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**VIA E-FILING AND EMAIL**

The Honorable Judge Ann O'Reilly ([ann.oreilly@state.mn.us](mailto:ann.oreilly@state.mn.us))  
Office of Administrative Hearing  
600 North Robert Street  
P.O. Box 64620  
St. Paul, MN 55164-0620

**Re: In the Matter of the Request of Minnesota Power for a Certificate of Need for the  
Great Northern Transmission Line Project  
Docket No. E-015/CN-12-1163  
OAH Docket No. 65-2500-31196**

Dear Judge O'Reilly:

Enclosed for filing please find the Surrebuttal Testimony of Lane Kollen on behalf of the Large Power Intervenors with regard to the above-entitled docket.

Very truly yours,

STOEL RIVES LLP

/s/ Andrew P. Moratzka

Andrew P. Moratzka

APM/kp  
Enclosure

**BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

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**IN THE MATTER OF THE  
REQUEST BY MINNESOTA POWER  
FOR A CERTIFICATE OF NEED  
FOR THE GREAT NORTHERN  
TRANSMISSION LINE**

**MPUC Docket No. E-015/CN-12-1163  
OAH Docket No. 65-2500-31196**

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**SURREBUTTAL TESTIMONY  
OF  
LANE KOLLEN**

**ON BEHALF OF  
LARGE POWER INTERVENORS**

**J. KENNEDY AND ASSOCIATES, INC.  
ROSWELL, GEORGIA**

**November 2014**

**BEFORE THE  
MINNESOTA PUBLIC UTILITIES COMMISSION**

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**IN THE MATTER OF THE                      MPUC Docket No. E-015/CN-12-1163  
REQUEST BY MINNESOTA POWER        OAH Docket No. 65-2500-31196  
FOR A CERTIFICATE OF NEED  
FOR THE GREAT NORTHERN  
TRANSMISSION LINE**

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**SURREBUTTAL TESTIMONY OF LANE KOLLEN**

1    **Summary**

2

3    **Q.     Please state your name and business address.**

4    A.     My name is Lane Kollen. My business address is J. Kennedy and Associates, Inc.  
5           (“Kennedy and Associates”), 570 Colonial Park Drive, Suite 305, Roswell, GA  
6           30075.

7

8    **Q.     Have you previously filed testimony in this proceeding?**

9    A.     Yes.    I previously filed Direct Testimony wherein I made several  
10           recommendations to ensure that customers are protected from excessive project  
11           costs and to ensure that the project costs are recovered equitably from all  
12           customers.

13                    To ensure that customers are protected, I continue to recommend that the  
14           Commission:

- 1                   1.     Condition its certification in this proceeding on its review and  
2                   approval of MP’s not-yet-filed petitions for the new 133 MW  
3                   Renewable Optimization Agreements (“ROAs”) and the Facilities  
4                   Construction Agreement (“FCA”).  
5  
6                   2.     Impose a cap on ratemaking recovery.  
7  
8                   3.     Reject the request for accelerated cost recovery of the financing  
9                   costs incurred during construction before the project provides  
10                  service, and instead use allowance for funds used during  
11                  construction (“AFUDC”) to defer and recover these financing costs  
12                  over the life of the project.  
13  
14                  4.     Use a transmission rider for recovery to ensure that customers  
15                  timely obtain rate reductions as the project cost is depreciated for  
16                  book and income tax purposes.

17                   To ensure that the project costs are recovered equitably from all  
18                  customers, I recommend that the Commission apply a uniform percentage  
19                  increase on base revenues to all customer classes.  
20

21   **Q.     What is the purpose of your Surrebuttal Testimony?**

22   A.     The purpose of my Surrebuttal Testimony is to respond to the Rebuttal  
23            Testimonies of Minnesota Department of Commerce - Division of Energy  
24            Resources (the “Department”) witness Dr. Stephen Rakow and Minnesota Power  
25            witness David McMillan.  
26

27   **Q.     Please summarize your Surrebuttal Testimony.**

28   A.     I reiterate each of the recommendations that I made in my Direct Testimony.  
29            Both the Department and the Company agree with my recommendation to  
30            condition the certification of the GNTL project on the review and approval of the  
31            new 133 MW Renewable Optimization Agreements (“ROAs”) and the Facilities

