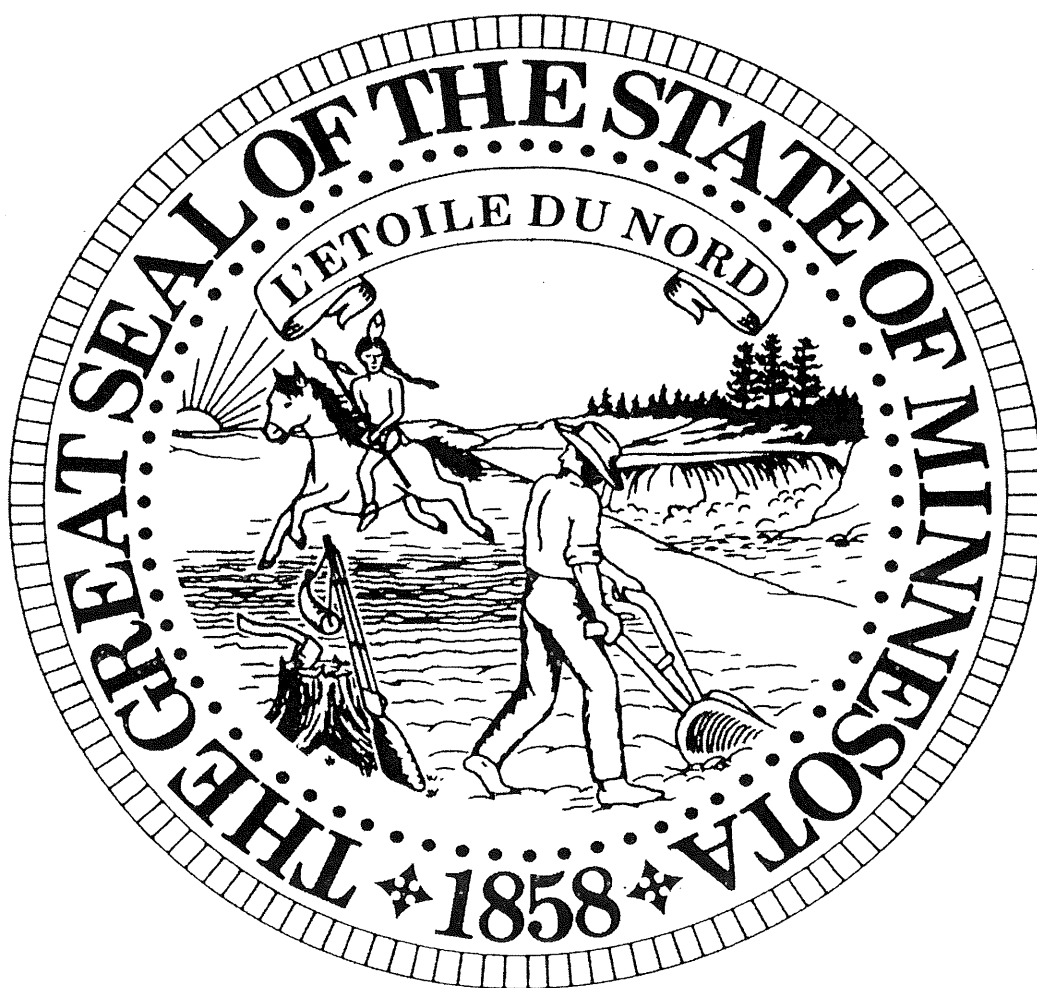


State of Minnesota

Public Utilities Commission



Report to the Minnesota Legislature

March 17, 2005

Who are the Minnesota Public Utility Commissioners?

LeRoy Koppendraye

Chairman ■ Republican



Vermillion State Junior College; Course work at Anoka Vocational Technical Institute; Dunwoody Institute, Minneapolis; 1990 elected to Minnesota State Legislature and served through 1998; served as Assistant House Minority Leader and House Republican Whip; 1986-91 self-employed international agriculture consultant, lived in Indonesia for three years, also worked in South America, Africa, Jamaica, Phillippines and former U.S.S.R. Countries; 1974-86 dairy farmer; 1969-1974 manager, Fingerhut Corp. in Princeton, Alexandria, Sauk Center and Mora, MN; 1960-69 heavy equipment operator, truck driver, Reserve Mining Company; currently serves on NARUC Committee on Electricity, NARUC Regulatory Advisory Committee to the Institute of Public Utilities; chairs the NARUC Subcommittee on Strategic Issues and is a

liaison on the NARUC International Relations Committee; also serves on Minnesotans for School Choice. Appointed Commissioner by Governor Carlson, January 6, 1998; appointed Chair by Governor Pawlenty, January 6, 2003; reappointed Commissioner and Chair by Governor Pawlenty, January 26, 2004; term expires January 4, 2010.

