

June 25, 2015

Via eFiling  
Mr. Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> Place East, Suite 350  
St Paul, MN 55101-2147

RE: Reply Comments to Comments of the Minnesota Department of Commerce regarding Minnesota Power's 2014 Conservation Improvement Program ("CIP") Consolidated Filing, Docket No. E015/M-15-80

Dear Mr. Wolf:

Minnesota Power has reviewed the June 15, 2015 Comments made by the Minnesota Department of Commerce, Division of Energy Resources (Department) regarding its 2014 CIP Consolidated Filing. Minnesota Power (Company) provides these Reply Comments in response to the analysis, recommendations, and requests of the Department.

***Department Recommendations:***

The Department recommends the following:

- approve Minnesota Power's 2014 CIP Tracker Account Activity;
- approve an incentive of \$6,237,702 for Minnesota Power's 2014 CIP achievements; and
- grant Minnesota Power a variance to Minn. Rules part 7820.3500 and 7825.2600 to permit Minnesota Power to continue combining the Conservation Program Adjustment (CPA) with the Fuel Clause Adjustment on customer bills.

The Department has requested the following:

- require Minnesota Power to calculate the carrying charge on its CIP tracker account using the short-term cost of debt approved in its most recent rate case; and
- require Minnesota Power to submit a compliance filing within 10 days of the issue date of the Order in the present docket, with revised tariff sheets reflecting the Commission's determinations in this matter.

The Department indicated it would provide a recommendation regarding the reasonableness of Minnesota Power's proposed CPA once it has reviewed the Company's Reply Comments.

***Reply Comments:***

**Department Recommendations:**

Minnesota Power agrees with the Department's analysis and recommendations for approval of the CIP Tracker balance, financial incentive, and variance to Minn. Rules part 7820.3500 and 7825.2600. The Company appreciates the Department's efforts to facilitate timely approval of the incentive for 2014 achievements and acknowledgement that the Company's CIP efforts have been very successful to date.

As of the date of these reply comments, a Department decision for the 2014 CIP Status Report was still pending. This is related to an engineering-oriented analysis of claimed energy and demand savings. The Department did issue a Proposed Decision on June 1, 2015 recommending acceptance of Minnesota Power's Status Report.<sup>1</sup> As the Status Report serves as the basis for incentive calculations, Minnesota Power understands that any adjustments, if applicable, to savings achievements or budget amounts for 2014 would need to be addressed as part of Minnesota Power's April 1, 2016 filing reporting on 2015 activity.

As noted in its filing, Minnesota Power will include a message referencing the change in the CPA in customers' bills in the month in which the new factor goes into effect. The message will read as follows, with the effective date dependent on the timing of Commission approval for the CPA and the issuance of the Order:

*Effective <DATE>, the Resource Adjustment line item on your bill has decreased due to a change in the Conservation Improvement Program (CIP) billing factor. The CIP portion of the Resource Adjustment is \$X.XXXX per kilowatt-hour (kWh).*

In advance of implementation, Minnesota Power will work with the Commission's Consumer Affairs Office staff to confirm this proposed customer notice. The timing of Commission approval may necessitate a slight shift of one month for the effective date of the CPA to allow for customer billing system changes to the factor and coordination of bill messaging with the Commission's Consumer Affairs Office.

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<sup>1</sup> Proposed Decision In the Matter of Minnesota Power's 2014 Conservation Improvement Program Status Report, Docket No. E015/CIP-13-409.01, June 1, 2015.

Department Requests:

The following is in response to the Department's requests related to the CPA calculation and the carrying charge.

Conservation Program Adjustment (CPA) Factor – CIP costs were originally recovered by utilities through base rates via the Conservation Cost Recovery Charge (CCRC). In 1993, the Minnesota Public Utilities Commission (Commission) approved a second cost recovery mechanism called the Conservation Program Adjustment (CPA). The CPA is an annually adjusted factor that recovers past expenditures, financial incentives, carrying charges, and current expenditures not recovered through base rates or the CCRC. The intent of these two mechanisms is to keep the tracker balance as close to zero as possible through current cost recovery, recognizing that program expenditures and cost recovery may not be in perfect alignment as both are based on customer participation and/or eligible kilowatt hour (kWh) sales, which can vary from projected estimates. The CPA factor is calculated as part of the annual CIP Consolidated Filing with a proposed effective date of July 1<sup>st</sup> of each year. Any variation from that timing can impact tracker balances, including carrying charges. Of note, Minnesota Power's year-end CIP Tracker balance has been negative for the past two years.

Minnesota Power has traditionally used calendar year assumptions for developing the proposed CPA. Each year Minnesota Power requests an effective period of July through June for its CPA factor. Until Commission approval, the existing CPA factor remains in effect. While the proposed effective period is July 2015 through June 2016, the actual effective period will be determined by the actual start date of this year's CPA factor and the actual start date of the next CPA factor, which will be proposed as part of the 2015 CIP Consolidated Filing.

