minnesota power
AN ALLETE COMPANY

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August 10, 2016

VIA ELECTRONIC FILING

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

RE: In the Matter of 2014-2015 Electric Company's and Department of Commerce Annual Automatic Adjustment Reports Docket No. E999/AA-15-611

Dear Mr. Wolf:

Minnesota Power hereby electronically submits its Reply Comments in the above-referenced Docket.

Please contact me at the number above should you have any questions related to this filing.

Yours truly,

Christopher D. Anderson

c: Service List

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

Jodi Nash of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 13th day of April, 2016, she served Minnesota Power's Reply Comments in Docket No. E999/AA-15-611 on the Minnesota Public Utilities Commission and the Minnesota Department of Commerce via electronic filing. The remaining parties were served as noted on the Service List.

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STATE OF MINNESOTA
BEFORE THE
MINNSOTA PUBLIC UTILITIES COMMISSION

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In the Matter of 2014-2015 Electric Company's Annual Automatic Adjustment Reports	Docket Nos. E999/AA-15-611 REPLY COMMENTS

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I. INTRODUCTION

Minnesota Power provides these Reply Comments in response to the Department of Commerce – Division of Energy Resources ("Department") Review of the 2014-2015 Annual Adjustment Reports ("FYE15 AAA") dated June 15, 2016, in the above-referenced Docket.

This Reply follows the format of the Department's FYE15 AAA by summarizing the issue and providing the Minnesota Power response.

II. AUDIT INFORMATION

First, the audit performed for Dakota Electric Association provided the most comprehensive assessment of the accuracy of the rates DEA charged to its member/ratepayers. Assuming that the FCA continues to operate as it currently does, the Department recommends that the Commission consider requiring other utilities to conduct such comprehensive audits, which involved:

- comparing the documentation supporting payments and invoices received from the energy supplies,
- comparing the base costs of power approved by the Commission to the bases used by the utility,
- recalculating the billing adjustment charge (credit) per kWh charged customers for purchased power for the entire applicable period by class of customer,
- comparing the accounting records for the revenues billed to customers for energy delivered for the relevant period to the total sales of electric energy,
- on a test basis, examining individual billings in each customer class by recalculating the automatic adjustment of charges and credits and tracing to the individual customers' subsidiary records to ensure that the calculated credit or charge was correctly recorded,
- examination of any corrections to FCA charges or other billing errors,
- reconciliation of total revenue and cost of power in the utility's general ledger,

- recalculation of any true-up, and tracing the related revenue and expense amounts to the utility's accounting records.

Company Response:

The Company will work with their external auditors to include applicable items above that are not currently covered in the audit of the AAA filings.

III. LIST OF DOCKETS

Second, the Department notes that Xcel and Otter Tail Power's audit reports provided a helpful list of dockets in which the Commission made decisions regarding the respective FCAs of these utilities. The Department recommends that the Commission consider requiring all utilities to list all of the dockets in which the Commission has granted any variances to utilities' FCAs (such as true-up provisions, allowing costs of purchased power adjustments to flow through the FCA, allowing MISO costs and revenues to be included in the FCA, etc.)

Company Response:

The Company will work with their external auditors compile a list of dockets in which the Commission has granted any variances to the Company's FCA, including allowing MISO costs and revenues to flow through the FCA.

IV. MINNESOTA POWER INVENTORY RECONCILIATION

Third, MP's auditor noted several exceptions where the difference between the "average monthly cost of fuel consumed per ton" and the "average monthly cost of fuel purchased by ton" was greater than 5 percent. MP's auditors stated that MP's management indicated that the differences were due either to "inventory quantity adjustments following physical inventory accounts" or to "recent declines in the cost of inventory purchases" for the tested months of October 2014 and April 2015.5 The Department recommends that MP provide a narrative in reply comments explaining and discussing this issue with enough detail to allow the Commission to make a determination regarding the reasonableness of the corresponding energy costs that were charged to MP's ratepayers.

