minnesota power
AN ALLETE COMPANY

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July 21, 2020

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 Minnesota Power's Renewable Resources Rider and 2020 Renewable Factor
Docket No. E015/M-19-523
Supplemental Reply Comments

Dear Mr. Seuffert:

Minnesota Power (or the "Company") submits to the Minnesota Public Utilities Commission ("Commission") its Supplemental Reply Comments in response to the Department of Commerce, Division of Energy Resources ("Department") July 9, 2020 Reply Comments and response to the Commission's June 12, 2020 Notice of Supplement Comment Period ("Notice") in the above-referenced Docket.

The Company appreciates the opportunity to provide input in response to the Commission's Notice, and address concerns raise by the Department in its Initial and Reply Comments in this Docket. Please contact me at (218) 269-0712 or lhoyum@mnpower.com if you have any questions regarding these Supplement Reply Comments.

Yours truly,

Lori Hoyum

Lori Hoyum
Regulatory Compliance Administrator

LMH:th
Attach.

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter of Minnesota Power's Renewable Resources Rider and 2020 Renewable Factor	Docket No. E015/M-19-523 **SUPPLEMENTAL REPLY COMMENTS**

I. INTRODUCTION

Minnesota Power (or the "Company") provides these comments in reply to the July 9, 2020 Reply Comments ("July 9 Reply Comments") of the Minnesota Department of Commerce, Division of Energy Resources ("Department"). On June 12, 2020, the Minnesota Public Utilities Commission ("Commission") issued a Notice of Supplement Comment Period ("Notice") in the above-referenced Docket following resolution and withdrawal of Minnesota Power's 2019 general rate case. Topics open for comment include: Minnesota Power's proposed Renewable Resources Cost Recovery revenue requirement and rider rates; the impact, if any, of the Company's resolution of its rate case (Docket Nos. E015/GR-19-442 and E015/M-20-429) on parties positions; and any other issues or concerns related to this matter.

The July 9 Reply Comments primarily focused on the additional information Minnesota Power provided in its Reply Comments and related exhibits on February 14, 2020, and March 5, 2020, at the request of the Department in its December 23, 2019 Initial Comments ("December 23 Initial Comments"). Specifically, the Company provided additional information related to:

- Its sales of renewable energy credits ("RECs") to Oconto Electric Cooperative (Oconto);
- The reduction of the credit to Minnesota Power's rates resulting from the Company's transfer of a Large Generator Interconnection Agreement ("LGIA") to its affiliate, ALLETE Clean Energy, Inc. ("ACE"); and

- Actual costs for projects that had been included in the Company's Renewable Resources Rider ("RRR"), but were rolled into base rates at the conclusion of Minnesota Power's most recent completed rate case (Docket No. E015/GR-16-664, or the 2016 Rate Case).

In its July 9 Reply Comments, the Department agreed that Minnesota Power's proposed treatment of revenues associated with REC sales to Oconto is reasonable, finding that the terms of the Company's power sales agreement with Oconto compare favorably to the REC prices reported by various Minnesota electric utilities in Docket No. E999/PR-18-12. Therefore, Minnesota Power does not address this further in these Supplemental Comments.

Minnesota Power provides the following responses to the Department's comments and recommendations related to the two remaining topics identified above, as well as the topics in the Notice.

II. REPLY COMMENTS

A. Bison 6 LGIA Credit Corrected Calculation

As noted by the Department in their Initial and Reply comments, the allocator used to determine the Bison 6 LGIA's share of capital costs and revenue requirements for the related transmission line and other plant was lower than the allocator used in the original Bison 6 LGIA Docket[1] and in the 2018 Renewable Resource Rider Petition (or "RRR Petition").[2] The lower allocator reduces the size of the credit to Minnesota Power customers. In the Department's December 23 Initial Comments, the Department stated,

> "After reviewing MP's calculations in its Petition and the related information from the LGIA Docket, the Department concluded that MP's initial calculation of the allocator from the LGIA Docket contained an error that the Company corrected in this Petition. In its response to DOC IR No. 9, MP confirmed the error and the correction. The Department concludes that MP's calculation in this Petition is correct, and that 18.241 percent is the correct allocator to use to allocate the costs of the Bison 6 LGIA related property."

