

Regulation by the Minnesota Public Utilities Commission Questions and Answers for Lake Country Power Members

Question: What is the opinion of the board of Lake Country Power regarding regulation?

Answer: It is the right and privilege of the membership to vote on regulation. The board and staff are working to hold down costs, but if members vote for regulation, we'll incorporate the additional costs into electric rates and proceed accordingly.

Ultimately, the decision is up to members. The board and staff will work hard to meet the MPUC requirements if members proceed with a vote for regulation. Lake Country Power's role is to ensure members have accurate and necessary information to make an informed decision.

Question: Will regulation lower my electric bill?

Answer: No. Regulation by the Minnesota Public Utilities Commission will not lower electric rates, and will not remove power cost riders from monthly bills. Additional regulation will add to the co-op's costs – and to members' monthly electric bills.

Question: What is the role of the Minnesota Public Utilities Commission?

Answer: The mission of the MPUC is to maintain a regulatory environment that ensures safe, reliable and efficient utility services at fair and reasonable rates – not to lower electric rates. The regulator's function is to provide a reasonable rate of return so the utility can safely and reliably operate the business on behalf of its consumers.

Question: Who pays for the regulation?

Answer: Co-op members pay for the additional cost of regulation – through direct charges, MPUC charges and indirect costs for additional paperwork filings, lawyer fees and power consultant contracts. The indirect costs also do not cover additional staffing requirements at the co-op to administer PUC filings and rate cases. These costs will likely be passed on as a separate "regulation" power cost rider on monthly electric bills.

Question: What does regulation involve?

Answer: Regulation is a process in which Lake Country Power pays MPUC employees, MPUC lawyers and power consultants to review and affirm the co-op's rate of return based on annual operating costs and expenditures. LCP's return on equity in 2009 was 3.7%, compared to 10.74% for Minnesota Power – a regulated utility.

Question: Why are some utilities regulated and some not?

Answer: Investor-owned utilities like Minnesota Power or Xcel Energy are regulated to ensure that profits are reasonable to investors, yet fair to ratepayers. Electric cooperatives are "self-regulated" by the board that members elect on their behalf. The board is responsible for establishing a reasonable margin to operate the business safely and reliably and pay down debt required by lenders and expected by members.

Question: How many cooperatives are regulated by the Minnesota Public Utilities Commission?

Answer: Minnesota has 45 electric distribution cooperatives. Only one cooperative has opted for additional oversight and regulation by the MPUC.

Question: What benefit is there to regulation?

Answer: Regulation is a benefit to those who would appreciate duplicate oversight by the state. State regulation adds layers of financial review to a process that is already under local member control and authority through the board of directors.

Question: Are there negative impacts to regulation?

Answer: The primary issue is the added cost that will mean higher electric rates. The Minnesota Department of Commerce charges an automatic fee each year for regulated utilities. Required quarterly, seasonal and annual paperwork filings, and required member mailings are expected to cost more than \$200,000 each year. Rate cases, expected every two to four years, will add a minimum of another \$500,000 whenever the co-op files for a rate case.