis as directed by the City Council.

When it becomes necessary for the City to extend electric and water services to newly-annexed areas or when modifications are made to services within existing service area boundaries, the City believes that all the costs associated with providing services should be paid by the customers who directly benefit from these services. In addition to direct materials, associated costs may include inspections, legal fees, administrative expenses, and other related charges. The following guidelines have been developed by the City in order to explain their requirements for the regulation of the extension of services and the allocation of the costs associated with these extensions.

**Guidelines:**

A. Regulation.

Water and electric utility improvements shall conform to the regulations for utility improvements in this section and as set forth in the City Rules and Regulations, City Codes and State law.

B. Petition for Service.

Owners of new subdivisions that request water and electric service extensions must formally petition the City Council. Petitions must be signed by the owner(s) of the property.

C. Specifications and Supervision.

All utility improvements installed shall be in accordance with the specifications approved by the City and shall be done under the supervision of authorized City personnel.

**Water Service Extensions:**

A. Petition for Services.

Any developer, entity, or owner who wishes to have water utility improvements installed in undeveloped property within the corporate limits or who wishes to make modifications to existing water facilities must petition the City of Warroad for the proposed improvements.

Petitions submitted to the City shall be subject to the approval of City of Warroad staff as to design, location, installation, and estimated cost. Furthermore, the petitioner must agree that the water main may be looped to the subject property and must provide all easements required for utility placement, installation, and servicing.

A developer, entity, or owner may select from one of the following processes to have the improvements constructed and installed:

1. Installation by the City of Warroad through bidding. Using this method, the City would accept bids for the project and would select a contractor based on the lowest and most qualified bid. The project's costs would be included in the overall costs assessed to the developed property.

2. Installation by City of Warroad staff. Depending upon the availability of manpower, time and finances, the City of Warroad may enter into an agreement with the developer, entity, or owner to construct and install the project. Should the City agree to enter into such an agreement, the costs shall include the total cost of labor, materials, and equipment, plus a 15 percent service fee added to the sum of the total cost of labor, materials, and equipment. Total project costs shall be assessed to the developed property in accordance with proper assessment procedures.
3. Installation by Developer, Entity, or Owner. Installation may be done by the developer, entity, or owner at their own expense provided that all plans and specifications for the improvements are submitted to the City for examination and approval and, where required, submitted to the proper State officials for their examination and approval.

B. Installation of Services above the City of Warroad's Minimum Requirement.

No matter who installs the services, all plans and specifications shall be subject to the City's approval. In the event the City requests a developer, entity, or owner to install services above the minimum, the City will pay the marginal costs for the greater services. For example, if the City requests the installation of a 12-inch water main where only an 8-inch water main is required, the City will pay the marginal costs for the larger pipe.

C. Extension of Water Utility Improvements outside Corporate Limits.

Anyone outside the corporate limits who wishes to receive water utility improvements must petition the City. Before the improvement petition is approved, the petitioner may be required agree to any number of conditions that may include: preparation of plans and specifications, annexation, hook-up fees, agreeing to meet various codes and regulations, and other related conditions which the City may impose, in its discretion.

**Electric Service Extensions:**

A. New Subdivisions.

The costs incurred by the City to provide electric services to new subdivisions will not be charged to the owner(s) of that development unless the City determines that the anticipated revenue to the City does not cover the cost to extend the service, over a reasonable time period. If a revenue shortfall is anticipated, the owner(s) shall pay the difference between the City's costs and the anticipated revenue.

B. Service to Customers of another Utility.

When the City extends its corporate boundaries through annexation or consolidation, or its service area, it is the responsibility of the City to acquire and furnish the electric service to the customers of the electric utility formerly serving the area. Customers that are transferred from one utility to the City shall reimburse the City as follows for all service extension and acquisition costs allowing the City to provide electric service.

1. Customer required to pay electric service extension surcharge for rights or facilities purchased by the City. If the City's service rate for a similar-classed customer is less than the rate charged by the previous electrical supplier, the customer will pay one-half (1/2) the difference in rates (as may be rounded for simplicity) to help the City pay the service extension and acquisition costs (such as loss of revenues, facilities, and integration costs) to

provide service. The customer will pay this fee, as adjusted from time to time pursuant to Section B.3, until such time that the City has recovered its expenses.

2. Customer not required to pay electric service extension surcharge for rights or facilities purchased by the City. To the extent that the City's rate for a similar-classed customer is greater than the rate charged by the previous electrical supplier, the City will not require such customer(s) to pay for any acquisition costs incurred by City to provide electrical service. The City will evaluate the rates from time to time under Section B.3.

