STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Utility Service in Minnesota	Docket No. E015/GR-16-664
In the Matter of Minnesota Power's 2017 Remaining Life Depreciation	Docket No. E015/D-17-118

Minnesota Power's Answer to the Department of Commerce Requests for Reconsideration

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INTRODUCTION

Minnesota Power hereby submits this Answer to the Minnesota Department of Commerce, Division of Energy Resources' ("Department's") Requests for Reconsideration in the above-captioned cases. The Department's proposals, as well as the Company's own Petition for Reconsideration, come at a time when Minnesota Power's overall rates are being affected by several dockets concurrently. These dockets include: (i) the Commission's general proceeding to investigate the impacts of the Tax Cuts and Jobs Act (Docket No. E,G999/CI-17-895) ("TCJA Docket"); (ii) the Company's 2017 and 2018 depreciation dockets (Docket Nos. E015/D-17-118 and E015/D-18-226); (iii) the Energy-Intensive Trade-Exposed ("EITE") docket (Docket No. E015/M-16-564); and (iv) the Company's recent and pending filings with respect to the Boswell Energy Center ("Boswell" or "BEC") Unit 4 ("BEC4") Emission Reduction Rider ("BEC4 Rider") (Docket No. E015/M-18-264) and the 2018 Renewable Resources Rider ("2018 RRR") (*to be filed*).[1] The Department's reconsideration proposals bring the depreciation and TCJA dockets to bear on the Company's revenue deficiency in this proceeding, and bear on EITE

[1] Minnesota Power does not currently anticipate filing a Transmission Cost Recovery Rider in 2018.

tracker account recovery. Separately, the Company's filings in its BEC4 Rider and 2018 RRR dockets stand to further reduce Minnesota Power's already low rates across customer classes, and may, therefore, help to inform the Commission's considerations of just and reasonable rates for the Company.

As discussed in Minnesota Power's initial Petition for Reconsideration in this rate case docket, it is critical to address what the Company hopes are unintended negative consequences of the initial Commission decision issued on March 12, 2018. At the same time, Minnesota Power appreciates the Department's search for constructive solutions. As such, this Answer addresses the Department's reconsideration proposals in the context of several issues before the Commission. With these various proceedings moving Minnesota Power's overall rates in multiple directions, the Company seeks to bring the pieces together and suggest a reasonable ratemaking path forward for the Commission, the Company, and Minnesota Power customers.

SYNTHESIZING CONVERGING RATEMAKING ISSUES

In its Request for Reconsideration, the Department recommends a few alternatives that would reduce the Boswell Energy Center's depreciable life back to (or closer to) the present useful lives of BEC Unit 3 ("BEC3"), BEC4, and the Common Facilities. Changing the depreciation lives of these units to a collective 2035 would increase the Company's annual depreciation expense, and therefore its annual revenue requirement, by approximately $17.1 million. At the same time, the Department notes that Minnesota Power's filings in the TCJA Docket identify the potential for a refund to customers of as much as $23.6 million based on federal tax reform. As such, the Department now recommends that the Commission reconsider its decision on BEC3, BEC4, and the Common Facilities depreciation life, offsetting that increase in the revenue requirement with a current period tax refund with gross up of $18.7 million. The Company will begin addressing these requests for reconsideration by first identifying key risks and opportunities they present as a whole; then explaining how the "pieces" of these various proposals and dockets may fit together; and finally moving to individual considerations for the Department's Boswell/TCJA proposal.[2]

I. The Company's Key Concerns

The Company appreciates that the Department is seeking a constructive approach to address tax reform and rate levels, as well the credit market's negative reactions to the initial outcome of this rate case. As described in more detail below, the Company's agrees that the Department's proposal warrants attention in light of the new facts around the Company's financial position and new information in the Department's Requests for Reconsideration, although certain refinements are critical to Minnesota Power's financial position and long-term investor outlook.

Specifically, as discussed in the rate proceeding, the Boswell depreciation revision in the Commission's March 12, 2018 Order was proposed largely as a rate moderation tool – a tool that is arguably less critical given where the Commission set the Company's final rates. Further, Minnesota Power proposed the Boswell depreciation adjustment long before the TCJA was passed, which is ultimately likely to substantially change the Company's revenue requirement – albeit, outside of and after the end of the 2017 test year. Lastly, while the Department's proposal does not change that the Company currently lacks a reasonable opportunity to earn the Commission ordered 9.25 percent return on equity ("ROE"), it does somewhat improve the Company's Funds from Operations to Debt ("FFO/Debt") ratio on which debt markets rely. As

[2] The Company takes no position on the arguments by LPI in its Petition for Reconsideration filed on March 30, 2018, other than to note that the Company has not changed its longstanding request that the Commission continue to allow the Company to recover any costs and refund any savings associated with EITE, including any tracker balances related to its EITE rate.

such, the Department's proposal can be helpful if implemented with certain refinements and the consideration of certain principles, identified in turn below:

1. If the Commission is inclined to reconsider BEC3, BEC4, and the Common Facilities' depreciation life, Minnesota Power respectfully requests that it return the units' common depreciation life to 2035 effective at the end of the 2017 test year – that is, as of January 1, 2018.

