

Staff Briefing Papers

Meeting Date October 25, 2018 Agenda Item 5**

Company Minnesota Power

Docket No. **E-015/M-18-264**

In the Matter of Minnesota Power’s Rider for Boswell Unit 4 Emission Reduction (BEC4 Rider) and 2018 Factor

Issues 1. Should the Commission approve Minnesota Power’s (MP’s) petition to update its BEC4 Rider Factor with the implementation of final rates in MP’s rate case?

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 **Relevant Documents**

Date

Minnesota Power – Initial Filing – Rider for Boswell Unit 4 Emission Reduction and 2018 Factor	April 9, 2018
Department of Commerce – Comments	May 16, 2018
Minnesota Power – Comments	June 1, 2018
PUC – Briefing Papers	June 6, 2018
Large Power Interveners – Comments	June 8, 2018

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The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

 **Relevant Documents**

Date

Department of Commerce – Comments

June 8, 2018

Minnesota Power – Reply Comments

June 18, 2018

PUC – Order

June 20, 2018

Minnesota Power – Compliance Filing – Tariff Sheet Update

June 28, 2018

I. Statement of the Issues

- Should the Commission approve Minnesota Power's (MP's) petition to update its BEC4 Rider Factor with the implementation of final rates in MP's rate case?

II. Background

On April 9, 2018, Minnesota Power (MP) filed a petition seeking approval to update cost recovery of investments, expenditures, and costs related to the Boswell Energy Center Unit 4 (BEC4) mercury emission reduction project (BEC4 Project) through MP's Commission-approved Rider for Boswell Unit 4 Emission Reduction (BEC 4 Rider). MP also requested provisional approval to zero out the rider sub-factor effective June 1, 2018.

On May 16, 2018, the Department of Commerce, Division of Energy Resources (Department) filed comments in support of MP's request for provisional approval to zero out the rider sub-factor effective June 1, 2018 or on the first day of the month following Commission approval, whichever occurred later.

On June 1, 2018, MP filed a letter agreeing with the comments submitted by the Department.

The Commission scheduled a meeting for June 14, 2018 to decide on MP's request for provisional approval to zero out the rider sub-factor effective June 1, 2018. Staff filed Briefing Papers for the agenda meeting on June 6, 2018.

LPI and the Department filed Comments on June 8, 2018. The Department recommended approval for the new BEC4 Rider Sub-Factor rates anticipated to be effective concurrent with final rates. LPI requested the Company comment specifically on the impacts of the Tax Cuts and Jobs Act (TCJA) as it relates to rider calculations.

On June 18, 2018, MP provided comments to address LPI's question about the TCJA.

On June 20, 2018, the Commission issued its order granting provisional approval of Minnesota Power's request to zero out the rider sub-factor effective on the first day of the month following Commission approval and a variance to Minn. R. 7825.3200.

III. Parties' Comments

A. Minnesota Power

1. Revenue Requirement

In its 2017 rate case,¹ MP has shifted many of the cost recovery items related to the BEC4 emissions project into base rates. The only remaining items in MP's revenue requirement for

¹ Docket E-015/GR-16-664

the 2018 BEC4 rider are the 2017 ending BEC4 tracker balance, the remaining Ash Pond project, and Basin Electric Power Cooperative's revenue credit.

MP has a power sales agreement with Basin Electric Power Cooperative (Basin)² which allows MP to collect costs associated with new emission control additions to BEC4 until the contract ends in 2020. MP is passing the benefits of this contract to its customers by crediting the revenue requirements by the amount of Basin's specified share of the costs for this contract. This item will be removed from the rider when Basin's contract expires in 2020.

MP will roll the remaining Ash Pond project costs into base rates in a subsequent rate case.

Overall, MP proposes to include this -\$6.5 million³ decrease in jurisdictional revenue requirements in the BEC4 Rider Adjustment Factors.

