

	<b>PAGE</b>
<b>Small Agency Profile .....</b>	<b>2</b>
<b>Agency Fiscal Page (Gov Rec) .....</b>	<b>7</b>
<b>Change Summary .....</b>	<b>8</b>
<b>Agency Change Items</b>	
⇒ Expediting Regulatory Decision-Making .....	9
<b>Federal Funds Summary .....</b>	<b>12</b>
<b>Agency Revenue Summary Fiscal Page .....</b>	<b>13</b>
⇒ Designates that this item is a change item	

**Agency Purpose**

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

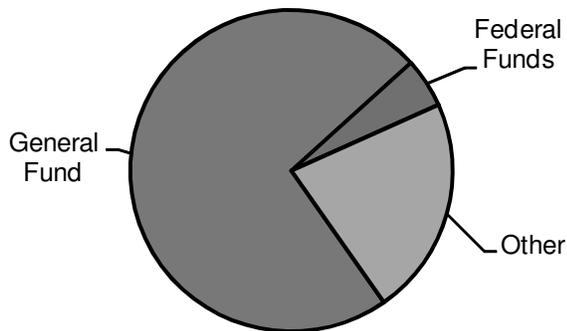
The Commission’s broad policy objectives are to

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

**At a Glance**

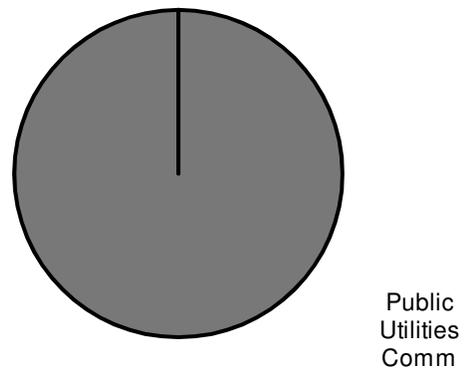
- **Focus on cornerstone industries:** Jurisdiction covers the largest providers of electric, natural gas, and telephone services, with revenues totaling over \$7.7 billion.
- **Decision-making:** Primary output is decision-making dictated by due process. Most cases cleared within 60 to 90 days.
- **Workload:** Average of 1,700 filings annually from 2005 through 2009; i.e., approximately seven filings per business 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 policy forums as well as regional electric transmission grid issues.

**Est. FY 2010-11 Expenditures by Fund**



Source: MAPS Data 08/2010

**Est. FY 2010-11 Expenditures by Program**



Source: MAPS Data 08/2010

## Strategies

To accomplish its policy objectives, the Commission provides a disciplined decision-making venue to:

- establish just and reasonable rates and terms of service;
- approve energy infrastructure that enhances the public interest;
- establish broad utility and telephone industry policies;
- adjudicate disputes among companies or other stakeholders concerning competitive conduct, service areas and other similar matters;
- provide a public forum for examination of issues and policies pertaining to the utility and telephone industries;
- mediate consumer complaints concerning services of telephone or energy utility providers; and
- represent Minnesota's interests in regional and national electric transmission policy forums.

## Operations

The Commission is a quasi-judicial and legislative body.

- The Commission 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.
- The Commission 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 Activity Goals & Measures

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
  - 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:

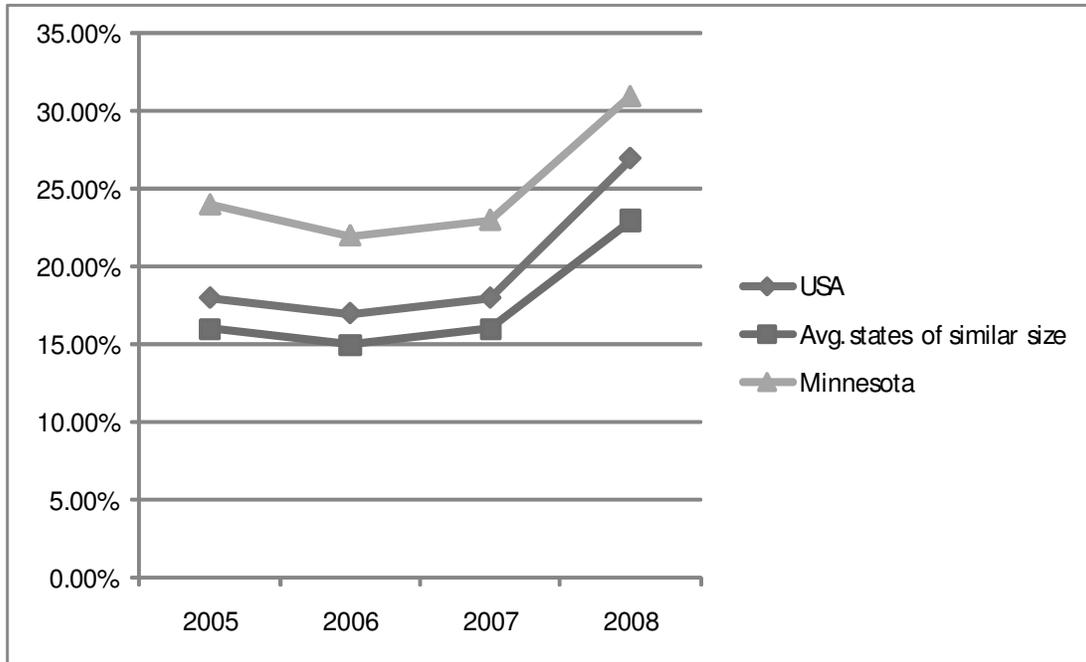
- Create and maintain a regulatory environment that ensures safe, reliable and efficient electric, natural gas and telephone services at fair and reasonable rates.

The following are measures the Commission considers when evaluating its performance on this goal:

**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

continued to increase through 2008 and at a pace that exceeded states of comparable population size<sup>1</sup> as well as the nation as a whole.

**Figure 1 - Market Share - Competing Firms**



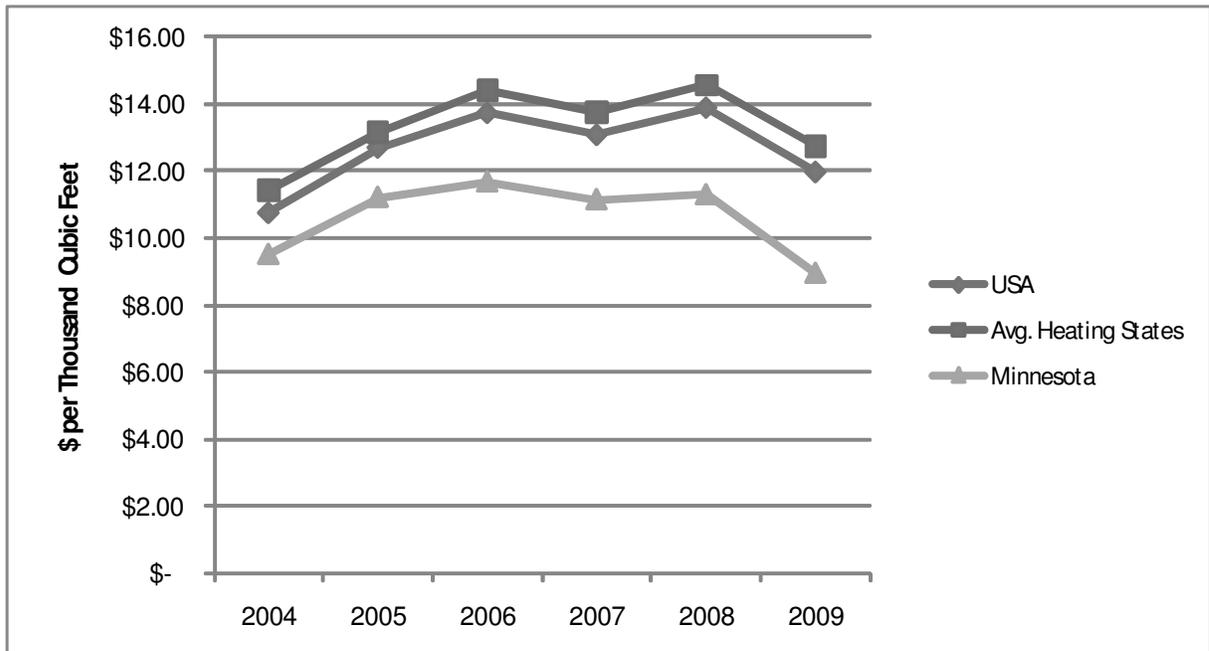
Source: "Table 11: Non-ILEC Share of Total End-User Switched Access Lines and VoIP Subscriptions by State," *Local Telephone Competition: Status as of December, 31, 2008*, U.S. Federal Communications Commission.

