



July 1, 2020

VIA E-FILING Will Seuffert Executive Secretary Minnesota Public Utilities Commission 121 7th Place East, Suite 350 St. Paul, MN 55101-2147

Re: Annual Automatic Adjustment of Charges Report - Electric Docket No. E999/AA-20-171 Additional Comments

Dear Mr. Seuffert:

Minnesota Power respectfully submits these additional comments in response to the Response Comments submitted on May 29, 2020, by the Minnesota Department of Commerce, Division of Energy Resources in the above referenced Docket.

Please contact me at (218) 723-3963 or <u>dmoeller@allete.com</u> if you have any questions regarding this compliance filing.

Yours truly,

Dais R. Malle

David R. Moeller Senior Attorney and Director of Regulatory Compliance

DRM:th Attach.

STATE OF MINNESOTA BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Annual Automatic Adjustment of Charges Report Docket No. E999/AA-20-171

MINNESOTA POWER'S ADDITIONAL COMMENTS

I. INTRODUCTION

Minnesota Power (or, the "Company") provides these additional comments in response to the May 29, 2020, Response Comments to the Electric Utilities' Reply Comments ("Response Comments") submitted by the Minnesota Department of Commerce, Division of Energy Resources ("Department") in the above-referenced Docket. The Response Comments were submitted by the Department after the Company's Reply Comments were submitted in the Company's Annual Automatic Adjustment of Charges Report ("AAA") docket on March 2, 2020. For the first time, the Department's Response Comments recommend that the Company refund \$3.864 million to its customers for forced outage costs.¹ This recommendation is not based on any imprudence related to outage costs or direct causation, but rather on inaccurate extrapolations derived from comparing the level of generation operations and maintenance ("O&M") expense the Company incurred in 2019 to the amount approved in the Company's 2017 test year.

Specifically, the Department states the following in its Response Comments:

Minnesota Power's significant underspending of generation maintenance expense in 2019 of \$12.4 million or almost 30% lower than the amounts charged to ratepayers put ratepayers at risk of paying higher costs due to forced outages and in fact caused a significant increase in forced outage costs for the AAA period.

• Given the high level of forced outage costs, Minnesota Power's low level of maintenance of generation plants, especially compared to the

¹ DEPARTMENT RESPONSE COMMENTS at 8.

amounts charge to ratepayers, and the fact that the Commission previously indicated the significance of maintaining generation facilities to keep outage costs reasonable, the Department concludes that Minnesota Power has not demonstrated that it is reasonable for Minnesota Power and its shareholders to keep the \$12.4 million in underspent generation maintenance expense at the same time that ratepayers are paying \$7.727 million in forced outage costs (which are over 500 percent higher than the past two AAA periods) via the fuel clause.

 As a result, the Department recommends that the Commission deny recovery of 50 percent of Minnesota Power's forced outage costs for the current AAA reporting period of \$7.727 million, for the resulting denial (refund) of \$3.864 million in forced outage costs from the fuel clause.²

Contrary to these comments, the Company continues to invest in generation O&M consistent with the needs of its generation fleet, which vary over time. As such, it is not reasonable to reach conclusions regarding the prudence of the Company's maintenance program simply by comparing two different calendar years. In the context of maintenance planning for a generation fleet, this essentially represents two limited snapshots in time. As such, the Department's recommendation that the Company refund half of its 2019 forced outage costs is essentially a single-issue adjustment to the Company's 2019 generation O&M expense included in base rates.³

Because of these issues, the Department's recommended refund is not appropriate and it should not be adopted by the Minnesota Public Utilities Commission ("Commission").

² DEPARTMENT RESPONSE COMMENTS at 12-13.

³ See In re Minnesota Power's Transfer of M.L. Hibbard Units 3 and 4 Boilers and Related Facilities to the City of Duluth, 399 N.W.2d 147, 148 (Minn. Ct. App. 1987). In *M.L. Hibbard*, the court affirmed the Commission's approval of the transfer and decision not to adjust rates at that time, concluding "there was no evidence that Minnesota Power's rates were unreasonable solely as a result of the transfer" and appropriate ratemaking treatment should be part of the Company's next general rate case. *Id.*

Adopting this recommendation would financially harm the Company for providing reliable service to its customers, implementing a prudent generation maintenance program while appropriately controlling costs, and obtaining replacement energy solely for the benefit of its customers while its generation facilities were unexpectedly offline.