Minnesota Power explained in its February 14, 2020 Reply Comments ("February 14 Reply Comments") that it had inadvertently used a 28.504 percent allocator in the calculations in its Initial Bison 6 LGIA petition. The incorrect allocator was identified in the preparation of the August 15, 2019 RRR Petition and corrected. The Company agreed with the Department that the corrected allocator should have been discussed within the text of the August 15, 2019 Petition and committed to a greater focus on transparency in future filings. The Company's commitment to greater transparency is evident in its 2020 Solar Renewable Factor Filing submitted to the Commission on June 30, 2020.[3] In the June 30, 2020 Petition Minnesota Power identifies the requested cost recovery period in

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[1] Submitted April 19, 2017 in Docket No. E015/AI-17-304.
[2] Docket No. E015/M-18-375.
[3] Docket No. E015/M-20-557.

multiple locations in response to feedback received during the regulatory review process for its 2019 Transmission Cost Recovery Petition.[4]

In its February 14 Reply Comments Minnesota Power also addressed the Department's position that the Company should have filed information about the corrected allocator in the original Bison 6 LGIA. The Company did not file anything in the original Bison 6 LGIA Docket since it is not routine for utilities to submit documents into the original dockets in which Commission approval was sought for adjustments that occur in the cost recovery dockets, especially since customers have been credited since December 1, 2018. Minnesota Power committed to making a concerted effort to file information in all related dockets going forward.

The Department did not fully depict the reasons why Minnesota Power believes it is reasonable to decrease the customer credit in the July 9 Reply Comments. The first and primary reason provided by the Company in its February 14 Reply Comments is that the 18.242 percent allocator has been verified by the Department as the correct allocator to use for cost allocation of the Bison 6 LGIA related property. While the lower allocator results in a decreased credit to customers from what was represented in the original filing, it is reasonable, credits customers the fair amount for ALLETE Clean Energy, Inc.'s ("ACE") use of the facilities, the premise of the Commission's decision, and is the right thing to do.

The Company takes issue with the Department's assertion that the third reason provided is a "de facto request for reconsideration" in the original Bison 6 LGIA docket. The Company stated,

> "Lastly, Minnesota Power customers received a significant benefit when the Commission determined customers would begin being credited effective February 4, 2018, instead of December 2019 when ACE began using the facilities as proposed by the Company. This decision is not consistent with effective dates determined for other agreements as the Company argued in Docket No. E015/AI-

[4] Docket No. E015/M-19-440.

> 17-304. As a result, Minnesota Power began crediting customers for use of the facilities 22 months prior to when ACE became a joint user of the facilities. This equates to an approximately $1.67 million benefit to customers."

Minnesota Power is simply pointing out details from the regulatory review process and how the sale of the Bison 6 LGIA to ACE financially has been very good for customers (even if the credit is lowered by using the correct allocator). In addition to the fact that the Bison 6 LGIA was in suspension status, and would have been terminated by MISO (Midcontinent Independent System Operator) if unutilized on February 4, 2018, resulting in zero offsetting revenue credits to customers; the Commission's decision to begin crediting customers well before ACE became a joint user of the facilities also significantly benefited customers financially.

