

	PAGE
Small Agency Profile	2
Agency Fiscal Page (Gov Rec)	6
Change Summary	7
Agency Change Items	
↻ Contracting With Non-State Entities.....	8
Appendix	
Agency Revenue Summary Fiscal Page.....	10

↻ Designates that this item is a change item

Agency Purpose

Minnesota statutes direct the Minnesota Public Utilities Commission (PUC) to protect the public interest in the provision of electric, natural gas and telephone services.

The commission's broad policy objectives are

- ◆ to assure safe and reliable gas and electric services at reasonable rates (M.S. Chapters 216. 216A, 216B)
- ◆ to determine the need for and location of large energy facilities (M.S. Chapters 216E, 216F and 216G)
- ◆ to foster effective competition in Minnesota's telecommunications markets (M.S. Chapter 237)

Core Functions

The commission's key service is providing a disciplined decision-making venue to:

- ◆ resolve party-to-party disputes;
- ◆ establish just and reasonable rates and terms of service;
- ◆ approve energy infrastructure that enhances the public interest;
- ◆ establish broad utility and telephone industry policies;
- ◆ provide a public forum for examination of issues and policies pertaining to the utility and telephone industries; and
- ◆ mediate consumer complaints concerning services of telephone or energy utility providers;
- ◆ represent Minnesota's interests in regional and national electric transmission policy forums.

Operations

The commission is a quasi-judicial and legislative body.

- ◆ It uses its quasi-judicial powers when it sets rates and terms of service, or otherwise resolves issues related to an individual company or certain groups of companies.
- ◆ It uses its legislative powers when it sets broad policies that affect all companies in an industry, as when it establishes rules.

In all cases, the commission must make its decisions on record evidence and in accordance with due process, including adherence to a strict code of conduct.

Primary stakeholders include ratepayers and the companies that provide electric, natural gas, and telephone services. In addition, commission stakeholders include a wide variety of interest groups representing the interests of low-income households, seniors, regional rate payer groups, the environment, large users, alternative service providers, including renewable energy providers.

Key Goals

The Commission supports the following Minnesota Milestone statewide goals:

- ◆ Minnesota will have sustainable, strong economic growth
 - ⇒ Growth in gross state product
 - ⇒ Energy efficiency of the economy
- ◆ Minnesotans will conserve natural resources to give future generations a healthy environment and a strong economy:
 - ⇒ Energy Use Per Person
 - ⇒ Renewable Energy Sources

At A Glance

- ◆ **Focus is on cornerstone industries:** Jurisdiction covers the largest providers of electric, natural gas, and telephone services, with revenues totaling over \$ 7 billion
- ◆ **Disciplined decision-making:** Primary output is decision-making dictated by due process. Most cases cleared within 60 to 90 days.
- ◆ **Workload:** Approximately 5,000 filings from 2006 through 2008; i.e., over 6 filings per day.
- ◆ **Agency costs among the lowest:** Commission staff size and budget per capita is one of the lowest of the 50 states
- ◆ **Consumer issues managed:** Continuing outreach efforts and improved information management reduce formal complaints.
- ◆ **Strategic use of technology:** Full implementation of electronic filing; major user-friendly redesign of agency web-page; greater use of database technologies
- ◆ **Regional and nation involvement:** Active involvement in regional and national electric transmission grid issues

⇒ Air Pollutants

- ◆ Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them
 - ⇒ Satisfaction with government services
 - ⇒ Price of government

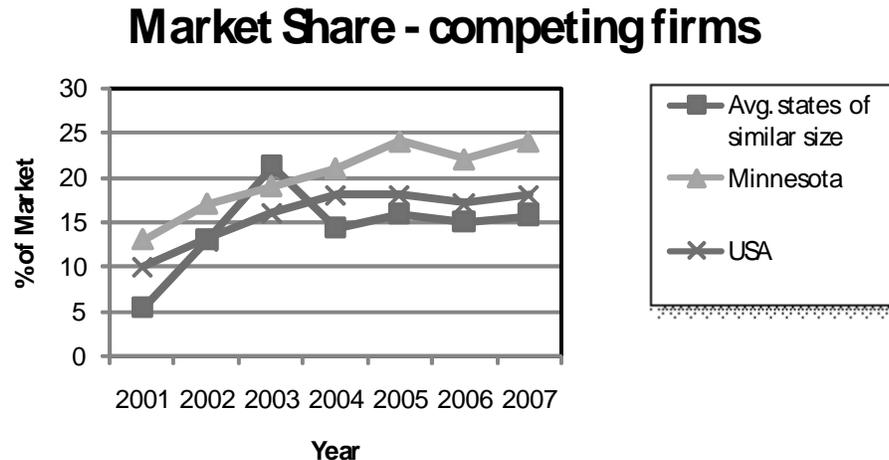
In addition, the Commission supports the following agency goal

