

Staff Briefing Papers

Meeting Date February 1, 2018

**Agenda Item 3

Company Minnesota Power

Docket No. **E-015/AI-17-304**

In the Matter of the Petition of Minnesota Power, an Operating Division of ALLETE, Inc., for Approval of Affiliated Interest Agreements Between ALLETE, Inc. and ALLETE Clean Energy, Inc.

- Issues
1. Should the Commission approve the affiliated interest agreement to transfer the Bison 6 Large Generator Interconnection Agreement from ALLETE, Inc. to ALLETE Clean Energy, Inc.?
 2. What date should be used to track depreciation, O&M, and tax expenses allocated to ALLETE Clean Energy, Inc.?
 3. Should generation asset capital costs be included in the one-time payment from ALLETE Clean Energy, Inc.?
 4. Does Minnesota Statute § 216B.50 apply to any of the transactions in this proceeding?

Staff	Eric Bartusch	eric.bartusch@state.mn.us	651-201-2259
	Jason Bonnett	jason.bonnett@state.mn.us	651-201-2235
	Sundra Bender	sundra.bender@state.mn.us	651-201-2247

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Relevant Documents

Date

Minnesota Power – Initial Filing	April 19, 2017
Department of Commerce – Comments	September 12, 2017
Minnesota Power – Reply Comments	October 6, 2017
Department of Commerce – Response to Reply Comments	November 1, 2017
Minnesota Power – Additional Comments	December 8, 2017

I. Statement of the Issues

1. Should the Commission approve the affiliated interest agreement to transfer the Bison 6 Large Generator Interconnection Agreement from ALLETE, Inc. to ALLETE Clean Energy, Inc.?
2. What date should be used to track depreciation, O&M, and tax expenses allocated to ALLETE Clean Energy, Inc.?
3. Should generation asset capital costs be included in the one-time payment from ALLETE Clean Energy, Inc.?
4. Does Minnesota Statute § 216B.50 apply to any of the transactions in this proceeding?

II. Background

On April 19, 2017, Minnesota Power (MP), a division of ALLETE, Inc., filed an affiliated interest petition with the Commission requesting approval of the transfer of the Large Generator Interconnection Agreement (LGIA), referred to as the Bison 6 LGIA, to its affiliate ALLETE Clean Energy, Inc. (ACE). ACE, a wholly owned, indirect subsidiary of ALLETE, owns or develops renewable energy projects throughout North America.

MP and ACE agreed to transfer the Bison 6 Agreement, subject to Commission approval, on April 17, 2017. MP had previously requested to transfer certain Bison LGIAs to ACE in Docket E-015/AI-11-668, but the Commission took no action. The Department opposed the transfer largely because the agreements included transferring 150 MW in capacity rights on MP's Direct Current Line to ACE, which it argued was not in the public interest.

In total, MP executed six LGIAs with MISO to develop wind farms near Center, North Dakota. To date, MP has constructed four wind farms and utilized five of the LGIAs. The Bison 6 LGIA remains unutilized with an available transmission capacity of 100 MW on the alternating current (AC) transmission system. This LGIA is currently in suspension but is required to be brought out of suspension to recommence work on a wind project on or before February 4, 2018. If commencement of work has not been requested by that date, MISO will purportedly terminate the LGIA. The output of this project, referred to as Clean Energy #1, will be purchased by Xcel Energy, as approved by the Commission in Docket E-002/M-16-777.

MP believes this project will directly benefit ratepayers through offsetting revenue requirements in MP's Renewable Resources Rider. The two benefits to ratepayers will be 1) a payment from ACE to MP for the LGIA, reimbursement for MP's transmission study costs, and transmission allocation from other Transmission Owners and other costs associated with the Bison 6 LGIA and 2) future cost reimbursement from ACE to MP for shared use of MP's 230 kV AC transmission system in North Dakota that is estimated to be around \$7.7 million, payable as a one-time payment.

The Department recommends approval of the transactions with modifications. Specifically, the Department argues that ACE should provide a capital-based payment for generation assets in

addition to transmission assets. In addition, the Department questions the calculation of the cost reimbursements and identified additional costs that ratepayers should not bear. Finally, the Department disputes MP's proposed date for ACE to begin accruing incremental costs. MP's filing indicates that ACE will be accruing expenses as of the date the asset is placed in service, while the Department believes ACE should accrue these expenses as of the effective date of the agreement.

III. Relevant Statutes

Relations with Affiliated Interest. Minn. Stat. § 216B.48.