In its comments, the Department suggests that Minnesota Power's approach to calculating its CPA is "unusual" in that it uses a combination of historical and forecasted accounting information based on a calendar year for a CPA factor that would have an assumed fiscal year effective period of July 2015 to June 2016. The Department has requested that Minnesota Power provide an estimated CPA using a "consistent timeframe," meaning a fiscal year convention akin to what other utilities use.

Minnesota Power provides that estimate in Table 1 below:

**Table 1:**

| <b>Conservation Program Adjustment:</b> |  | <b>Jan 2015 - Jun 2015</b> | <b>Jul 2015 - Jun 2016</b> |
|---|--|----------------------------|----------------------------|
| 1                                       | CIP Tracker 2 Account Balance at the end of the prior year         | (\$1,116,332)              | (\$5,831,076)              |
| 2                                       | Financial Incentives claimed per Exhibit 2                         |                            | \$6,237,702                |
| 3                                       | CIP expenditures approved or budgeted for the forecasted period    | \$3,572,710                | \$7,226,530                |
| 4                                       | CIP Cost Recovery through Base Rates in the forecasted period      | (\$2,433,568)              | (\$4,821,805)              |
| 5                                       | CIP Cost Recovery through current CPA                              | (\$5,746,636)              |                            |
| 6                                       | Carrying Charges   | (\$107,249)                |                            |
| 7                                       | <b>Recoverable Tracker Balance</b>                                 | <b>(\$5,831,076)</b>       | <b>\$2,811,351</b>         |
| 8                                       | kWh sales subject to CIP   | 1,677,849,875              | 3,288,036,510              |
| 9                                       | <b>Conservation Program Adjustment (per kWh methodology)</b>       |                            | <b>0.000855</b> per kWh    |
|   | <b>Carrying Charge using proposed CPA from Jul 2015 - Jun 2016</b> |                            | <b>(\$18,085)</b>          |
|   | * using a monthly weighted cost of capital rate of 0.9601%         |                            |                            |

In this estimate, the CPA significantly decreases because the higher CPA factor currently in effect is reflected for a longer period of time.

Carrying Charge – Monthly carrying charges are included in the calculations of the monthly CIP Tracker balance, as approved by the Minnesota Public Utilities Commission (Commission or MPUC) in its May 16, 1991 Order, Docket No. E015/M-91-90. At that time, the Department recommended that “MP be allowed to use a carrying charge, compounded monthly, equal to the monthly equivalent of its latest, Commission-approved overall rate of return. This charge should include an allowance for income taxes.” This general methodology for carrying charges has been in place and used for Minnesota Power’s CIP Tracker since that time.

In 2014, the Commission issued orders changing the carrying charge on the CIP Tracker account for Otter Tail Power Company, Xcel Energy, and Alliant (Interstate Power and Light).<sup>2</sup> The Commission determined for those filings that the short-term cost of debt was the appropriate basis for a carrying charge. Along those lines, the Department has recommended that Minnesota Power “adopt the short-term cost of debt identified in its most recent general rate case (Docket No. E015/GR-09-1151) as the carrying charge for the Company’s CIP tracker account.” The Department has further requested that Minnesota Power provide an updated estimate of its 2015-2016 CPA assuming the Commission approves its current short-term cost of debt as the carrying charge on the CIP Tracker account

effective October 1, 2015. Minnesota Power did not have a short-term cost of debt in the capital structure approved in its last rate case. As such, if the carrying charge rate is to be changed, Minnesota Power requests Commission guidance on the applicable rate to use. So long as tracker balances and related cost recovery mechanisms remain relatively aligned and operating as intended, the carrying charge should not be a significant portion of the CIP Tracker balance. Further, the carrying charge is applied to both negative and positive tracker balances. This means that in months where the tracker balance is positive, “interest” is added to the tracker. Conversely, in months where the tracker balance is negative, the tracker balance is decreased with an “interest” credit to customers.

For illustrative purposes and to accommodate the Department’s request regarding a carrying charge estimate, Minnesota Power has used Otter Tail Power’s rate as a general proxy. Since the monthly carrying charge is calculated based on a monthly balance and the CPA is determined using a point in time balance, the two are interdependent. A change in the carrying charge rate in October would not impact the CPA calculation itself. However, an assumption can be made that the CPA would go into effect July 2015 and the carrying charge can be estimated using that updated CPA factor. This updated estimate is provided in Table 2 below:

**Table 2:**

| <b>Conservation Program Adjustment:</b>                                 | <b>Jan 2015 - Jun 2015</b> | <b>Jul 2015 - Jun 2016</b> |
|---|----------------------------|----------------------------|
| 1 CIP Tracker 2 Account Balance at the end of the prior year            | (\$1,116,332)              | (\$5,831,076)              |
| 2 Financial Incentives claimed per Exhibit 2                            |                            | \$6,237,702                |
| 3 CIP expenditures approved or budgeted for the forecasted period       | \$3,572,710                | \$7,226,530                |
| 4 CIP Cost Recovery through Base Rates in the forecasted period         | (\$2,433,568)              | (\$4,821,805)              |
| 5 CIP Cost Recovery through current CPA                                 | (\$5,746,636)              |                            |
| 6 Carrying Charges  | (\$107,249)                |                            |
| <b>7 Recoverable Tracker Balance</b>                                    | <b>(\$5,831,076)</b>       | <b>\$2,811,351</b>         |
| 8 kWh sales subject to CIP  | 1,677,849,875              | 3,288,036,510              |
| <b>9 Conservation Program Adjustment (per kWh methodology)</b>          |                            | <b>0.000855</b> per kWh    |
| <b>Carrying Charge using proposed CPA from Jul 2015 - Jun 2016</b>      |                            | <b>(\$20,019)</b>          |
| * using OTP monthly short-term cost of debt rate of 0.79% as of 10/2015 |                            |                            |

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<sup>2</sup> Docket Nos. E017/M-14-201; E002/M-14-287; and E001/M-14-284.

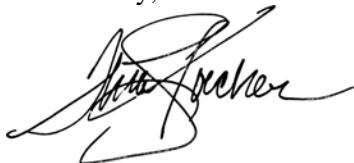
***In Conclusion:***

Minnesota Power appreciates the Department's analysis and recommendations, including their efforts to facilitate review and approval of the financial components of this filing. In summary, the Department's recommendations are:

1. approve MP's 2014 CIP Tracker Account Activity;
2. approve a 2014 DSM incentive for MP of \$6,237,702; and
3. approve a variance of Minnesota Rules pts. 7820.3500 and 7825.2600 to permit the Company to combine the CPA with the FCA on customer bills.

Minnesota Power has addressed the Department's requests as part of these reply comments and looks forward to the Department's recommendations regarding the CPA factor. Please direct any questions relating to these reply comments to me at (218) 355-3805 or [tkoecher@mnpower.com](mailto:tkoecher@mnpower.com).

Yours Truly,



Tina S. Koecher  
Manager – Customer Solutions  
Minnesota Power  
(218) 355-3805

STATE OF MINNESOTA     )  
                                  ) ss  
COUNTY OF ST. LOUIS    )

AFFIDAVIT OF SERVICE VIA  
E-FILING AND  
FIRST CLASS MAIL

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Jodi Nash, of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 25<sup>th</sup> day of June, 2015, she e-filed Minnesota Power's Reply Comments to Comments of the Minnesota Department of Commerce regarding Minnesota Power's 2014 Conservation Improvement Program Consolidated Filing in Docket No. E015/M-15-80 on the Minnesota Public Utilities Commission and the Minnesota Department of Commerce via electronic filing. The persons on the attached Service List were served as noted therein.



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Jodi Nash

| First Name | Last Name | Email                         | Company Name                       | Address  | Delivery Method    | View Trade Secret | Service List Name    |
|------------|-----------|-------------------------------|------------------------------------|--|--------------------|-------------------|----------------------|
| Julia      | Anderson  | Julia.Anderson@ag.state.mn.us | Office of the Attorney General-DOC | 1800 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012134 | Electronic Service | Yes               | OFF_SL_15-80_M-15-80 |
| Sharon     | Ferguson  | sharon.ferguson@state.mn.us   | Department of Commerce             | 85 7th Place E Ste 500<br><br>Saint Paul,<br>MN<br>551012198       | Electronic Service | No                | OFF_SL_15-80_M-15-80 |
| Tina       | Koecher   | tkoecher@mnpower.com          | Minnesota Power                    | 30 W Superior St<br><br>Duluth,<br>MN<br>558022093                 | Electronic Service | No                | OFF_SL_15-80_M-15-80 |
| John       | Lindell   | agorud.ecf@ag.state.mn.us     | Office of the Attorney General-RUD | 1400 BRM Tower<br>445 Minnesota St<br>St. Paul,<br>MN<br>551012130 | Electronic Service | Yes               | OFF_SL_15-80_M-15-80 |
| David      | Moeller   | dmoeller@allte.com            | Minnesota Power                    | 30 W Superior St<br><br>Duluth,<br>MN<br>558022093                 | Electronic Service | No                | OFF_SL_15-80_M-15-80 |
| Daniel P   | Wolf      | dan.wolf@state.mn.us          | Public Utilities Commission        | 121 7th Place East<br>Suite 350<br>St. Paul,<br>MN<br>551012147    | Electronic Service | Yes               | OFF_SL_15-80_M-15-80 |