Phyllis A. Reha

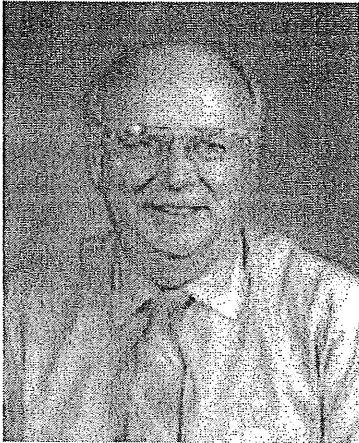
Vice Chair ■ Democrat



University of Minnesota, B.A.; University of Minnesota Law School, J.D.; Administrative Law Judge, Minnesota Office of Administrative Hearings where she specialized in public utility, telecommunications and environmental regulation (1980-2001); Assistant Professor, Hamline University Graduate School of Public Administration and Management (1989-2001); Free Lance Mediator and Arbitrator specializing in employment contract and discrimination disputes (1987-Present); currently serves on the NARUC Energy Resources & Environment Committee and is the Chair of the Renewable Resources and Distributed Generation Subcommittee; currently serves on the Steering Committee of the National Council on Electricity Policy; Member of the National Wind Coordinating Committee; and, Member of the EPRI Advisory Council. Appointed Commissioner by Governor Ventura, May 16, 2001; term expires January 1, 2007.

R. Marshall Johnson

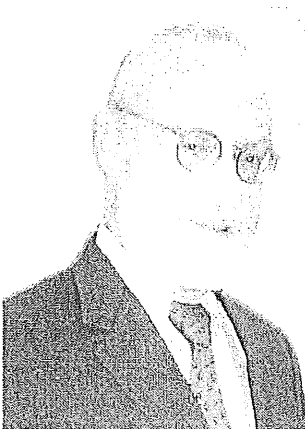
Commissioner ■ Independent



Duke University, Duke in Brazil Summer Program, 1987; University of Minnesota, B.A.; CEO and Chair of Anchor Gas and Fuel, Inc., and Anchor Transport, Inc.; NARUC Gas Committee; Gas Research Institute (GRI). Appointed Commissioner by Governor Carlson, August 11, 1993; reappointed by Governor Carlson, December 11, 1995; reappointed by Governor Ventura, June 7, 2002; term expires January 7, 2008.

Ken Nickolai

Commissioner ■ (No Political Affiliation)



Carthage College, B.A.; Duke University School of Law, J.D.; Kennedy School of Government, Master of Public Administration; Chief Administrative Law Judge, Office of Administrative Hearings; Deputy Commissioner, Minnesota Department of Human Rights; Director of Policy and Legal Affairs, Minnesota Department of Human Rights; Attorney, Minnesota Center for Environmental Advocacy; Consultant, Governor's Commission on Reform and Efficiency (CORE); Assistant Regional Counsel, U.S. Environmental Protection Agency. Appointed Commissioner by Governor Pawlenty, September 9, 2003; term expires January 5, 2009.

Thomas Pugh

Commissioner ■ Democrat



Dartmouth College, A.B., cum laude; University of Minnesota J.D., cum laude; Attorney in private law practice, Thuet, Pugh, Rogosheske, and Atkins, 1976 - 2004; Member of the Minnesota House of Representatives, District 39A including West St. Paul, Mendota Heights, South St. Paul, Mendota, Lilydale, and Eagan, 1989 - 2004; Minnesota House Minority (DFL) Leader, 1998 - 2002. Author of many bills relating to our justice system and member of nearly every crime bill conference committee in the 1990's. Member of the Minnesota State Bar Association, Dakota County Bar Association. Frequent speaker on legislative process. Member, NARUC Committee on Telecommunications. Appointed Commissioner, September 1, 2004; reappointed January 3, 2005; term expires January 3, 2011.

What Does the PUC Do?

The Minnesota Public Utilities Commission (PUC) regulates three cornerstone service industries in Minnesota's economy, i.e., electricity, natural gas, and telephone. It is the Commission's responsibility to ensure that vendors of these services provide safe, adequate, and reliable service at fair, reasonable rates (M.S. Chapters 216A, 216B and 237).

