

August 6, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce,
Division of Energy Resources**
Docket No. E015/M-20-900

Dear Mr. Seuffert:

Attached are the Response Comments of the Minnesota Department of Commerce, Division of Energy Resources (Department), in the following matter:

Petition of Minnesota Power for Approval of a Transmission Cost Recovery Rider.

The petition was filed on December 28, 2020 by:

Lori Hoyum
Regulatory Compliance Administrator
Minnesota Power
30 West Superior Street
Duluth, MN 55802.

The Department recommends **approval with modifications** and is available to answer any questions that the Minnesota Public Utilities Commission may have in this matter.

Sincerely,

/s/ Stephen Collins
Financial Analyst
SC/ar
Attachment



Before the Minnesota Public Utilities Commission

Response Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E015/M-20-900

I. INTRODUCTION

On December 28, 2020, Minnesota Power (MP or the Company) filed a petition requesting that the Minnesota Public Utilities Commission (Commission) approve the 2021 rate adjustment mechanism (Transmission Factor) for MP's Rider for Transmission Cost Recovery (TCR Rider, TCRR, Transmission Rider, or Rider), under Minnesota Statutes section 216B.16, subdivision 7b (the TCR Rider Statute).

On June 18, 2021, the Minnesota Department of Commerce (Department) filed comments requesting additional information.

On July 14, 2021, MP filed reply comments.

II. RESPONSE TO MP

The Department appreciates MP providing additional requested information. The Department responds to MP below.

A. GNTL

1. *O&M and Property Taxes*

The Department's initial comments requested that MP provide, in reply comments, detailed calculations for the monthly requested GNTL property taxes and O&M as shown in Exhibit B-3 for each project ID#, and a clear explanation for why the total monthly amount of property taxes and O&M for each project ID# is reasonable and consistent with paragraph (d) of the TCR Statute:

Upon receiving a filing for a rate adjustment pursuant to the tariff established in paragraph (b), the commission shall approve the annual rate adjustments provided that, after notice and comment, the costs included for recovery through the tariff were or are expected to be prudently incurred and achieve transmission system improvements at the lowest feasible and prudent cost to ratepayers [emphasis added]

MP's reply comments provided additional information on this issue. The Department no longer has any concerns and appreciates MP providing the additional explanations.

2. *"Certain Other Non-Manitoba Ltd. Charges" and Iron Range Material Storage Building*

MP's petition requests recovery of approximately \$1.9 million of "certain other Non-Manitoba Ltd. Charges," consisting of approximately:

- \$1,000,000 of legal-related costs, consisting of "attorney time to negotiate, develop and review the project agreements and amendments, as well as to secure the necessary state and federal (FERC) approvals ..."
- \$800,000 of GNTL Management Committee-related costs, which were for two Minnesota Power employees to have in-person meetings with Manitoba Hydro
- \$100,000 of expenses for "employee recognition costs" and what appears to be other miscellaneous general and administrative costs.

The Department's initial comments recommended rejecting recovery of the \$1.9 million of "certain other Non-Manitoba Ltd. Charges" because the Commission disallowed recovery of internal costs in Docket No. E015/M-10-799 and subsequent dockets.

MP replied as follows:

Incremental costs incurred in relation to "certain other Non-Manitoba Ltd. Charges" are not already recovered in base rates as of the most recent Rate Case filed on November 2, 2016 in Docket No. E015/GR-16-664. Adjustments were included in the 2016 rate case to exclude all revenue, expenses, and rate base associated with the continuing cost recovery rider for projects going into service after January 1, 2017. All the GNTL projects were part of these adjustments because all were in-service after January 1, 2017. Also, in the 2016 rate case there was a \$2.1 million Total Company adjustment for internal labor costs associated with projects that are eligible for rider cost recovery. \$1.0 million of this \$2.1 million Total Company adjustment was internal labor costs associated with the GNTL project, but we are not double recovering these costs because these internal labor costs are not included in either the cost recovery rider rate calculations or in the test year after capital costs associated with continuing rider projects are backed out.

Based on MP's reply and the Department's review of MP's most recent rate case, the Department no longer concludes that the "certain other Non-Manitoba Ltd. Charges" are already recovered through base rates. Therefore, the Department no longer recommends disallowance on the basis of internal cost recovery.

The Department also recommended that, per the GNTL CN (Certificate of Need) Order,¹ the Commission limit cost recovery to 28.3% of capital costs and 33% of O&M costs. Specifically, the GNTL CN Order states:

¹ June 30, 2015 Order in Docket No. E015/CN-12-1163.

