

Questions received and responded to during Rochester Public Utilities (RPU) MISO Customer Meeting, 1:00PM CST, December 11, 2014, regarding RPU Posted Attachment O

1. Has MISO performed its review of the RPU Attachment O?

RPU Response: Yes, both the 2013 historical Attachment O and 2015 forward-looking Attachment O were reviewed by MISO.

2. Please explain how "Payments in lieu of taxes" (Page 3, line 19) are calculated/determined.

RPU Response: RPU and the City of Rochester have had a long standing agreement whereby RPU makes a payment in lieu of taxes based on actual retail kilowatt hour sales. This rate is adjusted based on the consumer price index in any year when RPU has a rate change.

3. Please explain the number and function of employees included on page 4, line 13. Are these wages for individual employees or allocated based on services performed? If allocated, please describe how RPU calculates the allocation.

RPU Response: RPU has assigned costs on a specific work order basis using actual time and materials. RPU does not assign cost based on specific employees; cost assignment is based on work done on specific assets. The forward-looking projection was based on the past history of these actual workorder cost assignments.

4. Page 4, Line 30, Account 454 revenues. Does this include all revenue for the leased facilities from SMMPA?

RPU Response: Yes, lease payments for transmission facilities are included. This does not include lease payments for distribution facilities. The lease payment from SMMPA was a lump sum and the schedule reflects an amortized amount over the life of the lease.

Follow-up question: Is it being amortized over the life of the lease?

RPU Response: Yes, the amortization period is from when the SMMPA payment was initially received through the end of the lease term in 2030.

Follow-up question: How was the \$1.8 million payment from NSP handled?

(Background Information regarding the \$1.8 million payment. This was not discussed during the customer meeting as the meeting participants knew the background.

Under the requirements of a merger filing by Xcel Energy with the Federal Energy Regulatory Commission (FERC), RPU received \$1,870,000 during the year ended December 31, 2000, from Northern States Power (NSP), a wholly owned subsidiary of Xcel Energy. These funds were used to upgrade certain portions of the utility's transmission system. NSP was also responsible for 50% of any upgrade costs incurred by the utility in excess of the \$1,870,000. The utility deferred revenue recognition from this construction advance until related construction costs were incurred. Total revenue

recognized was \$841,745 and \$1,028,255 for the years ended December 31, 2002 and 2001, respectively.)

RPU Response: With RPU being a department of the City of Rochester we followed GASB #34 (Governmental Accounting Standards Board). The funds were initially recorded as a deferred amount. As the work was done, the deferred amount was reduced and recorded as a revenue. The related assets are in our accounting system at their full cost. The payment did not offset the cost of the assets.

Follow-up question: So this was not included in the cost?

RPU Response: That is correct. The full cost of construction is what is recorded in our asset records. The payment did not offset the asset cost.

5. Exhibit RPU-8, page 2 of 19, line 9. What other electric plant is leased to others that has been excluded from transmission rents on Exhibit RPU-8 page 18?

RPU Response: Line 9 on Exhibit RPU-8, page 2 of 19 is zero. Exhibit RPU-8 page 18 is for account 454 Rent from Electric Property (which is part of line 1 on page 2) as explained on the supporting work paper, 20. Account 454, rent for attachments on distribution poles is not included in the transmission rent revenue amount as the distribution expenses are also excluded from the ATRR calculation.

6. Exhibit RPU-8, Page 7 of 19. Please provide a detailed schedule of facility segments proposed to be included in the NSP Pricing Zone (Zone 16) and the Attachment GG Transmission. Please include cost, accumulated depreciation and in service date for each segment.

RPU Response: A separate page will be posted on RPU's OASIS site. What you will see is the Hampton to North Rochester 345KV facility that is in zone 16. Other components of the CapX project are not in zone 16 or are cost shared. The post will show all of RPU's investments in zone 16 less the GG facilities

Follow-up question: What is being asked for is the schedule GG detail which are in the attachment O and are subject the protocols that were filed.

RPU Response: This is included on the exhibit we will be posting on OASIS.

7. Exhibit RPU-8, page 10 of 19. Please explain the nature of costs included in Transmission Materials and Supplies and Prepayments.

RPU Response: Generally materials and supplies include insulators, relays, substation misc. parts, transmission wires, transmission line hardware, and transducers. This is the normal kind of stock that RPU holds for its transmission system.

8. Do prepayments include payments made to the CapX2020 project manager for project development? If so, are these payments excluded from CWIP. Please explain the difference between amounts paid to CapX2020 recorded in CWIP vs. prepayments.

RPU Response: No. RPU included in the forward looking calculation what is expect to be paid. This is not what RPU has paid to the management account but what has been drawn down from this account for the facilities. Materials and supplies does not include any of the CapX 2020 payment amounts.

Follow-up question: Are the amounts that are included in the attachment O the amounts expended for the actual line?

RPU Response: The amount RPU has included is based on the amount expected to be drawn down month by month during 2015 to arrive at an average for the period. This does not include any of the prepayments in any way. The transmission assets are not reflected in the attachment O until they are projected to be placed in service.

Follow-up question: Are there any expenses being included in CapX that are not associated with the CapX project?

RPU Response: There is no CWIP included may be the simplest way to say it.

9. The ISD for the HRL facilities is currently posted on the Project Update page of the MISO Planning Portal as October 15, 2015. What happens if the ISD of the HRL were delayed to past 12/31/15?

RPU Response: When RPU does its reconciliation calculation for the actual ATRR that will factor in what facilities are actually in service at the end of 2015. To the extent the in service date slides into 2016, those facilities will not be included in the 2015 true up, so it will correct for any over collections for assets that were placed in service later than what was projected.

10. On the zonal allocation spreadsheet the \$1.8 million addition in May 2015 what is that?

RPU Response: Please submit this question in writing with specific line/cell references so we can make sure we respond to what you are asking.

11. The Hampton to La Cross project is now being discussed as going into service in September of 2016. How will this be handled?

RPU Response: To the extent that the in service dates changes the true up will adjust for this.

Follow-up question: So if this is known ahead of time, will you be over collecting for this in advance?

RPU Response: To the extent that this happens any over collection is paid back with interest. In service dates can change frequently so to keep changing this on the filing would just be guessing.