Key Services

- Disciplined decision-making for adjudicating party-to-party disputes and establishing broad industry rules and policies
- A public forum for examination of policies pertaining to regulated industries
- Mediation of consumer complaints concerning services of telephone or energy utility providers

Broad Policy Objectives

- Guiding the transition to effective competition in telecommunications markets
- Assuring safe and reliable gas and electric services at reasonable rates

Commission's Unique Role and Structure

The Commission is somewhat unique because its statutory responsibilities involve elements of all three branches of government. In resolving specific party-to-party disputes, the Commission acts like a court (quasi-judicial function; M.S. § 216A.02, Subd 4). In setting broad industry policies through investigations or rule-making, the Commission is a policy-making, or legislative body (legislative function; M.S. § 216A.02, Subd 2). In executing statutes and rules, the Commission is an administrative body (administrative function; M.S. § 216A.02, Subd 3).

In addition, the Commission is deliberately structured to have a significant degree of independent decision-making autonomy. Minnesota statutes require a Code of Conduct. The tone of that Code is reflected in the following phrase:

Commissioners shall not be swayed by partisan interests, public clamor, or fear of criticism.

There are some additional noteworthy factors that preserve the integrity of the Commission's decision-making process:

- The Commission's Standards of Conduct (Rules of Minnesota, Chapter 7845) include specific restrictions on employment, investments and gifts, as well as prohibitions regarding *ex parte* communications and conflicts of interest.
- Commissioners are appointed by the Governor with the advice and consent of the Senate for six year staggered terms; no more than three of the members can be from any political party; commissioners must satisfy certain requirements relating to professional background and residency; and can be removed only upon a showing of cause.
- All decisions relating to docketed matters must be made on the basis of record evidence and must be made in an open meeting.
- All decisions relating to docketed matters are recorded in written orders which must incorporate the rationale for the decision and are subject to appeal.

History Snapshot

The Minnesota Public Utilities Commission's predecessor agency was the Railroad Commission which was established in 1871. Over the years the name was changed to the Railroad and Warehouse Commission, the Public Service Commission, and ultimately, the Public Utilities Commission. During this period, the agency's authority has included setting rates and terms of service for railroads, trucks and buses, warehouses, grain elevators, weights and measures, telephone and telegraph, and electric and natural gas utilities. In addition to its date of creation in 1871, there are several other key dates to note in reviewing PUC history:

1915 Minnesota telephone companies are placed under state regulation.

1975 Investor-owned gas and electric companies are placed under state regulation.

1980 Administrative separation of Public Service Commission into Department of Public Service and Public Utilities Commission. The separation created clear demarcation between the advisory and advocacy roles of professional staff.

1983 PUC given authority of Certificate of Need approval process for large energy facilities. In the same year, the PUC's authority over railroad, bus and truck rates was transferred to the newly created Transportation Regulation Board.

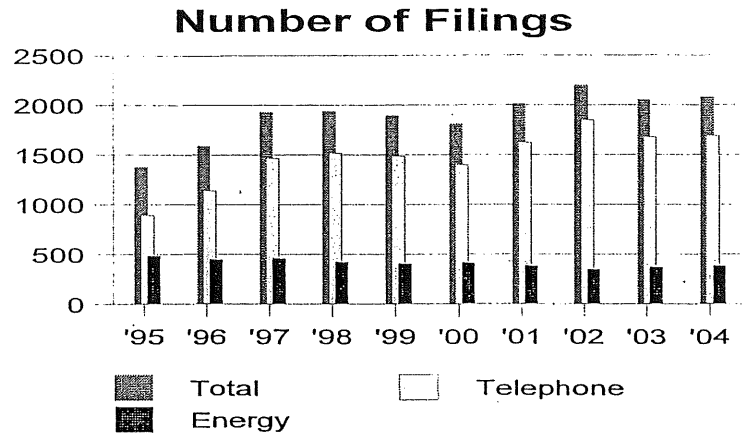
Today the PUC has authority to set rates and terms of service for gas, electric and telephone utilities operating in Minnesota, as well as mediate and otherwise resolve disputes between utility service providers and consumers.