2. The Commission grants Minnesota Power a certificate of need for Minnesota Power's Great Northern Transmission Line with the following conditions:

- A) Limit Minnesota Power's recovery in riders to an amount equal to 28.3 percent of the total capital costs of the Project or \$201 million (in 2013 dollars), whichever is less;
- B) Allow Minnesota Power to request recovery of any excess costs only in a rate case where the costs will be subject to full prudence review;
- C) Put Minnesota Power on notice that it will have the burden of demonstrating the prudence of any additional costs and show why it would be reasonable to recover the additional costs from ratepayers given the representations made in this proceeding;
- D) Require Minnesota Power to obtain prior approval from the Commission if it proposes to charge ratepayers for operation and maintenance costs greater than 33 percent of the project's total operation and maintenance costs at any time in the future...

MP treats the certain other non-Manitoba charges as capital costs under Project ID #105471.² Because MP has overall come in under the \$201 million limit even when considering these costs³ and because MP does not share these non-Manitoba Ltd. Costs with Manitoba Hydro, the Department no longer objects to MP's cost recovery proposal for these costs.

Regarding the Iron Range Material Storage Building, the Department's initial comments:

- Recommended that the Commission limit TCRR recovery of the Iron Range Material Storage Building to 28.3% of total capital costs and 33% of total O&M costs and back out the same amount of internal costs as for other projects,
- Requested that MP provide in reply comments additional information to demonstrate whether the Iron Range Material Storage building was least-cost relative to other alternatives considered.

For the same basic reasons as for the non-Manitoba charges, the Department also no longer objects to the MP's proposed recovery of the Iron Range Material Storage Building costs, **excluding MP's now agreement with the Department to exclude the approximately \$0.5 million of internal costs.** The Department notes that MP confirmed that it used competitive bidding for the storage building, and the Department believes MP has provided sufficient information to show the construction of the building was reasonable in light of potential alternatives.

² MP communication to the Department.

³ See the Department's initial comments, page 12, last paragraph.

B. DOG LAKE PROPERTY TAXES

The Department's initial comments requested that MP provide an explanation and calculations for the requested Dog Lake property tax amounts in Exhibit B-3, pages 1-15. MP provided this information in its reply comments.

C. NET RECB EXPENSES OR REVENUES (MISO SCHEDULES 26, 26A, 37, 38)

The Department's initial comments recommended, to ensure rates accurately reflect costs to the extent possible, that the Commission require that MP incorporate updated actual net RECB expenses before implementing an updated transmission factor.

MP's reply comments opposed the Department's recommendation because a true-up to actual RECB expenses will eventually occur through the tracker in MP's subsequent TCR petitions. While this is of course correct, it is also correct that trueing up sooner rather than later results in more accurate rates. Moreover, this proposal is consistent with MP's characterization of 2021 as a "historical test year." **Therefore, the Department maintains its recommendation that the Commission require MP to incorporate updated actual net RECB expenses before implementing an updated transmission factor.** The Department notes that its recommendation does not affect the implementation date; it merely requires MP to update to actuals based on the information available at the time.

In addition, the Department's initial comments requested that MP provide, in reply comments:

- An exhibit or other information connecting the information in Exhibit B-1 with the revenue and charges provided in Exhibit C-1; and
- A full linkage and explanation between the requested RECB revenue requirements as shown in Exhibit B-5, and the revenues and charges confirmed by MISO in Exhibit C-1. For example, page 2 of Exhibit C-1 shows Schedule 26 revenue of \$1,824,063 for the January 2019 financial period. In contrast, Exhibit B-5 shows January 2019 Schedule 26 revenue of \$1,649,486.

MP's reply comments stated that the difference between the exhibits is due to monthly accrual accounting. The Department appreciates this explanation and, having reviewed Attachment 4 to MP's reply comments, no longer has any concerns regarding what initially appeared to be discrepancies in MP's petition.

D. ARR & NON-RECB REVENUES

The Department's initial comments requested that MP provide documentation for its requested amount of ARR and Schedule 9 credits. The idea of this request was to have MP provide something similar to what it provides to support its requested RECB revenue requirements (see Exhibit C-1 of the petition).

MP's reply comments provided additional documentation to support these requests. The Department is satisfied with the information provided by MP.

E. BASE RATE REVENUE CREDITS FOR GTNL AND DOG LAKE

The Department requested that MP provide, in reply comments, an explanation connecting its calculations of Dog Lake and GNTL base rate revenue credits in Exhibit B-6 to the total requested credit amounts shown in Exhibits B-1 and B-2. The Department appreciates MP's reply comments clarifying the connection between the two exhibits.

