minnesota power
AN ALLETE COMPANY

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August 16, 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 Minnesota Power's Renewable Resources Rider and 2018 Renewable Factor
Docket No. E015/M-18-375

Dear Mr. Wolf:

Minnesota Power hereby electronically submits its Reply Comments in the above-referenced Docket. An Affidavit of Service is included.

Please contact me at the number above if you have any questions about this filing.

Yours truly,

Susan Ludwig

SL:sr
Encl

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

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In the Matter of Minnesota Power's Renewable Resources Rider and 2018 Renewable Factor	Docket No. E015/M-18-375 **REPLY COMMENTS**

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I. INTRODUCTION

On June 5, 2018, Minnesota Power ("the Company") filed a Petition with the Minnesota Public Utilities Commission ("Commission") seeking approval to update cost recovery of incurred investments, expenditures and costs of renewable projects through the Company's Commission-approved Rider for Renewable Resources ("Renewable Resources Rider" or "RRR"). On July 30, 2018, the Commission approved the Company's request to implement its 2018 renewable factors on a provisional basis. These factors were implemented on August 1, 2018.

Minnesota Power provides these Reply Comments in response to the Department of Commerce – Division of Energy Resources ("Department") Comments in this Docket filed August 3, 2018.

The Department recommended that the Commission approve the Company's petition with modifications to the use of rate of return, capital structure, jurisdictional allocators, rate design allocations, and tax treatment. The Department also recommended the Commission cap recovery of capital expenditures for the Thomson Restoration Project ("Thomson Project"). In addition, the Department requested that the Company provide actual production for the Bison projects over the prior year and explain performance compared to the performance assumed in the eligibility filings. Finally, the Department requested the Company confirm its plans to true up accumulated deferred income tax ("ADIT") figures to actual – not prorated – ADIT in the true-up calculation.

II. MINNESOTA POWER'S RESPONSE

Minnesota Power appreciates the Department's thorough review of the Renewable Resources Rider and the agreement on many issues in this Docket. The following discussion includes a general response to some of the Department's recommendations and addresses the specific recommendations and concerns. The discussion also includes timing of implementation of the 2018 RRR as it relates to implementation of final rates in the Company's rate case.

A. <u>General response to recommendations</u>

Several of the Department's recommendations include a provision that Minnesota Power refund customers for any resulting overcollection during the provisional RRR rate period. The Company would like to clarify that the method for "overcollection" or "undercollection" during the provisional RRR rate period is through the use of the RRR tracker. All over- and under-collections are accounted for with the RRR tracker and included in a subsequent calculation of the RRR factor. This is true for the provisional RRR rate period and for the period in which the new RRR factor is in effect. Therefore, unless the Department is proposing a separate refunding mechanism, it is not necessary for the Commission to order Minnesota Power to refund customers for overcollection during the provisional RRR period.

The Company would also note that some of the Department's recommendations regarding assumptions to use in the tariff calculations are different from the Department's recommendations submitted in Minnesota Power's Boswell Unit 4 Emission Reduction Rider ("BEC4 Rider")[1]. The Company used the same assumptions in the BEC4 Rider petition as in the current petition for capital structure, rate of return, jurisdictional and class allocators, and current tax rates. In the BEC4 Rider, the Department did not take issue with these assumptions. While Minnesota Power is open to the Department's recommendations in the current Docket, it believes consistency is important in evaluating assumptions for current cost recovery riders. Therefore, Minnesota Power will take into consideration the Department's comments in future situations when cost recovery riders are calculated before final rates are implemented.

Minnesota Power would also note for the Commission's benefit the issue of materiality should be taken into consideration. While the Company agrees that all costs and assumptions utilized to calculate the RRR tariff should be vetted, the analysis should also consider whether suggested changes are material enough to warrant the administrative and customer costs involved with the suggestion. For example, the Department suggested an alternative regarding the issue of prorata deferred tax calculation (discussed in Section F below), of delaying implementation of the

[1] See Department Comments filed June 8, 2018 in Docket No. E015/M-18-264.

RRR tariff by one month, in order to eliminate the need for proration. A one-month delay of the 2018 RRR tariff amounts to more than $600,000 of revenue requirements. The prorata deferred tax item in question is a $299 total revenue requirement issue. Clearly, it would not be in customers' interests to delay a significant tariff reduction for $299. Similarly, several of the Department's recommended changes discussed below result in impacts which are not large enough to change the calculated customer rates.