Industries the PUC Regulates

- **Local Telephone Service:** 4 Local Exchange Companies; over 90 Competitive Local Exchange Companies. Limited authority over 400+ long-distance carriers.
- **Electricity:** 5 investor-owned electric utilities and 1 distribution cooperative association. Limited authority over six generation and transmission cooperatives, 44 distribution cooperatives and 126 municipal utilities.
- **Natural Gas:** 6 investor-owned gas utilities. Limited authority over 7 privately-owned and 25 municipal gas utilities.
- **Gross Operating Revenues of industries regulated:**
 - Telephones = \$1.9 billion
 - Electric = \$2.5 billion
 - Natural Gas = \$2.0 billion

Quick Overview of Operations

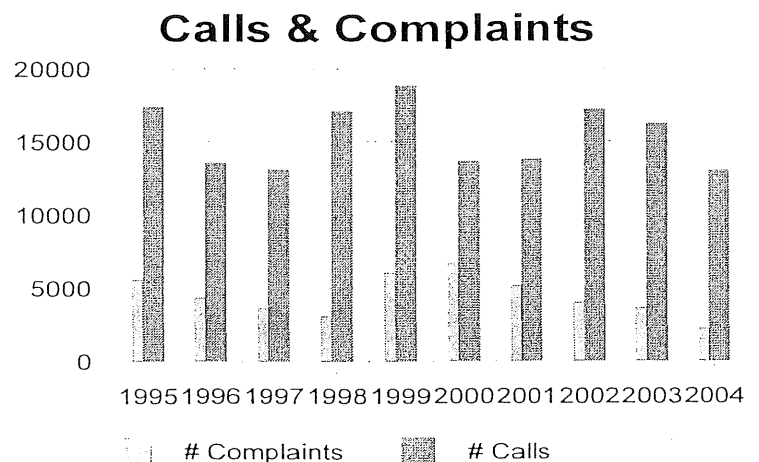
Number of Filings: During 2004, the Commission received 2073 formal filings involving telephone or energy utility matters. This level of filings sustains a trend which began in the late 1990s. As in years past, the volume of telephone filings exceeded energy.



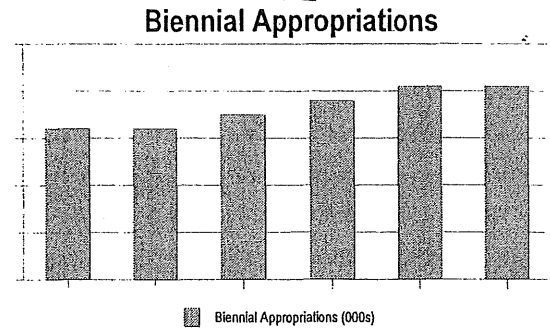
Decision-making: During 2004 the Commission convened 78 meetings (43 for docketed filings; 35 planning meetings) and issued 809 orders. Of the 2073 total filings for 2004, 222 involved complex or unique new issues or disputed formal petitions, up from 201 such cases during 2003. These cases were more complex and absorbed most of the Commission's attention. These numbers translate to approximately 5 of these complex cases per agenda meeting. Of the 222 complex cases, 109 were telephone dockets and 113 were energy dockets. Therefore, although the number of telephone filings exceeded energy in 2004, the cases that commanded the vast majority of the time for the Commission and staff were nearly equally divided between the telephone and energy areas.

The vast majority of filings coming to the Commission are dealt with in 60 - 90 days. This amount of time reflects the minimum needed to satisfy basic due process requirements under Minnesota law. While the complex cases mentioned above can take more time, many are resolved in a matter of months. Use of an expedited approval process has minimized resolution time for more routine cases. A total of 471 items were resolved using this alternative process.

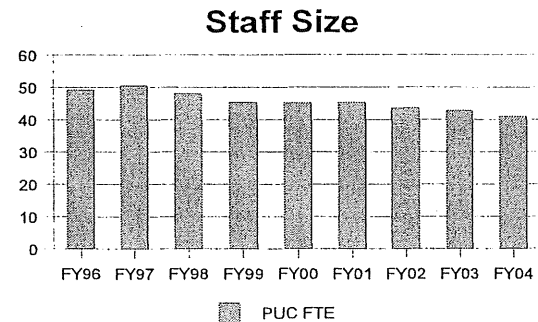
Consumer Affairs: The Consumer Affairs Office received 13,000 calls during 2004. Despite this high level of call traffic, continuing efforts in consumer education have kept the number of actual complaints lower for the second straight year. Also, continuing efforts to utilize telecommunications and computer technology has enabled the Office to efficiently manage its substantial workload despite a reduction in human resources.



Budget: Despite a consistently high level of activity, the Commission's operating budget has been stable over the last several years, showing a very gradual increase. Approximately 97% of the Commission's expenditures are recouped for the General Fund through the Commission's assessment authority.