П. ADDITIONAL COMMENTS

Α. The Company employed an appropriate level of generation fleet maintenance in 2019, while also experiencing unavoidable forced outages.

In making its recommendation to the Commission, the Department relies solely on a snapshot in time to evaluate the Company's maintenance expenses.⁴ Such a limited review of the Company's overall maintenance program does not support the Department's recommendation. Additionally, in making its recommendation, the Department does not allege the Company's maintenance program was in fact imprudent - only that the Company spent less on overall O&M expense in 2018 and 2019 than the 2017 test year amount approved by the Commission in the Company's last rate case (Docket No. E015/GR-16-664).⁵ The Department's analysis ignores that each year of the Company's maintenance program has its own requirements based on equipment overhaul cycles, outage needs, and operational missions of the facilities.⁶ Instead, the Department equates, without additional analysis into the causes of the specific outages at issue, that lower O&M expense for a specific year "put ratepayers at risk of paying high costs due to forced outages."7

1. The Company operates sensible and careful predictive and preventative maintenance programs for its generation fleet.

Minnesota Power's maintenance programs and philosophy have not changed, as the Department claims in its Response Comments. Rather, Minnesota Power's

⁴ DEPARTMENT RESPONSE COMMENTS at 7.

⁵ Id.

⁶ The Company discusses this particular issue later in these comments in Section B.2. ⁷ DEPARTMENT RESPONSE COMMENTS at 7.

maintenance expenses have flowed, and continue to flow, from the needs of the Company's fleet. To ensure those needs are met, the Company deploys predictive and preventative maintenance programs that allow for necessary maintenance activities to occur across its baseload, intermittent, and renewable resources in any given year. In fact, the ability to ensure that dollars allocated to the generation work area can be deployed as necessary to meet the needs of the Company's generation resources has been of critical importance in recent years. Even as the Company's generation resources have changed due to recent retirements and other changes, the Company's predictive and preventative maintenance, which are critical components of the overall maintenance program, have remained consistent and regular.

For the Company's baseload resources, the Company's maintenance program has developed around a 10-year planning cycle at the Boswell Energy Center. During each 10-year cycle, there is at least one six- to seven-week outage planned at five-year intervals for each Boswell Unit, with three-week boiler outages scheduled halfway between the five-year intervals. Depending on how the overall schedules fall, there may be two six- to seven-week outages in that 10-year cycle. Minnesota Power has maintained these maintenance intervals within its 10-year planning cycles at Boswell Energy Center for decades, and will continue to support the Boswell Units' ability to meet customer needs and serve the region.

For those resources within the Company's generation fleet that have been remissioned from baseload service to intermittent capacity support, outage and maintenance cycles are also thoughtfully planned and budgeted with an eye toward the new ways in which the resource supports the overall system. Instead of being on predictive and preventative maintenance programs with the same frequency as the Company's baseload units, the intermittent fleet maintenance programs focus on those systems within the resources that are under the most strain under current operations. Predictive and preventative maintenance of these intermittent resources lies in other systems that require maintenance, either due to the more frequent ramp-up and ramp-down operations or certain periods of limited- or non-use. The Company's predictive and preventative maintenance programs for these intermittent resources also support identifying critical reliability work, to ensure these resources are ready when system conditions require their performance.

In remissioning portions of its generation fleet, the Company also continues to ensure that employees within the generation work area maintain the appropriate continuing education to support these predictive and preventative maintenance programs. This can include focused education on areas like asset strategy development, or broader education on industry and specific generation resource standards and trends. The Company works with industry, vendor, and original equipment manufacturer ("OEM") recommendations and educational materials to incorporate best practices or inspection and maintenance activities into its predictive and preventative generation maintenance programs.

Across the renewable generation resources owned by the Company, Minnesota Power continues to work closely with the OEM on its recommendations for predictive and preventive maintenance. This is particularly important where these resources are still covered by OEM warranties and, as such, specific maintenance cycles and activities must be followed to ensure both the safe and efficient operations off these resources and to maximize any warranty or guaranteed replacement programs of these renewable resources.