B. Alignment of assumptions with current rate case

The Department recommended that Minnesota Power be required to use the capital structure, rate of return, and jurisdictional and class allocators, approved by the Commission in the Company's 2016 rate case,[2] to recalculate its RRR rates and refund customers for any resulting overcollection during the provisional RRR rate period.

While the Company does not object to this recommendation, the reasons it utilized the assumptions as initially filed are that generally this is not a contested issue, since the Company simply uses the assumptions as determined in its most recent rate case. However, in the present situation, final rates from the 2016 rate case have not yet been implemented. Further, they are not projected to be implemented until December, 2018. Since the 2018 RRR rates include a tracker balance from 2017 and revenue requirements for all of 2018, it made sense to utilize the assumptions in place for base rates during most of this same time period.

Using the Department's proposed assumptions for rate of return and capital structure would decrease revenue requirements for the 2018 RRR rates by $60,731. Using the Department's proposed assumption for jurisdictional and class allocators would increase revenue requirements by $17,917. The net effect of updating these assumptions as recommended by the Department is a decrease to revenue requirements of $42,813.

C. Current tax rates and treatment

Similar to the recommendation discussed above, the Department recommended that Minnesota Power utilize current tax rates and treatments in calculating the Company's RRR rates and refund customers for any resulting overcollection during the provisional RRR rate period. In

[2] See the Commission's March 12, 2018 Order in Docket No. E015/GR-16-664.

this case, Minnesota Power decided to use the previous tax rates primarily because the Commission's Investigation into the Effects on Electric and Natural Gas Utility Rates and Services of the 2017 Federal Tax Act had not yet been decided and currently the order has not yet been issued. Further, the impacts on revenue requirements of updating tax assumptions are minimal and any difference will be included in the RRR tracker. However, the Company does not object to the Department's recommendation, which will result in a decrease to revenue requirements of $29,104.

D. Capital expenditure cap at Thomson Project

The Department recommended that the Commission require Minnesota Power to cap recovery of Thomson Project costs at $90,202,309, instead of $90,400,000. The Department noted that capital expenditures and allowance for funds used during construction ("AFUDC") net of insurance proceeds amounts to $90,202,309, as shown on page 81 of 84 of Attachment C in the Initial Filing. However, there is an additional amount of $183,836 of wholesale AFUDC which was not included in Schedule C. Adding this wholesale AFUDC results in a total amount of $90,386,145, as shown in Table 1 below.

Table 1. Thomson Project Revenue Requirements

Capital Expenditures	$ 97,184,090
AFUDC	3,838,219
Insurance proceeds	(10,820,000)
	90,202,309
Wholesale AFUDC	183,836
	$ 90,386,145

This amount compares to the $90.4 million approved in the Commission's March 5, 2015 Order in Docket No. E015/M-14-577 and is within the cap approved by the Commission. The wholesale AFUDC amount is backed out of the Company's revenue requirement calculation for the RRR tariff regardless, along with internal costs, and so there is no need to recalculate revenue requirements for the Thomson Project and make a related adjustment to the RRR tariff.

E. Performance of production at Bison facilities

The Department requested that Minnesota Power provide the actual production for the Bison wind projects over the prior year and explain any underperformance compared to the 1,888,000 MWh assumed in the eligibility filings.

Table 2 below shows the requested information for the previous four years. The estimated production cost in the eligibility filings was 1,880,000 MWh.

Table 2. Summary of Production at Bison 1, 2, 3 and 4

(MWh)	Estimated*	2014	2015	2016	2017	2017 variance
Bison 1	300,000	266,640	239,519	263,376	271,815	-9.4%
Bison 2	380,000	324,087	294,291	328,831	328,923	-13.4%
Bison 3	365,000	326,727	293,757	326,999	333,816	-8.5%
Bison 4 **	835,000	44,820	712,033	832,159	840,920	0.7%
	1,880,000	962,274	1,539,600	1,751,365	1,775,474	-5.6%

* *Bison 1 - Docket No. E015/M-09-285*
* *Bison 2 - Docket No. E015/M-11-234*
* *Bison 3 - Docket No. E015/M-11-626*
* *Bison 4 - Docket No. E015/M-13-907*
** *Bison 4 was placed in service December, 2014*