3. Electric service extension surcharge adjusted from time to time. Any surcharge described in Section B may be adjusted from time to time by the City as changes occur in the rates charged by the previous electrical suppliers involved.

- C. Customers Locating in Areas Subject to Minnesota Statutes Sections 216B.44, 216B.47, Municipal Service Territory Extension.

It is the responsibility of the City to provide electric service to all newly-annexed areas of the City. It is also the City's desire to serve these areas as efficiently as possible. When the City extends its corporate boundaries or service area, the City shall complete the necessary procedures to properly establish the provision of electric service to the annexed or additional areas. When the extension of the service territory includes compensation to an existing electrical supplier, any customer(s) locating in this area shall be required to reimburse the City for compensation paid to the previous electrical supplier.

**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

Docket No. E129, E324/SA-17-141  
Attachment 1  
Page 7 of 10

|                          |                        |                                                                               |
|--------------------------|------------------------|-------------------------------------------------------------------------------|
| Docket Number:           | E129,324/SA-17-141     | <input type="checkbox"/> Nonpublic <input checked="" type="checkbox"/> Public |
| Requested From:          | City of Warroad        | Date of Request: 12/7/2017                                                    |
| Type of Inquiry:         | Financial              | Response Due: 12/18/2017                                                      |
| Requested by: Dale Lusti |                        |                                                                               |
| Email Address(es):       | dale.lusti@state.mn.us |                                                                               |
| Phone Number(s):         | 651-539-1829           |                                                                               |

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**Request Number: 7**

Topic: Payment of \$600,000 to North Star Electric Cooperative for the Transfer of Service Rights to the City of Warroad to Serve the New Casino

Reference(s): City of Warroad's October 17, 2017 Comments, at Page 4

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**Request:** On page 4 the City states:

The City's policy decision to impose a 15 mills/kWh fee links the rates to the parties benefited.

- A. Please identify, quantify and explain what benefit the New Casino will receive from the proposed service area transfer, if any.
- B. Please identify, quantify and explain what benefit the current electric customers will receive from the proposed service area transfer, if any.
- C. Please identify, quantify and explain what benefit the City will receive from the proposed service area transfer, if any.
- D. Please identify, quantify and explain what benefit the Cooperative will receive from the proposed service area transfer, if any.
- E. Please identify, quantify and explain why it is in the public interest that the New Casino should be required to pay \$600,000 for the privilege of continuing to receive electric service from the City (the provider of electric service to its previous facility, the Old Casino in Warroad) as opposed to not having to pay \$600,000 to receive electric service from its currently assigned provider, the Cooperative.

**Response:**

- A. The New Casino received a number of financial and other benefits from the service territory transfer. The City agreed to share the costs of installing electrical infrastructure required to provide

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Response Date: December 18, 2017  
Response by: Legal counsel, as verified by Kathy Lovelace, City Administrator  
Steven Anderson: [steven@andersonlawyers.com](mailto:steven@andersonlawyers.com), (218) 386-1040  
Kaela Brennan: [kmb@mcgrannshea.com](mailto:kmb@mcgrannshea.com), 612-338-2525

**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

|                    |                        |                                                                               |
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| Phone Number(s):   | 651-539-1829           |                                                                               |

electric service. The City absorbed all labor costs for installing this equipment. Although North Star can better explain its billing and charges, the City understands that the New Casino would have been responsible for all electric infrastructure costs (including labor costs), and that the New Casino would experience higher electric rates than the City's rates. The New Casino benefits from the City's practices of establishing electric rates to recover costs.

The New Casino also enjoys reliable electric service from the City. The City can respond quickly to any service outage, given the close location of its personnel. By contrast, North Star's offices are approximately 45 miles away from the New Casino.

Finally, the New Casino petitioned for annexation, which allows municipal sewer, water, and other City services not available from North Star.

B. The City believes that this question addresses electric customers other than the New Casino. Because the City structures rates to recover costs, the City's other customers do not benefit from this service territory transfer as such. By contrast, if the City were unable to allocate costs relating to the service territory transfer to the affected customer (the New Casino), then the costs would be spread across all its customers, which would have the result of increasing their costs. Even under the 1.5 cents/kWh rate, the City does not recover all of its costs associated with the service territory transfer.

C. In terms of general benefits, the City's distribution facilities are closer to the affected area, and the service territory transfer better coordinates service among electric utilities. The transfer also provides clarity in terms of long-term utility planning and resource management. In terms of potential financial benefits, the City has paid the \$600,000 up-front to North Star from its reserves. Therefore, these dollars cannot be used for the City's other utility expenses. The City has not received any payment of this amount or any interest. As a result, the City has lost money in this transaction.

