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July 14, 2021

VIA E-FILING
Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of Petition for Approval of a Transmission Cost Recovery Rider under Minn. Stat. § 216B.16, subd. 7b.
Docket No. E015/M-20-900
Reply Comments

Dear Mr. Seuffert:

Minnesota Power submits to the Minnesota Public Utilities Commission its Reply Comments in response to the Department of Commerce, Division of Energy Resources Initial Comments filed on June 18, 2021. Please contact me at (218) 355-3601 or lhoyum@mnpower.com with any questions related to this matter.

Yours truly,

Lori Hoyum
Policy Manager

LH:th
Attach

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Petition for the 2021 Approval of a Transmission Cost Recovery Rider under Minn. Stat. § 216B.16, subd. 7b	Docket No. E015/M-20-900 **REPLY COMMENTS**

I. INTRODUCTION

Minnesota Power (or the "Company") submits to the Minnesota Public Utilities Commission ("Commission") its Reply Comments in the above-referenced Docket. On June 18, 2021, the Department of Commerce, Division of Energy Resources ("Department") filed Initial Comments following review of the Company's December 28, 2020 Petition ("2021 TCR Petition") seeking Commission approval of its 2021 rate adjustment mechanism under its Rider for Transmission Cost Recovery ("TCR"). The Department recommended that Minnesota Power provide in its Reply Comments:

- Detailed calculations for the monthly requested Great Northern Transmission Line ("GNTL") property taxes and operation and maintenance ("O&M") as shown in Exhibit B-3 for each project ID#, and a clear explanation for why the total monthly amount of property taxes and O&M for each project ID# is reasonable and consistent with paragraph (d) of the TCR Statute;[1]
- Information to demonstrate whether the Iron Range Material Storage building was least-cost relative to other alternatives considered;
- An explanation and calculations for the requested property tax amounts in Exhibit B-3, pages 1-15, for the Dog Lake Project;
- An exhibit or other information connecting the information in Exhibit B-1 with the revenue and charges provided in Exhibit C-1, as well as a full linkage and

[1] Minn. Stat. § 216B.16, subd. 7.

explanation between the requested RECB revenue requirements as shown in Exhibit B-5, and the revenues and charges confirmed by MISO in Exhibit C-1;

- Documentation for the ARR credits;
- Documentation of all Schedule 9 credits it has received for any year;
- An explanation connecting the base rate revenue credit calculations for GNTL and Dog Lake to the total amounts shown in Exhibits B-1 and B-2;
- An estimate of the Company's embedded cost of debt and capital structure for 2021;
- Resettlements to date, an estimation of how including them would affect the rider, and when the resettlements (MISO process) is expected to be complete; and whether Minnesota Power could include an estimated resettlement amount for 2021 and then adjust to actuals in future TCRR filings; and
- Descriptions of all potentially eligible projects that the Company will seek recovery for in the future, and the impacts those projects will have on the Transmission Cost Recovery factor (or point to location within petition).

In addition to the information requested, the Department made several recommendations to the Commission in its Initial Comments. Through these Reply Comments, Minnesota Power provides the recommended information and clarification in response to the questions, concerns and points raised in the Department's Initial Comments.

II. REPLY COMMENTS

Included in Minnesota Power's 2021 Transmission Factor are costs related to its GNTL Project for which the Commission issued a Certificate of Need ("CoN") on June 30, 2015, and a route permit on April 11, 2016; the Motley-Area 115 kilovolt Transmission Line Project (referred to internally at Minnesota Power as the "Dog Lake Project") for which the Commission approved a CoN and route permit on March 23, 2016; and obligations related to Midcontinent Independent System Operator ("MISO") that were approved by the Commission in prior Company TCR factor filings. Similar to Minnesota Power's 2019 TCR Petition that was approved by the Commission in its December 3, 2020 Order,[2] the GNTL Project costs constitute a significant percentage of the 2021 Transmission Factor.

