



January 25, 2021

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 a Petition for Approval
Of Minnesota Power Land Sales
Docket No. E015/PA-20-675
Reply Comments

Dear Mr. Seuffert:

Minnesota Power respectfully submits these reply comments in response to the Initial Comments submitted by the Minnesota Department of Commerce on January 15, 2021 in the above referenced Docket.

If you have any questions regarding this filing, please contact me at (218) 355-3202 or jjpeterson@mnpower.com.

Respectfully,

Jennifer J. Peterson
*Manager – Regulatory Strategy and
Policy*

JJP:th
Attach.

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of a Petition for Approval
Of Minnesota Power Land Sales

Docket No. E015/PA-20-675

**MINNESOTA POWER'S
REPLY COMMENTS**

I. INTRODUCTION

On August 31, 2020, Minnesota Power (or, the “Company”) submitted a petition for Minnesota Public Utilities Commission (or, the “Commission”) approval to begin selling land holdings along traditional hydro reservoirs that are no longer necessary for maintaining hydro operations. As the Company continues to lead the state in decarbonizing efforts, recently surpassing a milestone of providing 50 percent renewable power to customers, it strives to keep its electric rates competitive for all customers. In an effort to ensure affordability, Minnesota Power is requesting approval to offer residential land lots for sale in fee of title after receiving all necessary approvals and refinements. The Company is also requesting approval to set the baseline value of each lot on the county’s Estimated Market Value (“EMV”) methodology and approval to defer all proceeds from land sales into a regulatory liability that would be returned to customers in either a future rate case or through the Renewable Resources Rider.

On December 22, 2020, under Docket 2360-000, the Company submitted a non-capacity license amendment application to the Federal Energy Regulatory Commission (“FERC”) to adjust the Project Boundary for specific sections of Island, Fish, and Whiteface Reservoirs in the St. Louis River Hydroelectric Project (“SLRP”). On January 15, 2021, Minnesota Power discussed the license amendment application with FERC staff. FERC staff confirmed the application contained the appropriate information to allow the amendment review to proceed. However, consultation with the State Historic Preservation Office (“SHPO”) under the requirements of Section 106 of the National Historic Preservation Act (“NHPA”) was needed before the application is approved. On January 18, 2021, the Company requested designation as a non-federal representative to the FERC to fulfill NHPA Section 106 compliance responsibility on their behalf, including the

authority for consultation with affected federally recognized tribes. This request was granted by the FERC on January 21, 2021 under Docket P-2360-272.

On January 15, 2021, the Department of Commerce (“Department”) submitted initial comments stating that while it expects to recommend Commission approval of the petition, it first requests additional information in reply comments. In these reply comments, the Company will provide the additional information requested by the Department.

II. RESPONSE TO THE DEPARTMENT

The Department requested additional information on the four issues listed below. Minnesota Power’s response is included in this section.

A. First, the Department requests that Minnesota Power explain whether it will consider counteroffers from current leaseholders after the Company offers to sell their lots at current EMV, or whether those offers will be non-negotiable.

Minnesota Power will not consider counteroffers from current leaseholders after the Company offers to sell their lots at current EMV. Leaseholders will have the option to delay the purchase of the lot, to the extent that their lease term allows, but the methodology for calculating the purchase price will remain the same. Delayed purchases will be based on the most current EMV available from the county.

B. Second, the Department requests that the Company provide additional information regarding its proposed journal entries to record the sale of these lots. As described above, the Company stated that it would defer all proceeds from the lot sales into a regulatory liability, but the proposed journal entries to not create or involve a regulatory liability.

Minnesota Power intends to defer all proceeds from the land sales, net of tax into a regulatory liability. Once all proceeds are distributed to customers the regulatory liability would terminate. The Company will pay tax on the gain at the time of the sale. The customer will receive the benefit of the full gain because the net liability amount will be

gross up for tax since the customer distributions will reduce the Company's tax liability.

Illustrative example:

Gain on land Sales	\$100	
Corporate Tax	<u>(28)</u>	
Regulatory Liability	\$ 72	
Distribution Gross-up	/ <u>(1.40)</u>	
Customer Revenue Impact		\$(100)
Corporate Tax		<u>28</u>
Regulatory Liability		\$ (72)

C. Third, the Department requests that Minnesota Power clarify whether the federal and state corporate income tax rates, or lower capital gains tax rates, will apply to these land sales.

Federal and state corporate income tax rates will apply to land sales. Business capital gain is taxed at the same rate as ordinary income for companies.

D. Fourth, the Department requests that Minnesota Power explain in reply comments whether any of its non-regulated affiliates will receive any direct or indirect benefits from the tax liability generated by the proposed sale of the lots.

There are no direct or indirect benefits to any non-regulated affiliate from the land sales.

III. CONCLUSION

Minnesota Power appreciates the Department's thorough review of this innovative proposal to attempt to keep rates competitive for customers as the Company leads the state in the transition to renewable energy. Having passed a milestone of delivering a power supply that is half renewable, and announcing a commitment to reduce carbon emissions 80 percent by 2035, it is critical rates remain affordable for all customers. This creative petition to begin selling land holdings along traditional hydro reservoirs that are

no longer necessary for maintaining hydro operations demonstrates a significant effort to ensure competitive customer rates going forward.

Dated: January 25, 2021

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Jennifer J. Peterson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Jennifer J. Peterson

Manager –Regulatory Strategy & Policy
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STATE OF MINNESOTA)
) ss
COUNTY OF ST. LOUIS)

AFFIDAVIT OF SERVICE VIA
ELECTRONIC FILING

Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 25th day of January, 2021, she served Minnesota Power's Reply Comments in **Docket No. E015/PA-20-675** 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