D. North Star may certainly speak to this issue. From the City's perspective, North Star also benefitted from the coordination of utility planning and infrastructure, and the clarity in North Star's lack of an obligation to plan or to serve load that is further distant from North Star's offices. And North Star received

**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

Docket No. E129, E324/SA-17-141  
Attachment 1  
Page 9 of 10

Docket Number: E129,324/SA-17-141  
Requested From: City of Warroad  
Type of Inquiry: Financial

☐ Nonpublic ☒ Public  
Date of Request: 12/7/2017  
Response Due: 12/18/2017

Requested by: Dale Lusti  
Email Address(es): dale.lusti@state.mn.us  
Phone Number(s): 651-539-1829

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compensation for the transfer of service territory rights, as the City has already paid the \$600,000 on an up-front basis.

E. The City respectfully notes that the statutory standard under Section 216B.39, subd. 3 is that “the commission may on its own or at the request of an electric utility make changes in the boundaries of the assigned service areas, but only after notice and hearing as provided for in sections 216B.17 and 216B.18.” The statute does not reference the public interest. The City submits that any public interest consideration should address the change in service territory boundaries, rather than any fee. Nonetheless, in the interest of completing the record, the City will address both components.

Service Territory Transfer. The public interest of the service territory transfer is supported by the factors noted in Section 216B.37: “to encourage the development of coordinated statewide electric service at retail, to eliminate or avoid unnecessary duplication of electric utility facilities, and to promote economical, efficient, and adequate electric service to the public . . . .” In the present case, the two utilities determined that the transfer was desired, to coordinate long-term planning and the obligation to serve this load, to coordinate regional electric service, to avoid unnecessary duplication of facilities, and to determine which utility should make the capital investment to provide the service. The City further notes that the transfer promotes economical, efficient, and reliable electric service. The New Casino benefits from the City’s sharing of initial costs to provide electric service, lower rates, reliable service, and closer personnel to respond to any outages. The City submits that the public interest is best served by honoring reasonable agreements between utilities, negotiated at arms-length.

City Fee. As to the fee itself, the City made a policy decision of allocating the costs to acquire this service territory in the context of setting rates. It is permissible, but not required, for a city to spread the electric service territory costs across all customers. Under this policy option, the result is that all other customers subsidize the services of the particular customer(s) at issue. Another approach, applied here, links the costs with the customers who receive the service. Weighing these policy options reflects the policy rate-setting decisions in allocating of costs among customers. It also provides administrative efficiency in linking the costs from the service territory transfer to the customers receiving the service. The City paid \$600,000 to North Star from its reserves. It has not received any payment to off-set these costs. Under its 1.5 cents/kWh rate, the City will be paid back over time, as opposed to its up-front

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Response Date: December 18, 2017  
Response by: Legal counsel, as verified by Kathy Lovelace, City Administrator  
Steven Anderson: [steven@andersonlawyers.com](mailto:steven@andersonlawyers.com), (218) 386-1040  
Kaela Brennan: [kmb@mcgrannshea.com](mailto:kmb@mcgrannshea.com), 612-338-2525



**Minnesota Department of Commerce  
Division of Energy Resources  
Information Request**

Docket Number: E129,324/SA-17-141  
Requested From: City of Warroad  
Type of Inquiry: Financial

☐ Nonpublic ☒ Public  
Date of Request: 12/7/2017  
Response Due: 12/18/2017

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payment to North Star. And the City does not receive any interest from the lump-sum payment; the rate does not fully compensate the City. If the City cannot recover its costs, all of the customers throughout the City are effectively subsidizing the New Casino. The broad, state-wide public interest is supported by local ratemaking decisions.

In further support of the public interest, the New Casino benefits from the electric service provided by the City. It receives reliable electric service, with personnel in the immediate vicinity to respond to any outages. In terms of economical and efficient service, the New Casino benefits from lower electric rates and infrastructure costs from the City. These benefits extend over the long-term of the electric service, and any additional load constructed in the area. The New Casino also benefits from other municipal services associated with its annexation in the City, including sewer, water, and other services that are not available from North Star. More indirect benefits include the ability to participate in the public process required of City proceedings. The City respectfully submits that the benefits provided to the New Casino far exceed the 1.5 cent/kWh fee.

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Response Date: December 18, 2017  
Response by: Legal counsel, as verified by Kathy Lovelace, City Administrator  
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