2. Rate Design

MP notes that its rate design for the updated rider factors for Large Power customers are consistent with the terms of the BEC4 Rider.⁴

...the Large Power ("LP") rate design for the Boswell 4 Plan Adjustment incorporates demand (\$/kW-month) and energy (¢/kWh) adders that recover the costs in a manner that preserves LP base rate design. Specifically, the LP revenue requirements are split between demand and energy based on LP's 2017 base rate demand and energy revenue split of approximately 56 percent demand and 44 percent energy as currently drafted for the Company's Compliance Filing in its current rate case (Docket No. E015/GR-16- 664). The LP demand rate adder is calculated as 56 percent of the projected LP revenue requirement divided by the LP class Billing Demand (kW-month) from the 2018 budget. The LP energy rate adder is calculated as 44 percent of the projected LP revenue requirement divided by the annual LP energy sales (kWh) from the 2018 budget...

Additionally, the remaining retail rate classes are consistent with the terms of the BEC4 Rider.⁵

...the rate design for the Boswell 4 Plan Adjustment for the remaining retail rate classes (non-LP) is an average energy-based (kWh) rate adder. This energy adder is calculated as an average energy (¢/kWh) charge consisting of the projected non-LP revenue requirements divided by the annual non-LP energy (kWh) sales from the 2018 budget...

² Specific financial impacts of MP's contract with Basin can be found in Minnesota Power's initial filing, exhibit B-2, marked **TRADE SECRET**

³ \$1.6 million (2017 BEC4 tracker balance) + \$4.9 million (2018 Net Revenue Requirements) = \$6.5 million

⁴ Minnesota Power – Initial Filing, Page 18

⁵ Id.

B. Department of Commerce

1. Statutory Requirements

Minn. Stat. § 216B.1692, subd. 5(b) states:

(b) The commission may approve a rider that: (1) allows the utility to recover costs of qualifying emissions reduction projects net of revenues attributable to the project; (2) allows an appropriate return on investment associated with qualifying emissions-reduction projects at the level established in the public utility's last general rate case; (3) allocates project costs appropriately between wholesale and retail customers; (4) provides a mechanism for recovery above cost, if necessary to improve the overall economics of the qualifying projects to ensure implementation; (5) recovers costs from retail customer classes in proportion to class energy consumption; and (6) terminates recovery once the costs of qualifying projects have been fully recovered.

Additionally, Minn. Stat. § 216B.683, subd. 1(b) states:

A public utility required to file a mercury emissions-reduction plan under sections 216B.68 to 216B.688 may also file for approval of emissions-reduction rate riders pursuant to section 216B.1692, subdivision 3, for its mercury control and other environmental improvement initiatives under sections 216B.68 to 216B.688.

(b) In addition to the cost recovery provided by section 216B.1692, subdivision 3, the emissions-reduction rate riders may include recovery of costs associated with (1) the purchase and installation of continuous mercury emission-monitoring systems, (2) costs associated with the purchase and installation of emissions reduction equipment, (3) construction work in progress, (4) ongoing operations and maintenance costs associated with the utility's emission-control initiatives, including, but not limited to, the cost of any sorbent or emission-control reagent injected into the unit, (5) any project costs incurred before the plan approval that are demonstrated to the commission's satisfaction to be part of the plan, and (6) any studies undertaken by the utility in support of the emissions-reduction plan.

The Department agreed with MP that most of the BEC4 costs have already been rolled into base rates. The costs MP is proposing to recover beginning December 1, 2018 consists of Ash Pond Phase 1 costs, the revenue credits associated with Basin, and the 2017 tracker balance. The Department concludes these expenses are recoverable under the statute.

2. Prudency Review

The Department noted that the MPCA provided an initial review of the BEC4 cost estimates as part of the 12-920 Docket. In that proceeding, the MPCA determined that MP's capital cost estimates were reasonable. Now that the project has been completed, the Company reported its capital costs to be \$110 million less than the estimate in the 12-920 Docket.

