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SERVICE EXTENSION POLICY

GENERAL

In general, as covered in the applicable Service Regulations, the Company assumes the responsibility of making extensions of its service facilities in its territory when the service desired is of a type available and a price has been fixed and embodied in a filed rate schedule, provided, that the cost and distance limitations specified in the Service Regulations do not control.

At times it is possible to waive the minimum conditions set forth in the Regulations and make service available under a more liberal plan. This section will present the plan in effect from time to time and will be revised, as conditions require, to set forth the practices that are justifiable at the time.

In general, each extension or addition to the Company's facilities must be judged on its own merits and must pay its own way. Each additional extension or addition to facilities involves additional investment of money. Any additional property must earn not only its own fixed charges and operating expenses, taxes, etc., but must earn enough to carry its part of other facilities which its own employment brings into use. For instance, if a transformer is installed to serve a new electric customer on an existing rural line there will be incurred the following items of cost that this transformer must earn, in addition to other costs that arise from the service furnished:

1. Interest and depreciation on its cost
2. Taxes
3. Cost of losses in transformer
4. Maintenance and operating costs
5. Charges on transmission and other distribution line capacity used up by the transformer and the Customer it serves
6. Charges on substation capacity used up
7. Charges on power plant capacity used up

Thus it is seen that those to be served by any added facilities must pay sufficient revenue to insure that the Company will have at least a reasonable chance to recover all its costs. It is only as this is done that we can progress and continue to develop our territory and expand our system and service.

The term "extension" really covers two things - (1) extension of lines and (2) addition of services, meters, transformers or other property, etc., on existing lines.

The policy to be outlined herein will provide for three general methods of financing extensions and/or additions, as follows:

I. Extensions financed entirely by Company
II. Customer contributes all or part of cost
III. Customer advances entire cost, such advances to be refunded under specified conditions

(None of the above are applicable to temporary service. For the policy governing temporary service consult the Service Regulations.)

ELECTRIC SERVICE EXTENSIONS

The Company's present policy, as fixed by prevailing conditions, is that it will invest in such extensions or additions approximately thirty-six (36) times the guaranteed minimum monthly revenue to be received from proposed extensions or additions, provided that the applicable provisions of a franchise covering the area in question does not conflict. In case of conflict the franchise governs.

As an example, if a Customer is to be served on the rural residential rate schedule, the guaranteed revenue under the terms of the rate and Service Agreement is $1.50 per month. Thirty-six times this amount is $54, which is sufficient, at this time, to warrant the installation of a service drop and meter and possibly a span of secondary line on existing poles. This condition has led to authority, under the Fixed Capital Accounting procedure, to District Managers, to expend up to approximately $25, or the cost of two spans of secondary, in addition to service drop and metering installation, to serve one Customer.

If, however, a transformer is required, the cost of such additions and extensions, or combinations thereof (including service drop and meter), is likely to exceed $54 and it becomes necessary to require additional guarantees of revenue. Such guarantees will ordinarily be in the form of an agreement to pay a higher minimum bill as provided elsewhere herein. Guarantees of this nature are of no value if they exceed the ability of the Customer to pay them, or if the Customer eventually values the service he receives at a lesser amount. For this reason it is important that sales effort is used to induce the use of service to at least the extent of such guarantees and to develop a valuation of the service to at least the extent of such guarantees and to develop a valuation of the service, by the Customer, of such an amount that he will gladly continue to pay compensatory revenue, even after the expiration of his initial contract. Failure to do this is merely storing up trouble. A contract for not less than three years or thirty-six months is required under these conditions.

I - EXTENSIONS FINANCED ENTIRELY BY COMPANY

This bring us to the essence of the prevailing policy; which shall remain in effect until further notice, as follows:

<u>Extensions and/or additions will be made to serve Residential, Farm, Commercial and similar Customers, without cost to the Applicant (or group of Applicants) at a cost to the Company of not more than 36 times the minimum monthly revenue that the Applicant (or group of Applicants) to be served will satisfactorily guarantee for a minimum period of thirty-six (36) months</u>.

(Extensions to serve industrial and other Customers where the terms of contract and other requirements of the applicable rate schedule are somewhat different, are special, and are not covered by this statement of policy.)

To make the aforesaid policy effective and applicable with reasonable uniformity, the following conditions will apply:

Case 1. Where extensions of not more than two spans of secondary (115-230 volt) lines (on existing poles) and a service drop and meter will serve a new Customer, <u>such a Customer may be connected with no greater minimum monthly bill than that embodied in the applicable rate schedule</u>.

Case 2. Where extensions and/or additions, including service drop and meter necessary to serve a new Customer require an expenditure of <u>not more than</u> 36 times the minimum monthly bill of the rate schedule applicable, <u>such Customer may be connected with no greater minimum bill than that embodied in the applicable rate schedule</u>.

Case 3. When only a primary line of 13 Kv or less is adjacent to a prospective Customer so that, in order to serve him a transformer must be installed, (as well as service drop and meter) such installations must carry a minimum charge of $3.00 per month for the minimum standard sized transformer where only one Customer is to be served. If a larger than smallest sized transformer is required the minimum monthly bill shall, as in Case 2, be 1/36 of the total cost.

