

L The ALJ

The ALJ adopted the OAG proposal for an even across the board application of the average overall increase to the Residential, General Service, LL&P, LP, Municipal Pumping, and Lighting classes. He concluded that none of the proposals for large increases to the Residential class were reasonable, moderate, or consistent with prior Commission decisions. Moreover, he decided that concern for the economic situation of the LP customers should not overshadow the same concern for the Residential, General Service, and LL&P classes.

According to the ALJ, at no time in the past has the Commission ordered revenue responsibility for the Residential class based solely on cost. He found that the underrecovery of revenue from the Residential class is a product of prior Commission decisions. In past decisions, the Commission allocated revenue responsibility to the LP class consistent with the higher risks of serving that class.

The ALJ also concluded that the 18% increase proposed by MP for the General Service class would have a negative impact on the small business customers in MP's service area. He found that the small business customers represent a very important sector of the economy in northeastern Minnesota.

The ALJ found that the record of the case indicates a more positive economic situation for LP customers in the near future. In addition, the ALJ noted that the Commission has ways to address the needs of the LP customers outside of a rate case.

The ALJ recommended that the additional revenues from National be distributed using the same apportionment methodology described above, an even across the board application to all classes.

C. Commission Action on Residential Class Revenue Allocation

1. Summary of Commission Action

The Commission finds that the facts of this case support and require shifting responsibility for more of the Company's revenue requirement to the residential class. The Commission will authorize a 21% residential rate increase, phased-in over three years to mitigate its impact. The first year increase will be 13.5% over pre-rate case rates.¹³ The second and third year increases will be 3.75% over pre-rate case rates. The first and largest increase will apply only to usage amounts exceeding the "lifeline" usage level of 350 kWh.

This increase is lower than the proposals submitted by the Company, the Department, and the large volume customers and higher than the proposals submitted by the RUD-OAG and the Senior Federation. The Commission believes this increase represents the most equitable and workable balance of the cost and non-cost factors that govern rate design.

¹³ The first year increase can be larger because the potential for rate shock has been reduced by customers' paying higher rates during the interim rate period.

This action does not reflect a fundamental rethinking of the role of cost and non-cost factors in rate design, a retreat from the Commission's longstanding commitment to affordable residential rates, or any other major policy reversal. It reflects the careful application of traditional rate design principles, the Commission's expertise, and its best judgment, to the facts of this case.

This decision is explained more fully below.

2. The Costs of Serving the Residential Class Have Increased and Are Asymmetrical with Residential Rates

Cost studies are imprecise tools, and the actual costs of serving any customer class can be debated interminably. In this case, however, no one disputes the point that residential rates do not recover the costs of serving residential customers. The disputes center around the amount of the shortfall and how the Commission should treat the shortfall in designing rates.

The Company's cost studies show that an 82.5% increase would be required to bring residential rates to cost; the Department's cost studies show that a 100% increase would be required.¹⁴ Current residential rates average 5.388 cents per kWh; a reasonable approximation of the average cost of that kilowatt hour is 9.377 cents.

The gap between the residential class's contribution to the revenue requirement and the contributions of other classes has grown since the Company's last rate case, because the costs of serving residential customers have increased. Since 1988 the Company has increased its investment in its residential distribution system by some 60%, or \$13.5 million. Rate base has otherwise generally declined. Similarly, the Company has upgraded its customer accounting processes, increasing expenses in that area by 80%.

In short, the cost increases driving this rate case are largely attributable to serving residential customers. This fact, while not determinative, is an important consideration in allocating revenue responsibility among the customer classes.

3. Large Customers Cannot Pick up the Slack

It is axiomatic that non-cost factors play an important and often decisive role in rate design. Ability to pay, ability to pass on and diffuse costs, ability to deduct costs from taxes, rate stability, efficient use of resources, and impact on conservation are typical non-cost factors the Commission considers in designing rates.

The RUD-OAG and the Senior Federation argue that non-cost factors justify or require assigning the residential class responsibility for no more than a pro rata share of the revenue increase awarded in this case. They believe large volume customers, especially Large Power

¹⁴ The difference is due mainly to differences in projected revenue requirement, not cost allocation between customer classes.

customers, can absorb cost increases more readily than residential customers and that their contribution to the costs of providing residential service should increase to the extent necessary to hold residential rate increases to a pro rata share of the total rate increase. The Commission disagrees.

There are limits to the ability of large volume customers, especially Large Power customers, to absorb rate increases. The Commission believes pro rata increases would stretch if not exceed those limits.

The taconite producers, who with the wood and paper products industry account for 54% of Minnesota Power's revenues, have introduced persuasive evidence that intense global competition has severely reduced their ability to pass on and diffuse utility cost increases. Although there is widespread optimism that the industry's low point is behind it, capacity remains 35% below levels prevailing 15 years ago. Furthermore, taconite production is such an energy-intensive process (electricity constitutes 16% of production costs) that increased energy costs can jeopardize individual producers' survival.

Potlatch, a large wood and paper products producer, introduced persuasive evidence that tight profit margins in that industry force continual rethinking of all components of production costs. This rethinking has already led Potlatch to produce 70% of its own energy.

In short, this Commission's ability to place more responsibility for total system costs on large ratepayers is at or near its limits.¹⁵ Self-generation is clearly a realistic alternative to purchasing power for price-sensitive customers heavily dependent on electricity. Self-generation harms the system and all remaining customers by shifting to remaining customers the portion of fixed costs formerly borne by the self-generator.

Even worse than self-generation, however, is plant closure. Energy costs can significantly affect profits in energy intensive industries such as taconite production and can contribute to business failure. This is worse than self-generation because not just the utility system, but the community itself is deeply and adversely affected.

The Commission concludes that under current conditions it would be imprudent and counterproductive to increase rates for large customers to the extent necessary to limit the residential rate increase to a pro rata share of the overall increase.

4. The Authorized Increase is Just and Reasonable

The Commission is keenly aware of the economic distress many of the Company's residential customers face and knows that that distress is more prevalent and intractable in northeastern

¹⁵ By this the Commission does not imply it would impose those costs on large customers if it could. If the ability to shift costs were there, the Commission would have to carefully consider fairness, efficient use of resources, conservation effects, and all other cost and non-cost factors before reaching a decision.

proposals for higher increases represented major departures from Commission precedent and major policy reversals. He would perhaps place the increase approved here in that category as well.

While the Commission appreciates this close attention to earlier Orders and articulated policy, the Commission does not read previous Minnesota Power Orders as the Administrative Law Judge does. The two 1988 Orders, for instance, were clearly grounded in the unique facts of that case -- the Company had come in for a rate increase and had received a decrease instead. The Commission expressed concern about the apparent imbalance between the costs of providing residential service and residential rates in the first Order, but concluded as follows:

The Residential class appears to be the customer group most below cost based solely on the results of the cost of service studies. However, the Commission has already found that the class cost of service study overstates the Residential, and other non-LP class, revenue responsibilities due to changes in LP usage patterns. The Commission finds the unreliability of the cost study results discussed previously, coupled with non-cost factors such as the economic situation of Residential customers in MP's service area, make it reasonable to maintain the Residential class revenues at the level existing before the rate case filing.

In the Matter of the Petition of Minnesota Power & Light Company, d/b/a Minnesota Power, for Authority to Change Its Schedule of Rates for Retail Electric Service in the State of Minnesota, Docket No. E--15/GR-87-223, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER (March 1, 1988) at 91.

