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September 8, 2014

VIA E-FILING
Dr. Burl W. Haar
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 Petition
for the 2014 Approval of a Transmission Cost Recovery Rider
under Minn. Stat. § 216B.16, subd. 7b
Docket No. E015/M-14-337

Dear Dr. Haar:

Please find attached Minnesota Power's Reply Comments in the above-referenced Docket.

Respectfully,

Jennifer Peterson

JP:sr
cc: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Petition for the 2014 Approval of a Transmission Cost Recovery Rider under Minn. Stat. § 216B.16, subd. 7b	Docket No. E015/M-14-337 **MINNESOTA POWER'S REPLY COMMENTS**

On April 24, 2014, Minnesota Power (the "Company") submitted its Petition for Approval of the 2014 Transmission Factor to the Minnesota Public Utilities Commission ("Commission"). Initial Comments on the compliance filing were submitted by the Minnesota Department of Commerce (the "Department") on August 20, 2014. Minnesota Power submits these Reply Comments in response to the Department's Initial Comments.

REPLY COMMENTS TO THE DEPARTMENT

Response to Requests for Additional Information

In Initial Comments filed August 20, 2014, the Department requested that Minnesota Power supply additional information in Reply Comments. Minnesota Power's responses to the Department's requests are as follows:

1. Explain whether the Company receives Auction Revenue Rights ("ARR") revenues for the Multi-Value Projects ("MVP") included in its Transmission Cost Recovery ("TCR") Rider. If so, the Department recommends that Minnesota Power explain whether these revenues should be included in its TCR Rider.

- Minnesota Power does not have ownership in any MVPs and does not receive any transmission related Schedule 26-A revenue for MVPs; therefore no MVPs are included in its 2014 Transmission Factor filing. However, beginning in June

2014, five MVP projects that Minnesota Power does not own, but is paying a portion of, went into service. Although Minnesota Power received no MVP Schedule 26-A related revenue in the 2014 Transmission Factor filing, revenue related to Financial Transmission Rights (“FTR”) and ARR will be included in future filings.

2. Explain whether the Company receives revenues under Midcontinent Independent System Operator (“MISO”) Schedules 37 and 38. If so, the Department recommends that Minnesota Power explain whether these revenues should be included in its TCR Rider.

- Minnesota Power receives revenue for MISO Schedules 37 and 38, which were included in the Transmission Cost Recovery Rider as a credit to Minnesota Power’s retail customers. Schedules 37 and 38 contain RECB related revenues for Transmission Owners who have exited MISO but are still charged for RECB projects. Minnesota Power had combined the revenue from MISO Schedules 37 and 38 with the Schedule 26 revenue. Schedules 37 and 38 were not identified in Minnesota Power’s response to the Department’s Information Request 2a because Schedules 37 and 38 were combined with Schedule 26 in the Company’s internal accounting system, as all are related to RECB projects. The schedules have since been separated and the account labeled “RECB Revenue” is now divided into each of the three individual MISO schedules (37, 38, and 26). Minnesota Power apologizes for the confusion, caused by incorrectly combining and labeling the revenue within internal processes, which resulted in the Company’s response to Information Request 2a not identifying MISO Schedules 37 and 38 as a source of revenue. However, revenue from MISO Schedules 37 and 38 was included and credited to Minnesota Power’s customers in Minnesota Power’s TCR factor filing.

3. Confirm the Department’s understanding that the Company does not receive additional third-party wholesale transmission revenues from non-RECB projects included in the TCR Rider, other than those received from Minnesota Power’s firm wheeling customers and firm wholesale full requirement municipal customers.

- The Department's understanding is correct. The only revenue that Minnesota Power receives is through the MISO process, in which Transmission Owners receive revenue from Minnesota Power, Great River Energy ("GRE"), Xcel and other Transmission Owners.

