

Staff Briefing Papers

Meeting Date December 5, 2019 Agenda Item 4**

Company Minnesota Power

Docket No. **E-015/GR-19-442**

E-015/MR-19-443

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

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

- Issues
1. Should this filing be accepted? If so, should the proposed rates be suspended, this matter referred to the Office of Administrative Hearings for contested case proceedings and interim rates set as requested by the Company?
 2. What action, if any, should the Commission take on Minnesota Power’s Base Cost of Energy letter filed on November 4, 2019?

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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 **Relevant Documents**

Date

Docket No. E-015/GR-19-442

Minnesota Power – Initial Filing, General Rate Petition, Vols.1&2 ¹	November 1, 2019
PUC – Notice of Comment Period	November 5, 2019
Department of Commerce – Comments	November 12, 2019
Office of the Attorney General – Comments	November 12, 2019
Large Power Intervenors – Comments	November 12, 2019
Minnesota Power – Reply Comments	November 18, 2019
Office of the Attorney General – Reply Comments	November 18, 2019
Citizen’s Utility Board	November 18, 2019

Docket No. E-015/MR-19-443

Minnesota Power – Letter – Base Cost of Energy	November 4, 2019
Department of Commerce – Comments	November 25, 2019

¹ The relevant documents listed for this meeting only includes Volumes of MP’s initial filing (omitting workpaper volumes). The Interim Rates Petition is found in Volume 1. The pre-filed direct testimony of MP’s witnesses is in Volume II.

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I. Statement of the Issues

Should this filing be accepted? If so, should the proposed rates be suspended, this matter referred to the Office of Administrative Hearings for contested case proceedings and interim rates set as requested by the Company?

What action, if any, should the Commission take on Minnesota Power's Base Cost of Energy letter filed on November 4, 2019?

II. Introduction

On November 1, 2019, Minnesota Power ("MP" or "the Company") filed a general rate case with the Minnesota Public Utilities Commission ("Commission"), Docket No. E-015/GR-19-442.² The Company is asking for a \$65,900,137 annual increase in its Minnesota retail electric rates, or approximately 10.59 percent, based on a rate of return on common equity capital of 10.05 percent, effective January 1, 2020.

Minnesota Power proposed a forecasted test year ending December 31, 2020. In its proposed test year, MP has approximately 145,000 customers.

The Commission decided, in Docket No. E-999/CI-03-802, to approve Minnesota Power's proposal to forego filing a companion base cost of energy petition to the general rate case.³ MP affirmed in a letter filed November 4, 2019 that it had zeroed out FCA costs in base rates.

On November 25, 2019, the Department filed comments on MP's letter. The Department recommended that the Commission accept the base cost of fuel filing but defer to the rate case the issue of whether MP has demonstrated that its proposed base rates appropriately exclude costs related to the Fuel Clause Adjustment.

The issues at this time are whether to accept the filing, suspend the proposed final rates, refer this matter to the Office of Administrative Hearings ("OAH") for a contested case proceeding, and set interim rates subject to refund.

If the Commission decides to suspend Minnesota Power's proposed rates, the Company requests an interim rate increase of approximately \$47.9 million, or 7.70 percent effective January 1, 2020, based on a 9.25 percent return on common equity. The interim rate request is

² On September 27, 2019, Minnesota Power pre-filed sales forecast worksheets, as required by the Commission's November 2, 2010 Findings of Fact, Conclusions, and Order issued in the Company's 2009 general rate case in Docket No. E-015/GR-09-1151.

³ On October 17, 2019, the Commission approved Minnesota Power's proposal, which included its request to zero out the energy costs included in the base cost of energy in the Company's next general rate case and include all energy cost calculations in the Fuel Clause Adjustment (FCA) and forego filing a base cost of energy filing in future general rate increases.

approximately 73 percent of MP's requested final rate increase. The Company proposes to apply the interim rate increase as a uniform 7.7 percent increase to all present rate components, other than cost recovery riders, that will remain on customer bills.

III. Background

On November 5, 2019, the Commission issued its notice requesting comments on whether MP's filing complies with the filing requirements in Minn. Stat. § 216B.16, Minn. Rules, Parts 7825.3100 to 7825.4400 and Commission Orders. The Commission also asked for comments on whether this rate application should be referred to the Office of Administrative Hearings for a contested case proceeding.

On November 12, 2019, the Department of Commerce, Division of Energy Resources ("Department"), the Office of the Attorney General, Residential Utilities and Antitrust Division ("OAG"), and the Large Power Intervenors ("LPI") filed comments.

On November 18, 2019, the Consumer Utility Board ("CUB") filed comments and the OAG and MP filed response comments.

A. Department of Commerce

The Department reviewed MP's filing to verify the Company was in compliance with:

- Statutory requirements (Minnesota Statutes §216B.16);
- Commission's rules governing filing requirements for rate changes (Minnesota Rules, parts 7825.3100 through 7825.4400);
- Commission policy statements, with the caveat that a full analysis of compliance with certain Policy Statements will require factual analysis in the rate case;
- Commission orders pursuant to Minnesota Power's most recent general rate case in Docket No. E-015/GR-16-664; and
- Commission orders in various dockets prior to or subsequent to Minnesota Power's most recent general rate case.

The Department emphasized that its review focused only on the stated issues and not on the merits of MP's overall request.

The Department requested that MP provide a complete version of Schedule H from its initial filing, but rather, MP provided a link to where the information could be found online, the Department requested that MP provide the entire Schedule H in the record since web links could be modified or moved over time. The Company provided Schedule H in its entirety in a supplemental filing on November 7, 2019. The Department noted that the Commission could find that the filing was not technically complete until November 7, 2019, but did not make a specific recommendation as to whether the Commission should find November 1, 2019 or November 7, 2019 to be the effective date.

1. Interim Rate Request – Large Market Wholesale Contract

The Department stated that it does not typically prepare comments on interim rate matters, however, the Department disagrees with MP's proposed adjustment to its Large Market Wholesale Contract. In effect, the adjustment removes \$8.3 million in net revenues and increases rate base by \$1.2 million, increasing interim rates by approximately \$8.5 million.⁴

...the Department believes that interim rates should reflect the status quo and not include Minnesota Power's adjustments for its Large Market Wholesale Contract, which increases the Company's revenue requirements and interim rate request, prior to all parties having an opportunity to review these adjustments. For example, although this specific Minnesota Power contract ends on April 30, 2020 (four months into the test year), there may be new contracts or additional asset-based margins through the Midcontinent Independent System Operator's energy market that may replace some or all of these contract margins. Thus, the Department concludes that the four months of contract net revenues and related ADIT adjustment should remain in interim rates, with a final determination made for final rates.

The Department recommended the Commission deny Minnesota Power's proposed adjustments to interim rates for the Large Market Wholesale Contract.

The Department also provided additional topics for record development, which are discussed later in these Briefing Papers.

B. Large Power Intervenors

LPI also questioned the accuracy of the Large Market Contract ("LMC") adjustment made by MP.⁵

It appears, according to Department witness Nancy Campbell, that the adjustment made in the 2009 Rate Case was not an exclusion of the revenue: it was an offsetting calculation. In testimony, Ms. Campbell notes that Minnesota Power had two contracts to sell energy/capacity to Great River Energy that expired on April 30, 2010, but Minnesota Power had two new contracts: one contract to sell energy/capacity to Basin Electric Power Cooperative beginning on May 1, 2010 ("BEPC Contract"), and another contract to sell energy/capacity to Otter Tail Power Company. Based on what appear to be offsetting timeframes for these contracts, Ms. Campbell recommended that "the Commission *exclude* the revenues and fuel expenses or wholesale margin for the expiring [Great River Energy] contracts and *replace* it with the revenues and fuel expenses or wholesale

⁴ Department Comments, filed November 12, 2019, at 3-4

⁵ LPI Comments, filed November 12, 2019, page 4

margin of the [Basin Electric Power Cooperative] and [Otter Tail Power Company] wholesale contracts.” [footnotes omitted; LPI emphasis]

Additionally, LPI disputes the adjustment being made in interim rates, rather than a petition for reconsideration in MP’s 2009 general rate case. Interim rates “shall be calculated using...rate base of expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility’s most recent rate proceeding.”⁶ MP notably only references the 2009 Rate Case Order, omitting a citation to the 2016 general rate case. LPI requested that MP, in reply comments, provide additional justification for making the LMC adjustment in interim rates for the current rate case.

C. Office of the Attorney General

1. Comments

The OAG argues that exigent circumstances are present based on MP’s requested rate increases having been historically significantly higher than the rates the Commission ultimately approved. Table 1, prepared by the OAG, demonstrates the relationship between the rates MP has requested and the rates that were approved.⁷

**Table 1:
Comparison of Requested and Final Increases
in Minnesota Power’s Last Four Rate Cases**

Docket No.	Requested Increase (millions)	Final Increase (millions)	Final as % of Request
94-001	\$34.3	\$19.0	55%
08-415	\$45.0	\$20.4	45%
09-1151	\$80.9	\$53.5	66%
16-664	\$55.1	\$12.0 ¹	22%
Average:			47%

The OAG requests that the Commission cap the interim rate increase at 67%, which would reduce the interim rate increase from \$47.9 million to about \$44.2 million.

2. Reply Comments

In its November 18, 2019 reply comments, the OAG agreed with the positions of LPI and the Department, noting that MP’s request contravenes the interim rate statute. The OAG notes that removing a revenue item has the same effect as creating a new expense item, which should be scrutinized through the general rate case process. Additionally, the OAG states that annualizing large contracts is part of standard ratemaking and points out that the Basin

⁶ Minn. Stat. § 216B.16, subd. 3

⁷ OAG Comments, filed November 12, 2019, at 2

wholesale contract replaced a wholesale contract with Great River Energy in MP's 2009 rate case.

The OAG recommends that the Commission reduce MP's interim rate request by \$8.5 million to account for the Basin wholesale contract that was improperly removed. If this position is not adopted, the OAG retains its initial position to cap interim rates at 67% percent, a reduction of \$3.7 million.

D. Citizen's Utility Board

CUB filed comments on November 18, 2019, beyond the comment deadline for this docket. In its comments, CUB expresses concern that certain intervenors were limited in their participation in the contested case proceeding in MP's prior general rate case. CUB requests that the Commission "provide instruction as to the rules governing intervention, the ability to certify questions to the Commission, and the Commission's preference for inclusivity rather than limiting parties' intervention."⁸

E. Minnesota Power Reply Comments

MP first noted that its application was substantially complete as of November 1, 2019.

MP responded to the comments provided by parties. As an initial matter, MP took exception with parties providing comments on the ex parte process of setting interim rates.⁹

By Minnesota law, the Commission "shall order the interim rate schedule ex parte without a public hearing." Consistent with this requirement, the Commission's November 5, 2019 Notice on Completeness did not include Minnesota Power's interim rate petition as a topic open for comment. Nevertheless, [the] Department, OAG, and LPI submitted unsolicited comments about Minnesota Power's interim rate petition and made varying proposals. Minnesota Power respectfully requests that the Commission set interim rates as the Company proposed, on an ex parte basis without consideration of these comments, as statutorily required. [footnotes omitted]

The Department and LPI raised concerns about another LMC replacing the expiring one and, thus, rendering the adjustment inappropriate. MP dismissed those concerns as speculative and provided additional details on its ongoing asset-based wholesale sales. MP noted that the Department's concerns did not rise to the level of exigent circumstances and stated that concerns about LMCs could be developed in the record.