Company Response:

PriceWaterhouseCoopers (PwC) noted several exceptions when comparing average cost of fuel purchased and average cost of fuel consumed in their audit report for the 14-15 AAA report.

The Company would agree that the cost of fuel consumed should be equal or relatively close to the cost of fuel purchased if the Company had no beginning fuel inventory, no inventory adjustments due to the results of physical inventory and all fuel was received at the beginning of the month prior to consumptions. However, that is not the case in actuality.

For the exception noted by PwC for the Boswell Spring Creek coal in the month of October 2014, the Company recorded an increase of 27,041 tons in fuel quantity due to the results of the physical inventory. The average cost of fuel in the stockpile at the beginning of the month was $20.07 and the average cost of purchases was $25.69 (before the inventory adjustment). The average cost of fuel used in the report incorporated beginning balance, purchases and adjustments resulting in $20.34. The final cost of consumed fuel was $22.74. As expected, the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month, which appeared reasonable.

For the exception noted by PwC for the Boswell Wyoming ULS Passthru coal in the month of October 2014, the Company recorded a reduction of 40,607 tons in fuel quantity due to the results of the physical inventory. The average cost of fuel in the stockpile at the beginning of the month was $21.67 and the average cost of purchases was $24.86 (before the inventory adjustment). The average cost of fuel in the report incorporated beginning balance, purchases and adjustments resulting in $32.74. The final cost of consumed fuel was $22.48. As expected, the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month, which appeared reasonable.

For the exception noted by PwC for the Boswell Wyoming Passthru coal in the month of October 2014, the Company recorded an increase of 44,491 tons in fuel quantity due to the results of the physical inventory. The average cost of fuel in the stockpile at the beginning of the month was $21.08 and the average cost of purchases was $26.01 (before the inventory adjustment). The average cost of fuel in the report incorporated beginning balance, purchases and adjustments resulting in $21.63. The final cost of consumed fuel was $23.15. As expected, the cost of fuel consumed falls between the beginning average cost and the cost of purchases during the month, which appeared reasonable.

For the exception noted by PwC for the Taconite Harbor Decker coal in the month of April 2015. The Company received a delivery of coal via vessel that arrived on April 28th. The cost of coal received was lower than the average cost of coal calculated at the beginning of the month. The arrival of a delivery of coal near the end of the month reduces the average cost of coal that was shown on the Fuel Stock reports, but does not necessarily accurately equate to the average cost of coal consumed during the month. Again as noted above, when the average beginning cost of coal of $43.01, and the average cost of purchases of $32.73 is compared to the average cost of consumed coal of $42.98, the cost of consumed coal falls between the two as expected and appeared reasonable.

V. HISTORIC SUMMARY

During the Commission's deliberation in Docket Nos. E999/AA-12-757, 13-599 and 14-579, the Commission indicated an interest in understanding the reliability of the investor-owned utilities' (IOUs') annual energy forecasts (as provided in their AAA reports). The Department provides below for informational purposes Table 3 and Chart 2, which compare IOUs' forecasts of 2015 costs as provided in the IOUs' FYE10-FYE14 AAA reports to actual 2015 annual energy costs.8 The data in Table 3 and Chart 2 are identified as trade-secret; however, since the information is now historical, the Department requests that utilities confirm in their reply comments that the information in Table 3 and Chart 2 below is now public rather than trade secret.

Company Response:

The Company does not see any reason for these costs to remain Trade Secret.

VI. PLANT OUTAGE

Hold utilities at least partially if not fully responsible for incremental costs of replacement power due to forced outages caused by improper work by contractors: The Nuclear Regulatory Commission holds utilities with licenses to operate nuclear generation facilities responsible for all events that occur at such facilities, whether due to work performed by a contractor or a direct employee of a utility. The Minnesota Commission may wish to use a similar standard regarding work done by contractors at non-nuclear facilities, including responsibility for incremental costs of replacement power due to forced outages caused by improper work on generation facilities. For example, since utilities have maintained that it is not feasible to hold contractors accountable for their work, utilities should not rely on contractors to supervise themselves; instead, utilities should supervise contractors directly. The Department discusses this issue further under the "Lessons Learned" section immediately below.