Minn. Stat. § 216B.48, Subd. 3 states in part:

No contract or arrangement, including any general or continuing arrangement, providing for the furnishing of management, supervisory, construction, engineering, accounting, legal, financial, or similar services, and no contract or arrangement for the purchase, sale, lease, or exchange of any property, right, or thing, or for the furnishing of any service, property, right, or thing, other than those above enumerated, made or entered into after January 1, 1975 between a public utility and any affiliated interest as defined in subdivision 1, clauses (1) to (8), or any arrangement between a public utility and an affiliated interest as defined in subdivision 1, clause (9), made or entered into after August 1, 1993, is valid or effective unless and until the contract or arrangement has received the written approval of the commission. . . . The commission shall approve the contract or arrangement made or entered into after that date only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest. . . . The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Restrictions on Property Transfer and Merger. Minn. Stat. § 216B.50.

Minn. Stat. §216B.50, Subd. 1 governing property transfers (sale of property) and mergers states:

No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized to do so by the commission. Upon the filing of an application for the approval and consent of the commission, the commission shall investigate, with or without public hearing. The commission shall hold a public hearing, upon such notice as the commission may require. If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

IV. Parties' Comments

A. Resolved Issues

1. Bison 6 LGIA Sales Price

a. Department of Commerce

The Department requested additional support for the \$121,179 sale price of the Bison 6 LGIA to ensure it was higher-of-cost-or-market to ensure MP ratepayers will be fully reimbursed for all costs related to the transaction. The Department did not dispute MP's response that there is no market mechanism for establishing an independent or verifiable market value for this asset.

The Department's recommendation is that the Commission approve the proposed \$121,179 sales price as the minimum credit to ratepayers, but require MP to credit to ratepayers any additional amount to the extent that the accumulated costs/fees related to this transaction exceed the sales price. The Department also recommends that MP be required to report in the renewable rider petition, in which the benefits of this sale are determined to begin, an accounting of all legal, state, and federal regulatory costs, as well as other costs that were incurred related to this manner.

b. Minnesota Power

MP discussed the two components of the \$121,179 sales price.

First, at the time of the assignment agreement, \$21,179 was the Bison 6 LGIA allocation amount of the actual study costs of the Bison 2-6 System Impact and Facility Study. This amount was calculated based on Bison 6 LGIA's pro rata share of generation capacity of the Bison 2 through 6 LGIAs. This figure was updated in MP's reply comments to allocate \$22,601 to Bison 6.¹

Second, the remaining \$100,000 of the purchase price encompassed MP's estimate to cover regulatory and other costs to MP from entering into this assignment agreement. MP stated there is no market mechanism available to compare these regulatory and legal costs.

MP did not specifically comment as to whether it would agree to the Department's recommendations.

2. Use of Rider Mechanism to Reflect Transaction Benefits to Ratepayers

a. Department of Commerce

The Department agrees with MP's proposal to use the Renewable Resources Rider to flow the benefits of this transaction to ratepayers until the benefit can be incorporated into a subsequent rate case.

¹ MP Reply Comments p. 3.

b. Minnesota Power

MP intends to directly benefit ratepayers by offsetting the revenue requirements in Minnesota Power's Renewable Resource Rider, where the cost of the transmission lines connecting the Bison wind facilities are currently being recovered.

3. Consistent Method to Calculate Pro Rata Factors

a. Department of Commerce

The Department noted that MP was inconsistent in its method to calculate the Bison 6 LGIA allocation factor that is used for cost sharing purposes. The capacity for each generator site is used as the basis for determining their pro rata share of costs. MP used exact figures in calculating capital cost allocations but rounded figures in O&M cost allocations. MP updated this calculation in its reply comments; the Department considers this concern resolved.

b. Minnesota Power

MP corrected the rounding concern related to the cost sharing allocation factors as requested by the Department through IR responses.

B. Disputed Issues

1. Operating Costs

a. Department of Commerce

The Department reviewed MP's Schedule O (the transmission owner's revenue requirement filing with MISO), and discovered that MP did not include *Taxes Other than Income Taxes* in MP's development of the O&M cost rate per transmission line mile. *Taxes Other than Income Taxes* includes payroll taxes, property taxes, and other plant-related taxes. MP acknowledged this omission in its reply comments, but the Department disputes MP's calculation of the expense. The Department calculated the per-line-mile rate at \$2,413, and not the \$300 per-line-mile rate proposed by MP. Therefore, the Department recommends that an adjustment in the amount of \$22,789 in *Taxes Other than Income Taxes* be allocated to ACE annually.

b. Minnesota Power

MP agreed with the Department that *Taxes Other than Income Taxes* should be included in the cost allocation to ACE. MP provided Attachment 2 to its reply comments:

Taxes Other than Income Tax Allocation

Tri-County -Bison Line #103 - 11 miles taxed at \$300/mile

Taxes Other than Income Tax = \$3,300.00
ITPUC = 105.6
IC = 602.2

Bison 6 portion of Taxes Other than Income Tax = $[ITPUC/IC] \times \text{Taxes Other than Income Tax}$ \$578.68