The OAG, in its initial comments, requested that the Commission "cap" the Company's interim rate request at 67% based on historical rate requests compared to authorized rate increases (as shown in Table 1 of these Staff Briefing Papers). MP disagreed and stated that a comparison of

⁸ CUB, Comments, page 1

⁹ MP, Reply Comments, Page 3

this rate case to past rate cases does not bespeak urgency, and therefore, exigent circumstances do not exist. Also, MP discussed the material differences between its rate cases cited by the OAG, and the CenterPoint Energy rate cases, in the use of its arguments.

MP concludes by requesting that the Commission approve its interim rate request as initially filed.

IV. Prior Rate Cases

This is the fourth rate case Minnesota Power has filed since 2008. In 2008, in Docket E-015/GR-08-415, it requested an increase of approximately \$45 million, 9.69 percent, and was authorized an increase of approximately \$20 million, 4.31 percent. In 2009, in Docket E-015/GR-09-1151, Minnesota Power requested an increase of approximately \$80 million, 18.9 percent, and was authorized a \$53 million increase, 15.10 percent. In 2016, in Docket E-015/GR-16-664, Minnesota Power requested an increase of approximately \$55 million, 9.1 percent, and was authorized a \$12.6 million increase.

V. Summary of MP's 2015 – 2018 Jurisdictional Annual Reports

The following is a brief historical summary of the authorized and reported (weather normalized and actual) jurisdictional overall rates of return and rates of return on common equity for Minnesota Power.

Table 2: 2015-2018 Summary of Jurisdictional Allocation Reports

Year	Most Recent Rate Case Docket	Regular Full-			Average Rate Base
		Customers	time Employees	Assessable Revenue	
2015	E-015/GR-09-1151	145,033	1,154	\$614,806,000	\$2,138,620,000
2016	E-015/GR-09-1151	145,622	1,145	\$584,647,000	\$2,054,122,000
(1) 2017	E-015/GR-16-664	146,353	1,127	\$695,908,000	\$2,190,228,000
2018	E-015/GR-16-664	146,741	1,016	\$688,185,000	\$2,177,340,000

Year	Most Recent Rate Case Docket	RETURN ON REVENUE			Variance: Actual - Authorized
		PUC	Weather	Actual ROR	
		Authorized ROR	Normalized ROR		
2015	E-015/GR-09-1151	8.180%	6.580%	6.570%	-1.610%
2016	E-015/GR-09-1151	8.180%	6.200%	6.170%	-2.010%
(1) 2017	E-015/GR-16-664	7.064%	6.270%	6.260%	-0.804%
2018	E-015/GR-16-664	7.064%	6.530%	6.610%	-0.454%

Year	Most Recent Rate Case Docket	RETURN ON EQUITY			Variance: Actual - Authorized
		PUC	Weather	Actual ROE	
		Authorized ROE	Normalized ROE		
2015	E-015/GR-09-1151	10.380%	8.400%	8.491%	-1.889%
2016	E-015/GR-09-1151	10.380%	7.790%	7.847%	-2.533%
(1) 2017	E-015/GR-16-664	9.250%	7.990%	7.991%	-1.259%
2018	E-015/GR-16-664	9.250%	8.340%	8.344%	-0.906%

(1) The Commission's Order (final determination) in MP's 2016 rate case was issued on March 12, 2018, in Docket No. E-016/GR-16-664, and authorized an ROR of 7.0639% and an ROE of 9.25%. (Interim rates were put into effect January 1, 2017.)

Utility reported data pursuant to Commission rules (Minn. R. 7825.4700 - 7825.5400) May 1st of each year in Dockets 16-04, 17-04, 18-04, and 19-04. This information is reported on a jurisdictional basis for each rate regulated energy utility. These reports are not audited and do not necessarily correspond to information reported to EIA or to any rate case.

VI. Minnesota Power's Application

A. Comparison of Authorized and Proposed Revenue Requirement

The following abbreviated schedule compares the revenue requirement approved in Minnesota Power's last rate case, Docket No. E-015/GR-16-664, and the proposed revenue requirement in this docket.

Table 3: Revenue Requirement Comparison of Prior Case to Current Proposal		
Financial Summary	<u>Authorized</u> Rate Case - Docket No. E-015/GR-16-664	<u>Proposed</u> Rate Case - Docket No. E-015/GR-19-442
Rate Base	\$2,048,922,116	\$2,072,019,738
Rate of Return	7.0639%	7.4737%
Return on Equity	9.25%	10.05%
Required Operating Income	\$144,733,809	\$154,856,539
Operating Revenue	\$830,078,860	\$769,275,330
Operating Expenses	\$687,712,950	\$663,219,144
AFUDC	\$2,367,898	\$1,841,234
Operating Income	\$144,733,808	\$107,897,420
Income Deficiency	-----	\$46,959,119
Conversion Factor	1.40335	1.40335
Revenue Deficiency	-----	\$65,900,080 ¹⁰

The proposed revenue increase of approximately \$65.9 million can be attributed to the following changes (expressed in revenue impact) since base rates were last increased in a rate case:

Increase in Rate Base	\$ 2.3 million
Decrease in Operating Income	\$ 51.7 million
Increase in Rate of Return	<u>\$ 11.9 million</u>
Total	\$ 65.9 million

The Company's requested increase when compared to its last filing shows a revenue deficiency primarily due to a decrease in net income. According to MP, the primary drivers of the revenue deficiency are a combination of declining sales coupled with cost inflation.¹¹

¹⁰ There is a slight rounding difference between the revenue deficiency shown here and the revenue deficiency of \$65,900,137 shown in MP's petition at Vol. 3 Required Filing Schedules, A. Jurisdictional Financial Summary Schedules.

¹¹ Frederickson Case Overview Direct, p. 20.

Below, Table 4 illustrates the overall revenue and expense changes by major accounts since the last rate case.

Table 4: Comparison of Prior Case Approved and Current Case Present Operations

	GR-16-664 Approved Rate	GR-19-442 2020 TY Present Rate	\$ Change	% Change
Total Operating Revenue	830,078,860	769,275,330	(60,803,530)	-7%
Utility Operating Expenses				
Production Expense	386,875,934	368,869,988	(18,005,946)	-5%
Transmission & Regional Mkt Exp.	47,345,228	52,775,626	5,430,398	11%
Distribution Expense	23,697,619	22,823,775	(873,844)	-4%
Customer Accounting	6,362,302	6,431,969	69,667	1%
Customer Credit Cards	350,000	179,791	(170,209)	-49%
Customer Service & Info.	2,746,697	1,108,320	(1,638,377)	-60%
CIP	10,447,625	10,630,973	183,348	2%
Admin & General	48,386,941	56,516,393	8,129,452	17%
Other (sales, bank fee, charity)	1,506,238	2,124,130	617,892	41%
Depreciation Expense	123,591,686	126,748,745	3,157,059	3%
Amortization Expense	4,217,942	11,222,217	7,004,275	166%
Taxes Other than Income	42,278,734	37,942,102	(4,336,632)	-10%
Income Taxes	(1,213,049)	(7,196,584)	(5,983,535)	493%
Deferred Income Taxes	(8,516,506)	(26,497,085)	(17,980,579)	211%
Less: Investment Tax Credit - feedback	(364,441)	(461,216)	(96,775)	27%
Less: AFUDC	<u>(2,367,898)</u>	<u>(1,841,234)</u>	<u>526,664</u>	-22%
Total Utility Expense net of AFUDC	685,345,052	661,377,910	(23,967,142)	-3%
Total Operating Income	144,733,808	107,897,420	(36,836,388)	-25%

B. Proposed Test Year Cost of Capital

The filing requirements regarding rate of return and cost of capital are found in Minnesota Rules, Part 7825.4200. These rules require the Company to provide:

- A. A rate of return cost of capital summary schedule showing the calculation of the weighted cost of capital using the proposed capital structure and the average capital structures for the most recent fiscal year and the projected fiscal year.

This information shall be provided for the unconsolidated parent and subsidiary corporations, or for the consolidated parent corporation.

B. Supporting schedules showing the calculation of the embedded cost of long-term debt, if any, and the embedded cost of preferred stock, if any, at the end of the most recent fiscal year and the projected fiscal year.

C. Schedule showing average short-term securities for the proposed test year, most recent fiscal year, and the projected fiscal year.

Minnesota Power complied with this rule by providing the information in Volume I, Interim Rates, Schedule D-6 (IR); Volume II, Cutshall Direct at Section I; Volume III, Direct Schedules D-1 through D-3; and Volume IV, Workpapers, COC-1.

In this case, Minnesota Power is requesting a rate of return on common equity of 10.05 percent and an overall weighted cost of capital of 7.47 percent. Minnesota Power's proposed test year capital structure and cost of capital is shown below:¹²

Table 5: Proposed Cost of Capital			
Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.1892%	4.4723%	2.0657%
Common Equity	53.8108%	10.0500%	5.4080%
Total (ROR)			7.4737%

C. Proposed Test Year Sales Forecast

In response to Commission Orders initially given on November 2, 2010 in MP's 2009 rate case, E-015/GR-09-1151, MP filed the data used in its test years sales forecast on September 27, 2019, which is more than 30 days in advance of its Rate Case filing of November 1, 2019. Benjamin Levine filed testimony in support of MP's Sales Forecast.

MP Sales forecasts are based on the methodology used in MP's 2018 Annual Electricity Forecast Report. MP used 2018 rather than 2019 because the 2019 report was not yet complete and available in time for use in the rate case. These forecasts by revenue class use economic, demographic, historical usage, and normalized weather data to project customer count, usage per customer, and total sales by customer class. Weather normalization is based on a 20 year (April 1998 to March 2018) historical average, consistent with recent Department practice. It is based on Heating Degree Day (HDD65) and Cooling Degree Day (CDD65) calculated from NOAA atmospheric observations at Duluth International Airport.

¹² Testimony of Patrick Cutshall, Vol. II at 2.

1. Customer Count Forecast

In the test year sales model, Minnesota Power expects to serve approximately 122,751 residential customers, 23,155 commercial customers, 374 industrial customers, and 989 governmental and lighting customers. In addition, 16 municipal utilities take resale delivery from MP, and Allete-sub subsidiary Superior Water Light and Power also takes resale delivery from MP, for a total of 147,268 retail customers, and 17 resale customers. Residential customer count growth has been relatively flat since 2009, with a growth rate of 1.1% per year prior to 2009, and 0.1% (approximately 140 customers) per year since 2009. Similarly, commercial customer counts have slowed from 2% per year prior to 2009 to 0.8% per year (or approximately 170 accounts per year) since 2009.

Minnesota Power separately tracks and created individualized forecasts for 9 mining customers (one of which is no longer in service), 6 paper mills (one out of service), two pipelines, and 14 large industrial customers (2 out of service), in addition to about 345 other smaller industrial customers which were forecast by modeling.

