

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
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IN THE MATTER OF THE REQUEST OF
MINNESOTA POWER FOR A CERTIFICATE
OF NEED FOR THE GREAT NORTHERN
TRANSMISSION LINE PROJECT

Docket No. E015/CN-12-1163
OAH Docket No. 65-2500-31196

SURREBUTTAL TESTIMONY OF DR. STEVE RAKOW

ON BEHALF OF

**THE MINNESOTA DEPARTMENT OF COMMERCE,
DIVISION OF ENERGY RESOURCES**

NOVEMBER 7, 2014

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1 I. INTRODUCTION AND PURPOSE

2 Q. Please state your name.

3 A. My name is Dr. Steve Rakow.

4

5 Q. Are you the same Dr. Rakow who previously submitted Direct Testimony on behalf of
6 the Minnesota Department of Commerce, Division of Energy Resources, Energy
7 Regulation and Planning unit (Department) in this proceeding?

8 A. Yes.

9

10 Q. Please introduce the Surrebuttal witnesses sponsored by the Department in this
11 proceeding and summarize the issues on which they testify.

12 A. In addition to myself, the Department is sponsoring one other Surrebuttal witness,
13 Mr. Mark Johnson, who addresses accounting issues regarding the accounting
14 treatment of costs, along with Large Power Intervenor (LPI) Mr. Kollen's
15 recommendation to keep the proposed project in a rider permanently, rather than
16 moving recovery to rate base.

17

18 Q. Your Rebuttal Testimony at page 4 lines 2 to 10 briefly dismissed three issues by
19 stating "These issues are cost recovery details that do not need to be addressed at
20 this time. Thus, I recommend that the Commission take no action regarding these
21 issues." Do you have any changes to this statement in your Rebuttal Testimony?

1 A. Yes. Due to the technical nature of Minnesota Power (MP) witness Mr. McMillan's
2 response to LPI witness Mr. Kollen¹ I am withdrawing that testimony and deferring
3 analysis of those cost recovery issues to Department Witness Mr. Johnson.
4

5 **Q. What is the purpose of your Surrebuttal Testimony?**

6 A. I respond to MP witnesses Mr. Michael H. Donahue and Mr. David J. McMillan
7 regarding MP's explanations that I requested and regarding MP's rebuttal to LPI
8 witness Mr. Kollen's proposed cost cap.
9

10 **II. RESPONSE TO MP'S REBUTTAL TESTIMONY**

11 A. *MP'S REPLY TO DEPARTMENT REQUESTED EXPLANATIONS*

12 **Q. Please provide your first recommendation from Direct Testimony.**

13 A. "I recommend that the Commission order MP to use the Commission's externality
14 values in all certificates of need and put MP on notice that failure to do so would
15 result in CN filings being found to be incomplete in the future." DOC Ex. ___ at 43
16 (Rakow Direct).
17

18 **Q. Did MP reply to your first recommendation?**

19 A. No.
20

21 **Q. What is your conclusion from this omission?**

¹ For example, see the comparison of construction work in progress (CWIP) to allowance for funds used during construction (AFUDC) in Ex. __ (DJM-R), Schedule 1.

1 A. I conclude that MP neither supports nor objects to such a requirement. Given no
2 objection from MP, I continue to recommend that the Commission require MP to use
3 the Commission's externality values in all certificates of need and put MP on notice
4 that failure to do so would result in CN filings being found to be incomplete in the
5 future.

6
7 **Q. Please provide your second recommendation from Direct Testimony.**

8 A. "I recommend that MP clarify whether MP expects to propose that the 17.7 percent
9 share of costs for the proposed GNTL be placed into MP's ratebase with the MH
10 scheduling fees as an offset or if some other ratemaking treatment is planned." DOC
11 Ex. ___ at 49 (Rakow Direct).