Significant benefits are derived from the GNTL including advancing the Company's *Energy**Forward*** strategy to increase its generation diversity and renewable portfolio, and strengthen system reliability. The GNTL facilitates the delivery of 883 megawatt ("MW") of incremental Manitoba – United States transfer capability, including 383 MW of clean, emission-free hydropower and wind storage energy products to serve Minnesota Power's customers. As reported in the Company's 2021 TCR Petition, in addition to construction of the Project being completed on schedule, construction costs are near the low end of the projected cost range from the approved CoN even with the route change. The CoN approval order identifies the cost range for the GNTL Project to be between $557.9 million and $710.1 million (2013 $). The current cost estimate is approximately $587.3 million (2013 $) when escalation is factored in using the Handy-Whitman Indices.

Projected Cost Range for GNTL Project (2013 $)

|-----------|--|

$557.9 M **$587.3 M** $710.1 M

$663.8 M (nominal $)

[2] See Order Point 1 of December 3, 2020 Order in Docket No. E015/M-19-440.

Due diligence and best practices in industry supply chain management were utilized to ensure the lowest overall cost for the GNTL Project.

Minnesota Power filed its 2021 TCR Petition on December 28, 2020, and the Department, after requesting six extensions, issued its Initial Comments nearly six months later on June 18, 2021. To date, the Department has not issued any information requests in this Docket. Instead, the Department requested additional information for multiple items in their Initial Comments. Due to the amount of information and the timing of the request, Minnesota Power requested an extension to allow sufficient time to finalize its response. The Company is concerned as it is seeing a similar trend to what was experienced in its 2019 TCR Petition: the regulatory review process took approximately 17 months from the date of filing to the date of the order.

Minnesota Power provides the additional information requested and responds to the recommendations by the Department in the following sections.

A. Requested Additional Information

1. Operations and Maintenance ("O&M") and Property Taxes

The Department requested that Minnesota Power provide detailed calculations for the monthly requested GNTL property taxes and O&M as shown in Exhibit B-3 for each project identification number, and a clear explanation for why the total monthly amount of property taxes and O&M for each project identification number is reasonable and consistent with paragraph (d) of the TCR Statute.

Property Taxes

Attachment 1 GNTL Property Taxes *contains the requested detailed calculations for annual property taxes, because property taxes are calculated annually. The requested monthly GNTL property taxes, and O&M as shown in Exhibit B-3 by project identification number are calculated by dividing the annual numbers by 12.* ***Attachment 2 Property Tax Rate Base and Allocation Calc*** *contains the detailed calculations used to deduce the Estimated Property Tax Rate listed on the aforementioned Attachment 1.*

In order to calculate Minnesota Power's estimated property tax, the Company first starts with its Property Tax Rate Base. This is the same as its estimated project cost, or actual project cost where available. Minnesota Power's GNTL substation projects are located in Roseau and Itasca Counties, within easily defined taxing districts. Minnesota Power's project cost becomes the Company's Market Value in those taxing districts. The Company's non-substation projects for the GNTL are located across four Minnesota counties: Itasca, Koochiching, Lake of the Woods, and Roseau. Minnesota Power allocates its Property Tax Rate Base to each county by figuring the percent of line miles in each county. This percentage is multiplied by the Company's estimated (or actual) non-substation project cost. This gives Minnesota Power the non-substation Market Value of its property in each county.

Both the substation and non-substation Market Values are multiplied by the Minnesota State Assessment Rate. This is set by Minnesota Statute[3] *and has been 2 percent consistently. This gives Minnesota Power its Tax Capacity Values in each county.*

The Tax Capacity Values are then multiplied by the State Business Tax Rate and the County Average Tax Capacity Rate. The Minnesota Department of Revenue determines the State Business Tax Rate and posts it online. Each county determines their Tax Capacity Rate, and Minnesota Power requests these rates from each county. For non-substation taxes, the Company uses the average Tax Capacity Rate across the entire county. For substation taxes, Minnesota Power uses the exact rate for the specific taxing district. The Tax Capacity Values times these rates gives the Company its estimated state and local property taxes due.