In sum, every year the Company continues to undertake proactive measures and follow best practices in the operations and maintenance of its generation fleet.

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2. The Department jumps to the incorrect conclusion that lower generation O&M expense in a given year equate to a "low level of maintenance" and therefore warrant cost disallowances.

a. The 2019 forced outages occurred despite ongoing predictive and preventative maintenance programs.

In its Response Comments, the Department offered several unfounded assumptions in order to move from a simple comparison of 2017 and 2019 generation O&M costs to a disallowance of outage costs. The Department had to assume first that lower 2019 O&M expense (as compared to 2017 test year levels) indicated a lower level of maintenance overall; second, that a lower level of maintenance was necessarily imprudent; and third, that the lower level of maintenance (as the Department claims is demonstrated by lower costs) in fact contributed to forced outages. The Department did not, however, demonstrate any actual correlation between reduced expenditures and lesser overall maintenance, imprudent maintenance decisions, nor causation between any imprudent action and a forced outage. Given the Company's robust maintenance programs, discussed above, and the reasonable basis for 2019 versus 2017 generation O&M levels, the Department's proposal would withhold cost recovery on innuendo alone.

First, the lower O&M expense in 2019 compared to 2017 do not demonstrate either lesser generation fleet maintenance overall, nor that the Company's maintenance program is in any way imprudent. As noted above, the variation between the O&M expenses between two different calendar years flows from those generation resource needs and does not equate to the specific level of maintenance of Minnesota Power's generation fleet.

Second, understanding the changes in O&M and forced outage costs between 2017 and 2019 also requires examination of the reasons for the changes. The 2017 test year maintenance expense approved for inclusion in base rates in the 2016 general rate case⁸ appropriately included the anticipated generation fleet maintenance program expenses to be deployed in that year. The 2017 test year included an extensive three-week Boswell Energy Center Unit 4 boiler outage, which accounted for the largest single scope of work that year. The 2017 test year also included maintenance costs at Boswell Energy Center Units 1 and 2. For intermittent resources, the 2017 test year included expenses for continued maintenance at the Taconite Harbor Energy Center and the fall outage at Hibbard Renewable Energy Center to improve boiler efficiency and cleanliness, which was intended to decreased maintenance costs. These activities are not the same as the predictive and preventative maintenance program activities undertaken in 2019.

In 2019, there were three unanticipated outages at Boswell Energy Center that contributed to the increased forced outage costs: two outages of Boswell Energy Center Unit 3 (June and July 2019) and one outage at Boswell Energy Center Unit 4 (February 2019). All three failures were due to extraordinary circumstances that were neither anticipated by industry expectations, nor of any imprudent action or inaction of the Company:

1. The February 2019 unplanned outage at Boswell Energy Center Unit 4 was the result of a hot reheat steam line longitudinal seam weld failure. The Company has implemented a protocol related to these types of failures through its predictive and preventative maintenance program, including monitoring and inspection, coordination with consulting engineers to complete non-destructive testing, destructive testing, and weld analysis of high risk areas. However, even where such programs exist weld failures can occur. With respect to Unit 4, the particular failure was not in an area considered high risk through either industry or consultant experience. Additionally, as part of the 10-year inspection cycle, the full pipe examination was not to be completed until 2020. Therefore, under the Company's prudent and reasonable predictive and

⁸ In re Application of Minnesota Power for Auth. to Increase Rates for Elec. Util. Serv. in Minn., Docket No. E015/GR-16-664, FINDINGS OF FACT, CONCLUSIONS, AND ORDER (Mar. 12, 2018).

preventative maintenance program protocol, it would not have been identified prior to failure, and the outage was entirely unanticipated.