- ◆ To create and maintain a regulatory environment that ensures safe, reliable and efficient electric, natural gas and telephone services at fair and reasonable rates

Key Measures

- ◆ **Telephone competitiveness:** An increasing market share among telephone companies competing with the former regulated monopoly companies, like Qwest, is an indicator of the competitive health of the telephone industry in Minnesota. Figure 1 shows that the collective market share of such competing firms in Minnesota nearly doubled from 2001 to 2007, and exceeds states of comparable population size¹ as well as the nation as a whole.

Figure 1



- ◆ **Energy prices:** Energy price trends provide an indication of the Commission’s effectiveness in securing reasonable utility rates. For natural gas, which must be totally imported, Minnesota’s retail residential rates have consistently been lower than other heating states² as well as the nation as a whole, as seen in Figure 2. Minnesota’s average retail electricity rates from 2002 through 2006 have consistently been lower than in states with comparable population size as well as the nation as a whole, keeping Minnesota competitive and promoting economic growth.

¹ Alabama, Colorado, Kentucky, Louisiana, Maryland, Missouri, South Carolina, and Wisconsin.

² Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Maine, Massachusetts, Michigan, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Vermont, and Wisconsin.

Figure 2

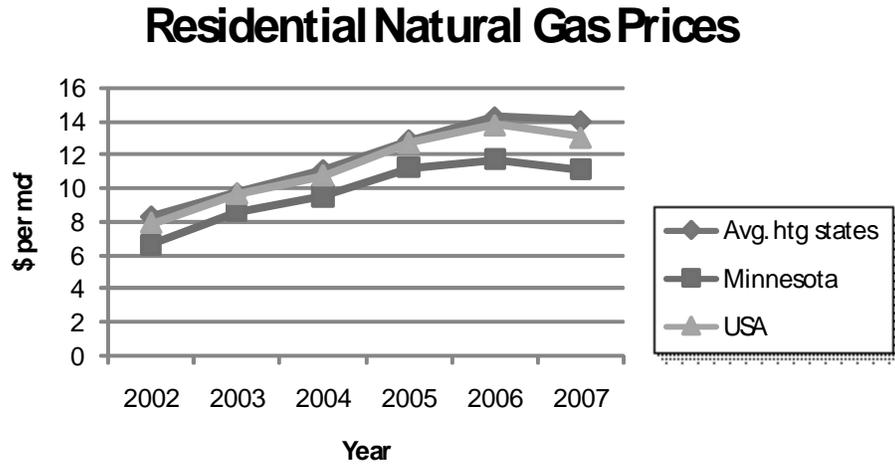
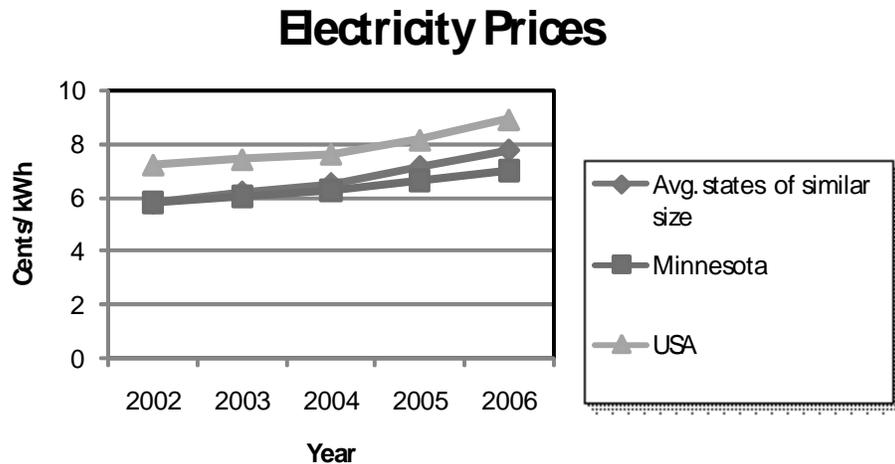