Significantly, however, that Order rejected requests to lower residential rates and granted requests to lower Large Power and Lighting rates. Then, on reconsideration the Commission increased residential rates by 1% overall, when faced with the need to make up an additional \$2,636,529 revenue deficiency.¹⁷

These Orders by no means established a conscious policy to go to extraordinary lengths, then or in the future, to shield residential customers in this economically distressed area from rate increases. In fact, residential ratemaking issues were not treated in detail in either Order.

Finally, it is important to remember that no rate case issues are more intimately bound to particular facts, more legislative in nature, and less amenable to resolution by precedent, than rate design decisions. The 1988 rate design decisions were tied to the facts of that rate case, just as the rate design decisions made here are tied to the facts of this rate case. There, as here, no long term policy on residential rates was considered practical or desirable.

¹⁷ ORDER AFTER RECONSIDERATION AND REHEARING (May 16, 1988).

The factors bearing on rate design are dynamic and unpredictable over time. The Commission must preserve its ability to deal fairly and effectively with the situation each rate case presents.

D. Commission Action on Non-Residential Class Revenue Allocation

The Commission finds that the facts of this case support the application of the overall increase¹⁸ to the General Service, Municipal Pumping and Lighting classes. These classes, except for the Lighting class, are currently paying rates of return above the system average rate of return. For this reason, the Commission will authorize a 6.5% rate increase, which includes the distribution of the National revenues, to these three classes.

Since the LL&P and LP classes are paying class rates of return well above the system average, the Commission finds it appropriate to authorize a lower increase for these two classes. In addition, the Commission finds it appropriate to distribute revenues resulting from the phased-in increase to the Residential class back to the LP and LL&P classes as a credit.

Although there are discrepancies in the record regarding the actual class rate of return for the Lighting class, the Commission recognizes that both cost studies indicate that this class is paying below the system average rate of return. For this reason, the Commission finds it appropriate to authorize the overall increase for this class. The Commission encourages the Company to develop an appropriate Lighting customer cost allocation method to be included in its next rate case.

The Company proposed an increase of 20.13% for the Dual Fuel Residential class and an increase of 45.63% for the Dual Fuel Commercial class. LLPG objected that there was insufficient cost information in the record to support the proposed changes. The Commission finds that these increases are intended to reflect current costs and market conditions and that contrary to LLPG's assertion, there is sufficient cost information in the record to support the proposed increases. There was no other objection to the Company's proposals. Therefore, the Commission finds these increases to be appropriate.

E. Allocation of National Revenues

The Commission finds it appropriate that all classes share fairly in the revenues derived from the National reopening. For this reason, the Commission authorizes that the non-test year National revenues be apportioned to all non-interruptible classes on a proportional basis as recommended by the Department.

¹⁸The overall increase granted by the Commission in this case is about 6.4%.

F. Residential Class Rate Design

1. Consolidation of Residential Rate Areas

a. Minnesota Power's Proposal

MP proposed to consolidate Residential Rate Areas I, II, and III into a single residential rate area. MP testified that the current rate levels vary slightly by rate area. It also testified that the elimination of the three distinct rate areas would simplify the residential rate and reduce administrative costs of applying the rate.

b. The Department

The Department recommended that the Company's proposed consolidation of the three residential rate areas be rejected. Department witness John Kundert testified that the Company had not performed a cost study that indicates whether the costs of serving the different rate areas are the same, or that consolidation would reduce costs.

c. The ALJ

The ALJ supported the Department's recommendation. He concluded that MP had not provided evidence indicating that the cost of serving the three rate areas is the same, or that the proposed consolidation would reduce costs.

d. Commission Action

The Commission adopts the Company's proposal to consolidate the three residential rate areas. The Commission expects that the consolidation will promote efficiency and reduce costs. It notes that the record does not demonstrate quantifiable cost savings from the consolidation. However, the Commission finds that it is reasonable to assume that some cost savings and certainly increased efficiencies will occur as a result of the consolidation.

To the extent that the existing classification into three rate areas is arbitrary and does not reflect cost, the Commission finds the existing separation to be unfair. The Commission notes that the situation in which two customers live next to each other but pay different rates often causes confusion. The consolidation will eliminate any such confusion.

2. Residential Customer Charge

a. Minnesota Power's Proposal

The Company proposed to increase the existing residential customer charge from \$4.12 in Rate Area I, \$4.17 in Rate Area II, and \$4.22 in Rate Area III, to \$5.00 for the consolidated residential rate area. The customer charge would continue to include the first 50 kWh of

usage. Because the Company's CCOSS shows that the current customer charges underrecover customer-related costs, the Company proposed an increase in the customer charge that is larger than the increase to other energy blocks.

The Company also proposed that the entire amount of any phased-in increase be applied to the customer charge. Under the Company's proposal, the residential customer charge would go up by \$1.34 in 1996 and by the same amount in 1997. This implies a customer charge of \$5.00 in 1995, \$6.34 in 1996, and \$7.68 in 1997.

b. The Department

Initially, the Department recommended that more of the proposed rate increase be applied to the customer charge (than proposed by the Company), since the Department's CCOSS indicates a residential customer cost of \$34.32. However, in its Initial Brief, the Department recommended adoption of the Company's proposal.

c. Seniors

The Seniors proposed that MP's minimum bill, which included the customer charge, be maintained at a low level and that any revenue to be recovered be recovered through the energy charges. The Seniors proposed that the customer charge not be increased to more than \$5.00 even after a phased-in increase.

d. The ALJ

The ALJ found that the Company's proposed rate structure for residential rates should be revised. He recommended that it be revised so as to lessen the impact on low income ratepayers and to more reasonably share the increase with those residential ratepayers who are more able to pay.

He concluded that MP's proposal for residential rate design places most of the increase on the front end charge, the customer charge and lifeline block. This structure affects low income ratepayers more adversely than other residential ratepayers.

The ALJ found, as part of any future rate case filing containing large increases for residential customers, that the Company should file a plan for reducing the impact of the increase on low income residential customers.

e. Commission Action

The Commission will adopt the Company's proposal to increase the customer charge to \$5.00 as part of the initial increase to residential rates. However, the Commission will not adopt the Company's proposal to apply the phased-in increase to the customer charge. Instead, the Commission will apply the phased-in increases in 1996 and 1997 to the energy rate blocks and not to the customer charge.

There are several reasons for this. First is the confusion and annoyance expressed by residential ratepayers at the prospect of a higher customer charge. The Commission finds that residential rates should be understandable and credible to those who pay them.

Second, the record of this case clearly demonstrates that increases to the customer charge create significant billing impacts on low use customers. The record also demonstrates that low income customers are least able to absorb a large rate increase. In addition, increases to the customer charge, as proposed by the Company and the Department, would have a significant billing impact on all customers taking service at the lifeline rate level.

Third, charges unrelated to usage conflict with conservation incentives, and the Commission is unwilling to send this anti-conservation signal to the residential class.

None of the reasons for increasing the customer charge, better resource allocation through more accurate price signals, greater revenue stability, fairer distribution of fixed costs, reach a level of importance that justifies the adoption of a confusing rate structure or one that will create rate shock for low use customers.

In sum, the Commission believes a \$5.00 customer charge compares well across the country, and recognizes the economic situation of MP's residential ratepayers.

3. Residential Energy Charge

a. Minnesota Power's Proposal

The Company proposed to maintain a lifeline rate feature in its residential rate. MP's lifeline rate applies to all residential customers and it ensures that an essential level of usage is provided at an affordable level. MP's residential rate design also contains a declining tail block.