Minnesota Power makes this request to not disturb the change in Boswell's depreciation life for 2017 for the following reasons:

a. The TCJA income tax rate change is only effective as of January 1, 2018. Effectuating the 2035 timeframe for Boswell's depreciation life on January 1, 2018 would align this depreciation change with the effective date of the TCJA.

b. The Company has already closed its books for 2017, and a retroactive change back to 2017 would result in a significant earnings impact.

c. Reducing the depreciation life of Boswell to 2035 at the beginning of 2018, rather than the beginning of 2017, preserves a substantial portion of customers' interim rate refund amount for 2017.[3]

d. Finally, this approach alleviates the need for reconsideration of the Commission's March 21, 2018 Order in the Company's 2017 depreciation docket (Docket No. E015/D-17-118); rather, depreciation could be adjusted in the 2018 depreciation docket (Docket No. E015/D-18-226), effective January 1, 2018.

2. The Company asks the Commission to make corporate income tax-based changes to Minnesota Power rates solely within the context of the TCJA Docket, rather than in this rate case.

Minnesota Power does not object to utilizing the impact of tax reform to offset the Boswell depreciation life change and final rates, effective January 1, 2018. Nor does the Company object to applying the full benefits of tax reform as the offset, which Minnesota Power estimates to be $23.6 million, to reflect changes in deferred tax asset values and amortization,

[3] Minnesota Power anticipates interim rates in the present proceeding will be in effect until roughly December 1, 2018.

rather than the lesser $18.7 million recommended by the Department at this time. Additionally, the Company believes tax reform changes can be implemented before or coincident with final rates and interim rate refunds to effectively mitigate other rate increases. However, there are several reasons why the tax-related change should be decided within the tax reform docket before application to rate case outcomes:

a. While the Boswell depreciation life was fully explored in the record in the rate case, the effects of the TCJA were not explored at all. Nor were the impacts of the TCJA known or applicable during the 2017 test year.

b. The impacts of the TCJA, which was effective January 1, 2018, after the end of the test year, should not technically be part of the "interim rate refund" for the rate case; rather, they are an offset to interim and final rates that is not part of the case itself.

c. The Commission has not yet conducted proceedings on the specific tax calculations offered by the utilities, nor other intervening parties' reply comments, in the TCJA Docket. Among the undecided issues is the extent to which recalculated excess deferred income tax assets and liabilities should be applied to ratemaking (along with changes in the corporate income tax rate), and if so, how. Minnesota Power is committed to ensuring customers receive the full benefits of the TCJA; the Company simply believes that such questions should be fully explored and answered in the TCJA Docket, to create some common understandings and equitable treatment for all Minnesota utilities.

d. Revenue requirement revisions due solely to federal tax reform could be premature, given that Minnesota utilities' annual state taxes could change materially if the Minnesota tax system is overhauled during the 2018 Minnesota legislative session. Among the issues currently before the legislature is whether to align the Minnesota taxation system with the federal system, which could result in substantial increases in Minnesota corporate income taxes.[4]

   The legislative session is constitutionally required to end by May 21, 2018. Waiting to make TCJA-based changes to utility revenue requirements until the legislative session comes to a close could avoid unintended consequences – namely, reducing utility revenue requirements based on federal tax changes, only to drive the utilities into new rate cases based on state tax changes.

[4] *See, e.g., Tax Reform: For Minnesota, the federal act is a hard one to follow.* MINNEAPOLIS STAR TRIBUNE (Feb. 16, 2018), available online at www.startribune.com/tax-reform-for-minnesota-the-federal-act-is-a-hard-one-to-follow/474346823.

e. Even with the tax rate change being implemented in the tax reform proceeding, it is likely that decisions in the TCJA Docket and implementation of final rates in the rate case will align, allowing all the combined effects of the TCJA Docket and the 2035 BEC3, BEC4, and the Common Facilities' depreciation life to flow to customers (effective January 1, 2018) with the implementation of final rates.

3. Minnesota Power asks the Commission to recognize that adjusting the depreciation life for BEC3, BEC4, and the Common Facilities to 2035 does not solve the negative consequences of the rate case decision in the investment community.

As illustrated in **Attachment 1** to this filing, the change in the Boswell depreciation life before offsets from tax reform improves Minnesota Power's FFO/Debt ratio by 1.3 percent for Minnesota Power, or to approximately 17.0 percent overall. Though a modest and welcome improvement in debt market metrics, this is still not within the 18 percent minimum threshold (20-22 percent preferred range) established by S&P to maintain the Company's BBB+ rating.[5] Further, even with this change, the Commission's March 12, 2018 Order would not provide Minnesota Power with a reasonable opportunity to earn its authorized ROE. As a result, a Boswell-related improvement in the FFO/Debt ratio from a debt market perspective would not improve investors' views of the Company's attractiveness as an equity investment.