F. COST OF DEBT

The Department's initial comments requested that MP provide, in reply comments, its estimate of the Company's embedded cost of debt and capital structure for 2021.

MP provided this information in Attachment 12 of its reply comments. This attachment provided the same capital structure that MP has proposed in this case, but an embedded cost of debt of 4.37% for 2021 and 4.43% cost for 2020, instead of MP's proposed cost of 4.517%. Therefore, the Department concludes that MP's proposed cost of debt is overstated. **The Department recommends that the Commission require MP to use the Company's actual 2020 and forecasted 2021 cost of debt.**

G. FERC ROE REFUNDS

The Department's initial comments requested that MP:

- provide, in reply comments, resettlements to date, an estimation of how including them would affect the rider, and when MP expects the resettlements (MISO process) to be complete; and
- explain whether MP could include an estimated resettlement amount for 2021 and then adjust to actuals in future TCRR filings.

MP responded as follows:

The MISO resettlement process is currently not expected to be completed until the second quarter of 2022. Minnesota Power revenues received under Schedule 26 are based on a percentage of the total amount of Schedule 26 revenues collected. There are over 70 transmission owners involved in the MISO resettlement process. The Company does not have access to all transmission owners' data in order to estimate the total impact of the new ROE on each transmission owners' Attachment GG and MM. In addition, the amount of Schedule 26 and 26A expenses paid by Minnesota Power is also dependent on the other transmission owners' filings, and would offset revenues received through the resettlement process. At this time, updated Attachment O/GG/MM/ZZ₆ projection rates for the years 2017-2020, along with the related years true up filings, have yet to be completed and supplied to MISO. Therefore, providing an estimate of the impact of the ROE resettlements at this time is not feasible.

⁶ Attachment MM is not applicable to Minnesota Power.

Given MP's response, the Department does not object to the proposal in MP's initial petition to include all the MISO transmission resettlements for the FERC ROE changes in future TCR Rider filings following completion of the MISO process and, when the MISO process is complete, include the actual net transmission resettlements received in the TCR Rider.

H. PRORATED ACCUMULATED DEFERRED INCOME TAXES & IMPLEMENTATION DATE

The Department's initial comments recommended that the Commission require MP to implement its updated transmission factor effective January 1, 2022 or the first day of the month following the Commission's Order in this docket, whichever is later, thereby eliminating the need to prorate ADIT. The Department did not believe this recommendation to be contentious given MP's statement in the initial petition that "The Company is estimating that rates under this 2021 Transmission Factor will take effect after December 1, 2021. This results in 2021 being a historical year and therefore no pro rata calculation is required for this TCR current cost recovery filing."

MP's reply comments claim that the Department's initial comments "seem to indicate support for delaying the implementation of the new TCR factor." However, the Department was merely echoing the statements and proposal made by MP itself. **Since the Department's recommendation is consistent with MP's initial proposal and characterization, and consistent with how the Commission has treated ADIT in other riders, the Department maintains its recommendation.**

I. POTENTIALLY ELIGIBLE PROJECTS

The Department's initial comments requested that MP, in reply comments, provide the required description of all potentially eligible projects that MP will seek recovery for in the future, and the impacts those projects will have on the TCR factor, or point to where the description is provided in the petition.

MP responded that as of its initial petition, MP did not have any potentially eligible projects and therefore did not include a description. MP also stated that in future such instances it would provide a note stating so, so as to avoid confusion.

However, MP noted that it now has one potentially eligible project: the Duluth Loop Reliability Project, for which MP intends to submit in the upcoming weeks a combined application for a Certificate of Need and Route Permit. The project is currently scheduled to be in service in 2025. MP intends to include the estimated costs of the project in its 2022 TCR petition to be filed later this year.

III. RECOMMENDATION

The Department recommends that the Commission approve the petition as modified in MP's reply comments to back out internal cost recovery for the Iron Range Material Storage Building.

The Department also recommends that the Commission require that MP:

- Incorporate updated actual net RECB expenses, to the extent feasible on a timely basis, before implementing an updated transmission factor.
- Use the Company's actual 2020 and forecasted 2021 cost of debt.
- Consistent with MP's initial petition, implement its updated transmission factor effective January 1, 2022 or the first day of the month following the Commission's Order in this docket, whichever is later, thereby eliminating the need to prorate ADIT.

/ar

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-20-900**

Dated this **6th** day of **August 2021**.

/s/Linda Chavez

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-900_M-20-900
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-900_M-20-900
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_20-900_M-20-900
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_20-900_M-20-900
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-900_M-20-900
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th Pl E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-900_M-20-900