Company Response:

Minnesota Power understands the general tenor of commentary from the Commission discussion surrounding this issue from the previous hearing on fuel clause cost recovery. As we indicated in our prior written and oral comments, if this initiative is pursued then it must be put in place to ensure that the proper amount of regulatory criteria is in place to identify and measures when "forced outages are caused by improper work by contractors." Perhaps a working group can explore further how the NRC example raised by the Department identifies such incidences and brings them forward for further Commission discussion and implementation. Other than the Department identifying this proposal as an option, there is nothing in the record as to how this program would be implemented in Minnesota and how the resources necessary to identify, verify, and mete out the consequences will be structured. If a penalty of this type were to be imposed, which agency defines the scope of the issue and whether the criteria has been met? Which agency decides the penalty? What is the due process afforded the utility and its contractor? All of these issues must be determined in advance and must be developed fully if this type of review will be instituted.

Minnesota Power provides strong scopes of work in our capital projects and maintenance activities through collaboration and pre-job planning. The work of contractors falls into two categories: work that takes place in the generating facilities and work that takes place at the contractor's facility. We audit contractor work with an assigned MP Representative, typically an engineer or superintendent that is ultimately responsible for the work. We hold to the terms of our agreements, but also negotiate any change orders based changing conditions and inspections. Warranties and make good premises are common in the negotiated terms and conditions.

Work at Generating Facilities

For work that takes place at the generating facility, the MP Representative is responsible for development of the work scope and budget, ensuring that the execution of the work is in line with what was expected, and coordinating QA/QC efforts. The most common work performed by contractors that has a potential to impact production are boiler repairs and turbine repairs. In both cases, an MP Representative is assigned to directly supervise the contractor. Contractor supervision is complicated from a liability perspective. The MP Representative has to be careful about becoming so involved that it eliminates liability on the part of the contractor to perform quality work in a safe manner. There have been cases where a worker injury has left the company liable as they were doing work as assigned by a company employee.

Work at Contractors’ Facility

For work that takes place off-site at the contractor’s facility, the process is slightly different. The MP Representative writes a scope of work that defines deliverables from the contractor. There are often hold points in the scope to allow the MP Representative to observe the work in process. For example: A typical pump overhaul scope has a hold point following the initial disassembly and inspection. The MP Representative can then go inspect the pump, request bids from additional venders, or allow the repair to proceed. There is a second hold point after the contractor performs the repairs prior to final assembly. This hold point allows the MP Representative to verify all the repairs were completed, review dimensions, and/or QA/QC information the contractor assembles. The final hold point is at final balance and final assembly of the pump. Inspection prior to final assembly is probably the most critical. Once the pump is reassembled, it is difficult to determine if proper procedures were followed.

These processes have been successful for Minnesota Power. In the past several years, there has not been loss of production or delay in return from a planned outage due to poor contractor performance.

VII. SHARING LESSONS LEARNED REGARDING FORCED OUTAGES

Because the EPRI report identifies industry standards that utilities should already be following, the Department recommends that the Commission consider holding utilities financially responsible for replacement power costs due to any failure to exclude foreign material in work in generation facilities.

Enforcement of this standard and the standard above of holding utilities accountable for contractor errors may be difficult to enforce. However, assuming that the FCA continues to function as it currently does, as a start the Commission may choose, for example, to require utilities to file the lengths (duration) and purposes of planned outages for the previous five years, along with the lengths and purposes for expected future outages for upcoming two years. Before being allowed recovery of the costs of any outages that are longer than expected, utilities at a minimum would need to explain sufficiently what caused the extensive delay and why it is reasonable to require ratepayers to pay for the incremental costs of replacement power. The

Department expects to continue to monitor the IOUs' plant outages contingency plans in future AAA filings.