MP proposed an increase of 12% to the lifeline energy block, an increase of about 20% to the energy block for usage between 350 and 700 kWh (i.e. the mid block), and, an increase of about 15% for the tail block.

b. The Department

The Department testified that it has consistently recommended elimination of block rate structures because these rate structures have no cost basis. However, it noted that flattening the Company's block structure while imposing a large overall increase could have extreme billing impacts on low-use customers. Consequently, the Department proposed maintaining the Company's block rate structure. However, it recommended that MP move toward reducing and ultimately eliminating its block rate design in future rate cases.

c. Seniors

The Seniors proposed that the Company's customer charge remain at a low level and that any revenue to be recovered be recovered through the energy charges, first to the tail block and then to the mid block. This proposal results in flattening the rate for usage above 350 kWh.

The Seniors maintained that this rate design would help those most in need of help, and lets those who can most afford it to pay. According to the Seniors, this rate design proposal: (1) avoids disproportionately harsh billing impacts to low use customers; (2) promotes the conservation of energy; (3) promotes economic efficiency; and (4) promotes continuity in rates.

The Seniors noted, by January 1997, under MP's proposal for residential rates, the lifeline rate would increase by 33%. The customer charge would increase by 88%. The Seniors argued that the Commission look closely at how customers are effected at the various usage levels and not just to look at an "average" ratepayer.

The Seniors introduced Exhibit 104 into the record of the case. This Exhibit shows that low-use customers generally have less income and have small households. It maintained that kWh usage is not only related to income, but to household size as well. For this reason, the Seniors argued the greatest impact of MP's proposal is on small, low-income households.

d. Commission Action

The Commission supports the Company's proposal to maintain the lifeline rate feature of the residential rate. It also finds that, given the record in this case, increases as large as 33% are too dramatic for customers at this usage level (i.e. below 350 kWh). For these reasons, the Commission will adopt the proposal by the Seniors to apply the initial increase, first to the tail block, and next to usage above 350 kWh. The phased-in increase will be applied in equal percentage increases to all three rate blocks.

The Commission's intent is to apply the initial and phased-in increases to the three rate blocks in a way that will preserve the lifeline rate structure. The Commission is concerned that customers at the lifeline usage level (i.e. 350 kWh and below) be protected from dramatic rate increases.

The Commission notes, however, that it does not have information on billing impacts of this decision (given the revenue deficiency level authorized in this case). To the extent that billing impacts are too dramatic at any usage level, the Commission may modify the way in which the initial and phased-in increases are applied to the three rate blocks.

4. Customer Assistance Program for Low Income Customers

a. Seniors' Proposal

The Seniors witness Pam Marshall proposed a comprehensive customer assistance program to assist low income residential customers. She argued that Minn. Stat. 216B.16, subd. 14, passed in the 1994 legislative session, provides that the Commission may establish programs for low income residential ratepayers in order to ensure affordable reliable and continuous service to low income utility customers.

The Seniors' proposal for a customer assistance program included six components: affordability; arrearage forgiveness; shut-off protection; targeted conservation; coordination with Energy Assistance Program providers; and, the use of fuel funds for customers in a utility-related emergency.

The Seniors argued that customer assistance programs have been proven to reduce collection and write-off costs as well as other costs. They proposed that the Commission order MP to study all of the potential saving such a program has to offer and to design a program using those savings.

b. Minnesota Power

In response to the Seniors' proposal for a customer assistance program, Company witness Allen Harmon argued that MP's residential service was already priced at less than its full cost of service.

For this reason, the Company opposed further discounts to residential service. However, witness Harmon testified that the Company was willing to work with Commission and Department staff, and other interested parties to develop an assistance program, the cost of which could be offset by reduced credit and collection costs. He also testified that conservation program development, under the provisions of the CIP legislation targeting low income customers, should be done in separate CIP proceedings.

c. The Department

Department witness John Kundert testified that the Company's proposed rate increases and rate design may have a unbalanced effect on low use, low income customers. For this reason, he proposed that the Company be required to review its existing low income programs to see if these programs could be used to reduce rate impacts for low income customers.

Witness Kundert specifically noted that the Department is opposed to low income rates for residential customers. He argued that the redistribution of income is a function best left to the social welfare system. He also noted that the Department believes that arrearage forgiveness send an inappropriate signal to low income ratepayers and that the Commission's cold weather rule already provides shut-off protection during cold weather season. He also suggested that targeted conservation be discussed as part of the Company's CIP program.

Department witness Kundert suggested that a fuel fund based on voluntary contributions might be a reasonable addition to the Company's customer assistance program.

d. Commission Action

The Commission finds that a fuller review of all the potential components of a customer assistance program, as discussed in the record of the case, would be of benefit to MP and to all its customers. For this reason, the Commission will require the Company to work with the Commission, Department and RUD-OAG staff, and interested parties to discuss and/or

develop a customer assistance program for low income residential customers.

This work group, among other things, should review: the six components of a customer assistance program as proposed by the Seniors, the existing and potential CIP programs for low income customers, and, the potential for a voluntary fuel fund as proposed by the Department.

The Commission notes that the Seniors testified that customer assistance programs in other states have reduced collection and write-off costs as well as other costs. Moreover, the Seniors have introduced evidence into the record showing that arrearage forgiveness programs have the potential to reduce rather than to create additional costs for the Company. The Commission would like the work group to explore these types of potential cost savings.

In addition, the Commission would like the work group to review all the programs under CIP that target low income customers. The Commission is concerned about the comparatively small portion of CIP funds that are directed to low-income customers given their numbers. The Commission is also concerned by the low participation rates that the Company has achieved in its low-income residential CIP programs as demonstrated by RUD-OAG Exhibit 31.

The Commission will expect a report from the work group within a reasonable period of time but no later than June 30, 1995.

5. Residential Dual Fuel Interruptible Service

The Company proposed to increase the rate for this service by 20% and to revise the interrupt provision to allow testing for Mid-Continent Area Power Pool (MAPP) certification.

The Senior Federation argued that the dual fuel rate was actually a promotional rate and should therefore be increased by more than the 20% proposed by MP.

The Department did not oppose the Company's proposal.

The Commission finds that the Company's proposals to increase the rate for Residential Dual Fuel Interruptible service by approximately 20% and to change the interrupt provision to allow for MAPP certification are reasonable and appropriate.

G. General Service Rate Design

1. Consolidation of General Service Rate Areas

a. Minnesota Power's Proposal

MP proposed to consolidate General Service Rate Areas I, II, and III into a single General Service Rate Area. The Company proposed the consolidation for the same reasons it proposed consolidation of the residential rate areas: current rate levels vary slightly by rate area; consolidation will simplify the general service rate; and, consolidation will reduce the administrative cost of applying the rate.

b. The Department

The Department recommended that the Company's proposal to consolidate the three general service rate areas be rejected for the same reason it recommended rejection of the proposal to consolidate the residential rate areas. According to the Department, there is no specific cost information to support the proposed change.

c. The ALJ

The ALJ rejected the Company's proposal to consolidate the three rate areas for General Service for the same reasons he rejected the proposal for the Residential Service.

d. Commission Action

The Commission adopts the Company's proposal to consolidate the three General Service Rate Areas. As in the case of the residential rate areas, the Commission expects that the consolidation will promote efficiency and reduce costs. It notes that the record does not demonstrate quantifiable cost savings from the consolidation. However, the Commission finds it reasonable to assume that some cost savings and certainly increased efficiencies will occur as a result of the consolidation.

