

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: **January 29, 2015** ****Agenda Item # 12**

Company: Minnesota Power

Docket No. E-015/M-14-337
 In the Matter of Minnesota Power’s Petition for Approval of a Transmission
 Cost Recovery Rider under Minn. Stat. § 216B.16, subd. 7b

Issue: Should the proposed increases to the charges under the Transmission Cost
 Recovery Rider be approved?

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Relevant Documents

Minnesota Power - Petition..... April 24, 2014
Department of Commerce - Comments August 20, 2014
Minnesota Power – Reply Comments September 8, 2014
Public Comment..... September 16, 2014
Department of Commerce – Response Comments October 3, 2014
Minnesota Power – Response to DOC Request for Clarification.....October 8, 2014
Ex Parte CommunicationNovember 26, 2014

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Statement of the Issue

Should the proposed increases to the charges under the Transmission Cost Recovery Rider be approved?

Introduction

Minnesota Power filed the current petition requesting approval of its 2014 TCR factors which are designed to recover approximately \$22,560,674 in annual jurisdictional revenue requirements and tracker balances.

The Department recommended that the Commission deny Minnesota Power's proposal to include MP's own NERC Alert Projects in the 2014 TCR Rider and approve Minnesota Power's remaining proposed annual revenue requirements, true-up tracker balance, and resulting TCR rate factors for recovery in the 2014 TCR Rider. The NERC Alert projects represent \$4,147,849 of the approximately \$22.5 million annual TCR-related revenue requirement requested by MP.

Minnesota Power does not agree with the Department's analysis that the NERC Alert Projects are ineligible for TCR Rider recovery

Relevant Statute

Recovery of costs through rate riders is an exception to the traditional ratemaking process. Riders allow a utility to recover cost changes that arise outside of the test year used to establish the utility's authorized rates.

The TCR mechanism has been established in statute to allow cost recovery for projects associated with large new transmission facilities. Minn. Stat. §216B.16, subd 7b, the transmission cost adjustment, applies and provides guidance to the Commission as to which costs are recoverable through the transmission cost recovery rider.

Minn. Stat. §216B.16, subd 7b states the Commission may approve a tariff mechanism (rider) to allow utilities to recover charges for the Minnesota jurisdictional costs net of associated revenues of:

- New transmission facilities that have been separately filed, reviewed and approved by the Commission under Minn. Stat. § 216B.243 (Certificate of Need) or § 216B.2425 (State Transmission Plan);
- New transmission facilities to be constructed in another state, when approved by that state and determined by Midcontinent Independent System Operator (MISO) to benefit the utility or integrated transmission system;
- For charges incurred by a utility that accrue from other transmission owners' regionally planned transmission projects that have been determined by MISO to benefit the utility, as provided for under a federally approved tariff ("MISO charges").

Minn. Stat. § 216B.16, subd. 7b(b), states the Commission may approve, reject or modify, after notice and comment, a tariff that:

- Allows a utility to recover on a timely basis the costs net of revenues of facilities approved under section § 216B.243 (Certificate of Need) or certified or deemed to be certified under section § 216B.2425 (State Transmission Plan); or exempt from the requirements of section § 216B.243;
- Charges incurred under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by MISO to benefit the utility or integrated transmission system. These charges must be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners for the new transmission facilities, to the extent those revenue and charges have not been otherwise offset.
- New transmission facilities to be constructed in another state, when approved by that state and determined by MISO to benefit the utility or integrated transmission system;
- Allows a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest;
- Provides a current return on construction work in progress, if recovery of the allowance for funds used during construction is not recovered elsewhere.

The relevant statute is attached in its entirety at the end of the briefing papers.

History of Minnesota Power's TCR Filings

On December 7, 2007, the Minnesota Public Utilities Commission (Commission) issued an Order approving Minnesota Power's first Transmission Cost Recovery Rider (TCR Rider) and related rate adjustment factors in Docket No. E-015/M-07-965. The Company designed the rider to cover its share of the Tower to Embarrass (Tower project) and the Badoura to Pequot Lakes project (Badoura project). The projects were developed to address transmission inadequacies in northeastern and north central Minnesota, and to provide regional transmission benefits through increased voltage support and additional line capacity. The projects are jointly owned by Minnesota Power and Great River Energy. The Commission previously certified the projects as priority electric transmission projects under § 216B.2425 (State Transmission Plan) in its May 25, 2006 Order in Docket No. ET-2, E-015/TL-05-867.

On June 23, 2009, the Commission issued an Order approving MP's first update to its rate adjustment factors (2009 Transmission Factors) under its TCR Rider in Docket No. E-015/M-08-1176. The Company requested recovery of its share of the Tower project and the Badoura project. The Company initially used the rate of return and allocation factors that were determined in the last rate case, which was filed in 1994. The Commission ordered the Company to recalculate the rider factors using the determinations made in the Company's 2008 rate case¹. The Commission approved inclusion of Regional Expansion Criteria and Benefits (RECB)

¹ Docket No. E-015/GR-08-415.

charges incurred in the rider and required the Company to also include RECB revenues as an offset to cost recovery.

The Tower project was completed and rolled into rate base as part of the 2008 rate case and is no longer included in the rider. The completed portions of the Badoura project were also rolled into rate base at that time. The uncompleted section of the Badoura project was not included in rate base. In the then current TCR rider, the Company included two other Badoura projects, for a total of three Badoura project segments.

On May 11, 2011, the Commission issued its Order approving MP's second update to its rate adjustment factors (2010 Transmission Factors) under its TCR Rider in Docket No. E-015/M-10-799. The Company requested cost recovery for the Badoura project, two new CapX2020 projects (Bemidji to Grand Rapids and Fargo to St. Cloud)² and RECB charges. Minnesota Power was required to exclude internal capitalized costs from its 2010 Transmission Factor revenue requirement calculation and on a prospective basis was required to exclude internal capitalized costs from recovery under the Transmission Rider. Minnesota Power was also authorized to keep its existing 2009 Transmission Factor on customer bills since the 2009 Transmission Factor was not substantially different from the 2010 Transmission Factor and the Company anticipated filing for approval of its 2011 Transmission Factor shortly after approval of its 2010 Factor.