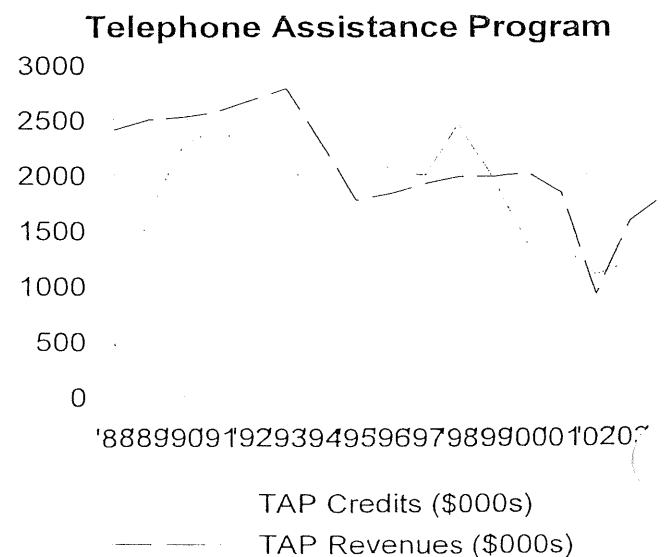
Staff Size: The Commission's budget size and staff size both are well below the average for state utility regulatory commissions. A 2003 study by the Michigan Public Utilities Commission focused on commission staff sizes per capita and found Minnesota ranked 48th of the 50 states plus the District of Columbia. The Commission's Full-Time-Equivalent (FTE), currently at 41, has been stable over the last several years in spite of the general increase in filings.



Information Technology: Information management is a critical function for the agency. The Commission must be able to capture, analyze, publish and manage a huge volume of information in order to perform its duties successfully. Presently, most of this is done on paper. However, the Commission has worked jointly with the Minnesota Department of Commerce (DOC) to implement technology that allows much greater electronic access by DOC and PUC employees to critical documents filed with the Commission. Moreover, the Commission and DOC are very near being able to offer external stakeholders enhanced electronic access to all filed documents.

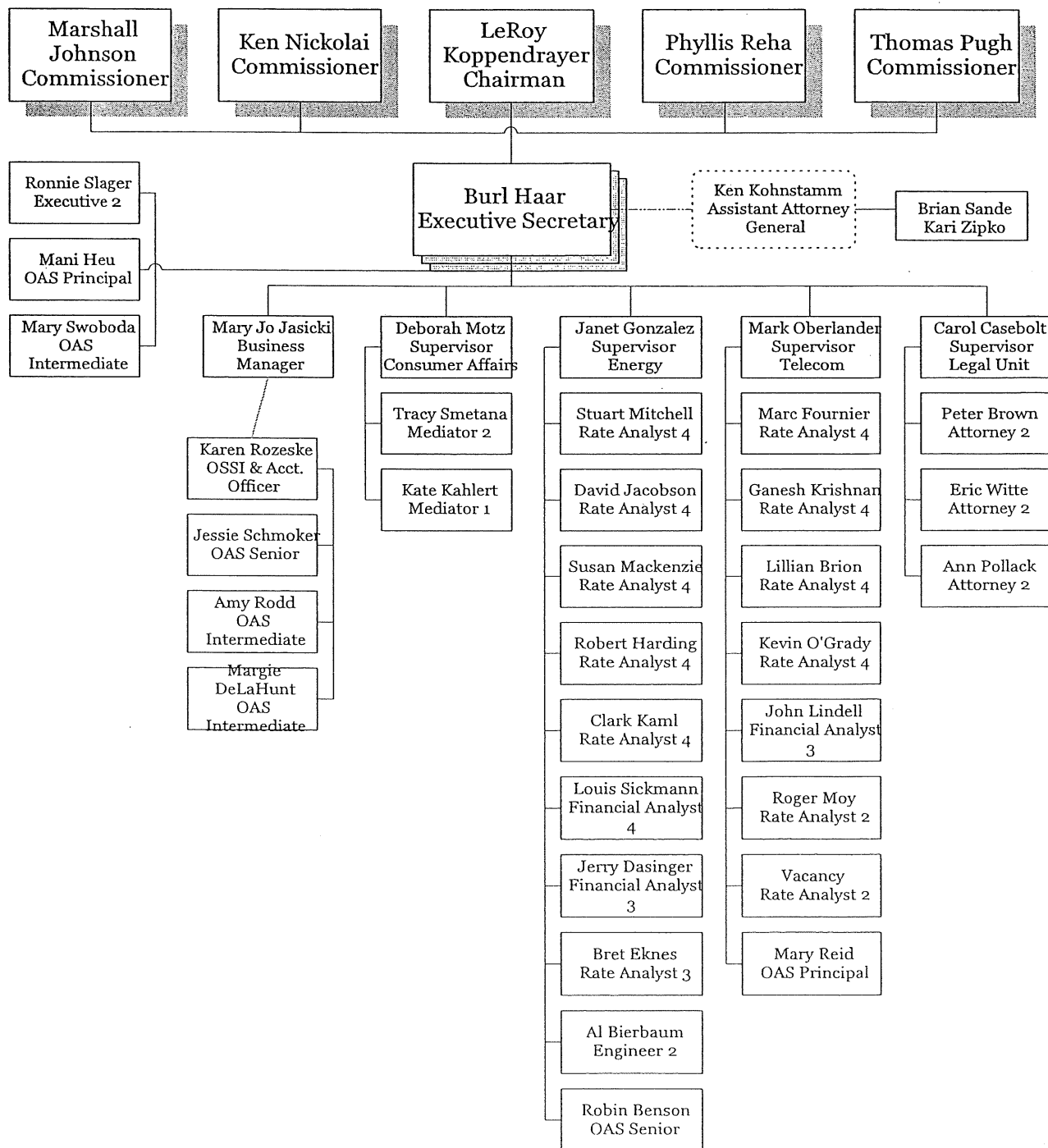
Telephone Assistance Program (TAP):

