

November 4, 2016

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

RE: **Response Comments of Minnesota Department of Commerce, Division of Energy Resources to the Reply Comments of Minnesota Power**
Docket No. E015/M-16-648

Dear Mr. Wolf:

The Minnesota Department of Commerce, Division of Energy Resources' (Department) offers the following Response Comments to the October 17, 2016 Reply Comments (Reply Comments) of Minnesota Power (MP or the Company) in the matter of MP's *Petition for Approval of Deferred Accounting Treatment of Costs Related to the 2016 Storm Response and Recovery*.

The Department notes that two small issues have been resolved as noted on page 5 of the Company's October 17, 2016 Reply Comments. The Company has agreed to the Department's recommended accounting classification and has withdrawn its request to apply carrying charges to the deferred amounts. **The Department continues to recommend that the Company's request for deferred accounting be denied**, and discusses the issues raised by MP in its Reply Comments below.

MP noted on pages 1-2 of its Reply Comments under the heading "Magnitude of Storm" the significant and unusual requirements necessary to support deferred accounting. MP also indicated that the fact that it had to call on Midwest Mutual Aid signals that the storm was an order of magnitude greater than the majority of weather events that occur on the Company's system. MP cited other state regulatory dockets where other state commissions have supposedly granted deferred accounting. Additionally, MP noted that the Edison Electric Institute (EEI) 2005 AFTER THE DISASTER: Utility Restoration Cost Recovery report indicates that "Almost all utilities distinguish between "normal" storms and "major" storms . . ." with "major" storms designated as such if "a substantial number of customers are without power for a significant period of time."

In response, the Department does not consider the 2016 storms to meet the definition of unusual or extraordinary, which is one of the criteria considered in evaluating deferred accounting requests. The impact of the 2016 storms on MP's system certainly was not as significant as the impact that the 100-year flood had on Interstate Power and Light's system, for which the Commission did grant deferred accounting with offsets for related revenue amounts. The Department notes that while the 2016 storms were more significant than past storms, there are years where MP experiences no storms or very small storms and the

Company incurs less costs than the amounts built into rates. The Company claimed that significance should be based on the storm's impact to MP's customers; however, the significance for purposes of granting deferred accounting should be focused on the financial significance and impact to MP, consistent with the Commission's previous orders for deferred accounting.

MP addressed on pages 2-4 of its Reply Comments under the heading "Incremental Costs" several concerns with Department's assessment of incremental 2016 storm costs. First, MP indicated that it does not agree with the Department's applied 96.555 percent Minnesota jurisdictional allocator, because MP is only requesting deferred accounting for retail costs to restore distribution service for retail customers. Second, MP stated on page 3 that the incremental costs for the 2016 storm is now \$2.929,088¹ which according to MP is roughly 13 percent of the Company's distribution operating and maintenance (O&M) budget. MP also asserted that the 2016 incremental storm costs should be compared to the distribution O&M costs and not compared to MP's total O&M costs or total revenue requirement.

First, the Department continues to support a 96.555 percent jurisdictional allocator because MP's response to DOC Information Request No. 1 incorrectly assumes all distribution costs are assigned to retail customers. In fact, MP's last rate case shows that 96.555 percent of distribution operating and maintenance costs are assigned to the Minnesota Jurisdiction,² not 100% as MP claimed.

Second, the Department notes that MP's deferred accounting request has changed from \$4 - \$6 million in its initial petition, to \$2.9 million in its reply comments, which is a significantly smaller amount. The Department does not agree with MP that the decision as to whether the 2016 storm damage is significant and warrants deferred accounting should be based on simply comparing the incremental 2016 storm costs to MP's distribution O&M budget in isolation. Instead the decision as to whether deferred accounting is necessary should be based on the significance or materiality of the 2016 storm damage of \$2.9 million in the context of the Company's total O&M expense or total revenue requirements. In that context, the incremental 2016 storm costs amount to approximately one-half of one percent of total O&M cost, or less than one-half of one percent of total revenue requirements.

On page 2 and in its Appendix on page 6-7 of its Reply comments, MP seems to draw a distinction between Xcel Energy, which has a storm reserve account, and MP who does not have a storm reserve account, which requires the Company to absorb incremental costs into its annual budget. The Department notes that the existence of a storm reserve account simply means that Xcel Energy has more detailed tracking of storm costs than MP. For budgeting purposes both Xcel Energy and MP would consider past O&M costs, which include storm damage costs, in determining future O&M budgets for setting rates. The existence of a storm reserve account allows a utility to more accurately track the proportion of O&M costs that were related to storms. The Department would also evaluate past O&M actual costs, which includes storm damage costs, in determine O&M cost levels in rate cases. As a

¹ See MP's Attachment E, Incremental Storm Costs Estimate Spreadsheet, in the Company's Reply Comments.

² See MP's response to DOC Information Request No. 13.

result, Department does not consider MP to be at a disadvantage for overall rate recovery of storm damages due to its lack of a storm reserve account, as suggested by MP.

Finally, the Department notes that MP recently filed a rate with a forecasted 2017 test year. Since MP is allowed to pick either a historical or forecasted test year, the Department is concerned with MP's two deferred accounting requests³ which basically push historical costs into the forecasted 2017 test year. The Department notes that this incorrect blending of forecasted and historical costs by MP results in 2016 and 2017 costs included in a single test-year, resulting in overstated rates.

Although the Department continues to recommend denial of MP's requested deferred accounting for 2016 incremental storm damage costs, consistent with the Department's initial comments, if the Commission were to approve deferred accounting the Commission should limit the deferred amount to the costs related to Contractor/Professional Service of \$1,981,509⁴ (which is likely the incremental costs tied to the Mutual Aid request by MP) and apply the 96.555 percent Minnesota Jurisdictional allocator to any deferred accounting amount granted by the Commission.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ NANCY A. CAMPBELL
Financial Analyst

NAC/lt

³ The instant proceeding and Docket No. E015/M-16-876.

⁴ See MP's Attachment E, "Account 4100 Contractor/Professional Services" in the Company's Reply Comments.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, 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 No. E015/M-16-648

Dated this 4th day of November 2016

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	Yes	OFF_SL_16-648_M-16-648
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_16-648_M-16-648
Emma	Fazio	emma.fazio@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-648_M-16-648
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_16-648_M-16-648
Margaret	Hodnik	mhodnik@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-648_M-16-648
Nathan N	LaCoursiere	nlacoursiere@duluthmn.gov	City of Duluth	411 W 1st St Rm 410 Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-648_M-16-648
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_16-648_M-16-648
John	Lindell	john.lindell@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_16-648_M-16-648

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_16-648_M-16-648
Herbert	Minke	hminke@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_16-648_M-16-648
Andrew	Moratzka	andrew.moratzka@stoel.com	Stoel Rives LLP	33 South Sixth St Ste 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_16-648_M-16-648
Jennifer	Peterson	jjpeterson@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
Susan	Romans	sromans@allete.com	Minnesota Power	30 West Superior Street Legal Dept Duluth, MN 55802	Electronic Service	No	OFF_SL_16-648_M-16-648
Thomas	Scharff	thomas.scharff@versoco.com	Verso Corp	600 High Street Wisconsin Rapids, WI 54495	Electronic Service	No	OFF_SL_16-648_M-16-648
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_16-648_M-16-648
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_16-648_M-16-648

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Daniel P	Wolf	dan.wolf@state.mn.us	Public Utilities Commission	121 7th Place East Suite 350 St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_16-648_M-16-648