2. Sales Forecast

MP has projected test year 2020 total retail sales of 9,236,266 MWh, a reduction of 232,279 MWh from the 2017 test year. This reflects a generalized drop of usage across classes, with very large drops in the Paper and Pulp and Pipeline subgroups of the industrial class. The large drops in the paper mills reflects one closed mill, and two mills with lines shut down. The mining sector grew due to idling of a DG coal plant owned by one of the sites, partly offset by reductions at most of the other mines.

After rising 14% during the 2000-2007 period, residential usage was mostly flat from 2008-2014 before falling considerably in 2015 and 2016. The test year usage of 1,049,317 MWh for residential is about 0.3% (3500 MWh) lower than 2018, but is about 23,000 MWh higher than the 2015-2018 average. It is approximately half way between the 2008-2014 average and the lower 2015-2018 average.

Commercial usage per customer is down 8.7% from 2009 to 2018, with a significant downward trend of 2.4% per year from 2014 to 2017. Test year usage per customer is set slightly above the 2018 level. Combined with the slow growth of commercial customer count, the Commercial energy sales for the test year is forecast at 1,261,298 MWh.

The large industrial customers were modeled individually, in cooperation with each customer, taking into account both the customer's continuing operations, and national trends.

Customer Class	Customer Count	Energy Sales (MWh)	Energy Sales (%)
Residential	122,751	1,049,317	9.9%
Commercial	23,155	1,261,298	11.9%
Industrial			
Mining & Metals		5,205,159	49.1%
Paper & Pulp		1,004,987	9.5%
Pipelines		333,975	3.2%
Other Industrial		318,979	3.0%
Total Industrial	374	6,873,100	64.8%
Government & Light	989	61,552	0.6%
Total Retail	147,268	9,236,267	87.1%
Municipals	16	571,700	5.4%
SWLP	1	791,014	7.5%
Total Retail & Resale		10,598,981	100.0%

One mining customer, PolyMet, is projected to come on-line in 2022, but is not projected to use substantial amounts of power in the test year.

3. Initial Comments

No party identified any forecasting issues in initial comments.

4. Staff Comment

Staff reviewed MP's filing for completeness under the law and with respect to Commission orders in the 2009 and 2016 rate cases. Staff believes MP has met the forecasting filing requirements.

D. Class Cost of Service Studies ("CCOSS")

1. Rule Requirements

Minnesota Rules Part 7825.4300(c) requires a rate change request to include:

A cost of service study by customer class of service, by geographic area, or other categorization as deemed appropriate for the change in rates requested showing revenues, costs, and profitability for each class of service, geographic area, or other appropriate category, identifying the procedures and underlying rationale for cost and revenue allocations. Such study is appropriate whenever the utility proposes a change in rates which results in a material change to its rate structure.

¹³ Testimony of Levine, p. 3

2. Order Requirements

In the March 12, 2018 Order in Docket E-015/GR-16-664, the Commission ordered MP to:

1. Work with the Department, the OAG, and other interested parties to improve the transparency of the Company's future class cost of service study, and submit, within a 12 month deadline, a compliance filing explaining improvements that have been made to the Company's CCOSS and including the updated version of its CCOSS model and guide or, if not yet completed at the 12 month deadline, a timeline for completion and for future compliance filings.

And

2. The Company must file a status report within six months of this order, which will identify the Company's efforts to that date to facilitate review of its CCOSS model or adopt a new model. The parties must also consider the concerns raised by Commission staff.

On November 29, 2018, MP described its research and internal recommendation to replace its existing Excel-based CCOSS model with a new model that would improve efficiency, improve adaptability to new assumptions, and reduce input errors. On May 22, 2019, MP announced that it had selected UI Regulatory, a software package from Utilities International, to be implemented in time for its next (i.e. this) rate case. MP stated that this software is capable of exporting its model into an Excel model, and it had intended to demo this, but the model will not be ready to share until after November 1, 2019. MP did state that it intends to share the exportable model with stakeholders soon after its Initial Filing of its next (i.e. this) rate case.

In addition, the Commission's November 2, 2010 order in MP's second prior rate case – Docket E-015/GR-09-1151, established the following specific CCOSS Filing requirements for future MP Rate cases:

In future rate case filings, the Company shall conduct any Class Cost of Service Study (CCOSS) by calculating and assigning income taxes by class based on the adjusted net taxable income by class as determined by the CCOSS.

3. Compliance

Regarding the general requirement of Minn Rule 7825.4300(c), MP has fulfilled the requirement via filing of its CCOSS. Regarding the Income Tax requirement immediately above, MP has assigned its Income Tax based on adjusted net taxable income by class, as required.

With respect to the requirements around transparency of its CCOSS model, MP provided an explanation and guide to its CCOSS model and an explanation of its allocation decisions.

4. Comments

No party made any specific comment about the CCOS model regarding completeness.

5. Staff Comments

Staff believes MP's CCOS filings is complete.

E. Rate Design

The following summary provides an overview of some of the changes in rate design that MP proposes. It is not a complete catalog of MP's proposals. Attachment A contains a comparison of MP's average all-in prices, and the average customer bill by customer class to the US average.

1. Proposed Apportionment and Rate Increases

MP proposes an overall revenue increase of 10.59 percent (see Table 7). MP proposes a 10.35 percent increase in revenues from General Service, Large Light and Power, and Large Power, and it proposes a 15.00 percent increase in revenues from Residential customers.

Customer Class	Present Rate Revenue (\$)	CCOS Increase (%)	Proposed Final Rate Revenue (\$)	Proposed Increase (\$)	Proposed Increase (%)
(a)	(b)	(c)	(d)	(e)	(f)
Residential	103,025,631 <i>[16.56%]²</i>	35.64	118,479,476 <i>[17.22%]²</i>	15,453,845 <i>[23.45%]²</i>	15.00
General Service	72,516,553 <i>[11.66%]</i>	-0.10	80,021,103 <i>[11.63%]</i>	7,504,550 <i>[11.39%]</i>	10.35
Large Light & Power	107,097,891 <i>[17.22%]</i>	4.51	118,181,173 <i>[17.18%]</i>	11,083,282 <i>[16.82%]</i>	10.35
Large Power	325,538,419 <i>[52.33%]</i>	7.32	359,227,544 <i>[52.21%]</i>	33,689,125 <i>[51.12%]</i>	10.35
Lighting	3,509,312 <i>[0.56%]</i>	16.86	4,035,709 <i>[0.59%]</i>	526,397 <i>[0.80%]</i>	15.00
Duel Fuel – Resid.	8,201,260 <i>[1.32%]</i>	-	6,325,512 <i>[0.92%]</i>	-1,875,748 <i>[-2.85%]</i>	-22.87
Duel Fuel – Comm/Ind.	2,214,100 <i>[0.36%]</i>	-	1,732,786 <i>[0.25%]</i>	-481,134 <i>[-0.73%]</i>	-21.74
Total	622,103,166	10.59	688,003,303	65,900,137	10.59

¹ Source: Podratz Direct Testimony, Schedule 10.
² Italicized figures in square brackets, *[x.xx%]* indicate the contribution of the cell value to the column total.

2. Residential Energy Rates

MP proposes to transition from its current increasing, four-block, rate structure for all residential customers to a flat energy charge that includes a discount for eligible low-income customers. MP cites the complexity of overlaying the four-block rate with other rates such as its Residential TOD Service, Community Solar Garden, Electric Vehicle rates and future opportunities to encourage beneficial electrification.¹⁴ In Phase 1, the flat rate for all customers would be 12.181¢/kWh, however, customers with an annual average monthly energy usage of 1,200 kWh or less will be eligible for the 2.436¢/kWh discount on the first 400 kWh of monthly consumption (see Table 8). There is no low-income component for eligibility in Phase 1. In Phase 2 the flat rate for all customers would be 11.436¢/kWh. Only those customers (1) that have an annual average monthly energy usage of 1,200 kWh or less, AND (2) that are eligible for LIHEAP, or through self-certification, will receive the discount of 2.287¢/kWh for the first 400 kWh of monthly consumption. Phase 1 would begin when final rates are implemented, and Phase 2 would begin one year after final rates are implemented.

Current Use Block (kWh)	Current Rate (¢/kWh)	Proposed Phase 1		Proposed Phase 2	
		Rate (¢/kWh)	Discount (¢/kWh)	Rate (¢/kWh)	Discount (¢/kWh)
(a)	(b)	(c)	(d)	(e)	(f)
0 – 400	7.641	12.181	-2.436	11.436	-2.287
401 – 800	9.949		NA		NA
801 – 1,200	12.259		NA		NA
Over 1,200	14.760		NA		NA

¹ Source: Podratz Direct Testimony, Table 3, p. 77.

3. Monthly Fixed Charges

MP proposes changes to its Customer Charges as summarized in Table 9. MP proposes to redefine its Dual Fuel classes (Residential and Commercial/Industrial), splitting those classes into Large and Small. In like fashion, MP proposes to redefine its Controlled Access classes (Residential and Commercial), splitting those classes into Large and Small. MP also proposes modifications to its Lighting rates¹⁵ and its Large Power rates.¹⁶ With respect to Large Power, MP proposes to increase the Demand Charge, for the first 10,000 kW or less, from \$250,087 to \$273,180 and to increase the Demand Charge for all additional Firm Demand from \$24.96 to \$26.90 per kW per month.

¹⁴ Podratz Direct testimony, pp. 67-79.

¹⁵ See Volume 3, Schedule E-1, pp. 20-24 and Podratz Direct Testimony, pp. 99-102.

¹⁶ See Volume 3, Schedule E-1, pp. 26-46, Trade Secret and Podratz Direct Testimony, pp. 104-5.

MP proposes corresponding decreases to the Energy Rate:

... from 2.778¢ per kWh to 0.618¢ per kWh. This appears to be a significant reduction, but when the total LP base energy rate plus FPE costs that are moving out of base rates are considered, the overall proposed energy rate change is minimal. The total of the proposed Firm Energy charge of 0.618¢ per kWh plus 2.100¢ per kWh for 2020 test year average Large Power FPE cost to be included in a separate adjustment is 2.718¢ per kWh.¹⁷

With respect to Non-Contract Large Power, MP proposes to set the Demand Charges 20 percent higher than the Standard Demand Charges. MP also asks the Commission to treat Product A credits paid to participating Large Power customers like purchased power demand and allocate the credits accordingly.

Rate Class	Current Charge (\$)	Proposed Charge (\$)	Proposed Increase	
			(\$)	(%)
(a)	(b)	(c)	(d)	(e)
Residential Service	8.00	9.00	1.00	12.5
Seasonal Residential Service	10.00	12.00	2.00	20.0
Residential Dual Fuel (Small)	8.00	5.00	-3.00	-37.5
Residential Dual Fuel (Large)	-	15.00	15.00	-
Residential Controlled Access (Small)	8.00	5.00	-3.00	-37.5
Residential Controlled Access (Large)	-	15.00	15.00	-
Residential Electric Vehicle	4.25	4.25	0.00	0.0
Commercial/Industrial Dual Fuel (Small)	12.00	5.00	-7.00	-58.3
Commercial/Industrial Dual Fuel (Large)	-	15.00	15.00	-
Commercial Controlled Access (Small)	12.00	5.00	-7.00	-58.3
Commercial Controlled Access (Large)	-	15.00	15.00	-
General Service	12.00	14.00	2.00	16.7
Large Light & Power	1,200.00	1,325.00	125.00	10.4
Large Light & Power (School)	600.00	662.50	62.50	10.4
Large Light & Power (Time of Use)	1,200.00	1,325.00	125.00	10.4
Municipal Pumping	12.00	0.00	-12.00	-

¹ Source: Podratz Direct Testimony, pp. 74-99 and Schedule 18

4. Energy-Intensive Trade-Exposed (EITE) Rates

MP proposes cancellation of its EITE Rider at the end of the Rate Case. It does not seek any changes to the Rider although it seeks a procedural extension for several months so that the

¹⁷ Podratz Direct Testimony, p. 104.