4. Explain where the Other Miscellaneous Electric Revenues discussed in the Company's response to Information Request No. 2a came from, what they consist of, why they were credited to retail ratepayers in the Company's last rate case, and why the Company is not receiving similar revenues for new non-RECB projects included in the TCR Rider.

- At this time, Minnesota Power does not have any non-RECB projects in the TCR Rider, which is why the Company is not currently receiving similar revenues for non-RECB projects.

- The Other Miscellaneous Electric Revenues discussed in Minnesota Power's response to DOC Information Request No. 2a are shown in MP TCR Reply Comments Attachment 1, but include charges like reconnection/relocation charges, late payment of bills and pole attachment charges. These charges are treated as revenue credits because they are derived from Minnesota Power assets or services and it would be inappropriate for the Company to keep these revenues. Each charge is allocated to jurisdiction and to class using the appropriate allocation factors. All retail specific revenue is allocated to Minnesota Power's retail customers only.

5. Indicate whether the Company receives any revenues from GRE under the Joint Pricing Zone Agreement ("JPZA") for non-RECB projects included in the TCR Rider. The Department also recommends that the Company fully explain how its revenues and expenses under the JPZA with GRE were treated in Minnesota Power's last rate case and whether GRE was assigned to either the Company's firm wheeling customer class or firm municipal wholesale customer class within the Federal Energy Regulatory Commission ("FERC") jurisdiction in the Company's last rate case.

- At this time Minnesota Power does not have any non-RECB projects in the TCR Rider. In the last rate case GRE was assigned to Minnesota Power's firm wheeling customer class within the FERC jurisdiction.

- At the time of the last rate case, Minnesota Power and GRE were operating under a Network Integration Transmission Service Agreement ("NITSA"). The Companies entered into the NITSA on March 2, 2000 and it was amended on March 1, 2003. Under the NITSA, Minnesota Power billed GRE for transmission services based on zonal load ratio share. The NITSA expired on August 1, 2013. Appendix C of the Transmission Owners Agreement ("TOA") allows Transmission Owners within a zone that has more than one owner to distribute revenues pursuant to agreement of the owners within the zone. Minnesota Power and GRE are working together to negotiate a final JPZA. The JPZA was not in place during the last rate case but will address how revenues for non-RECB projects will be allocated once the agreement is finalized. At this time Minnesota Power does not anticipate receiving revenues from GRE under the future JPZA but will most likely be a net payer to GRE as a result of the combined zonal revenue requirements.

North American Electric Reliability Corporation ("NERC") Alert Projects

In its August 20, 2014 Initial Comments, the Department recommended the Commission deny Minnesota Power's proposal to recover NERC Alert Projects in the TCR Rider under MISO Schedule 45. The Department recommended that if the Commission determines that NERC Alert Project costs are recoverable in the TCR Rider, then the Company should be required to seek separate rate recovery of these costs using traditional Minnesota revenue requirement calculations, consistent with those calculated for other eligible project costs. Minnesota Power respectfully disagrees with the Department's analysis on NERC Alert Project eligibility.

The Department listed specific points of disagreement concerning the eligibility of Minnesota Power's NERC Alert Project costs in the TCR: Attachment O expenses are normally recovered in base rates and not under MISO Schedule 45, MISO Schedule 45 charges do not accrue from other utilities' transmission projects, and that the proposed annual revenue requirements were calculated and collected under MISO Attachment ZZ and MISO Schedule 45 and not Minnesota's traditional revenue requirements.