230 kV Bison To Square Butte Line #84- 22 miles taxed at \$300/mile

Taxes Other than Income Tax = \$6,600.00
ITPUC = 105.6
IC = 208

Bison 6 portion of Taxes Other than Income Tax = $[ITPUC/IC] \times \text{Taxes Other than Income Tax}$ \$3,350.77

Total Taxes Other than Income Tax for Third Party Interconnection \$3,929.45

Bison 1-interconnecting at Bison	81.8
Bison 2-interconnecting at Bison	105
Bison 3-interconnecting at Bison	105
Bison 4-interconnecting at Tri-County	102.4
Bison 5-interconnecting at Bison	102.4
Bison 6-interconnecting at Tri-County	105.6

Based on its comments, MP proposes to allocate \$3,350.77 to ACE for *Taxes Other than Income Taxes*, which is inconsistent with the \$3,929.45 provided in the Attachment.

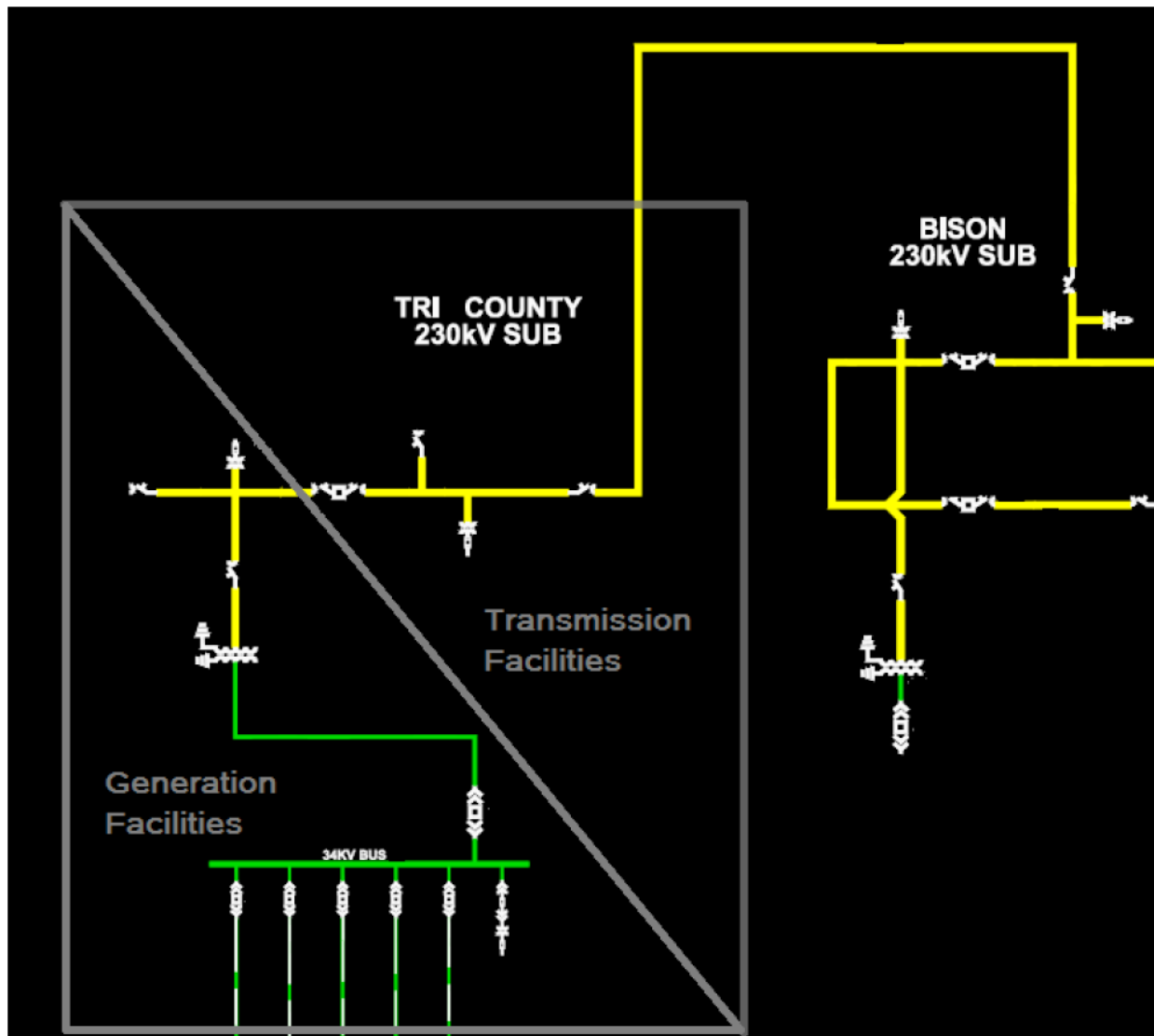
2. Calculation of Capital-Based Payment to MP for Existing Infrastructure