Rider expires concurrent with the effective date of final rates in this Rate Case.¹⁸ MP made its request to cancel the Rider on October 7, 2019, in Docket 16-564. The Commission is currently taking comments on that request.

5. Extension Rules

MP is not proposing any rate changes for its Extension Rules. However, it seeks to clarify and modify some terms. Regarding Contributions, MP proposes to add language clarifying customers' Contributions for second service points: MP may place additional facilities at its expense only when needed for capacity. Otherwise, the customer would bear the cost of additional facilities.¹⁹ With respect to Developers of Residential Housing, MP seeks to delete the fixed allowance dollar amount and replace it with the term "the current residential allowance amount" to reduce confusion if the allowance changes due to changes required by overlapping dockets.²⁰ With respect to Reapportionment and Refunds, MP proposes to clarify that the Guaranteed Annual Revenues is not revisited after it is finalized by the customer.²¹

VII. Staff Analysis

A. Should this filing be accepted, and if so, as of what date?

1. Statutes, Rules, and Orders

Minnesota Statute §216B.16, Subdivision 1, requires a public utility to give the Commission a sixty-day notice prior to changing rates. The statute requires the notice to include:

... statements of facts, expert opinion, substantiating documents, and exhibits, supporting the change requested, and state the change proposed to be made in the rates then in force, and the time when the modified rates will go into effect.

Minnesota Rules, Parts 7825.3100 through 7825.4400, implement the above statute by setting out specific rate case filing requirements. Various parts of the Commission's rules of practice and procedure, Minnesota Rules, Chapter 7829, are also relevant.

¹⁸ Podratz Direct Testimony, p. 103.

¹⁹ Electric Rate Book, Volume 1, Section VI, p 4.1 (Volume 3 of Initial Filing) and Podratz Direct Testimony, pp. 107-8.

²⁰ Electric Rate Book, Volume 1, Section VI, p 4.3 (Volume 3 of Initial Filing) and Podratz Direct Testimony, pp. 107-8.

²¹ Electric Rate Book, Volume 1, Section VI, p 4.5 (Volume 3 of Initial Filing) and Podratz Direct Testimony, pp. 108-9.

2. Completeness and Date of Acceptance

Staff reviewed this filing for compliance under Minn. Stat. § 216B.16 and Minn. Rules 7825.3100 through 7825.4400. In Volume 1 of the Petition, Minnesota Power prepared a Completeness Checklist that lists rate case filing requirements that apply to the Company. The table describes the filing requirements and generally identifies the location in the Petition where each compliance item is addressed.

Staff thinks that the Company has made a good faith effort to comply and respond to the orders issued in the last rate case as well as other orders that have a bearing on this case. The Department expressed concerns that Schedule H information was filed as a web link as opposed to a pdf in the Company's initial filing. On November 7, 2019, MP filed Schedule H, as requested by the Department.

The Department concluded that the Commission could find that the application was substantially complete as of November 1, 2019 or as of the date Schedule H was filed, November 7, 2019. The Department appears to make no specific recommendation other than finding that the application was substantially complete as of either of the days. MP notes that no party was impeded in their ability to review the information, as the web link was active, and requests that the Commission find its application to be complete as of November 1, 2019.

Staff concurs with Minnesota Power and recommends that the Commission find that the Company's filing was substantially complete as of November 1, 2019.

B. If this filing is accepted, should the proposed rates be suspended, pursuant to Minn. Stat. §216B.16, subd. 2?

If the Commission accepts this filing, Staff recommends that the Commission suspend the proposed final rates to allow parties to investigate the reasonableness of the requested increase. Once rates are suspended, and while the Company's filing is investigated and parties are in litigation, statute provides for use of interim rates during the suspension period. These rates are subject to refund if they are higher than approved final rates.

The statutory deadline for the Commission to issue its final order in this matter is ten months from the date this filing was found to be substantially complete, pursuant to Minn. Stat. §216B.16, Subd. 2(a). If this case is accepted as of November 1, 2019, then the Commission's deadline for issuing an order would be September 1, 2020. However, the Commission has the authority to set a deadline up to ninety days later, pursuant to Minn. Stat. §216B.16, Subd. 2(f):

If the commission finds that it has insufficient time during the suspension period to make a final determination of a case involving changes in general rates because of the need to make a final determination of any pending case involving changes in general rates under this section or section 237.075, the commission may extend the suspension period to allow up to a total of 90 additional calendar days to make the final determination. An extension of the suspension period under this paragraph does not alter the setting of interim rates under subdivision 3.

There are several other rate cases currently pending. Dakota Electric (DEA) filed an electric rate case on September 10, 2019 (Docket E-111/GR-19-478). Great Plains (“GP”) filed a natural gas rate case on September 27, 2019 (Docket G-004/GR-19-511). Those cases have been referred to the Office of Administrative Hearings. CenterPoint Energy (“CenterPoint”) also filed a natural gas rate case on October 28, 2019 (Docket G-008/GR-19-524). The agenda meeting for CenterPoint’s hearing on completeness is scheduled for December 5, 2019.

In addition, Xcel Electric (“Xcel”) filed an electric rate case, on November 1, 2019, in Docket E-002/GR-19-564. Xcel requested a multiyear rate plan, which allows, pursuant to Minn. Stat. § 216B.16, Subd. 19(f), the Commission to add ninety additional days to process Xcel’s request. Thus, the Commission may extend the deadline in the Xcel rate case under both Minn. Stat. § 216B.16, Subd. 19(f) and Minn. Stat. § 216B.16, Subd. 2(f). In addition, Minn. Stat. § 216B.16, Subd. 1(a) allows, under certain circumstances, another 60 days for settlement negotiations. The Xcel case is scheduled to be heard on the matter of completeness on December 12, 2019.

Absent an extension of time, the final order in the instant case would be September 1, 2020, with much of that time overlapping the time period for other cases. Staff thinks extra time would allow for more flexible scheduling and more time for the Commission to make its decision. Moreover, because CenterPoint, MP, and Xcel filed rate cases in the same week, the resources for the Commission to process these filings simultaneously do not exist. Staff believes that in addition to the 90-day extension of the 10-month deadline permitted by statute, the Commission should request a waiver of the statutory deadline from MP until February 1, 2021, for the Commission to issue its final determination.

The Department, the OAG, and other parties who wish to participate in this case could also be disadvantaged, and the records in these cases may not be developed adequately by the parties, if the Commission does not extend the suspension period and MP does not offer a waiver of the statutory deadline. The Department and other interveners will need to simultaneously prepare testimony and participate in evidentiary hearings in the Minnesota Power case while preparing briefs, and participating in oral argument, and possibly work on reconsideration in the DEA, Great Plains, and CenterPoint rate cases.

Staff thinks that absent a ninety-day extension of time and an additional waiver of the deadline until February 1, 2021 for issuing the Commission’s Order in the Minnesota Power rate case, there might not be an adequate amount of time for the Commission to make determinations in the pending rate cases. Staff believes extra time in this proceeding will allow for more flexible scheduling and a more careful evaluation of the Company’s proposal.

C. If this filing is accepted, should this matter be referred to the Office of Administrative Hearings (“OAH”) for a contested case?

The Department, the OAG, and the LPI recommended the Commission refer this matter to the OAH for a contested case proceeding. The Commission is required to refer a rate case to the OAH for a contested case proceeding unless the Commission finds that all significant issues can be resolved to its satisfaction, pursuant to Minn. Stat. § 216B.16, subd. 2(b). Staff does not

think the Commission can make such a finding absent a fully developed record and recommends setting this matter for a contested case hearing.

The statutory deadline, pursuant to Minn. Stat. § 216B.16, subd. 2(a), for the parties, the ALJ and the Commission to complete their work on this matter is ten months from the date the Commission accepts this filing as substantially complete. If the Commission finds the filing substantially complete as of November 1, 2019, and suspends the proposed final rates for ten months, until September 1, 2020, then staff recommends the Commission request the ALJ's report by June 1, 2020. This is consistent with the Commission's recent practice of asking for the ALJ report at least three months prior to the Commission's statutory deadline for issuing its order. Staff thinks this is reasonable given the size and complexity of this case, and to ensure the Commission has sufficient time to consider this matter and issue its order within the ten-month statutory deadline.

If the Commission suspends final rates for a longer period, for example 90 days, staff recommends the Commission request the ALJ report by September 1, 2020, to allow three months before the final order is due. Moreover, in the event MP commits in writing to waive its right to a final determination on December 1, 2020, then Staff believes the Commission should request the ALJ's report on October 5, 2020. Staff understands that October 5th is the ALJ Report date that the Department is working with for scheduling purposes.

D. Interventions

CUB expressed concerns about the limitations placed on certain intervenors in MP's last rate case. CUB has requested that the Commission provide additional instruction as to the rules governing intervention. Staff notes that parties requesting intervenor status before a case is referred to the OAH fall under the Commission's intervention rules in the Commission's rules of practice and procedures, Minn. Rule 7829.0800. If there are no objections to the intervention, the intervenor becomes a party and remains a party after the case is referred to the OAH for a contested case proceeding.

Parties requesting to become intervenors after the case is referred to the OAH fall under the OAH rules of practice and procedure, Minn. Rule 1400.6200. The interventions CUB refers to in its comments occurred under Minn. Rule 1400.6200. It should be understood that under the OAH rules, parties that have been denied requests for intervention may file motions, under Minn. Rule 1400.6600 to ask the ALJ to send his or her decision to the Commission for review, pursuant to Minn. Rule 1400.7600 (Certification). The ALJ then decides whether the request merits certification, and, if so, whether the certification should occur right away or at the end of the case.

In any event, the Commission may wish to explicitly state its position on the record and note that parties requesting intervenor status should be considered from a view towards inclusivity, transparency, and completeness of the record, rather than limiting participation in the case in the interest of administrative efficiency.

E. Identification of issues of special interest or requiring additional, supplemental testimony

In its November 1, 2019 filing, Minnesota Power provided a “Commission Policy Statements” portion of its Completeness Checklist. That schedule includes a list of information required under Commission Policies and Orders and identifies where in Minnesota Power’s pre-filed testimony these issues are addressed. The Commission may want to include a general request that parties thoroughly review issues identified in the Commission’s past orders. If the Commission wants to give special emphasis to any of these particular requirements, it could do so at this time.

The Commission may also want to include in its Notice and Order for Hearing, a request that parties thoroughly address and develop (in addition to the standard rate case issues) a complete record (e.g. in testimony, at hearing, and if applicable, in settlement documents) on the following issues noted and any additional issues the Commission may identify.

