

The Commission met on **Thursday, January 18, 2018**, with Chair Lange and Commissioners Lipschultz, Schuerger, Sieben, and Tuma present.

The following matters were taken up by the Commission:

**E-015,106/SA-17-893**

**In the Matter of the Complaint by Lake Country Power Against Minnesota Power Alleging Violation of Its Exclusive Service Area by Providing Service to Canadian National Railway Company Facilities Near Hoyt Lakes, Minnesota**

Commissioner Lipschultz moved that the Commission delegate to the Executive Secretary the authority to issue an additional notice for comments and establish a procedural schedule. The notice for comments will ask parties to address whether the Commission should refer the matter to the Office of Administrative Hearings for a contested-case proceeding and to provide support for their positions.

The motion passed 5–0.

**E-015/GR-16-664**

**In the Matter of the Application by Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota**

**Keetac Revenue**

Commissioner Lipschultz moved that the Commission:

- Remove annualized Keetac revenue from the rate case to the extent needed to cover the annualized cost of the EITE discount, effective with final rates.
- Consider the remaining annualized Keetac revenue not required to cover the 2017 EITE discount costs, approximately \$2.6 million, remain in the rate case test year as part of the revenue deficiency calculation.
- Find that MP is entitled to recover the \$8,636,643.11 in 2017 EITE discount costs, and any additional amounts arising during the interim rate period, included in its tracker account. Find that the interim rate refund to non-EITE-paying customers will be reduced to the extent possible to provide for the full recovery of that amount. To the extent any portion of that amount is not recovered through a reduction in the interim rate refund, MP may recover the remaining portion through the surcharge mechanism authorized by the Commission in the EITE docket.

The motion passed 5–0.

### **Prepaid Pension Asset**

Commissioner Sieben moved that the Commission:

- Require MP to remove the prepaid pension asset from test year rate base.
- Allow MP to also remove the associated tax savings from test year rate base.

The motion passed 5–0.

### **Cash Working Capital**

Commissioner Sieben moved that the Commission:

- Find that MP's lead/lag study and method of calculating CWC is reasonable and require MP to update CWC based on the approved rate base, revenue and expense adjustments, and the capital structure in this proceeding.

The motion passed 5–0.

### **Transmission Capital Projects**

Commissioner Schuerger moved that the Commission:

- Require Minnesota Power to remove the two capital projects that it deferred and will not be in service in 2017, the 5-Line Re-conductor project and the Hoyt Lakes Ring Bus Reconfiguration projects, from the revenue requirements for the 2017 test year.

The motion passed 5–0.

### **AIP, EDA, and EIP**

Commissioner Tuma moved that the Commission:

- Approve MP's proposal to include all of the AIP expenses, limited to 20 percent of individual base salaries, in the revenue requirement.
- Accept MP's proposal to continue to provide customer refunds in the event that actual AIP payouts are lower than the level approved in rates.
- Require test year expenses to be reduced by \$1,380,313 for the EDA and EIP plans.

The motion passed 5–0.

### **Spot Bonuses**

Chair Lange moved that the Commission:

- Do not reduce test year Spot Bonus expense by \$33,741 on a MN Jurisdictional basis.

The motion passed 5–0.

### **Other Employee Benefits**

Chair Lange moved that the Commission:

- Accept MP's Other Employee Benefits expenses at \$1.925 million.

The motion was not adopted 2–3. Commissioners Schuerger, Sieben, and Tuma voted no.

Commissioner Tuma moved that the Commission:

- Reduce MP's Other Employee Benefits expenses by \$0.503 million to \$1.422 million.

The motion passed 5–0.

### **Third Party Transmission Revenues and Expense**

Commissioner Schuerger moved that the Commission:

- Reject MP's proposal to update its third-party Transmission revenues and expense to reflect a reduction of \$6.23 million (Total Company) from the net revenue amount requested in the Company's Rebuttal Testimony.
- Increase Other Operating revenues for the net transmission revenues by \$1.836 million on a Minnesota jurisdictional basis.

The motion passed 5–0.

### **Transmission (Non-Labor Expenses)**

Chair Lange moved that the Commission:

- Accept MP's Transmission (Non-Labor) Expenses at \$47.345 million.

The motion passed 5–0.

### **Generation Capital Projects**

Commissioner Sieben moved that the Commission:

- Find that the Company's budgeted generation capital additions of \$27.7 million in the Test Year as presented in Direct Testimony is a reasonable representation of the Company' capital investments for 2017.

The motion passed 5–0.

### **Charitable Contribution**

Commissioner Tuma moved that the Commission:

- Approve the OAG recommended test-period charitable contribution cost level of \$359,250 (based on 2014 through 2016), with no administrative costs.

The motion passed 4–1. Chair Lange voted no.