2. The Boswell Energy Center Unit 3 forced outage costs in June 2019 were borne out of a planned outage scheduled to commence on March 30, 2019 and conclude June 7, 2019 (the "April-May 2019 Outage"). Prior to the April-May 2019 Outage, the Company identified a hydrogen leak. Upon identification, the Company consulted with the OEM regarding the leak and recommended repairs were implemented, but proved to not be adequate to address the hydrogen leak prior to the scheduled end of the April-May 2019 Outage. Because of this, an unplanned and unanticipated extension of the outage was necessary to fully address the leak. Further analysis with the OEM determined the root cause was isolated to a float valve in the seal oil system. The OEM informed the Company that this was an extremely rare failure and, because of that, a replacement valve was not immediately available which required additional time to adapt an available valve to the necessary system application. The additional time necessary to complete the root cause analysis and valve modifications to address the hydrogen leak extended the outage to June 22, 2019. Given the rarity of this issue, under the Company's predictive and preventative maintenance program protocol, such an outage was entirely unanticipated and the Company worked as expeditiously as practicable to bring the unit back online.

3. During the planned Boswell Energy Center Unit 3 April-May 2019 Outage, the Company's OEM performed testing on the phase bushings in accordance with Minnesota Power's predictive and preventative maintenance program. At that time, all three phases of the bushings passed testing at varying levels within acceptable limits. In July 2019, one of the six phase bushings unexpectedly failed. At the time of the failure, the OEM was unable to determine the root cause of the failure and, because of this, all six phase bushings were replaced to avoid another unexpected failure and unplanned outage. The phase bushings were readily available at the time and, because the technical expertise was already on-site for the single phase bushing replacement,

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the incremental time to replace the remaining five phase bushings was minor and a prudent maintenance activity implemented by the Company. The Company had undertaken prudent and reasonable measures mere months before the phase bushing failure to avoid an unplanned outage of this type. Despite these efforts, the outage was not avoidable.

b. The Department has not demonstrated that the forced outages were due to imprudence.

In its Response Comments analysis, the Department ignores the holistic and multi-year approach to generation maintenance program development and implementation that the Company has undertaken and, instead, focuses solely on maintenance program costs over the relatively short period of time of one calendar year compared to another single calendar year. The Department undertook no analysis of the factors that actually led to the unplanned outages and increased forced outage costs. In taking this approach, the Department then leverages the limited cost information to draw errant connections between a lower maintenance program cost over that limited snapshot of time and a "low level of maintenance."⁹ In drawing these connections, the Department does not argue that the Company's lower maintenance program cost over the limited time period was imprudent – only that a lower maintenance program cost over that limited period of time must mean a low level of maintenance. The only evidence the Department uses to support this conclusion is the fact that the 2019 generation maintenance expense was 30 percent lower than the 2017 test year amount.¹⁰ However, correlation (unforced outages and lower maintenance expenses occurring in the same year) does not equate to causation. The Department's analysis fails to consider the prudent actions taken by the Company in each instance, the overall reasonableness of Minnesota Power's predictive and preventative maintenance program, and the additional measures the

⁹ DEPARTMENT RESPONSE COMMENTS at 12.

¹⁰ Id.

Company had taken where feasible to further mitigate further unplanned outages and forced outage costs.

Β. The Department's recommendation would result in an unfounded financial adjustment that is premised on faulty assumptions related to the level of O&M expense in a singular year.

As discussed in detail above, the Department erroneously uses a correlation between a lower 2019 O&M expense and an increased forced outage expense to recommend that the Commission require the Company to refund fifty percent of the forced outage costs of \$7.727 million for this AAA reporting period.¹¹ In making this recommendation, the Department goes so far as to assert, without evidence, that the lower cost must mean the Company chose to forego necessary maintenance so that "Minnesota Power and its shareholders [could] keep the \$12.4 million in underspent generation maintenance expense."¹² This conclusion is not only incorrect, as discussed above, but also premised only on assumptions, which is inconsistent with the level of evidence that would be needed to preclude the Company from recovering reasonable costs of unavoidable outages. It is also inconsistent with the fact that Minnesota Power's annual maintenance costs have also at times been higher than test year levels, underscoring that test year levels are intended to be representative of reasonable costs rather than of presumptively prudent levels of maintenance activity.