On November 12, 2013, the Commission issued its Order approving MP's third update to its rate adjustment factors (2011 Transmission Factors) under its TCR Rider in Docket No. E-015/M-11-695. The Company requested recovery of costs associated with the Badoura project; CapX 2020 projects - Bemidji to Grand Rapids, Fargo to St. Cloud, and St. Cloud to Monticello,³ and RECB charges. The Commission allowed recovery of the project costs and RECB charges but modified the Company's 2011 TCR factor calculation as follows:

- The Company shall use a hybrid approach when accounting for net operating losses (NOLs) in its riders. That is, the NOL accumulated deferred income tax asset amount added to rate base each year should be based on the lower of the stand-alone and consolidated methods. The use of the consolidated method of tax calculation only applies to a rider with an NOL included in the calculation.
- The Company shall continue to exclude internal capitalized costs from recovery through its riders.

The Commission also granted the Company's petition to withdraw its request to adjust the billing factor adjustment in this docket. The 2009 approved factor for billing purposes remained in effect and are the factors currently in place for billing customers.

Additionally, in its November 12, 2013 Order, the Commission required Minnesota Power to:

² Approved under Certificate of Need in Docket No. E-017, E-015, ET-6/CN-07-1222 and Docket No. E-002/CN-06-1115.

³ Route Permit Docket No. ET-2, E-002/TL-09-246.

- Update its transmission cost recovery tracker balances and projected revenue requirements to calculate a billing factor adjustment when the Company files its 2013 Transmission Cost Recovery Factor Filing.
- Continue to document actual charges and actual revenue offsets to its revenue requirements under the Regional Expansion Criteria Benefits cost-allocation process adopted by the Midcontinent Independent System Operator. And to specifically identify such charges and offsets in all future Transmission Cost Recovery filings.

Minnesota Power's Current TCR Filing & Summary of Parties' Positions

On April 24, 2014, Minnesota Power filed the current petition requesting approval of its 2014 TCR factors designed to recover approximately \$22,560,674 in annual jurisdictional revenue requirements and tracker balances. In compliance with previous orders:

- Minnesota Power excluded internal capital costs from the TCR Rider Factor calculation.⁴
- Minnesota Power used the hybrid approach to account for net operating losses (NOLs).
- The Company provided updated tracker balances and continued to document actual charges and actual revenue offsets to its revenue requirements under the RECB cost-allocation process.

On August 20, 2014, the Department filed comments but withheld making a recommendation because it had requested Minnesota Power to file additional information in reply comments.

On September 8, 2014, Minnesota Power filed reply comments and provided additional information as requested by the Department. Minnesota Power stated that it maintains its position that NERC alert projects contribute to the regional reliability of the transmission system and the TCR rider is the appropriate place to seek cost recovery of the Company's NERC alert projects.

On September 16, 2014, a public comment was submitted in this docket by J.A. Stroeve about her Xcel bill using the Speak-Up page on the Commission's website.⁵ Public comments from the Speak-Up page are automatically uploaded into the record of a docket at the end of the time period for parties to file their comments. Staff is consulting with the Commission's Consumer Affairs Office on how to proceed with Ms. Stroeve's comments.

⁴ MP's Petition at 23.

⁵ The comment stated, "it's difficult to discern exactly what part of the PUC I should address but here goes...I received my Xcel bill today. last year in the current month I used 29.4 kWh of Xcel energy. this year I used 22.2 KWh of Xcel energy, a significant decrease in kWh usage. The cost of the electricity in 2013 was \$3.92/unit. The cost of the energy this year was \$3.03 per unit of energy. My bill in June was \$60. The bill for July is \$90.00. Explain to customers how a recovery of fees rider overrides actual costs and why if the unit cost decreases, and usage decreases, how the customer's bill can go up. It's my personal opinion that Xcel projects revenue increases outward rather than real cost increases it experiences. notwithstanding what I've just described, I believe it's the job of the PUtilities Commission to do workarounds so that every/or nearly every energy company can justify rate increases without sound, empirical data behind them. I request that the PU commission address these phantom argument issues."

On October 3, 2014, the Department filed response comments and recommended the Commission deny the Company's proposal to include its own NERC alert projects in the rider and recommended approval of the remaining proposed annual revenue requirements, true-up tracker balance and the resulting TCR rate factors.

On October 8, 2014, Minnesota Power filed a letter in response to the Department's response comments. The Company stated, "While the Department reiterated its recommendation to deny recovery of NERC Alert Project costs in the TCR Rider, Minnesota Power is appreciative that the Department recommended approval of the remaining proposed annual revenue requirements, true-up tracker balance and resulting TCR rate factors for cost recovery."

On November 26, 2014, the Company responded to Commission staff's questions about the TCR filing.

Summary of MP's Proposed Projects

Minnesota Power requested approval of its 2014 Transmission Factors under the TCR Rider to recover its eligible Minnesota jurisdictional transmission costs. Minnesota Power proposed that the 2014 Transmission Factors take effect the first of the month following Commission approval.

Following is a summary of Minnesota Power's proposed projects and related revenue requirements and allocation to customer class.