**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 states<sup>2</sup> as well as the nation as a whole, as seen in Figure 2. Likewise, Minnesota’s average retail electricity rates from 2005 through 2008 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.

<sup>1</sup> Colorado, Kentucky, Louisiana, Maryland, Missouri, South Carolina, Wisconsin

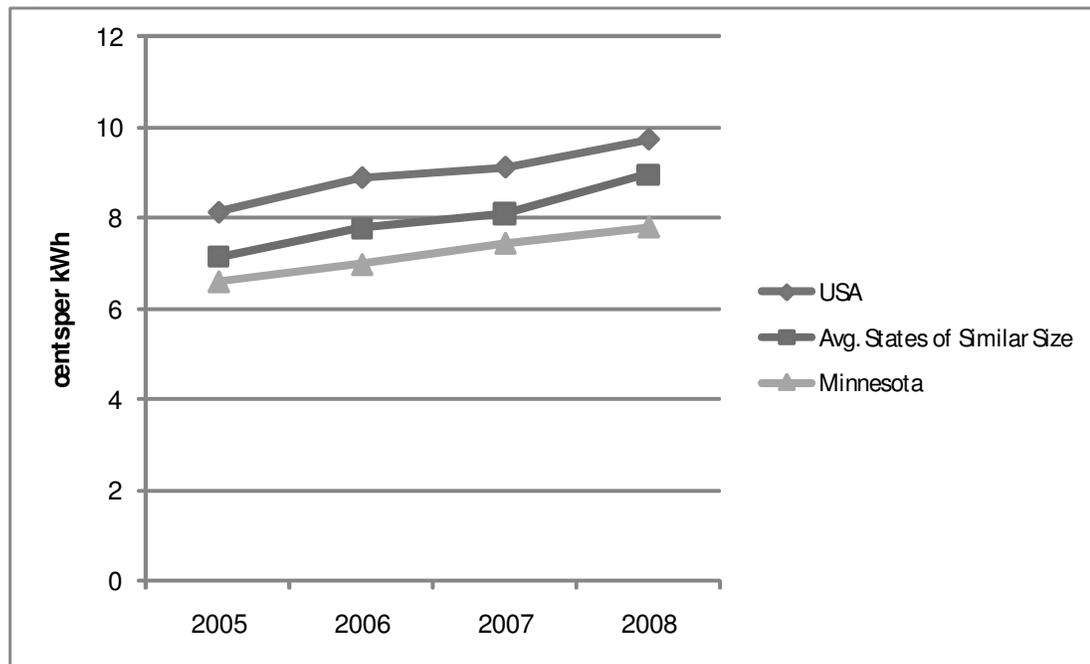
<sup>2</sup> Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Maine, Massachusetts, Michigan, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Vermont, and Wisconsin.

Figure 2 Residential Natural Gas Prices



Source: Natural Gas Prices – Residential Price, U.S. Energy Information Administration

Figure 3 Average Electricity Prices – All sectors



Source: "Table A1. Selected Electric Industry Summary Statistics by State", *State Electricity Profiles* (for the years 2005 through 2008), U. S. Energy Information Administration.

