

November 10, 2016

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

**RE: Reply Comments of the Minnesota Department of Commerce,
Division of Energy Resources**
Docket No. E015/AI-16-454

Dear Mr. Wolf:

On May 25, 2016, Minnesota Power (MP or the Company) submitted a petition (Petition) requesting that the Minnesota Public Utilities Commission (Commission) approve “the Alliance Agreement, along with the current and future purchase orders entered into under the authority thereof” between U.S. Water Services, Inc. (USWS) and the Company.

On August 23, 2016, the Minnesota Department of Commerce, Division of Energy Resources (DOC or the Department) filed comments (Comments).

Based on its review of MP’s initial filing, the Department concluded that the Company did not meet its burden of proof to show that the Alliance Agreement is both reasonable and consistent with the public interest. In addition, since some of the costs related to the Alliance Agreement (including but not limited to current and/or future purchase orders) may be part of MP’s next rate case, depending on the test year chosen by the Company, the Department recommended that the Commission require MP to identify any such costs and support the reasonableness of these costs in its next initial rate case filing.¹

As a result, the Department recommended denial of the Petition with reporting requirements.

On October 7, 2016, the Company filed reply comments (Reply Comments).

The Reply Comments did not provide any new information in the record that would change our initial recommendations reproduced above.

¹ The Department notes that MP filed a general rate case on November 2, 2016, with a 2017 forecasted test year (Docket No. E015/GR-16-664).

For example, the Reply Comments at 4 repeat MP's proposal that the Department/Commission perform an after-the-fact review of individual projects to assess whether the "project was beneficial and actually realized the savings identified upfront prior to the work beginning." MP proposed this as an alternative to competitive bidding or other up-front methods for ensuring least cost pricing.

The Department notes that MP's statement at 4 that the Company's proposed "annual review process is the best method to allow the Commission to validate the benefits achieved in using US Water:"

- 1) translates into the Department and the Commission micromanaging these projects without having MP's specific knowledge of the Company's operations, and
- 2) relies on MP's representation, which the Department disagreed with in our Comments at 8, that "the protections and incentives of the competitive bid process have been captured by the terms of the Alliance Agreement and the annual compliance process."

Based on the record to date, the Department continues to conclude that MP did not meet its burden of proof to show that the Alliance Agreement is both reasonable and consistent with the public interest.

Therefore, the Department does not recommend approval of the Petition.

Sincerely,

/s/ SAMIR OUANES
Rates Analyst

SO/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Reply Comments**

Docket No. E015/AI-16-454

Dated this 10th day of November 2016

/s/Sharon Ferguson

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