1. The OAG’s comments noted that a utility making an interim rate refund generally does so at a lower cost of debt (prime rate) than any standard form of debt or capital. Therefore, the OAG recommended that the Commission order MP to refund any amounts related to the interim rate refund at the Company’s overall rate of return.
2. In its 2018 Safety, Service Quality, and Reliability Report, Minnesota Power continued to experience SAIDI and SAIFI numbers that exceeded its Commission set goals, as has been the case since 2015. During the same time period, Minnesota Power’s staffing levels for distribution lines has declined over 8%. To gain a better understanding of MP’s reliability investments, the Commission may want to ask the ALJ and parties examine Minnesota Power’s distribution budget and other affiliated areas with a focus on spending and practices that impact reliability.
3. The Department requested that the following issues be developed further in the record:
 - a) Is the test year revenue increase sought by the Company reasonable, or will it result in unreasonable and excessive earnings?
 - b) Is the rate design proposed by the Company reasonable?
 - c) Are the Company’s proposed capital structure, cost of capital, and return on equity reasonable?
 - d) Did the Company demonstrate that its proposed base rates appropriately exclude Fuel Clause Adjustment-related costs, as required by the Commission’s November 5, 2019 Order in Docket No. E999/CI-03-802?
 - e) Was it appropriate for MP to exclude 4 months of the Large Market Contract from the test year? Has MP properly accounted for any possible replacement revenues?

F. If this filing is accepted, should interim rates be set as requested by the Company?

Minnesota Power proposed an interim revenue deficiency of approximately \$47.9 million or 7.70% based on the 9.25percent ROE approved in MP's 2016 rate case. Minnesota Power requested that interim rates be made effective for service rendered on and after January 1, 2020, subject to refund pending final Commission action on the general rate increase application.

1. Interim Rate Statute

Minn. Stat. § 216B.16, subd. 3, states in part that:

(a) Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The Commission shall order the interim rate schedule ex parte without a public hearing. ... [and]

(b) Unless the Commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding; (2) rate base or expense items the same in nature and kind as those allowed by a currently effective order of the commission in the utility's most recent rate proceeding; and (3) no change in the existing rate design...

2. Ex Parte

As noted above, Minnesota Power argued that under Minnesota law, interim rates are to be set by the Commission without the input of other parties. MP specifically cited Minn. Stat. § 216B.16, subd. 3(a):

Notwithstanding any order of suspension of a proposed increase in rates, the commission shall order an interim rate schedule into effect not later than 60 days after the initial filing date. The commission shall order the interim rate schedule ex parte without a public hearing.

MP argued that an ex parte proceeding means that the Commission may not hear or rely on arguments propounded by potential parties to the proceeding. It stated that the OAG's, Department's, and LPI's filed comments, as well as any oral arguments they or any other party may attempt to make at the Commission meeting, contravene this explicit ex parte statutory requirement. Minnesota Power argued that the purpose of this statutory requirement is to allow the Commission to set interim rates based on an established formula, subject to refund with interest.

Staff notes that this argument was raised in MP's last general rate case, docket no. 16-664. Minn. Rule 7845.7400, subpart 4 explicitly contemplates receiving ex parte communications with a "party or participant in the setting of interim rates." The rules do not seem to preclude the Commission from considering the comments made by parties other than the petitioning utility and in previous rate cases, the Commission has considered the comments filed when making a determination on interim rates.

3. Effective Date for Interim Rates

If the Commission accepts Minnesota Power's filing as substantially complete as of November 1, 2019, and suspends the proposed final rates, then the Commission must order interim rates into effect within 60 days, i.e. no later than December 31, 2019, pursuant to Minn. Stat. § 216B.16, subd. 3(a).

If the Commission accepts Minnesota Power's filing as substantially complete as of November 7, 2019, and suspends the proposed final rates, then the Commission must order interim rates into effect no later than January 7, 2020.

4. Financial Matters

Minnesota Power proposed an interim rate increase, subject to refund, of approximately \$47.9 million based on the following revenue summary:

Rate Base	\$2,022,056,424
Rate of Return	7.0432%
Required Operating Income	\$142,417,478
Net Operating Income	\$108,280,730
Income Deficiency	\$34,136,749
Revenue Conversion Factor	1.40335
Revenue Deficiency	\$47,905,847

The interim rate request is approximately \$18 million lower than Minnesota Power's \$65.9 million general rate case increase request. This difference is primarily attributable to two factors:

- a decrease of \$5.24 million due to a lower rate base for interim rates. The lower rate base is primarily attributed to the removal of a proposed prepaid pension asset and related accumulated deferred income taxes; and
- a decrease of \$12.22 million due to the decrease in the rate of return, which is attributable to the return on equity (ROE) variance from MP's use of the current Commission authorized ROE of 9.25% instead of the requested ROE of 10.05%.

The Department, OAG, and LPI objected to the inclusion of MP's adjustments for its Large Market Wholesale Contract in the determination of interim rates.

a. Department

The Department noted that MP removed four months' worth of asset-based margins and related accumulated deferred income taxes from the test year for a contract that ends on April 30, 2020, four months into the 2020 test year. The Department "believes that interim rates should reflect the status quo and not include MP's adjustments for its Large Market Wholesale Contract, which increases the Company's revenue requirements and interim rate request, prior to all parties having an opportunity to review these adjustments."

The Department recommended that the Commission deny MP's proposed adjustments to interim rates for this contract that ends on April 30, 2020, of approximately \$8.5 million on a revenue requirement basis.²²

[Staff note: Staff believes the Department did not gross up the income statement impact for income taxes and staff has calculated the amount of the adjustments on a revenue requirement basis, Minnesota jurisdiction as approximately \$11.7 million (before changes in allocation and cash working capital), rather than the \$8.5 million calculated by the Department.]

b. LPI

LPI stated that "it is unreasonable to assume for the purpose of setting interim rates that the revenue associated with the BEPC Contract will cease on January 1, 2020, when Minnesota Power will in fact continue to collect revenues under the agreement until April 30, 2020."

LPI requested that MP provide the following information in its reply comment for parties and the Commission to review:

- Detailed factual and record explanation for allowing the proposed Large Market Contract (LMC) adjustment, including but not limited to the timing and interaction of wholesale contracts ending and beginning during the test year in Minnesota Power's 2009 Rate Case;
- Detailed legal justification addressing how the proposed LMC adjustment complies with Minnesota law governing interim rates; and
- A revised interim rate calculation excluding the proposed LMC adjustment.

c. OAG

In reply comments, the OAG agreed with the Department and LPI that MP improperly excluded certain wholesale revenues in calculating interim rates. According to the OAG, "The

²² Department Comments, p. 4.

Commission should require Minnesota Power to credit ratepayers with this known revenue for purposes of interim rates.” The OAG stated:²³

Minnesota Statutes section 216B.16, subdivision 3(b) (“the interim-rate statute”), requires that interim rates include rate-base and expense items of the same nature and kind as those reflected in current rates. There are good policy reasons for this requirement—the Commission sets interim rates without the benefit of a fully developed record or a meaningful opportunity for ratepayer advocates to investigate claimed costs. Accordingly, when a utility seeks to recover a new category of cost, that new expense is not permitted to be included in rates until it has been fully vetted through the contested-case process.

In ratemaking, removing a source of revenue is functionally the same as including a new expense category. Therefore, when a utility proposes to remove a source of revenue from current rates, ratepayers are entitled to have that revenue loss carefully scrutinized through the rate-case process before the change is reflected in rates, just as they would with an entirely new expense. This is especially true for a revenue item as large as the Basin wholesale contract. Basin contract revenue is included in Minnesota Power’s current rates. Thus, to reflect items of the same nature and kind as current rates, interim rates should include, at minimum, the known revenue from the contract that will accrue through the end of April 2020. [Footnotes omitted.]

The OAG further recommended, “if the Commission does not require the Company to include the Basin contract revenue in interim rates, the OAG would continue to recommend a \$3.7 million reduction based on exigent circumstances.”

d. MP Response

Minnesota Power requested that the Commission set interim rates as the Company proposed, on an ex parte basis without consideration of the comments on MP’s interim rate petition. Additionally, MP stated that “Minn. Stat. § 216B.16, subd. 3(b) requires the Commission to establish interim rates pursuant to the specific formula set forth in that statutory subdivision, unless exigent circumstances exist.” MP argued that MP’s interim rate request follows the statutory formula and “neither the Department nor LPI suggest that exigent circumstances exist to justify their proposed reductions.”

MP provided additional detail about the expiration of the LMC and the efforts the Company has made to estimate replacement sales.²⁴

...Minnesota Power already included a description and available data on replacement sales in its total asset-based wholesale margin estimate for the 2020

²³ OAG Reply Comments, pp. 1-2.

²⁴ MP Reply Comments, filed November 18, 2019, page 5

test year. As explained in Direct Testimony submitted by Company witness Julie I. Pierce, Minnesota Power's test year assumptions included three ongoing bilateral contracts, along with an estimate for MISO market sales determined using an RTSim production cost model. Thus, Minnesota Power did not simply remove the LMC, but rather also included replacement sales that could be achieved once the LMC expired and additional surplus generation was available to sell to determine its total estimated asset-based wholesale margin for the 2020 test year.

In estimating these asset-based wholesale sales, Minnesota Power also took into account changes in the Company's generation portfolio since 2010 that impact both the amount of surplus generation available for wholesale transactions and the sale price for the test year transactions. Ms. Pierce explained that as part of Minnesota Power's Energy Forward strategy, its generation portfolio has shifted to rely more on renewable generation sources (primarily wind generation) and less on thermal generation. This shift has decreased the amount of surplus generation Minnesota Power has available to make both bilateral contract sales and MISO market sales. At the same time, the increase in wind generation across the MISO footprint has also impacted MISO market pricing, in that MISO prices are generally lower when wind generation output is at its highest levels – when Minnesota Power has surplus generation – and higher when wind generation output is at its lowest levels and Minnesota Power does not have surplus generation to sell. Specifically, as noted by Ms. Pierce, “in 2018 on-peak market prices were 17 percent higher than the average in low wind periods and 19 percent lower than average in the high wind periods.” As a result, Minnesota Power's projected asset-based wholesale sale margins for the 2020 test year already include reasonable assumptions about the amount and revenue offsetting the expiration of the LMC.

Additionally, the Company noted that, at this point in the proceeding, the record is thin and argues that further development on this issue belongs in the general rate proceeding. The Company believes the Department's assertions are merely speculative.

5. Cost of Capital

Minn. Stat. § 216B.16, subd. 3(b), provides among other things, that unless “the commission finds that exigent circumstances exist, the interim rate schedule shall be calculated using the proposed test year cost of capital, rate base, and expenses, except that it shall include: (1) a rate of return on common equity for the utility equal to that authorized by the commission in the utility's most recent rate proceeding. . . .”

Minnesota Power's proposed test year cost of capital is:

Table 11: Proposed Cost of Capital			
Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.1892%	4.4723%	2.0657%
Common Equity	53.8108%	10.0500%	5.4080%
Total (ROR)			7.4737%

In its most recent rate case Minnesota Power was authorized a rate of return of 7.0639% based on the following:²⁵

Table 12: Most Recent Authorized Cost of Capital			
Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.1892%	4.5170%	2.0864%
Common Equity	53.8108%	9.2500%	4.9775%
Total (ROR)			7.0639%

The Company is proposing an interim cost of capital of 7.0432% based on the following:²⁶

Table 13: Proposed Interim Cost of Capital			
Component	Percent of Total	Cost Rate	Weighted Cost
Long-Term Debt	46.1892%	4.4723%	2.0657%
Common Equity	53.8108%	9.2500%	4.9775%
Total (ROR)			7.0432%

The Company's proposed cost of capital for interim rates follows the statutorily prescribed method for calculating the interim cost of capital.

