STATE OF MINNESOTA
PUBLIC UTILITIES COMMISSION

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April 12, 2018

In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota; and In the Matter of Minnesota Power's 2017 Remaining Life Depreciation	**Docket No. E015/GR-16-664 and Docket No. E015/D-17-118**

ANSWER OF CLEAN ENERGY ORGANIZATIONS AND ENERGY CENTS COALITION TO THE MINNESOTA DEPARTMENT OF COMMERCE'S REQUESTS FOR RECONSIDERATION FILED APRIL 2, 2018

Fresh Energy, Minnesota Center for Environmental Advocacy, Sierra Club, and Wind on the Wires (together, the Clean Energy Organizations or "CEOs") and the Energy CENTS Coalition ("ECC") respectfully submit comments in response to the Minnesota Department of Commerce's ("Department") April 2, 2018 requests for reconsideration of the Minnesota Public Utilities Commission's ("Commission") Findings of Fact, Conclusions, and Order ("Order") issued on March 12, 2018, in Docket No. E015/GR-16-664.

In these comments, we support the Department's request for reconsideration and proposal to use Minnesota Power's current tax period refund to reduce the depreciation life of Boswell Units 3 and 4 and the Common Facilities to 2035.[1] We recommend, however, that the Commission decline the Department's request to amend the Order with regard to securitization.[2] CEOs and ECC continue to support exploring securitization as a tool to address stranded fossil-fuel investments in the state. Finally, we recommend using the remaining $1,733,043 ("$1.7 million") in revenues in the Department's proposal to support affordability

[1] Minnesota Department of Commerce *Requests for Reconsideration*, April 2, 2018 at 12.
[2] *Id*.

for low-income customers and advance low-income single family and multifamily energy efficiency programs in Minnesota Power's service territory.

I. CEOs and ECC Support the Department's Requests for Reconsideration and Proposal to Use Minnesota Power's Tax Refund to Reduce the Depreciation Life of Boswell Units 3 and 4 and the Common Facilities to 2035.

In its April 2, 2018 requests for reconsideration, the Department provides the basis for its request for rehearing the Commission's March 12 Order in the instant case, citing material new information related to the 2017 Tax Cut and Jobs Act ("TCJA") that is pertinent to revenue requirement and plant depreciation issues in the Commission's Order.[3] Specifically, in its March 30, 2018 comments in Docket No. E,G-999/CI-17-895 ("tax docket") the Department calculated the total effect of the 2017 Federal Tax Act for Minnesota Power to be $23,637,240, which is higher than the increased revenue requirement of $12,619,611 granted by the Commission in its March 12 Order.[4] However, the Department determined that the current period annual tax expense plus gross-up reduction of $18,743,607 is a more appropriate estimation of the financial results of the TCJA as applicable to Minnesota Power.[5] Furthermore, instead of requiring Minnesota Power to refund these amounts directly back to customers, the Department recognizes the advantages of using these funds to achieve other objectives that also benefit Minnesota Power's customers; namely, accelerating the depreciation lives of BEC Units 3 and 4 and Common Facilities to 2035.[6]

The Department's proposal is largely consistent with CEO's position in the instant case that extending the remaining accounting lives of BEC Units 3 and 4 and Common Facilities beyond their useful service lives jeopardizes future ratepayers when more favorable options are available,[7] and with CEO's recommendation in the tax docket that TCJA funds be used to accelerate depreciation on Boswell Units 3 and 4 and Common Facilities.[8] In addition, this proposal is consistent with the Administrative Law Judge's recommendation in the instant case.[9] Finally, as discussed below, the Department's proposal results in a $1.7 million reduction in Minnesota Power's revenue requirement, avoiding the need to increase rates to accelerate depreciation.[10]

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[3] *Id.* at 5.
[4] Minnesota Department of Commerce *Comments*, Docket No. E,G-999/CI-17-895, March 30, 2018 at 12.
[5] *Id.*
[6] Department of Commerce *Requests for Reconsideration*, April, 2, 2018, at 10-11.
[7] CEO *Direct Testimony* of Uday Varadarajan, Docket No. E015/GR-16-664, May 31, 2017 at 2.
[8] CEO *Initial Comments*, Docket No. E,G-999/CI-17-895, March 30, 2018 at 6.
[9] Office of Administrative Hearings *Findings of Fact, Conclusions of Law, and Recommendations*, November 11, 2017 at 69.
[10] Minnesota Department of Commerce *Requests for Reconsideration*, April 2, 2018 at 10.