a. Department of Commerce

In its agreement with MP, ACE will provide MP with a one-time capital-based payment of the pro rata share of costs pertaining to MP's 230 kV AC transmission facilities. The Department noted that MP only considered the infrastructure costs classified as part of the transmission-function (40.26%) of these facilities. The remaining portion of MP's 230 kV AC transmission facility costs is classified as generation functions, and those costs were excluded by MP when determining the proposed Bison 6 LGIA pro rata share of capital costs. While the Department agrees that ACE will be obligated to pay entire costs for any upgrades required, that fact does not necessarily mean that ACE only bears responsibility for the incremental cost of generation-function related infrastructure. The Department feels that MP's ratepayers should receive a capital-based payment for generation-related infrastructure costs because Bison 6 LGIA directly benefits from this infrastructure. The Department estimates the one-time capital payment for both the generation and transmission facilities to be \$10.2 million.

b. Minnesota Power

MP conducted an engineering analysis and determined that 40.26% of the Tri-County substation facilities were related to transmission facilities, and the remaining 59.74% were related to generation facilities. MP provided the following chart to demonstrate Bison 6 LGIA as it relates to the Tri-County Substation:



MP provided the following table illustrating cost breakdowns between transmission functions and generation functions. In situations where the cost could not be specifically identified to one function (e.g. fencing), a 50/50 cost allocation was used.

Cost Group	% of project total	Transmission Allocation %	Generation Allocation %	Weighted % Trans	Weighted % Gen
Engineering	4.4%	25%	75%	1.1%	3.3%
Construction Parent	1.9%	50%	50%	0.9%	0.9%
Air Break Switch	1.8%	83%	17%	1.5%	0.3%
Buswork / Power Wiring	1.0%	83%	17%	0.8%	0.2%
Cable	1.8%	50%	50%	0.9%	0.9%
Circuit Breaker	1.7%	100%	0%	1.7%	0.0%
Communications Equipment	0.2%	100%	0%	0.2%	0.0%
Conduit, Manholes & Cable Trench	3.0%	50%	50%	1.5%	1.5%
EEE (Control House)	8.4%	100%	0%	8.4%	0.0%
Foundations	6.1%	50%	50%	3.1%	3.1%
Grounding	2.1%	50%	50%	1.1%	1.1%
Instrument Transformers	1.0%	50%	50%	0.5%	0.5%
PDC (Switchgear)	16.6%	0%	100%	0.0%	16.6%
Power Transformer	25.6%	0%	100%	0.0%	25.6%
Fencing	0.9%	50%	50%	0.4%	0.4%
Site Development	11.0%	100%	0%	11.0%	0.0%
Structural Steel	2.2%	90%	10%	2.0%	0.2%
Testing & Commissioning Total	2.5%	50%	50%	1.2%	1.2%
Project Support Total	0.4%	50%	50%	0.2%	0.2%
Total Overheads	7.4%	50%	50%	3.7%	3.7%
	100.0%			40.3%	59.7%

MP maintains that Bison 6 LGIA will only benefit from the use of the Tri-County transmission facilities and, therefore, only those facilities should be included in the pro rata calculation for capital-based costs.

3. Date ACE Begins to Accrue O&M, Tax, and Incremental Costs Associated With Bison 6 LGIA

a. Department of Commerce

The Department noted that the execution date of the Bison 6 LGIA sale was April 17, 2017, however, MP proposed to use the date when ACE's wind farm is expected to become operational (December 2019) to determine the Bison 6 LGIA pro rata amount of the one-time capital-payment it would remit to MP. MP used the same future date as to when ACE would be assessed annual O&M, tax, and other incremental costs associated with the Bison 6 LGIA.

The Department argues it is not reasonable that ratepayers should continue to bear costs associated with the Bison 6 LGIA after the effective date of the agreement. As stated in the purchase agreement:

Minnesota Power – Merchant hereby assigns to ALLETE Clean Energy all of its Interconnection Customer rights, title, interest, obligations, and liabilities under the Bison 6 LGIA for the ALLETE Clean Energy wind project (“Assignment”). As of the date of execution of this Agreement, Minnesota Power – Merchant shall have no further Interconnection Customer rights, title, interest, obligations, or liabilities of any kind whatsoever under the Bison 6 LGIA.