Most counties levy additional property taxes based on the Market Value of property. These taxes are calculated using the county's Average Market Value Referendum Rate, which Minnesota Power also requests directly from each county. Minnesota Power multiplies these rates by the Market Value of its property, calculated in the first paragraph above. Again, for the Company's non-substation property, it uses the Average Market Value Referendum Rate across the entire county. Minnesota Power's substation property

[3] Minn. Stat. § 273.13, subd. 24.

uses the exact rate for their specific taxing districts. This is the final piece of Minnesota Power's Total Estimated Property Tax.

Minnesota Power's Total Estimated Property Tax divided by its Property Tax Rate Base gives the Company its Current Property Tax Rate of 3.0499 percent.

In this way, Minnesota Power's estimated property taxes are based on rates that are provided by state and local governments. The only value which the Company uses an internal estimate for is the Property Tax Rate Base, which is clearly defined elsewhere. Minnesota Power's estimate is reasonable and consistent because it is largely based on rates provided by government agencies, which the Company has no input on or ability to adjust.

Operations & Maintenance

The calculation of the estimated O&M is straightforward. In order to develop the 2021 Budgeted O&M expenses, the Company first identified the specific contracts that began during construction with ongoing expenses such as site utilities and portable toilets. Next, inquiries were made to each department responsible for maintaining the GNTL assets to determine the near-term expected expenses. The estimated expenses described below are based on known costs and extensive experience with transmission line maintenance. As a reminder, the estimated O&M is used to estimate an appropriate TCR rate to collect from customers, but ultimately the actual O&M is what goes into the tracker.

Project / Reason	Amount
ID# 105471 Great Northern Transmission line **Reason:** Estimated costs for Herbicide application for vegetation management as well as drone inspection flights and anticipated line maintenance.	**$355,549**
ID# 107621 Iron Range Substation **Reason:** Utilities and portable toilet at this location.	**$5,900**
ID# 107623 Series Comp Station **Reason:** Utility costs, snow plowing, and portable toilet at this location. Budget amount also includes software patches for improvements in connectivity and to meet compliance requirements.	**$113,100**
ID# 110418 Black River Regen **Reason:** Utility costs at this location.	**$2,400**
ID# 110435 GNTL Togo Regen **Reason:** Utility costs at this location.	**$2,100**
ID# 112139 Iron Range Material Storage Building **Reason:** Utility costs and portable toilet at this location.	**$3,900**
TOTAL 2021 O&M BUDGET	**$482,949**

Figure 1- GNTL O&M Expenses Explanations

2. GNTL Iron Range Material Storage Building

The Department requested that Minnesota Power provide Information to demonstrate whether the Iron Range Material Storage building was least-cost relative to other alternatives considered.

As a regulated utility, Minnesota Power obtains competitive quotations on purchases of materials and services and awards to the lowest bidder unless a better economic value is obtained and documented. In the specific case of the Iron Range Material Yard 94 percent of the charges were incurred on contracts requiring competitive bidding through the Minnesota Power procurement process.

As discussed in the 2021 TCR Petition on page 26 and based on good utility practice, "it was important to ensure that Minnesota Power, as Maintenance Provider, has the tools *and equipment needed to bring the line back into service in the occurrence of an event." The building and associated site was built to accommodate and provide controlled access for the storage of partially assembled replacement towers and materials as well as provide a central location for an emergency response team. Further, the building and associated site is secure and only accessible by Minnesota Power personnel and was built to allow for helicopter access to the equipment and towers for emergency installation and repair of the line. Having a building and site allows for the onsite storage of materials and equipment which allows Minnesota Power to have immediate access and control to long-lead-time and asset-specific materials in the case of an event. Onsite, secure and regularly monitored storage removes the risk of equipment and materials not being available for emergency installation.*

Other alternatives include storing materials at various locations which would result in a less controlled area and a monthly storage fee for the life of the line and associated facilities as well as additional shipping challenges and costs that could potentially limit the availability of materials and equipment in a timely manner due to road weight limits during certain months of the year. Further, having the spare materials and equipment at several different locations would result in delayed access to the materials and equipment and delay the restoration of the line and associated facilities.