For these reasons, CEOs and ECC support the Department's requests for reconsideration and proposal to use tax refund dollars to accelerate depreciation on BEC Units 3 and 4 and Common Facilities to 2035.

II. CEOs and ECC Support Continued Exploration of Securitization as a Solution for Stranded Fossil-Fuel Investments and Oppose the Department's Recommendation that the Commission Consider Not Requiring Securitization of Boswell Units 3 and 4 and Common Facilities.

In its request for reconsideration, the Department argues that if the Commission accelerates depreciation of Boswell Units 3 and 4 and Common Facilities to 2035, this "could…simplify matters in the rate case by perhaps eliminating the need for securitization."[11] In addition, the Department states that in the instant case Minnesota Power proposed to extend depreciation of all the Boswell Units to 2050 as a rate-increase mitigation measure, but that the "reduction in rates caused by the 2017 [TCJA] indicates that there no longer appears to be a need for [Minnesota Power's] rate mitigation measure."[12] The Department then recommends that the Commission consider not requiring Minnesota Power to plan for securitization.

In its Order, the Commission required Minnesota Power to "develop a securitization plan for the Boswell units to address any depreciation expenses that will remain unrecovered at the end of Unit 3 and 4's expected service lives, and to file it within two years of the final order in this case."[13] Importantly, the Commission recognized that extending the remaining accounting lives of these units would require a variance to the depreciation-accounting rules under Minn. R. 7825.0500 as the remaining lives would not match with the probable service lives.[14] Similarly, CEOs and ECC note that accelerating deprecation of Boswell Units 3 and 4 and Common Facilities to 2035 would not match with the previously determined probable service lives, so thus may result in unrecovered depreciation expenses.

Furthermore, as CEO witness Uday Varadarajan highlighted in his Direct Testimony in the instant case, securitization is a tool recently used in Michigan and Florida that "reduces ratepayer costs and risks while aligning Minnesota Power's interest with that of transitioning its assets more rapidly to reflect cleaner, cheaper generation options that could result in cost savings for both current and future ratepayers."[15] Mr. Varadajaran notes that securitization is a "financial vehicle that can both reduce the cost to ratepayers of early retirement of stranded assets and provide the utility with immediate cost recovery for any remaining net asset

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[11] *Id.* at 7.
[12] *Id* at 8.
[13] Commission *Findings of Fact, Conclusions, and Order*, March 12, 2018 at 14-15.
[14] *Id* at 14.
[15] CEO *Direct Testimony* of Uday Varadarajan, Docket No. E015/GR-16-664, May 31, 2017 at 11.

balances."[16] To the extent that securitization can provide flexibility in balancing the operations of existing assets and cost recovery for Minnesota Power, CEOs and ECC assert that Minnesota Power providing a plan for how securitization might be applied to the Boswell units would advance understanding of this tool's applicability for the company. In addition, as Mr. Varadajaran states, securitization may facilitate early retirement of large fossil fuel assets at reduced cost to ratepayers.

Finally, securitization may provide similar benefits to other utilities in the state that Mr. Varadarajan highlighted in the context of Minnesota Power's assets. In its Order, the Commission specifically expressed broad interest in securitization to "find a solution to the problem of stranded fossil-fuel investments."[17] This could be a solution applicable to other utilities and a submitted plan from Minnesota Power can inform how this approach might work elsewhere in the state.

For these reasons, CEOs and ECC support continued exploration of securitization as a solution for stranded fossil-fuel investments and oppose the Department's recommendation that the Commission consider not requiring investigation into securitization of Boswell Units 3 and 4 and Common Facilities.