<u>Minnesota Jurisdictional Revenue Requirements</u>	<u>2014</u>
<u>Badoura Project:</u>	
Badoura:ID#102853 Pequot Lakes 115/34 kV Sub	\$136,624
Badoura:ID#103752 115 kV Pine River to Pequot Lakes	\$301,613
Badoura:ID#103862 Badoura – Pequot Lakes 142L/147L Fiber	\$85,379
<u>Fargo to St Cloud Project:</u>	
ID#105019 CAPX: 345kV Fargo to St Cloud Phase 1	\$1,346,011
ID#105147 CAPX: 345kV Fargo to St Cloud Phase 2	\$3,312,974
ID#103434 CAPX: 345kV Fargo to St Cloud Phase 3	\$2,742,420
ID#106233 CAPX: 345kV Fargo to St Cloud - ND Portion	\$1,311,286
<u>Bemidji to Grand Rapids Project:</u>	
ID#103319 CAPX: 230kV Boswell to Bemidji	\$794,049
ID#104975 CAPX: Boswell 230kV Sub – Add 230kV exit	\$35,174
<u>Savanna Project:</u>	
ID#104959 Savanna 115/15kV Sub	\$444,839
ID#105148 Savanna 115/15kV Sub, Cloquet-Blackberry Line #9 Tap	\$15,266
ID#105149 Floodwood-Savanna Line #151	\$14,771
Subtotal:	\$10,540,407
Net Schedule 26 RECB Revenues & Expenses	\$5,086,218
NERC ALERT Project Revenue Requirements	\$4,147,849
2010-2013 TCR Tracker Balance	\$2,786,200

Minnesota Jurisdictional Revenue Requirements	2014
Total MN Jurisdictional Revenue Requirement	\$22,560,674
Allocation to Class	
Total Jurisdictional Revenue Requirement @ 1.0000 (or 100%)	\$22,560,674
Large Power @ 0.6251 (or 62.51%)	\$14,102,677
All Other Classes @ .3749 (or 37.49%)	\$8,457,997

Costs related to the majority of these projects⁶ were included in Minnesota Power's last TCR rider petition and parties agree that these costs are still eligible for recovery through the TCR rider with one exception.

New to this filing are the:

- North Dakota portion of the CAPX Fargo to St. Cloud line;
- Savanna Projects;
- MISO Auction Revenue Rights;
- Minnesota Power's NERC Alert Projects.

The Department did not take issue with the North Dakota portion of the CAPX Fargo to St. Cloud line. The Company and the Department agree that Savanna Projects qualify for rider recovery under the TCR Statute. Minnesota Power has stated that it will include MISO Auction Revenue Rights in its next and future TCR filings. Minnesota Power's recovery of costs associated with its own NERC Alert Projects is contested between the Company and the Department.

MP's Multi-Value Projects (MVP) Auction Revenue Rights (ARR) Revenues

In its initial filing, Minnesota Power did not include any MISO Auction Revenue Rights (ARRs). The Department noted that MISO's annual allocation of ARR attributable to Multi-Value Projects (MVPs) included five MVP projects that the Company pays a portion of but does not own. The Company pays its portion of these costs under its share of MISO Schedule 26 expenses. Schedule 26 revenues and expenses are both reflected in the TCR rider. The five MVP projects were placed in service on June 30, 2014. Because the rider is based on a calendar year, the Department asked the Company if they received any ARRs in 2014.

Minnesota Power stated, in response to a Staff request for clarification, that it did receive MVP ARRs beginning in June of 2014 and the ARRs will be credited to retail customers through the TCR tracker and also included in future TCR filings. Minnesota Power stated that the total estimated 2014 jurisdictional MVP ARR revenue credit is so minimal in comparison to the total

⁶ For a complete description of the projects included in the rider see Attachment B the end of the Briefing Papers. From MP's Initial filing in this docket dated April 24, 2014.

TCR revenue requirements that inclusion of these revenues in the 2014 TCR factor calculation would not change the proposed TCR factors⁷.

The Department recommended that Minnesota Power include these MVP ARR revenues or estimates of these revenues in its 2014 TCR Rider.

The issue the Commission needs to decide is if the Company should recalculate the rider to include the MVP ARRs in the current filing or include the MVP ARR Revenue Credit in its next TCR filing.

Staff believes Minnesota Power's proposal to include the revenues in the tracker to reflect MVP ARRs in future filings and factor calculations is reasonable.

MP's NERC Facility Ratings Alert Project

The North American Electric Reliability Corporation (NERC) is a not-for-profit entity whose mission is to ensure the reliability of the bulk power system (BPS) in North America. NERC is subject to oversight by the Federal Energy Regulatory Commission (FERC). In June 2007, NERC was granted legal authority by FERC to develop and enforce reliability standards with all users, owners and operators of the BPS in the United States. NERC is allowed to make compliance with reliability standards mandatory and enforce violations with monetary penalties.

Transmission line facilities were designed and built for long-term sustainability. The design of transmission lines had never been reviewed in light of current field conditions, and there was no outstanding requirement for such an analysis. As man-made development and vegetation growth persist, the construction of transmission lines starts to deviate from their "as designed" status, which causes clearance violations between the lines and their surroundings. As a result, the compromised transmission line clearances could potentially violate current facility standards and the original design assumptions, leading to increased risk to reliability of the BPS.

In October 2010, after an internal analysis indicated a reliability risk in facility clearances, NERC issued a Facility Ratings Alert (NERC Alert) as a recommendation to industry to determine the extent of the condition and address and mitigate issues with transmission line clearances. The NERC Alert project contained a recommendation that entities divide their circuits into high, medium, and low priorities for assessment and mitigation, to be completed by year-end 2013.

Participation in the NERC Alert project required time, resources, and finances for all involved. The entities that participated developed a good methodology for addressing the relevant reliability risks. While the obligation for entities to report to NERC has concluded, many entities will continue remediation efforts over the next few years. An additional benefit of the NERC Alert is that many transmission operators have put maintenance practices in place to help preclude the recurrence of similar issues and minimize the reliability risk posed to the BPS.