To the extent that the existing classification into three rate areas is arbitrary and does not reflect cost, the Commission finds the existing separation to be unfair. The Commission notes that the situation in which two customers operate businesses next to each other but pay different rates often creates confusion. The consolidation of general service rate areas will eliminate this type of confusion.

2. General Service and Large Light and Power Interruptible Rider

The Company proposed a new Interruptible Rider as an alternative to its Commercial Dual Fuel Interruptible service for customers with loads over 200 kW. The Company proposed to set the discount at 20% percent of a customer's monthly bill.

The Department testified the Rider was appropriate but argued that a 20% discount or approximately a \$3.50 per kW was not cost-effective. It asserted that an 11% discount or approximately \$2.50 per kW was more appropriate.

The ALJ found the Rider, as proposed by the Company, to be reasonable and appropriate.

The Commission supports the Company's efforts to offer service options to its customers. However, the Commission agrees with the Department that the discount for taking service under this Rider should be cost-based. Therefore, the Commission finds it appropriate to authorize the Company to offer the General Service and Large Light and Power Interruptible Rider with an 11% discount.

H. Commercial and Industrial Service Rate Design

I. Commercial Dual Fuel Interruptible Service

a. Minnesota Power's Proposal

The Company proposed to increase the rate for this service by approximately 45%, to change the interrupt provision for this service to allow for MAPP certification, to close the service to new customers, and to eliminate the service to customers with loads over 200 kW as of December 31, 1999. The Company testified that it is concerned with the potential for revenue erosion if customers with loads over 200 kW take service under this rate and invest in self generation.

b. The Department

The Department supported the Company's proposed increase and change to the interrupt provision. However, the Department opposed the Company's recommendation to close the service to new customers and to eliminate the service for loads over 200 kW as of December 31, 1999. The Department argued that the Company's concerns about revenue erosion could be addressed by changing the rate for this service rather than eliminating it. It argued that this service is still meeting the needs of customers.

c. LLPG

The LLPG opposed the Company's proposal, arguing that the record lacked sufficient cost information to support the proposed increase of 45%. The LLPG asserted that eliminating this rate for customers with loads over 200 kW is unduly discriminatory and is also preferential to customers under 200 kW. The LLPG supported the Department's argument that the service should not be closed because it is still meeting the needs of customers.

d. The ALJ

The ALJ found the Company's proposals for Dual Fuel Interruptible service to be reasonable and appropriate. The ALJ agreed with the LLPG that the Company had not provided sufficient cost information to support the proposed changes. However, the ALJ adopted the Company's argument concerning revenue erosion and recommended that the Commission adopt MP's proposals.

e. Commission Action

The Commission finds there is sufficient cost information in the record to support the Company's proposed rate increase for Commercial Dual Fuel Interruptible service. The Company testified that an increase well in excess of 45% would be required to make this rate cost-based.

The Commission agrees with the Department that concerns about revenue erosion should be addressed by changing the rate and not by eliminating the service. The Commission finds this service is meeting the needs of customers and should remain open.

No party opposed the Company's proposed change to the interrupt provision to allow for MAPP certification. Therefore, the Commission finds the proposed change to the interrupt provision to be reasonable and approves it.

I. Large Power Service Rate Design

1. Large Power Energy Rate

The Company originally proposed an LP energy rate of 1.02 cents/kWh. The Department objected to the rate, arguing that the Company should set the energy charge based on its average incremental energy cost. During the case, the Company updated its class cost of service study and determined an energy unit cost of 1.33 cents/kWh. The Department indicated that the updated energy charge addressed its concerns.

The LPI supported the Company's updated energy charge.

The Commission adopts the updated LP energy charge of 1.33 cents/kWh as reasonable and appropriate.

2. Large Power Service Non-Contract Rate

The issue before the Commission is whether to allow the Company to reinstate its Non-Contract rate and the companion Rider for Revenue Credit.

a. Minnesota Power's Proposal

The Company proposed to reinstate the Large Power Non-Contract Rate Service schedule 58/78 that was approved in 1987 and expired in April 1991. This schedule would be made available to customers with load requirements of 70 MW or more, who are unable to enter into long-term contractual commitments for service under the standard Large Power Service Schedule 54/74.

The rates proposed for Non-Contract service, as proposed, are based upon the rates approved by the Commission for standard Large Power Service. The Demand Charge and the Service Voltage Adjustment for Non-Contract service is set at 120% of the charges approved for standard Large Power Service. The Company suggested that the 20% adder is included as a risk premium for providing this type of service.

The Company also proposed to reinstate the Rider for Revenue Credit to provide a mechanism to flow the revenues resulting from the 20% adder back to all retail customers (except Non-Contract) on the Company's system.

b. The Department

The Department supported the Company's proposal arguing that a 20% premium is appropriate for LP customers unwilling to make long-term contract commitments.

c. Potlatch and Eveleth

Potlatch and Eveleth argued that the 20% adder was not cost justified and, as proposed, exacts too high a penalty to customers unwilling or unable to enter into long-term take-or-pay commitments. Eveleth argued further that equity was being sacrificed in order to reduce the risk to MP.

d. The ALJ

The ALJ found the Company's proposal to be reasonable and appropriate and recommended adoption by the Commission.

e. Commission Action

The Commission agrees with the Department and the ALJ and finds that the Company's proposal to reinstate the Non-Contract rate and the Rider for Revenue Credit reasonable and appropriate and will authorize the Company to reinstate the Rate and Rider.

The Commission believes the Non-Contract rate is an appropriate alternative rate for LP customers who decline to commit to the standard long-term contracts. The Commission finds that there are costs to MP's other ratepayers associated with the absence of long-term commitments from large customers, such as perceived risk by investors and the additional uncertainty to long-term planning. The Commission concludes that MP's proposed Non-Contract rate, including the 20% demand charge premium, and the companion Rider for Revenue Credit should be approved.

3. Large Power Excess Demand Discount

The issue before the Commission is whether to eliminate the excess demand charge discount for demand in excess of contract demand.

a. The Department

The Department recommended the elimination of the excess demand discount. The discount is currently a standard feature of the LP rate which gives a reduced demand charge (a \$5.00 per kW discount) for demand taken in excess of a customer's contract demand.

The Department argued the initial justification for the excess demand discount, namely that the Company no longer has excess capacity and no longer needs to market capacity, is no

longer valid. The demand discount prices short-term power cheaper than long-term power, thereby encouraging LP customers to postpone long-term power commitments. The Department suggested that eliminating the discount would also eliminate an inappropriate price signal.

Finally, the Department recommended that the Company be allowed to continue to offer excess demand but without the discount, and use the revenues generated to lower the demand charge for long-term contract demand.

b. Minnesota Power

MP opposed the Department's recommendation, arguing that the discount is a necessary tool for meeting customers' needs, for encouraging sales to utilize existing capacity, and for providing flexibility to customers' production requirements. The Company also argued that the elimination of the discount would significantly reduce excess power sales.

c. LPI and Potlatch

The LPI and Potlatch also opposed the elimination of the excess demand discount. These parties indicated that no Large Power customers supported the Department's proposal and that the revenue impact was restricted to the Large Power class. These parties also argued that the excess demand discount prevents customers from taking advantage of marginal production decisions.