1 Construction Agreement (“FCA”). The FCA now has been filed in this  
2 proceeding. The Company plans to file the ROAs in this proceeding when they  
3 are finalized.<sup>1</sup>

4 The Commission should impose a cost cap in this proceeding as a  
5 condition to certification of the GNTL project. The Company’s reasons to reject a  
6 cost cap or defer the potential imposition of a cap lack merit given that the  
7 economics of the GNTL project are close compared to a natural gas combined  
8 cycle alternative and given the need to protect customers from harm if the  
9 Company’s cost estimate proves to be too low.

10 The Commission should reject the Company’s arguments against AFUDC  
11 and in favor of a current return on CWIP. The Company’s arguments are flawed  
12 and fail to address the critical fact that AFUDC provides a better matching  
13 between recovery of the costs of the asset from customers and the use of the asset  
14 to provide service to those same customers.

15 The Commission should reject the Company’s arguments against the  
16 longer-term use of a transmission cost recovery or similar rider. If the costs are  
17 rolled-in to base rates at a fixed level at any point in time on the downward cost  
18 trajectory, customers necessarily will be harmed as the actual costs continue to  
19 decline due to additional book and tax depreciation.

20 Finally, the Company does not oppose and has quantified the effect of my  
21 recommendation to use a uniform percentage increase on base revenues to all

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<sup>1</sup> Rebuttal Testimony of David McMillan, at 9.

1 customer classes, although it now claims that this issue is not relevant to this  
2 proceeding.

3

4 **Q. Is there a common theme in the opposition from the Department and**  
5 **Minnesota Power to your testimony?**

6 A. Yes. Both the Department and Minnesota Power assert that cost recovery issues  
7 (*i.e.*, cost-cap, AFUDC, rider recovery and revenue allocation) are issues that are  
8 better addressed in subsequent dockets, such as a transmission cost recovery  
9 (“TCR”) rider proceeding or general rate case.

10

11 **Q. How do you respond?**

12 A. I disagree. The overall cost of the GNTL project and how those costs are  
13 recovered from ratepayers are included within the panoply of issues that must be  
14 reviewed per the Commission’s order accepting MP’s application and referring  
15 this case to the Office of Administrative Hearings (“OAH”).<sup>2</sup>

16 In that order, the Commission set forth the scope of the proceeding and, in  
17 accordance with cited Minnesota Statutes and Rules, granted the parties leeway to  
18 raise and address other issues relevant to the application:

19 VI. Issues to be Addressed

20 The ultimate issue in this case is whether the Applicant’s proposed  
21 transmission line project meets the need criteria set forth in Minn.  
22 Stat. § 216B.243 and Minn. Rules Chapter 7849. This issue turns

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<sup>2</sup> *In the Matter of the Request of Minnesota Power for a Certificate of Need for the Great Northern Transmission Line Project*, Docket No. E-015/CN-12-1163, Order Accepting Filing, Varying Time Lines, and Notice and Order for Hearing (Jan. 8, 2014).

1 on numerous factors that are best developed in formal evidentiary  
2 proceedings. The parties to this proceeding should address whether  
3 the proposed project meets these criteria and address these factors.  
4 The parties may also raise and address other issues relevant to the  
5 application.<sup>3</sup>

6 For ease of reference, I provide the need criteria referenced by the  
7 Commission as follows:

8 [Section 216B.243 of the Minnesota Statutes](#) states, in relevant part:

9 Subd. 3. Showing required for construction. No proposed large energy  
10 facility shall be certified for construction unless the applicant can show  
11 that demand for electricity cannot be met more cost effectively through  
12 energy conservation and load-management measures and unless the  
13 applicant has otherwise justified its need. In assessing need, the  
14 commission shall evaluate: ... (9) with respect to a high-voltage  
15 transmission line, the benefits of enhanced regional reliability, access, or  
16 deliverability to the extent these factors improve the robustness of the  
17 transmission system or lower costs for electric consumers in Minnesota.<sup>4</sup>

