

May 13, 2015

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-14-990

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources (Department) provides the following *Response Comments* with regards to the following matter:

Minnesota Power's (MP or the Company) Petition for Approval of Cost Recovery under Boswell Energy Center Unit 4 Emission Reduction Rider.

Based on our review of MP's *Reply Comments*, the Department recommends that the Minnesota Public Utilities Commission (Commission) approve the Company's *Petition*, as modified by MP's *Reply Comments*. The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ SACHIN SHAH
Rates Analyst

SS/ja
Attachment

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET No. E015/M-14-990

I. BACKGROUND

On November 26, 2014, Minnesota Power (MP or the Company) filed a petition requesting approval from the Minnesota Public Utilities Commission (Commission) for cost recovery of investments, expenditures and costs related to the Boswell Energy Center Unit 4 mercury emission reduction project through MP's Boswell Unit 4 Emission Reduction Rider (BEC4 Rider).

On February 25, 2015 the Department filed its *Comments*. The Department requested that MP provide in *Reply Comments* the details, clarification, confirmation, explanation, and identification of:

- The differing 2010 base rate amounts for the operations and maintenance expense;
- Justification of the proposed October 2015 date for beginning the monthly revenue requirement credit for retired equipment, including clarification as to at what point the equipment that is currently in base rates will, or has, become no longer used and useful;
- The relevant information related to Basin Electric Power Cooperative (BEPC); and
- The annual rate factor adjustment due to loss of a wholesale customer in 2014.

The Department stated that it would offer additional comments and recommendations in subsequent response comments after it had reviewed the additional information.

On March 16, 2015 MP filed a response to the Department's requests. The Department discusses the responses below.

I. 2010 BASE RATE AMOUNTS

With regards to the first request on the 2010 base rate amounts, MP stated the following:

On December 20, 2013, Minnesota Power submitted its Petition to the Commission pursuant to Minn. Stat. § 216B.1692 seeking approval to update cost recovery of investments, expenditures and costs related to the BEC4 Project through Minnesota Power's Commission approved BEC4 Rider (see Docket No. E015/M-13-1166). In response to the Department's Information Request No. 8, dated February 27, 2014, Minnesota Power stated that the 2010 base rate amount for the operation and maintenance ("O&M") expense associated with the part of the Plant to be retired is \$650,000. In Exhibit B-2, page 11 or 11, of the November 26, 2014 Petition (Docket No. E015/M-14-990), the Company stated that the 2010 base rate amount for the O&M expense associated with the part of the Plant to be retired is \$640,000. The correct 2010 base rate amount for the O&M expense is \$650,000. The immaterial amount will have no impact on the billing factors included in this filing. Refer to Exhibit B-2, page 11 of 11, row C10, for the corrected O&M expense.¹

The Department appreciates MP's clarification and correction. The Department agrees with MP that the impact of the difference in amounts, on the billing factors, will be immaterial. However, it is important to ensure that rates are based on accurate figures.

II. MONTHLY REVENUE REQUIREMENT CREDIT FOR RETIRED EQUIPMENT

With regards to the second request, the Department had observed in its *Comments* that MP proposed to provide a monthly revenue requirement credit beginning in October 2015 whereas BEC4 Project construction began in October 2013. In its *Comments*, the Department requested that MP justify the proposed October 2015 date for beginning the monthly revenue requirement credit for retired equipment, including clarification as to at what point the equipment that is currently in base rates will, or has, become no longer used and useful.

In its *Reply Comments*, MP stated the following:²

Based on the most current schedule information, Minnesota Power plans to begin the outage to tie in the duct work to the NID system on August 15, 2015. At that time, the BEC4 equipment that is currently in rate base will be taken out of service and retired. Therefore, Minnesota Power has updated the start date of the base rate revenue credit from October

¹ MP *Reply Comments* pages 5-6.

² MP's *Reply Comments* at page 6.

2015 to August 15, 2015. Refer to Exhibit B-1, page 5 of 5, row E5.

The energy and capacity provided from BEC4, the largest generating resource in Minnesota Power's fleet, is an essential component of Minnesota Power's customers' supply. BEC4 generates a very large quantity of reliable energy at a reasonable cost 24 hours a day, 7 days a week, and is a baseload resource for the region's energy intensive requirements. For this reason, the Company strategically scheduled the required outage(s) for the BEC4 Project at the optimal time for customers in order to minimize its expected replacement energy costs and associated O&M costs. BEC4 has been, and will continue regular operations until final tie-in of the duct work to the new CDS (circulating dry scrubber) technology, referred to as the NID system, occurs during a single scheduled outage. Once BEC4 is started up after the outage, it will be operating on the NID system and tuning will begin.

The Department appreciates MP's clarification regarding the equipment that will no longer be used and useful and the associated change in the monthly revenue requirement credit for the retired equipment. As a result, the Department agrees with MP's proposed start date of August 15, 2015 for the credit.