12
13 **Q. Did MP reply to your second recommendation?**

14 A. Yes it did. The Rebuttal Testimony of Mr. Donahue at Exhibit _____ (MD-R), Schedule
15 1, Page 4 of 172 at footnote 18 stated:

16 One of the ALLETE's [sic] power supply agreements with
17 Manitoba Hydro includes a payment from Manitoba
18 Hydro to ALLETE for an additional 17.7% of the GNTL's
19 costs. This payment will be applied towards ALLETE's
20 capital obligations, thereby reducing overall ALLETE's
21 capital obligations from 46% to 28.3%. ALLETE will
22 apply this payment as a credit towards its retail revenue
23 requirements and MISO Attachment O revenue
24 requirement subject to applicable regulatory approvals.
25

26 **Q. What is your conclusion from this information?**

27 A. With the understanding that all of the revenues from Manitoba Hydro will be
28 appropriately credited to ratepayers in rider and rate case proceedings, I conclude

1 that MP will record the full cost of the project as a capital cost and then, on an on-
2 going basis, apply the payments from Manitoba Hydro as an offsetting credit towards
3 the revenue requirements.
4

5 **Q. Please provide your third recommendation from Direct Testimony.**

6 A. My third recommendation was that:

7 MP clarify how the Company envisions recovery of the investment costs for
8 the minority owner working. That is:

- 9 • does MP receive a [contribution in aid of construction] CIAC
10 payment from MH if a transfer to another Minnesota MISO
11 transmission owner is arranged?
- 12 • are the costs of the new minority owner (a Minnesota MISO
13 transmission owner) charged to MP's zone with no MH CIAC offset?
14 or
- 15 • is there some other impact?

16
17 DOC Ex. ___ at 49-50 (Rakow Direct).

18
19 **Q. Did MP reply to your third recommendation?**

20 A. Yes. MP witness Mr. Donahue stated at pages 8-9 that:

21 In the event of a transfer of minority interest from
22 Manitoba Hydro to another entity, the [facilities
23 construction agreement] FCA requires Minnesota
24 Power's full consent to any such transfer. If Manitoba
25 Hydro was to assign its ownership percentage to another
26 MISO Transmission Owner, the revenue requirements
27 associated with the new minority owner position in the
28 Project would be assigned to the Minnesota Power
29 pricing zone under the MISO tariff and cause a
30 significant increase in the MISO rates . . . Minnesota
31 Power would find this unacceptable and would not agree
32 to the assignment.

1 **Q. What is your conclusion from this response?**

2 A. I conclude that there is a potential for a rate increase due to a change in ownership.
3 However, since MP states that the Company would object to such an event and
4 because any transfer in ownership would require Commission approval under
5 Minnesota Rules 7849.0400 to ensure that any rate increase is just and reasonable,
6 I conclude that this issue will be satisfactorily addressed in the future should such an
7 ownership transfer occur.

8
9 **Q. Please provide your fourth recommendation from Direct Testimony.**

10 A. "I recommend that the Company explain if MP's ratepayers are to be responsible for
11 one-third or 28.3 percent of O&M [operations and maintenance] costs or some other
12 amount." DOC Ex. ___ at 50 (Rakow Direct).

13
14 **Q. Did MP reply to your fourth recommendation?**

15 A. Yes. MP witness Mr. Donahue provided a revised Table 3 which clarifies that MP's
16 ratepayers are to be responsible for one-third of the O&M costs.

17
18 **Q. What is your conclusion from this information?**

19 A. I conclude that this response clarifies the financial responsibilities for MP's
20 ratepayers under MP's proposal.

21
22 **Q. How did MP address the following discussion in your Direct Testimony?**

23 **The Petition at page 29 stated that MP's ratepayers "will**
24 **also be responsible for only one-third of the**
25 **maintenance costs." Since the petition was filed it has**

1 become clear that the GNTL's transfer capability is
2 greater than initially estimated; the transfer capability
3 [was] assumed in the Petition (at page 13) to be about
4 750 MW. This was updated to be 883 MW in MP's
5 direct testimony (see MP Ex. ___ at 15 (McMillan Direct)
6 and MP Ex. ___ at 3 (Winter Direct)) and that the SPSA
7 uses 28.3 percent of the total transfer capacity rather
8 than one-third. Thus, the share of O&M costs to be
9 recovered from MP's ratepayers should be somewhat
10 less than stated in the Petition.
11

- 12 A. To provide context regarding the dollar amount being discussed, the Petition at page
13 28 stated that the cost for routine maintenance typically will run from \$1,100 to
14 \$1,600 per mile. At page 2 the Petition estimates a length of 235 to 270 miles.
15 Using \$1,600 per mile and 250 miles results in \$400,000 annually in maintenance
16 costs; 5 percent of \$400,000 is \$20,000.