The Department also reviewed MP's calculation for Allowance for Funds Used During Construction (AFUDC) and Construction Work in Progress (CWIP) and determined MP appropriately removed capitalized internal costs.

3. Allocations, Revenue Apportionment, and Rate Design

MP used the Minnesota Jurisdictional Power Supply Allocator (D-01) from its 16-664 Rate Case to allocate the BEC4 Project revenue requirements. Additionally, MP's rate design for the Large Power class is identical to the one the Commission approved in its 12-920 Order. The Department concludes MP's proposed BEC4 Rider Factors are based on appropriate rate design.

4. True-Up and Tracker Balances

The Department reviewed MP's true-up and tracker balance calculations. The Department agrees that MP's calculations are consistent with past rider filings.

5. Analysis of Bill Impacts

The Department notes that the estimated customer impacts are decreases for all of the customer classes as identified in MP's petition.

6. Department Recommendation

The Department recommends the Commission approve MP's petition, including the following BEC4 Rider Sub-Factor rates:⁶

Billing Factor	Unit	Proposed Sub-Factor Rider
Large Power	\$/kw – month	(0.22)
	c/kWh	(0.024)
All Other Retail Classes	c/kWh	(0.109)

C. Large Power Intervenors

The Large Power Intervenors (LPI) submitted comments expressing concern that the Tax Cuts and Jobs Act (TCJA) had not been properly accounted for or considered in the rider calculations.⁷

...the group is concerned that the Company did not consider all relevant information. The Company explained in its Petition that “[t]he 2018 revenue requirements do not reflect any changes due to the 2017 Federal Tax Act...” and that the impacts of 2017 Tax Reform would be incorporated at a later date.

LPI requested MP provide comments in order to discuss the impacts of the TCJA.

⁶ Table reproduced from Department June 8, 2018 Comments, Page 11

⁷ LPI Comments, Page 2-3

D. Minnesota Power Reply Comments

MP responded to LPI's inquiry regarding the TCJA.⁸

In response to this request and in light of the ongoing regulatory review process of the Commission Investigation into the Effects of Electric and Natural Gas Utility Rates and Services of the 2017 Federal Tax Act (Docket No. E, G-999/ CI-17-895), the Company can confirm that the tax change would reduce the revenue requirements slightly, but also reduce the Basin Power Electric Cooperative revenue credit. The net impact to the Large Power rate would be a reduction in their savings. Residential rate savings would also decrease. Minnesota Power again commits to updating the BEC4 tracker and incorporating the impacts in the 2019 BEC4 Rider factor filing once the details of implementing the needed changes for the Company are resolved in Docket No. E, G-999/CI-17-895.

IV. Staff Analysis

A. ADIT Proration

In concurrent rider proceedings,⁹ Parties disputed the issue of ADIT proration and how it relates to IRS normalization rules, implementation dates, and a discussion of using forecasted sales instead of historical sales to calculate rider factors. The issue of ADIT proration does not apply to the current docket because, as stated by MP:¹⁰

...as the 2018 revenue requirements do not include any plant in service projects with deferred income taxes being computed on a future test year, no pro-rata deferred tax calculation is necessary.

No party has disputed the absence of ADIT proration in this docket. Thus, any arguments made by parties in other dockets regarding ADIT proration do not apply here.

V. Decision Options

1. Approve Minnesota Power's petition to update its BEC4 Rider Factor with the implementation of final rates in the rate case. (MP, Department)
2. Do not approve Minnesota Power's petition to update its BEC4 Rider Factor with the implementation of final rates in the rate case.
3. Require Minnesota Power to make a compliance filing with its new tariff sheet within 10 days of the Commission's final order. (Staff)

⁸ MP, Reply Comments, Page 2

⁹ See Minnesota Power RES Rider Docket 18-375 and Xcel Energy SEP Rider Docket 18-184

¹⁰ Minnesota Power, Initial Filing, Page 16