3. Dog Lake Plant-in-Service and O&M & Property Taxes

The Department requested that Minnesota Power provide an explanation and calculations for the requested property tax amounts in Exhibit B-3, pages 1-15, for the Dog Lake Project.

Attachment 3 Dog Lake Property Taxes *contains the requested explanation and detailed calculations for the Dog Lake Project property taxes as shown in Exhibit B-3, pages 1-15.*

In order to calculate Minnesota Power's estimated property tax, the Company first starts with its Market Value. For Minnesota Power's purpose, this is equal to its Original Installed Cost ("OIC").

The Company's Market Values are multiplied by the Minnesota State Assessment Rate. This is set by Minnesota Statute[4] and has been 2 percent consistently. This gives the Company its Tax Capacity Values in each county.

The Tax Capacity Values are then multiplied by the State Business Tax Rate and the County Average Tax Capacity Rate. The Minnesota Department of Revenue determines the State Business Tax Rate and posts it online. Each county determines their Tax Capacity Rate, and Minnesota Power requests these rates from each county. For transmission line project taxes, the Company uses the average Tax Capacity Rate across the entire county. For substation project taxes, the Company uses the exact rate for the specific taxing district. The Tax Capacity Values times these rates gives Minnesota Power its Total Estimated Property Taxes due.

To help the Company analyze its costs, Minnesota Power then calculates its property taxes as a percentage of its OIC. To do this, the Company takes its Total Estimated Property Taxes and divides them by its Total OIC.

In this way, Minnesota Power's Estimated Property Taxes are based on rates that are provided by state and local governments. The projects are in place, so the OIC is already determined and not an estimate. The Company's property tax estimate is reasonable and consistent because it is largely based on rates provided by government agencies, which Minnesota Power has no input on or ability to adjust.

4. NET RECB EXPENSES OR REVENUES (MISO SCHEDULES 26, 26A, 37, 38)

The Department requested that Minnesota Power provide an exhibit or other information connecting the information in Exhibit B-1 with the revenue and charges provided in Exhibit C-1, as well as a full linkage and explanation between the requested RECB revenue requirements as shown in Exhibit B-5, and the revenues and charges confirmed by MISO in Exhibit C-1.

[4] Minn. Stat. § 273.13, subd. 24.

__Attachment 4 Rev Confirms Reconciliation 19-20__ and __Attachment 5 MISO Confirms 19-20__ reconciles Exhibit B-5 to Exhibit C-1. The difference between the two exhibits is that General Ledger ("GL") includes the accrual and reverse accrual. The accrual and reverse accrual had to be removed from the GL in order to tie back to numbers provided by MISO in Exhibit C-1.

5. ARR Revenues

The Department requested that Minnesota Power provide documentation for the ARR credits.

See __Attachment 6 MVP Credits__ for a download from the GL system showing by month the credits related to the ARR credits received from MISO and applicable to the TCR. See also the __Attachment 7 2019-01-02_MPM_MKT_1582990__, __Attachment 8 2019-01-15_MPM_MKT_1584872__, and __Attachment 9 2019-01-22_MPM_MKT_0585835__ for the referenced pages on the GL system download to find the credits as shown on the actual weekly invoices received from MISO. The credit is shown as "MVP Distribution Amount" and can be found on page 11 of Attachment 7, page 3 of Attachment 8, and page 8 of Attachment 9. These attachments are provided as an example of the information received from MISO and used by Minnesota Power to record the credits received. If desired, the Company can provide each of the weekly invoices for 2019 (the weekly invoices for January 2019 are provided for the example); however, as shown by the example, the ARR credit is included in a multi-page document and would result in sending a large amount of data.

