

March 31, 1995

DOCKET NO. E-999/CI-90-1002

ORDER CLOSING DOCKET

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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| Don Storm | Chair |
| Tom Burton | Commissioner |
| Joel Jacobs | Commissioner |
| Marshall Johnson | Commissioner |
| Dee Knaak | Commissioner |

In the Matter of an Investigation into
Minnesota Electric Utilities' Service Extension
Policies

ISSUE DATE: March 31, 1995

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PROCEDURAL HISTORY

On December 3, 1990, the Commission issued its ORDER INITIATING AN INVESTIGATION INTO MINNESOTA ELECTRIC UTILITIES' SERVICE EXTENSION POLICIES in this docket, directing the Minnesota Department of Public Service (the Department) to make a report on the following issues:

1. the public's inadequate understanding of utilities' service extension policies and what to do about it;
2. whether service extension tariffs contain enough detail to give builders, developers, and members of the public reliable information on the actual costs of specific service extensions;
3. the significant differences in the utilities' treatment of new service extensions;
4. the competitiveness of rates charged for service extensions; and
5. alternatives to lump sum advance payments of the costs associated with longer-than-normal service extensions.

On April 2, 1991, the Department submitted its Report. After conducting its investigation, the Department concluded and recommended that:

- there was no need to adjust any of the thresholds for applying extension charges,

- the electric utilities incur similar extension costs. However, each utility should meet with the Department and Commission staff to discuss each utility's treatment of O&M expenses, tax liabilities for customer payment, and the possibility of offering finance options, and
- better and more consistent information should be provided to customers. Customers should also get itemized project cost estimates and forms showing how their extension charges were determined.

RUD-OAG Comments

On May 15, 1991, the Residential Utilities Division of the Office of the Attorney General (RUD-OAG) submitted comments supporting the Department's Report and recommendations.

NSP Comments

On May 16, 1991, Northern States Power Company (NSP) submitted comments on the Department's Report and conclusions. NSP believes many of the specific issues concerning its service extension policies and customer information materials have been addressed in the James Kruger complaint proceeding, in Docket No. E-002/C-90-531.

NSP agreed with the Department's conclusion that there was no need to adjust any of the threshold levels at which extension charges are assessed to customers.

NSP believes the operating & maintenance (O&M) expenses associated with longer than normal extension should be paid by the party receiving the extension. (NSP stated that this was the approach approved by the Commission in its December 3, 1990 Order, in Docket No. E-002/C-90-531, on the Kruger complaint.)

NSP also expressed interest in discussing with the Department and other interested parties how the tax treatment of customer contributions-in-aid-of-construction (CIAC) should be reflected in its service extension policies as well as whether it should offer its customers alternative payment (financing) options.

NSP agreed with the Department that better customer information was appropriate. NSP believes it has addressed this concern as directed in the Commission's December 3, 1990 Order, in Docket No. E-002/C-90-531, on the Kruger complaint. NSP states that it is developing new customer information materials and standardized forms for its service personnel to use when making estimates of service extension charges.

MP Comments

Also on May 16, 1991, Minnesota Power (MP) submitted comments on the Department's Report and conclusions.

MP agreed with the Department's first conclusion that there was no need to adjust any of the threshold levels at which extension charges are assessed to customers.

MP does not believe it is appropriate for future O&M expenses to be recovered through the service extension charge. MP believes these costs should be recovered in base rates because the original customer paying for the service extension may not be located in the service location indefinitely.

MP does not believe it is necessary to recover its tax liability on CIAC payments from individual customers. MP receives approximately seventy CIAC payments per year. MP argued that spreading the liability over its entire system has a minimal impact on rates and allows all customers to take advantage of the tax benefits associated with higher depreciation expenses. MP believes an individual assessment of those liabilities could have a large, adverse impact on those customers who need to make contributions-in-aid-of-construction in order to get service.

MP noted that it does offer financing to customers who make CIACs if they have good credit ratings. MP will finance up to \$3500 for five years at 9.6%.

MP disputed the Department's recommendation that it provide better and more consistent information along with an itemized project cost estimate showing how the extension charges were calculated. MP argued that all customers who request a service extension are contacted at least twice and are given detailed written materials that explain MP's service extension policies. MP states that it does not routinely give out written estimates and that only a few customers (out of approximately 70 customers per year who are charged for service extensions) request such information. In those cases, MP supplies the additional information that is requested. MP does not believe there is any support for the Department's conclusions but is willing to voluntarily modify its policy and procedures if such support exists.

On March 23, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

Electric utilities provide service to new customers under individual company service extension tariffs. These tariffs specify what length of service extension each new customer is entitled to receive without charge and how much they will have to pay for extensions that exceed the allowance amount.

One purpose of a tariffed service extension policy is to ensure that all new customers receive the same treatment. In theory, if the service extension tariffs are appropriately set and the electric utility strictly follows its tariff then the utility and the utility's customers are being treated fairly.

Based on its review, the Commission believes that its approach to electric utility service extension policies is generally appropriate. The Commission's method provides a balance between the two main approaches to service extension rate design.¹

At the same time, the Commission believes that it would be beneficial to review the companies' electric utility service extension policies individually for consistency in the terms of service and the fairness of the refund provisions. The Commission does not find that this docket is required to conduct such reviews, however.

The Commission's Consumer Affairs Office will continue to handle any individual consumer complaints on a case by case basis and bring them to the Commission's attention, as necessary. In addition, if a utility's service extension policies do not come under Commission review through the complaint process before the utility's next rate case, the Commission will see that they are reviewed in that case.

Commission Action

Accordingly, the Commission will receive the Department's Report, terminate this investigation, close the docket, and defer further consideration of electric service extension policies to utility specific rate case and complaint proceedings.

When the Commission considers NSP's and Dakota Electric Association's policies, it is likely that among the issues explored will be customer financing options for service extensions. When it reviews MP's policies, a likely issue will be the feasibility of stand-alone renewable systems.

¹ The two main theoretical approaches are 1) the *rolled-in-rates* approach which allows utilities to extend service to new customers without charge and 2) the *incremental-rates* approach which requires all new customers to pay their own way, i.e. the full cost of their service extensions, at the time they connect to the utilities' system. The method used by Minnesota investor-owned electric utilities is a compromise between these two opposing approaches.

ORDER

1. This investigation is hereby terminated and the docket opened for it, E-999/CI-90-1002, is closed.
2. Each company's electric service extension policies shall be considered, either in complaint proceedings against such company initiated prior to the company's next rate case or in the company's next rate case, whichever comes first.
3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)