**Energy efficiency:** The American Council for and Energy Efficient Economy (ACEEE) ranks Minnesota 8th in its 2009 rating of state energy efficiency policies. Minnesota’s wide array of energy efficiency programs have been in place for many years and are held up as model for other states. The Commission has contributed to this effort by managing the biennial utility integrated resource planning process, setting financial incentives for meeting efficiency performance goals, leadership on energy efficiency issues through the National Association of

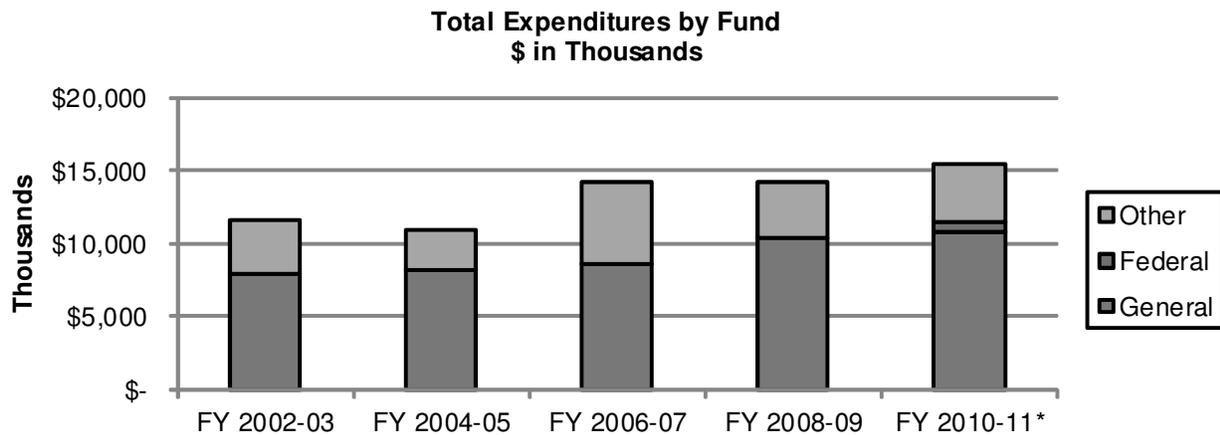
Regulatory Utility Commissioners, and, most recently, establishing criteria and standards for decoupling pilot programs and approving such a program for Minnesota’s largest natural gas utility.

**Installed Renewable Electric Generation Capacity:** The American Wind Energy Association reported that Minnesota’s in-state electric generation from wind resources was just over 9% in early 2010, which was 2nd highest among all states. The Commission has contributed to this growth in various ways: a) coordination of the 2006 Minnesota Wind Integration Study, b) approval of 24 large wind energy conversion systems since 2005, accounting for 2,189 MW of permitted capacity, c) approval of various transmission facilities needed to bring the wind resource to load, including a major line from the area of Brookings, South Dakota, to the Twin Cities, 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 42 (72 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 47th of the 50 states (40th if the related OES staff are included).

**Budget Trends**

100% of the biennial operating budget comes from the general fund. The agency consistently assesses nearly all 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.



\* FY 2010-11 is estimated, not actual

Source data for the previous chart is the Minnesota Accounting and Procurement System (MAPS) as of 08/2010.

**External factors affecting the Commission’s work include**

- increased frequency of rate case filings due to economic need and changing policy requirement;
- expanded statutory responsibilities (e.g., permitting of large energy facilities and enforcement of new renewable energy standards);
- expanded transmission planning activities in regional and national forums;
- enhanced policy goals to increase renewable electricity generation, promote energy efficiency and reduce emissions; and
- improved technology-including smart grid technology.

**Contact**

For additional information on Commission activities and decisions, access the main agency website at <http://www.puc.state.mn.us>.

