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December 5, 2016

VIA ELECTRONIC FILING

Mr. Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
350 Metro Square Building
121 Seventh Place East
St. Paul, MN 55101

Re: Reply Comments on Base Cost of Fuel and Purchased Energy
*In the Matter of the Petition of Minnesota Power for Approval
of a New Base Cost of Fuel and Purchased Energy*
MPUC Docket No. E015/MR-16-709

Dear Mr. Wolf:

Enclosed for filing with the Minnesota Public Utilities Commission, please find Minnesota Power's Reply Comments in the above-referenced matter.

By copy of this letter, I am providing service to those listed on the service list on file with the Minnesota Public Utilities Commission.

If you have any questions, please feel free to contact me.

Yours truly,

David R. Moeller

DRM
Enclosure
cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

Docket No. E015/MR-16-709

In the Matter of the Petition of Minnesota
Power for Approval of a New Base Cost of
Fuel and Purchased Energy

**REPLY COMMENTS ON BASE
COST OF FUEL AND
PURCHASED ENERGY**

INTRODUCTION

On November 2, 2016, Minnesota Power filed a miscellaneous tariff change Petition in the above-captioned docket pursuant to Minn. Stat. § 216B.16, subd. 1 and Minn. R. 7825.3200(A) seeking authority from the Minnesota Public Utilities Commission (“Commission”) to change its current Rider for Fuel and Purchased Energy (“FCA”)¹ to be effective in conjunction with the Company’s proposed Notice of Change in Rates and Petition for Interim Rates in Docket No. E015/GR-16-664 (“Rate Case”). Specifically, Minnesota Power proposed to maintain the current base cost of fuel and purchased energy of 1.018 cents per kilowatt-hour (“kWh”) but proposed to implement the requested changes with General Rates.

On December 2, 2016, the Minnesota Department of Commerce, Division of Energy Resources (“Department”) filed comments recommending the Commission accept the proposal to maintain the base cost of energy at the current level for interim rates and that Minnesota Power’s proposed changes to the FCA outlined in the Petition may be discussed in the Rate Case with clarification. The Department requested that, Minnesota Power provide the following information in Reply Comments:

- Indicate whether the Company’s proposed interim rates include anything similar to the “transition adjustment” that MP proposed in the Company’s 2008 rate case. If so, MP should identify the amount of any such adjustment; and
- MP fully explain how the Company calculated its proposed adder of \$0.01162 per kWh referenced above.

¹ “FCA” is the general term used by the Company and the Commission when referring to the Company’s Rider for Fuel and Purchased Energy Adjustment (“FPE Rider”).

These Reply Comments are provided to address the Department's request for this additional information.

COMMENTS

A. Fuel Clause Transition Cost Recovery

No portion of the "transition adjustment" is included in interim rates. In Docket No. (E015/GR-08-415) ("2008 Rate Case"), Minnesota Power first raised the issue of fuel cost recovery delay due to the FCA methodology. Company witness Leann Oehlerking-Boes provides a summary of the procedural history of the fuel cost recovery delay amount in her Direct Testimony filed on November 2, 2016, in the Rate Case Docket. As the Department notes in its Comments, the fuel cost recovery delay amount was contested in the 2008 rate case; therefore, Minnesota Power did not include any of this cost in interim rates.

B. The FCA Adder

The reference to a proposed adder of \$0.01162 per kWh in the Company's base cost of fuel Petition is the result of a typographical error in Section II A, Supporting Information and Schedules, Average Cost of Fuel and Purchased Energy per Budgeted Test Year. In the last sentence of the first paragraph of this section (page 4), Minnesota Power inadvertently referenced the Residential Class Fuel and Purchased Energy ("FPE") Interim Rate Adder (\$0.01162 per kWh). As discussed in the paragraph on pages 4 to 5, the FPE Interim Rate Adder for each class is the product of the FPE Adjustment (\$0.01085) and the E8760 Class Cost Factor approved by the Commission. The calculation of the \$0.01085 test year average FPE Adjustment was discussed in the Company's Petition at page 1,² and the calculation of the FPE Interim Rate Adder for each class is illustrated in Table 1 below:

² The Department confirmed that the "Company provided support for its average fuel and purchased energy cost calculations of \$0.02103 per kWh and \$0.02137 per kWh resulting in FCA adders of \$0.01085 per kWh and \$0.01119 per kWh, respectively." Department Comments at 10.

Table 1. FPE Interim Rate Adder By Customer Class

Class	FPE Adjustment	E8750 Class Cost Factor	FPE Interim Rate Adder
Residential	1.085	1.07076	1.162
General Service	1.085	1.07093	1.162
Large Light & Power	1.085	1.00424	1.090
Large Power	1.085	0.97769	1.061
Municipal Pumping	1.085	0.98103	1.064
Lighting	1.085	0.74029	0.803

Minnesota Power has confirmed that the proper values were used for calculation purposes throughout the Petition and the Rate Case. As such, the reference to the adder in the last sentence in the first paragraph of Section II A should be amended as follows:

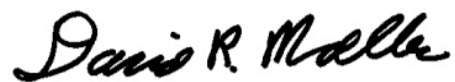
“Minnesota Power is not proposing to change its base cost of fuel and purchased energy for purposes of interim rates, but proposed to include an adder of ~~1.162 cents per kWh~~ 1.085 cents per kWh adjusted for the current E8760 Class Cost Factor to reflect the changes in the average cost of fuel and purchased energy.”

CONCLUSION

Minnesota Power appreciates the Department’s review of our Petition and its request for additional information to clarify the record. Minnesota Power respectfully requests that the Commission approve the Company’s Base Cost of Fuel and Purchased Energy filing for purposes of establishing interim rates.

Dated: December 5, 2016

Respectfully submitted,



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IN THE MATTER OF THE PETITION OF MINNESOTA
POWER FOR APPROVAL OF A NEW BASE COST OF
FUEL AND PURCHASED ENERGY

MPUC DOCKET No. E015/MR-16-709

CERTIFICATE OF SERVICE

Jill N. Yeaman certifies that on the 5th day of December, 2016, she filed a true and correct copy of Minnesota Power's **REPLY COMMENTS ON BASE COST OF FUEL AND PURCHASED ENERGY** by posting the same on www.edockets.state.mn.us. Said document is also served via U.S. Mail or email as designated on the attached Service List on file with the Minnesota Public Utilities Commission in the above-referenced docket.

/s/ Jill N. Yeaman

Jill N. Yeaman

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