### **Membership Dues**

Chair Lange moved that the Commission:

- Allow the Company to recover \$1,240,619 of membership dues in the test year and find that the Company has met the burden of proof to show the amounts related to lobbying expenses were properly excluded from the Company's calculations.

The motion passed 4–1. Commissioner Tuma voted no.

### **Employee Gifts**

Commissioner Sieben moved that the Commission:

- Allow Minnesota Power to recover \$23,007 (total company) for employee gifts and \$74,474 (total company) for spot bonus gift cards be in the 2017 Test Year.

The motion passed 5–0.

### **Supervision, Engineering, and Meter Reading**

Commissioner Sieben moved that the Commission:

- Require MP to calculate the Supervision, Engineering and Meter Reading budget by using a five year historical average of expenses, reducing the budgeted expense by \$6.781 million.

The motion passed 5–0.

### **Storm Restoration Budget**

Commissioner Lipschultz moved that the Commission:

- Do not allow Minnesota Power to establish a Storm Response budget in the amount of approximately \$1.68 million.

The motion passed 5–0.

### **Economic Development Expense**

Chair Lange moved that the Commission:

- Approve Minnesota Power's request to recover Employee Development Expenses in the amount of \$207,749 in the test year.

The motion passed 5–0.

### **Hibbard Generator Life Extension**

Commissioner Lipschultz moved that the Commission:

- Extend the depreciation life of the Hibbard Renewable Energy Center to 2029 to match the economic life currently approved by the Commission in the IRP.

The motion passed 5–0.

### **Retirement Savings & Stock Ownership Plan**

Commissioner Sieben moved that the Commission:

- Reduce MP's Retirement Savings & Stock Ownership Plan expenses by \$0.718 million to \$6.43 million.

The motion passed 5–0.

### **Taconite Harbor Restart/Re-Idle**

Commissioner Schuerger moved that the Commission:

- Determine that the full amount of \$1.25 million in O&M costs to re-start and re-idle the Taconite Harbor Energy Center should not be recovered in the 2017 Test Year. Instead, the costs should be amortized over three years and the 2017 Test Year costs should be reduced by \$833,334.
- Order a sunset provision such that recovery of this cost ends, after the total estimated cost of \$2.5 million for the two events is recovered, in the event that the Company does not file a rate case before that time.

The motion passed 5–0.

### **Credit Card Processing Fees**

Commissioner Sieben moved that the Commission:

- Allow Minnesota Power to include \$350,000 in O&M Expense in the test year for Credit Card Processing Fees in order to increase customer satisfaction with the utility experience. Order the Company to track over/under collections for true-up in a future rate case.

The motion passed 5–0.

### **Block Motion**

Commissioner Lipschultz moved that the Commission:

#### **Pension Expense**

- Update pension expense for the 2017 test year by a reduction of \$519,375.

#### **Interest Synchronization**

- Require MP to recalculate the interest synchronization expense based on the Commission determinations in this proceeding for rate base, weighted cost of debt, and operating income.

#### **PTC and ADITA**

- Accept the Parties' agreement, setting the 2017 PTC estimate at \$41.830 million (an increase of \$1.462 million to MP's initial proposal), adjusting the ADITA by \$0.731 million, and requiring MP to perform an annual true-up of the actual PTC through the RRR.

#### **High Performance Award**

- Approve recovery of High Performance Award expense of \$348,052 on a MN Jurisdictional basis.

**Other Incentives – Interest on Benefits and Other Awards**

- Accept the parties’ resolution of this issue, conditioned on the requirement that MP must provide documentation to show that the interest for these benefits applies only to retirees who were not eligible for AIP when they worked for MP.
- Accept MP’s proposed reduction in test year expenses of \$14,380.

**Unfilled Positions**

- Require MP to reduce its employee compensation costs by \$2,969,621 to reflect the adjustment to remove unfilled employees costs from MP’s test-year cost levels.

**Base Rider Cash Collections**

- Accept the agreement between MP, LPI, and the Department, making no modifications to the Base Rider Cash Collections.

**Distribution Wheeling**

- Approve MP’s test-period treatment of distribution wheeling revenues recorded in Other Revenue account and assigned to the FERC- jurisdictional resale and wheeling classes for cost-of-service purposes.

The motion passed 5–0.

**Base Rider Cash Collections – Future Rate Case Requirement**

Commissioner Lipschultz moved that the Commission:

- In future rate cases, require that cost recovery for facilities be rolled in at the beginning of future rate cases, and then no longer be recovered in riders, or that facilities and rider collections be rolled into the rate case at the end of the rate case if MP wants to continue rider recovery.

The motion passed 5–0.

**Employee Expenses**

Commissioner Sieben moved that the Commission:

- Require Minnesota Power to use a three year average of historical expenses, as calculated by the Department of Commerce, and decrease the 2017 test year budget of employee expenses by \$454,202 (MN Jurisdiction).

The motion passed 5–0.

