

June 6, 2017

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

**RE: Response Comments of the Minnesota Department of Commerce, Division of Energy
Resources to Minnesota Power's Reply Comments**
Docket No. E015/M-16-776

Dear Mr. Wolf:

Attached please find the Minnesota Department of Commerce, Division of Energy Resources' (DOC or the Department) Response Comments to the Reply Comments of Minnesota Power (MP or the Company).

Based on our review of MP's Reply Comments, the DOC recommends that the Minnesota Public Utilities Commission (Commission) adopt the DOC's recommendations, as discussed in greater detail herein. The DOC is available to answer any questions the Commission may have.

Sincerely

/s/ MARK JOHNSON
Financial Analyst

MJ/lt
Attachments

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E015/M-16-776

I. BACKGROUND

Minnesota Power's (MP or the Company) Renewable Resources Rider (RRR) was first established in Docket No. E015/M-07-216 to allow for recovery of costs associated with future renewable resource contracts, investments and expenditures, as allowed under Minn. Stat. §216B.1645, subd. 2. The Commission has since approved five updates to MP's RRR, in Docket Nos. E015/M-10-273, E015/M-11-274, E015/M-13-410, E015/M-14-349, and E015/M-14-962.

On November 2, 2016, MP filed a petition seeking approval of its updated RRR and 2017 renewable factors (Petition). In addition, MP requested that the Commission waive the 90-day requirement under Minn. Rule 7825.3200 and grant provisional approval of MP's rate request, effective January 1, 2017. According to MP, this approach would allow cost recovery for the RRR projects to be synchronized between its concurrent rate case (Docket No. E015/GR-16-664) and the instant proceeding.

On November 22, 2016, the Minnesota Department of Commerce (DOC or Department) filed comments on MP's request for provisional approval of the Company's proposed RRR factors. The Department recommended approval of MP's proposed provisional implementation, noting that the Department generally does not support such proposals, but identifying both the proposed decrease in rates and the coincidence with MP's general rate case as unusual factors.

On December 21, 2016, the Commission approved MP's request to implement its 2017 renewable factors on a provisional basis, beginning January 1, 2017.

On May 5, 2017, the Department filed comments on the merits of the Petition. The Department recommended that:

- MP explain in reply comments why it is adding a new cost recovery sub-part for its Bison 4 Wind Project, and why it is reasonable to include these costs for recovery in the current Petition;
- the Commission approve MP's proposal to true-up to actual production tax credits (PTCs) generated in 2017 and beyond in their RRR filings;
- MP confirm in reply comments that it will not be seeking any accumulated deferred income tax assets (ADITA) for net operating losses (NOLs) in future cost recovery riders, including the RRR;
- MP be required to use the actual rate of return, jurisdictional allocators, and rate design allocations approved by the Commission in its 2016 Rate Case to recalculate its 2017 annual revenue requirements, true-up, and remaining tracker balance to be charged or returned to ratepayers coincident with the implementation of final rates in its next RRR filing; and
- MP explain in reply comments the reasons for continuing under-performance in production of the Bison facilities.

On May 15, 2017, MP filed its reply comments.

The Department responds to MP's reply comments below.

II. DOC ANALYSIS

A. *BISON 4 COST RECOVERY SUB-PART*

Beginning on page 2 of its reply comments, MP stated that the Bison 4 V-Mode Software sub-part costs included for recovery were not itemized in previous filings. MP stated that the upgrade to wind turbine control software was needed to improve control and prevent high voltage events after Bison 4 was placed in service. According to MP, the software upgrade is an integral component of Bison 4 and the associated costs were included as a separate sub-part in order to properly demonstrate the associated depreciation and tax impacts. MP stated that, in its view, the software does not constitute a new cost recovery component of the Bison 4 wind project, but has been separated in a sub-part for the purpose of transparency of revenue requirement calculations.

The Department notes that since this software was never identified in previous filings, there is no way to verify MP's claim that it does not constitute a new cost recovery component. This circumstance highlights the importance for utilities, like MP, to address all components of project costs during eligibility proceedings. Since this software appears to be an important component of the Bison 4 wind project, and more importantly since MP's proposed recovery amounts do not exceed the project's initial capital cost cap, the Department does not oppose MP's request to recover the Bison 4 V-Mode Software costs through the RRR.

