

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: April 7, 2016 **Agenda Item #4**

Company: Minnesota Power

Docket No. E-015/M-15-875
In the Matter of Minnesota Power’s Petition for Approval of Credit to Customers

Issue: Should the Commission approve Minnesota Power’s proposed credit refund to customers?

Staff: Jorge Alonso 651-201-2258
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Relevant Documents

Public Filings

Minnesota Power - Initial Filing (original filing date 9/30/15) March 17, 2016
Department of Commerce - Comments October 30, 2015
Minnesota Power – Reply Comments (original filing date 11/13/15)..... March 17, 2016
Department of Commerce - Reply Comments (original filing date 12/14/15)... February 24, 2016
Minnesota Power – Additional Reply Comments (original filing date 1/22/16).... March 17, 2016
Minnesota Power – Reply Comments (Settlement Notification) February 16, 2016
Minnesota Power – Correspondence March 23, 2016

Trade Secret Filings

Minnesota Power - Initial Filing (original filing date 9/30/15) March 17, 2016
Department of Commerce - Comments October 30, 2015
Minnesota Power – Reply Comments (original filing date 11/13/15)..... March 17, 2016
Department of Commerce - Reply Comments December 14, 2015
Minnesota Power – Additional Reply Comments (original filing date 1/22/16).... March 17, 2016
Minnesota Power – Reply Comments (Settlement Notification) February 16, 2016
Minnesota Power – Correspondence March 23, 2016

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Statement of the Issue

Should the Commission approve Minnesota Power's (MP, the Company) refund proposal?

Background

Pursuant to Minnesota Statute § 216B.16 and Minnesota Rules 7829.1300, on September 30, 2015, Minnesota Power Company filed a request seeking Commission approval for the treatment of a credit associated with a vendor refund¹.

Minnesota Power Petition

Minnesota Power noted that the refund is a result of service issues at its Boswell 4 Unit during the months of October 2013 through February 2014 and July 2014 through November 2014. The Company explained that, since WPPI is a partial owner of Boswell 4, WPPI needs to be allocated a portion of the refund.

Once the WPPI portion is deducted, MP proposed to allocate the remaining amount using the following methodology:

1. The credit amount will be adjusted for the jurisdictional split between wholesale municipal and retail customers,
2. The retail portion will then be allocated to individual retail customer rate classes based on the class level power supply production allocation factors established in Minnesota Power's last rate case,
3. Once the credit amount is established, the amounts credited to individual retail Large Power customers and wholesale municipal customers will be calculated based on their contributions to the total energy sales for their respective classes for the impacted billing months as shown in Attachment A. Because there are only approximately 30 customers in these classes, Minnesota Power will calculate individual credit amounts for these customers.
4. The remaining customer classes will be credited through an adjustment factor ("Billing Factor Value") which will be established by determining the total energy sales for the remaining customer classes divided into the Targeted Credited Amount to obtain a generic rate per kilowatt-hour ("kwh"). The generic rate will then be multiplied by the E8760 class-specific energy allocator from Minnesota Power's 2009 rate case to establish the final credit rate by customer class. The Billing Factor Value will be applied to the billing months of January 2016 through June 2016. The credit related to the Billing Factor Value will appear within the Resource Adjustment line on the customer bills.

¹ Both the vendor information and the refund amount are protected as Trade Secret.

Table 1 summarizes the proposed allocation factors by classes.

Table 1 – Minnesota Power’s Proposed Refund Allocation Factors²

Class	Allocation Factor
Residential	11.259%
General Service	6.213%
Large Light & Power	12.471%
Municipal Pumping	0.568%
Lighting	0.237%
Total Other Retail	30.748%
Large Power	51.269%
Wholesale Jurisdiction	17.983%
Total Allocation	100.000%

Department of Commerce Comments

The Department’s review focused on the five areas discussed below.

1. Settlement Agreement

The Department stated that, given the limited amount of background information MP provided, the Department could not conclude that the settlement’s negotiated amount was reasonable.

The Department requested that, in reply comments, the Company provide the following³:

- An accounting document showing the amount received and when it was received.
- A complete copy of the Settlement Agreement in support of the settlement amount.
- All spreadsheets (in an Excel format with all links and formulas intact and in PDF format) used to calculate the amount received.
- A full narrative explaining and guiding the reader through the process used to calculate the amount received.
- Justify why the amount received and the process used to calculate the amount are reasonable.

2. WPPI Energy’s Portion of the Settlement Payment

The Department stated that, given the limited amount of background information MP provided, the Department could not conclude that the settlement’s negotiated amount was reasonable.