Although the Department is correct in stating that Attachment O expenses are normally recovered in base rates, utilizing Schedule 45 and Attachment ZZ allows Transmission Owners the opportunity to separately develop, track and recover costs specific to network upgrades and other transmission-related construction or expenses incurred in response to a NERC Recommendation or Essential Action. A stakeholder process of twenty three Transmission Owners (including Minnesota Power) resulted in a FERC approval that ultimately established Schedule 45, which is now available to all Transmission Owners in MISO to use for future NERC initiated Essential Actions that are intended to enhance regional reliability or the security of the Bulk Electric System ("BES"). This may include future NERC Essential Actions designed to improve the physical or cyber security of the critical elements of the BES that result in capital investments. MISO joined the FERC filing as the administrator of the tariff. Schedule 45 and Attachment ZZ allows for a separate and distinct annual revenue requirement but does not result in the recovery of any additional costs.[1]

Minnesota Power elected to use Schedule 45 and Attachment ZZ, instead of Attachment O, because it provides the mechanism to separately track NERC Alert Project costs. Separating NERC Alert Project costs from Attachment O and utilizing Attachment ZZ allowed Minnesota Power to bill customers separately for NERC specific projects, providing visibility on costs associated with NERC Essential Action initiatives and compliance related investments. Separating NERC specific projects from other network transmission projects in Attachment O provides increased transparency for customers, stakeholders and regulators on NERC Recommendation or Essential Action projects and compliance related investments. Finally, utilizing Schedule 45 will allow Minnesota Power to clearly track NERC compliance related Essential Actions investments for cost recovery in a future rate case, if the project costs are not recovered through the TCR.

[1] FERC Docket No. ER13-841-000.

While Minnesota Power's NERC Alert Project costs did not accrue directly from other utilities' transmission projects, they were incurred through a MISO charge to meet broader regional reliability objectives, for which the TCR statute was originally adopted. Through the Schedule 45 and Attachment ZZ process, MISO and FERC have determined that Minnesota Power's NERC Alert Project provides a benefit both to Minnesota Power and to the broader integrated transmission system as a whole (FERC Docket No. ER13-841-000).

It should also be noted that Schedule 45 was only approved by FERC in March 2013 and MISO Transmission Owners would have only been able to include projects in their 2014 MISO Attachment Filings that were completed and in service by the end of 2014. Utilization of Schedule 45 by other MISO Transmission Owners may increase over time as individual Transmission Owners have more time to evaluate the transparency benefits and have longer lead times to align qualifying projects with their respective planning and project execution cycles.

Maintaining the reliability of utility services is a priority for both Minnesota Power and state regulatory agencies. On April 10, 2014, NARUC President Colette D. Honorable[2] testified to the Senate Energy and Natural Resources Committee that reliable and resilient utility services were the focus of state utility regulators across the country.[3] Additionally, in an August 2013 report to the Executive Office of the President, the President's Council of Economic Advisors and the US Department of Energy developed six strategies for achieving grid resilience: manage risk, consider cost-effective strengthening, increase system flexibility and robustness, increase visualization and situational awareness, deploy advanced control capabilities, and ensure the availability of critical components and software systems.[4] While other Minnesota utilities have and are incurring costs related to this specific NERC Recommendation, Minnesota Power is unique from other utilities for reasons that include geography and customer base. The

[2] Colette Honorable was appointed to serve on the Federal Energy Regulatory Commission on August 28, 2014 by President Obama, subject to Senate confirmation.
[3] "NARUC Tells Senate Committee: State Commissions Remain Focused on Safe, Resilient Infrastructure." EEI's Reliability Review, June 2014.
http://www.eei.org/resourcesandmedia/products/ferc_focus_pkg/Documents/ReliabilityReview/June%202014.pdf

NERC Alert Project is consistent with our overall strategy to improve regional reliability and strengthen the resiliency of the BES in the most efficient and cost effective manner for our customers.

Minnesota Power calculated the annual revenue requirements for its NERC Alert Project costs based on the appropriate federally approved tariff calculations because the costs are to be collected under MISO Attachment ZZ and MISO Schedule 45. Since the NERC Alert Project costs are covered under a MISO tariff, the revenue requirements should continue to be calculated based on the federally approved tariff calculations. However, Minnesota Power is willing to adjust the revenue requirement calculations specifically for the Transmission Cost Recovery Rider to treat the NERC Alert Projects as individual assets, instead of using the tariff revenue requirements from Attachment ZZ, if necessary for inclusion in the Rider.