III. BASIN ELECTRIC POWER COOPERATIVE (BEPC)

With regards to the third request, the Department in its *Comments* had stated and observed the following:³

- In the instant Petition, MP has not provided sufficient details on the power sales agreement. For example, MP has not indicated under what tariff BEPC takes power (wholesale, large power or some other MP tariff);
- MP has not indicated what type of power BEPC acquires from MP (energy and/or capacity) ;
- It is unclear whether MP needs Commission approval for such an agreement or whether MP has sought and obtained approval; and
- MP has not indicated the magnitude of the load and whether it is above the 10 MW threshold as further discussed below.

³ Department's *Comments* at page 11.

In its *Reply Comments*, MP stated the following:⁴

Turning to the Department's specific questions, the power sale agreement is an off-system wholesale sale not under a Minnesota Power tariff or historically regulated by the Commission, though as part of general rate cases the Commission establishes an overall level for asset-based wholesale power sales and associated margins. **In the Company's 2009 retail rate case, asset-based margins from off-system sales such as the Basin sale were reflected as a revenue credit, which reduced the revenue from sales of electricity that would otherwise need to be collected from retail jurisdictional customers.** In its 2013 Integrated Resource Plan filing,¹ Minnesota Power noted various wholesale power transactions where the Company stated:

Basin Electric—100 MW: In October 2009, Minnesota Power entered into an agreement with Basin Electric Power Cooperative for a 100 MW Firm sale beginning May 1, 2010, and continuing through April 30, 2020. Minnesota Power is relying on 100 MW of BEC capacity and associated energy to support this transaction.

See also, Minnesota Power's March 11, 2014 response to Department Information Request No. 25 in Docket No. E015/RP-13-53.

Finally, regarding the 10 MW threshold, **Basin is not a firm wholesale customer of Minnesota Power, and therefore, is not included in the Company's jurisdictional allocation factor calculations.** Minnesota Power's firm wholesale customer sales (to municipal customers and Superior Water Light & Power) are subject to regulation by the Federal Energy Regulatory Commission and are included in the Company's jurisdictional allocation factor calculations. [Emphasis added]

¹ Docket No. E015/RP-13-53, Appendix C, Part 2, page 27.

The Department was able to confirm that the effects of the BEPC sale were not incorporated in the jurisdictional allocator in Minnesota Power's 2009 rate case. Instead, BEPC was treated as an asset-based wholesale customer. Asset-based wholesale customer margins

⁴ MP's *Reply Comments* at pages 7-8.

are credits to retail customers in MP's rate case and are fixed.⁵ Thus, there is no need to make an additional adjustment in this rider proceeding regarding the sale to BEPC.

IV. THRESHOLD FOR ALLOCATION FACTORS AND LOAD CHANGES

Regarding the fourth request as to whether a rate factor adjustment for the loss of the wholesale customer in 2014 is needed, the Department in its *Comments* had stated⁶:

In its *Reply Comments*, MP should provide additional details on the loss of the wholesale customer in 2014. MP should adjust the annual rate factor adjustment filing in the instant Petition to reflect the loss of the wholesale customer referenced above in order to comply with the *12-920 Order*. In the event the load in 2015 materializes as MP anticipates above, MP should make an additional filing to adjust the annual rate factor adjustment filing at that time, in order to comply with the *12-920 Order*.

In its *Reply Comments*, MP stated the following:⁷

Minnesota Power has revised the jurisdictional and class allocation factors from the Company's last rate case to reflect the loss of a wholesale customer, Dahlberg Light & Power ("Dahlberg"), effective January 1, 2014. The allocators were revised as follows in Exhibit B-5 on the pages indicted [sic]:

- The Dahlberg load, page 8, line 17, was subtracted from the system peak, page 7, column (a), to get the revised system peak, page 5, column (a);
- The Dahlberg load was zeroed out, page 6, line 17, to get the revised jurisdictional allocators, page 6, line 34;
- The revised jurisdictional allocators were then used to calculate the revised class allocation factors shown in rows 11 and 12 on page 3; and
- The revised allocators were normalized as shown on page 4.

⁵ For example, see page 45 of the Direct Testimony of DOC Witness Nancy Campbell: <https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={22785B16-5CEC-4512-8B98-EB77734DCD74}&documentTitle=20104-49469-05>

⁶ Department *Comments* at page 12.

⁷ MP's *Reply Comments* at pages 8.

The above adjustments due to the loss of Dahlberg as a wholesale customer were incorporated into Exhibits B-1 and B-2, where they resulted in very small increases to the proposed billing factors.

Based on MP's *Reply Comments* and Revised Exhibits, below the Department updates its Tables 1 through 3 as filed on February 25, 2015.

