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July 9, 2018

VIA ELECTRONIC FILING
Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of an Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments
Docket No. E999/CI-03-802

Dear Mr. Wolf:

Minnesota Power respectfully submits its Reply Comments to the Minnesota Public Utilities Commission in response to comments filed by parties on June 29, 2018 in the above-referenced Docket. Please contact me at the number above if you have any questions about this filing.

Yours truly,

Susan Ludwig

SL:sr
Attach

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of an Investigation into the Appropriateness of Continuing to Permit Electric Energy Cost Adjustments	Docket No. E999/CI-03-802 **MINNESOTA POWER'S REPLY COMMENTS**

I. INTRODUCTION

Minnesota Power (the "Company") submits these Reply Comments to the Minnesota Public Utilities Commission ("Commission") in accordance with the Commission's Notice of Comment Period issued May 17, 2018. The Company responds to comments issued on June 29, 2018 by the Department of Commerce, Division of Energy Resources ("Department"), the Minnesota Office of Attorney General – Residential Utilities and Antitrust Division ("OAG") and the Minnesota Chamber of Commerce.

On April 30, 2018, the Company submitted a Compliance Filing, outlining Minnesota Power's proposal to comply with the Commission's December 19, 2017 Order ("December 19 Order") in this Docket. On May 23, 2018 and June 22, 2018, the Department convened meetings with the affected utilities, the OAG, Commission Staff, and other interested intervenors. The purpose of the meetings was to discuss the details regarding implementation of Fuel Clause Adjustment ("FCA") reform.

In these comments, Minnesota Power confirms areas of agreement with the Department and other parties, identifies areas in which consensus was not reached, clarifies certain items, and provides information requested by the Department.

II. MINNESOTA POWER'S RESPONSE

A. Overview of FCA reform

As parties consider and propose implementation details of FCA reform, it is important to agree on what exactly is being "reformed" and how it should impact utility operations. Minnesota Power believes that FCA reform, as detailed in the Commission's December 19 Order, should not change the fundamental way the Company does business and should not change the fundamental risk of cost recovery faced by utilities. The utilities have always borne the responsibility for proving that FCA costs have been prudently incurred. FCA reform should not change the risk profile of energy procurement and should not result in utilities becoming more risk-averse in procurement decisions.

FCA reform will change the regulatory processes for calculating and approving FCA data, including the timing of when forecasted fuel and purchased energy costs need to be determined, the timing of when actual cost data is filed, and the timing of when actual costs are refunded or recovered from the customers. And while the timing for the Department's review process will be changed with FCA reform, Minnesota Power expects the same level of review in the true-up process regardless of whether the FCA has under- or over-collected from its customers.

Finally, FCA reform may be implemented somewhat differently between utilities. Minnesota Power believes it is important to consider the differences in customers and operations of the different utilities. While each utility will be accountable for its own FCA practices, it is not appropriate to compare these practices or FCA outcomes between the utilities.

B. Areas of agreement

Minnesota Power has worked diligently to help develop constructive solutions to FCA reform and is pleased to have reached a consensus with the Department, the OAG, and other stakeholders, on a number of key implementation details as described in the Department's June 29, 2018 comments. Two of the key areas of agreement are discussed below.

1. <u>Implementation timing</u>

Parties agreed that a move to a calendar year (rather than a fiscal year) for forecasting the FCA would be much more effective. Minnesota Power agrees, as this timing is aligned with the Company's calendar year budget and will be more administratively efficient. Parties also agreed that a start date of January 2020, rather than July 2019, would lessen administrative complexity as the process moves to a calendar year. This six-month implementation delay, which would require approval from the Commission, will allow parties more time to review the many implementation details required for a successful FCA reform.

2. Refresh forecast data in reply comments

There was discussion at the Department-hosted meetings on how to allow for updated forecasting information to be considered in the reformed process. Utilities expressed concern that a refresh of forecast data be allowed in developing the FCA tariff, since there is a considerable period of time between the budgeting process that supports the initial FCA forecast and the final implementation of the FCA tariff. Many significant operational changes can happen in the months between forecasting and implementation of rates. Parties agreed that the closer to the implementation date a forecast is developed, the more accurate it is likely to be. Also, it is in the best interest of parties to have a forecast which is as accurate as possible and most likely to result in costs which are closer to actuals.

At the June 22 meeting, there was consensus on allowing utilities to refresh their forecasted data during the reply comment process. This would still allow time for other parties to review the updated data before the Commission approves an FCA tariff. Minnesota Power agrees that this is a reasonable approach.

The Department noted in its June 29 comments that "stakeholders agreed that utilities would be able to update data, but only in their reply comments and the updates should be limited only to refreshing data rather than new proposals." While the Company generally agrees with this statement, it is uncertain what the Department means by "new proposals." Minnesota Power's view is that its models and methodologies would not change in the refresh process. But there could very well be new PPAs, fuel contracts, changed generation, and market data which are updated in the refresh process.

