

Minnesota Public Utilities Commission

Staff Briefing Papers

Meeting Date: August 20, 2015 Agenda Item No. *5

Company: Minnesota Power (“MP”, or the “Company”)

Docket No. E015/M-14-990

In the Matter of the Minnesota Power’s Petition for Approval of Cost Recovery under Boswell Energy Center Unit 4 Emission Reduction Rider

Issue: Should the Commission approve Minnesota Power’s proposed rate adjustment factor for its Boswell Energy Center Unit 4 (BEC4) Emission Reduction Rider?

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Relevant Documents

Minnesota Power’s Petition (TS) November 26, 2014
Department of Commerce (“Department”) Comments February 25, 2015
Minnesota Power Reply Comments (TS) March 16, 2015
Department Reply Comments May 13, 2015
Minnesota Power Further Reply Comments May 20, 2015

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Issue

Should the Commission approve Minnesota Power's proposed rate adjustment factor for its Boswell Energy Center Unit 4 (BEC4) Emission Reduction Rider?

Relevant Statute and Rules

Minn. Stat. § 216B.16 Rate Change; Procedure; Hearing.

Minn. Stat. § 216B.1692 Emission Reduction Rider.

Minn. Stat. § 216B.683 Mercury Emissions Reduction; Cost Recovery, Financial Incentives.

Minn. Stat. § 216B.6851 Utility Options.

Minn. Stat. § 216B.686 Other Environmental Improvement Plans.

Minn. Rule 7829.1300.

Background

Docket No. E015/M-12-920

On August 31, 2012, Minnesota Power filed a mercury emission reduction plan for its Boswell Energy Center Unit 4 electric generating station under Minn. Stat. §216B.6851.

On March 7, 2013, MP filed its petition for approval of an emissions reduction rider to recover the costs of the Boswell Energy Center Unit 4 project under Minn. Stat. §216B.683.

On November 5, 2013, following written comments and oral argument, the Commission issued its Order Approving Boswell Energy Center Unit 4 Retrofit Project and Authorizing Rider Recovery.

On November 25, 2013, a request for reconsideration was filed by the Izaak Walton League of America-Midwest Office, Fresh Energy, Sierra Club, and Minnesota Center for Environmental Advocacy.

January 17, 2014, the Commission issued its Order Denying Reconsideration.

On February 14, 2014, the Minnesota Center for Environmental Advocacy filed a petition for a Writ of Certiorari with the Minnesota Court of Appeals regarding the Commission's November 5, 2013 Order Approving Boswell Energy Center Unit 4 Retrofit Project and Authorizing Rider Recovery.¹

¹ In the Matter of Minnesota Power's Petition for Approval of its Boswell Energy Center Unit 4 Environmental Retrofit Project and Boswell 4 Environmental Improvement Rider

On November 3, 2014, the Court of Appeals of Minnesota Affirmed the Commission's November 5, 2013, decision in Docket No. E015/M-12-920.

Docket No. E015/M-13-1166

On December 20, 2013, Minnesota Power filed a petition requesting approval of its proposed rates for the Emission Reduction Rider and provided informational filings (Petition).

On March 11, 2014, the Department filed Reply Comments recommending that the Commission approve MP's proposed 2014 Rate Adjustment Factors for recovery under the Company's 2014 Boswell Energy Center Unit 4 Emission Reduction Rider.

On July 2, 2014, the Commission issued an Order approving Minnesota Power's filing with the exception of the proposed customer notice.

Docket No. E015/M-14-990

On November 26, 2014, Minnesota Power filed petition requesting Commission approval of proposed rates for the Emission Reductions Rider associated with the Boswell Energy Center Unit 4 ("BEC4").

On February 25, 2015, the Department filed comments recommending that Minnesota Power provide additional information.

On March 16, 2015, Minnesota Power filed reply comments.

On May 13, 2015, the Department filed supplemental comments recommending the Commission approve the petition.

On May 20, 2015, Minnesota Power filed further reply comments stating that it agrees with the Department's recommendations.

Party Positions and Recommendations

The Department conducted a thorough analysis and staff will not repeat their discussion here.²

In its November 5, 2013, Order in Docket E-015/M-12-920, the Commission required that:

The Company shall include in its annual rate factor adjustment filing an update on its discussions with the EPA to resolve the notice of violation and shall identify and explain any costs related to the notice of violation included in its rate factor adjustment filings or other rate proceeding.

² The proposed factors assumed a full year of sales to recover the projected 2014 year-end tracker balance and the 2017 revenue requirements of approximately \$17 million.

In its Petition, the Company stated:

On July 16, 2014, Minnesota Power reached a settlement agreement with the EPA and the MPCA related to alleged violations of the New Source Review requirements of the Clean Air Act at the Boswell Energy Center. The settlement is compatible with Minnesota Power's long term EnergyForward strategy to reduce emissions, diversify its energy mix and advance renewables; however, it does not include any admission of wrongdoing on the part of the company.

The settlement agreement was approved by the U.S. District Court for the District of Minnesota and became effective September 29, 2014. The BEC4 Project, as approved by the Commission in an Order dated November 5, 2013, will comply with the terms of the settlement, including the permissible level of SO₂ emissions at the completion of the BEC4 Project.

Minnesota Power explained that there is no incremental capital cost associated with settlement compliance. The Company will need to increase the amount of lime used in order to achieve compliance with the settlement terms for SO₂ emissions. It estimated that the increased lime will cost less than \$150,000 annually. These costs will not be incurred until the facility becomes operational. There are no costs related to the settlement of the notice of violation included in this Petition.

Department

The Department recommended that the Commission approve MP's Petition, as modified in its March 16, 2015 Reply Comments, including the following BEC4 Rider factors:

Billing Factor	Unit	Proposed Rate <i>Reply Comments</i>
Large Power	\$/kw – month	1.00
	¢/kWh	0.095
All Other Retail Classes	¢/kWh	0.265

Commission Options

Some Commission options are:

- A. Approve Minnesota Power's filing.
- B. Determine that additional information is necessary and direct the Company to provide additional information.
- C. Reject the Petition.