There were no major performance issues at the Bison facilities in 2017 – reliability was satisfactory and there were no significant curtailments. While Bison 4 has performed in line with expectations, it is clear the performance of Bison units 1, 2, and 3, have underperformed compared to the initial estimates. At the time these projects were under development – in the year or two before the projects were brought before the Commission – the regional wind industry was relatively new and there was considerably less wind data and operational experience on which to develop projections. The eligibility filing for Bison 1 was submitted in March 2009. The first phase of Bison 1 became operational in December 2010 and the final phase of Bison 1 became operational in January 2012. The eligibility filings for Bison 2 and 3 were submitted in March and June 2011, respectively, and the projects became operational in December 2012. Therefore, the Bison 1, 2, and 3 projects, were placed in service in relatively quick succession and with little or no operational time to apply lessons learned in the development of these projects. By the time

Bison 4 was developed (the eligibility filing was submitted in September 2013), there was much more data on which to develop projections – both from the Company's operational performance as well as from the wind industry overall. Consequently, while Bison 4 is performing in line with expectations, the initial production estimates for Bison units 1, 2, and 3, were overestimated and the Company currently expects future performance for these units to be closer to the 2017 actual production levels. That said, Minnesota Power customers have and will continue to receive significant value and benefits from the Bison wind facilities that have enabled Minnesota Power to meet the Minnesota Renewable Energy Standard requirement (25 percent by 2025) a decade early.

F. ADITs in true-up calculation

The Department commented on Minnesota Power's proposal to include a prorata deferred tax calculation for one month. The Department concluded the proposal is reasonable as long as the Company trues up the ADIT amount in the true-up calculation. The Department requested that Minnesota Power confirm it plans to true-up ADIT figures. Alternatively, since there is only one month of forecasted costs, the Commission could move the implementation date back one month to January 1, 2019 to eliminate forecasted costs and the need for proration.

Minnesota Power included one month of prorata deferred tax in order to avoid a tax normalization violation from the Internal Revenue Service ("IRS"). The Company is assuming that final rates in the rate case are implemented December, 2018; because of this timing, it is necessary to include one month of forecasted costs.

Minnesota Power confirms that it intends to true-up the forecasted prorata ADIT amount of $299 utilizing the method prescribed by the IRS.

G. Impact of Department recommendations

Table 3 below shows the revenue requirement impact of incorporating the Department's recommendations.

Table 3. Department Recommendations Impact on Revenue Requirements

2018 MN Jurisdictional Revenue Requirements	Amount	Impact
Initial filing	$ (7,634,257)	-
Rate case rate of return and capital structure	(7,694,988)	(60,731)
Tax Cut and Jobs Act of 2017	(7,724,092)	(29,104)
Rate case allocation factors	(7,706,174)	17,917
Total		**(71,917)**

As shown in Table 3, incorporating the Department's recommendations results in a reduction to revenue requirements of $71,917. This change would have no impact on the originally proposed Large Power rates and would change the rate for other classes by one thousandth of a cent ($0.00001). While Minnesota Power is not opposed to the Department's recommendation, it believes the impact is immaterial to the current RRR tariff and should instead be considered in the RRR tracker.

H. <u>Timing of RRR implementation</u>

Final rates in the Company's current rate case will be implemented soon, likely in December 2018. As described throughout the current Docket, Minnesota Power's current RRR billing factors are split into two subfactors – a rider subfactor and a base rate subfactor. Coincident with implementation of final rates, the base rate subfactors will be zeroed out and the rider subfactors will be continued as the 2018 bill factors. Therefore, Minnesota Power requests that the Commission approve the RRR billing factors in the current petition to be implemented coincident with final rates in the rate case.

III. CONCLUSION

Minnesota Power appreciates the Department's review of the Renewable Resources Rider and has provided the requested information. The Company is open to implementing the Department's suggested changes to the RRR tariffs if the Commission decides the materiality of the recommendations warrants the change. Minnesota Power will follow the Department's recommendations on the preferred assumptions to use in future situations when cost recovery riders are calculated before final rates are implemented. Finally, Minnesota Power respectfully requests the Commission approve the RRR billing factors to be implemented coincident with final rates in the Company's rate case.

Dated: August 16, 2017

Yours Truly,

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	) ss	ELECTRONIC FILING
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SUSAN ROMANS of the City of Duluth, County of St. Louis, State of Minnesota, says that on the **16th** day of **August, 2018**, she served Minnesota Power's Reply Comments in **Docket No. E015/M-18-375** on the Minnesota Public Utilities Commission and the Minnesota Department of Commerce via electronic filing. Parties on Official Service List were served as requested.

Susan Romans

Susan Romans

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