Company Response:

Minnesota Power welcomes the Department's continued scrutiny of forced and planned outages. Minnesota Power reiterates its invitation to the Commission, Department and any other party to learn more about how outages are handled on Minnesota Power's system. Seeing the process in action in real time would provide an enormous learning opportunity and demystify the aura outages have engendered during the fuel clause review process. We also invite the Commission, Department and other parties to review the monthly and annual filings Minnesota Power already provides that contain much of the information that is requested in the Department comments.

MISO and Regulatory Process

Minnesota Power currently files planned outage information on a monthly basis within the AAA filing under the Scheduled Outages section. The monthly filing includes the budgeted outage duration, actual outage duration, projected replacement power costs, and actual replacement power costs. Minnesota Power does not object to providing planned outage data for the previous five years (as stated above) and for future outages as a long-term outage plan is maintained. MISO requests a 24-month rolling planned outage schedule for all units greater than 10 MW. MISO does allow changes to timing and duration of planned outages based on system reliability and unit needs. Future planned outage information shared with MISO is not public information for market reasons. Therefore, the information should be treated as trade secret. The requirement to submit the previous 5-years for planned outage data should take into consideration the value received for the additional work required by both the utility and department to perform the review.

Minnesota Power Process

The long-term planned outage schedule considers high-level equipment maintenance/repairs and inspections based on recommended manufacturer guidelines, Insurance requirements, outside consultants and past experience. The timing of the outage considers system reliability, customer impact, market conditions, resource availability, and seasonality.

Minnesota Power has a robust layered predictive/preventative maintenance program that monitors equipment on a continuous basis. While the goal is always to perform the work during scheduled outages, equipment conditions can and do change and may require a change in outage timing and duration.

During the annual budgeting process, planned outage timing and durations and preliminary work scope are reviewed based on known equipment conditions. Our outage planning process dictates that detailed planning of the outage scope begins roughly 6 months prior to the scheduled date. Once the 6 month countdown begins, the only reason to change the start date or duration would be for customer impact, contractor resource or material availability, market conditions or system stability as dictated by MISO.

Once a planned outage starts, equipment is removed from service. Inspections are performed on equipment that is inaccessible while the unit is in operation. Based on experience, the highest risk areas are inspected first to minimize the risk of outage extension. While every effort is made to stay within the scheduled outage window, there are situations where the inspections or testing has identified unplanned repairs. Once identified, those repairs are performed immediately if the postponement of the repair would likely result in a forced outage. If the risk is low, the work is then put on the plan for the next planned outage.

Minnesota Power believes the Commission and Department (and any other stakeholder) should participate in an outage occurrence to further enhance their education regarding outage planning and execution complexities.

VIII. SUMMARY

The Department continues to monitor MISO Schedule 10 costs and expects the four Minnesota utilities in MISO to show benefits related to these costs in their rate cases to continue to receive cost recovery. This recovery and analysis occurs in rate-case proceedings, and has occurred in Xcel Electric’s, Interstate Electric’s, OTP’s and MP’s rate cases. Thus, these costs are not charged through the FCA; rather, they are charged through base rates.

The Department recommends that the Commission continue to require utilities to provide in the initial filing of all future electric AAA reports the Minnesota-jurisdictional Schedule 10 costs together with the allocation factor used and support for why the allocator is reasonable.

Additionally, the Department recommends that the Commission continue to require utilities to provide information to support MISO Schedule 10 cost increases of five percent or higher over the prior year costs, including explanation of benefits received by customers for these added costs. This additional information would expedite the Department's review of MISO Day 1 costs in future electric AAA filings.

Company Response:

The Company respectfully disagrees with this recommendation. As the Department noted in their comments, "these costs are not charged through the FCA, rather, they are charged through base rates".

Since MISO Schedule 10 costs are not included in the FCA, but are scrutinized during a general rate case and are included in base rates, review of these costs represents time spent by the Department staff that could be used to review other relevant costs.

Dated: August 10, 2016

Respectfully submitted,

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