Rather, as discussed in Minnesota Power's Petition for Reconsideration, expense adjustments such as the $6.781 million (MN Jurisdictional) reduction in Generation Supervision, Engineering, and Meter Reading Operations & Maintenance ("O&M") cut into core Minnesota Power services based on the Department's selective analysis of certain FERC accounts.[6] In addition, this particular adjustment overlapped with the O&M adjustment for unfilled employee

[5] Ex. 38 at 6-7 and Schedule 3 (Cutshall Rebuttal). Even if the Commission granted the Department's and Commission's requests for reconsideration in full, including a 9.66 percent ROE, after tax reform Minnesota Power would still have an FFO/Debt ratio of approximately 16.66 percent. See **Attachment 1**. This is an improvement, but the fact that the result would still not be in line with S&P's stated expectations underscores the importance of the Company's more limited requests on reconsideration.
[6] Minnesota Power Petition for Reconsideration at 11.

positions to which the Company voluntarily agreed in Rebuttal Testimony.[7] Similarly, rejection of the Company's request to recover even the 2017 portion of lost transmission third-party revenues – despite clear and irrefutable information directly from MISO as to the reason for and quantification of the change – is a long-term loss to Minnesota Power it cannot make up elsewhere. Finally, if the Discounted Cash Flow ("DCF") method was a reasonable forward-looking estimate of Company investors' required returns, and if a 9.25 percent ROE was a reasonable interpretation of DCF results, then establishing a 9.25 percent ROE should not have had the negative impact to the Company's credit metrics and investor confidence that occurred immediately after the Commission's rate case deliberations.

Consequently, while Minnesota Power wholly appreciates the Department's Boswell/TCJA proposal, and welcomes any increase in its FFO/Debt metric, it also asks the Commission to consider that additional modifications to its March 12, 2018 Order are needed to stabilize the Company's financial footing.

4. <u>Next, the Company asks the Commission to keep in mind not only that Minnesota Power's rates will remain among the lowest in the nation,[8] but also that customers' overall bills will likely be reduced further upon acceptance of the 2018 BEC4 Rider[9] and 2018 RRR[10] filings</u>.

The evidence in the record in this rate case proceeding establishes that not only has Minnesota Power historically had customer rates lower than many utilities regionally and nationwide, customer rates would remain in the mid-range even if the entirety of Minnesota Power's proposals in this rate case had been granted.[11] Customer rates in the mid-range of utility rates across the country evidence a competitive, yet reasonable, outcome; a reduction as a result

[7] Minnesota Power Petition for Reconsideration at 15; Ex. 46 at 13-14 (Skelton Rebuttal).
[8] Ex. 33 at 7 (McMillan Rebuttal).
[9] *In the Matter of Minn. Power's Rider for Boswell Unit 4 Emission Reduction (BEC4 Rider) and 2018 Factor*, Docket No. E016/M-18-264, INITIAL PETITION (Apr. 9, 2018).
[10] *To be filed.*
[11] Ex. 33 at 8 (McMillan Rebuttal).

of pending rider filings will likely place the Company's rates again at the lower-range of the rates spectrum.

In the BEC4 Rider, Minnesota Power will go from recovering about $3.2 million a year, to refunding about $6.5 million, for a total reduction in rider collections of about $9.7 million. In the 2018 RRR, Minnesota Power will go from recovering about $19.5 million a year, to refunding an estimated $6 million a year, for a total reduction in rider collections of about $25.5 million. In total for both riders, Minnesota Power will go from recovering about $22.6 million a year for these riders, to refunding about $12.5 million for the next year, for a total reduction in collections from customers of about $35.1 million (approximately a 5.2% overall average decrease in rates, excluding 2017 interim or final rate increases).[12] In both riders, Minnesota Power has now collected its long-due tracker balances. All told (and as described in detail below and set forth in **Attachments 2 and 3** to this Answer), the Commission could grant all of the Company's requests for greater cost recovery, modestly increase the Company's authorized ROE, and move the BEC3, BEC4, and Common Facilities' depreciation life back to 2035, and the benefits of tax reform and Rider updates would still result in an overall reduction to Minnesota Power's rates.

5. Finally, it is critical that any reconsidered items maintain Minnesota Power's revenue neutrality and ability to collect the full tracker balance with respect to the EITE rate.[13]

Any Commission decisions will have a financial impact on the Company. Consequently, the Company respectfully requests that as part of any modifications to its March 12, 2018 Order on reconsideration, the Commission ensure that the legislative requirements of Minn. Stat.