6. NON-RECB REVENUES AND EXPENSES (SCHEDULE 9 CREDITS)

The Department requested that Minnesota Power provide documentation of all Schedule 9 credits it has received for any year

__Attachment 10 Schedule 9_GNTL and Dog Lake__ shows "Base Transmission revenues collected from utilities other than MP" at $313,469. __Attachment 11 February 2020 Base Transmission__ is one tab out of the MR file received from MISO monthly which shows the base transmission received by Minnesota Power from all parties. By filtering out MPM in *the Customer column, the result is the revenues received from parties other than Minnesota Power. The total in column V (BT Revenue Abs) totals $313,469. If desired, the Company can provide each file from every month (the data received for February 2020 is provided for the example). Each MR file received monthly from MISO contains about 1400 lines of data which would result in sending a significant amount of data to be reviewed since the Schedule 9 credit amount is not a line item as with the ARR credits.*

7. BASE RATE REVENUE CREDITS FOR GNTL AND DOG LAKE

The Department requested that Minnesota Power provide an explanation connecting the base rate revenue credit calculations for GNTL and Dog Lake to the total amounts shown in Exhibits B-1 and B-2.

Exhibit B-6 provides a credit calculation related to retired plant on a Total Company basis, and provides a start month for the credit. All of the credits shown in Exhibit B-6 are in effect by February of 2020 for example. As a result, the credit shown in Exhibits B-1/B-2 (MN Jurisdictional basis) for February 2020 and later would be the sum of all of the credits shown in Exhibit B-6 multiplied by the MN Jurisdictional allocator in effect. For previous months, the same methodology links Exhibits B-1 and B-2 to Exhibit B-6; however, only the credits for projects in service would be included in the sum, prior to multiplying by the MN Jurisdictional allocator.

8. RATE OF RETURN

The Department requested that Minnesota Power provide an estimate of the Company's embedded cost of debt and capital structure for 2021.

Attachment 12 Rate of Return *provides the requested estimate of Minnesota Power's embedded cost of debt and capital structure for 2021. The data is taken from Tab E-15 Rate of Return of the ALLETE, Inc. (d/b/a Minnesota Power) 2020 Electric Jurisdictional Annual Report submitted on April 30, 2021, in Docket No. E, G999/PR-21-4. Additionally, as shown in Exhibit B-7, pages 2 and 3, Minnesota Power used the current Commission-*

approved Return on Equity ("ROE") of 9.25 percent[5] *to calculate the Company's rate of return.*

It is important to note that Minnesota Power has used the capital structure and allowed rate of return from the most recently approved rate case in its rate of return calculation in each of its filings submitted under all Commission-approved riders (TCR, Renewable Resources Rider, Solar Factor Adjustment under the Renewable Rider, Rider for Boswell Unit 4 Emission Reduction, etc.). This includes the 2021 TCR Petition. The use of any other embedded cost of debt and capital structure in the rate of return calculation for the 2021 TCR would be a significant and unjustified deviation from prior rider filings.

9. FERC ROE REFUNDS

The Department requested that Minnesota Power provide resettlements to date, an estimation of how including them would affect the rider, and when the resettlements (MISO process) is expected to be complete; and whether Minnesota Power could include an estimated resettlement amount for 2021 and then adjust to actuals in future TCRR filings

The MISO resettlement process is currently not expected to be completed until the second quarter of 2022. Minnesota Power revenues received under Schedule 26 are based on a percentage of the total amount of Schedule 26 revenues collected. There are over 70 transmission owners involved in the MISO resettlement process. The Company does not have access to all transmission owners' data in order to estimate the total impact of the new ROE on each transmission owners' Attachment GG and MM. In addition, the amount of Schedule 26 and 26A expenses paid by Minnesota Power is also dependent on the other transmission owners' filings, and would offset revenues received through the resettlement process. At this time, updated Attachment O/GG/MM/ZZ[6] *projection rates for the years 2017-2020, along with the related years true up filings, have yet to be*

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[5] See Order Point 2 of the March 12, 2018 Order in Docket No. E015/GR-16-664 (*In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota).*

[6] Attachment MM is not applicable to Minnesota Power.

completed and supplied to MISO. Therefore, providing an estimate of the impact of the ROE resettlements at this time is not feasible.