² MP Initial Filing, Attachment A, Page 1

³ DOC IR-1.

The Department requested that, in reply comments, the Company provide the following⁴:

- All spreadsheets (in an Excel format with all links and formulas intact and in PDF format) used by MP to calculate the portion of the settlement payment MP proposes to allocate to WPPI.
- A full narrative explaining and guiding the reader through the process used to calculate the WPPI Credit Amount.
- Justify why the WPPI Credit Amount and the process used to calculate the amount are reasonable.

3. Wholesale, Large Power and Other Retail Customers' Portions of the Credit Amount

The Department identified the following inconsistencies in MP's proposed allocation:

- Using data from MP's last rate case is inconsistent with the way MP's customers were overcharged.
- Instead of using 2009 test year data, MP proposed to allocate the Wholesale Credit Amount and the Large Power Credit Amount based on "firm kWh" during the relevant time periods when these customers were overcharged.
- MP's proposal is inconsistent with the Company's calculation in its AAA reports of its monthly "Fuel Cost Recovery" from its retail customers.

Since MP did not justify the reasonableness of using "firm kWh" instead of actual retail kWh sales, the Department took issue with the Company's calculation.

The Department also took exception to MP taking out Magnetation Plant IV credit from the Other Retail Credit Amount instead of the Large Power Credit Amount.

4. Department Credit Amounts Calculation

The Department recalculated the Wholesale, Large Power and Other Retail Credit Amounts using actual kWh data used by MP to calculate its monthly fuel cost recovery during the relevant time periods when these customers were overcharged as a result of "the service issues."

⁴ DOC IR-2.

As shown in table 2, the Department's calculation changed the amounts allocated to each class.

Table 2 – DOC Refund Calculation Impact

Credit Amount To	% change
Residential	13.42%
General Service	4.07%
Large Light & Power	5.66%
Large Power	28.18%
Municipal Pumping	21.01%
Lighting	-0.68%
Retail Credit Amount	2.69%
Other Retail Amount	8.31%
Wholesale Jurisdiction	-11.84%
Total Credit Amount	0.07%

The Department noted that the de minimis difference between the Department's total credit amount and MP's total credit is a result of the way the Magnetation credit was handled.

5. Additional Credit Methods for the Commission's Consideration

In addition to its proposed allocation, the Department offered additional options for the Commission to consider.

Method 1: FCA Method

The Department noted that this is the credit method that was proposed by Xcel Energy and approved by the Commission in a recent refund filing⁵.

Under Method 1, MP should:

- Either credit through the FCA the Retail Credit Amount in the first month following the Commission's Order in this matter, or in equal monthly credits over a reasonable period; and
- Credit the Wholesale Credit Amount to its Wholesale customers according to the Company's proposed methodology.

⁵ Docket No.E002/M-14-614

Method 2.a: Direct Credit to Affected Customers, Use of FCA kWhs

Under Method 2.a, MP should:

- Allocate the Credit Amount of each retail customer class as calculated by the Department to individual customers based on their contribution to the total (FCA) energy sales for their respective classes for the impacted billing months; and
- Credit the Wholesale Credit Amount to its Wholesale customers according to the Company's proposed methodology.

The Department recommended that MP provide in reply comments all spreadsheets (in an Excel format with all links and formulas intact, and in a PDF format) used by MP to calculate the credit for each individual customer according to Method 2.a.

Method 2.b: Direct Credit to Affected Customers, Use of "Firm kWhs"

This Method is the one used as basis for MP's request. The Department recommended that, if MP continues to propose that the Credit Amount be allocated using "firm" energy sales for the respective classes for the impacted billing months, MP provide in reply comments a narrative fully explaining in layman's terms what the concept of "firm kWh" represents and/or measures, and fully justifying why it is reasonable to use the "firm kWh" sales in the calculation of the amounts to be credited to individual customers, and an explanation as to why using a "firm kWh" basis is preferable to using the actual retail kWh sales that are the basis of MP's fuel cost recovery.

Under Method 2.b, MP should:

- Allocate the Credit Amount of each retail customer class as calculated by the Department to individual customers based on their contribution to the total "firm" energy sales for their respective classes for the impacted billing months; and
- Credit the Wholesale Credit Amount to its Wholesale customers according to the Company's proposed methodology.

Method 3.a: Direct Credit to Wholesale and Large Power Customers and FCA Credit for Other Retail Customers, Use of FCA kWhs

Under Method 3.a, MP should:

- Allocate the Large Power Credit Amount as calculated by the Department to individual Large Power customers based on their contribution to the total (FCA) energy sales for their respective classes for the impacted billing months;
- Provide to each of its other retail customer classes the corresponding Department-calculated class Credit Amount through the FCA; and

- Credit the Wholesale Credit Amount to its Wholesale customers according to the Company's proposed methodology.

