

Staff Briefing Papers

Meeting Date June 14, 2018 Agenda Item *2

Company Minnesota Power

Docket No. **E-015/M-18-264**

In the Matter of Minnesota Power’s Rider for Boswell Unit 4 Emission Reduction (BEC4 Rider) and 2018 Factor

Issues 1. Should the Commission grant Minnesota Power’s request for provisional approval to zero out the rider sub-factor effective June 1, 2018 or on the first day of the month following Commission approval, whichever is later?

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 **Relevant Documents**

Date

Minnesota Power – Initial Filing – Rider for Boswell Unit 4 Emission Reduction and 2018 Factor	April 9, 2018
Department of Commerce – Comments	May 16, 2018
Minnesota Power – Comments	June 1, 2018

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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.

I. Statement of the Issues

Should the Commission grant Minnesota Power's request for provisional approval to zero out the rider sub-factor effective June 1, 2018 or on the first day of the month following Commission approval, whichever is later?

II. Background

On April 9, 2018, Minnesota Power (MP) filed a petition seeking approval to update cost recovery of investments, expenditures, and costs related to the Boswell Energy Center Unit 4 (BEC4) mercury emission reduction project (BEC4 Project) through MP's Commission-approved Rider for Boswell Unit 4 Emission Reduction (BEC 4 Rider). MP is requesting provisional approval to zero out the rider sub-factor effective June 1, 2018.

On May 16, 2018, the Department of Commerce, Division of Energy Resources (Department) filed comments in support of MP's request for provisional approval to zero out the rider sub-factor effective June 1, 2018 or on the first day of the month following Commission approval, whichever is later? The Department will file additional comments and provide additional analysis on MP's request to implement the updated BEC4 Rider factor at a later date.

On June 1, 2018, MP filed a letter agreeing with the comments submitted by the Department.

III. Parties' Comments

A. Minnesota Power

1. Zero-Out the Rider Sub-Factor Effective June 1, 2018

MP is requesting to zero-out the BEC4 Rider sub-factor due to the Company having collected its 2014 to 2017 revenue requirements and tracker balances. MP is now slightly over collecting. MP explains that it is in the interest of rate payers to zero-out the rider sub-factor.¹

The large credit to revenue requirements associated with Basin Electric Power Cooperative's ("Basin") share of the BEC4 project costs results in an overall negative net revenue requirement from 2017 until the end of Basin's contract in April 2020. Because of this, the BEC4 Factor will be a negative factor through this time period. To avoid over-collection and minimize the buildup of the negative revenue requirement while waiting for the implementation of final rates, the Company believes it is appropriate to zero out the rider sub-factor to provide all customers with a modest rate decrease.

MP also proposes to implement the newly proposed 2018 BEC4 Rider Factor coincident with final rates² which will result in a rate reduction for all customers. This rate reduction will offset

¹ Minnesota Power – Initial Filing, Page 2

² See Minnesota Power's General Rate Case, Docket E-015/GR-16-664

about half of the simultaneous general rate increase for residential customers and it will largely offset the increase for large power customers.

2. Variation to Minn. Rule. 7825.3200

MP is requesting a variance to Minn. Rule. 7825.3200, which requires that utilities serve notice to the Commission at least 90 days prior to the proposed effective date of modified rates. The Company notes the Commission shall grant a variance to its rules when it determines that the following requirements are met:

- enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule;
- granting the variance would not adversely affect the public interest; and
- granting the variance would not conflict with standards imposed by law.

MP also stated that in addition to meeting the requirements above, the public would receive a direct benefit through a reduction in rates more quickly if the variance is granted.

After reviewing the Department's comments, MP filed a letter on June 1, 2018 agreeing with the Department's recommendation that the Commission approve MP's request to zero-out the BEC4 rider sub-factor and to grant the variance to Minn. Rule. 7825.3200.

B. Department of Commerce

The Department filed comments noting that it does not generally support the implementation of new rider rates on a provisional basis, however, given the overlap between this rider and base rates, and the interconnection between this Docket and MP's rate case, the Department, in this instance, does support the request to zero-out the rider sub-factor and to grant the requested variance. The Department intends to provide separate comments analyzing the remaining aspects of MP's petition at a later date.

IV. Staff Analysis

Both MP and the Department agree that provisional approval to zero-out the BEC4 rider sub-factor would provide a direct benefit to the public in the form of a modest reduction in rates. Currently, MP is over-collecting on its BEC4 rider, meaning that every month that passes without adjustment will result in additional over-collection. Not only will this result in a continued requirement to refund the excess collection, it also raises concerns about specific customers receiving an inequitable result. For example, if a customer is overpaying for an unnecessary rider and then moves out of MP's service territory, that customer may not receive the subsequent refund of the over-recovery. It would be a more equitable result if unnecessary revenues were not collected to begin with.

A variance is needed in order to make the provisional change effective in less than ninety days, for example on July 1, 2018, in the month following the Commission's Order. Both MP and the Department support the variance. Both Parties agree that enforcing the rule would impose an

excessive burden on MP. Granting the variance would provide a direct public benefit and would not conflict with standards imposed by law.

The Commission has approved provisional adjustments to riders when it has resulted in a decrease in rates for ratepayers. In Docket Nos. E-017/M-16-373 and E-017/M-16-374, the Commission approved Otter Tail Power's petition to adjust its Environmental Cost recovery (ECR) and Transmission Cost Recovery (TCR) Rider Annual Adjustments. Specifically, the order stated:³

Granted provisional approval of Otter Tail Power's petitions in dockets E-017/M-16-373 and E-017/M-16-374, with the understanding that the final decision will be made subsequent to the comment period, which will be noticed at a later date.

The Department stated it will provide additional analysis on MP's 2018 BEC4 Rider Factor proposal at a later date. Staff recommends the Commission ask the Department to complete its analysis and file comments no later than the date coincident with its comments on MP's compliance filing in the Company's 2016 general rate case.⁴ MP was ordered to make its compliance filing within 30 days of the May 29, 2018 Reconsideration Order. The Department and other interested parties have 30 days to submit written comments on MP's compliance filing. (Please see the Commission's March 12, 2018 Order, in MP's 2016 general rate case, pages 117 -118, ordering paragraphs 88 and 89.)

V. Decision Options

BEC4 Rider Sub-Factor

1. Grant provisional approval of Minnesota Power's petition in Docket No. E-015/M-18-264 to zero-out the BEC4 rider sub-factor effective June 1, 2018, or on the first day of the month following Commission approval, whichever is later? (MP, Department)
2. Do not allow Minnesota Power to zero-out the BEC4 rider sub-factor

Variance to Minn. Rule 7825.3200

3. Grant a variance to Minn. Rule 7825.3200. (MP, Department)
4. Take no action

Deadline for Filing Comments on the Merits of Minnesota Power's Petition

5. Request the Department to complete its analysis and file comments no later than the date coincident with its comments on MP's compliance filing in the Company's 2016 general rate case, in Docket No. E-015/GR-16-664. (Staff)
6. Take no action

³ See PUC Order, July 5, 2016 in Docket Nos. E-017/M-16-373 and 16-374.

⁴ Docket No. E-015/GR-16-664