1. A demonstration of imprudent action or inaction is necessary to support any denial of forced outage costs.

When reviewing instances where increased forced outage costs were incurred and a party alleged the costs were not prudently incurred, the Commission has typically taken one of three actions: (1) required refunds for forced outages only where it had sufficient evidence to conclude those outages were the result of imprudent activities of the

¹¹ *Id.* at 13. ¹² *Id.*

utility;¹³ (2) reserved judgment on a proposed forced outage adjustment where the prudence of underlying activities was not fully determined;¹⁴ or (3) declined to order any refunds for forced outages.¹⁵ Minnesota Power submits that this is sound practice; cost recovery should not be disallowed based merely on assumptions.

Even where there has been evidence of actual mistakes leading to outages (unlike in the instant matter), the Commission has required more than innuendo before disallowing recovery of forced outage costs.¹⁶ In Docket No. E999/AA-11-792, the Department recommended refunds of forced outage costs resulting from a situation where an Allen wrench had fallen into a bus duct at the Allen S. King Generating Station.¹⁷ There the Commission declined to require a refund, but determined it would look into the matter in the future, finding:

The record in this docket does not contain detail sufficient for the Commission to resolve disputes of fact necessary to finally determine the prudence of the utilities' plant operation and maintenance. The prudence of costs related to the forced outages identified by the Department remain subject to review by the Commission at a future date.¹⁸

Thus, the Commission did not jump to cost disallowance or refund, even where there was evidence that a mistake may have directly contributed to the unplanned outage and increased forced outage costs.

 ¹³ See In re Review of the 2014-2015 Annual Automatic Adjustment Reports for all Elec. Utils., Docket No. E999/AA-15-611, ORDER ACCEPTING REPORTS, REQUIRING REFUND, AND SETTING ADDITIONAL REQUIREMENTS at 4-5 (July 21, 2017).
¹⁴ See In re Review of the 2010-2011 Annual Automatic Adjustment Reports for all Elec. Utils., Docket

¹⁴ See In re Review of the 2010-2011 Annual Automatic Adjustment Reports for all Elec. Utils., Docket No. E999/AA-11-792, Order Acting on Electric Utilities' ANNUAL Reports, Requiring Refund of Certain Curtailment Costs, and Requiring Additional Filings at 5 (Aug. 16, 2013).

¹⁵ See In re Review of the 2010-2011 Annual Automatic Adjustment Reports for all Elec. Utils., Docket No. E999/AA-11-792, ORDER ACTING ON ELECTRIC UTILITIES' ANNUAL REPORTS, REQUIRING REFUND OF CERTAIN CURTAILMENT COSTS, AND REQUIRING ADDITIONAL FILINGS at 5 (Aug. 16, 2013). ¹⁶ *Id.*

¹⁷ *Id.* at DEPARTMENT RESPONSE COMMENTS at 4-8, 17-20 (Sept. 26, 2012).

¹⁸ *Id.* at Order Acting on Electric Utilities' Annual Reports, Requiring Refund of Certain Curtailment Costs, and Requiring Additional Filings at 5 (Aug. 16, 2013).

2. O&M expenses vary on a yearly basis and, when compared to priorapproved test years, may either be higher or lower in any given year.

Given that generation maintenance expense can change from year to year, and both revenues and costs can change in other areas as well, there is no evidence here, absent a more thorough analysis that the Department did not undertake, that shareholders are actually "keeping" any unspent generation maintenance dollars. The Company collects from its customers the amounts approved by the Commission in its ratemaking proceedings and deploys those amounts accordingly across its systems to ensure the continued safe, reliable, and cost-effective delivery of energy to its customers. Against the historical data of generation maintenance expense rising and falling over an extended period of time, and without a more detailed analysis, the Department's proposal to require Minnesota power to refund a portion of its 2019 forced outage costs based solely on generation maintenance costs being lower for a limited period of time than a pre-approved test year amount appears arbitrary and is not reasonable.