Office of the Executive Secretary (651) 201-2219

Dollars in Thousands

	Current		Governor Recomm.		Biennium 2012-13
	FY2010	FY2011	FY2012	FY2013	
<b><u>Direct Appropriations by Fund</u></b>					
<b>General</b>					
Current Appropriation	5,433	5,433	5,433	5,433	10,866
<b>Recommended</b>	<b>5,433</b>	<b>5,433</b>	<b>6,182</b>	<b>6,182</b>	<b>12,364</b>
Change		0	749	749	1,498
% Biennial Change from 2010-11					13.8%
<b><u>Expenditures by Fund</u></b>					
<b>Direct Appropriations</b>					
General	4,961	5,905	6,182	6,182	12,364
<b>Statutory Appropriations</b>					
Miscellaneous Special Revenue	1,587	1,912	1,873	1,918	3,791
Federal Stimulus	57	570	256	0	256
<b>Total</b>	<b>6,605</b>	<b>8,387</b>	<b>8,311</b>	<b>8,100</b>	<b>16,411</b>
<b><u>Expenditures by Category</u></b>					
Total Compensation	4,115	4,594	5,163	5,148	10,311
Other Operating Expenses	1,153	2,363	1,675	1,435	3,110
Local Assistance	1,337	1,430	1,473	1,517	2,990
<b>Total</b>	<b>6,605</b>	<b>8,387</b>	<b>8,311</b>	<b>8,100</b>	<b>16,411</b>
<b><u>Expenditures by Program</u></b>					
Public Utilities Comm	6,605	8,387	8,311	8,100	16,411
<b>Total</b>	<b>6,605</b>	<b>8,387</b>	<b>8,311</b>	<b>8,100</b>	<b>16,411</b>
<b>Full-Time Equivalents (FTE)</b>	<b>47.2</b>	<b>49.8</b>	<b>47.8</b>	<b>46.3</b>	

<i>Dollars in Thousands</i>				
	FY2011	Governor's Recomm.		Biennium
		FY2012	FY2013	2012-13
<b><i>Fund: GENERAL</i></b>				
FY 2011 Appropriations	5,433	5,433	5,433	10,866
<b>Technical Adjustments</b>				
Current Law Base Change		(1)	(1)	(2)
<b>Subtotal - Forecast Base</b>	<b>5,433</b>	<b>5,432</b>	<b>5,432</b>	<b>10,864</b>
<b>Change Items</b>				
Expediting Regulatory Decision-Making	0	750	750	1,500
<b>Total Governor's Recommendations</b>	<b>5,433</b>	<b>6,182</b>	<b>6,182</b>	<b>12,364</b>
<b><i>Fund: MISCELLANEOUS SPECIAL REVENUE</i></b>				
Planned Statutory Spending	1,912	1,873	1,918	3,791
<b>Total Governor's Recommendations</b>	<b>1,912</b>	<b>1,873</b>	<b>1,918</b>	<b>3,791</b>
<b><i>Fund: FEDERAL STIMULUS</i></b>				
Planned Statutory Spending	570	256	0	256
<b>Total Governor's Recommendations</b>	<b>570</b>	<b>256</b>	<b>0</b>	<b>256</b>
<b><u>Revenue Change Items</u></b>				
<b><i>Fund: GENERAL</i></b>				
<b>Change Items</b>				
Expediting Regulatory Decision-Making	0	750	750	1,500

<b>Fiscal Impact (\$000s)</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
General Fund				
Expenditures	\$750	\$750	\$750	\$750
Revenues	750	750	750	750
Net Fiscal Impact	\$0	\$0	\$0	\$0