III. CEOs and ECC Support Using the Remaining $1.7 million in Revenues in the Department's Proposal to Support Affordability for Low-Income Customers and Advance Low-Income Singe Family and Multifamily Energy Efficiency in Minnesota Power's Service Territory.[18]

As discussed above, the Department determined that if the Commission approves accelerating depreciation of Boswell Units 3 and 4 and Common Facilities to 2035 using funds related to the TCJA, there will be a reduction in Minnesota Power's revenue requirement of $1.7 million. However, the Department does not provide a recommendation regarding what to do with the $1.7 million. CEOs and ECC recommend using those funds to support affordability for low-income customers and advance low-income single family and multifamily energy efficiency in Minnesota Power's service territory.

In the tax docket, CEOs filed comments supporting two principles for guiding the decision on approaches the Commission should adopt related to reduced federal tax rates to customers: i) that it should consider the overall value of immediate customer savings versus intermediate and longer-term customer value; and ii) that it should give consideration to approaches that further state policy goals, such as carbon reduction, utility rate stability, and affordability.[19]

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[16] *Id.*
[17] Commission *Findings of Fact, Conclusions, and Order*, March 12, 2018 at 15.
[18] Wind on the Wires does not take a position on this recommendation.
[19] CEO *Initial Comments*, Docket No. E,G-999/CI-17-895, March 30, 2018 at 1.

While the recommendation to accelerate depreciation of Boswell Units 3 and 4 and Common Facilities meets both of these principles, CEOs and ECC assert that targeting remaining funds to low-income single family and multifamily customers provides both immediate and long-term benefits to customers and advances state policy goals around affordability and energy savings.[20]

Specifically, as detailed below, CEOs and ECC recommend using the $1.7 million in reduced revenue requirement to increase the budget for the Customer Affordability of Residential Electricity ("CARE") program, develop comprehensive low-income multifamily Conservation Improvement Program ("CIP") offerings, and expand budgets broadly for low-income CIP efforts.

- **CARE** – In its order in the company's previous rate case, the Commission required Minnesota Power to "develop and propose a program to address the needs of low-income, high-usage residential customers modeled on Xcel's program, including its Power On program."[21] In response to the order, Minnesota Power developed the CARE program offering income-eligible customers a discount—or credit—on their monthly electric bills, and the Commission recently approved the company's fifth annual program report on January 5, 2018 in Docket No. E015/M-11-409.

  However, in the instant case, ECC witness Pam Marshall provided testimony recommending that Minnesota Power double the CARE credit to better align with Xcel Energy's Power On program.[22] The CARE credit will be adjusted to reflect the change in Minnesota Power's residential inclining block rate structure from five to four tiers in the instant case, but prior to the Order the average monthly credit per customer was $12 compared to $63 in Xcel Energy's Power On program.[23] Ms. Marshall stated that increasing the credit will help keep customers enrolled in the program, alleviating low program retention rates seen in recent years.[24] The total discount provided to participants in the October, 2015-September, 2016 timeframe was $1,016,912 with $850,583 remaining in the program's tracker balance.[25] CEOs and ECC assert that more than doubling the CARE credit is achievable using tracker balance funds and $1,033,043 ("$1 million") in unused tax revenues from the Department's proposal, and will provide near-term assistance to low-income, high-usage residential customers, furthering the Commission's order in the last rate case. Furthermore, the Commission expressed interest in exploring issues related to expanding the program in its Order in

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[20] These goals are codified in Minn. Stat. §§ 216B.16 subd. 15, 216B.2401, 216B.241, and 216C.05.
[21] Commission *Findings of Fact, Conclusions, and Order*, Docket No. E015/GR-09-1151, November 2, 2010 at 72.
[22] Energy CENTS Coalition *Direct Testimony* of Pam Marshall, May 31, 2017 at 47.
[23] *Id* at 45 and 47.
[24] *Id* at 45.
[25] *Id* at 46.

the instant case, stating it will have the best opportunity "when it conducts its next annual review of the CARE program."[26] We recommend that the Commission require Minnesota Power to develop and file a plan to significantly increase the CARE credit in its next CARE annual report for the Commission's consideration.