Therefore, the Department recommends that the Commission order MP to use the effective date of April 2017 in calculating both the one-time capital payment and the O&M payments. This would result in the one-time payment being \$8,329,187.45, an increase of \$629,930.34 over MP’s initial \$7.7 million proposal.

b. Minnesota Power

MP argues that it is not reasonable for ACE to be allocated costs until it is using and benefitting from the use of the transmission facilities (December 2019). MP also notes that the wind project is subject to a number of contractual contingencies including approvals by FERC and the Commission.

4. Statutory Requirements for Approval of Affiliated-Interest Agreements

a. Department of Commerce

Relations with Affiliated Interest

The Department stated that MP bears the burden of demonstrating that the proposed Affiliated-Interest Agreement is reasonable and consistent with the public interest. Minn. Stat. § 216B.48, subd. 3 governing affiliated-interest transactions states that:

The commission shall approve the contract or arrangement made or entered into... only if it clearly appears and is established upon investigation that it is reasonable and consistent with the public interest... The burden of proof to establish the reasonableness of the contract or arrangement is on the public utility.

Restrictions on Property Transfer and Merger

The Department also argued that Minn. Stat. §216B.50, subd. 1 governing property transfers (sale of property) and mergers also applies. It states:

No public utility shall sell, acquire, lease, or rent any plant as an operating unit or system in this state for a total consideration in excess of \$100,000, or merge or consolidate with another public utility or transmission company operating in this state, without first being authorized to do so by the commission...If the commission finds that the proposed action is consistent with the public interest, it shall give its consent and approval by order in writing. In reaching

its determination, the commission shall take into consideration the reasonable value of the property, plant, or securities to be acquired or disposed of, or merged and consolidated.

The Department concluded that the agreement between MP and ACE falls under the purview of the Commission pursuant to Minn. Stat. § 216B.48 and the filing requirements provided in Docket No. E,G-999-CI-98-651. Minn. Stat. § 216B.48 requires a finding that affiliated-interest contracts are reasonable and in the public interest as part of the Commission's approval of such contracts. The Department stated that MP has the burden of proof to establish the reasonableness of each transaction and related agreement, and the Commission may approve the transaction and related agreement only if it finds that both the transaction and related agreement are reasonable and consistent with the public interest.

The Department also argued that Large Generator Interconnection Agreements fall under the purview of the Commission pursuant to Minn. Stat. § 216B.50. It stated that although the language in Minn. Stat. § 216B.50, subd. 1 includes the phrase "plant as an operating unit or system in this state" the Commission has previously found that section 50 applies to facilities located outside the state of Minnesota when such facilities are used by the utility to provide service to Minnesota customers and the facilities' costs are included in customers rates approved by the Commission. It noted that in the Commission's December 14, 1998 Order Finding Jurisdiction and Approving Property Transfer in Docket No. E-017/PA-98- 1345, the Commission provided the following interpretation of Minn. Stat. 216B.50, subd. 1:

The Commission has long held that out-of-state property which is an integral part of a utility's Minnesota operating system is subject to the provisions of Minn. Stat. 216B.50, subd. 1. The statutory language contemplates this result, by referring not to discrete parcels of property but to "plant as an operating unit or system in this state." Clearly, the statutory intent was to cover utility assets integrated into a utility's overall operating system.

To hold otherwise would render the statute an absurdity, since it would give the Commission no authority to protect Minnesota customers from improvident or even potentially disastrous transfers of out-of-state facilities vital to the provision of reliable service in this state. For all these reasons, the Commission continues to hold that out-of-state utility property is subject to the provisions of Minn. Stat. 216B.50, when it is part of a utility's Minnesota operating unit or system.

As a result, the Department recommends that, while the affiliate-transaction provisions of Minn. Stat. §216B.48 should be a primary consideration, the Commission also must consider the provisions of Minn. Stat. §216B.50 in determining whether MP has shown that the proposed transactions and agreements are reasonable and consistent with the public interest.²

² Department *Comments* pp. 14-15.

Filing Requirements

The Department noted that in the Commission's September 14, 1998 Order in Docket No. E,G-999/CI-98-651, the Commission provided the following minimum filing requirements, consistent with Minnesota Rule 7825.2200, subpart B, for all affiliated-interest filings.

1. A heading that identifies the type of transaction.
2. The identity of the affiliated parties in the first sentence.
3. A general description of the nature and terms of the agreement, including the effective date of the contract or arrangement and the length of the contract or arrangement.
4. A list and the past history of all current contracts or agreements between the utility and the affiliate, the consideration received by the affiliate for such contracts or agreements, and a summary of the relevant cost records related to these ongoing transactions.
5. A descriptive summary of the pertinent facts and reasons why such contracts or agreement is in the public interest.
6. The amount of compensation and, if applicable, a brief description of the cost allocation methodology or market information used to determine cost or price.
7. If the service or good acquired from an affiliate is competitively available, an explanation must be included stating whether competitive bidding was used and, if it was used, a copy of the proposal or a summary must be included. If it is not competitively bid, an explanation must be included stating why bidding was not used.
8. If the arrangement is in writing, a copy of that document must be attached.
9. Whether, as a result of the affiliate transaction, the affiliate would have access to customer information, such as customer name, address, usage, or demographic information.
10. The filing must be verified.