10. Potentially Eligible Projects

The Department requested that the Company provide the description or point to the location of the description within the petition of all potentially eligible projects that Minnesota Power will seek recovery for in the future as required by Order Point 7 of the 2019 Order.

On page 3 of the Petition the Company states: "This Petition serves as the Company's annual filing per Order Point 7 of the Commission's December 3, 2020 Order in Minnesota Power's 2019 Transmission Rider Docket (Docket No. E015/M-19-440)." On December 28, 2020, Minnesota Power did not have any potentially eligible projects in the regulatory review process to report; therefore, no descriptions were included. In alignment with Minnesota Power's commitment to greater transparency and continual improvement in its filings submitted to the Commission, in future TCR factor filings the Company will include a statement in the Introduction identifying whether the petition includes a description of potentially eligible projects that have been submitted for regulatory review.

Since filing its Petition, Minnesota Power has submitted a Notice Plan to the Commission for approval pursuant to Minn. R. 7829.2550. The February 26, 2021 Notice Plan[7] outlines the Company's intent to submit in the summer of 2021 a combined application for a Certificate of Need and a Route Permit for the Duluth Loop Reliability Project ("Duluth Loop Project" or "Project"). The Duluth Loop Project includes the construction of: (1) a new, more than 10-mile long, 115 kV transmission line connecting the existing Hilltop Substation, located in southwest Duluth, and the Ridgeview Substation, located in the northeast portion of Duluth; (2) an approximately one-mile long extension of the existing Hilltop 230 kV Tap to the Arrowhead Substation; (3) expansion and transmission line reconfigurations at the existing Hilltop and Ridgeview substations; and (4) associated upgrades at the existing Haines Road and Arrowhead substations. The Project is

[7] Docket No. E015/CN-21-140.

scheduled to be in service in 2025. On May 17, 2021, the Commission approved the Notice Plan and requested variances and exemptions. The Company's 2022 TCR Petition that will be filed later this year will include the estimated project costs of the Duluth Loop Project.

B. RECOMMENDATIONS TO THE COMMISSION

1. Iron Range Material Storage Building

The Iron Range Material Storage Building was constructed to store capital spares for the GNTL 500kV transmission line as well as the Iron Range 500kV substation. These assets will be used when and if there is an interruption of service at either of those two locations. The storage building was not included in the original project scope and was added when it was determined that the existing storage facilities would not be sufficient to store required spares for the assets. The Company is reimbursed for maintaining the line at a set level of O&M paid by 6690271 Manitoba Ltd. ("Manitoba Ltd.") per the Operations and Maintenance Agreement.[8] Minnesota Power believes that the set level of payments from Manitoba Hydro sufficiently offset the cost of the storage building and spare parts contained therein. The O&M payments are passed along to Minnesota Power customers.

The Department recommends that the Commission limit TCR recovery of the Iron Range Material Storage Building to 28.3 percent of total capital costs and 33 percent of total O&M costs.

The Commission's order did not limit individual capital projects to 28.3 percent of costs being recovered, but the total capital costs of the entire GNTL project. Minnesota Power's total capital costs are well below the $201 million in 2013 dollars capital cost soft cap and to arbitrarily apply the 28.3 percent limitation to one project is not reasonable. Furthermore, the Iron Range Material Storage Building costs were not a shareable capital cost with Manitoba Ltd.

[8] The O&M fee is discussed in more detail on page 27 of the 2021 TCR Petition.

Recovery of the estimated 2021 O&M costs is in compliance with Order Point 2.D. of the Commission June 30, 2015 Order in Docket No. E015/CN-12-1163; and in alignment with the O&M agreement with Manitoba LTD. Per the terms of the Operations and Maintenance Agreement ("OMA") with Manitoba Ltd., Minnesota Power is 100 percent responsible for the operations and maintenance of the GNTL; however, the OMA also includes a provision requiring Manitoba Ltd. To pay 49 percent of O&M costs. Additionally, the Company strategically negotiated the monthly Must Take Fee Credit, equal to 17.7 percent of the GNTL Project's total O&M and capital expenses, to ensure customers would be financially responsible for no more than 33 percent of the total O&M cost.