⁷ MVP ARR Revenue Credit is \$39,425

Minnesota Power's NERC Alerts were classified as medium and low priority projects. Minnesota Power performed the following to comply with the NERC Alert:

Medium Priority Projects:

- Medium priority lines include the 230 kV system and the +/- 250 kV high voltage direct current line which equal a total of 23 circuits and approximately 1,100 miles of transmission lines as reported to NERC;
- The evaluation of these lines was completed in 2013 and identified 239 discrepancies requiring physical mitigation;
- In most cases, physical mitigation for these discrepancies consisted of replacing existing structures with new, taller structures to increase conductor-to-ground clearance;
- Of the 239 discrepancies identified on medium priority lines, 150 were mitigated in 2013;
- For the 89 discrepancies remaining on 7 medium priority circuits, Minnesota Power was granted an extension to complete the mitigation by June 30, 2014.

Low Priority Projects:

- Minnesota Power's low priority lines include the 115 kV, 138 kV, and 161 kV systems, which equal a total of 102 circuits and over 1,400 miles as reported to NERC;
- PLS-CADD models were developed based on high-precision LiDAR (Light Distancing And Ranging) survey data acquired for each of the lines. The models were then analyzed to identify discrepancies;
- In early 2014, many of Minnesota Power's low priority lines were de-rated (operational capacity was reduced) as part of the Company's plan for reducing the overall number of discrepancies requiring costly physical mitigation;
- At the time of the filing engineering was ongoing for the remaining discrepancies.

The Company is requesting recovery of \$4,147,849 in revenue requirements associated with the NERC Alert project.

Parties Positions

Minnesota Power

Minnesota Power requested approval of NERC Alert Charges under Minn. Stat. § 216B.16, subd. 7b(a)(ii) and 7(a)(iii) and applicable Commission precedent for other transmission riders. The Company stated that the costs are eligible for recovery for the following reasons:

- Under subdivision 7b(a)(ii), these facilities do not require Commission approval, but through the Schedule 45 and Attachment ZZ process have been determined by MISO and NERC to benefit Minnesota Power and the integrated transmission system;

- Under subdivision 7b(a)(iii), the MISO NERC Alert Charges are tariff charges incurred by Minnesota Power under a federally approved tariff that benefits Minnesota Power and the integrated transmission system. These charges are incurred by all MISO Transmission Owners that select the option to use Schedule 45 and Attachment ZZ. The Commission has approved the use of transmission riders to pass through both MISO charges and revenues;
- In 2013 the Department recommended that the Commission deny Otter Tail Power's request that certain transmission projects built in North Dakota are eligible for cost recovery under its transmission rider because the CON statute does not apply. However, the Department's basis for its recommendation was that the projects are not exempt from obtaining a CON because they are outside Minnesota. [Docket No. E-017/M/12-514, Department Comments dated April 22, 2012.] Minnesota Power's NERC projects are all within the State of Minnesota and meet the CON exemption criteria under Minn. Stat. § 216B.243, subd. 2 because the projects do not meet the definition of a new large energy facility under Minn. Stat. § 216B.2421, subd. 2(2) or (3). Specifically, none of the projects involve construction of new transmission lines or upgrades in voltage of existing transmission lines;
- If the Commission determines MISO NERC Alert Charges and associated transmission projects are eligible, then under subdivision 7b(a) recovery is allowed through Minnesota Power's transmission rider, subject to any offsetting revenues and charges.

The costs of Network Upgrades that did not qualify as BRPs, New Transmission Access Projects, MEPs or MVPs were previously recoverable only under the MISO Tariff Attachment O rate formula. The Company stated that separate recovery of NERC Alert charges was made possible under FERC Docket No. ER13-841-000. The docket added two new schedules to the MISO tariff, Schedule 45 and Attachment ZZ. The additional schedules give the Company the ability to separately develop and recover, on a project specific basis, the costs of Network Upgrades and other transmission related construction or expenses incurred in response to a NERC Recommendation or Essential Action. The Transmission Owner makes a one-time election for separate rate recovery of network upgrades associated with specific NERC Recommendations or Essential Actions.

The Company stated that Transmission Customers are not affected by the change and will pay the same level of costs whether Attachment O is used or Schedule 45 and Attachment ZZ are used to develop and recover the costs. Minnesota Power has created two projects: one for its medium priority projects and one for its low priority projects

Department

The Department disagreed with Minnesota Power's proposal to include MISO Schedule 45 Charges for the NERC Alert Project in its TCR Rider for several reasons:

- Minnesota Power should not be awarded recovery of these costs under its TCR Rider recovery simply because Minnesota Power elected to report them separately under MISO Schedule 45. The Department noted that these charges would normally be Attachment O

expenses and Attachment O expenses are normally recovered in base rates. These specific MISO Schedule 45 Charges would not exist if Minnesota Power had not elected to have them removed from their Attachment O calculations where they normally reside;

- Minnesota Power included Attachment O expenses in its last rate case in Docket No. E015/GR-09-1151;
- The Department is not aware of any other Minnesota regulated utility electing to remove its NERC Alert Project costs from its Attachment O calculations and recover them separately under MISO Schedule 45;
- MISO Schedule 45 charges do not accrue from other utilities' transmission projects as required under Minn. Stat. § 216B.16, subd. 7b(a)(iii); instead, these costs are attributable to Minnesota Power's own NERC Alert Projects;
- Minnesota Power's NERC Alert Project annual revenue requirements are calculated and collected under a federally-approved tariff (MISO Attachment ZZ and MISO Schedule 45), and as such include Minnesota Power's FERC-approved rate of return instead of the Commission-approved rate of return from Minnesota Power's last rate case;
- The Department noted that Otter Tail Power made a similar proposal in its 2010 TCR Rider where it proposed to treat its ownership interest in the Bemidji and Fargo lines as if that interest were an unregulated business by simply charging its Minnesota retail customers the Schedule 26 rates for using the transmission lines and not seeking separate rate recovery of those costs. Otter Tail Power's proposal was rejected by the Commission in its March 26, 2012 Order in Docket No. E-017/M-10-1061.

The Department recommended that the Commission deny Minnesota Power's proposal to include its own NERC Alert Projects in the 2014 TCR Rider and approve Minnesota Power's remaining proposed annual revenue requirements, true-up tracker balance, and resulting TCR rate factors for recovery in the 2014 TCR Rider.

