

September 5, 2018

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: **Response Comments of the Minn. Dept. of Commerce, Division of Energy Resources**
Docket No. E015/M-18-375

Dear Mr. Wolf:

Attached are response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

Petition of Minnesota Power for Approval of its Renewable Resources Rider and 2018 Renewable Factors.

The petition was filed on June 5, 2018 by:

Susan Ludwig
Policy Manager
Minnesota Power
30 West Superior Street
Duluth, MN 55802.

The Department continues to recommend **approval with modifications** and is available to respond to any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ STEPHEN COLLINS
Rates Analyst

/s/ NANCY CAMPBELL
Analyst Coordinator

SC/ja
Attachment



Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/M-18-375

I. INTRODUCTION

On June 5, 2018, Minnesota Power (MP or the Company) filed a petition requesting that the Minnesota Public Utilities Commission (Commission) approve updates to the Company's Renewable Resources Rider (RRR) tariff, effective with the implementation of final rates in the Company's ongoing general rate case. MP and the Minnesota Department of Commerce, Division of Energy Resources (Department) expect to implementation of final rates to occur on December 1, 2018. Of note, in the petition, MP proposed to use the rate of return, capital structure, jurisdictional allocators, and class allocators approved in the Commission's March 12, 2018 Order in Docket No. E015/GR-16-664 in calculating the RRR revenue requirements beginning but not before December 1, 2018, coinciding with implementation date of final rates.¹ MP's petition also proposed to use the tax treatment in effect before the passage of the 2017 Tax Cuts and Jobs Act for the full-year revenue requirements.²

On August 3, 2018, the Department filed comments recommending the following:

The Department recommends that the Commission approve MP's petition to implement final RRR rates, but modify the calculation of final RRR rates as follows and refund to customers any resulting overcollection during the provisional RRR rate period:

- [for all revenue requirements, not just those from December 1, 2018 onwards] use the rate of return, capital structure, jurisdictional allocators, and class allocators approved in the March 12, 2018 Order in Docket No. E015/GR-16-664;

¹ On page 23 of the petition, MP stated: "Assuming final rates in the Company's current rate review will be implemented on December 1, 2018, the rider revenue requirements were calculated utilizing the rate of return from the Commission's March 12, 2018, rate review Findings of Fact, Conclusions, and Order starting December 1, 2018. Refer to Exhibit B-4. Similarly, the jurisdictional and class allocators from the Company's rate review were utilized starting on December 1, 2018, Refer to Exhibit B-5."

² On page 22 of the petition, MP stated: "The 2018 revenue requirements do not reflect any changes due to the 2017 Federal Tax Act."

- [for all revenue requirements, not just use those from December 1, 2018 onwards] use current tax rates and treatment, as updated in the Tax Cuts and Jobs Act of 2017; and
- cap recovery of capital expenditures and AFUDC [Allowance for Funds Used During Construction] net of insurance proceeds at \$90,202,309 instead of MP's asserted \$90,400,000.

The Department requests that MP show the effect of the above adjustments in the Company's reply comments.

The Department requests that MP's reply comments also provide the actual production for the Bison projects over the prior year and explain any underperformance compared to the 1,888,000 MWh assumed in the eligibility filings. The Department also recommends that the Commission require MP to continue providing this information in all future RRR filings.

Lastly, the Department requests that MP confirm that the Company plans to true up ADIT [Accumulated Deferred Income Tax] figures to actual - not prorated - ADITs in their true-up calculation. If not, the Department recommends that the Commission require MP to do so. Alternatively, since MP's implementation date of December 1, 2018 results in only one month of forecasted costs, and therefore one month of prorated ADIT, the Commission could move the implementation date back one month to January 1, 2019 to eliminate forecasted costs and the need for proration.

On August 16, 2018, MP filed reply comments, concluding the following:

Minnesota Power appreciates the Department's review of the Renewable Resources Rider and has provided the requested information. The Company is open to implementing the Department's suggested changes to the RRR tariffs if the Commission decides the materiality of the recommendations warrants the change. Minnesota Power will follow the Department's recommendations on the preferred assumptions to use in future situations when cost recovery riders are calculated before final rates are implemented. Finally, Minnesota Power respectfully requests the Commission approve the RRR billing factors to be implemented coincident with final rates in the Company's rate case.