18 And [Rule 7849.0120 of the Minnesota Rules](#) states, in relevant part:

19 A certificate of need must be granted to the applicant on determining that:  
20 ... B. a more reasonable and prudent alternative to the proposed facility  
21 has not been demonstrated by a preponderance of the evidence on the  
22 record, considering: ... (2) the cost of the proposed facility and the cost of  
23 energy to be supplied by the proposed facility compared to the costs of  
24 reasonable alternatives and the cost of energy that would be supplied by  
25 reasonable alternatives.<sup>5</sup>

26 In short, the cost of the GNTL project and the impact on customer rates  
27 are issues in this proceeding. They should not be deferred to a subsequent  
28 proceeding because they are directly relevant to the certification in this  
29 proceeding and the future impact on customers.

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<sup>3</sup> *Id.* at 4.

<sup>4</sup> MINN. STAT. § 216B.243 subd. 3.

<sup>5</sup> MINN. R. 7849.0120.

1 **Q. In addition to the legal justification for addressing cost recovery issues now,**  
2 **are there any policy justifications?**

3 A. Yes, there are two: (1) administrative efficiency and (2) timing. First, it is more  
4 efficient to address matters of cost and cost recovery during this contested case  
5 process. Deferring the issues would result in re-litigation of the same issues while  
6 citing the record of this proceeding. The record is presently open to do so.

7 Second, the ability of customers to obtain a cost cap or otherwise effect  
8 change may be diminished in a subsequent proceeding after construction already  
9 has commenced and significant costs have been incurred. Customers clearly are  
10 disadvantaged in subsequent proceedings if the Commission defers the decisions  
11 on a cost cap, the form of recovery, and the allocation of the recovery to customer  
12 classes if the Commission already has certified the project without condition and  
13 without resolving these concerns.

14

15 **Q. Do you have any other summary remarks?**

16 A. No. The remainder of my testimony is organized to address the Department's and  
17 Company's responses to each of my recommendations.

18

19 **The ALJ Should Recommend that the Commission Condition Certification of the**  
20 **GNTL Project on the Review and Approval of the ROAs and the FCA**

21

22 **Q. What are the parties' positions with respect your proposed condition?**

23 A. The Department and Minnesota Power support the proposed condition, testifying  
24 as follows:



- 1           • Dr. Rakow states that “Given that MP plans to submit both the FCA and  
2           ESA and that these agreements potentially impact the cost allocated to  
3           ratepayers for MP’s proposed 500 kV transmission line relative to the 230  
4           kV alternative, I conclude that Mr. Kollen’s first recommendation is  
5           reasonable and I support his recommendation.”<sup>6</sup>
- 6           • Mr. McMillan states that the Company does not oppose this  
7           recommendation, “[g]iven the importance of both of these 133 MW  
8           Renewable Optimization Agreements to the overall Project and the Project  
9           economics.”<sup>7</sup>

10

11 **Q. Should the ALJ Recommend that the Commission adopt your**  
12 **recommendation?**

13 A. Yes. Given what appears to be consensus on the issue, there is no reason to not  
14 impose the condition.<sup>8</sup>

15

16

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<sup>6</sup> *Rakow Rebuttal*, at 2:14-17.

<sup>7</sup> *McMillan Rebuttal*, at 10:1-3.

<sup>8</sup> *Id.*

1 **The ALJ Should Recommend that the Commission Impose a Cap on Ratemaking**  
2 **Recovery in this Proceeding**

3  
4 **Q. What are the parties' positions with respect to your proposed cap on rate**  
5 **recovery?**

6 A. The Company adamantly opposes the imposition of a cost cap.<sup>9</sup> The Department,  
7 on the other hand, proposes a modified version of my proposal. Namely, the  
8 Department proposes limiting rider recovery to the estimate provided in this  
9 proceeding, allowing recovery above those costs in a subsequent rate case, and  
10 requiring that Minnesota Power bear the burden of proof in demonstrating that  
11 any cost overruns were prudent and that the resulting rates are just and  
12 reasonable.<sup>10</sup>

13  
14 **Q. How do you respond to the Department?**

15 A. Although I appreciate the Department's attempt at finding a reasonable middle  
16 ground through the imposition of a temporary "soft cap", I do not believe that its  
17 proposal is appropriate in this particular case.