TAP subsidizes phone service for low-income households. TAP is funded by a surcharge, set by the Commission, on wire-line telephone access lines. The Commission also approves expenditures from the fund which support the credits to eligible subscribers. The Commission's goal is to keep revenues closely aligned with anticipated expenditures. Recent statutory changes have increased the number of potentially eligible households and, as a result, the number of program subscribers. Program adjustments to reflect the statutory changes are being considered by the Commission.



Minnesota Public Utilities Commission

January 18, 2005



ENERGY • Major Activities in 2004

Energy Policy Objective:

Assuring safe and reliable gas and electric services at reasonable rates

Regional and National Activities

- Midwest Independent System Operator (MISO) - Advisory Committee member representing the OMS - Commissioner Nickolai
 - Organization of MISO States (OMS) - Board member and Secretary - Commissioner Nickolai (Secretary)
- Committee for the Midwest Renewable Energy Tracking System - Commissioner Reha
- Electric Policy Research Institute - Board member - Commissioner Reha
- National Council on Electricity Policy - Commissioner Reha.
- Nuclear Waste Strategy Coalition - Member and Chair Commissioner Koppendrayer
- Gas Technology Institute - Advisory Committee member - Commissioner Johnson

Rate Cases

- Xcel Gas 04-1511 - pending [Xcel requesting a \$9.9 million, or 1.7%, increase]
- Greater Minnesota Gas 04-667 - pending [No increase requested; establishing base rates]
- CenterPoint Energy Gas 04-901 - pending [CPE requesting a \$21.8 million, or 1.8%, increase]
- Great Plains Gas 04-1487 - pending [GPG requesting a \$1.4 million, or 4%, increase]
- Interstate Electric 03-767 - final order issued July 1, 2004 [ISP requested a \$4.9 million, or 8%, increase; Commission approved a \$593,000, or 1% increase]

Planning Functions

- Interstate Resource Plan 03-2040 - final order issued, December 17, 2004 [deficit anticipated in 2008]
- Xcel Resource Plan 04-1752 - pending [deficit anticipated starting in 2011, growing to 1,830 MWs by 2015 and 3,100 MWs by 2019]
- Dairyland Power Resource Plan 05-184 - pending [deficit anticipated in 2008]
- Minnesota Power Resource Plan 04-865 - pending [deficit anticipated in 2009]
- GRE Resource Plan 03-974 - final order issued, April 26, 2004 [deficit anticipated in 2007]
- Southern Minnesota Municipal Power Agency Resource Plan 03-966 - final order issued, April 8, 2004 [deficit anticipated in 2008]
- Statewide transmission planning, 03-1752 [No facilities seeking approval]

Certificate of Need

- Calpine 03-1884 [certificate granted for 325 MW of wholesale power out of a combined cycle, gas generator with a capacity of approximately 650 MW. The balance of the capacity is covered by a power purchase agreement obtained through competitive bidding by Xcel]
- Xcel Blue Lake generator 04-76 [certificate granted for 320 MW simple cycle gas generator]
- Trimont Wind 03-1841 [certificate granted for 100 MW wind energy conversion system]
- Hutchinson Gas pipeline 01-1826 [certificate granted for 89 mile natural gas pipeline between Trimont and Hutchinson for City of Hutchinson]
- Xcel SW Mn transmission lines 01-1958 [certificates granted for four high-voltage transmission lines in southwestern Minnesota]
- Xcel nuclear storage facility for the Monticello plant 05-123 - pending. [Xcel requesting authority for up to 30 dry cask containers]