3. Other areas of agreement

The Department included a list of items on which FCA stakeholders had reached agreement on pages 6 and 7 of its June 29, 2018 comments. Minnesota Power confirms its agreement with these items.

C. Areas without consensus

While parties agreed on several implementation details, there are two important areas where consensus was not reached: 1) the timing of forecast and review; and 2) the use of provisional rates. Before getting into the details, it's important to understand how both of these issues impact Minnesota Power's customers and why it's imperative to implement FCA reform in a way that considers equitable billing of customers.

Since the FCA process is moving to a forward-looking method for determining FCA tariffs, the forecasted costs will always be different from actual costs and a true-up will ultimately be needed. An inherent problem with a true-up mechanism is that the customer mix that pays for (or is credited with) the true-up may be different than the customer mix that consumed the energy. Some utilities experience relatively minimal variation in their customer mix and this issue may not be a significant concern. However, Minnesota Power's unique customer makeup, with nine large, industrial customers who make up more than 60 percent of the Company's retail sales, makes this a very significant concern. These industrial customers operate in highly competitive businesses which can experience severe economic cycles. Energy costs, which may be up to 25 percent of operating costs for these businesses, make energy prices an important factor in whether they are profitable. Because of these economic cycles, it is not unusual for one or more large customers to reduce or idle operations with relatively short notice. A mismatch between costs and billing affects all customers and that is why it is especially important for Minnesota Power's customers for true-ups be processed in as timely a manner as possible.

1. <u>Timing of forecast and review</u>

The Department proposed a timeline just prior to the June 22 meeting and Minnesota Power did not have sufficient time to consider how its internal processes could be integrated with the Department's proposal. While the Company did not object to the proposed timeline at the June 22 meeting, it has since identified concerns about meeting the timeline and proposes some adjustments. The Department's proposal is shown below in Table 1.

Table 1. Department's proposed timeline

April 15, 2019	Submit initial forecast	
June 18, 2019	Initial Department review completed and initial report filed	2 months
July 18, 2019	Utility comments	1 month
August 19, 2019	Department and utility final comments	1 month
January 1, 2020	Implementation of forecasted fuel rates	4½ months

Minnesota Power's FCA budget is generally completed by the end of July. The Company needs another month to reformulate the budget data into the detail and formats necessary for an FCA filing. Consequently, its current internal budget process is unable to be completed in time for a final FCA budget to be completed by April 15, as this would mean starting the budgeting process in January when the departments that need to be involved are also busy with the year-end audit process and reporting requirements. In addition, going forward, the Department's proposed timeline would double the work needed as the Company would also be working on the previous year's actual cost filings at the same time.

Minnesota Power proposes an alternative timeline, with the initial utility forecast submitted at the end of May, as shown in Table 2 below. While any timeline will require an adjustment to its internal budgeting process, this timeline would be less administratively burdensome for the Company than the Department's proposal.

Table 2. Minnesota Power's proposed alternative timeline

May 31, 2019	Submit forecast	
July 30, 2019	Initial Department review completed and initial report filed	2 months
August 30, 2019	Utility reply comments	1 month
September 30, 2019	Department and utility final comments	1 month
January 1, 2020	Implementation of forecasted fuel rates	3 months

Minnesota Power's proposed alternative starts 1½ months later and allows the same amount of time for each phase except for briefing paper preparation, Commission hearing and order (noted above as the time between final comments and implementation of forecasted rates), which is shortened to 3 months from 4½ months.

A final concern regarding timelines in general is that it is important to adhere to them. If anything slips in the timeline, it can have a ripple effect through the entire process and jeopardize successful implementation of FCA reform.

2. Provisional approval of tariffs

In its April 30 Compliance Filing, Minnesota Power proposed that utilities should be able to provisionally implement proposed fuel rates a) if a written Commission order is not received by the final date set out in the timeline; b) for true-ups; and c) for significant events. The Department disagreed and argued that provisional rates are insufficient to hold utilities accountable to the burden of proof necessary for implementation of rates.

Minnesota Power understands the Department's concerns, but disagrees with the characterization that utilities would implement provisional rates merely if they believed a rate change was needed. The use of provisional rates, as proposed by the Company, would be implemented only after full disclosure in the record and an opportunity for stakeholders to respond. Furthermore, the provisional tariff would only be utilized on an interim basis, until the final rate is approved by the Commission. Any difference between the provisional rate and the final approved rate would be included in the tracker balance and credited or refunded to customers in a future true-up.

This would be primarily utilized in cases where a new FCA rate has not been approved prior to the start of a new annual period. Given the lengthy regulatory delays experienced in the current FCA dockets, it is not unreasonable to expect there may be times when a Commission order has not been issued by the time the previous approved tariff has expired.

The Department suggested two different options that could be used in this situation, but did not discuss the merits of these. The first option is to continue to use the FCA tariff from the previous month until a written order is received for a new one. This would be administratively simple. But given monthly variation of FCA costs, this option could likely result in tariffs which are very different from costs, particularly if there is a significant delay in receiving approval for a new tariff. Month-to-month variations are common and include, but are not limited to, such areas as generation availability (especially with intermittent wind and solar generation), market prices and planned maintenance.