Figure 3



- ◆ **Energy efficiency:** The American Council for and Energy Efficient Economy (ACEEE) ranks Minnesota 9th (tied with Rhode Island) in its rating of state energy efficiency policies. The Commission has initiated a proceeding designed to remove regulatory disincentives to achieving energy efficiency and improved accountability for even greater energy efficiency among utilities.
- ◆ **Installed Renewable Electric Generation Capacity:** Minnesota ranks 3rd among states with installed wind generation capacity. The Commission has contributed to this development in various ways: a) coordination of the *2006 Minnesota Wind Integration Study*, b) approval of 12 large wind energy conversion systems since 2005, accounting for 918 MW of capacity, c) approval of various transmission facilities needed to bring the wind resource to load, d) establishment of general permits standards for large wind energy conversion systems less than 25 MW, and e) participation in studies to evaluate the infrastructure implications of renewable energy standards in Minnesota and the Upper Midwest.
- ◆ **Efficient use of staff resources:** The Commission does its work with far fewer employees than commissions in comparably sized states. The average number of employees (FTE) for utility regulatory bodies in states with population size comparable to Minnesota (see footnote 1) is 122. The Commission's staff totals 41 (71 if the staff at the Office of Energy Security who do utility regulatory work are included).

On a staff size per capita basis, Minnesota ranks 48th of the 50 states (42nd, if related OES staff are included).

Budget

100% of the biennial operating budget comes from the general fund. The agency consistently assesses nearly 100% of its expenditures to the companies it regulates; thus returning to the general fund almost 100% of what it spends. Approximately 89% of the operating budget covers salary and rent expenses. The Commission's staff of 46 full-time equivalent employees (including five commissioners) is among the smallest in the United States.

Contact

For more information please visit the commission's web site at the following address: www.puc.state.mn.us. The web site allows access to all documents filed in docketed matters before the commission as well as the commission's monthly calendar, recent filings, orders, notices, agendas for up-coming meetings, staff briefing papers, document reports, links to regulated companies and related agencies.

Agency contact person: Burl Haar
Phone: (651) 201-2222
Fax: (651) 297-7073

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2010-11
	FY2008	FY2009	FY2010	FY2011	
<u>Direct Appropriations by Fund</u>					
General					
Current Appropriation	5,347	5,433	5,433	5,433	10,866
Recommended	5,347	5,433	5,433	5,433	10,866
Change		0	0	0	0
% Biennial Change from 2008-09					0.8%
 <u>Expenditures by Fund</u>					
Direct Appropriations					
General	4,701	6,078	5,433	5,433	10,866
Statutory Appropriations					
Miscellaneous Special Revenue	1,975	2,461	3,061	3,261	6,322
Total	6,676	8,539	8,494	8,694	17,188
 <u>Expenditures by Category</u>					
Total Compensation	3,746	4,301	4,488	4,486	8,974
Other Operating Expenses	1,384	2,292	1,860	1,862	3,722
Local Assistance	1,546	1,946	2,146	2,346	4,492
Total	6,676	8,539	8,494	8,694	17,188
 <u>Expenditures by Program</u>					
Public Utilities Comm	6,676	8,539	8,494	8,694	17,188
Total	6,676	8,539	8,494	8,694	17,188
 <u>Full-Time Equivalent (FTE)</u>					
	43.0	47.2	47.4	45.6	

Dollars in Thousands

	FY2009	Governor's Recomm.		Biennium
		FY2010	FY2011	2010-11
<i>Fund: GENERAL</i>				
FY 2009 Appropriations	5,433	5,433	5,433	10,866
Subtotal - Forecast Base	5,433	5,433	5,433	10,866
Total Governor's Recommendations	5,433	5,433	5,433	10,866
<i>Fund: MISCELLANEOUS SPECIAL REVENUE</i>				
Planned Statutory Spending	2,461	2,661	2,861	5,522
Change Items				
Contracting with Non-State Entities	0	400	400	800
Total Governor's Recommendations	2,461	3,061	3,261	6,322
<u>Revenue Change Items</u>				
<i>Fund: MISCELLANEOUS SPECIAL REVENUE</i>				
Change Items				
Contracting with Non-State Entities	0	400	400	800

Fiscal Impact (\$000s)	FY 2010	FY 2011	FY 2012	FY 2013
Other Fund (Audit Fund)				
Expenditures	\$400	\$400	\$400	\$400
Revenues	400	400	400	400
Net Fiscal Impact	\$0	\$0	\$0	\$0

Recommendation

The Governor recommends Public Utilities Commission be able to contract with non-state entities and be authorized to expend up to \$800 thousand per biennium to be used for technical consulting services when the Commission determines specialized services are needed for audits or investigations of complex utility or telecommunications systems. The change would enable independent audits of company systems or operations when technical complexity may otherwise create significant barriers to a robust and unbiased record.