The Department also recommended that, if the Commission determines that Minnesota Power's NERC Alert Project costs are recoverable in the TCR Rider, Minnesota Power be required to seek separate rate recovery of these costs using traditional Minnesota revenue requirement calculations.

Minnesota Power

Minnesota Power disagreed with the Department's analysis that the NERC Alert Project is ineligible for TCR Rider recovery. In response to the Department's recommendation that the Commission deny TCR Rider recovery of the NERC Alert Project costs, Minnesota Power responded:

- The Department is correct in stating that Attachment O expenses are normally recovered in base rates and Minnesota Power's last rate case included \$13,859,592 of Attachment O expenses but did not include any amount for NERC Alert Charges;
- Minnesota Power elected to use Schedule 45 and Attachment ZZ, instead of Attachment O, because Schedule 45 and Attachment ZZ provides a mechanism to separately track NERC Alert Project costs. Further, it allowed Minnesota Power to bill customers separately for NERC specific projects, "providing visibility on costs associated with NERC Essential Action initiatives and compliance related investments."

- If the project costs are not recovered through the TCR Rider, utilizing Schedule 45 allows Minnesota Power to clearly track NERC compliance related Essential Actions investments for cost recovery in a future rate case.

Minnesota Power also stated that:

- While Minnesota Power's NERC Alert Project costs did not accrue directly from other utilities' transmission projects, they were incurred through a MISO charge to meet broader regional reliability objectives, for which the TCR statute was originally adopted. Through the Schedule 45 and Attachment ZZ process, MISO and FERC have determined that Minnesota Power's NERC Alert Project provides a benefit both to Minnesota Power and to the broader integrated transmission system as a whole (FERC Docket No. ER13-841-000).
- Other Minnesota utilities have and are incurring costs related to this specific NERC Recommendation, Minnesota Power is unique from other utilities for reasons that include geography and customer base.
- Minnesota Power stated that it calculated the annual revenue requirements for its NERC Alert Project costs based on federally approved tariff calculations because the costs are to be collected under MISO Attachment ZZ and MISO Schedule 45. According to Minnesota Power, the revenue requirements should continue to be calculated based on the federally approved tariff calculations since the costs are covered under a MISO tariff.
- However, Minnesota Power also stated that, if necessary for inclusion in the TCR Rider, it is willing to adjust the revenue requirement calculations specifically for the TCR Rider to treat the NERC Alert Projects as individual assets, instead of using the tariff revenue requirements from Attachment ZZ.
- Minnesota Power believes approval of NERC Alert Project costs is consistent with Minn. Stat. § 216B.16, subd. 7b(a) and (b), "particularly because the project was determined by MISO, NERC and FERC to benefit both the Company and the integrated transmission system."
- Minnesota Power's position is that the NERC Alert Project contributes to regional and national reliability of the transmission system and the TCR Rider is the appropriate place to seek cost recovery.

PUC Staff Analysis

This Docket presents several questions for the Commission to decide:

- Are NERC Alert project costs qualified for rider recovery under the statute, or should the Company be required to seek recovery of these costs in its next general rate case?
- If the Commission decides to allow rider recovery for the NERC Alert Projects, how should the costs be calculated and included in the rider—based on federally approved tariff calculations, or based on traditional Minnesota revenue requirement calculations?

Minnesota Power believes the MISO Schedule 45 NERC Alert charges qualify for recovery under Minn. Stat. § 216B.16, subd 7b(a)(ii) and (iii). These subdivisions state:

- (ii) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state, and determined by the Midcontinent Independent System Operator [MISO] to benefit the utility or integrated transmission system; and
- (iii) charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system.

According to the Company, "Under subdivision 7b(a)(ii), these facilities do not require Commission approval, but through the Schedule 45 and Attachment ZZ process have been determined by MISO and NERC to benefit Minnesota Power and the integrated transmission system." Staff agrees that the NERC Alert project benefits the utility and strengthens the integrated transmission system.

However, staff does not believe the legislature contemplated NERC Alert projects when it enacted the statute. The transmission facilities are not newly built transmission facilities, even though the repairs were determined by MISO to benefit the utility or the integrated transmission system. It would appear that Subd. 7b(a)(ii) does not apply in this case.

With respect to subd. 7b(a)(iii), and as noted by the Department, the MISO Schedule 45 NERC Alert costs that Minnesota Power proposes to include in the TCR Rider under Subd. 7b(a)(iii) are for Minnesota Power's own projects and do not "accrue from other transmission owners' regionally planned transmission projects."

Staff does not believe Subd. 7b(a)(iii) applies in this case either since the projects are Minnesota Power's own projects and the charges are not incurred by Minnesota Power under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects.

If the Commission believes the statute does not apply to Minnesota Power's NERC Alert project it should deny rider recovery of the costs. If the Commission believes the statute does apply to Minnesota Power's NERC Alert project, but not as a federally approved tariff that accrues from *other* transmissions' regionally planned transmission projects, it may wish to deny rider recovery without prejudice at this time and allow Minnesota Power to seek future rider recovery of its own NERC Alert Projects using traditional Minnesota revenue requirement calculations instead of proposing to include costs as MISO tariff costs.

The TCR riders are designed to allow more timely recovery of investments in projects that the legislature and Commission have determined to be in the public interest and wish to encourage. Projects such as the NERC Alert project benefit customers in strengthening the reliability of the electric transmission grid and support both federal and state objectives. However, for the most

part, these do not appear to be investments in new infrastructure. Rather, the NERC Alert process appears to be a more disciplined and structured approach to handling routine maintenance and refurbishment of MP's transmission system. This type of expense would normally be recovered in base rates in a rate case.