6. Exigent Circumstances

As detailed above, the Department, LPI, and the OAG recommended that the Commission require MP to reflect in its interim revenue requirement four months' worth of revenue from the Basin wholesale contract. If the Commission does not require the Company to include the Basin contract revenue in interim rates, the OAG recommends a \$3.7 million reduction based on exigent circumstances.

MP opposed the recommendations, arguing that the recommendations would ignore the statutory obligation to set interim rates and would not ensure just and reasonable rates. MP notes that "exigent circumstances" require a finding of emergency or some kind of urgency, and neither request made by the OAG, LPI, or the Department rises to that level. MP argues

²⁵ *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-16-664, Findings of Fact, Conclusions, and Order at 109 (March 12, 2018)

²⁶ Volume I, Interim Rates, Schedule D-6 (IR).

that any adjustment to the LMC can be litigated in the rate case and returned to rate payers through the interim rate refund, if applicable, but no remedy exists if the amount is removed from interim rates without proper record development.

Staff offers the following discussion to provide some historical background and perspective to the interim rate statute and the issues presented in the comments and replies. Staff recognizes this matter involves a significant amount of legal interpretation and will attempt to avoid that area but provides the following from the Minnesota Supreme Court.

a. Supreme Court of Minnesota Decision Upholding the Commission’s Authority to Find Exigent Circumstances in Setting Interim Rates In a General Rate Case

On September 18, 2013, the Supreme Court of Minnesota issued its decision upholding the Commission’s authority to find exigent circumstances in setting interim rates in a general rate case, pursuant to Minn. Stat. § 216B.16, subd. 3(b), when the Commission clearly identifies and explains the factors that caused the exigent (i.e. urgent) circumstances and the Commission’s determination is supported by substantial record evidence. [Supreme Court of Minnesota, In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota, Case No. A11-0352]

In its September 18, 2013 ruling, the Supreme Court defined exigent circumstances as follows and stated that the existence of exigent circumstances is a factual determination for the Commission to make as part of its interim rate making function using the substantial evidence test.

“Exigent circumstances” is defined as “[a] situation that demands unusual or immediate action and that may allow people to circumvent usual procedures.” Similarly, dictionary definitions of exigent include “[r]equiring immediate action” and “[r]equiring immediate aid or action.” Our case law is consistent with these definitions. We have said that the term “ ‘exigent’ bespeaks urgency or emergency.” (holding that the utility’s proposed rate increase to only one service class “hardly suggests a pressing need of the type which would justify abandoning the statutory plan for interim rates and taking extraordinary action”).

The Supreme Court also said that

Although the Commission is not bound by the statutory formula in determining whether exigent circumstances exist, general principles in chapter 216B constrain the Commission’s discretion. The statute requires that “[e]very rate made, demanded, or received by any public utility . . . shall be just and reasonable.” Minn. Stat. § 216B.03 (2012). Further, the statute requires that the Commission give “due consideration to the public need for adequate, efficient, and reasonable service and to the need of the public utility for revenue sufficient to enable it to meet the cost of furnishing the service . . . and to earn a fair and reasonable return.” Minn. Stat. § 216B.16, subd. 6. Finally, “[a]ny doubt as to reasonableness

should be resolved in favor of the consumer.” Minn. Stat. § 216B.03. All of these principles operate to constrain the Commission’s decision-making.

The Supreme Court also said

Minnesota Statutes § 216B.09, subd. 1, requiring the Commission to fix just and reasonable rates, and Minn. Stat. § 216B.16, subd. 3(b), requiring the Commission to determine whether exigent circumstances exist, mandate not only that the Commission identify the factors that impact the setting of rates and the question of exigency, but also that the Commission determine how those factors impact utility companies and ratepayers and, consequently, how those factors affect the decision on what is a just and reasonable rate. The Commission is also required to balance Minnesota Power’s right to recoup its cost of service and earn a fair rate of return with the public interest in affordable utilities. It is determining the impact of the factors and balancing the competing interests of the utility and the public that require application of the Commission’s experience and technical knowledge of the utility industry, not merely the identification of the factors themselves as suggested by the dissent.

Because the question of exigency in this context calls for application of the Commission’s expertise to a primarily factual determination, we accord judicial deference to the Commission’s determination of whether the statutory exigency standard has been met. ...

... And while it is possible that the factors cited by the Commission, if considered alone, would not constitute exigent circumstances, the Commission’s determination that these circumstances, when considered together, created an urgent situation satisfies the substantial evidence standard. The Commission adequately explained its determination that exigent circumstances existed and that determination is reasonable based on an examination of the record as a whole. ...

The Supreme Court also said that

In determining what factors are properly considered by the Commission, we defer to the “analytical approach” chosen by the agency as “a matter for the agency’s expertise.” Judicial deference allows the agency to give effect to the “the thrust of the statute,” which “is a balancing of interests.” ... the Commission here balanced the equities between Minnesota Power and its customers during the economic downturn, cited specific economic concerns, and considered the Legislature’s intent to protect consumers in setting a fair and reasonable interim rate. The Commission specifically recognized that there were two sides to the “exigent circumstances equation” and noted both “the impact of the proposed rate increase on ratepayers” and “the impact on [Minnesota Power] of reducing its interim rates request.” ... the Commission here relied on the evidence submitted by its staff and applied its “technical expertise developed . . . in the

exercise of legislatively delegated duties and powers to protect the public interest” from the likely impact of an excessive interim rate increase.

Considering the record as a whole, we conclude that substantial evidence supports the Commission’s interim rate decision. The record reflects that the Commission considered the evidence contained in Minnesota Power’s rate change filing, the record of Minnesota Power’s previous rate change cases, and the information presented in the public comments regarding the impact of an interim rate increase on Minnesota Power’s customers. Additionally, the Commission balanced the harmful impact of the economic downturn on both Minnesota Power and its ratepayers by adjusting the interim rate increase to make it consistent with the final rate increase Minnesota Power received in its previous two cases. In doing so, the Commission attempted to avoid an excessive burden on the ratepayers while still considering Minnesota Power’s right to charge rates that are sufficient to cover its cost of service and a reasonable rate of return. And, as is directed by the statute, the Commission ultimately placed greater weight on the potentially harmful effect to the consumer of a large rate increase and set the interim rate accordingly. See Minn. Stat. § 216B.03 (instructing the Commission to resolve “[a]ny doubt as to reasonableness . . . in favor of the consumer”).

b. Staff Comment on Exigent Circumstances in the Instant Petition

As noted above, a finding of exigent circumstances means that the Commission has found a situation that demands unusual or immediate action. Staff does not believe an averaging of recent rate cases constitutes a need for an urgent remedy. The Commission previously rejected similar arguments in other rate cases, most notably, in MP’s previous rate case. The Commission also may wish to consider whether the potential harm to either the utility or the public gives rise to a finding of exigent circumstances when considering the LMC adjustment.

7. Methods and Procedure for Refunding

Pursuant to Minn. Stat. §216B.16, subd. 3, Minnesota Power’s filing contains Minnesota Power’s Agreement and Undertaking of Refund. It states that the Company agrees and undertakes to refund to its customers the amount collected in excess of final authorized rates, if any collected during the interim rate period, plus interest at the current rate determined by the Commission, computed from the effective date of the interim rates through the date of refund.

VIII. Public Hearings

The date, time, and location of the public hearings is typically discussed and decided proximate to the pre-hearing conference by the Administrative Law Judge, in consultation with the Company, parties, and the Commission. A formal Commission decision on this point is not needed for the purpose of issuing the Commission's orders at this time.

However, some direction from the Commission on the appropriate number and/or location of public hearings to recommend to the ALJ would be welcome.

The following table summarizes the past public hearing locations and overall attendance information from Minnesota Power's last rate cases:

	2008	2009	2017
Public Hearing Locations	Eveleth Duluth Grand Rapids Little Falls	Eveleth Duluth Grand Rapids Little Falls	Eveleth Duluth Grand Rapids Little Falls
Public Hearing - Estimated Attendance	225	110	111

Staff recommends the Commission continue to hold hearings in the same locations. Any additional direction from the Commission on the appropriate number and location of public hearings to recommend to the ALJ would be welcome.

IX. Administrative and Compliance Issues

The Commission's practice in most rate cases has been to require: a) notice to municipalities and counties of the proposed rate change, b) public hearings at locations within the company's service area, and c) notice of evidentiary and public hearings.

The decision alternatives contain ordering language that is similar to the language used in notice and orders for hearing in previous general rate proceedings. Staff recommends that this language be incorporated into the Commission's decisions in this docket. General rate case notice requirements can be found in Minn. Stat. § 216B.16, subd. 1, and Minn. Rules, Part 7829.2400, subparts 3 and 7.

The Commission's practice has also been to require interim rate compliance filings. These filings typically include tariff sheets with supporting documents, and a Commission-approved notice to customers of the interim rate increase. Companies are also required to keep records of their sales and collections to support any potential interim rate refund obligation. The decision alternatives contain language typical of the language used in previous Commission Orders authorizing interim rates.

Staff recommends the Commission require all of the listed *Administrative and Compliance* decision alternatives.

Regarding the *Approval of Notices and Customer Bill Inserts* decision alternative, customer notices are generally administrative items that are negotiated between Commission staff and the utility. Staff has been working with the Company to finalize these notices prior to issuance. Authority to approve notices is usually delegated to the Commission's Executive Secretary for the duration of the proceeding. Staff recommends continuing that practice here.

X. Decision Alternatives

Acceptance

1. Accept this filing as being in proper form and substantially complete as of November 1, 2019; or
2. Accept this filing as being in proper form and substantially complete as of November 7, 2019; or
3. Reject this filing as not being in proper form and/or not being substantially complete.

If this filing is accepted as being in proper form and substantially complete as of a certain date, the Commission should also decide the following:

Suspension of Proposed Final Rates

4. Suspend the proposed final rates until the Commission makes its final determination in this matter by the 10-month statutory deadline of September 1, 2020; or
5. Find the Commission has insufficient time to make a final determination within a 10-month period because of the need to make a final determination in other pending cases involving changes in general rates. Find that the rates in this case should be suspended for an additional ninety days plus two months, until February 1, 2021, conditioned on MP agreeing to waive its right to a decision within the statutory timeframe, or
6. Do not suspend the proposed rates.