In summary, customers should be credited for the fair amount of ACE's use of the facilities in accordance with the Commission's March 16, 2018 Order in Docket No. 015/AI-17-304; the Company and the Department determined that 18.241 percent is the correct allocator to use to allocate the costs outlined in the Commission's March 16, 2018 Order of the Bison 6 LGIA related to the Minnesota Power assets being utilized by ACE; customers should have been credited the reduced amount beginning when the credit went into effect had there not been an error in the calculation; and the error in the calculation was not intentional and the Company apologizes for the oversight. The Commission's decisions in its March 16, 2018 Order to approve the sale of the Bison 6 LGIA, and set the effective date for the credit to begin as February 4, 2018, credits customers for the fair share of ACE's use of the facilities.[5] Therefore, Minnesota Power respectfully requests that the Commission affirm the lowering of the customer credit as proposed in the 2020 Renewable Factor effective February 4, 2018. A Commission decision to support the Department's recommendation and implement the lower credit on

[5] On Page 4 of its July 9 Reply Comments, the Department states, "Additionally, based on the Department's review of the record in the LGIA Transfer Docket, the Department considers it to be unlikely that the Commission's decision in that Docket would have been different even if Minnesota Power had provided the Commission with the correct allocation percentage at the time."

a going-forward basis is contrary to the determination by the Commission in the Bison 6 LGIA Docket.

B. True-ups and Tracker Balances

In its February 14 Reply Comments, Minnesota Power included Exhibit B-6 that reflected the Company's good faith attempt to estimate the interim rate true-up using the methodology suggested by the Department in its December 23 Initial Comments. As the projects listed in Exhibit B-6 have all been in-service for a long time, and with no new additional projects, Minnesota Power estimated that 2017 Projected Rate Base and 2017 Actual rate base would be the same. As a result, 2017 Actuals versus 2017 Projected would yield no change in rate base and therefore, nothing to true-up. The only year that differs from the 2017 test year is 2018, which Minnesota Power approximated using changes in rate base caused by additional tax and book depreciation (2018 Actuals) and then compared 2018 Actuals to 2017 Actuals (or 2017 Projected) in order to calculate the true-up per the Department's request in its July 9 Reply Comments. As a result, the calculation shown in Exhibit B-6 estimates the rate base impact following the methodology suggested by the Department in its December 23 Initial Comments and outlined in Table 1 of the Department's July 9 Reply Comments. Minnesota Power has contended that this true-up is not needed even though this type of true-up would likely favor the Company in all riders as a result of low actual billing units in comparison to the higher projected billing units included in the 2017 test year in Minnesota Power's last rate case.

C. 2019 Rate Case Resolution Impact

The Department acknowledges in its July 9 Reply Comments that the resolution of Minnesota Power 2019 Rate Case does have an impact on the projects and costs included in the rider; nonetheless, it concludes the final rider rates are small enough that it would be reasonable to move forward without making further changes in the 2020 RRR Docket. Minnesota Power disagrees with the position of the Department. The Company is authorized to include in the RRR the costs for these projects. Riders exist to provide timely cost recovery to utilities for authorized costs. Adopting the Department's recommendation would negate the purpose of the rider and postpone recovery of costs incurred in as early as 2018 until at least 2022.

D. Topics Open for Comment from the Commission's Notice

On July 9, 2020, Minnesota Power submitted Initial Comments in response to the Commission's Notice. With the resolution of the 2019 Rate case, Minnesota Power proposed the following for the Thomson Project, customer credit for the Bison 6 LGIA, and PTC true up amount for 2020, respectively:

- Reestablish cost recovery for the two remaining projects of the Thomson Project through the 2020 RRR effective January 1, 2020, the start date used for the 2019 Rate Case test year;

- Continue to credit customers for the Bison 6 LIGA through the RRR effective January 1, 2020, the start date used for the 2019 Rate Case test year; and

- Revert to the 2017 test year amounts to determine the expected PTC true up amount for 2020.

The Department's recommendations for the two Thomson Projects and customer credit for the Bison 6 LGIA aligns with Minnesota Power's proposed actions. For the PTC true up amount for 2020, the Department doesn't specifically address how it should be handled as a result of the resolution of the 2019 Rate Case. Rather, it seems to wrap it into its stance that because of the relatively small size of the total costs and credits of the projects that the Company had planned to roll into base rate, "these costs and credits for 2020 can be reflected in a future true-up" and sees no need to update the analysis in the 2020 RRR Docket to reflect 2020 revenue requirements.