18  
19 **Q. Please explain.**

20 A. I do not believe a "soft cap" proposal with base rate recovery at a later date is in  
21 customers' best interests. With respect to project costs in general, the lack of a  
22 definitive cost estimate (in light of repeated upward revisions to the proposed

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<sup>9</sup> *McMillan Rebuttal*, at 10-12.

<sup>10</sup> *Rakow Rebuttal*, at 3:6-10.

1 range of costs) is a cause for significant concern. Minnesota Power has submitted  
2 five different estimates in this docket, culminating in the most recent range of  
3 \$557.8 million to \$710.1 million.<sup>11</sup> This is a significant increase from the original  
4 estimate in the Company’s application, putting the GNTL project and related  
5 hydro purchase agreements at near parity with a combined cycle alternative on an  
6 economic basis. In other words, it is already conceivable that the GNTL project  
7 will not be competitive with the combined cycle alternative, the next cheapest  
8 alternative. Absent a firm cap now, customers risk having to argue about the  
9 prudence of cost overruns later. Such after-the-fact prudence reviews place an  
10 unfair burden on customers. And with respect to rate recovery, it generally is  
11 better from a customer’s perspective to keep cost recovery in the TCR rider and  
12 not roll into base rates via a rate case. To be sure, the firm cost cap is better  
13 suited to accomplish the Department’s stated objective of giving “MP an  
14 incentive to minimize costs and to help protect ratepayers.”<sup>12</sup>

15

16 **Q. One reason that Mr. McMillan cites in opposition to a cost cap is that the**  
17 **Company has provided a “range of capital costs” that is “appropriate given**  
18 **that a final route and any route permit conditions have not been decided for**  
19 **this Project.”<sup>13</sup> Please respond.**

20 A. The fact that the Company provided a “range of capital costs” does not obviate  
21 the need for a cap on the costs eligible for ratemaking recovery. The fact that the

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<sup>11</sup> *Donahue Direct*, at 4.

<sup>12</sup> *Rakow Rebuttal*, at 3:28-29.

<sup>13</sup> *Id.*

1 Company provided repeated upward revisions to its capital costs since it filed its  
2 application in this proceeding underscores the need for a cap. The fact that the  
3 economics of the GNTL and an alternative natural gas combined cycle generation  
4 resource are very close also demonstrates the need for a cap.

5  
6 **Q. Is the cap on ratemaking recovery that you recommend close to the upper**  
7 **end of the range of capital costs in the Company’s August 2014 cost**  
8 **estimate?**

9 A. Yes. The cap that I propose is the Company’s calculation of the “as-spent”  
10 equivalent to the 2013 dollar estimate reflected in the FCA, excluding AFUDC.  
11 The cap that I propose is greater than the midpoint of the Company’s August 2014  
12 estimate; it is the midpoint between the range midpoint and the upper end of the  
13 range used by the Company for the FCA and to estimate the revenue requirement  
14 provided in response to LPI-17.

15 In addition, the cap that I propose includes Minnesota Power’s multiple  
16 levels of contingencies at the component level and on an overall project basis.

17 Finally, the cap that I propose already reflects the decisions made by the  
18 Company to locate the 500 kV series compensation at a site separate from the  
19 Blackberry substation, as well as other routing decisions and preferences.

20  
21 **Q. Another reason cited by Mr. McMillan in opposition to a cost cap is that**  
22 **“Minnesota Power has included standard contingencies in its Project**  
23 **estimates. Given the geography, long-lead time, and length and size of this**

1           **Project, those are reasonable contingencies and Minnesota Power should not**  
2           **be penalized by a ‘hard cap’ should some of these contingencies prove**  
3           **necessary.”<sup>14</sup> Please respond.**

4    A.    The fact that the estimates include multiple levels of contingencies explicitly  
5           recognizes the uncertainties in the project and increases the cost estimates  
6           compared to the exclusion of such contingencies. The contingencies in the cost  
7           estimates provide the Company a margin of error for actual negative  
8           contingencies that occur, if they occur. Of course, there may be actual positive  
9           contingencies compared to the activities, methodologies, and costs reflected in the  
10          cost estimates.