Furthermore, LPI and Potlatch indicated that customers have relied upon the discount in planning their operations and establishing long-term contract levels of demand. MP has used the discount to help it obtain LP contract extensions and renewals and should be allowed to continue to do so.

Finally, the LPI and Potlatch agreed with the Company and argued that the excess demand discount is critical to meeting industrial customers future competitive requirements and should remain available to encourage sales to utilize existing capacity, encourage incremental taconite and wood products production in Minnesota, and provide flexibility to customers to adjust to changed production requirements.

d. The ALJ

The ALJ found that it was reasonable and appropriate to continue the Excess Demand Discount. He indicated that the discount continues to be necessary for the following purposes: to encourage sales to utilize existing generating capacity, to encourage incremental taconite and wood products production in Minnesota, and to provide flexibility to customers to adjust to changed production requirements.

c. Commission Action

The Commission approved the offering of the excess demand discount in the Company's 1987 rate case, finding that the discount and its residual benefits made sound economic sense.

The Department argued that the excess demand charge discount encourages customers to delay or avoid long-term commitments. The LPI and Potlatch, on the other hand, argued that the discount is appropriately used by MP to obtain contract extensions and renewals. The Commission agrees with both of these arguments and finds that the additional benefits of offering the discount, as identified by the Company, the LPI, and Potlatch, provide good reasons for maintaining the status quo.

The excess demand discount encourages customers to increase production if opportunities to sell their product are available without penalizing the user with a permanent upward ratchet in contract demand. The change in MP's capacity situation suggests that the excess demand discount makes less economic sense now than when it was first approved by the Commission in 1987. However, if the excess demand discount remains available, LP customers maintain production flexibility, MP is still afforded the opportunity to obtain revenues from utility plant that may otherwise remain idle, and additional variable and fixed costs are recovered that would otherwise be borne by MP or its other ratepayers.

Similar to the Department, the Commission has a long standing policy of encouraging Large Power customers to make long-term commitments with MP. However, the Commission finds nothing in the record of this case which seriously negates the economic benefits the Company and its ratepayers receive from offering the excess demand discount. Therefore, the Commission adopts the Company and the ALJ's position here and rejects the Department's recommendation to eliminate the excess demand discount.

4. Real Time Energy Pricing for Large Power Customers

The issue before the Commission is whether to require the Company to study real-time energy pricing and provide a report to the Commission one year from the date of the Order in this case.

The Department recommended that MP be required to study the use of real-time energy pricing to be implemented as quickly as practicable. The Department originally proposed that a report be submitted to the Commission within six months of the Order in this proceeding, but later agreed that a one year time frame was appropriate.

Potlatch supported the Department's recommendation to study real-time energy pricing and the submission of a report to the Commission within one year. Potlatch also requested that the Commission require the Company to allow for meaningful participation by interested customers.

The Company agreed that the Department's proposal for a study of real-time energy pricing was appropriate under a one year time line for submission of the report to the Commission.

The Commission finds the Department's recommendation to have the Company study real-time energy pricing and file a report on its findings with the Commission within one year of the date of the Order in this case to be reasonable and appropriate.

It is the Commission's impression that the Company already works closely with its LP customers in designing and implementing services for that class. Nevertheless, the Commission will require the Company to facilitate meaningful customer participation in the process of the real-time energy study as requested by Potlatch.

5. Large Power Unused Demand Charge

The issue before the Commission is whether to modify the billing demand ratchet for contract demand in excess of measured billing demand to provide a \$4.50 per kW month reduction from the standard LP demand charge.

a. LPI's Proposal

The LPI proposed to retain the billing demand ratchet provision in the LP tariff, and recommended that the charge for demand that is not actually used but for which the customer must make payment under the 100% demand ratchet. The LPI suggested that the contract demand in excess of measured demand be billed at \$4.50 per kW month less than the standard LP demand charge. The \$4.50 per kW month discount is based upon the LPI's calculation of the amount that LP customers are paying to subsidize current below-cost residential rates.

The LPI argued that the Company should bear the risk associated with the subsidy to residential customers. It noted that this proposal has no impact on any other rate class.

b. Minnesota Power

The Company opposed the LPI proposal, arguing that it would result in considerable risk of revenue instability and unrecovered fixed costs for the Company. MP further contended that the LPI's proposal does not recognize the billing and operational flexibility the Company has already incorporated into LP contracts. The Company noted that the 100% billing demand ratchet was designed so that MP's fixed costs remain the same whether customers are operating or not.

c. The Department

The Department also opposed the LPI proposal arguing that the demand ratchet is an important revenue-stabilizing tool and is an integral part of MP's strategy to insulate itself and its ratepayers from the business fluctuations of its LP customers. MP should not be expected to transfer the business risks of some of its customers to other ratepayers.

d. The ALJ

The ALJ found that the LPI proposal would introduce considerable risk of revenue instability and unrecovered fixed costs for MP and, therefore, should be rejected.

e. Commission Action

The Commission adopts the finding of the ALJ on the issue of "unused demand." The LPI proposal would introduce substantial risk to MP due to revenue instability and unrecovered fixed costs. The demand charge billing ratchet was designed to recognize the fact that MP's fixed costs are the same regardless of whether customers are operating or not.

The Commission finds that nothing has changed to warrant any reduction in the recovery of fixed costs to the Company. The Commission also finds that the Company has made significant efforts to provide customers with billing and operational flexibility and believes it is inappropriate to transfer the business risk of some of its customers to the other ratepayers.

6. Measurement of Large Power Demand

The issue for the Commission is whether the current method of measuring LP demand should be modified. Under the Company's current LP rate, measured demand is established based upon the highest 15 minute demand at any time during the month.

a. LPI's Proposal

The LPI proposed that a LP customer's demand be measured during the 15 minute period of the customer's greatest use during the peak period of the month. The LPI suggested that this type of measurement would recognize the fact that it costs the Company almost nothing when individual customer peak demands occur during off-peak periods.

b. Minnesota Power

The Company opposed the LPI's recommendation, arguing that the LPI proposal would result in reduced billing demand for LP customers since the highest off-peak loads would not be considered for billing purposes. The Company further argued that the LPI recommendation would present further risk to the Company that customers would shift substantial amounts of load to off-peak periods which would further reduce billing demand and result in reduced revenues.

The Department also opposed the LPI proposal to modify the way in which LP demand is measured. The Department argued that the proposal would promote revenue instability and would allow LP customers to avoid contributing to the recovery of MP's fixed costs by shifting their consumption to off-peak periods. The Department urged the Commission not to allow risk to be inappropriately shifted to MP and its ratepayers.

c. The ALJ

The ALJ recommended that the LPI proposal to modify the way measured demand is determined be rejected. He concluded that the proposal would result in reduced billing demand for LP customers and would present further risk that customer operations would shift on-peak to off-peak periods, further reducing billing demands and revenues.

d. Commission Action

The Commission agrees with the Company, the Department, and the ALJ and finds the LPI proposal to modify the way measured demand is determined to be inappropriate. The LPI proposal, while it would reduce LP customer bills, would likely increase risk to the Company and its other ratepayers by promoting revenue instability, providing an inappropriate incentive to shift load off-peak, resulting in reduced revenues. For these reasons, the Commission rejects the LPI proposal.