While Minnesota Power respects the Department's detailed analysis, the Company maintains its interpretation that the approval of NERC Alert Project costs is consistent with Minn. Stat. § 216B.16, subd. 7b(a) and (b), particularly because the project was determined by MISO, NERC and FERC to benefit both the Company and the integrated transmission system.

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[4] "Economic Benefits of Increasing Electric Grid Resilience to Weather Outages." President's Council of Economic Advisors and the US Dept. of Energy's Office of Electricity Delivery and Energy Reliability. August 2013. http://energy.gov/sites/prod/files/2013/08/f2/Grid%20Resiliency%20Report_FINAL.pdf

CONCLUSION

Minnesota Power appreciates both the thorough review of its 2014 Transmission Factor and the opportunity to provide Reply Comments and additional information as requested by the Department. Minnesota Power maintains its position that the NERC Alert Project contributes to regional reliability of the transmission system and the Transmission Cost Recovery Rider is the appropriate place to seek cost recovery.

Dated: September 8, 2014

Respectfully submitted,

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Support for Minnesota Power's Reply Comments in the Transmission Cost Recovery (TCR) Rider Docket

Minnesota Power's Other Miscellaneous Electric Revenues

Account	Revenue Credits / Functional Assignment	Description of Revenue Credits
	Other Operating Revenue	
450	Electric Forfeited Discounts - Retail - Distribution	Charges for late payment of bills.
451	Miscellaneous Service Revenue - CSA - Retail - Distribution	Reconnection, relocation and misc. charges.
454	Rent from Elec Property - Circuit Leasing - GRE - Transmission	Lease charges for communications services.
	Rent from Elec Property - Dark Fiber - Transmission	Charges for use of dark fiber opic cable.
	Rent from Elec Property - Pole Attachment, Joint Use - Retail Distribution	Pole attachment charges.
456	Other Electric Revenue	
4561	Recreation Facility Revenue - Demand	Cabin site leases and related revenue.
4562	WPPI Transmission Value Amortization - Transmission	Amortization of WPPI transaction.
4565	Misc Sales - Scrap Sales - Retail Distribution	Sales of scape, salvage and misc. material.
4569	Elec Rev - Other - Coal Sales - Energy	Coal sales.
	Elec Rev - Other - Steam Sales - Demand & energy	Steam sales - Hibbard.
	Elec Rev - Other - Scrap Sales - Retail Distribution	Sales fo scape, salvage and misc. material.
	Elec Rev - Other - Scheduling Fees - Energy	Energy related charges for scheduling energy for NSP.
	Elec Rev - Other - Office, Parking, Tower Rent - General Plant	Rental revenue from offices, parking and towers.
	Elec Rev - Other - Tower Rent - GRE - General Plant	Tower rental revenue from GRE.
4118	Disposition of Allowances - Clean Air Act Auction - Retail Energy	Revenue from EPA allowance auction.

The Other Miscellaneous Electric Revenues discussed in MP's Repsonse to DOC Information Request No. 2a are shown in the above table.
These are treated as reveune credits because they are derived from MP assets or services and it would be inappropriate for the Company to keep these revenues.
Thes are allocated to jurisdiction and to class using the appropriate allocation factors.
All Retail specific revenue is allocated to MP’s retail customers only.

STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	E-FILING AND
COUNTY OF ST. LOUIS	)	FIRST CLASS MAIL

Susan Romans, of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 8^{th} day of September, 2014, she e-filed Minnesota Power's Reply Comments in Docket No. E015/M-14-337 on the Minnesota Public Utilities Commission and the Minnesota Department of Commerce via electronic filing. The remaining parties on the attached Official Service List were served as indicated.

Susan Romans

Susan Romans

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