At this point in time, Minnesota Power is requesting recovery of non-recurring NERC Alert project costs that will terminate once the costs are recovered. The Commission should be aware that there may be future NERC Alert projects and additional companies may request cost recovery through a rider. FERC approval and establishment of Schedule 45 was the result of a stakeholder process of 23 Transmission Owners. Schedule 45 is available to all Transmission Owners in MISO to use for future NERC Alert projects that are intended to enhance regional reliability and the security of the BPS. The decision made by the Commission in this case could establish a precedent for future requests from other utilities.

Rates and Rate Design

Minnesota Power proposed rider recovery of estimated Minnesota jurisdictional revenue requirements of \$22,560,674. Excluding the NERC Alert Project revenue requirements results in total estimated Minnesota jurisdictional revenue requirements of \$18,412,825.

<u>Minnesota Jurisdictional Revenue Requirements</u>	<u>2014</u>
<u>Badoura Project:</u>	
Badoura:ID#102853 Pequot Lakes 115/34 kV Sub	\$136,624
Badoura:ID#103752 115 kV Pine River to Pequot Lakes	\$301,613
Badoura:ID#103862 Badoura – Pequot Lakes 142L/147L Fiber	\$85,379
<u>Fargo to St Cloud Project:</u>	
ID#105019 CAPX: 345kV Fargo to St Cloud Phase 1	\$1,346,011
ID#105147 CAPX: 345kV Fargo to St Cloud Phase 2	\$3,312,974
ID#103434 CAPX: 345kV Fargo to St Cloud Phase 3	\$2,742,420
ID#106233 CAPX: 345kV Fargo to St Cloud - ND Portion	\$1,311,286
<u>Bemidji to Grand Rapids Project:</u>	
ID#103319 CAPX: 230kV Boswell to Bemidji	\$794,049
ID#104975 CAPX: Boswell 230kV Sub – Add 230kV exit	\$35,174
<u>Savanna Project:</u>	
ID#104959 Savanna 115/15kV Sub	\$444,839
ID#105148 Savanna 115/15kV Sub, Cloquet-Blackberry Line #9 Tap	\$15,266
ID#105149 Floodwood-Savanna Line #151	\$14,771
Subtotal:	\$10,540,407
Net Schedule 26 RECB Revenues & Expenses	\$5,086,218
NERC ALERT Project Revenue Requirements	-
2010-2013 TCR Tracker Balance	\$2,786,200
Total MN Jurisdictional Revenue Requirement	\$18,412,825
<u>Allocation to Class</u>	
Total Jurisdictional Revenue Requirement @ 1.0000 (or 100%)	\$18,412,825

Minnesota Jurisdictional Revenue Requirements	2014
Large Power @ 0.6251 (or 62.51%)	\$11,509,857
All Other Classes @ .3749 (or 37.49%)	\$6,902,968

Staff provides the following comparison of Minnesota Power's proposed rider rate factors to those currently in effect and to what they would be if the NERC Alert Project revenue requirements were excluded from the calculation, but the same rate design was followed:

Rider Rate Comparison

	Current	Proposed	w/o NERC Alert
Large Power Customers:			
Per kW-month for all Billing Demand kW	\$0.130	\$0.970	\$0.790
Per kWh for all kWh	\$0.013	\$0.092	\$0.075
All other applicable Retail Rate Customers:			
Per kWh for all kWh	\$0.033	\$0.263	\$0.216

In its initial filing Minnesota Power provided the estimated customer rate impacts of its proposed TCR Rider rate factors on customer bills. The largest percentage increase is 3.48 percent for the Large Power class.

The Department did not take issue with Minnesota Power's proposed rate design.

Decision Alternatives

NERC Alert Projects:

1. Approve Minnesota Power's proposal to include its own NERC Alert Projects in the 2014 TCR Rider, and Minnesota Power's proposed annual revenue requirements, true-up tracker balance, and resulting TCR rate factors for recovery in the 2014 TCR Rider. [Minnesota Power] Or
2. Deny Minnesota Power's proposal to include its own NERC Alert Projects in the 2014 TCR Rider and require Minnesota Power to include the Multi-Value Project (MVP) Auction Revenue Rights (ARR) revenues related to MVP Projects included in its 2014 TCR Rider, and approve Minnesota Power's remaining proposed annual revenue requirements, true-up tracker balance, and resulting TCR rate factors for recovery in the 2014 TCR Rider. [DOC] Or
3. Approve Minnesota Power's proposal to include its own NERC Alert Projects in the 2014 TCR Rider, but require Minnesota Power to seek separate rate recovery of these costs using traditional Minnesota revenue requirement calculations. Require Minnesota Power to submit a compliance filing with those calculations for the Department's review and the Commission's approval within 30 days of the Commission's Order. [DOC if the Commission approves Minnesota Power's proposal to include its own NERC Alert Projects. Agreed to by Minnesota Power].
4. Deny Minnesota Power's proposal to include its own NERC Alert Projects in the TCR Rider at this time without prejudice, but allow Minnesota Power to seek future rider recovery of its own NERC Alert Projects using traditional Minnesota revenue requirement calculations, and approve Minnesota Power's remaining proposed annual revenue requirements, true-up tracker balance, and resulting TCR rate factors for recovery in the 2014 TCR Rider.

Recommendation

Staff is not making a recommendation on the issue of the NERC Alert projects.

Subd. 7b. Transmission cost adjustment.

(a) Notwithstanding any other provision of this chapter, the commission may approve a tariff mechanism for the automatic annual adjustment of charges for the Minnesota jurisdictional costs net of associated revenues of:

(i) new transmission facilities that have been separately filed and reviewed and approved by the commission under section 216B.243 or are certified as a priority project or deemed to be a priority transmission project under section 216B.2425;

(ii) new transmission facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed, to the extent approval is required by the laws of that state, and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system; and

(iii) charges incurred by a utility under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system.