Minnesota Power disagrees with the Department on this stance and believes that the resolution and withdrawal of the 2019 Rate Case justifies updating the analysis for the cost and credits of these projects, as well as for the PTC true up amount. As stated in the Company's February 14 Reply Comments,

> “in anticipation that the new level of PTCs included in the 2020 test year would be the new standard to measure against, the Company did not include an expected PTC true up amount in the 2020 Renewable Resource Factor as the 2020 budgeted level of PTCs would be the new amount included in base rates. The withdrawal of the 2019 Rate Case means that the 2020 test year levels will not be used to determine the amount of PTCs included in customer rates. As such, Minnesota Power proposes to revert to the 2017 test year amounts to determine the expected PTC true up amount for 2020.”

The Company is authorized to include in the RRR a true up amount for PTCs. Riders exist to provide timely cost recovery to utilities for authorized costs. Adopting the Department’s recommendation would negate the purpose of the rider and postpone the true up until at least 2022 or later. These are unprecedented times and no party could have anticipated the circumstances that would justify resolution and withdrawal of the 2019 Rate Case when the 2020 RRR Petition was filed on August 15, 2019. The Company should not be penalized by withholding recovery of authorized costs until the effective date of its 2021 Renewable Resource Factor sometime in 2021 or the effective date of its next general rate case, which under the resolution cannot be submitted until at least March 1, 2021.

E. Bison Wind Reporting

In its July 9 Reply Comments, the Department stated it was “troubled by the Company’s suggestion that regulatory determinations caused the Company to underestimate wind production.” Minnesota Power takes issue with the Department’s characterization of the company’s response related to the influence of regulatory determinations on its decision to move forward with the Bison 3 Wind Project. The Department stated, “[t]he Company also noted that it did not propose Bison 3, **but rather was pushed** (***emphasis added***) to develop it by the Department and the Commission in its 2011 Integrated Resource Plan Docket.” What the Company stated in its February 14, 2020 Reply Comments is:

> “Based on the positive reaction by stakeholders to the Company’s intent to proceed with the next phase of wind development in North Dakota **and**

> (***emphasis added***) regulators directive to strongly consider additional wind generation, Minnesota Power, in compliance with Order Point 4, submitted its eligibility filing for the Bison 3 Wind Project in June 2011, which used similar data to what had been used in determining projected levels of production for Bison 2."

To fully understand the factors influencing Minnesota Power's decision to move forward with its next phase of wind development in North Dakota, it is important to look at the timing of the regulatory review process and decisions, as well as the timeframe required to develop and construct a 100 MW wind facility.

- The federal Production Tax Credit ("PTC") was available for facilities in-service prior to the end of 2012 with extension beyond this date uncertain.
- Minnesota Power submitted its eligibility filing for the Bison 2 Wind Project on March 24, 2011 (Docket No. E015/M-11-234). The projected in-service date for the Bison 2 Wind Project was December 2012 which factored in the anticipated four to six months for the North Dakota Public Service Commission review process, the Commission's regulatory review process, and eight months for construction of the wind facility.
- The Commission hearing for the Company's 2010 Integrated Resource Plan ("IRP") was held on April 7, 2011.
- Minnesota Power submitted its plan filing for the Bison 3 Wind Project on June 21, 2011 (Docket No. E015/M-11-626) and reflected a similar project schedule to Bison 2 Wind Project and an in-service date of December 2012 which allowed the Company to utilized the current PTC.

Order Point 4 of the May 6, 2011 Order states:

> "Minnesota Power shall give strong consideration to adding 100 MW of wind during the current production tax credit cycle beyond the Company's own expected timeline for wind additions recognizing the Company's announcement in Docket No. E-015/M-11-234 to add 105 MW of wind capacity by the end of 2012. The

> Commission will revisit the issue of further wind additions at the time it considers Docket No. E-015/M-11-234."