The second option is to use the approved monthly FCA tariff from the previous year in order to account for typical variances in month-to-month FCA costs. While this option addresses the variance in costs that is typical in month-to-month planning and is also administratively simple, it does not address the significant changes of planning which can happen from year-to-year. For example, planned outages, fuel procurement and transportation contracts, and replacement purchases (market prices and PPA costs) can vary wildly from one year to the next. Using a prior year tariff can also result in very mismatched costs and charges.

Minnesota Power believes the best option to ensure a valid FCA tariff is always in place is the one that most closely aligns the tariff with the best current estimate of costs. In Minnesota Power's proposal, the Company would implement its proposed monthly tariffs in the event that the Commission has not yet issued an order approving them. These tariffs would be much more accurate than using the rates from the previous month or the previous year since they would be based on the most recent information and planning in the record. And while any differences between projections and actuals will ultimately be included in a subsequent true-up, the Company believes the use of provisional tariffs will result in the least variance to be included in a true-up. This will best match the customer mix that incurs the FCA costs with the customer mix that pays the costs.

The Minnesota Chamber of Commerce also opposed the use of provisional rates, stating that this approach would result in automatic recovery of costs which would not provide sufficient incentive for utilities to keep costs low. They also stated it would be administratively burdensome and would send confusing price signals to customers. Minnesota Power disagrees and believes the use of provisional rates as proposed by the Company is in the best interest of customers.

As previously discussed, provisional rates would be used on an interim basis, which the Company believes will generally be short term, and will be fully vetted by stakeholders. There will be months of notice in the record before provisional implementation, so there should be no confusion for customers. In fact, the Company believes it is less confusing for customers to be able to plan ahead assuming the proposed provisional rates will be implemented than to face the timing uncertainty of when new rates will be approved or an outdated tariff from a previous month or year will be implemented. The provisional rate is the rate most likely to align with the rate that will ultimately be approved.

It is worth noting that utilities have the same goal with FCA tariffs as customers and regulators: to minimize costs and risk and set tariffs as close as possible to actual costs. All tariffs provisionally implemented would have been already submitted in the docket and parties would already have had an opportunity to analyze, review and question them. If the Department or other parties believed there to be a major problem with the proposed tariff, they could issue an objection to the tariff in the docket and request that a different tariff remain in place.

D. Areas of clarification

1. <u>Use of sub-dockets for different utilities</u>

There was discussion at the Department-hosted June 22 meeting about whether the FCA tariffs for all utilities would be addressed together or separately. Utilities were concerned that if tariffs for all utilities were approved at the same time, a hold-up for one utility would stall implementation of new FCA rates for others. A suggested solution was to use sub-dockets (similar to what is used for Conservation Improvement Plans) for the different utilities. Minnesota Power supports this suggestion.

2. <u>Use of time for implementation delay</u>

The Department requested utilities identify more specific information about what would be done with the extra six months if the Commission approves a delay in FCA implementation. The Company points out that the six-month delay was proposed primarily as an administratively simpler way to transition to a calendar year forecast period and not because utilities needed extra time to begin implementation. However, this does give utilities additional time to make changes to internal processes which may be needed to meet new implementation requirements.

Minnesota Power suggests that utilities also use this time to develop a proposed (but not required) list of information to be included in the various FCA filings. The proposed information could be submitted in the docket and interested parties would have an opportunity to provide feedback. The information deemed useful may change throughout the process as implementation details are ironed out. But providing a list of proposed information will help facilitate the process and allow additional stakeholder input at the onset.

Minnesota Power disagrees that this information sharing will result in an overly prescriptive process that could lead to "an inappropriate shift of the burden of proof to parties reviewing these forecasted fuel costs rather than to the utilities," as the Department suggested.[1] Rather, the Company sees this information sharing as a way to facilitate a successful

[1] See the Department's June 29, 2018 comments, pages 4-5.

implementation of FCA reform by setting expectations and considering stakeholder feedback in advance of the initial forecast submittal.

3. Changes to AA and AAA filings

The Department asked utilities to identify any changes that should be made to the utilities' monthly AA or annual AAA filing requirements. In its April 30 Compliance Filing, Minnesota Power proposed many changes to these filings on pages 10 to 18.

III. CONCLUSION

Minnesota Power continues to believe that FCA reform should not change the fundamental way the Company does business. The Company supports many of the implementation details agreed to by the Department, including transitioning the FCA from a fiscal year to a calendar year, delaying implementation until January 2020, and allowing utilities to refresh forecast data in the Reply Comment phase. However the Company disagrees with the Department on the use of provisional rates and requests the Commission approve the implementation of proposed rates when a new rate has been vetted in the docket, but not yet approved. The Company also proposes an amended timeline for implementation of initial FCA tariffs.

Minnesota Power is committed to continue working with the Department, Commission, and other stakeholders on identifying improvements to the process in order to make the forward-looking FCA a success for customers and the Company.

Dated: July 9, 2018

Respectfully submitted,

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