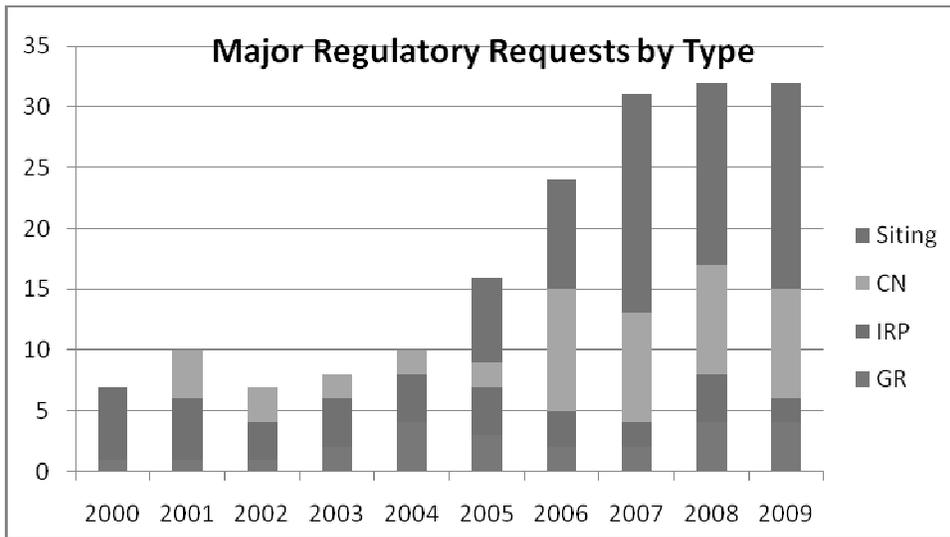
**Recommendation**

The Governor recommends a General Fund increase of \$1.5 million in FY 2012-2013 for four utility technical analyst positions (economic, financial and statistical), two engineering positions, one attorney position, and one facilities planner position. These additional staff resources are needed to expedite processing of utility filings. Due to the Commission’s assessment of utilities, all expenditures are recovered for the General Fund.

**Background**

The Commission’s work has continued to grow in complexity over recent years, due to an expanded role in state regulatory matters.

The Commission’s jurisdiction over energy-related matters has dramatically increased in the past five years. The 2005 legislature consolidated permitting and planning requirements for large energy facilities by transferring jurisdiction for Siting and Routing Permits from the Minnesota Environmental Quality Board (MEQB) to the Commission. This legislation also transferred jurisdiction for wind farm siting (216F) and pipeline siting (216G) from the MEQB to the Commission. In addition, there has been a sustained pattern of more frequent rate case filings by electricity and natural gas utilities. The resulting growth in workload is evidenced by the following chart:



It is important to underscore that these are just four categories of filings the Commission must manage. There are many other types of proceedings as well and the Commission has consistently had total annual filings (of all categories) in the 1,800 to 2,200 range over this period. However, the four categories shown on the chart are the most labor-intensive. They account for a large amount of commissioner and staff time and can take from several months to over a year to complete. It is important to note that, during this time period, the complement of the Commission staff has not been increased to meet this burgeoning workload.

As a result of this sustained increase in workload, and particularly, general rate case filings, the Commission has sought greater procedural flexibility. For example, it sought authority from the 2009 legislature to extend statutory deadlines for decision-making in general rate cases from nine months to 12 months. General rate proceedings are among the most demanding proceedings the Commission must manage. Fortunately, that authority was granted. And while this allowed the Commission to “meet” deadlines, utility business plans were delayed as a

result. Nevertheless, utilities supported this procedural change to address these workload issues. They have also expressed support for increasing Commission resources to more expeditiously process their requests.

The Commission seeks four technical analyst positions, one facilities planner position, two engineering positions and one staff attorney position for rate filings, policy compliance and general management of the increased trend of complex and contested filings before the Commission.

With this requested budget item, the Commission would extend the funding for two of three engineer positions currently on staff, but paid for with a federal grant. This federal funding ends on December 31, 2011. The basis for the Commission's need for these engineering positions is several fold: a) the prominence of energy infrastructure upgrades, especially transmission, as part of the State and national energy strategies, and the Commission's role in those issues; b) the emergence of regional operational control as well as planning and expansion of the transmission grid by the Midwest ISO and the corresponding need for active involvement by state regulators in the Midwest ISO's activities; and c) the substantially expanded role of the Commission stemming from the 2005 legislative session to now encompass authority to plan for and approve large energy facilities in the State. In addition, engineering expertise would be valuable in many proceedings dealing with ratemaking as well as resolution of consumer complaints.