11  
12   **Q.    Another reason cited by Mr. McMillan in opposition to a cost cap is that “the**  
13           **Commission has not imposed a cost-cap as part of the Certificate of Need**  
14           **approval and it is not reasonable to preemptively limit future cost recovery**  
15           **as a part of this docket.”<sup>15</sup> Please respond.**

16    A.    Regardless of whether any party sought such a cost-cap or the Commission  
17           imposed such a cap in prior certificate of need dockets, it is reasonable for the  
18           Commission to do so and to limit future cost recovery in this proceeding. It  
19           should do so as a condition of the certification before construction begins, not  
20           during or after construction. As I noted above and explained in my direct  
21           testimony, the GNTL project may not be economic or in the public interest if the

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<sup>14</sup> *Id.*, at 12.

<sup>15</sup> *Id.*, at 11.

1 cost exceeds the cap that I propose. The cost cap is an effective means of  
2 incentivizing the Company to manage the cost of the project within the overall  
3 budget to ensure that customers actually receive the value promised by the  
4 application.

5 The Commission should not defer this issue to a subsequent TCR rider or  
6 base rate proceeding. If past is prologue and the Commission does not resolve the  
7 cost cap issue here, the Company may again argue against a cost cap in a  
8 subsequent proceeding when it seeks recovery. The issue, whether addressed in  
9 this certification proceeding or in a subsequent TCR rider or base rate proceeding,  
10 is whether there should be a cost cap. The Commission cannot avoid the issue by  
11 deferring it and should address it up front in this proceeding.

12

13 **Q. What reasons has the Commission cited for a cost cap on transmission line**  
14 **projects in prior proceedings?**

15 A. In at least two recent TCR rider proceedings, the Commission found that  
16 “[h]olding the Company to its initial estimate is an important tool to enforce fiscal  
17 discipline.”<sup>16</sup>

18 The Commission also found that the “imposition of a cap protects the  
19 integrity of the certificate of need process, in which it is critical that the cost estimates

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<sup>16</sup> *In the Matter of Xcel Energy’s Petition for Approval of 2012 Transmission Cost Recovery (TCR), Project Eligibility, TCR Rate Factors, and 2011 True-up*, Docket No. E-002/M-12-50, Order Approving 2012 TCR Project Eligibility and Rider, Capping Costs, and Modifying 2011 Tracker Report, at 4-5 (Feb. 7, 2014); *In the Matter of Otter Tail Power Company’s Request for Approval of a Transmission Cost Recovery Rider Including the Proposed Transmission Factor for the Recovery Period from May 2, 2013 to April 30, 2014*, Docket No. E-017/M-13-103, Order Capping Costs, Denying Rider Recovery of Excess Costs, and Requiring Inclusion of all MISO Schedule 26 Costs and Revenues in TCR Rider, at 3-5 (Mar. 10, 2014) (“Otter Tail TCR Order”).

1 for the alternatives being compared are as reliable as possible. And, capping costs at  
2 the certificate of need levels is consistent with the Commission's actions in similar  
3 cases involving other utilities' riders."<sup>17</sup>  
4

5 **Q Does this logic apply equally to the present proceeding?**

6 A. Yes. And from an administrative efficiency perspective, it makes far more sense  
7 to discuss the cap (and any issues associated therewith) in the certificate of need  
8 proceeding, the integrity of which the Commission has affirmatively stated is  
9 necessary to protect.  
10

11 **Q. What are the options available to the Commission in this proceeding if the**  
12 **Company remains unwilling to stand behind its cost estimate or asserts that**  
13 **the estimate is not sufficiently developed to provide reasonable certainty that**  
14 **it will not be exceeded?**

15 A. The Commission's options are to impose a cost cap or decline to issue the  
16 certification at this time. The Commission should not issue the certification and  
17 defer the issue of the cost cap to a future proceeding. It is essential that the  
18 Commission protect customers from an open-ended exposure to actual costs  
19 incurred in excess of the cost estimates relied on in this proceeding.