The Department's primary support for its proposed adjustment to forced outage costs based on generation O&M spend levels is based on its evaluations pursuant to the February 6, 2008 Order in Docket No. E,G-999/AA-06-1208 (the "06-1208 Order"), which acknowledged there could be a relationship between generation O&M spending and outages. Since the Commission issued the 06-1208 Order, the Department has compared actual maintenance of generation plants expenses against the test-year level of maintenance of generation plants set in each public utility's most recent rate case(s), as part of its analysis of public utilities' AAA filings each year. The impetus for this annual evaluation were the Commission's concerns about high forced outage costs during 2006 and 2007, and whether public utilities were spending a reasonable amount on generation maintenance compared to what they were recovering in rates.¹⁹ During

¹⁹ In re Review of the 2006 Annual Automatic Adjustment of Charges for All Elec. and Gas Utils., Docket No. E,G-999/AA-06-1208, Order Acting on Electric Utilities' ANNUAL Reports, Requiring Further

these reviews, the Department's analysis found that in some years utilities' actual expenditures for generation maintenance were higher on average than the budgeted test year amount and sometimes they were lower. This is natural, and consistent with the ratemaking assumption that while a test year's overall costs will be representative, actual costs - including specific types of costs - will vary in comparison to test year levels.

During its review in the instant matter, the Department noted that Minnesota Power's actual generation maintenance expenses in 2019 were \$29.6 million.²⁰ Additionally, the Department used a two-year average (2018-2019) for its multi-utility comparison analysis, which is provided in Table 1.

	Test Year	Rate Case Budgeted	Actual 2018-2019 Average	Difference
Xcel	2016	184.7	167.3	-9.4%
OTP	2016	15.1	15.5	2.5%
MP*	2017	42.0	32.8	-21.9%

Table 1: Department Comparison of 2018-2019 Generation Maintenance Costs²¹

The 2018-2019 average generation O&M expense was approximately \$9.2 million less than the 2017 test year amount approved in the Company's most recently-completed rate case (Docket No. E015/GR-16-664).²² This comparison also used only a two-year average instead of a three-year average, where a three-year average has been used in prior proceedings, as discussed further below. As recently as Minnesota Power's fiscal

FILINGS, AND AMENDING ORDER OF DECEMBER 20, 2006 ON PASSING MISO DAY 2 COSTS THROUGH FUEL CLAUSE at 5 (Feb. 7, 2008).

 ²⁰ DEPARTMENT RESPONSE COMMENTS at Attachment 1
²¹ DEPARTMENT RESPONSE COMMENTS at 2 at Updated Table 3.

²² DEPARTMENT RESPONSE COMMENTS at 7.

year 2016 AAA filing, however, the Company's average actual generation maintenance expense was higher than its approved test year amount, as shown in Table 2.

			Actual	
	Test	Rate Case	2013-2015	
	Year	Budgeted	Average	Difference
Xcel	2014	193.7	201.2	7.5
OTP	2009	13.1	14.2	1.1
MP	2010	33.6	35.9	2.3

Table 2: Department Comparison of 2013-2015 Generation Maintenance Costs²³

In AAA filings made prior to 2016, the average actual generation maintenance expense was higher than the level approved in the Company's 2010 rate case. For most of the past 10 years, the specific maintenance needs of the Company's generation fleet have been higher than the related test year-level of generation maintenance expense. For example, the comparison completed by the Department in 2015 is shown Table 3.

Table 3: Department Comparison of 2011-2013 Generation Maintenance Costs²⁴

	Test Year	Rate Case	Historical 2011- 2013 Average	Difference from Rate Case
IPL	2009	\$ 3,779,345	\$ 3,387,589	\$ (391,756)
MP	2010	\$ 33,619,194	\$ 41,739,946	\$ 8,120,752
Xcel Electric	2014	\$ 193,685,565	\$184,091,165	\$ (9,594,400)
ОТР	2009	\$ 13,142,720	\$ 11,780,406	\$ (1,362,314)

The Department completed a similar analysis in 2016, as shown in Table 4.

²³ In re Review of the 2015-2016 Annual Automatic Adjustment Reports, Docket No. E999/AA-16-523, DEPARTMENT REPORT at 14 (Sept. 13, 2017).

²⁴ In re Review of the 2013-2014 Annual Automatic Adjustment Reports, Docket No. E999/AA-14-579, DEPARTMENT REPORT at 13 (May 19, 2015).