### **Relationship to Base Budget**

The proposed change represents approximately 14% of the agency's operating budget. This is a significant increase. However, the Commission's staff size (even if OES is included) has for some time lagged substantially behind utility regulatory agencies in states of comparable size. The Commission's existing staff and structure was geared for an earlier time, when utility and telephone regulation was more staid and predictable. That has changed. Over the years, the Commission has tried to compensate by re-engineering its processes and technology to remain productive without adding substantial staff resources. The aforementioned effort to secure authority to extend rate case deadlines is an example of this. Another example is the implementation of electronic data management technology. However, a point has now been reached where staff resources are needed to address these issues. Minnesota needs to catch up or risk being left behind. Though this is a substantial increase for the Commission, these costs will be recovered for the General Fund through the agency's assessment process.

### **Key Goals and Measures**

This proposal 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
  - 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

The major measurable result of this change item is expected to be faster processing of utility filings. With current resources, process time has unavoidably lagged on some filings. This change item will help to eliminate that lag.

In addition to making more timely decisions, the change item will enhance the Commission's ability to make well-informed decisions. The additional resources will strengthen the staff's ability to ensure case records are well developed and complete.

**Alternatives Considered**

The primary strategy the Commission has used over the last several biennia to manage its work-load with limited staff resources has been the focused use of technology and stream-lining of decision-making processes. In addition, the Commission has, on occasion, relied on outside sources to address specific needs. However, there are no technological or procedural "fixes" for the assistance needed at this time. In addition, reliance on outside resources for these services would be much more costly than the amount proposed here.

**Statutory Change:** *Not applicable*

The PUC applied for and received a grant from the U.S. Department of Energy under The American Recovery and Reinvestment Act (ARRA) to facilitate timely PUC consideration of regulatory actions related to electric utility infrastructure modernization in Minnesota and the Midwest. Funding provided resources to hire 3 temporary electricity specialists and train 20 PUC staff and commissioners. This temporary funding provided needed resources to manage increased regulatory activity resulting from electricity-related issues including: energy efficiency, renewable energy, energy storage, Smart Grid, Plug-in Electric Vehicles, demand response, coal with carbon capture and storage, and transmission and distribution planning.

ARRA funding is scheduled to expire December of 2011.

Federal Award Name + Brief Purpose	New grant	Required state match/MOE? Yes/No		SFY 2010 Revenues	SFY 2011 Revenues	Estimated SFY 2012 Revenues	Estimated SFY 2013 Revenues
		Match	MOE				
<b>Recovery Act</b>  <b>State Electricity Regulators Assistance:</b> provides funding for additional staff and enhanced training of existing regulatory staff to ensure that sufficient technical expertise will be dedicated to electricity-related regulatory activities.	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>57,000</b>	<b>570,000</b>	<b>256,000</b>	<b>0</b>
<b>Total</b>				<b>57,000</b>	<b>570,000</b>	<b>256,000</b>	<b>0</b>

**PUBLIC UTILITIES COMM**

Agency Revenue Summary

*Dollars in Thousands*

	<b>Actual FY2010</b>	<b>Budgeted FY2011</b>	<b>Governor's Recomm. FY2012    FY2013</b>		<b>Biennium 2012-13</b>
<b><u>Non Dedicated Revenue:</u></b>					
<b>Departmental Earnings:</b>					
General	5,119	7,740	6,652	6,652	13,304
<b>Total Non-Dedicated Receipts</b>	<b>5,119</b>	<b>7,740</b>	<b>6,652</b>	<b>6,652</b>	<b>13,304</b>
<b><u>Dedicated Receipts:</u></b>					
<b>Departmental Earnings:</b>					
Miscellaneous Special Revenue	2,299	2,394	2,332	2,273	4,605
<b>Grants:</b>					
Federal Stimulus	57	570	256	0	256
<b>Other Revenues:</b>					
Miscellaneous Special Revenue	13	14	14	13	27
<b>Total Dedicated Receipts</b>	<b>2,369</b>	<b>2,978</b>	<b>2,602</b>	<b>2,286</b>	<b>4,888</b>
<b>Agency Total Revenue</b>	<b>7,488</b>	<b>10,718</b>	<b>9,254</b>	<b>8,938</b>	<b>18,192</b>