The Department stated that MP responded to these filing requirements in section V of its petition. The Department stated that it reviewed MP's petition and concludes that MP has met the minimum filing requirements specified above.

b. Minnesota Power

MP disagrees that this transaction is subject to Minn. Stat. § 216B.50 and Minn. Rule 7825.1800 since it is not selling, acquiring, leasing or renting any plant as an operating unit or system. In response to the Department's comments indicating that the Bison 6 LGIA agreement is like a lease, MP noted that the Department's position would expand the scope of what would require

prior Commission approval under Minn. Stat. § 216B.50 to any transaction that utilizes a Minnesota public utility's open access transmission system if the cost is greater than \$100,000. In addition, MP stated that transmission rights do not provide the rights a lessee or renter would have if the entity had a property right in the facility.

V. Staff Analysis

A. Operating Costs

MP and the Department agree that taxes other than income taxes should be included in ACE's transmission costs per-line-mile, but disagree on the amount per-line-mile.

The Department used information from Schedule O (the transmission owner's revenue requirement filing with MISO) to calculate its recommended adjustment for *Taxes Other Than Income Taxes*. The Department recommended \$2,413 per-line-mile in its Response to Reply comments, however, Schedule O of the MISO filing indicates 2016 Other Taxes to be \$2,414 per-line-mile.

Year	Attachment O ^a Projected Cost	Total O&M Allocated to AC Transmission System	AC Transmission Line Mile	Cost / Line Mile
2016 O&M	\$ 21,832,185			\$ 9,481
2016 Other Taxes	5,557,547			2,414
Total O&M and Other Taxes		\$ 27,389,732	2,303	\$ 11,895

Line Miles - Tri County to Bison	Bison 6 LGIA Cost Allocation Percentage (ITPUC/IC) 105.6/208	O&M Cost / Line Mile	Annual Estimated Third Party O&M*
11	50.77%	\$ 9,481	\$ 52,806
		\$ 2,414	\$ 13,442
		\$ 11,895	\$ 66,248

Line Miles - Bison to Square Butte	Bison 6 LGIA Cost Allocation Percentage (ITPUC/IC) 105.6 / 602.2	O&M Cost / Line Mile	Annual Estimated Third Party O&M*
22	17.54%	\$ 9,481	\$ 36,828
		\$ 2,414	\$ 9,375
		\$ 11,895	\$ 46,202

O&M Tri-County to Bison	\$ 66,248
O&M Bison to Square Butte	\$ 46,202
Total Estimated O&M Tri-County to Square Butte	\$ 112,451

MP provided its own attachment, in which it calculates the per-line-mile impact of *Taxes Other Than Income Taxes* to be \$300 per-line-mile.

Taxes Other than Income Tax Allocation

Tri-County -Bison Line #103 - 11 miles taxed at \$300/mile	
	Taxes Other than Income Tax = \$3,300.00
	ITPUC = 105.6
	IC = 602.2
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Bison 6 portion of Taxes Other than Income Tax = $[\text{ITPUC}/\text{IC}] \times \text{Taxes Other than Income Tax}$	\$578.68
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Bison 6 portion of Taxes Other than Income Tax = $[\text{ITPUC}/\text{IC}] \times \text{Taxes Other than Income Tax}$	\$3,350.77
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Total Taxes Other than Income Tax for Third Party Interconnection	\$3,929.45
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Bison 1-interconnecting at Bison	81.8
Bison 2-interconnecting at Bison	105
Bison 3-interconnecting at Bison	105
Bison 4-interconnecting at Tri-County	102.4
Bison 5-interconnecting at Bison	102.4
Bison 6-interconnecting at Tri-County	105.6

The Department attributed the difference in cost allocation to be due to MP's omission of other tax costs, such as payroll taxes, and recommended that MP follow the calculations provided by the Company on Schedule O of its MISO filing. MP did not specifically address this issue in its final comments (Additional Comments). Any costs not specifically allocated to Bison 6 LGIA and charged to ACE will remain with the regulated MP utility and would be paid by ratepayers. To that end, if the Commission adopts MP's position, the Commission may want to direct MP to provide additional support of its proposed calculation of \$300 per-line-mile to prevent MP's regulated utility from subsidizing the costs of ACE, an unregulated subsidiary.

B. Calculation of Capital-Based Payment to MP for Existing Infrastructure

The Department is disputing the calculation of the pro rata share of capital costs pertaining to MP's 230 kV AC transmission facilities. The Department noted that MP only included costs related to the transmission-function of the Tri-County Substation.