Case 4. When conditions are as in Case 3 but more than one Customer is to be served by the one transformer, the minimum guarantee shall be based on 1/36 of the cost, such total minimum to be equitable apportioned between the prospects, in a manner acceptable to each of them, but if a minimum sized transformer is used the monthly minimum should not exceed $3.00 for each Customer.

No monthly guarantee shall be for less than the standard rate minimum, including also any applicable connected load charges.

The estimated costs shall include all elements of cost embodied in paragraph 22(O) of the Electric Service Regulations.

All extensions except those in Cases 1 and 2 must be covered by an extension agreement. Copy of this extension agreement (Form 2330) is included in Section D, with instructions for its handling. The Cases 1 and 2 Customers can be served under the appropriate application or contract form.

II - <u>EXTENSIONS INVOLVING CONTRIBUTIONS BY CUSTOMERS</u>

In general it is preferable to avoid receiving contributions. Rather, it is preferred that Customers spend their money for utilization equipment and assure the use thereof by a suitable monthly revenue guarantee. Form 2330 is applicable, however, to those cases where contributions cannot be avoided. It is necessary that the form, when submitted with recommendations for acceptance by the Company, be accompanied by a sheet showing the computations of cost, revenue guarantees, etc., as well as other attachments provided for in the form itself.

Where the prospective Customer is unwilling to make a monthly revenue guarantee of 1/36 of the cost of required extensions and/or additions an alternative method may be used. In such cases the prospective Customer may contribute toward the cost of extensions or additions all or part of the amount of excess cost above 36 times the minimum monthly bill provided by the applicable rate schedule. In such cases the rule becomes as follows:

<u>The minimum monthly revenue guarantee must be the sum of the following</u>:

(1) <u>1/36 of Company's portion of cost of additions</u>.
(2) <u>1/72 of Customer's contribution to cost of additions</u>.

The reason that the Customer cannot be relieved of all costs arising from the property contributed is that the Company must maintain, pay taxes on, assume liability for and provide for the replacement of such property. Frequently the Company is subjected to other additional costs and risks for which it is not possible to provide. The Customer should readily understand this, as a storm may wreck the line the day it was built and the Company would have to replace it regardless of who paid for it initially.

III - CUSTOMER ADVANCES ENTIRE COST OF CONSTRUCTION SUBJECT TO REFUND

Extensions of this kind are distinguished from those involving contributions in that such advances are to be refunded to the Customer under certain conditions. This practice will ordinarily be followed in such cases as real estate subdivisions and the like which want utility service but the extent thereof and probable Customers and revenue are indefinite or speculative.

In such cases the parties desiring the extensions must provide the entire cost other than for transformers, services and meters, as provided in the agreement set forth on Form 2333. This form must be completed for all such cases.

The plan is also usable, to a limited extent, in other cases where Customers want service at locations or under such conditions that the risk is too great for the Company to assume the entire cost, or where, if the Customer is willing to make reckless guarantees to secure service, but which, if failing, would leave the Company with the liability of maintaining a long or unprofitable line, costly to operate. Generally this plan should be used in the latter case only after others have failed and only then after careful analysis and consideration. Refunding plans are in general justified only in those cases where the parties promoting and financing the line do not expect, themselves, to be Customers, but are engaged in some activity which they expect to be furthered by the utility service they seek to have established. This plan is not applicable to temporary service.

The policy in this case is as follows:

(1) The entire cost of all extensions and additions, except for transformers, service drops and meters is paid to the Company in advance by the Applicant, after which the Company will install facilities agreed upon.

(2) Title to all facilities is immediately vested in the Company.

(3) The Company agrees to refund the amount advanced, the refunds to be made in the manner and subject to the limitations set out below:

(a) Refund settlements will be made at annual intervals, the first to be made one year after the date of any advance.

(b) The amount to be refunded at each such date will be 40% of the revenue collected from the extension during the preceding twelve months provided (1) no refunds will be made after sixty (60) months from the date of the original advance, (2) the total amount to be refunded will not exceed the amount originally advanced or two times the amount of revenue received during the last 12 months of the 60 months period, whichever is less.

The reason that such cases are put on a 2:1 basis, as compared with the 3:1 basis in the two preceding plans is that in this case the Applicant is not required to advance the cost of transformers, service, and meters, since it would be difficult to anticipate the amounts to be expended for these items over a five-year period.

It is also important to note that the refunds are to be based on the revenue from the primary and secondary pole line paid for by the Applicant and not from future extensions thereof. For example, if a mile of line were constructed under this plan the revenue from only this mile would be considered in refunding. If in the meantime it was extended another mile the other mile would be an entirely separate proposition and would have to stand alone.

Contracts under this plan are made on Form 2333, included in Section 3 with instructions for handling.

After the above contract is executed and lines installed the Company's relations with the Customers to be served will be identical with its relations with Customers located on existing lines as described under Case 1 on page 2, i.e., the Customers to be served from such extensions would make application for service in the usual way and the Company would, upon acceptance of the application, install service drop, meter, etc., and the Customer would pay his bills thereafter in the usual manner.