- **Low-income multifamily CIP –** As part of its CIP offerings, Minnesota Power dedicates a portion of its budgets and savings goals to low-income customers through the Energy Partners program. Typically, this program has not tracked savings for low-income multifamily customers specifically, but in its 2017 CIP Annual Report filed on April 2, 2018, Minnesota Power cited energy savings for this customer segment. Minnesota Power claimed 129,852 kilowatt-hours ("kWh") in savings at the generator from the multifamily sector out of 1,458,538 kWh from its entire low-income portfolio in 2017, or nine percent. In addition, Minnesota Power reported a societal test of 4.78 for low-income multifamily efforts in its Energy Partners program, indicating significant benefits for each dollar spent.[27] CEOs and ECC commend Minnesota Power for providing energy savings to the low-income multifamily market and recognize that it takes time to build resources and achievements within a program. However, CEOs and ECC recommend that up to $400,000 of the unused tax revenues be directed to building a comprehensive dedicated low-income multifamily program that includes but goes beyond direct install measures. We recommend that Minnesota Power direct unused tax revenues to begin expanding this program in 2018, reporting on progress in its 2018 CIP Annual Report to be filed April 1, 2019, and include a comprehensive proposal in its 2020-2022 CIP Triennial Plan to be filed June 1, 2019.

- **Low-income CIP –** In addition to the dedicated low-income multifamily funding discussed above, Minnesota Power provides broader CIP offerings to low-income customers through its Energy Partners program. Minnesota statute requires electric utilities to spend 0.2 percent of gross operating revenue from residential customers on low-income programs.[28] As shown in Table 1 below, Minnesota Power has exceeded the minimum spending requirement for low-income programs in each of the last four years. However, the company has underspent funds compared to the approved budget in each year as well.

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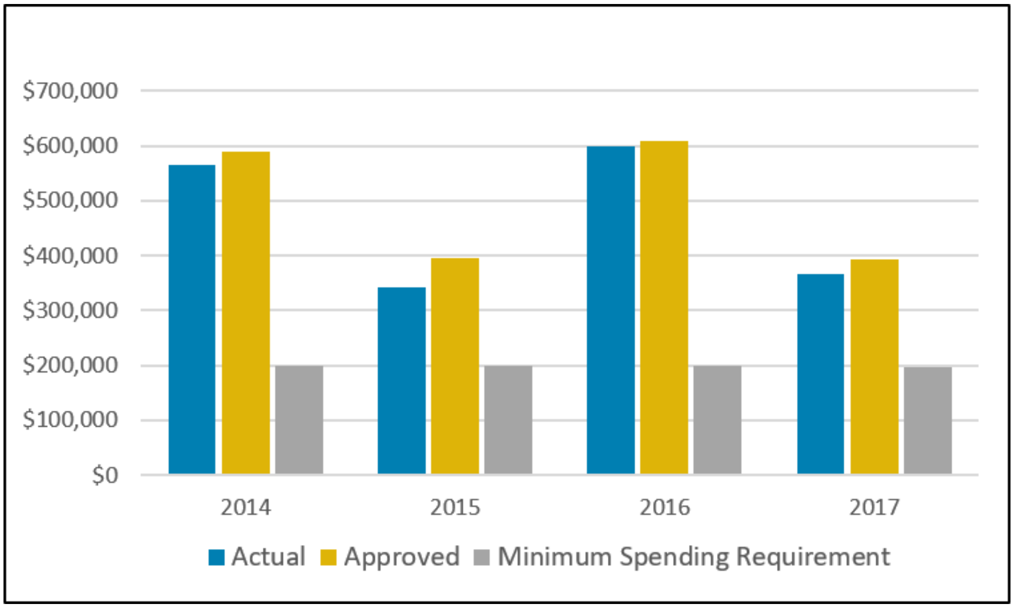
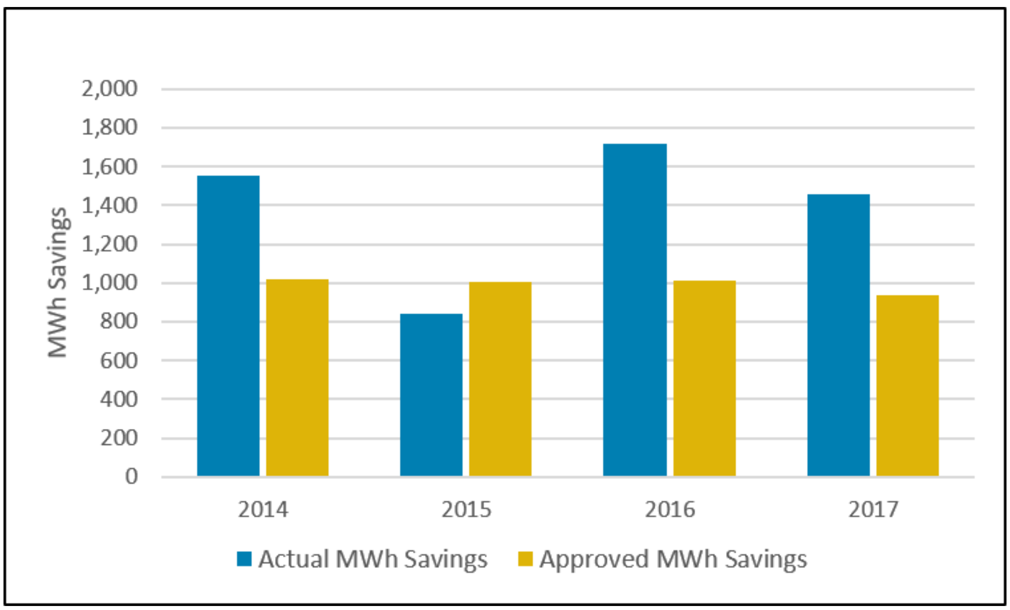
[26] Commission *Findings of Fact, Conclusions, and Order*, March 12, 2018 at 80.
[27] Minnesota Power *2017 Consolidated Filing Conservation Improvement Program*, Docket No. E015/CIP-117.01, April 2, 2018, Exhibit 5 at 13.
[28] Minn. Stat. § 216B.241, subd. 7, paragraph (a).