7. Large Power Contract Terms and Extensions

The issue for the Commission is whether to reduce the initial term of the LP tariff from 10 years to five years and to reduce the notice of cancellation period from four years to one year.

a. LPI's Proposal

The LPI proposed to revise the LP tariff to require a five year initial term and a one year cancellation period. In support of its proposal the LPI argued that the reasons for previously requiring lengthy contract terms are no longer valid. The LPI noted that in the 1970's MP built substantial generating capacity to serve the LP class. These facilities are now used to serve a wide array of customer loads and, therefore, there is no justification for requiring long-term commitments.

b. Eveleth's Proposal

Eveleth proposed to reduce the cancellation notice to one year and to make LP interruptible power available to customers without requiring contract extensions. Eveleth argued that the cost to taconite customers of a 10 year commitment is prohibitive.

Eveleth further argued that MP's requirement of lengthy contract extensions to qualify for interruptible load has a negative effect on the taconite customers that are most vulnerable to the market forces of the taconite industry.

c. Minnesota Power

The Company opposed the proposals by the LPI and Eveleth to change the contract terms for LP service. It argued the four year notice of cancellation provision is critical to the

Company's forecasting, bulk marketing, and resource planning efforts. In addition, the provision serves as a guide by which financial markets assess the Company's future revenues and financial stability. Any reduction of the contract terms would increase the Company's risk and would result in higher return on equity requirements, with corresponding higher rates.

The Company noted that flexibility exists under current rates to provide for shorter term initial contracts for new LP customers who do not require significant capital investment in facilities.

d. The Department

The Department recommended that the contract terms for LP service not be changed. The Department asserted that economic conditions have not changed such that long-term take-or-pay commitments are now unnecessary. The Company continues to incur significant fixed costs. A reduction in the contract terms for LP service would only serve to inappropriately shift risk from LP customers to MP and its ratepayers.

e. The ALJ

The ALJ recommended that the proposals to reduce LP contract terms be rejected. He adopted the arguments put forth by the Company.

f. Commission Action

The Commission finds that the proposals to reduce the contract terms for Large Power service are inappropriate and should be rejected. The Commission agrees with the Department that economic conditions have not changed sufficiently to justify altering the terms of service. Reducing the contract terms would inappropriately shift risk from the LP class to the Company and its other ratepayers. This shift in risk would result in higher return on equity requirements, with correspondingly higher rates.

The Commission also finds that the four year cancellation provision is important to the Company's ability to conduct load forecasting, to sell power in the bulk power market, and to plan for its future resource needs.

Eveleth proposed that the Company be required to provide LP customers interruptible power without requiring lengthy contract extensions. The Commission finds this recommendation to be inappropriate.

The Commission notes that the interruptible service the Company provides its LP customers is unique among Minnesota utilities and requires even longer term commitments from participating customers. The Company offers interruptible service with a \$5.00 per kW month discount and attempts to offset the cost of the discount by selling the power made available in the bulk power market.

Absent long-term commitments from participating customers, all of the costs and risk associated with interruptible service would be shifted to MP and its ratepayers and could not justify the present level of the discount. The requirement of long-term commitments offsets what is, in the short run, a discount level that is not cost-based. For this reason, the Commission rejects Eveleth's proposal.

J. Uncontested Rate Design Issues

1. Residential Service Issues

The Company proposed a Residential Controlled Access Service tariff for controlled-storage space-heating and/or water heating loads served during the time period 11 p.m. to 7 a.m. and supplied through one meter. The tariff consists of a monthly service charge and an energy charges.

The Department recommended the Commission approve the proposed tariff. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to offer this service.

2. General Service Issues

a. General Service Rate Design

The General Service tariff is available to non-residential customers whose total electric requirements are supplied through one meter and whose total power requirements are less than 10,000 kWh. Customers whose quarterly use exceeds 2,500 kWh, or whose connected loads exceed 10 kW, are required to have a demand meter. For customers without a meter, the General Service tariff includes a customer charge and an energy charge. For customers with a demand meter, the tariff includes customer, demand and energy charges.

The Company proposed higher percentage increases for the customer and demand charges than the energy charge. The Department supported the Company's proposed allocation of the increase among the customer, demand, and energy charges. No other party addressed this issue.

The Commission will not adopt the Company's proposal to increase the customer and demand charges by a greater percentage than the energy charge for this service. Instead, the Commission finds it appropriate to require MP to increase the customer and demand charges by the same or no greater percentage than the energy charge.

In general, where appropriate, the Commission prefers to increase energy charges rather than fixed charges. By placing an increase in an energy charge rather than a fixed charge, customers are more likely to see differences in their bills based on variable energy consumption.

b. General Service Discount for High Voltage Service

The Company proposed to increase the discount for high voltage service, to more closely track a differential in costs that results from serving customers at higher voltage levels. The present rate has a discount of \$0.50 per kW for customers receiving service above 13,000 volts. Under the Company's proposal, General Service customers receiving service between 13,000 and 115,000 volts will receive a \$1.00 per kW discount, while those receiving service at or above 115,000 volts (transmission voltage) will receive the equivalent of a \$2.00 per kW discount.

The Department testified that the voltage discount for General Service customers as proposed by the Company was cost justified. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to increase the discounts for high voltage service as described above.

c. General Service Power Factor Adjustment

The Company proposed placing a limit on the adjustment provision for General Service customers having a poor power factor. Under present rates, there is no limiting provision. The proposed adjustment provision restricts the adjustment factor applied to the customer's billing demand to slightly less than two. This would provide General Service customers with a more reasonable penalty for poor power factors.

The Department noted that a limit on the adjustment for poor power factors imposes a more reasonable penalty on customers and recommended approval of the provision. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to apply such an adjustment provision.

d. General Service Non-Metered Rider

The Company proposed a General Service non-metered rider applicable to any General Service customer whose operation is not practical to meter at the point of service. Under this proposal, customers would pay the standard General Service customer and energy charges. Monthly usage is estimated for five, different non-metered customers. Billing to non-metered customers are based on those usage characterizations.

The Department concluded the estimated charges for the service were reasonable and recommended adoption. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to offer this rider as described above.

e. General Service Controlled Access Electric Service

The Company proposed a General Service Controlled Access Electric Service tariff. It will be available for controlled-storage space-heating and/or water heating loads that are served daily between 11 p.m. and 7 a.m. and supplied through one meter. The proposed tariff consists of a customer charge and an energy charge.

The Department noted that the Company supplied adequate cost information to support the proposed service and recommended approval. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to offer this service as described above.

3. Large Light and Power Service Issues

a. Large Light and Power Service Rate Design

The Large Light and Power tariff is available to customers whose total electric requirements are supplied at one point and whose total power requirements are less than 10,000 kW. The tariff includes a minimum demand charge, incremental demand charges for additional billing demand over 100 kW, and energy charges.

The Company proposed greater percentage increases for the customer and demand charges than the energy charge for this service. Specifically, the Company proposed to increase the customer charge from \$790.00 to \$950.00 for Large Light and Power schedules 55 and 75.

The Department testified that its cost study indicated that the customer and demand charges for this service are currently priced below cost. The Department supported the Company's proposal to move these rates toward cost, and to increase the customer and demand charges by a higher percentage increase than the energy charge.

No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to increase its customer, demand and energy charges for this service as proposed above.

b. Large Light and Power Discount for High Voltage Service

The Company proposed a discount for high voltage service for the Large Light and Power tariff that mirrors its proposal for the General Service tariff.

The Department testified that the high voltage discount proposed by the Company is cost justified and recommended approval. No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to offer this discount.

c. Large Light and Power Factor Adjustment

The Company proposed a limit to adjust billing demand for poor power factors for LL&P customers that mirrors its proposal for the General Service tariff.