**Block Motion**

Commissioner Lipschultz moved that the Commission:

**CIP Budget**

- Reduce the CIP budget from \$10,572,625 to \$10,447,625 (reduction of \$125,000) in the 2017 test year.

**CIS/CC&B Software Support and Maintenance Expense**

- Accept MP's proposed reduction in test year Administrative and General Expenses for Customer Information System Software and Maintenance of \$21,584 MN Jurisdictional.

**CPA Factor on Customer Bill**

- Accept MP and the Department's agreement to continue to combine the CPA with the FCA on customer bills.

**Sappi/Cloquet Generator Amortization**

- Accept the parties' agreement, removing \$232,618 from the Sappi/Cloquet Generator Amortization Expense account for the 2017 test year rate base.

The motion passed 5–0.

**2016 Deferred Storm Cost Expense Amortization**

Commissioner Lipschultz moved that the Commission:

- Accept the parties' agreement to remove \$732,272 of deferred July 2016 storm cost amortization from the test year, consistent with Commission's December 2016 decision in separate docket.

The motion passed 5–0.

**Fuel Clause Adjustment Methodology**

Commissioner Lipschultz moved that the Commission:

- Refer a decision on the appropriate fuel clause adjustment methodology to Docket No. E999/CI-03-802.

The motion passed 5–0.

**Base Cost of Energy**

Commissioner Schuerger moved that the Commission:

- Increase the base cost of energy in the current proceeding to \$21.21/MWh, or 2.121 cents/kWh., update the class-specific cost factors, and incorporate them into the base rates for the test year.

The motion passed 5–0.



### **Fuel Cost Recovery Delay Amount**

Chair Lange moved that the Commission:

- Reject in the current proceeding MP's claimed existence of a fuel cost recovery delay resulting from the current energy recovery mechanism.

The motion passed 5–0.

### **Fuel Clause**

Chair Lange moved that the Commission:

- Do not allow MP to include reagent costs in the fuel clause adjustment.
- Do not allow MP to include business interruption insurance premiums in the fuel clause adjustment.
- Do not allow MP to debit and credit the purchase and sale of nitrogen oxides allowances through the fuel clause.
- Allow MP to continue account for sulfur dioxide allowance sales and purchases in the fuel clause.
- Similar to MISO market charges, allow MP to include IESO, SPP and PJM market charges in the fuel clause so long as they are for energy charges only and not for administrative costs.

The motion passed 5–0.

### **Proration of Accumulated Deferred Income Taxes**

Chair Lange moved that the Commission:

- Accept parties' agreement that no proration of Accumulated Deferred Income Taxes or ADIT is required to be reflected in final rates, which results in a \$1.049 million reduction in the revenue requirement. Parties also agree that proration of ADIT is required for interim rates.

The motion passed 5–0.

**Capital Structure: Equity Ratio**

Chair Lange moved that the Commission:

- Adopt an equity ratio of 53.81 percent proposed by Minnesota Power.

The motion passed 5–0.

**Capital Structure: Long-Term Debt Ratio**

Chair Lange moved that the Commission:

- Adopt a long-term debt ratio of 46.19 percent proposed by Minnesota Power.

The motion passed 5–0.

**Capital Structure: Short-Term Debt Ratio**

Chair Lange moved that the Commission:

- Determine that a capital structure without short-term debt is appropriate for Minnesota Power in this proceeding.

The motion passed 5–0.

**Capital Structure: Overall Capital Structure**

Chair Lange moved that the Commission:

- Determine that a capital structure comprised of 53.81 percent equity and 46.19 percent long-term debt as proposed by the Company is appropriate.

The motion passed 5–0.

**Cost of Debt: Long-Term Debt**

Chair Lange moved that the Commission:

- Determine that the appropriate cost of long-term debt is 4.517 percent.

The motion passed 5–0.

**Cost of Equity**

Commissioner Tuma moved that the Commission adopt a cost of equity of 9.25%.

The motion passed 5–0.

**Annual Rate Review Mechanism**

Commissioner Lipschultz moved that the Commission reject Minnesota Power’s Proposed Automatic Rate Recovery Mechanism.

The motion passed 5–0.

**Boswell Energy Center Remaining Lives**

Commissioner Lipschultz moved that the Commission:

- Set the remaining accounting lives for Boswell Units 1 and 2 at 2022. Set the remaining accounting life of Units 3 and 4 and the common facilities at 2050. Vary the rules that require Unit 3 and Unit 4’s accounting lives to match their probable service lives. The variance shall remain in effect until terminated by the Commission. The extension of the accounting life of Units 3 & 4 does not extend the service or operational life of these facilities.
- Order the Company to file with the Commission a securitization plan for the Boswell units within two years of the date of the final order in this case.

The motion passed 5–0.

The meeting was recessed until January 30, 2018.

**APPROVED BY THE COMMISSION: April 11, 2018**



---

**Daniel P. Wolf, Executive Secretary**