Table 1: Summary of Proposed Revenue Requirements

Project Description	Estimated Revenue Requirements MN Jurisdiction	Estimated Revenue Requirements MN Jurisdiction	Difference
2014 Estimated Year-End Tracker	\$5,667,325	\$5,790,370	\$123,045
2015 BEC 4 Environmental	\$17,442,083	\$17,677,325	\$235,242
2015 BEC 4 Base Rate Revenue	(\$574,115)	(\$717,012)	(\$142,896)
2015 Boswell Ash Pond Phase 1	\$158,481	\$160,464	\$1,983
2015 Revenue Requirements	\$17,026,449	\$17,120,777	\$94,329
2015 Total Factor Revenue	\$22,693,774	\$22,911,148	\$217,373

Table 2: Summary of Existing and Proposed BEC4 Rider Rates

Billing Factor	Unit	Current Rate	Proposed Rate <i>Initial Petition</i>	Proposed Rate <i>Reply</i>
Large Power	\$/kw -	0.60	0.99	1.00
	¢/kWh	0.057	0.094	0.095
All Other Retail	¢/kWh	0.156	0.262	0.265

Table 3: Summary of Average Rate Impact by Class

Class	Average Bill Impact (\$/Mo.) <i>Initial Petition</i>	Percentage Change (%) <i>Initial Petition</i>	Average Bill Impact (\$/Mo.) <i>Reply Comments</i>	Percentage Change (%) <i>Reply Comments</i>
Residential	\$0.86	1.06%	\$0.88	1.09%
General Service	\$2.95	1.06%	\$3.03	1.09%
Large Light &	\$241.64	1.31%	\$248.48	1.35%
Large Power	\$46,554	1.61%	\$47,561	1.65%
Municipal	\$11.43	1.16%	\$11.76	1.19%
Lighting	\$0.39	0.68%	\$0.40	0.70%

The Department reviewed MP's adjustment calculations provided in its *Reply Comments*, and concludes that they are reasonable. Therefore, the Department recommends that the Commission approve MP's proposed rate factors set forth in MP's *Reply Comments*.

V. TRADE SECRET DESIGNATION

Regarding the trade secret designation, the Department had stated the following:⁸

Regarding the designation of trade secret data, the Department notes that in MP's November 26, 2014 trade secret and public filings or the instant Petition, the trade secret data is not identified in a manner that satisfies the Commission's requirements. Specifically, the Company did not provide justification for its trade secret designation of information in its Exhibit B-2 pages 9 and 10 of 11, pursuant to Minn. Stat. §13.37. In addition, the Company did not identify the trade secret and other non-public information pursuant to Minn. Rule 7829.0500. The entire Exhibit B in the trade secret filing was labeled – "NON-PUBLIC DOCUMENT CONTAINS TRADE SECRET DATA" and the public version was labeled "PUBLIC DOCUMENT TRADE SECRET DATA EXCISED." Minn. Rule 7829.0500 requires only the pages on which protected information appears to be marked in addition to the cover page. The Department cautions MP about the erroneous designation of trade secret data and lack of justification for seeking such designation. The Department recommends that for all future filings, MP should take additional care in its designation and justification of trade secret data in its petitions' and/or attachments.

In its *Reply Comments*, MP states the following:

Minnesota Power would also like to address the Department's comments specific to the designation of trade secret data. The Department recommended that Minnesota Power provide additional care and justification in its designation of trade secret data consistent with Commission rules. Minnesota Power inadvertently did not include its standard trade secret justification consistent with Commission rules and practices since the body of the petition did not contain any trade secret information. The trade secret justification is attached to these *Reply Comments* (see Exhibit C). ... Minnesota Power will continue to strive to designate only information that is Trade Secret in accordance with Commission rules and practices.

⁸ Department *Comments* at page 9.

The Department appreciates MP's efforts in ensuring that its information is designated in accordance with Commission rules and practices as well as the relevant statutes and rules, for example, Minn. Stat. §13.37.

VI. TRUE-UP AND TRACKER BALANCES

With regards to the calculations, the Department had stated the following:⁹

As shown on Exhibit B-1, Page 3 of 5 of its Petition, MP proposed to increase its 2015 BEC 4 Rider revenue requirement by \$5,667,325 (2014 tracker balance) to reflect prior under-recoveries from 2013 and 2014.

The Department reviewed MP's true-up and tracker balance calculations. The Department notes that MP's calculations are consistent with past rider filings. However, the Department notes that the clarifications requested of MP as described above and below, may impact the true-up and tracker balances. Therefore, the Department will provide further comment on MP's tracker balances after reviewing MP's *Reply Comments*. [Footnote omitted.]

The Department has reviewed MP's true-up and tracker balance calculations provided in its *Reply Comments*. These calculations are consistent with past rider filings.

VII. RECOMMENDATIONS

Based on our review, the Department recommends that the Commission approve MP's *Petition*, as modified in its March 16, 2015 *Reply Comments*, including the following BEC4 Rider factors:

Billing Factor	Unit	Proposed Rate <i>Reply Comments</i>
Large Power	\$/kw - month	1.00
	¢/kWh	0.095
All Other Retail Classes	¢/kWh	0.265

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⁹ Department *Comments* at page 8.

CERTIFICATE OF SERVICE

I, Linda Chavez, hereby certify that I have this day served copies of the following document on the attached list of persons by electronic filing, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

MINNESOTA DEPARTMENT OF COMMERCE – RESPONSE COMMENTS

Docket Nos. **E015/M-14-990**

Dated this **13th** day of **May, 2015**.

/s/Linda Chavez

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