(b) Upon filing by a public utility or utilities providing transmission service, the commission may approve, reject, or modify, after notice and comment, a tariff that:

(1) allows the utility to recover on a timely basis the costs net of revenues of facilities approved under section 216B.243 or certified or deemed to be certified under section 216B.2425 or exempt from the requirements of section 216B.243;

(2) allows the utility to recover charges incurred under a federally approved tariff that accrue from other transmission owners' regionally planned transmission projects that have been determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system. These charges must be reduced or offset by revenues received by the utility and by amounts the utility charges to other regional transmission owners, to the extent those revenues and charges have not been otherwise offset;

(3) allows the utility to recover on a timely basis the costs net of revenues of facilities approved by the regulatory commission of the state in which the new transmission facilities are to be constructed and determined by the Midcontinent Independent System Operator to benefit the utility or integrated transmission system;

(4) allows a return on investment at the level approved in the utility's last general rate case, unless a different return is found to be consistent with the public interest;

(5) provides a current return on construction work in progress, provided that recovery from Minnesota retail customers for the allowance for funds used during construction is not sought through any other mechanism;

(6) allows for recovery of other expenses if shown to promote a least-cost project option or is otherwise in the public interest;

(7) allocates project costs appropriately between wholesale and retail customers;

(8) provides a mechanism for recovery above cost, if necessary to improve the overall economics of the project or projects or is otherwise in the public interest; and

(9) terminates recovery once costs have been fully recovered or have otherwise been reflected in the utility's general rates.

(c) A public utility may file annual rate adjustments to be applied to customer bills paid under the tariff approved in paragraph (b). In its filing, the public utility shall provide:

- (1) a description of and context for the facilities included for recovery;
- (2) a schedule for implementation of applicable projects;
- (3) the utility's costs for these projects;
- (4) a description of the utility's efforts to ensure the lowest costs to ratepayers for the project; and

(5) calculations to establish that the rate adjustment is consistent with the terms of the tariff established in paragraph (b).

(d) 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.

Description of Projects Included in MP's TCR

Badoura Project

On May 25, 2006, the Commission issued an Order certifying the Badoura and Tower projects as priority electric transmission projects pursuant to Minn. Stat. § 216B.2425. These projects address transmission inadequacies in northeastern Minnesota and provide regional transmission benefits through increased voltage support and additional line capacity. As part of Minnesota Power's 2009 retail rate case, the completed Tower Project and Badoura projects, were have been placed into service, and were rolled into base rates.

In Minnesota Power's 2010 Transmission Cost Recovery Rider Docket, the Commission issued an Order on May 11, 2011, approving the inclusion of on-going expenses related to the three remaining Badoura projects, excluding internal capitalized costs associated with the projects. Minnesota Power reported that the remaining three projects in the Badoura Project were completed and placed in-service in 2010.

The Badoura Project is a 115 kV transmission line, approximately 63 miles in length, that connects the Pequot Lakes Substation located northeast of Pequot Lakes to

- the Pine River Substation located southwest of Pine River,
- the Badoura Substation,
- the Birch Lake Substation located east of Hackensack, and
- the Long Lake Substation located east of Park Rapids.

Both Minnesota Power's and Great River Energy's customers in the Park Rapids and surrounding area are directly benefiting from the addition of the 115 kV transmission line that runs between the Long Lake and Badoura substations and the associated upgrades to these substations. Load growth in the Park Rapids area has resulted in a considerable increase in electrical use in the region. Based on historic and projected load growth rates, the transmission system was not adequate to support voltage within acceptable levels without the addition of the Long Lake-Badoura 115 kV transmission line and associated upgrades.

CapX2020 Transmission Projects

The proposed CapX2020 projects are being built in phases designed to meet future electric demand growth. Group 1 of the CapX2020 projects includes three proposed 345 kV transmission lines, one 230 kV line and associated substations, as follows:

- An approximately 200-mile, 345 kV transmission line between Brookings County, South Dakota and Hampton, Minnesota, plus a related 345 kV line between Marshall and Granite Falls, Minnesota;

- An approximately 240-mile, 345 kV transmission line between Fargo, North Dakota and St. Cloud continuing to Monticello, Minnesota (consisting of two projects herein referred to as the Fargo to St. Cloud and St. Cloud to Monticello Projects, respectively);
- An approximately 150-mile, 345 kV transmission line between Hampton and Rochester, continuing on to La Crosse, Wisconsin; and
- An approximately 70-mile, 230 kV transmission line between Bemidji and Grand Rapids in north central Minnesota.

Minnesota Power is participating in the Bemidji to Grand Rapids, Minnesota project; the Fargo, North Dakota to St. Cloud, Minnesota project; and the St. Cloud to Monticello, Minnesota project for reasons identified later in this section.

The CapX2020 transmission lines were proposed for several reasons including ensuring reliability, serving the region's expected growth, and helping to meet Minnesota's Renewable Energy Standard ("RES"). The Upper Midwest's electric transmission grid has not received a major upgrade in nearly 30 years. At the time the projects were proposed, the region's electricity use was projected to grow 4,000 to 6,000 MW by 2020. Electric customers will benefit from a more robust and reliable electric transmission system, which will be facilitated by the CapX2020 projects. The CapX2020 projects were proposed to address potentially serious reliability issues in several areas of Minnesota and the surrounding region. Through the Certificate of Need ("CON") proceedings, CapX2020 successfully demonstrated the need for the improved regional and community reliability.