B. PRODUCTION TAX CREDITS

As noted above and explained on page 3 of MP's reply comments, the Department and the Company agree that MP's estimated PTCs in base rates should be trued-up to actual PTCs as they are generated in future RRR filings.

C. NET OPERATING LOSSES AND DEFERRED TAX ASSETS

On page 4 of its reply comments, MP confirmed that it would not be seeking recovery for any accumulated deferred income tax assets (ADITA) due to net operating losses in future cost recovery filings, including the RRR. The Department appreciates MP's confirmation.

D. FEDERAL INVESTMENT TAX CREDITS

MP stated the following regarding investment tax credits (ITCs) on page 5 of its reply comments:

The Department requested that Minnesota Power provide the total value of federal ITCs claimed on it[s] 2015 federal tax return for the Thomson Hydro project. In Direct Testimony in the current rate case, Company Witness Jamie Jago states on page 18 that the rebuild project qualified for \$24 million of ITCs. This is the amount claimed on the Company's 2015 federal tax return for the Thomson Hydro project. Although some portions of the Thomson Hydro project are moving into base rates as part of the Company's rate case, two projects which were not placed in service by January 1, 2017, will remain in the 2017 RRR. Once Minnesota Power is able to utilize the federal ITCs, the credits will be amortized to the benefit of customers, either through the RRR or through base rates, as appropriate.

The Department agrees with MP that federal investment tax credits should be amortized and returned to shareholders once they have been used by the Company. To ensure that ratepayers receive all of the used ITCs, the Department recommends that the Commission require MP to return any amortized amounts associated with Thomson Hydro to ratepayers through the RRR until they can be included in base rates in a subsequent rate case.

E. UPDATES FOR RATE OF RETURN, ALLOCATIONS, AND RATE DESIGN

Beginning on page 5 of its reply comments, MP stated that:

The Department recommended that Minnesota Power be required to use the actual rate of return, jurisdictional allocators, and rate design allocations approved by the Commission in its 2016 rate case to recalculate its 2017 annual revenue requirements, true-up, and remaining tracker balance to be

charged or returned to ratepayers coincident with the implementation of final rates in its next RRR filing. The Company agrees with this recommendation **for all projects remaining in the RRR**. Projects moving into base rates, however, will be treated in accordance with other projects included in base rates.¹ (Emphasis added).

Based on the above, the Department agrees with MP's that it will apply its most recently approved rate of return, jurisdictional allocators, and rate design allocations to the projects remaining in its RRR in its next RRR filing.

F. BISON PERFORMANCE

In our initial comments, the Department asked MP to explain in reply comments the underperformance of its Bison facilities. MP stated the following on page 5 of its reply comments:

When Bison 4 became operational, it encountered start-up issues which caused considerable under-performance in its first year of operation. Additionally, an unusually high number of heavy repairs were required on the Bison turbines in 2015. The associated out-of-service time contributed to under-performance in 2015.

In 2016, generation from the Bison facilities was reduced by more than 57,000 MWhs due to weather events and transmission curtailments. The weather events included icing conditions in the first quarter and December of 2016. Not included in this lost generation estimate is the lost generation from maintenance delays due to heavy snowfall (45 inches) in December 2016. The heavy snowfall and subsequent drifting prevented timely access to the wind turbines, increasing the out-of-service time before the turbines could be repaired.

The Department appreciates MP's explanation and will continue to monitor this issue in future RRR dockets.

G. SUMMARY

Based on our review, the Department recommends that the Commission approve MP's proposed annual revenue requirements, true-up tracker balance, and resulting 2017 RRR rate factors. In addition, the Department expects that MP will apply its most recently approved rate of return, jurisdictional allocators, and rate design allocations to the projects remaining in its RRR.

¹ The Department has addressed our concerns regarding MP's proposal for projects moved into base rates in MP's 2016 Rate Case. See Ms. Nancy Campbell's Direct Testimony in Docket No. E015/GR-16-664, pages 87-98.

III. SUMMARY AND RECOMMENDATIONS

The Department recommends that the Commission:

- approve MP's proposed annual revenue requirements, true-up tracker balance, and resulting 2017 RRR rate factors;
- approve MP's request to include the Bison 4 V-Mode Software sub-part costs through the RRR; and
- require MP to return any amortized federal investment tax credits associated with Thomson Hydro to ratepayers through future RRR filings until they can be included in base rates in a subsequent rate case.

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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-16-776

Dated this 6th day of June 2017

/s/Sharon Ferguson

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