20 The Commission must be able to rely on the Company's cost estimates to  
21 issue a certification in this proceeding and must have reasonable certainty that the

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<sup>17</sup> Otter Tail TCR Order at 3-5.

1 project will not be more expensive than the alternative natural gas combined cycle  
2 alternative.

3

4 **The ALJ Should Recommend that the Commission Direct the Company to Accrue**  
5 **AFUDC in this Proceeding**<sup>18</sup>

6

7 **Q. Mr. McMillan opposes your recommendation to accrue AFUDC. One reason**  
8 **he cites is that it isn't necessary or appropriate to make that decision in this**  
9 **proceeding. Please respond.**

10 **A.** It is appropriate to make that decision in this proceeding because the rate impact  
11 provided by the Company assumes that it will seek and obtain current recovery of  
12 the CWIP financing costs through the TCR rider rather than accruing AFUDC and  
13 recovering those costs over the life of the GNTL project. In other words, this  
14 issue is relevant in this proceeding because it will affect the timing and the  
15 magnitude of recovery from customers.

16

17 **Q. Another reason cited by Mr. McMillan in opposition to accruing AFUDC is**  
18 **that Minnesota Statutes Section 216B.16, subd. 7b allows the Commission the**  
19 **discretion to provide current recovery of the CWIP financing costs through**  
20 **the TCR rider. Please respond.**

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<sup>18</sup> With respect to this issue, rider recovery, and revenue allocation, the Department proposes to take no action at this time. *Rakow Rebuttal*, at 4:1-10. For the reasons I set forth above, these issues should be addressed in this proceeding. The remainder of my testimony is therefore focused on addressing the specific concerns expressed in Minnesota Power's rebuttal testimony.



1 A. I made this same point in my Direct Testimony, but in support of using AFUDC  
2 rather than providing a current recovery of the CWIP financing costs. The statute  
3 does not mandate current recovery of the CWIP financing costs. Thus, the  
4 Commission has the discretion to make the right decision to allow AFUDC for the  
5 reasons that I cited in my Direct Testimony.

6

7 **Q. Another reason cited by Mr. McMillan is that a current recovery provides**  
8 **customer savings on a “nominal” dollar basis. Are these real savings?**

9 A. No. There is no difference between the AFUDC and current recovery approaches  
10 on a net present value basis, as I described and demonstrated in my Direct  
11 Testimony. If this argument were taken to its logical conclusion, then customers  
12 could achieve “nominal” dollar savings if none of the construction expenditures  
13 were capitalized as CWIP and the Company was provided dollar for dollar  
14 recovery of all construction expenditures as they were incurred, not only the  
15 financing costs as the Company proposes.

16

17 **Q. Mr. McMillan disagrees with your statement that the project has value only**  
18 **after it is constructed and placed in service. Please respond.**

19 A. Mr. McMillan claims that the GNTL project has value and should be allowed  
20 current recovery of the financing costs because it will meet future customer  
21 requirements even though it will not provide service until it is completed and  
22 placed in service. I disagree that the standard is whether it will *eventually* provide  
23 service. As a practical matter, the project does not and cannot have any functional

1 value until it is in service. All costs of the project, including the financing costs  
2 incurred during construction, should be recovered from customers only after the  
3 project is in service and provides service. This properly matches the recovery  
4 with the cost of service.

5  
6 **Q. Mr. McMillan also claims that the current recovery of the return during the**  
7 **construction period provides a “phase-in” of the project’s revenue**  
8 **requirements. Please respond.**

9 A. Although that is true, it does so by accelerating the recovery of a significant  
10 portion of the project cost into the construction period and recovers that cost from  
11 customers before the project provides service, thus imposing the cost on present  
12 customers and relieving customers in future years of that cost. Again, if this  
13 argument were taken to its logical conclusion and elevated to a principle, then  
14 future increases in revenue requirements could or perhaps should be “phased-in”  
15 by accelerating recovery of other CWIP or plant in service costs.