Bemidji, Minnesota – Grand Rapids, Minnesota Transmission Line

CapX2020 completed construction on a 230 kV transmission line from the 230 kV Wilton Substation located just west of Bemidji, Minnesota, to Minnesota Power's 230 kV Boswell Substation in Cohasset, Minnesota, northwest of Grand Rapids, Minnesota. Construction began in January of 2011 and was completed in September of 2012. Minnesota Power's decision to participate in the Bemidji - Grand Rapids 230 kV Project was primarily based on the proximity of the Project and impact on its service territory and integration with the Boswell Substation. On July 14, 2009, the Commission issued an Order granting a CON for the CapX2020 Bemidji to Grand Rapids 230kV transmission line. On November 5, 2010, the Commission issued an Order granting a high voltage transmission line route permit. The transmission line, which is approximately 70 miles in length, was needed to effectively meet projected customer demand in the Bemidji area in north central Minnesota, as well as to improve the regional transmission reliability of the larger northwestern Minnesota and eastern North Dakota region. Additionally, this transmission line provides the ancillary benefit of facilitating the addition of new generation sources in the region. Specifically, portions of the Red River Valley and eastern North Dakota have been identified as areas for the potential development of wind-energy generation sources and thus, the added transmission capacity from the Bemidji to Grand Rapids transmission line will assist in the development of such resources.

Fargo, North Dakota – St. Cloud, Minnesota – Monticello, Minnesota Transmission Line
Minnesota Power is also a CapX2020 participant in the Fargo–St. Cloud–Monticello 345 kV Project. The Project is comprised of a 210-mile 345 kV transmission line that runs from Fargo to

St. Cloud with an additional approximately 30-mile segment that extends southeast to the Monticello, Minnesota area. The CapX2020 utilities refer to this transmission line as two projects: the Fargo– St. Cloud Project and St. Cloud–Monticello Project, respectively. On May 22, 2009, the Commission issued an Order granting a CON for the 345 kV transmission line projects. Through the CON hearings, the Commission determined that the Projects will address regional and community reliability needs and help improve the bulk electric system serving Minnesota and portions of neighboring states. For this reason, Minnesota Power has elected to participate in the Projects.

Fargo–St. Cloud Project

In addition to the regional reliability concerns found to be especially true in the surrounding area of the Fargo–St. Cloud Project, community reliability concerns were found to be warranted in the vicinity of the Red River Valley, Alexandria, St. Cloud, and the southern Minnesota region. As identified in section 4.1.4 “Reliability Risks in the South Zone of the Red River Valley” in the CapX2020 Certificate of Need Application,¹⁴ the Project was proposed as a solution to transmission reliability risks in the South Zone of the Red River Valley. Minnesota Power is one of the utilities that provide electrical service in this region which benefits from the addition of the Project.

On June 24, 2011, the Commission issued an order approving the route permit for the Fargo–St. Cloud Project (Docket No. ET-2,E002/TL-09-1056). The estimated mileage for the approximately 210-mile Fargo–St. Cloud portion of the transmission line is calculated from the planning engineers’ recommended location for the new Bison Substation in the Fargo area to the area of the new Quarry Substation west of St. Cloud. The Minnesota portion of the Project, known as the St. Cloud to Alexandria segment, will extend from the Red River along the Minnesota and North Dakota border to the existing Alexandria Switching Station located south of Alexandria, to the new Quarry Substation to be located west of St. Cloud. Although the proposed transmission line will be built using double circuit capable poles as ordered by the Commission, only one circuit will be installed for this Project. The second position for the additional circuit will be available for future installation.

St. Cloud to Alexandria Segment of Fargo-St. Cloud Project

The route permit, approved by the Commission on June 24, 2011, allows construction of the St. Cloud, Minnesota to Alexandria, Minnesota segment of the Fargo–St. Cloud Project to begin. This allows the CAPX utilities to continue the construction efficiencies started with the construction of the St. Cloud-Monticello Project.

St. Cloud to Monticello Segment of Fargo-St. Cloud Project

On July 12, 2010, the Commission issued an Order granting a route permit for the St. Cloud–Monticello Project (Docket No. ET-2, E002/TL-09-246). The St. Cloud–Monticello Project is also a double circuit capable transmission line that extends from the new Quarry Substation to be located west of St. Cloud, to the existing Xcel Energy Monticello 345 kV Substation. The line was placed in service in December 2011.

Savanna Project

On March 7, 2012, the Commission issued an Order granting a CON for the Savanna Project. Great River Energy and Minnesota Power both serve customers in the region generally bounded by Duluth, Grand Rapids, and Brainerd. In order to meet existing and future electric load requirements, Great River Energy and Minnesota Power are constructing the Savanna Project. The major components of the Savanna Project include:

- Construct the new Minnesota Power Savanna 115 kV Switching Station in Section 32 of Van Buren Township, interconnected to the existing Minnesota Power 115 kV Blackberry – Cloquet Line (“MP Line #9”)
- Rebuild approximately 7 miles of existing Great River Energy 69 kV transmission line to single circuit 115 kV between Lake Country Power’s existing Cedar Valley Substation in Cedar Valley Township and the new Savanna Switching Station
- Rebuild approximately 9 miles of existing Great River Energy 69 kV transmission line to single circuit 115 kV between the new Savanna Switching Station and Lake Country Power’s existing Gowan Substation in Floodwood Township Rebuild approximately 21 miles of existing Great River Energy 69 kV transmission line to double circuit 115/69 kV between the Lake Country Power Gowan Substation and Great River Energy’s existing Cromwell Substation in Kalevala Township
- Modify the Lake Country Power Cedar Valley Substation and Great River Energy Cromwell Substation to accommodate the 115 kV transmission lines
- Increase the capacity of the 10-mile segment of MP Line #9 from the new Savanna Switching Station to the existing Floodwood Tap by replacing or modifying existing structures and/or reconductoring the line

Minnesota Power’s responsibilities for the Savanna Project include constructing the new Savanna Switching Station and upgrading a 10-mile segment of the existing MP Line #9 to increase its capacity. The Savanna Switching Station and the first section of 115 kV transmission line construction between the Cedar Valley Substation and the Savanna Switching Station was completed and energized in Fall 2013. The remaining segments of new 115 kV transmission construction between the Savanna Switching Station and the Cromwell Substation are expected to be completed and energized by the second quarter of 2015. The upgrade of the existing MP Line #9 between the Savanna Switching Station and the Floodwood Tap is expected to be completed and energized by second quarter of 2016.