The O&M payment is based on the Company's average O&M cost per mile of transmission line based on a 5-year average of FERC Form No. 1 actuals, escalated because there is a 5-yr lag, and then multiplied by an adjustment factor (25% for years 1-5, 50% for years 6-10, 75% for years 11-15, 100% for years 16-20). Therefore, what Manitoba LTD. pays for O&M is not based on actual GNTL O&M (other than the impact any O&M would have on 5-year FERC account averages). The O&M payment are passed along to Minnesota Power customers as a credit and reduces the revenue requirements from the other TCR projects.

Ultimately, customers technically never pay 100 percent of the O&M costs for the GNTL since the amount allocated towards O&M costs from the Must Take Fee Credit and the OMA payment are credited against the total O&M amount. Based on the negotiated methodology for determining the Company's average O&M cost shown above, Minnesota Power customers should not be responsible for any O&M costs in 2021.[9] The negotiated terms and calculation methodology protect customers, and for 2021 financially benefits customers to a greater degree.

The Department also recommends that the Commission only allow recovery of the 28.3 percent of the capital costs and 33 percent of the total O&M costs for the Iron Range Material Storage Building (Project ID #112139), for consistency the Department

[9] See Figure 1 for estimated 2021 GNTL O&M costs, and Minnesota Power's November 6, 2014 TRADE SECRET Petition in Docket No. E015/M-14-960, Exhibit A, section 2.6. and Appendix I for example of calculation.

recommends that Minnesota Power back out the same amount of internal costs as other projects.

Through May 2021 internal costs associated with both the Iron Range Material Yard and Certain Other Non-Manitoba Ltd. Charges amount to approximately $0.5 million. Minnesota Power agrees that internal costs, for consistency, can be excluded from the overall capital recovery calculation.

2. Certain Other Non-Manitoba Ltd. Charges

During project execution Minnesota Power determined with Manitoba Ltd that certain charges, while applicable to the project, should not be proportionally allocated to Manitoba Ltd. The Construction Management Agreement gave Manitoba Ltd. the right to dispute charges and authority to the Management Committee to decide the correct handling. Disputed charges were evaluated as they occurred, and the treatment of these charges was agreed to by the GNTL Construction Manager, as well as the GNTL Management Committee, which included representation by two individuals from Minnesota Power and two individuals from Manitoba Ltd.

It's the Department's position that the test year for base rates already includes a representative amount for internal costs such as a legal, travel, meals, etc., and the Company has not demonstrated that the "certain other Non-Manitoba Ltd. Charges" are not internal costs that are already recovered in base rates. For this reason the Department recommends that the Commission reject recovery of the approximately $1.9 million of "certain other Non-Manitoba Ltd. Charges."

Incremental costs incurred in relation to "certain other Non-Manitoba Ltd. Charges" are not already recovered in base rates as of the most recent Rate Case filed on November 2, 2016 in Docket No. E015/GR-16-664. Adjustments were included in the 2016 rate case to exclude all revenue, expenses, and rate base associated with the continuing cost recovery rider for projects going into service after January 1, 2017. All the GNTL projects were part of these adjustments because all were in-service after January 1, 2017. Also, in the 2016 rate case there was a $2.1 million Total Company adjustment for internal labor *costs associated with projects that are eligible for rider cost recovery. $1.0 million of this $2.1 million Total Company adjustment was internal labor costs associated with the GNTL project, but we are not double recovering these costs because these internal labor costs are not included in either the cost recovery rider rate calculations or in the test year after capital costs associated with continuing rider projects are backed out.*

The Department goes on to say that if the Commissions allows recovery of any "certain other Non-Manitoba Ltd. Charges," then, per the GNTL CoN Order, the Department recommends that the Commission limit cost recovery to 28.3 percent of capital costs and 33 percent of O&M costs.

