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Lori Hoyum
Policy Manager
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December 20, 2013

VIA E-FILING
Dr. Burl W. Haar
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 Utility Renewable Energy Cost Impact Report Required by Minn. Stat. § 216B.1691, subd. 2e.
Docket No. E-999/CI-11-852

Dear Dr. Haar:

The Minnesota Public Utilities Commission ("Commission") issued a Notice of Comment Period on Cost Impact Reports ("Notice") on November 6, 2013, in the above referenced docket. Minnesota Power respectfully submits its Comments in response to the Notice.

Please contact me at the number provided above with any questions or concerns.

Yours truly,

Lori Hoyum

Lori Hoyum

Attachment
cc: Service List

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

Jodi Nash of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 20th day of December, 2013, she served Minnesota Power's Comments on Cost Impact Reports on the Minnesota Public Utilities Commission via electronic filing. The remaining parties on the attached service list were served as so indicated on the list.

Subscribed and sworn to before
me this 20th day of December, 2013.

Susan Romans

Notary Public - Minnesota
My Commission Expires 1/31/2015

SUSAN ROMANS
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2015

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Service List Member Information

Electronic Service Member(s)

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Anderson	Christopher	canderson@allete.com	Minnesota Power	Electronic Service	No
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Last Name	First Name	Company Name	Address	Delivery Method	View Trade Secret
Carnival	Douglas M.	McGrann Shea Anderson Carnival	Straugn & Lamb, 800 Nicollet Mall, Suite 2600, Minneapolis, MN-554027035	Paper Service	No
Eide Tollefson	Kristen	R-CURE	P O Box 129, Frontenac, MN-55026	Paper Service	No
Eleff	Bob	Regulated Industries Cmte	100 Rev Dr Martin Luther King Jr Blvd, Room 600, St. Paul, MN-55155	Paper Service	No
Fergen	Pam	Henepin County Government Center CAO	A2000, 300 S. Sixth Street, Minneapolis, MN-55487	Paper Service	No
Garvey	Edward	Residence	32 Lawton St, Saint Paul, MN-55102	Paper Service	No
Gerber	Darrell	Clean Water Action Alliance of Minnesota	308 Hennepin Ave. E., Minneapolis, MN-55414	Paper Service	No
Gower	Bryan	APX, Inc.	224 Airport Parkway, Suite 600, San Jose, CA-95110	Paper Service	No
Houston	Ashley	N/A	120 Fairway Rd, Chestnut Hill, MA-24671850	Paper Service	No
Johnston	Larry	SMMPA	500 1st Ave SW, Rochester, MN-55902-3303	Paper Service	No
Kelly	Nancy	Eureka Recycling	2828 Kennedy Street NE, Minneapolis, MN-55413	Paper Service	No
Ketchum	Julie	Waste Management	20520 Keokuk Ave, Lakeville, MN-55044	Paper Service	No
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McDowell	Mike	Heartland Consumers Power District	PO Box 248, Madison, SD-570420248	Paper Service	No
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Pearson	Joshua	enXco, Inc.	15445 Innovation Drive, San Diego, CA-92128	Paper Service	No
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Tveitbakk	Darryl	Northern Municipal Power Agency	123 Second Street West, Thief River Falls, MN-56701	Paper Service	No
Zaremba	Thomas J.	WHEELER, VAN SICKLE & ANDERSON	Suite 801, 25 West Main Street, Madison, WI-537033398	Paper Service	No

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STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

In the Matter Utility Renewable Energy Cost Impact Reports Required by Minnesota Statutes Section, Section 216B.1691, Subd.2e	Docket No. E-999/CI-11-852 **MINNESOTA POWER'S COMMENTS**

I. Introduction

The Minnesota Public Utilities Commission ("Commission") issued a Notice of Comment Period on Cost Impact Reports Required by Minnesota Statutes Section 216B.1691, Subd.2e ("Notice") on November 6, 2013 (Docket No. E-999/CI-11-852). Minnesota Power (or the "Company") respectfully submits its Comments in response to the Notice.