If the Commission suspends the proposed final rate, then the Commission should also decide the remaining items:

Referral of this Matter to the Office of Administrative Hearings for a Contested Case Proceeding

7. Request the ALJ's report within seven months of the filing's completeness date (e.g., on or before June 1, 2020 if Commission adopts alternative 4). If the statutory deadline for the Commission's decision is extended beyond the normal ten months at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.), request the ALJ's report at least three months before the extended deadline for the Commission's decision.
8. Request the ALJ's report on or before October 5, 2020 if the Commission adopts alternative 5 above. If the deadline for the Commission's decision is extended beyond ten months plus ninety days and two months at any point during this proceeding for any reason (e.g. settlement discussions, waiver, etc.) request the ALJ's report at least three months before the extended deadline for the Commission's decision.
9. Identify issues requiring development of a complete record in this case:
 - a. The standard rate case issues;²⁷
 - b. The OAG's request to require MP to refund excess interim rates at the Company's overall rate of return, if applicable,
 - c. An examination of Minnesota Power's distribution budget and other affiliated areas with a focus on spending and practices that impact reliability,
 - d. A review of MP's proposed base rates to ensure Fuel Clause Adjustment-related costs are properly excluded, **and**
 - e. An examination of whether it was appropriate to exclude four months of the Large Market Contract (Basin) from the test year and whether MP properly accounted for any possible replacement revenues.

²⁷ The standard rate case issues are: 1) Is the test year revenue increase sought by the Company reasonable or will it result in unreasonable and excessive earnings by the Company? 2) Is the rate design proposed by the Company reasonable? and 3) Are the Company's proposed capital structure and return on equity reasonable? Notice and Order for Hearing, In the Matter of the Application of Minnegasco, a Division of NorAm Energy Company, for Authority to Increase Natural Gas Rates in Minnesota, Docket No. G-008/GR-95-700, p. 3, October 4, 1995.

Effective Date for Interim Rates

10. Authorize Minnesota Power to implement interim rates for service rendered on and after December 31, 2019 (sixty days after Minnesota Power's November 1, 2019 filing date), **and**
11. Authorize Minnesota Power to waive its right under the interim rate statute to put interim rates into effect on December 31, 2019 and authorize Minnesota Power to implement interim rates for service rendered on and after January 1, 2020.
12. Authorize Minnesota Power to implement interim rates for service rendered on and after a different date, should the Commission find any filing completeness/acceptance issues exist which allows such modification.

Comments on Interim Rates

13. Accept comments made by intervening parties on the topic of interim rates and consider those comments when making a determination on all interim rate issues.
14. Reject the comments made by intervening parties on the topic of interim rates and set interim rates on an ex-parte basis as requested by the Company.

Interim Rates (Financial Matters)

15. Approve Minnesota Power's proposed interim revenue deficiency of approximately \$47.9 million, or approximately 7.70 percent. (MP)
16. Require Minnesota Power to remove the Basin Large Market Contract adjustment from its interim rate request. (Department, OAG, LPI)
17. Find that exigent circumstances exist and cap Minnesota Power's interim rate increase at 67 percent of its request, thereby reducing the Company's interim revenue deficiency by approximately \$3.7 million. (OAG, if Decision Alternative 16 is not adopted)

Financial Schedules

If the Commission makes any changes to MP's interim rate proposal in the financial matters section, then:

18. Direct Minnesota Power to file revised financial schedules and calculations (interim rate base, income statement, cost of capital, and revenue summary) and class revenue schedules reflecting the Commission's modifications within five calendar days of this meeting.

Interim Rates (Capital Structure & Cost of Capital)

19. Approve Minnesota Power's proposed interim cost of capital for setting interim rates.
20. Determine that exigent circumstances exist and adopt some other capital structure and component costs for setting interim rates.

Interim Rates (Rate Design)

21. Approve Minnesota Power's request to collect the approved interim rate increase as proposed.
22. Deny MP's request to exempt Large Power Incremental Production Service (IPS), Economy/Non-firm service, Replacement Firm Power Service (RFPS), and Pool-within-Pool Service from the interim rate adjustment.
23. Determine that a different interim rate design is appropriate.

Minnesota Power's Base Cost of Energy Filing (E-015/MR-19-443)

24. Accept the Department's Comments and recommendations filed November 25, 2019 in Docket No. E-015/MR-19-443.

Administrative & Compliance Issues

25. In the Notice and Order for Hearing, require the following:
 - i. This Order will be served on the Company, which shall mail copies of the Order to all municipalities, counties, and local governing bodies in its Minnesota service area.
 - ii. Public Hearings shall be held in this matter at locations within the service area of the Company.
 - iii. The Company shall give the following notices of the evidentiary and public hearings:

1. Individual written notice to each customer, which may be in the form of a bill insert, and shall be served at least ten days before the first day of hearings;
2. Written notice to the governing bodies of all municipalities, counties, and local governing bodies in the area affected and to all parties in the Company's last two rate cases. These notices shall be mailed at least ten days before the first day of hearings.
3. Display advertisements in legal newspapers of affected counties and other newspapers of general circulation within the Company's Minnesota service area. These advertisements shall appear at least ten days before the first day of hearings. They shall include the heading **RATE INCREASE NOTICE**, which shall appear in bold face type no smaller than 30 points.
4. The Company shall submit proposed notices for Commission approval prior to publication or service.

And

26. In the Order Setting Interim Rate require the following:

- i. Order the Company to file with the Commission and the Department of Commerce-Division of Energy Resources interim rate tariff sheets and supporting documentation reflecting the decisions herein. The Company's filing should also include the notice to customers, approved by the Executive Secretary, regarding the rate change under the interim rate schedule;
- ii. Order the Company to keep such records of sales and collections under interim rates as would be necessary to compute a potential refund. Any refund should be made within 120 days of the effective date of the Commission's final order in a manner approved by the Commission;
- iii. Order the Company to include with each customer's first bill under the interim rate schedule a notice of the rate change, approved by the Executive Secretary. Upon completion of this task, the Company shall certify this fact to the Commission;
- iv. Require Minnesota Power to maintain records of Conservation Improvement Program ("CIP") costs and collection through the interim period so that it can be ascertained that recoveries dedicated to CIP are properly recorded as CIP.

Approval of Notices and Customer Bill Inserts

27. Delegate authority to approve notices, bill inserts, and bill format to the Commission's Executive Secretary for the duration of this proceeding.
28. Do not delegate authority to the Commission's Executive Secretary.

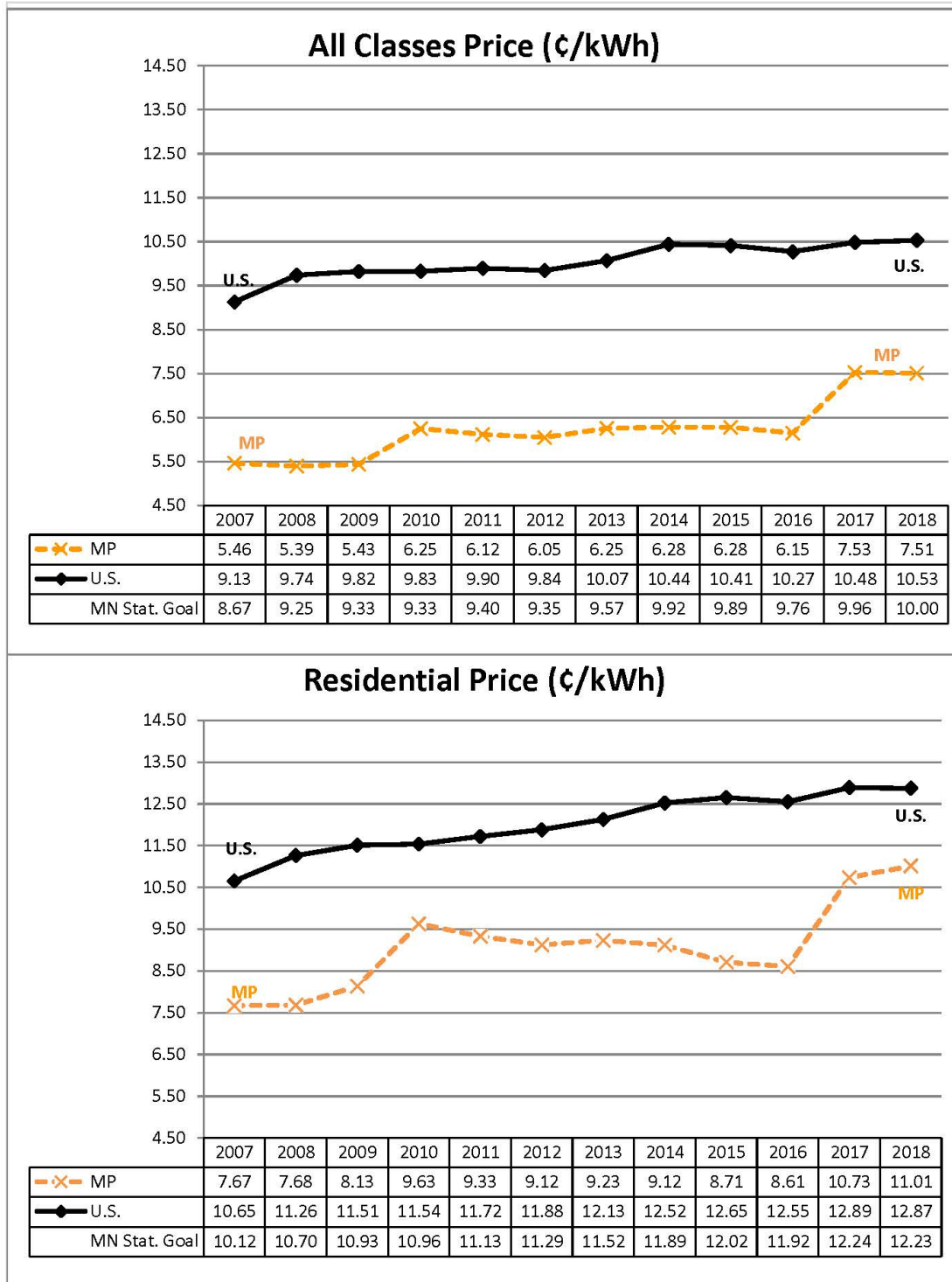
XI. Concluding Comments and Staff Recommendation

If the Commission accepts this filing as substantially complete, the Commission should also suspend the proposed final rates, set this matter for contested case hearing, and request the ALJ's report and recommendation within a sufficient amount of time for the Commission to issue its order before the statutory deadline.

With respect to the interim rate design issues, Staff recommends the Commission approve Minnesota Power's proposal, as adjusted if necessary, to reflect the appropriate interim rate revenue deficiency. Staff also recommends all of the administrative and compliance items listed under alternative 25 and 26 and recommends the Commission delegate to the Commission's Executive Secretary authority to approve notices and customer bill inserts for the duration of this proceeding 27.