Table 3 of MP's reply comments, reproduced below, showed the effect of the Department's proposed recommendations on RRR revenue requirements:

Table 3. Department Recommendations Impact on Revenue Requirements

2018 MN Jurisdictional Revenue Requirements	Amount	Impact
Initial filing	\$ (7,634,257)	-
Rate case rate of return and capital structure	(7,694,988)	(60,731)
Tax Cut and Jobs Act of 2017	(7,724,092)	(29,104)
Rate case allocation factors	(7,706,174)	17,917
Total		(71,917)

MP stated that the effect on rates would be as follows:

This change would have no impact on the originally proposed Large Power rates and would change the rate for other classes by one thousandth of a cent (\$0.00001).

II. RESPONSE TO MP

A. RATE OF RETURN, CAPITAL STRUCTURE, JURISDICTIONAL ALLOCATORS, CLASS ALLOCATORS, AND THE TAX CUTS AND JOBS ACT

The Department appreciates MP's willingness to adopt the Department's recommendations regarding rate of return, capital structure, allocators, and the Tax Cuts and Jobs Act. The Department also appreciates MP providing the impact of the recommendations on rates, and agrees with MP that the impact is relatively small. Lastly, the Department appreciates MP's clarification that overcollection would be refunded through the use of the RRR tracker and therefore "it is not necessary for the Commission to order Minnesota Power to refund customers for overcollection during the provisional RRR period."

B. COST CAP

MP stated that the difference between the Company's proposed \$90,400,000 cost cap and the Department's recommended \$90,202,309 level is \$183,836 of wholesale AFUDC, and that MP backs out this amount from the RRR. Based on this information, the Department understands that MP's RRR tariffs do indeed reflect the Department's recommended \$90,202,309 cost cap, and therefore the Commission need not take action on this issue.

C. BISON PRODUCTION

Table 2 in MP's reply comments, reproduced below, shows that Bison 1, Bison 2, and Bison 3 continue to produce less energy than assumed in the Company's eligibility filings, while Bison 4 is producing at similar levels.

Table 2. Summary of Production at Bison 1, 2, 3 and 4

(MWh)	Estimated*	2014	2015	2016	2017	2017 variance
Bison 1	300,000	266,640	239,519	263,376	271,815	-9.4%
Bison 2	380,000	324,087	294,291	328,831	328,923	-13.4%
Bison 3	365,000	326,727	293,757	326,999	333,816	-8.5%
Bison 4 **	835,000	44,820	712,033	832,159	840,920	0.7%
	1,880,000	962,274	1,539,600	1,751,365	1,775,474	-5.6%
	* <i>Bison 1 - Docket No. E015/M-09-285</i>					
	* <i>Bison 2 - Docket No. E015/M-11-234</i>					
	* <i>Bison 3 - Docket No. E015/M-11-626</i>					
	* <i>Bison 4 - Docket No. E015/M-13-907</i>					
	** <i>Bison 4 was placed in service December, 2014</i>					

MP attributed the underperformance at the first three Bison facilities to the nascent stage of the regional wind industry at the time of the eligibility filings, resulting in inaccurate forecasts. Correspondingly, MP stated that the more accurate forecasts for Bison 4 were the result of better data having developed by the time of the Bison 4 eligibility filing.

The Department appreciates MP's explanation and continues to recommend that the Commission require MP to provide this information in future RRR filings.

D. ADIT

MP did not confirm that the Company will true-up ADIT figures to actual non-prorated ADIT in their true-up calculation as requested by the Department. As a result, the Department recommends that the Commission require MP to implement the 2018 RRR factor no sooner than January 1, 2019 to eliminate the forecasted costs and the need for proration. This would result in the \$299 in proration being removed for December 2018.

III. DEPARTMENT RECOMMENDATION

The Department recommends that the Commission require MP to use the following in its 2018 RRR revenue requirement calculations:

- the rate of return, capital structure, jurisdictional allocators, and class allocators approved in the March 12, 2018 Order in Docket No. E015/GR-16-664; and
- the tax rates as updated in the Tax Cuts and Jobs Act of 2017.

The Department also recommends that the Commission require MP to file the updated rate factors in a compliance filing before implementation.

In addition, the Department recommends that the Commission require that, in all future RRR filings, MP provide the actual production for the Bison projects over the prior year and explain any underperformance compared to the 1,888,000 MWh assumed in the eligibility filings.

Lastly, the Department recommends the Commission require MP to implement the 2018 RRR factor no sooner than January 1, 2019 to eliminate the inclusion of forecasted costs and resulting need for ADIT proration.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Response Comments**

Docket No. E015/M-18-375

Dated this 5th day of September 2018

/s/Sharon Ferguson

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