Background

The Commission seeks funding support to allow it to obtain technical consulting services to conduct technical audits or other specialized investigations requiring skills beyond those of state staff resources. In recent years, when the Commission has faced this need, it has had to cajole the affected company to agree to pay the costs. While one could argue that this payment arrangement is no different than if the Commission had an audit budget of its own and simply assessed the relevant utility for the costs, relying on the “good graces” of the utility creates difficulties. Under these circumstances, it is more difficult to ensure that the consultants do the investigation the Commission wants. Also, there are obvious public perception issues.

The audits or investigations contemplated in this proposal relate to specific and often technical issues requiring specialized knowledge. As a result, it would not be economic at this point for the Commission to try and “staff up” to cover these contingencies. The Commission seeks the flexibility to have an independent audit of the operations or systems of utilities, telephone companies or telecommunications carriers performed when technical complexity may otherwise create significant barriers to a robust and unbiased record. This is increasingly critical as utility service quality issues grow in importance.

The Commission would state the intention to enter into a contract with a non-state entity for a technical audit or specialized investigation. PUC would seek funding from Minnesota Management and Budget (MMB) through cash-flow assistance for the audits or investigations. Those funds would only be used for the Commission’s audits and investigations (i.e. it could not be used to cover miscellaneous operating costs). Expenditures made under this authority will be subject to recovery under the Commission’s assessment authority and all revenues recovered for these special expenditures will be returned to MMB.

Relationship to Base Budget

This recommendation does not impact PUC’s base budget. This authority would be designated for technical investigations or audits approved by order of the Commission. Any funds authorized for such technical investigations could not be used for any other purpose than those ordered by the Commission. All revenues recovered through the Commission’s assessments process would be used to returned to MMB.

Key Goals and Measures

This initiative supports the following agency goal:

- ◆ To create and maintain a regulatory environment that ensures safe, reliable and efficient electric and natural gas services at fair and reasonable rates

This proposal also supports the following general Minnesota Milestone statewide goals:

- ◆ Minnesota will have sustainable, strong economic growth
 - ⇒ Growth in gross state product
 - ⇒ Energy efficiency of the economy

- ◆ Minnesotans will conserve natural resources to give future generations a healthy environment and a strong economy:
 - ⇒ Energy Use Per Person
 - ⇒ Renewable Energy Sources
 - ⇒ Air Pollutants
- ◆ Government in Minnesota will be cost-efficient, and services will be designed to meet the needs of the people who use them
 - ⇒ Satisfaction with government services
 - ⇒ Price of government

This change item strengthens the Commission's ability carry out its responsibilities for ensuring safe, reliable and efficient electric and natural gas services at fair and reasonable rates. To accomplish this objective, it is imperative the Commission have the ability to develop robust and unbiased records on often technical issues.

Alternatives Considered

The alternatives are either to convince the affected company to agree to pay for an investigation of its own operations (which is the primary method the Commission has had to use in recent year) or to try to generate the needed funding from budget savings (which the Commission has also done). The first suffers from significant management difficulties and huge perception problems. The second option is no longer an option, given the Commission's work-load and need for resources in other areas, plus it places a significant limit on investigations the Commission can feasibly pursue.

Statutory Change: M.S. 216B.14 (affected; change may not be needed); 216B.62; 237.081 (affected; change may not be needed; & 237.295.

Dollars in Thousands

	Actual FY2008	Budgeted FY2009	Governor's Recomm.		Biennium 2010-11
			FY2010	FY2011	
<u>Non Dedicated Revenue:</u>					
Departmental Earnings:					
General	5,350	6,526	5,881	5,881	11,762
Total Non-Dedicated Receipts	5,350	6,526	5,881	5,881	11,762
<u>Dedicated Receipts:</u>					
Departmental Earnings:					
Miscellaneous Special Revenue	1,102	2,497	2,883	2,883	5,766
Other Revenues:					
Miscellaneous Special Revenue	232	40	40	40	80
Total Dedicated Receipts	1,334	2,537	2,923	2,923	5,846
Agency Total Revenue	6,684	9,063	8,804	8,804	17,608