	Test Year	Rate Case	Historical 2012- 2014 Average	Difference from Rate Case
IPL	2009	\$ 3,779,345	\$ 3,013,166	\$ (766,179)
MP	2010	\$ 33,619,194	\$ 39,054,080	\$ 5,434,886
Xcel Electric	2014	\$ 193,685,565	\$193,411,860	\$ (273,705)
ОТР	2009	\$ 13,142,720	\$ 13,304,703	\$ 161,983

Table 4: Department Comparison of 2012-2014 Generation Maintenance Costs²⁵

In neither of these instances was the Company able to collect additional maintenance expense it reasonably incurred above its approved test year amounts, short of filing a new rate case. Minnesota Power therefore should not be deprived of cost recovery when maintenance costs are lower in a single given year.

Despite these historical factors, the Department now claims that it is unreasonable for Minnesota Power's shareholders to "keep" the difference between current actual generation maintenance expense and budgeted test-year expense from the 2016 rate case. This is incorrect not only because generation O&M expenses have in fact varied in relation to test year amounts, but also because of the nature of test year-based ratemaking. As the Department has acknowledged in the past, the development of the 12-month period to be used to establish a proposed test year is determined by the Company.²⁶ The Commission determined in 2018 that the Company's 2017 test year for O&M expense was appropriate and supported by the evidence for establishing Minnesota Power's rates.

The Commission has previously described the "test year" method as follows:

Rates that ratepayers currently pay are based on representative levels of revenue, costs, and investments in a "test year" determined at the time of the most recent rate case. Once rates are set, they are considered to be reasonable until they are changed in the next rate case, or pursuant to any

²⁵ In re Review of the 2014-2015 Annual Automatic Adjustment Reports for all Elec. Utils., Docket No. E-999/AA-15-611, DEPARTMENT REPORT at 16 (June 15, 2016).

²⁶ In re Application of Minnesota Power for Auth. to Increase Rates for Elec. Util. Serv. in Minn., Docket No. E015/GR-16-664, DEPARTMENT'S INITIAL BRIEF at 16 (Sept. 12, 2017) (*citing* CAMPBELL SURREBUTTAL TESTIMONY at 24 (July 21, 2017)).

pass-through mechanisms that have been approved by the Commission. Although individual cost components that were used to develop the rates may vary (increase or decrease) after the rates are set, no adjustment (with the exception of the pass-throughs) is made outside of a rate case for increases or decreases in the individual components of rates.²⁷

Moreover, "isolated changes in test year data can skew the rate case process for or against the Company, for or against the ratepayers."²⁸ Therefore, the Commission has clearly recognized that actual costs may vary up or down once set during a test year. Even during the pendency of a rate case, the Commission also has recognized that certain flexibility in adjusting costs is reasonable once an overall test year budget has already been proposed.²⁹ As such, it would be inappropriate to implement an adjustment for a singular type of O&M expense in this proceeding.

²⁷ In re the Complaint by Myer Shark et al. Regarding Xcel Energy's Income Taxes, Docket No. E,G-002/C-03-1871, ORDER AMENDING DOCKET TITLE AND DISMISSING COMPLAINT at 4 (Oct. 1, 2004).

²⁸ *Id.*; see also In re Petition of Minn. Power & Light Co. *d/b/a Minn. Power, for Auth. to Change Its Schedule of Rates for Retail Elec. Serv. in the State of Minn.*, Docket No. E-015/GR-87-223, ORDER AFTER RECONSIDERATION AND REHEARING at 3 (May 16, 1988) ("This is because the test year method by which rates are set rests on the assumption that changes in the Company's financial status during the test year will be roughly symmetrical—some favoring the Company, others not.").

²⁹ In re Application of N. States Power Co. for Auth. to Increase Rates for Elec. Serv. in the State of *Minn.*, Docket No. E-002/GR-13-868, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 26-27 (May 8, 2015).

III. CONCLUSION

Minnesota Power respectfully requests that the Commission reject the Department's unreasonable recommendation that would financially harm the Company for providing reliable service to its customers at competitive and reasonable costs.

July 1, 2020

Respectfully submitted,

MINNESOTA POWER Dais R. Malle

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STATE OF MINNESOTA)	AFFIDAVIT OF SERVICE VIA
) ss	ELECTRONIC FILING
COUNTY OF ST. LOUIS)	

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 1st day of July, 2020, she served Minnesota Power's Additional Coments in **Docket No. E999/AA-20-171** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on E-Docket's Official Service List for this Docket were served as requested.

Tiana Heger