16  
17 **Q. Did Mr. McMillan address the point in your Direct Testimony that the**  
18 **Company will accrue AFUDC for the 17.7% of the project cost that will be**  
19 **incurred initially by MP, but subsequently recovered from MH through the**  
20 **must-take fee?**

21 A. No. This is an important point. The Company plans to discriminate against its  
22 customers compared to its co-owner. The Commission should require AFUDC on  
23 the 28.3% of the project cost that will be paid by the Company’s customers, in the

1 same manner as the Company will accrue AFUDC on the 17.7% of the project  
2 cost that will be recovered from MH contractually through the must-take fee after  
3 the project is completed and placed in-service.

4

5 **Q. In your Direct Testimony, you recommend the use of a TCR rider or similar**  
6 **rider for the long term recovery of the project costs to timely reduce rates to**  
7 **match the declining cost trajectory. Did Mr. McMillan address this critical**  
8 **benefit of using the TCR rider or a similar rider for the longer term recovery**  
9 **of the project costs?**

10 A. No. He recommends that the TCR rider be rolled-in to base rates after the project  
11 is completed and placed in service, claiming that “better ratemaking outcomes  
12 may well be achieved for customers by addressing this major new asset addition  
13 through a traditional general rate case.”

14 However, a base rate case is not necessary to accomplish any of the  
15 objectives that he identifies. Anything that can or should be addressed through a  
16 base rate case can be reflected in the TCR rider, including, but not limited to,  
17 future capital additions, jurisdictional allocations, class allocations, and the return  
18 on equity, among other issues. Given the tendency of these issues to change over  
19 a period of years, ratepayers are better protected via annual adjustments to the  
20 TCR than through periodic rate cases, the timing and frequency of which are

1 uncertain. In the past, there have been lengthy periods between rate cases of up to  
2 14 years on Minnesota Power's system.<sup>19</sup>

3

4 **The ALJ should Recommend that the Commission Allocate the Costs of the Project**  
5 **to Customer Classes Using a Uniform Percentage Increase**

6

7 **Q. In his Rebuttal Testimony, Mr. McMillan now claims that the Company does**  
8 **not agree that cost allocations or rate design matters belong in a Certificate**  
9 **of Need proceeding. Please respond.**

10 A. For the reasons noted above, cost allocation and rate design matters are relevant  
11 issues in this proceeding because they determine the customer impact of the  
12 project cost. Prior to Mr. McMillan's Rebuttal Testimony, the Company and Mr.  
13 McMillan agreed that these were relevant issues in this proceeding. More  
14 specifically, the Company itself proposed an allocation methodology and  
15 provided the estimated rate impacts for customer classes in its application in this  
16 proceeding. In addition, Mr. McMillan subsequently updated the estimated rate  
17 impacts in his Direct Testimony.

18

19 **Q. Do you generally agree with the Company's quantification of the uniform**  
20 **percentage increase pursuant to your request and recommendation?**

21 A. Yes. A uniform percentage increase results in a relatively minor effect on the  
22 residential customer class compared to the Company's proposal. Thus, the

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<sup>19</sup> After its 1994 rate case (Commission Docket E015/GR-94-001), Minnesota Power waited 14 years to file its next case (Commission Docket No. E015/GR-08-415).

1 Commission should use this opportunity to partially remedy the substantial  
2 subsidies currently provided to the residential class by the LP class.

3

4 **Q. Does this complete your Surrebuttal Testimony?**

5 A. Yes.

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## **CERTIFICATE OF SERVICE**

I, Kathy Prestidge, hereby certify that I have this day served a true and correct copy of the following document to all persons at the addresses indicated below or on the attached list by electronic filing, electronic mail, courier, interoffice mail or by depositing the same enveloped with postage paid in the United States Mail at Minneapolis, Minnesota.

### **Surrebuttal Testimony of Lane Kollen**

In the Matter of the Request of Minnesota Power for a Certificate of Need for the Great Northern Transmission Line Project  
MPUC Docket No.: E-015/CN-12-1163  
OAH Docket No. 65-2500-31196

Dated this 7th day of November, 2014.

*/s/ Kathy Prestidge* \_\_\_\_\_

Kathy Prestidge

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