[12] The refund in the BEC4 Rider is largely a result of the Basin revenue credit, slight over collection, and very small positive revenue requirements. The refund in the 2018 RRR is a result of rate case Production Tax Credit true-up, slight over collection and very small positive revenue requirements. *In the Matter of Minn. Power's Rider for Boswell Unit 4 Emission Reduction (BEC4 Rider) and 2018 Factor*, Docket No. E016/M-18-264, INITIAL PETITION (Apr. 9, 2018); 2018 RRR (*To be filed*).

[13] Minn. Stat. § 216B.1696 provides for an EITE rate to be offered to EITE customers, while ensuring that the utility offering the EITE is able to recover any costs from, or refund any savings to, its customers.

§ 216B.1696, subd. 2(d) are preserved and the Company continues to be entitled to recover any EITE costs from, or refund any EITE savings to, its customers. Since the preferred method of recovery of the tracker balance is a reduction to the interim rate refund, Minnesota Power understands the Commission may wish to understand the impact of any reconsidered items on interim as well as final rates. This information is provided in more detail in the next section of this Answer.

II. Calculating the Effects on Rates

Ultimately, the Company recommends (i) acceptance of the Department's Boswell proposal as modified above, along with (ii) sufficient reconsideration of the Company's underlying revenue requirement to put Minnesota Power in a more tenable financial position and (iii) preservation of the Company's recovery of the EITE tracker balance, based on (iv) assumed implementation of final rates on or about December 1, 2018. These outcomes, combined with the rate reductions afforded by pending BEC4 Rider and 2018 RRR filings, can provide just and reasonable rates for customers while also improving the Company's investment status and prospects.

The detailed calculations of the combined impacts of these dockets on interim and final rates are set forth in **Attachments 2 and 3** to this Answer. By way of summary:

1. Final Rates – **Attachment 2**.

   a. If the Boswell depreciation extension was changed to 2035, effective January 1, 2018, on reconsideration, and the Commission also reconsidered $18.6 million[14] of its revenue and cost adjustments to Minnesota Power's test year, final rates

[14] *See* **Attachment 4**. This number is derived by taking the Commission's initial March 12, 2018 outcome and adding back all the items addressed in the Company's Petition for Reconsideration except the requested increase in ROE to between 9.41 and 9.66 percent. The Company continues to believe an ROE increase is urgently needed, but did not include the specific dollars in this calculation because (a) the Company's requested increase is within a range, rather than a specific dollar amount, and (b) the Company's calculations here are for illustrative purpose only – that is, to give the Commission a sense of the likely magnitude of any reconsideration decisions it may make.

would increase to $48.3 million[15] ***before*** offsets due to tax reform and BEC4 Rider and 2018 RRR offsets.

b. The application of federal tax reform to Minnesota Power's rates effective January 1, 2018, would further reduce the Company's overall revenue deficiency by approximately $23.6 million.

c. This final rate increase will then also be offset by $35.2 million in rate reductions afforded by the April 9, 2018, BEC4 Rider filing and the upcoming 2018 RRR filing.

d. The result is a net $10.5 million decrease compared to present rates, not including the interim rate increase.

2. Interim Rates – **Attachment 3**.

   a. If the Boswell depreciation extension was changed to 2035, effective January 1, 2018, upon reconsideration, and the Commission also reconsidered $18.6 million of its revenue and cost adjustments as noted above, the Company would still have over recovered interim rates between January 1, 2017 and December 1, 2018 by approximately $17.7 million, including interest.

   b. The application of federal tax reform to Minnesota Power's interim rates effective January 1, 2018, would further increase the Company's overall amounts owed to customers by approximately $23.6 million, for a total of approximately $41.3 million.

   c. To recover EITE amounts that have provided a double benefit to customers in the form of both the Keetac revenue-related interim rate reduction and implementation of EITE rates for EITE customers, this refund would be reduced by approximately $24.3 million.

   d. The result is a $17.0 million refund to customers.

In summary, Minnesota Power's requests, if granted, would still result in an overall refund as well as reduced rates compared to the rates in effect before the filing of this proceeding, while improving the Company's financial position as compared to the May 12, 2018

[15] By way of comparison, the Company's initial rate request in this proceeding was roughly $55 million assuming no Keetac restart revenues in this docket. While Keetac did restart, those revenues are reflected in the EITE Docket rather than this rate case. Further, that $55 million revenue deficiency assumed the depreciation life for all Boswell units was extended to 2050. This $48.3 million assumes Boswell Units 1 and 2 are depreciated through 2022; BEC3, BEC4, and Common Facilities are depreciated through 2035; and only the revenue and expense adjustments identified in the Company's Petition for Reconsideration are granted. All other adjustments, except the Company's additional ROE change request, would remain as the Commission ordered in its March 12, 2018 decision.

Order outcomes. Put differently, the results the Company seeks better balance the two sides of the regulatory compact, giving due consideration to both "the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service." Minn. Stat. § 216B.16, subd. 6. As such, granting the Company's Petition for Reconsideration and Department's requests for reconsideration (as modified herein) will result in just and reasonable rates for both Minnesota Power and its customers.