17 The explanation provided by MP witness Mr. Donahue at pages 5-6 is that:

18 Originally, Minnesota Power was to be responsible for
19 33.3% of all costs of the Project – both capital and O&M.
20 However when MISO determined that additional
21 transmission capacity would be available on the line,
22 Manitoba Hydro agreed to make a 5% Contribution in Aid
23 of Construction to fund that increase in capacity,
24 bringing Minnesota Power's responsibility for capital
25 costs down to 28.3%. Minnesota Power could identify no
26 additional O&M expenses associated this incremental
27 increase in capacity. Therefore, Minnesota Power agreed
28 to maintain the 33.3% O&M allocation in exchange for
29 the 5% increase in Manitoba Hydro's capital funding
30 obligation.
31

32 This response explains that the facts and decisions that led to the one-third
33 maintenance allocation to MP's retail ratepayers were reasonably based on costs.

1 **Q. Please provide your fifth recommendation from Direct Testimony.**

2 A. "I recommend that the Company fully explain the source for the unaccounted for
3 O&M cost recovery (either 18 percent [100 minus 49 minus 33] if ratepayers are
4 responsible for one-third of O&M costs or, if the updated transfer capability is used,
5 22.7 percent [100 minus 49 minus 28.3])." DOC Ex. ___ at 50 (Rakow Direct).

6
7 **Q. Did MP reply to your fifth recommendation?**

8 A. Yes. MP witness Mr. Donahue provided a revised Table 3 which demonstrates how
9 the O&M costs will be allocated amongst MP ratepayers, the Manitoba Hydro ROA
10 Fee, the Manitoba Hydro CIAC payment, and (potentially) MH's assignee.

11
12 **Q. What is your conclusion from this information?**

13 A. This response provides some clarification of the overall financial responsibilities for
14 the proposed Project's O&M costs by indicating that MP's ratepayers would be
15 responsible for 33.3% of the O&M costs, but Manitoba Hydro would have a "49%
16 O&M obligation if they assign their interest to Minnesota Power. If the assignment is
17 to another MISO Transmission Owner, that assignee would have to assume the 49%
18 O&M obligation." The remaining amount, 17.7% would be covered by Manitoba
19 Hydro via its payment of the ROA Fee.

20 To ensure that the cost responsibility for MP's ratepayers is clarified further, I
21 recommend, if the Commission decides to approve the GNTL, that the Commission
22 require MP to receive prior approval from the Commission if MP proposes to charge
23 its ratepayers for O&M costs higher than 33%. For example, if MP or MP's affiliate,
24 Allete Clean Energy becomes the assignee, then MP would need to receive prior

1 approval from the Commission if MP proposes to charge higher O&M costs to MP's
2 ratepayers as a result of such an arrangement.

3
4 **Q. Please provide your sixth recommendation from Direct Testimony.**

5 A. "I recommend that the Company confirm that the most recent point estimate is that
6 MP's ratepayers would be responsible for \$191.4 million of construction costs." DOC
7 Ex. ___ at 50 (Rakow Direct).

8
9 **Q. Did MP reply to your sixth recommendation?**

10 A. Yes. MP witness Mr. Donahue stated on page 6 that "the FCA's current point
11 estimate equates to a \$191.5 million Minnesota Power obligation."

12
13 **Q. What is your conclusion from this response?**

14 A. This response confirms that the overall estimated construction cost has not changed,
15 at least in terms of the obligation of MP.

16
17 **Q. Please provide your seventh recommendation from Direct Testimony.**

18 A. "I recommend that MP provide an update regarding the status in Manitoba of the
19 Keeyask dam, Conawapa dam, and related transmission projects in rebuttal
20 testimony." DOC Ex. ___ at 50 (Rakow Direct).

21
22 **Q. Did MP reply to your seventh recommendation?**

23 A. Yes it did. Regarding the Keeyask generating station MP witness Mr. McMillan stated
24 at page 5 that Manitoba Hydro is managing the construction of the project and is

1 working towards meeting a 2019 in-service date and that on July 16, 2014,
2 construction of Keeyask officially commenced.

3 Regarding the Conawapa generating station, MP witness Mr. McMillan stated
4 at page 5 that pre-construction expenditures planned for the Conawapa Generating
5 Station have been frozen by MH until more export sales are confirmed.