Method 3.b: Direct Credit to Wholesale and Large Power Customers and FCA Credit for Other Retail Customers, Use of "Firm kWhs"

Under Method 3.b, MP should:

- Allocate the Large Power Credit Amount as calculated by the Department to individual Large Power customers based on their contribution to the total "firm" energy sales for their respective classes for the impacted billing months;
- Provide to each of its other retail customer classes the corresponding Department-calculated class Credit Amount through the FCA; and
- Credit the Wholesale Credit Amount to its Wholesale customers according to the Company's proposed methodology.

Given the issues raised in their comments, the Department recommended denial of MP's proposed credit methodology. The Department also recommended that MP be required to flow through the FCA the (Department-calculated) Credit Amount and to credit the Wholesale Credit Amount using the Company's proposed method.

Finally, the Department requested that the Company complete the record as discussed in their comments and through discovery.

Minnesota Power Additional Reply Comments

Minnesota Power summarized the Department's comments which centered around three areas: the refund amount, the WPPI allocation, and the allocation between MP's rate classes.

MP addressed the negotiated settlement by referring to the Company's Coal & Transportation Procurement Strategy in its 2015 AAA filing⁶ that states:

Minnesota Power's Boswell Energy Center ("Boswell"), the company's remaining coal plant post October 2016, is captive to the BNSF Railway ("BNSF"), meaning it has rail service available from only one railroad for coal deliveries to its destination. Boswell utilizes 4-4.5 million tons of coal annually, which is shipped directly from the Powder River Basin ("PRB") to Boswell via the BNSF.

⁶ Docket 14-611, Attachment 1, Page 7 of 7

Regarding the WPPI allocation, Minnesota Power stated that it had previously submitted the calculation methodology in its AAA filing⁷. MP noted that WPPI utilized the same methodology to determine their replacement energy costs and that total replacement energy costs related to the events were used to calculate WPPI's share. The Company did point out that a slight error was noted while reviewing the allocation calculation and reported the change in Attachment 1.

Regarding class allocations, MP stated that it does not object to a revision of the allocation methodology between customer classes. The Company also explained that, typically, there is no difference between the "firm kWh" and the "Retail kWh Sales Subject to Fuel Clause"; however, if billing corrections need to be made after the AAA filing is submitted, differences can occur. As shown in table 3, Minnesota Power offered a compromise allocation between the original methodology and the Department's various methodologies.

Table 3 – Minnesota Power's Proposed Compromise Allocation Factors⁸

Class	Allocation Factor
Residential	12.370%
General Service	6.940%
Large Light & Power	13.370%
Municipal Pumping	0.250%
Lighting	0.180%
Total Other Retail	33.110%
Large Power	51.150%
Wholesale Jurisdiction	15.740%
Total Allocation	100.000%

Department of Commerce Reply Comments

Since the Department has been unable to obtain a copy of MP's rail contract or verify the refund amount, the DOC chose to take Minnesota Power at its word that the asserted amount of the refund is correct. The Department added that MP did not provide any information regarding possible trade-offs; however, because DOC's goal is to refund ratepayers as soon as possible, the Department decided not pursue this issue further.

The Department was satisfied with MP's explanation of the WPPI refund calculation and accepted the Company's revised allocation which decreased MP's ratepayers' refund by 0.25%. As shown in Table 4, the Department's recommended that the 0.25% be adjusted equally among classes.

⁷ Docket 14-579

⁸ MP Reply Comments, Attachment 3, Page 1

Table 4 – DOC Refund Calculation Adjustment

Credit Amount To	% change
Residential	-0.25%
General Service	-0.25%
Large Light & Power	-0.25%
Large Power	-0.25%
Municipal Pumping	-0.25%
Lighting	-0.25%
Retail Credit Amount	-0.25%
Other Retail Amount	-0.25%
Wholesale Jurisdiction	-0.25%
Total Credit Amount	-0.25%

Other than for this adjustment, the Department continued to recommend that its proposed refund methodology be used.

The Department also stated that it was not aware of any supplemental filings in the relevant AAA dockets⁹ that identify and correct the “billing corrections” that the Company indicated it needed to do in the proceeding. The DOC continued to recommend that the allocation of the Credit Amount between retail customer classes be based on the actual kWh retail sales by class that were used by MP in its FYE14 and FYE15 AAA reports.