Facility Description	Transmission-function Allocation
Tri-County 230/34.5 Bison 4 Sub	40.26%
Bison 2 Sub	12.06%
Bison Sub for Bison 3 Wind	23.80%
Bison 4 Sub	26.72%
Bison 1 230/34.5 kV sub	61.00%

The Department noted that the wind project will be interconnected at the Tri-County substation and will therefore benefit from both the generation and transmission functions and infrastructure of that substation.

MP disagrees, instead noting that, as demonstrated above, the project will be interconnected to the transmission function and will not benefit from the generation functions of the substation. Therefore, MP recommends that the capital payment be based on transmission functions only.

An excerpt from the NARUC Electric Utility Cost Allocation Manual from January 1992 is provided to aid the Commission in determining whether or not generation-related functions should be included in the proposed transaction. Arguably, the substation could be considered an extension of the windfarm and should be classified as an extension of the production (generation) facility.

...Generation step-up facilities generally refer to the substations through which power is transformed from a utility's generation output voltages to its various transmission voltages. This classification is based on the concept that such facilities are an extension of production plant and should be treated accordingly, particularly where wheeling services are directly or indirectly involved in the cost allocations. Under this theory, all classes of firm load are generally allocated generation step-up costs except wheeling customers...³

C. Date ACE Begins to Accrue O&M, Tax, and Incremental Costs Associated With Bison 6 LGIA

The Department questioned the effective date MP used to determine when, and the value of, benefits accrued to MP's regulated operations from the sale of the Bison 6 LGIA. The Department argues that MP's ratepayers should not bear the O&M, taxes, and other ongoing

³ NARUC Electric Utility Cost Allocation Manual from January 1992, Page 73

costs from the Bison 6 LGIA after the date of the agreement (April 17, 2017). The Department also noted that “as of the date of execution of this Agreement” MP’s regulated utility shall have “no further obligation or liabilities of any kind whatsoever under the Bison 6 LGIA.”

Minnesota Power – Merchant hereby assigns to ALLETE Clean Energy all of its Interconnection Customer rights, title, interest, obligations, and liabilities under the Bison 6 LGIA for the ALLETE Clean Energy wind project (“Assignment”). As of the date of execution of this Agreement, Minnesota Power – Merchant shall have no further Interconnection Customer rights, title, interest, obligations, or liabilities of any kind whatsoever under the Bison 6 LGIA.

The Department’s position appears to be that MP, the regulated entity, should not bear all of the risk for this project during development and that ACE should bear some of the risk and cost of this project prior to the project’s in-service date.

MP, in its reply comments, disagreed with the Department. MP believes that it is unreasonable for ACE to be allocated costs for transmission facilities until it begins to use those facilities. MP proposes to begin allocating costs to ACE in December 2019, the anticipated completion date.

In addition, the wind project is subject to a number of contractual contingencies including approvals by FERC and the Commission. If the Commission requires MP to allocate costs to ACE as of the effective date of the contract, it is possible that ACE would pay for transmission facilities it never uses if ACE does not receive all of its regulatory approvals. To that end, the Commission may want to consider allowing MP to accrue O&M costs to allocate to ACE, but not booking the allocated costs as a receivable until the wind project is actually in service.

D. Applicability of Minn. Stat. § 216B.16, subd. 7c

Staff analyzed the applicability of Minn. Stat. § 216B.16, subd. 7c. Minn. Stat. § 216B.16, subd. 7c states in part:

(a) Public utility owners of transmission facilities may, subject to Public Utilities Commission approval, transfer operational control or ownership of those transmission assets to a transmission company subject to Federal Energy Regulatory Commission jurisdiction. . .

The term “transmission company” is defined in Minn. Stat. § 216B.02, subd. 10, as follows:

"Transmission company" means persons, corporations, or other legal entities and their lessees, trustees, and receivers, engaged in the business of owning, operating, maintaining, or controlling in this state equipment or facilities for furnishing electric transmission service in Minnesota, but does not include public utilities, municipal electric utilities, municipal power agencies, cooperative electric associations, or generation and transmission cooperative power associations.

In this instance ACE does not meet the definition of “transmission company” because it will not own the transmission assets. MP is not transferring “operational control or ownership” of transmission assets. Exhibit 1 of MP’s petition states “Minnesota Power - Transmission shall remain the Transmission Owner and Transmission Provider under the Bison 6 LGIA and this Assignment does not transfer or assign any of those rights or obligations to ALLETE Clean Energy or any other rights or obligations of Minnesota Power – Transmission.”

Thus, it appears to staff that ACE does not meet the statutory requirement of being a “transmission company” under Minnesota Statute.