The Commission's order did not limit individual capital projects to 28.3 percent of costs being recovered, but the total capital costs of the entire GNTL project. Minnesota Power's total capital costs are well below the $201 million in 2013 dollars capital cost soft cap and to arbitrarily apply the 28.3 percent limitation to one project is not reasonable. Furthermore, the "certain other Non-Manitoba Ltd. Charges" were not a shareable capital cost with Manitoba Ltd; therefore Minnesota Power paid 100 percent of the costs and the costs should be allowable at full recovery in the TCR Rider.

3. NET RECB EXPENSES OR REVENUES

The Department recommends that to ensure rates accurately reflect costs to the extent possible, the Commission require Minnesota Power to incorporate updated actual net RECB expenses before implementing an updated transmission factor.

Minnesota Power does not support the Department's recommendation as it is not necessary. A true-up of actual RECB expenses to estimated costs occurs through the tracker.

4. PRORATED ACCUMULATED DEFERRED INCOME TAXES ("ADIT") & IMPLEMENTATION DATE

On page 42, Minnesota Power states, "In this TCR current cost recovery filing, the Company is utilizing a 2021 test year. The Company is estimating that rates under this 2021 Transmission Factor will take effect after December 1, 2021. This results in 2021 being a historical year and therefore no pro rata calculation is required for this TCR current cost recovery filing." The Department states that the proration of ADIT results in higher customer rates. To eliminate the need to prorate ADIT, the Department recommends that the Commission require Minnesota Power to implement its updated transmission factor effective January 1, 2022 or the first day of the month following the Commission's Order in this docket, whichever is later.

Minnesota Power does not support the Department's recommendation. Based on the length of the regulatory review process for the Company's 2019 TCR Petition, and 2020 Renewable Resources Rider Petition (17 months and 15 months, respectively); and the large and complex dockets currently under regulatory review; Minnesota Power could not confidently expect, although preferred, an effective date in 2021 for the new factor. Therefore, ADIT was not prorated in the 2021 TCR Petition.

The Department's comments seem to indicate support for delaying the implementation of the new TCR factor. The delay in implementing the prior TCR factor is one of the contributing factors to the large rate increases in the current filing. The Company is confused as to why the Department would make a recommendation that further perpetuates the issue of large rate increases for customers.

The Department is concerned that if the updated TCR factor is implemented prior to the end of the test period, the amount by which ADIT reduces rate base must be prorated (reduced) in calculating new rates which results in higher customers' rates compared to normal ADIT. With Minnesota Power's intent to submit a rate case in 2021 and interim rates, if approved, going into effect on January 1, 2022, the Company believes it's in customers' best interest to implement the updated TCR factor as early in 2021 as possible in order to incrementally phase in the forth-coming rate increases.

III. CONCLUSION

Minnesota Power continues to believe that the 2021 TCR Factor appropriately recovers the reasonable costs associated with new transmission facilities including the GNTL that efficiently provides customers and the Midwest region with clean, emission-free energy. Because of Minnesota Power's due diligence and efforts, the GNTL Project costs are near the low end of the approved projected cost range in the CoN. The Company respectfully requests that the Commission approve Minnesota Power's annual rate adjustment mechanism, including recovery of 100 percent of the costs associated with the Iron Range Material Storage Building. The Commission's order did not limit individual capital projects to 28.3 percent of costs being recovered, but the total capital costs of the entire GNTL project. The Iron Range Material Storage Building is a pragmatic and cost-effective investment on behalf of customers. The secure building and onsite storage allows the Company to have immediate access to and control of long-lead-time and asset-specific materials in the case of an unplanned maintenance event, and removes the risk of equipment and material not being available for emergency installation. Minnesota Power appreciates the work of the Department in reviewing the 2021 TCR Petition and the opportunity to provide these Reply Comments.

Dated: July 14, 2021

Respectfully submitted,

Lori Hoyum

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COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA ELECTRONIC FILING

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 14th day of July, 2021, she served Minnesota Power's Reply Comments in **Docket No. E015/M-20-900** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on E-Docket's Official Service List for this Docket were served as requested.

Tiana Heger