Table 1. Energy Partners Program Actual Spending vs. Approved Budget[29]



In addition, as shown in Table 2 below, Minnesota Power actual savings achieved have exceeded approved savings in three of the last four years.

Table 2. Energy Partners Actual vs. Approved Savings



[29] Data in these comments related to Minnesota Power's historical CIP performance are from Initial Annual Report filings and Department Decisions in Docket Nos. E015/CIP-13-409.01, E015/CIP-13-409.02, E015/CIP-13-409.03, and E015/CIP-16-117.01.

Finally, as shown in Table 3 below, Minnesota Power reports societal cost tests for its Energy Partners programs of greater than 2:1 in three of the last four years and nearly 3:1 in 2017, meaning these programs deliver significant benefits for every dollar spent.

Table 3. Energy Partners Societal Cost Tests

Year	Societal Test
2014	1.97
2015	2.01
2016	2.05
2017	2.97

This suggests that significant additional cost-effective energy savings in the low-income segment may be available if dedicated budgets were increased. Targeted energy efficiency efforts in areas of Minnesota Power's service territory with high densities of low-income customers may provide greater energy savings potential and long-lasting efficiency benefits to customers in those areas. CEOs and ECC recommend that $300,000 of the unused tax revenues be directed to expanding Minnesota Power's low-income CIP programs to provide both near-term and long-lasting benefits to these customers. We recommend that Minnesota Power direct unused tax revenues to begin expanding low-income CIP programs in 2018, report on progress in 2018 CIP Annual Reports to be filed April 1, 2019, and include a comprehensive proposal in its 2020-2022 CIP Triennial Plan to be filed June 1, 2019.

For these reasons, we recommend using the remaining $1.7 million in the Department's proposal to support affordability for low-income customers and advance low-income and multifamily energy efficiency in Minnesota Power's service territory, as discussed above.

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**On behalf of Clean Energy Organizations: Fresh Energy, Minnesota Center for Environmental Advocacy, Sierra Club, and Wind on the Wires.*