Minnesota Power Compared to U.S. Average

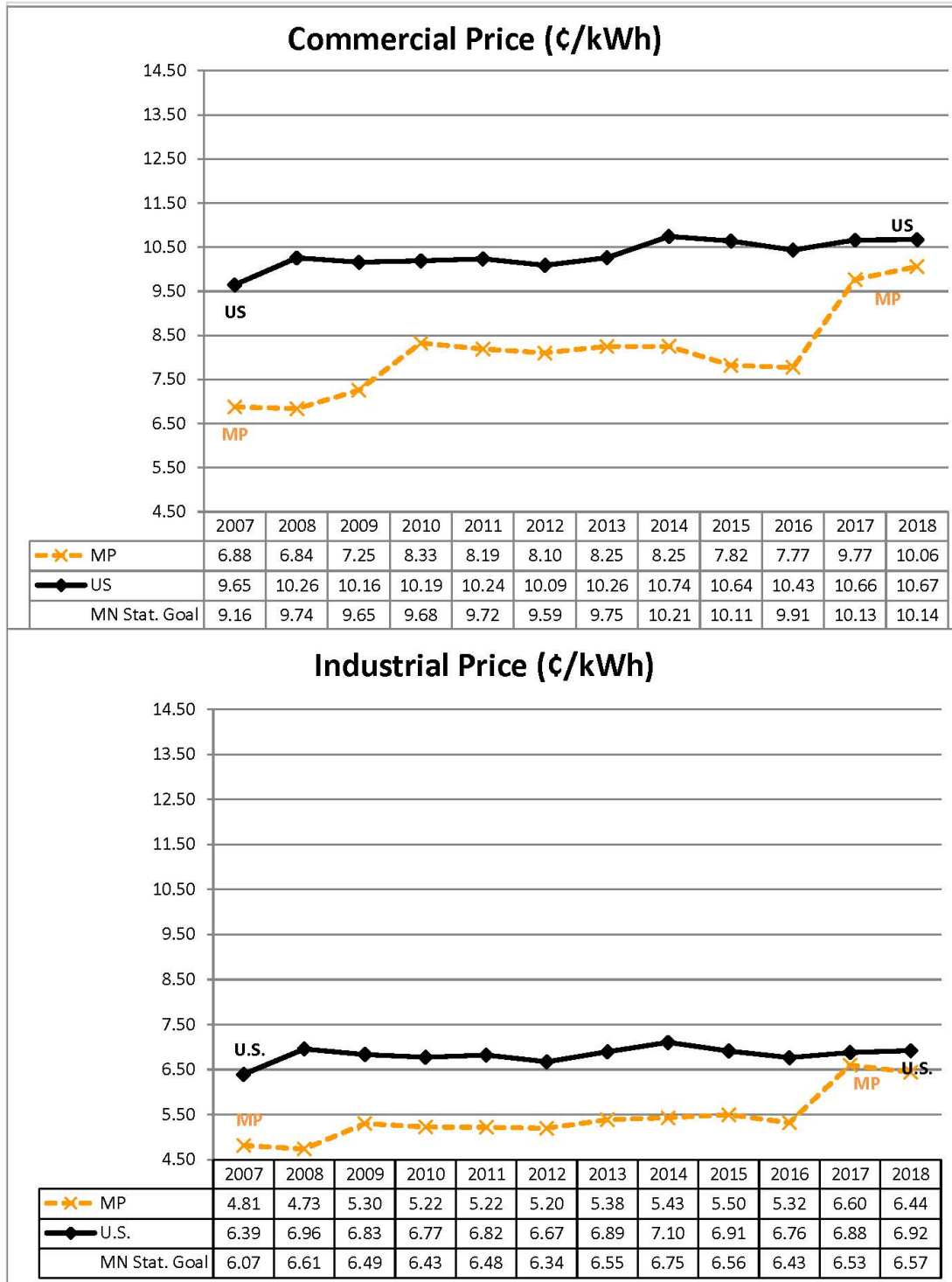
Attachment A, p. 1 of 4



Sources: U.S. average prices are from EIA, utility company's prices are from its Rule 7610 Annual Filings

Minnesota Power Compared to U.S. Average

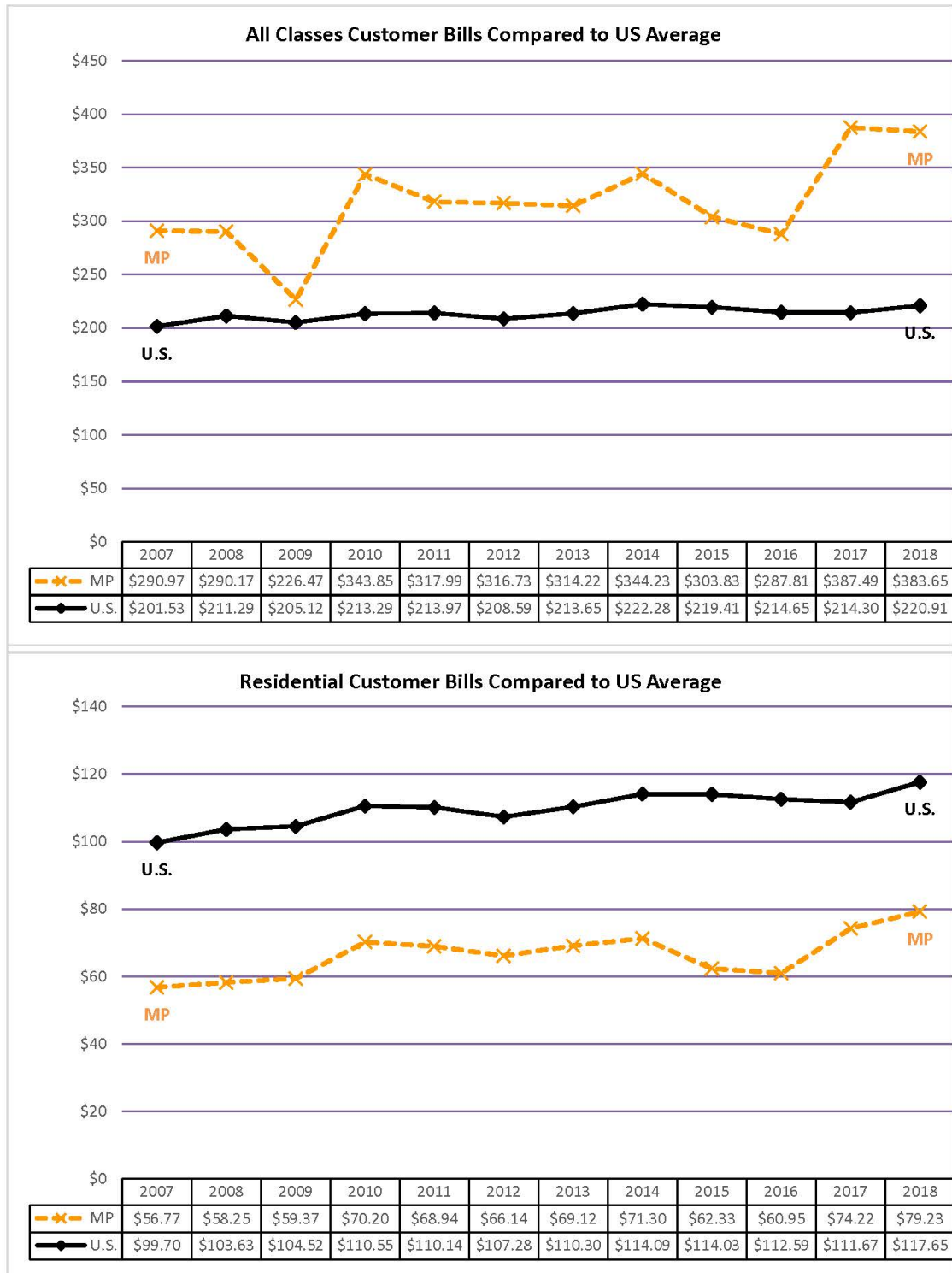
Attachment A, p. 2 of 4



Sources: U.S. average prices are from EIA, utility company's prices are from its Rule 7610 Annual Filings

Minnesota Power Compared to U.S. Average

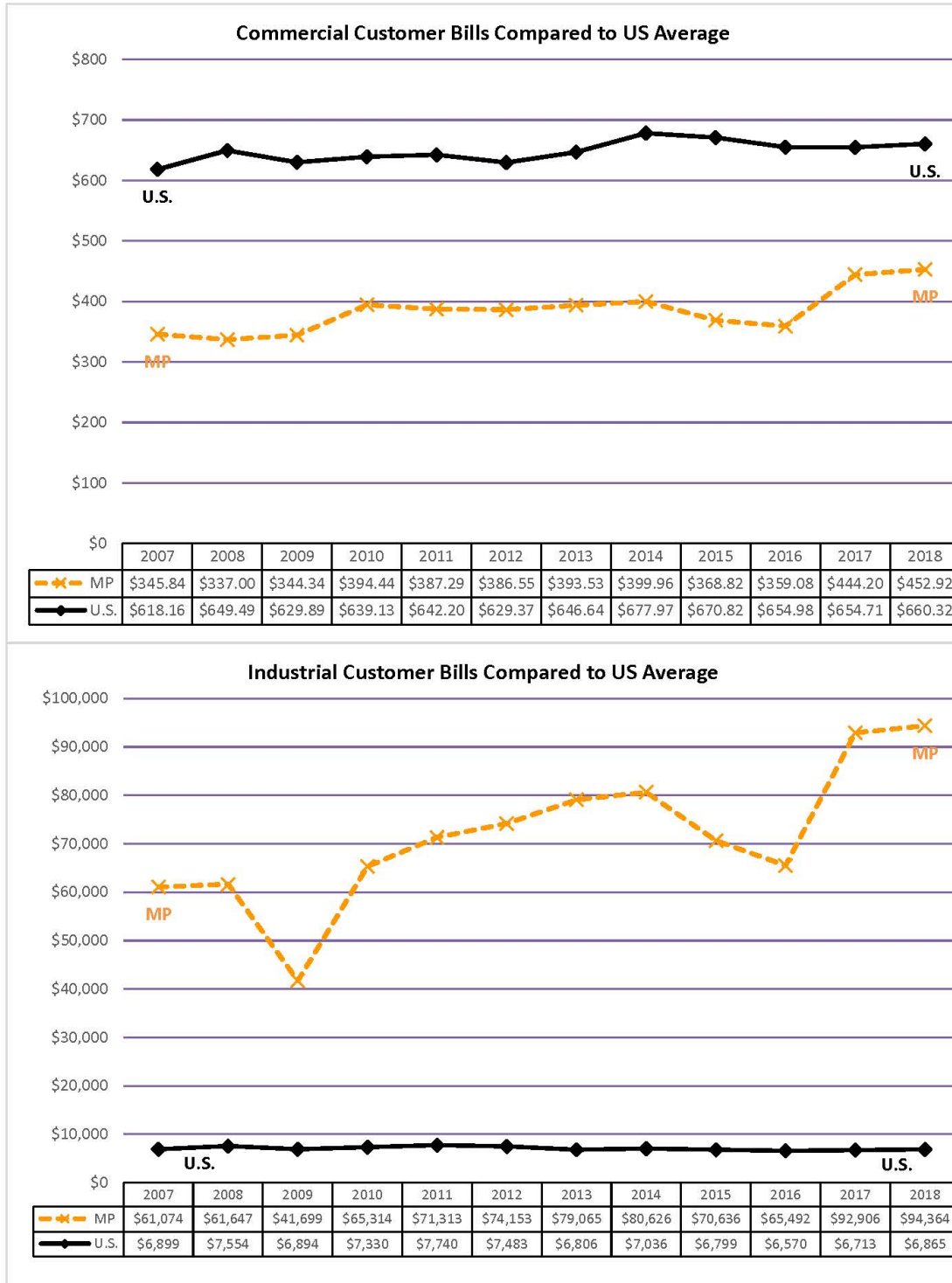
Attachment A, p. 3 of 4



Sources: U.S. averages are from EIA, utility company's data is from its Rule 7610 Annual Filings

Minnesota Power Compared to U.S. Average

Attachment A, p. 4 of 4



Sources: U.S. averages are from EIA, utility company's data is from its Rule 7610 Annual Filings