Investigations

- CenterPoint Energy Cold Weather Rule Implementation, 04-2001 - pending [109 disconnects pending as of 2/1/05 - Office of Attorney General to attempt to follow-up with affected households]
- Electric Fuel Clause 03-802 - pending
- Renewable Energy Objectives 03-869 - Order issued, August 13, 2004 [Appeal pending at Minnesota Court of Appeals]
- OTP hotline 04-1751 - pending
- Distributed Generation Standards 01-1023 - final order issued, September 28, 2004
- Aquila financial effects on PNG/NMU 02-1369 - monitoring service quality

Xcel - Resource Acquisitions

- Velva Wind PPA 04-864 - final order issued, December 29, 2004 [12 MW of wind generation]
- Invenergy PPA 04-1426 - pending [375 MW simple cycle gas peaking plant]
- Itasca PPA 03-2044 - pending [10 to 20 MW of biomass generation; contract terms being reviewed by parties]
- Ivanhoe Wind PPA 04-404 - final order issued, October 4, 2004 [150 MW of wind generation]

Xcel

- NRG financial effects on NSP 02-1346 - pending [on-going monitoring]
- Renewable Development Fund - 2nd cycle, 03-1883 - pending [on February 3, 2005 agenda]
- Refund for Gas meter errors 04-1072 - pending
- TOU cost recovery 02-1462 - pending
- Audit of service quality records 02-2034 - pending [settlement reached, March 10, 2004; on-going reporting and monitoring]
- Special rate riders
 - Renewable energy rider 01-1479
 - State energy policy rider 03-1544
 - Emissions Reduction rider 02-633
 - Renewable Cost Adjustment 03-1882
- Capital structure 03-1760

Service Area Disputes

- Buffalo/Wright-Hennepin Service area dispute 03-989 - pending
- Grand Rapids/Lake Country 03-896 - pending
- Red River/Moorhead, 04-1699 - pending
- Buffalo/Wright-Hennepin, 04-1968 - pending
- Hawley/Wild Rice, 04-1991 - pending
- Two Harbors, Coop L & P, 04-2019 - pending

Pending Litigation

- Environmental coalition appeal of Renewable Energy Objectives order, 03-869 - Mn Ct. of Appeals
- Xcel tax benefits stemming from NRG, 03-1871 - Mn Ct. of Appeals
- Hutchinson Gas Pipeline 04-452 - Mn Ct. of Appeals

Complaints

- NAWO/SOUL v. MP re: Arrowhead Transmission Line 04-955 - final order issued, Sept. 24, 2004 [complaint denied]
- Energy CENTS v. Beltrami Coop 02-105 - pending. Most recent order issued, January 25, 2005. [further compliance requirements imposed]

Periodic Energy Industry Reports

- Service Quality reports
- Annual automatic adjustment reports/true-up 03-1264

Rulemakings

- Certificate of Need procedural rules 02-2090

Telecommunications • Major Activities in 2004

Telecommunications Policy Objective:

Guiding the transition to effective competition in telecommunications markets

Pending Litigation Involving Telecommunications

- New Access v Qwest, 02-582 - Federal District Court - Oral Arguments completed, waiting for Court decision.
- 271 Pricing True-up, 01-1375 - Federal District Court - 8th US Circuit Court of Appeals - Case is at briefing stage.
- Qwest Carrier to carrier Q of S, 00-849 - Mn Supreme Ct. - Oral Arguments completed, waiting for Court decision.
- Qwest Carr. To Carr. Q of S Report, 00-849 - 8th US Circuit Court of Appeals - Qwest has agreed to dismiss case.
- Vonage 237.462, 03-108 - 8th US Circuit Court of Appeals. - Court "dismissed appeal" - MPUC has now appealed FCC order Court relied upon.
- Qwest unfiled agreements, 02-197 - 8th US Circuit Court of Appeals - Case is in briefing stage.
- Qwest Reciprocal Compensation, 03-384 - 8th US Circuit Court of Appeals - Case is in briefing stage.
- ATT/Qwest arbitration, 03-759 - Federal District Court - Oral arguments completed, waiting for Court decision.
- ATT UNE-P complaint, 01-391 - Federal District Court - case dormant
- Eschelon collocation & DMOQ complnt v Qwest, 03-683 - Federal District Court - case is in the briefing stage.