In order to add 100 MW of wind during the then current production tax credit cycle, the wind facility had to be in-service prior to the end of 2012. The Bison 2 Wind Project plan filing submitted just prior to the Commission's hearing clearly outlined the timeline required to permit, construct and place in-service a 100 MW wind facility by the end of 2012. The Company's 2010 IRP Short-term Plan[6] identified that the Company planned to "evaluate in the next 24 months the implementation timing for including an additional 300MW of wind additions near Center, North Dakota." The Company took seriously the directive by the Commission in Order Point 4 that was also supported by stakeholders, and carefully considered whether it could execute phase three of its North Dakota wind development in the near-term and achieve a 2012 in-service of the facility. The timing of the Bison 2 Wind Project permitting and construction played a significant role in Minnesota Power's ability to quickly move forward with its Bison 3 Wind Project. Had permitting, engineering and procurement of the Bison 2 Wind Project not been underway, the Company may not have been able to execute phase three of the North Dakota wind development within the required timeframe.

The Department states in its July 9 Reply Comments that "the Commission's September 8, 2011 Order in E015/M-11-234 did not require Minnesota Power to add more wind." That is understandable since the Company had already submitted its eligibly filing for the Bison 3 Wind Project, an additional 105 MW, approximately two months prior to the August 24, 2011 Commission hearing on the Bison 2 Wind Project. Therefore, there was no need for the Commission to address further wind additions in Docket No. E015/M-11-234.

The Company's response in its February 14 Reply Comments does not suggest that regulatory determinations caused the Company to underestimate wind production as asserted by the Department. Instead, it points out the value of learning through experience and the possibility that had Minnesota Power implemented its third phase of

[6] See Item 2.C. in Section V of the 2010 IRP.

wind development in alignment with the timeline presented in the Company's 2010 IRP Short-term Plan, it may have gained knowledge from its experience with the Bison 2 wind facility that could have resulted in greater accuracy when estimating the generating production for the Bison 3 Wind Project.

The Department remains firm in its recommendation that the Company be required to continue to report production levels at the Bison Wind Energy Center. Minnesota Power believes this is unnecessary since the Company has been and will continue to report Bison generation in the Fuel Adjustment Clause Forecast True Up filings each year. The Company respectfully requests to cease this additional reporting requirement and free up resources for other Commission initiatives and compliance actions. Alternatively, the Company is agreeable to setting a threshold for triggering reporting in future RRR filings based on a more realistic expectation of production levels of these units.

III. CONCLUSION

Minnesota Power appreciates the time spent by the Department in reviewing the Petition and in preparing its comments, as well as the opportunity to provide input in response to the Commission's Notice, and address concerns raise by the Department in its Initial and Reply Comments in this Docket. The Department determined that 18.241 percent is the correct allocator to use to allocate the costs outlined in the Commission's March 16, 2018 Order of the Bison 6 LGIA related to the Minnesota Power assets being utilized by ACE and considers it unlikely that the Commission's decision even if the correct allocation percentage had been provided at the time; therefore, it is appropriate to implement the lower credit as of February 1, 2018. The circumstances that justified resolution and withdrawal of the 2019 Rate Case are unprecedented and did not exist when Minnesota Power filed its 2020 RRR Petition on August 15, 2019. The Company should not be penalized by withholding recovery of authorized costs until the effective date of its 2021 Renewable Resource Factor sometime in 2021 or the effective date of its next general rate case. Minnesota Power respectfully requests the Commission approve the 2020 RRR Factor as proposed in it July 9, 2020 Supplemental Comments, including the Company's request to eliminate the requirement to report on the production of each Bison wind farm in future RRR filings.

Dated: July 21, 2020

Yours truly,

Lori Hoyum

Lori Hoyum
Regulatory Compliance Administrator

STATE OF MINNESOTA	)	AFFIDAVIT OF SERVICE VIA
	) ss	ELECTRONIC FILING
COUNTY OF ST. LOUIS	)	

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 21st day of July, 2020, she served Minnesota Power's Supplemental Reply Comments in **Docket No. E015/M-19-523** 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