

February 13, 2017

Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, Minnesota 55101-2147

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources**  
Docket No. E015/M-15-876

Dear Mr. Wolf:

The Minnesota Department of Commerce (Department) responds to Minnesota Power's (MP or the Company) letter dated January 12, 2017 to the Minnesota Public Utilities Commission (Commission) in the docket referenced above.

On September 30, 2015 MP filed a Petition seeking approval of its proposed 2016 Boswell Energy Center Unit 4 (BEC4) Project Rider Adjustment Factors, its 2015 tracker balance and 2016 estimated annual revenue requirements for investments made on the BEC4 emissions control systems, storm water project, ash haul route improvement and equipment, and on Phase I of the Boswell 4 ash pond. MP's proposal would have increased rates for its ratepayers by \$32,837,470, an increase of \$9,926,322 over the \$22,911,148 that is currently being recovered in rates.<sup>1</sup>

On October 28, 2016 the Department recommended that the Commission approve MP's Petition. The Department also recommended that, should MP propose to include the BEC4 Project in base rates in its upcoming general rate case, that the Company's next BEC4 Rider filing be used to recover the 2016 year-end projected tracker balance in order to zero-out the balance.

On November 2, 2016 MP filed an Application for authority to increase rates for electric utility service in Minnesota in Docket No. E015/GR-16-664.

On December 21, 2016, the Commission issued its Order approving MP's September 30, 2015 Petition.

On January 12, 2017 MP filed a letter stating that MP had decided not to implement the approved 2016 BEC4 factor. In its letter, MP stated the following:

First, the 2016 BEC4 Factor was developed to cover revenue requirements for 2016. However, if these approved billing factors were applied in 2017, the result would likely be a net over collection from the customers under this rider in 2017. The current approved and in place billing factors would more closely match the needs of the forecast revenue requirements under the rider for 2017.

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<sup>1</sup> Docket No. E015/M-14-990.

Second, the current general rate case was developed assuming the existing billing factors for the BEC4 Rider, since the 2016 BEC4 Rider was not yet approved at that time. In Supplemental Direct Testimony being filed coincident with this letter, Herbert G. Minke, III describes Minnesota Power's proposal to implement updated BEC4 billing factors at the conclusion of the general rate case. By not implementing the 2016 BEC4 Factor at the present time, the assumptions used to develop revenue requirements in the general rate case will be more closely aligned with the actual costs customers will pay with the BEC4 Factor as the rate case is underway.

The Department notes that MP must comply with the Commission's December 21, 2016 Order or request approval to not implement the 2016 BEC4 factor.

The Department does not oppose MP's request to not implement the 2016 BEC4 factor approved by the Commission in its December 21, 2016 Order. If the 2016 BEC4 factor is not implemented, the factor in the rider and the factor assumed in the pending general rate case would be at the same rate instead of being at two different rates. Once the rate case is decided and at the time final rates go into effect, the Department notes that there will be a need to do a true-up to the actual rider collections in the current rate case (to replace forecasted rider revenue amounts in the rate case with actual rider revenue collections).<sup>2</sup> At the end of the rate case, the Company will implement new BEC4 billing factors for the Boswell Ash Management project that will remain in the BEC4 rider.

In conclusion, due to the specific fact situation in this matter, the Department does not oppose MP's request to not implement its Commission-approved 2016 BEC4 factor, and is available to answer any questions the Commission may have.

Sincerely,

/s/ SACHIN SHAH  
Rates Analyst

SS/ja

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<sup>2</sup> See January 12, 2017 Supplemental Direct Testimony of Herbert G. Minke on pages 4-5, where the Company appears to indicate that the capital costs of projects rolled into the rate case should be trued-up but not the related revenue. The Department respectfully disagrees and will address this issue in testimony in the Minnesota Power rate case in Docket E015/GR-16-664.