6 Regarding the related transmission projects, MP witness Mr. McMillan stated
7 at pages 4-5 that:

8 Manitoba Hydro has completed two rounds of public
9 engagements and a preferred route has been selected
10 that will be subject to a final round of public engagement
11 scheduled to commence in January 2015. Feedback
12 from the final round of public engagement along with
13 environmental assessment work will be utilized by
14 Manitoba Hydro to finalize the route selection and
15 complete the regulatory submissions by the summer of
16 2015.
17

18 **Q. What is your conclusion from this information?**

19 A. This response confirms that Manitoba Hydro continues to make progress towards the
20 facilities that will be needed to deliver the energy and capacity that MP has
21 purchased.²
22

23 **Q. Please provide your final recommendation from your Direct Testimony.**

24 A. "I recommend that MP provide corrections or clarifications to my Table 3 above"
25 regarding MP's proposed recovery of costs. DOC Ex. ___ at 50 (Rakow Direct).

² On October 29, 2014, MP filed a second proposed PPA with Manitoba Hydro, at a proposed level of 50 MW, in Docket No. E015/M-14-926. This level is relatively small and will be analyzed separately.

1 **Q. Did MP reply to your final recommendation?**

2 A. Yes. As discussed above, MP witness Mr. Donahue provided a revised Table 3 which
3 demonstrates how the investment responsibility, capital costs, and O&M costs will be
4 allocated amongst MP ratepayers, the Manitoba Hydro ROA Fee, the Manitoba Hydro
5 CIAC payment, and (potentially) MH's assignee.

6
7 **Q. What is your conclusion from this response?**

8 A. This response clarifies overall financial responsibilities for the project, based on
9 information available at this time. As noted above, if the Commission decides to
10 approve the GNTL, I recommend that the Commission require MP to receive prior
11 approval from the Commission if MP proposes to charge its ratepayers for O&M costs
12 higher than 33%.

13

14 *B. MP'S REBUTTAL TO LARGE POWER INTERVENORS*

15 **Q. How do you respond to LPI witness Mr. Kollen's proposed hard cap?**

16 A. My Rebuttal Testimony addressed this issue, where I recommended a modified
17 version, namely that the Commission:

18 ...put MP on notice regarding future cost recovery that:
19 1) MP would be limited to recover in riders only the amount
20 of costs that MP proposes in this proceeding,
21 2) MP could request recovery of costs above the CN amount
22 only in a rate case, and
23 3) MP would have the burden of proof to show that any such
24 costs are prudent and why it would be reasonable to
25 recover such costs from ratepayers; DOC Ex. ___ at 4-5
26 (Rakow Rebuttal).

1 Q. Did MP respond to LPI witness Mr. Kollen's proposed cap?

2 A. Yes, MP witness Mr. McMillan responded to LPI's proposal.

3

4 Q. Do you have a response to MP witness Mr. McMillan's Rebuttal Testimony on this
5 issue?

6 A. Mr. McMillan and myself both recommend that the Commission not change past
7 practice regarding capping capital cost recovery in the rider and deferring any cost
8 overruns to a rate case proceeding. That practice includes the statutory requirement
9 that MP bears the burden of proof to show that its proposed cost recovery is
10 reasonable.

11

12 III. CONCLUSION

13 Q. What is your overall recommendation at this time?

14 A. At this time I recommend that the Commission:

- 15 1. Approve a certificate of need for MP's proposed GNTL;
- 16 2. Order MP to use the Commission's externality values in all certificates of need
17 and put MP on notice that failure to do so would result in CN filings being found
18 to be incomplete in the future;
- 19 3. Adopt Mr. Kollen's recommendation that the Commission condition approval of
20 the CN upon Commission approval of MP's 133 MW Renewable Optimization
21 Agreements (ROA) and the Facilities Construction Agreement (FCA);
- 22 4. Require MP to receive prior approval from the Commission if MP proposes to
23 charge its ratepayers for O&M costs higher than 33%;
- 24 5. Put MP on notice regarding future cost recovery that:

- 1 a. MP would be limited to recover in riders only the amount of costs that
2 MP proposes in this proceeding,
3 b. MP could request recovery of costs above the CN amount only in a
4 rate case, and
5 c. MP would have the burden of proof to show that any such costs are
6 prudent and why it would be reasonable to recover such costs from
7 ratepayers.

8

9 **Q. Does this conclude your Surrebuttal Testimony?**

10 **A. Yes.**