The Department testified that the Company's proposal for a limit to adjustments for poor power factors provides a more reasonable penalty for these customers. It recommended approval of the proposal. The Commission finds it reasonable to authorize the Company to adjust LL&P Service billing demand for poor power factors as proposed.

d. Rider for Schools Associated with Large Light and Power Schedules 55/75

The Rider for Schools applies to LL&P Service Schedules 55 and 75 for schools, which are part of the elementary and secondary school system. Under this Rider, the rate (and other provisions) of "other applicable schedules" apply. The Company proposed an increase to the first 100 kW block of Demand Charge under this Rider. It also proposed the same limit on the adjustment for power factors suggested for the General Service.

No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to make these changes as proposed.

e. Large Light and Power Service Reduction in Demand Ratchet

In Rebuttal testimony, the Company proposed a reduction in the LL&P Rate Schedules 55/75 demand ratchet from 90% to 75%. The Company asserted that the 75% ratchet level would still maintain reasonable incentive for LL&P customers to operate at an efficient level. Yet, this level of ratchet still provides an opportunity for customers to increase production on a short-term basis in order to compete for spot-market or short-term sales.

No party opposed the Company's proposal. The Commission finds it reasonable to authorize the Company to reduce the demand ratchet for this service as proposed.

4. Municipal Pumping Service Issues

a. Municipal Pumping Service Rate Design

The Municipal Pumping Service is available to municipalities for the operation of water-pumping and sewage-disposal facilities whose electric requirements are supplied at one point. For customers without a demand meter, the tariff includes a customer charge and an energy charge. For customers with a demand meter, the tariff includes customer, demand and energy charges.

The Company proposed that the customer and demand charges be increased by a greater percentage than the energy charges. The Department noted that the Company's cost study indicated that the customer and demand charges are priced below cost. In an effort to move these rates toward cost, the Department recommended that these rates receive a larger increase than the energy rate.

The Commission will not adopt the Company's proposal to increase the customer and demand charges for this service by a greater percentage than the energy charge for this service. Instead, the Commission finds it appropriate to require the Company to increase the customer and demand charges by the same or no greater percentage than the energy charge.

In general, where appropriate, the Commission prefers to increase energy charges rather than fixed charges. By placing an increase in an energy charge rather than a fixed charge, customers are more likely to see differences in their bills based on variable energy consumption.

b. Municipal Pumping High Voltage Discount

The Company proposed a discount for high voltage service for Municipal Pumping Service that mirrors its proposal for the General Service and LL&P tariffs.

The Department recommended approval of the Company's proposal for a high voltage discount. It relied on the same reasoning given for its support of the discount for the General Service and LL&P tariffs. The Commission finds it reasonable to authorize the Company to offer the discount as proposed.

c. Municipal Pumping Billing Adjustment for Poor Power Factors

The Company proposed a limit to adjust billing demand for poor power factors for Municipal Pumping customers that mirrors its proposal for the General Service and LL&P tariffs.

The Department testified that the Company's proposal for a limit to adjustments for poor power factors provides a more reasonable penalty for these customers. It recommended approval of the proposal. The Commission finds it reasonable to authorize the Company to adjust Municipal Pumping Service billing demand for poor power factors as proposed.

5. Lighting Service

The Company's Lighting Service is available to customers for outdoor lighting purposes. The Lighting Service tariff includes a flat monthly charge for each lamp.

The Company proposed several intra-class rate changes to this service. In addition, the Company proposed a monthly estimated kWh usage amount to replace the current annual average usage amount. The Company also proposed to consolidate the current Area and Outdoor Lighting Services into one schedule, and the Street Lighting, Ornamental Lighting, Highway Lighting, and International Falls Street Lighting into a second schedule. Finally, the Company proposed to discontinue the Tower Light and Traffic Controller rate under Highway Lighting.

The Department recommended approval of all the Company's proposed changes to this service. The Department noted that the Company's replacement-cost study indicates that the monthly replacement-cost revenue requirement varies significantly by technology. The Department also testified that the intra-class changes are a justifiable effort to move these rates closer to cost. It testified that the introduction of monthly usage levels will better match usage levels and costs.

The Department also supported approval of the Company's proposed schedule consolidations and the discontinuance of the Tower Light and Traffic Controller rates under Highway Lighting. It testified that both these proposed changes promote administrative ease. It noted that the Tower Light and Traffic Controller services have not been used for a number of years.

The Commission finds it reasonable to authorize the Company to make the proposed changes to the Lighting Service. The Commission also finds it reasonable to authorize the Company to apply the revenue deficiency allocated to the Lighting class in a way that will better align rates with costs.

6. Large Power Service

The Company proposed changes to the Surcharge Provision of the LP schedule 54/74. No party opposed the Company's proposed change to this provision. The Commission finds it reasonable to authorize the Company to make the change.

The Company also proposed changes to the Rider for Implementing Company's "Best Efforts" Marketing Policy for the LP class. No party opposed the Company's changes to this Rider. The Commission finds it reasonable to authorize the Company to make the proposed changes to this Rider.

The Company currently offers a service voltage adjustment as part of its LP tariff. No party opposed the Company's proposed adjustment. The Commission finds this provision is reasonable and will authorize the Company to continue this adjustment.

7. Rider for Fuel Adjustment

The Rider for Fuel Adjustment applies to electric service under all the Company's retail rate schedules (except Competitive Rate Schedules, Seasonal Residential Service, and Traffic and Police Signal Rate Code 65).

The Company proposed changes to the conditions in the Rider for Fuel Adjustment. It also proposed to include a new base cost of fuel of 1.018 cents per kWh. (This new base cost of fuel was approved in Docket No. E-015/MR-94-2.)

No party opposed these changes. The Commission finds it reasonable to authorize the Company to make these changes.

8. Technical Terms and Abbreviations

The Company proposed changes in its listing of Technical Terms and Abbreviations. No party opposed these changes. The Commission finds it reasonable to authorize the Company to make them.

XVII. OVERALL FINANCIAL SUMMARIES

A. Rate Base Summary

In its original filing, the Company proposed a rate base of \$483,657,724. Incorporating the above findings, the Commission concludes that the rate base for the test year is \$485,896,166 (including the effects of SFAS 106 and the 1994 effects of the National Stipulation) as shown below:

Utility Plant in Service	\$1,023,868,262
Less: Accumulated Depreciation	<u>-380,870,938</u>
Net Utility Plant in Service	642,997,324
Construction Work in Progress	9,421,886
Working Capital:	
Cash	-28,815,840
Materials and Supplies	8,535,051
Fuel	6,630,885
Prepayments	7,682,243
Accumulated Deferred Income Tax	-151,641,557
Customer Advances and Deposits	-927,839
Unamortized Rate Case Expense	398,588
Unamortized Transmission Charge	-10,190,779
Unamortized LP Contract Payments	<u>1,806,204</u>
Total Average Rate Base	<u><u>\$ 485,896,166</u></u>

B. Operating Income Statement Summary

The Company proposed an operating income of \$27,114,613 in the original filing. Incorporating the above findings, the Commission concludes that the operating income for the test year (including the effects of SFAS 106 and the 1994 effects of the National Stipulation) is \$31,890,642 as shown below:

Operating Revenues	
Sales of Electricity by Rate Class	\$270,010,391
LP Interruptible, Dual Fuel	26,266,450
Other Electric Revenues	33,863,764
Other Revenues	<u>1,988,766</u>
Total Operating Revenues	332,129,371
Operating Expenses	
Operations and Maintenance	222,353,727
Depreciation	31,031,395
Amortization	1,092,799
Taxes Other Than Income	36,326,133
State Income Tax	3,509,025
Federal Income Tax	10,766,279
Provision for Deferred Tax (net)	-3,067,577
Investment Tax Credit	<u>-1,350,982</u>
Total Operating Expenses	300,660,799
Operating Income Before AFUDC	31,468,572
AFUDC	<u>422,070</u>
NET OPERATING INCOME	<u><u>\$ 31,890,642</u></u>

C. Gross Revenue Deficiency

Based on the Commission findings and conclusions, the Minnesota jurisdictional gross revenue deficiency for final rates for the test year (including the effects of SFAS 106 and the 1994 effects of the National Stipulation) is \$22,929,330 as shown below:

Rate Base	\$485,896,166
Rate of Return	<u>9.33%</u>
Required Operating Income	45,334,112
Test Year Net Operating Income	31,890,642
Operating Income Deficiency	13,443,470
Revenue Conversion Factor	<u>1.705611</u>
Revenue Deficiency	<u><u>\$ 22,929,330</u></u>

In the test year income statement, the Commission found revenues from sales of electricity by rate class and dual fuel/LP interruptible of \$296,276,841. Increasing revenues by \$22,929,330 results in total authorized Minnesota revenues in these categories of \$319,206,171 for final rates for the test year.

As discussed in the National Stipulation section of this Order, the stipulation reduces MP's revenue deficiency by \$3,944,854 to \$18,984,476, based on stipulated revenues of \$298,025,022. Rates effective January 1, 1995 should reflect the provisions of the National Stipulation.

ORDER

1. **Minnesota Power is entitled to increase gross annual revenues from Minnesota sales of electricity by rate class and dual fuel/LP interruptible of \$22,929,330 to produce authorized revenues from these categories of \$319,206,171. For rates effective January 1, 1995, the increase is reduced by \$3,944,854 resulting from the National Stipulation as discussed herein.**
2. **Within 30 days of the date of this Order, the Company shall file with the Commission and the Department and serve on the parties a revised base cost of fuel and supporting schedules incorporating the changes made herein. The Company shall also file a fuel clause adjustment to be in effect at the time final rates become effective. The Department shall review these filings in the same manner as any other automatic adjustment filings.**
3. **Within 30 days of the date of this Order, the Company shall calculate the amount of results sharing and incentive compensation included in test year expense which exceeds the 15 percent of base compensation limit per individual employee discussed herein. The Company shall include the adjustment in establishing its authorized rate level and interim rate refund. This information shall be filed with the Commission and served upon all parties to this proceeding.**
4. **Within 30 days of the date of this Order, the Company shall file with the Commission for its review and approval, and serve upon all parties to this proceeding, a proposal to make refunds, including interest calculated at the average prime rate, to affected customers. The proposal shall reflect the difference between the revenue collected during the interim rate period and the amount authorized herein, taking into account the refund adjustments discussed herein.**
5. **Within 60 days after all administrative review of this Order has been exhausted, the Company shall file with the Commission, and serve on all parties, a report of its actual rate case expenditures in this docket.**
6. **MP is authorized to commence decommissioning cost recovery effective with the date of implementation of final rates in this proceeding as discussed herein. MP shall prepare a contingency plan in the event that Hibbard units 3 and 4 are restarted, including a comprehensive evaluation of the appropriate remaining life for these units. MP shall address the contingency plan and decommissioning issues in future depreciation studies and filings.**

7. Within 30 days of the date of this Order, MP shall file with the Commission and serve on all parties, its calculations of lost margin per kWh reflecting the rate changes resulting from this proceeding.
8. MP shall set its conservation program adjustment (CPA) at zero effective with the date of implementation of final rates resulting from this proceeding. The CPA shall be collected on a percentage of revenue basis in the future.
9. On or before April 1, 1995, and annually thereafter, MP shall file with the Commission, and serve on all parties, its report of lost margins, CPA proposal, and evaluation of the CIP tracker balance.
10. The return on equity for MP is 11.60 percent, which combined with other factors results in an overall rate of return of 9.33 percent, calculated as shown in the body of this Order.
11. The Commission accepts and adopts the Stipulation for Order Reopening the Record as filed on September 9, 1994.
12. Within 30 days of the date of this Order, the Company shall file with the Commission for review and approval, and serve on all parties to this proceeding, revised schedules of rates and charges reflecting the revenue requirement and the rate design decisions contained herein, along with the proposed effective date.
13. Within 12 months of the date of this Order, the Company shall file with the Commission, and serve upon all the parties to this proceeding, a report on the study of real-time energy pricing.
14. Parties shall have 15 days to comment on the filings required in Ordering Paragraphs 12 and 13.
15. On or before June 30, 1995 the Company shall file with the Commission, and serve upon the Department, the RUD-OAG and the Senior Federation, a report summarizing the progress of the low income customer assistance work group.
16. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION



Burl W. Haar
Executive Secretary

(S E A L)



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RECEIVED

February 11, 2005

FEB 11 2005

Kathleen D. Sheehy
Administrative Law Judge
Office of Administrative Hearings
100 Washington Square, Ste 1700
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MN PUBLIC UTILITIES COMMISSION

RECEIVED

PUBLIC

FEB 11 2005

MN PUBLIC UTILITIES COMMISSION

RE: In the Matter of the Petition of Northern States Power Company dba Xcel Energy
Request for General Rate Increase
OAH Docket No. 3-2500-16292-4
MPUC Docket No. G002/GR-04-1511

Dear Judge Sheehy:

Enclosed for Filing in the above referenced docket, please find the Direct Testimony and Exhibits of Sundra Bender, Jason Bonnett, Cynthia Fang, Marlon F. Griffing, Dale V. Lusti, Bryan J. Minder, Sachin Shah, and Vincent Chavez on behalf of the Minnesota Department of Commerce.

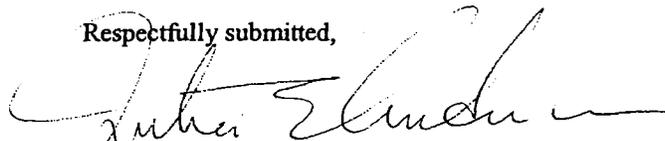
For clarification, the following sets forth the specific identification of Public and Trade Secret versions by witness:

<u>Witness</u>	<u>Public Volumes</u>	<u>Trade Secret Volumes</u>
Sundra Bender	One public volume (Testimony & Exhibits)	None
Jason Bonnett	One public volume (Testimony & Exhibits)	None
Cynthia Fang	One public volume (Testimony & Exhibits)	None
Marlon F. Griffing	Two public volumes (Testimony & Exhibits)	One Trade Secret volume (Exhibits)
Dale V. Lusti	One public volume (Testimony & Exhibits)	None
Bryan J. Minder	Three public volumes (Volume 1-Testimony & Exhibits) (Volume 1 - Exhibit No. 5) (Volume 2-Testimony & Exhibits)	None
Sachin Shah	Two public volumes (Testimony & Exhibits)	None
Vincent C. Chavez	One public volume (Testimony & Exhibits)	None

Kathleen D. Sheehy
February 11, 2005
Page 2

Also enclosed is an affidavit of service.

Respectfully submitted,



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Enc.
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G002/GR-04-1511

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