E. Applicability of Minn. Stat. § 216B.48

All parties agree that Minn. Stat. § 216B.48 applies to MP’s request.

F. Applicability of Minn. Stat. § 216B.50

Staff thinks the Commission does not have to make a decision on whether Minn. Stat. §216B.50 applies to the proposed agreement in this proceeding. No party disputes that the proposed transactions are subject to Minn. Stat. §216B.48. Both Minnesota Statutes require a finding that the transaction is consistent with the public interest. As noted by the Department in its reply comments, regardless of whether the transactions in this petition are under Minn. Stat. §216B.50 or § 216B.48, the transactions are under the Commission’s jurisdiction.

VI. Decision Options

Bison 6 LGIA Affiliate Interest Transaction

1. Determine that the affiliate interest transaction is reasonable and consistent with the public interest pursuant to Minn. Stat. § 216B.48 and approve the sale price of \$122,601. (MP, Department)
2. Determine that the affiliate interest transaction is not reasonable and consistent with the public interest pursuant to Minn. Stat. § 216B.48 and deny the petition.

Use of Renewable Resources Rider

3. Allow MP to flow benefits from the affiliate interest transaction as authorized in the following decision alternatives to ratepayers through the renewable resource rider. (MP, Department)
4. Require MP to credit ratepayers using another mechanism.

Additional Conditions for the Affiliate Interest Transaction

5. Require MP to credit to ratepayers any additional amount to the extent that the accumulated costs/fees related to this transaction exceed this stated price. (Department)

6. Require MP to report in the renewable rider petition, in which the benefits of this transaction are determined to begin, an accounting of all legal, state and federal regulatory costs, as well as other costs that were incurred related to this matter. (Department)
7. Take no action.

Operating Costs

8. Allocate additional operating costs based on \$300 per-line-mile for a total adjustment of \$3,929.45 (calculated with an effective date of December 2019; an adjustment will be needed if another effective date is used) to ACE for *Taxes Other than Income Taxes* as calculated in Attachment 2 of MP's Reply Comments.⁴ (MP)
9. If Decision Option 8 is approved, direct MP to provide additional support for its proposed calculation of \$300 per-line-mile.
10. Allocate additional operating costs based on \$2,414 per-line-mile for a total adjustment of \$22,817 (calculated with an effective date of April 2017; an adjustment will be needed if another effective date is used) to ACE for *Taxes Other than Income Taxes* as calculated by the Department.⁵ (Department)
11. Make a different per-line-mile adjustment to operating costs to account for *Taxes Other than Income Taxes*.

One-Time Capital-Based Payment

12. Require MP to include transmission and generation capital costs in the one-time capital-based payment from ACE to MP, resulting in a payment of approximately \$10.2 million (calculated with an effective date of April 2017; an adjustment will be needed if another effective date is used). (Department)
13. Allow MP to only include transmission capital costs in the on-time capital-based payment from ACE, resulting in a payment of approximately \$7.7 million (calculated with an effective date of December 2019; an adjustment will be needed if another effective date is used). (MP)
14. Calculate the one-time capital-based payment using another method.

⁴ MP's response in its reply comments recommended an adjustment of \$3,350.77, however, in reviewing MP's attachment, it appears that \$3,350.77 is a subtotal and that the total adjustment, by MP's calculations, is \$3,929.45

⁵ The Department's recommendation is based on Schedule O filed with MISO. The Department recommends \$2,413 per-line-mile (total adjustment of \$22,789) in its reply comments but the attachment containing Schedule O shows \$2,414 per-line-mile (total adjustment of \$22,817).

Effective Date of the Agreement

15. Determine the effective date of the agreement for the purposes of determining the one-time capital-based payment and the accrual of O&M, taxes, and other incremental costs to be the date stated in the Agreement, April 17, 2017. (Department)
16. Determine the effective date of the agreement for the purposes of determining the one-time capital-based payment and the accrual of O&M, taxes, and other incremental costs to be the anticipated date the wind farm is to be placed in service, December 2019. (MP)
17. Determine the effective date of the agreement for the purposes of determining the one-time capital-based payment and the accrual of O&M, taxes, and other incremental costs to be the date stated in the Agreement, April 17, 2017, but do not require that MP collect any payments from ACE until the wind farm is in service.

Statutory Requirements for Affiliated-Interest Agreements

18. Determine that the affiliate interest transaction is subject to Minn. Stat. § 216B.50. (Department)
19. Determine that the affiliate interest transaction is not subject to Minn. Stat. § 216B.50. (MP)
20. Take no action.

Compliance Filing

21. Require MP to submit within 15 days of the Commission issuing its order, a compliance filing with supporting documentation that provides the calculations required in this order.
22. Take no action.