ANSWER ON INDIVIDUAL ISSUES

I. Boswell Energy Center Remaining Life

BEC is Minnesota Power's largest plant, with four units and a capacity of over 1,000 MW.[16] Prior to this rate case, the Commission-approved remaining depreciation lives for the four Boswell units and the Common Facilities were: BEC1&2 – 2024; BEC3 – 2034; BEC4 – 2035, and the Common Facilities – 2030.[17] Primarily as a means to moderate the proposed rate increase in this proceeding, and because these units operate in tandem in many ways, Minnesota Power sought to combine and extend the depreciation lives of all four BEC units and the Common Facilities to 2050.[18] As the Company outlined in its initial filing, extending the combined life of BEC to 2050 would result in a $22.7 million reduction in the test year revenue requirement.[19] The Commission ultimately ordered the lives of the BEC units be separated such that BEC Units 1&2 ("BEC1&2") be set at 2022, consistent with the Commission's most recent Integrated Resource Plan ("IRP") decision,[20] and that BEC3, BEC4, and the Common Facilities

[16] Ex. 40 at 16 (Minke Direct).
[17] Ex. 40 at 17 (Minke Direct).
[18] Ex. 40 at 15 (Minke Direct).
[19] Ex. 40 at 15 (Minke Direct).
[20] *See In the Matter of Minnesota Power's 2016-2030 Integrated Resource Plan*, Docket No. E-015/RP-15-690, Order Approving Resource Plan with Modifications (July 18, 2016).

be extended to 2050.[21] In its request for reconsideration, the Department proposed that the Commission reduce the depreciable lives of BEC3&4 and the Common Facilities to 2035.[22] As the Department explained, shortening the depreciation lives of these facilities in this fashion would increase the test year revenue requirement by $17.0 million, which could be offset by the tax implications of the TCJA.[23]

Minnesota Power appreciates the Department's proposal, as it demonstrates an intent to seek creative solutions in this proceeding and the TCJA Docket. The Department's proposal has several benefits with the two modifications explained above, namely: (1) the new depreciable lives for BEC3&4 and the Common Facilities should change to 2035, effective January 1, 2018 and (2) any determination as to the impacts of tax reform should be decided in the TCJA Docket. One of the benefits of the Department's proposal is that by shortening the depreciation life of these BEC units, the Company will have an increased cash flow from operations that will somewhat improve the Company's FFO/Debt ratio, a key metric in the debt market. While it is still necessary for the Commission to reconsider its reductions to several of the test year expenses (as outlined in Minnesota Power's Petition for Reconsideration) for the Company to have the opportunity to earn its authorized ROE, modification of the depreciable lives of the BEC units would improve this ratio and the Company's debt market standing.

The Department's proposal also likely eliminates the immediate need to develop a securitization method to address the potential for unrecovered depreciation expense for BEC3, BEC4, and the Common Facilities. The Commission requested that the Company "file a securitization plan" for Boswell within two years to explore securitization as a way to address any unrecovered depreciation expense that remains if the operational life of these facilities is

[21] March 12, 2018 Order at 13.
[22] The Department also proposed an alternative addressed further below.
[23] Department Request for Reconsideration at 11.

shorter than the depreciation life of 2050.[24] Given that the Department's proposal more closely aligns the depreciation and operational lives of these units, the need for securitization or an alternative method to address unrecovered depreciation expense is likely unnecessary. However, even if the Commission adopts the shorter depreciable lives for BEC3, BEC4, and the Common Facilities, the Company is willing to continuing to explore securitization and file an evaluation and analysis related to securitization if the Commission believes that would be beneficial.

Another benefit of the Department's proposal is that by setting the depreciation life of BEC3, BEC4, and the Common Facilities closer in line with the expected service life, is that there is no longer a need for a variance of the Commission's depreciation accounting rules. The Commission's depreciation accounting rules require that the depreciable life of an asset be reasonably related to its operational life. The Commission's March 12, 2018 Order justified varying these rules because extending the depreciation life of Boswell was a rate mitigation tool that would prevent an "excessive burden" from being imposed on ratepayers in the form of a steep rate increase.[25] However, given the Commission sharp reduction to several of the Company's test year expenses, there is no longer the need to vary the Commission's depreciation rules to provide rate moderation for Minnesota Power's customers.

While the Company acknowledges the benefits of the Department's proposal, it also bears noting that this proposal seeks to introduce new facts, namely the enactment of the TCJA, that occurred after the close of the record and the test year. The Department supports inserting these facts into this record by stating that consideration of these new facts is necessary for the Commission to have the "most accurate and reliable information available" to determine just and

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[24] March 12, 2018 Order at 109.