Regional and National Activities

- Triennial Review, 04-1420; 03-961; 03-960 - Waiting for FCC to issue written order.
- Comments on Voice over Internet Protocol proposed rulemaking.- Waiting for FCC to issue written order
- Regional Oversight Committee - Commissioner Pugh

Access Charge Reform

- Special Access 04-1609 PUC is seeking additional comments in both cases.
- Switched access 04-235, 04-852 Further PUC meetings likely in May 2005

Commercial Agreements

Currently waiting for FCC to issue order establishing federal guidelines for these cases

- Qwest/MCI, 04-1178, 04-1115
- Qwest/Preferred Long Distance, 04-1346
- Qwest/Granite Telecom, 04-1430
- Qwest/Choice-Tel, 04-1522
- Qwest/New Access, 04-1523

Interconnection Agreements - Arbitrations

- Qwest/Covad, 04-549 - PUC decided issues on January 27, 2005. Final agreement due in March 2005.
- KMC/Sprint, 04-703 - Case suspended while companies discuss settlement.
- MILEC-Qwest Wireless, 03-1893 - PUC approved settlement in October 2004.

Complaints

- Mn Telecom Alliance v Qwest, 04-200 - ALJ to conduct evidentiary hearing in Feb. 2005
- Velocity v Qwest 03-1024 - PUC Approved settlement in August 2004
- DeskTop v Qwest 02-1597
- New Access v Qwest, 02-582
- Eschelon (collocation) v Qwest, 03-683

Local Number Portability

- Sioux Valley 04-655 - Company must implement LNP by December 31, 2005
- Interstate 04-574 - Company must implement LNP by December 31, 2005
- Winnebago 04-328 - Company must implement LNP by April 6, 2005
- Citizen's 04-937 - LNP was installed in November 2004

Investigations

- McLeod rule violations, 04-1516 - DOC currently investigating and will file comments with the PUC in the near future.
- OneStar Disconnections, 03-1342, 03-1671, 03-1870, 03-2013, 04-34 - Disconnection is still pending. Company is currently under the protection of Bankruptcy Court.

Qwest

- Retail Quality of Service, 97-1544 - Ongoing PUC monitoring of quality of service provided to retail residential and business customers in Minnesota.
- Carrier to carrier Q of S, 00-849 - Ongoing PUC monitoring of quality of service provided to other wholesale telecommunication company customers in Minnesota.
- Tofte Service request, 00-686 - Evidentiary hearing have been completed, ALJ Report expected in March 2005, with PUC consideration in 2nd quarter 2005.
- Minnesota Performance Assurance Plan, LTPA (01-1376); Audit (01-1376); Tier II Monday (01-1376). - MPUC receives and monitors ongoing service quality reports.
- Unbundled Network Elements - Rates 03-1754 - MPUC approved settlement regarding rates in August 2004.

Eligible Telephone Company Designations

- VCI, 04-1692 - Parties to submit further comments for PUC consideration later in 2005.
- Midwest Wireless, 02-686 - MPUC approval is currently being considered by the FCC.
- Hickory Tech (Mn Southern) Wireless, 03-591 - Parties to submit further comments for PUC consideration later in 2005.
- WETEC, 04-953 - MPUC approved company request to draw federal funds in Sept. 2004.
- RCC Mn and Wireless All. 02-1503 - MPUC approved company request to draw federal funds in April 2004.

Telephone Assistance Program

- Program Changes - Federal program and guidelines changed in 2004. MPUC convened multi-agency task force to recommend changes in Minnesota program. MPUC will consider changes in Minnesota program in first quarter of 2005.

Operating Authority for Cities

- City of Windom 04-1744 - Windom granted authority to provide telephone service in order dated January 13, 2005.

Extended Area Service

- KilKenny/Metro, 04-1352 - MPUC decision on rates for voting in May 2005.
- Winsted, 03-402 - EAS to Metro to be implemented on February 10, 2005.
- Clearbrook-Gonvick, 04-970 - EAS request denied in Order dated September 20, 2004.
- Northfield, 02-587

AFOR

- Sprint revised, 02-290 - Monitoring ongoing quality of service performance.
- Frontier revised, 04-170 - Monitoring ongoing quality of service performance.

STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION
121 7TH PLACE EAST
SUITE 350
SAINT PAUL, MINNESOTA 55101-2147

WWW.PUC.STATE.MN.US