II. General Comments

In its 2013 Integrated Resource Plan ("2013 IRP")[1], Minnesota Power presented the methods utilized to communicate its cost impact of activities necessary to comply with Minn. Stat. § 216B.1691. In the 2013 IRP and its past Cost Impact reporting, the Company has followed the method of utilizing aggregated renewable project costs as annual and levelized revenue requirements. The Company recommends the Commission consider a similar approach for the Streamlining process.

[1] E015/RP-13-53

III. Responses to Topic/s Open for Comment

General Guiding Principles:

Minnesota Power generally agrees with the four proposed guiding principles as stated in the Notice. Creating a uniform reporting system by which stakeholders can easily make cost impact comparisons across utilities is certainly a worthwhile undertaking. However, Minnesota Power cautions that in order to comply with the statute, the methods ultimately chosen need to be an accurate representation of the actual and potential costs to customers. Simplifying assumptions to such a level where the granularity of the diverse utility systems in Minnesota are no longer incorporated could mask or overestimate the impact for customers.

Uniform Reporting System:

A. Staff proposes a start date of 2005 out through 15 years from each utility's next filed IRP. Does this provide a reasonable and useful format to capture a starting point (benchmark) as well as forecast of cost impacts to comply with the statute?

In keeping with established utility planning documents such as the 2013 IRP, the uniform reporting process future time period should consist of the same five years as the IRP's short-term action plan. The cost impact forecasts will be more consistent if aligned with procedures already established for resource planning purposes.

B. Should REO expenditures be included in the renewable energy rate impact analysis, why or why not? Are all REO eligible projects online and operating, or, are some in development? Staff assumes that this row eventually 'phases out' without any additional cost apart from those already incurred. Is that a correct assumption?

Minnesota Power believes there is no reason to split the REO from the RES in the impact analysis. Attempting to make this distinction at this point in time will only serve to complicate the reporting process. The projects implemented in the REO time period have now transitioned to meeting the RES.

C. *The statute lists required reporting cost activities to include (without limitation) renewable energy purchases, generation facility acquisition and construction, and transmission improvements. Staff assumes these categories, often referred to as RES in total to include utility-owned generation, power purchases agreements, market purchases and renewable energy credits (REC). Should expenditures for RES be calculated separately from those for REO and eventual SES? Why or why not?*

The SES calculations should be kept separate due to the presence of additional implementation costs such as additional compliance staff, software and other requirements for the SES. These expenditures will need to be kept separate and distinct from RES costs in order to accommodate the exempted customer provision in which no additional costs will be transferred to customers excluded from the SES requirement. The separation is also prudent seeing as resources used to meet the SES do not count towards the RES total as defined in statute.[2]

D. *Are expenditures for REO, RES (SES in the future) separately accounted for and calculated by the utility? Would there be different treatment as to cost inclusion for on-line projects versus those in development or executed contracts for historical REO, RES (eventual SES) projects? Should both levelized and annualized costs be provided in order to show short-term impact on rates vs. expected long-term effects?*

REO and RES expenditures are not separately accounted for by Minnesota Power. Minnesota Power does expect to account for SES expenditures separately given SES customer exemption requirements. Minnesota Power proposes utilizing annualized costs for the historical outlook and when showing the near term impact. Minnesota Power proposes utilizing levelized costs for the long-term outlook.

E. *Would it be more useful, as well as ease the administrative burden, to differentiate renewable energy (RE) expenditures in rows such as "RE Costs – Online", "RE Costs– In Development", "RE Net Short" and Total RE Costs" as opposed to rows B – E*

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[2] Minn. Stat. §216B.1691 Subd. 2f.

identified in Table 1; why or why not? What source(s) will the utility use to report renewable energy expenditures, regardless of category? Examples: FERC uniform system of account (FERC Form 1); REO-RES biennial reports; company financial statements. Please be specific and refer to the general guiding principles in your response.