[25] March 12, 2018 Order at 14 ("The Commission finds that enforcing Minn. R. 7825.0500 would impose an excessive burden upon ratepayers by contributing close to $22 million to the overall rate increase in this case.").

reasonable rates.[26] This same rationale should apply to new or updated information provided while the rate case record was open – such as Minnesota Power's third-party transmission revenues and expenses that was provided in testimony and at the earliest this new data was available to the Company. Unlike the TCJA, which was enacted after the close of the record and impacts only 2018 revenues, the Company provided evidence in Surrebuttal Testimony of MISO's recent notification of a significant change to third-party transmission revenues for 2017 and beyond due to a redirection of 207 MW of load.[27] This information from MISO is ***the*** definitive source of such data, such that there is virtually no room for judgment or discretion.[28] Additionally, as noted in the Company's Petition for Reconsideration, this change in load cost the Company $2.357 million (MN Jurisdictional) for 2017 as the revenue for this 207 MW is lost for seven of the year's 12 months, or $5.15 million (MN Jurisdictional) on a going-forward annual basis.[29] As with the implications of the TCJA, it is appropriate to also reconsider the evidence of a significant change to Minnesota Power's third-party transmission revenues and expenses that was provided during the proceeding and bears directly on test year revenue requirements.

Finally, rather than adopting a singular 2035 depreciation life for these facilities, the Department also noted that, in the alternative, the Commission could revert to the previously approved depreciation lives for BEC3, BEC4, and the Common Facilities. This would set a depreciable life of 2030 for the Common Facilities, 2034 for BEC3, and 2035 for BEC4, which would result in a $19.8 million revenue requirement increase. While the Company appreciates

[26] Department Request for Reconsideration at 13.
[27] Ex. 51 at 2, 4 (Fleege Surrebuttal).
[28] Minn. Stat. 14.60, subd. 4, states that a state agency may take notice of a "judicially cognizable fact." In turn, Minnesota Rules of Evidence, Rule 201(b) states: "[a] judicially noticed fact must be one not subject to reasonable dispute." This includes a fact that it is "capable of accurate and ready determination by resort to sources whose accuracy cannot reasonably be questioned." *Id.*
[29] Ex. 51 at 3-4 (Fleege Surrebuttal).

the Department providing options for the Commission to consider, one of the goals of resetting the depreciable lives of these units was to set a reasonable, uniform depreciable life for these units. As Minnesota Power explained, while BEC is made up of four units, these units share critical infrastructure such that it is appropriate to set a single, common depreciable life.[30] Not only does setting a single life make sense from an operational perspective, but it is also much simpler from an accounting and regulatory records standpoint. In addition, it makes little sense for the Common Facilities to have a shorter life than the Units they support. As a result, Minnesota Power requests that if the Commission modifies the depreciation life of BEC3, BEC4, and the Common Facilities, it utilize the same year, 2035, rather than different years.

II. <u>Corrections/Clarifications</u>

Minnesota Power also submits two brief corrections to its April 2, 2018, Petition for Reconsideration and Request for Clarification:

- On page 29, Minnesota Power requested that the net after-tax MN Jurisdictional amount of $27,816,947 for the prepaid pension asset be included in rate base. This amount should instead be $28,554,758, consistent with page 18, footnote 59 of the Petition for Reconsideration.
- On page 33, there is a typographical error: Minnesota Power's states that the Company's requested test year expense forecast totaled $7.188 million for the Retirement Savings and Stock Ownership Plan. This amount should be $7.148 million, as shown in Table 3, Page 30 of the Petition.

[30] Ex. 40 at 19 (Minke Direct); Ex. 46 at 16-17 (Skelton Rebuttal) ("It is appropriate to combine all of BEC into one remaining life because the BEC units are not stand-alone units. Rather, all of the units share critical infrastructure making it difficult for them to be separated.").

CONCLUSION

Minnesota Power respectfully requests that the Commission:

1. Reconsider portions of the Commission's March 12, 2018 Order on the bases and in the manner set forth in Minnesota Power's April 2, 2018 Petition for Reconsideration, with a focus on reversing adjustments to revenue and cost recovery;

2. Accept the Department's proposal to reduce the depreciation life of BEC3, BEC4, and the Common Facilities to 2035, with an effective date of January 1, 2018;

3. Defer the determination of the impacts of tax reform to the TCJA Docket, with the understanding that tax reform impacts will be effective January 1, 2018, and are likely to, at a minimum, offset the increase in annual revenue requirement due to the BEC3, BEC4, and Common Facilities 2035 depreciation life;

4. Maintain the Company's revenue neutrality with respect to EITE, and permit the EITE tracker balance to offset rate refunds to customers as described in this Answer; and

5. Accept the minor corrections to Minnesota Power's Petition noted in this Answer.

Dated: April 12, 2018

Respectfully submitted,

MINNESOTA POWER

/s/ David R. Moeller
David R. Moeller
Senior Attorney
30 West Superior Street
Duluth, MN 55802
(218) 723-3963
dmoeller@allete.com

BRIGGS AND MORGAN, P.A.