Minnesota Power Additional Reply Comments

Minnesota Power addressed the Department’s request for the documentation supporting receipt of the amount by stating that the amount was received in April 2015 and that it has no other way to “prove” receipt.

The Company addressed the Department’s concerns regarding the reasonableness of the refund amount by stating that the amount was a result of two contracting parties negotiating a contract dispute that the Commission has no direct jurisdiction over. MP stated that the issue should be how to refund affected customers.

Finally, MP also addressed the refund methodology. The Company noted that the Department’s methodology of crediting the refund through the FCA would negatively impact the customers that were most affected. Minnesota Power surmised that, to match and supply the credit to those customers operating at the time, its proposed method ties the refund to how customers were operating at the time. For these reasons, Minnesota Power characterized its proposal as balanced and fair and strongly opposed the Department’s proposal to refund through the FCA.

⁹ Dockets 14-579 and 15-611.

Minnesota Power/Department of Commerce Settlement

Minnesota Power reached a settlement with the Department and the Company's February 16, 2016 filing provided the details:

- Minnesota Power will perform the refund using actual kWh sales during the affected period to allocate the Credit Amount across customer classes. The corresponding Credit Amount for each class (class targeted refund amount) is provided in the Department's December 14, 2015 reply comments at 5 (Revised DOC credit amounts).
- Minnesota Power will provide a one-time bill credit and ensure the best matching of the refund to each customer within a class based on the class Credit Amount calculated above and on each individual customer's contribution to the actual class kWh sales during the affected time period, consistent with the Commission's interim rate refund methodology for the individual customers' refund. More specifically stated, allocation between Wholesale, Large Power, and the remaining customer classes will be based on the usage by each class as reported in the 13-14 and 14-15 AAA filings (Dockets 14-579 and 15-611 respectively).
- The allocation of the refund amount for the Wholesale and Large Power classes will be targeted by customer based on their usage at the time the service issues occurred.
- The billing factor for each of the remaining customer classes will be calculated using their projected usage during the month the refund is expected to occur. The credit will appear on the customer bill as part of the Resource Adjustment. Once the refund occurs, Minnesota Power will review the amount refunded by customer class to determine if there was an over or under refund for each class. If a class actual refund amount is less than the class targeted refund amount, the corresponding excess will be donated to HeatShare. If a class actual refund amount is greater than the class targeted refund amount, no action will be taken by Minnesota Power.
- The month of the refund will be the month following receipt of an order by the Commission.

Minnesota Power Reimbursement Request

On March 23, 2016, Minnesota Power filed a letter requesting to be reimbursed for costs associated with "events surrounding the Department of Commerce press release on February 17, 2016, regarding this Docket and the discovery that certain Trade Secret information was inadvertently disclosed."

Staff Comments

Staff found it curious that the Department delegated to MP the task of filing a copy of their settlement; therefore, Staff confirmed with Department Staff that MP's filing does accurately portray their agreement. This information notwithstanding, the Commission may want to request that the Department confirm, for the record, the Department's position in this matter with respect to the settlement.

Before the Commission considers Minnesota Power's March 26 reimbursement request, Staff points out that MP's letter fails to mention that, in fact, it was Minnesota Power that first disclosed trade secret information in their initial *public* filing. Since it was the Company's erroneous filing that initiated the cascading release of trade secret information, Staff does not find the Company's reimbursement argument to be persuasive.

Decision Alternatives

WPPI's Refund Allocation

1. Accept Minnesota Power's WPPI's refund allocation.
2. Reject Minnesota Power's WPPI's refund allocation and order the Company to use an alternate allocation factor.

Minnesota Power's Refund Allocation to Ratepayers

3. Approve the Settlement and order the Company to refund ratepayers accordingly.
4. Reject the Settlement and order the Company to use its original allocation to refund ratepayers.
5. Reject the Settlement and order the Company to use the Department's original allocation to refund ratepayers.
6. Reject the Settlement and order the Company to use alternative Method 1 to allocate ratepayers' refund.
7. Reject the Settlement and order the Company to use alternative Method 2a to allocate ratepayers' refund.
8. Reject the Settlement and order the Company to use alternative Method 2b to allocate ratepayers' refund.
9. Reject the Settlement and order the Company to use alternative Method 3b to allocate ratepayers' refund.

Minnesota Power's Reimbursement Request

10. Accept Minnesota Power's Reimbursement Request.

11. Deny Minnesota Power's Reimbursement Request.

Miscellaneous

12. If the Commission requires Minnesota Power to adjust the WPPI's refund amount and/or grants Minnesota Power's Reimbursement Request, order the Company to use the applicable Commission-approved allocation method to calculated ratepayers' adjusted refund amount.