The separation of projects into such categories as stated above would only serve to add more administrative burden for the utilities. Minnesota Power has utilized Rider filings in the past as well as resource planning data in the RES Cost Impact calculations. Minnesota Power suggests that the Commission utilize revenue requirements for this Report and exclude expenditures. Revenue requirements are a more accurate reflection of costs to the customer on a yearly basis for projects. The annual FERC Form No. 1 (for investor owned utilities only) details the total expenditures and would therefore not be relevant to the Company's preferred method.

F. *List the best available 'source' from which to report and calculate, non-renewable generation revenue requirement. Going forward, what would be the pros and cons of using the utilities latest approved rate case? For historical purposes (2005 baseline) would it be the closest to that year's approved rate case revenue requirement? In both cases, Staff assumes the utility is capable of distinguishing revenue requirements into the following categories: generation, distribution and transmission.*

The Company suggests utilizing the most recent rate case, riders and any additional generation proposed in the next five years from the utility's IRP short-term action plan to report and calculate non-renewable generation revenue requirements. Minnesota Power is capable of separating generation, distribution and transmission when distinguishing revenue requirements for this purpose. Minnesota Power cautions that the separation of revenue requirements into wholesale and retail components or different rate classes would only serve to complicate the reporting format.

G. *There are many ways one could report, estimate, measure and compare, across utilities, the expected cost to comply with Minn. Stat. § 216B.1691. Please provide your* *comments, alternatives (if any) on whether the proposed uniform reporting system is reasonable and whether it meets the statute requirements (note strengths and shortcomings as applicable).*

As stated earlier in the Comments, Minnesota Power believes that the most prudent and accurate way to measure and compare cost would be to utilize revenue requirements and not expenditures. Minnesota Power is willing to work with the Department and other stakeholders on a solution that best fits the requirements set out in statute.

H. As one alternative, row H offers the 'but for the renewable mandate consideration for comparison purposes. Should 'supply-side' expenditures include solely a 'gas-only' proxy/alternative? Some states use 'cost of new entry' (CONE) for comparison purposes. Some use 'avoided cost' in addition to looking at the utility's 'system average' with relation to the costs of meeting renewable energy mandates. What would be the advantages or disadvantages of including any of these metrics for comparison purposes? Should a row be included to input both annual peak and off-peak market prices (public sourced)? Please explain why or why not.

In order to better align with the general guiding principles proposed by Commission Staff, Minnesota Power could potentially support using a 'gas-only' proxy/alternative based on a Combined Cycle for the avoided energy cost. It is important to note that using the 'gas-only' proxy/alternative may contradict with the proposed guiding principal of providing realistic representation of cost. This method could overstate the benefits of the RES due to the unique power supply of each utility where natural gas is not always the marginal unit in both the on-peak and off-peak time periods. One complication with this proposed method is that the natural gas price forecast used in utility resource planning is not available for public consumption which is inconsistent with the proposed general guiding principle of fostering transparency by using publically available information.

Minnesota Power is open to using the Midcontinent Independent System Operator calculated CONE value for the avoided capacity cost. The advantage of using CONE is that a history exists that can be used for historical periods and it is public information. A disadvantage is that Minnesota Power is not aware of a publically available forecasted CONE value. Minnesota Power is willing to work with the Department of Commerce – Division of Energy Resources ("Department") and Commission Staff to define a public methodology for calculating the future value of CONE in order to adhere to the proposed guiding principles

Minnesota Power supports including the historical annual peak and off-peak market prices. Minnesota Power does have concern with including the peak and off-peak market prices for the future period because such forecasts are traditionally considered trade secret information. The Company is not aware of a credible public market energy price forecast for the Minnesota region. Minnesota Power is willing to work with the Department and Commission Staff to define a public methodology for the market energy price for the future period.

IV. Conclusion

Minnesota Power appreciates the opportunity to submit Comments on these proposed technical reporting changes. It is important for stakeholders to understand the costs as well as benefits of adding renewable generation to the State's resource mix. The Company welcomes further dialogue and is prepared to be an active participant in the streamlining process.

Dated: December 20, 2013

Respectfully submitted,

Lori Hoyum

Lori Hoyum
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