/s/ Elizabeth M. Brama
Elizabeth M. Brama
Valerie T. Herring
Kodi Jean Verhalen
80 S. Eighth Street
Minneapolis, MN 55402
(612) 977-8400

Minnesota Power & ALLETE
S&P Credit Metric Comparison - with 2016 actual adjustments
2017 with Impacts of General Rates (Based on Ending Balances)

	As of MPUC Order	Plus: Boswell Depreciation to 2035	MPUC Order with Boswell	Plus: Reconsideration Adjustments $26M*	MPUC Order with Boswell & Reconsideration	Less: Federal Tax Reform Adjustments	MPUC Order with Boswell, Reconsideration & Tax Reform
S&P Adjusted FFO/Debt	A	B	C = A+B	D	E = C+D	F	G = E+F
Minnesota Power	15.7%	1.3%	17.0%	1.6%	18.6%	-2.0%	16.6%
ALLETE	16.8%	1.0%	17.8%	1.3%	19.1%	-1.8%	17.3%

Final Rates: Summary of Rate Case, Tax Reform and Riders

2017 Test Year Revenue Deficiency	12,619,611	
BEC Depreciation Increase @ 1/1/18	17,120,925	1/
Reconsideration Increase	18,566,153	2/
Revenue Deficiency	48,306,689	
Tax Reform (MP number)	(23,637,241)	3/
Increase Net of Tax Reform	24,669,448	
Boswell 4 Rider Reduction to Present Rates	(9,666,812)	4/
Renewable Resources Rider Reduction to Present Rates	(25,497,905)	5/
Decrease Net of Tax Reform and Rider Reductions	(10,495,269)	

Notes:
1/ Change in Boswell depreciation change effective 1/1/2018. Tax gross-up using new tax rate. See BEC Life tab for details.
2/ Amount is for illustrative purposes and does not include the ROE increase to a range of 9.41-9.66% the Company is also requesting.
3/ MP's Initial Filing Docket No. E, G-999/CI-17-895. Attachment 1.
4/ Reduction to present rates assuming new 2018 factors implemented coincident with Final Rates. See 2018 BEC 4 Rider filed 4/9/2018 Docket No. E015/M-18-264.
5/ Estimated reduction to present rates assuming new 2018 factors implemented coincident with Final Rates. MP anticipates submitting 2018 RRR Rider filing in May 2018.

Boswell 3/4/Common Life to 2035 versus 2050 as filed.

Item	Ref	Calculation	Revenue Requirement
Total Rate Base Adjustment	1/	-5,169,222*7.064%*1.40335	(512,438.64)
Depreciation Expense Adjustment	2/		17,633,363.81
Total			17,120,925.17

1/ ALJ Report Compliance Filing 11-17-17, Schedule 2, page 2. Docket E015/GR-16-664, adjusted for new tax gross-up.
2/ ALJ Report Compliance Filing 11-17-17, Schedule 3, page 4. Docket E015/GR-16-664.

Interim Rate Summary

Test Year Interim Revenues		2017 (Jan - Apr 2017)	2017 (May - Dec 2017)		2018 (Jan - Nov 2018)
1	Test Year Interim Rate Increase	$34,732,113	$32,244,923		$32,244,923
2	Ordered Rate Increase	$12,619,608	$12,619,608		$12,619,608
	Boswell Depreciation Increase	$0	$0		$17,120,925
	Reconsideration 1/	$18,566,153	$18,566,153		$18,566,153
3	Adjustment for EITE (Keetac Sales removed)	-$15,500,000	-$15,500,000		-$15,500,000
4	Interim Rate Deficiency	$15,685,761	$15,685,761		$32,806,686
5	Interim Rate Collection Allowed	$15,685,761	$15,685,761		$32,806,686
6	Overcollection Amount Line 1 - Line 5	$19,046,352	$16,559,162		$0
7	Overcollection Factor Line 6 / Line 1	54.8379%	51.3543%		0.0000%

Interim Rate Revenues		(Jan - Apr 2017)	(May - Dec 2017)	2017 Total	2018 Total (Jan - Nov 2018)	Interim Rate Period Total Total	
8	Interim Revenues Collected (2018 Estimated)	$10,812,760	$20,791,281	$31,604,041	$28,919,463	$60,523,504	
9	Overcollection Factor Line 7	54.8379%	51.3543%		0.0000%	27.4384%	
10	Overcollection Amount Line 8 * Line 9	$5,929,487	$10,677,222	$16,606,709	$0	$16,606,709	
11	Interest Refer to Page 3			$356,823	$711,747	$1,068,570	
12	Total Overcollection Amount Line 10 + Line 11			$16,963,532	$711,747	**$17,675,279**	Interim Rate Refund
13	EITE Tracker Amount (2018 Estimated)			-$8,636,343	-$15,695,215	**-$24,331,558**	To EITE Tracker for interim rate period
	Tax Reform Refund to Customers 2/				$23,637,241	**$23,637,241**	
14	Cash to Customers 3/ Line 12 + Line 13			$8,327,189	$8,653,773	**$16,980,962**	Cash to Customers

Notes:
1/ Amount for illustrative purposes only. Includes full amount of Company's Reconsideration requests, excluding the ROE increase to between 9.41 and 9.66 percent.
2/ Assumes TCJA Docket will be resolved before implementation of final rates and interim rate refund in MP's rate case.
3/ Overall refund varies for EITE-paying and EITE-exempt customers.

Interim Rates Collected by Month
For Interim Rate Revenue Collected January 2017 - November 2018
(2018 per MP Budget)

2017 Interim Rate Collection by Month

Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Total
$2,070,949	$2,918,348	$2,955,535	$2,867,928	$2,575,895	$2,523,982	$2,578,771	$2,620,340	$2,576,168	$2,537,569	$2,627,033	$2,751,523	$31,604,041

2018 Interim Rate Collection by Month (2018 Budget)

Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Total
$2,819,075	$2,651,263	$2,710,009	$2,472,328	$2,619,938	$2,512,338	$2,688,699	$2,669,274	$2,605,415	$2,532,852	$2,638,273	$0	$28,919,463

Overcollected Revenue Interest Calculation
For Interim Rate Overcollected Revenue January 2017 - November 2018

Revenue Month	Beginning Balance	Current Mo. Collection Principal	Ending Balance	Average Balance	Number of Days	Annual Interest[1]	Monthly Interest
Jan-17	$0	$1,135,664	$1,135,664	$567,832	31	3.750%	$1,809
Feb-17	$1,137,473	$1,600,360	$2,737,833	$1,937,653	28	3.750%	$5,574
Mar-17	$2,743,407	$1,620,753	$4,364,159	$3,553,783	31	3.750%	$11,319
Apr-17	$4,375,478	$1,572,711	$5,948,189	$5,161,833	30	4.000%	$16,970
May-17	$5,965,159	$1,322,833	$7,287,992	$6,626,576	31	4.000%	$22,512
Jun-17	$7,310,504	$1,296,174	$8,606,678	$7,958,591	30	4.000%	$26,165
Jul-17	$8,632,844	$1,324,310	$9,957,154	$9,294,999	31	4.250%	$33,551
Aug-17	$9,990,705	$1,345,658	$11,336,363	$10,663,534	31	4.250%	$38,491
Sep-17	$11,374,854	$1,322,974	$12,697,828	$12,036,341	30	4.250%	$42,045
Oct-17	$12,739,872	$1,303,152	$14,043,024	$13,391,448	31	4.250%	$48,338
Nov-17	$14,091,362	$1,349,095	$15,440,457	$14,765,909	30	4.250%	$51,580
Dec-17	$15,492,036	$1,413,026	$16,905,062	$16,198,549	31	4.250%	$58,470
Jan-18	$16,963,532	$0	$16,963,532	$16,963,532	31	4.500%	$64,833
Feb-18	$17,028,366	$0	$17,028,366	$17,028,366	28	4.500%	$58,783
Mar-18	$17,087,148	$0	$17,087,148	$17,087,148	31	4.500%	$65,306
Apr-18	$17,152,454	$0	$17,152,454	$17,152,454	30	4.500%	$63,441
May-18	$17,215,895	$0	$17,215,895	$17,215,895	31	4.500%	$65,798
Jun-18	$17,281,692	$0	$17,281,692	$17,281,692	30	4.500%	$63,919
Jul-18	$17,345,611	$0	$17,345,611	$17,345,611	31	4.500%	$66,293
Aug-18	$17,411,905	$0	$17,411,905	$17,411,905	31	4.500%	$66,547
Sep-18	$17,478,451	$0	$17,478,451	$17,478,451	30	4.500%	$64,646
Oct-18	$17,543,098	$0	$17,543,098	$17,543,098	31	4.500%	$67,048
Nov-18	$17,610,146	$0	$17,610,146	$17,610,146	30	4.500%	$65,133
Total		$16,606,709					$1,068,570
Total Principal and Interest							$17,675,279

[1] Prime Rate, projected for 2018, subject to change.

Minnesota Power

2016 Retail Rate Review

Impact of MP's Reconsideration Requests

on Total Revenue Deficiency

Reconsideration Items:	Revenue Deficiency Adjustment
Test Year Sales Forecast	$1,800,000
Generation Supervision/Engineering and Meter Reading	$6,781,052
Prepaid Pension Asset (at 9.25% ROE)	$3,440,402
Retirement Savings and Stock Ownership Plan (RSOP)	$717,999
Other Employee Benefits	$503,000
Transmission Capital Projects (at 9.25% ROE)	$170,700
Third-Party Transmission Revenue (full year)	$5,153,000
Total MP Reconsideration before ROE Adjustment	**$18,566,153**
Cost of Equity Range: 9.41% to 9.66% ROE	**$3,053,197 - $7,828,254**