

BEFORE THE MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
600 North Robert Street
St. Paul, MN 55101

FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION
121 7th Place East, Suite 350
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IN THE MATTER OF THE APPLICATION OF
XCEL ENERGY AND ITC MIDWEST LLC FOR A
CERTIFICATE OF NEED FOR THE HUNTLEY-
WILMARTH 345 KV TRANSMISSION LINE
PROJECT

MPUC Docket No. E002, ET6675/CN-17-184
OAH Docket No. 82-2500-35157

SURREBUTTAL TESTIMONY OF MARK A. JOHNSON

ON BEHALF OF

**THE MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES**

COST ALLOCATIONS AND COST RECOVERY ISSUES

JANUARY 28, 2019

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1 **I. INTRODUCTION**

2 **Q. Please state your name.**

3 A. My name is Mark A. Johnson.

4
5 **Q. Are you the same Mark A. Johnson who submitted Direct Testimony earlier in this**
6 **proceeding on behalf of the Minnesota Department of Commerce, Division of Energy**
7 **Resources (DOC-DER)?**

8 A. Yes.

9
10 **II. PURPOSE**

11 **Q. What is the purpose of your Surrebuttal testimony?**

12 A. The purpose of my Surrebuttal testimony is to respond to the Rebuttal Testimony of
13 Mr. Grant D. Stevenson, who filed on behalf of both Xcel Energy (Xcel) and ITC Midwest,
14 LLC's (ITCM) (collectively, the Applicants).

15
16 **III. SUMMARY OF THE PROPOSED PROJECT**

17 **Q. For ease of reference, please summarize the facilities proposed in the Petition by the**
18 **Applicants.**

19 A. The Applicants propose to construct a 50-mile 345 kilovolt (kV) transmission line
20 between Xcel Energy's Wilmarth Substation north of Mankato, Minnesota and ITCM's
21 Huntley Substation south of Winnebago, Minnesota (Project). Xcel and ITC Midwest
22 would also make modifications to their existing, and respectively owned, Wilmarth

Substation and Huntley Substation to accommodate the proposed 345 kV transmission line. Ex. XC-____ at 2 (Application).

Q. How would the ownership of the proposed Project be structured?

A. Xcel and ITCM would own the proposed Project jointly as tenants in common. The equipment and improvements associated with the Wilmarth Substation would be owned solely by Xcel. The equipment and improvements associated with the Huntley Substation would be owned solely by ITCM. Ex. XC-____ at 2-3 (Application).

IV. PROPOSED PROJECTS COSTS

Q. What are the estimated costs of the proposed Project?

A. Based on the route and segment alternatives proposed during the scoping process for the Environmental Impact Statement, the Applicants' revised estimated costs range from \$104.8 million to \$160.7 million (2016 dollars). Ex. XC-____ at 8 (Neidermire Direct). The following table shows the Applicants' revised estimated range of Project costs based on the route and segment alternatives provided in Mr. Stevenson's Direct Testimony:

Table 1: Revised Total Project Cost Estimates (2016\$)¹

Purple		Green		Red		Blue		Purple-E-Red	
Low	High	Low	High	Low	High	Low	High	Low	High
\$ 104.8	\$ 147.3	\$ 108.2	\$ 124.8	\$ 134.4	\$ 143.8	\$ 123.7	\$ 142.5	\$ 157.0	\$ 160.7

¹ Ex. XC-____, AWS-6 at 3 (Stevenson Direct).

1
2 **Q. What is included in these cost estimates?**

3 A. The Applicants' cost estimates included all transmission line costs, right-of-way costs,
4 costs for risk contingencies for modifications to the transmission line and substations at
5 both the Wilmarth and Huntley substations, and Allowance for Funds Used During
6 Construction (AFUDC). Ex. XC-____ at 9 (Stevenson Direct).
7

8 **Q. What did you state in your Direct Testimony regarding the Applicants' revised total**
9 **cost estimates for the Project?**

10 A. I stated my conclusion that I did not have any concerns with the Applicants' estimated
11 Projects costs at that time. In addition, I concluded that the Applicants' updated costs
12 for the proposed Project reflected the best information available to decide whether the
13 proposed Project was reasonable compared to alternatives, including any other
14 proposed project, since this process explicitly allowed other projects to file alternative
15 proposals, per the May 25, 2018 First Prehearing Order. Ex. DER-____ at 5-6 (Johnson
16 Direct).
17

18 **Q. Did the Applicants' respond to or disagree with your statements in their Rebuttal**
19 **Testimonies?**

20 A. Not directly. However, as explained in Section VI of my Surrebuttal Testimony,
21 Certificate of Need and Cost Cap, the Applicants have now proposed to update their

1 Project cost estimates again in this proceeding based on the route/design selected by
2 the Commission.

3
4 **V. MARKET EFFICIENCY PROJECTS AND MISO COST ALLOCATIONS**

5 **Q. What are Market Efficiency Projects?**

6 A. Market Efficiency Projects (MEPs) are projects that MISO determined are needed to
7 reduce transmission system congestion and improve the efficiency of MISO's energy
8 markets, which should result in lower wholesale energy costs if built. The MISO Board
9 of Directors approved the Huntley-Wilmarth Project as an MEP in December 2016 as
10 part of its MTEP16 report. Ex. XC-___ at 5 (Neidermire Direct).

11
12 **Q. In your Direct Testimony, did you agree with the Applicants' description as to how**
13 **MEP costs are allocated under MISO Tariffs?**

14 A. Yes. Ex. DER-___ at 10 (Johnson Direct).

15
16 **Q. Did the Applicants' respond or disagree with your statements regarding MEP cost**
17 **allocations in their Rebuttal Testimonies?**

18 A. No. As a result, I conclude that this issue regarding MEP cost allocations is resolved
19 between DOC-DER and the Applicants.

1 **VI. CERTIFICATE OF NEED COST ESTIMATES AND COST CAPS**

2 **Q. For ease of reference, can you please explain why it is important for the Commission**
3 **to hold utilities accountable for their Certificate of Need (CN) cost estimates?**

4 A. Yes. It is important to hold utilities accountable for their CN cost estimated to protect
5 ratepayers' interests. Companies' cost estimates are used extensively in CNs and other
6 regulatory proceedings and provide a strong basis for the Commission to hold utilities
7 accountable to the costs they represent for facilities, particularly since CNs consider
8 alternatives to proposed projects. In its role to ensure that rates are reasonable, the
9 Commission has generally not allowed approval of projects in CN proceedings to
10 constitute a "blank check" for cost recovery in riders when actual costs are greater than
11 the estimated costs that the utilities represented in CN or other regulatory approval
12 proceedings. In addition, the Commission typically requires utilities to demonstrate that
13 it is reasonable to allow recovery of any such cost increases prior to charging the costs
14 to ratepayers in the context of a rate case.

15 DOC-DER fully supports the Commission's use of such financial accountability
16 mechanisms. Absent cost recovery caps tied to the evidentiary record in which the
17 project was proposed and approved, utilities have little incentive to expend the effort
18 needed to accurately report project costs in regulatory proceedings, nor to ensure that
19 the actual costs are contained and are as reasonable as possible. Ex. DER-___ at 11-12
20 (Johnson Direct).

1 **Q. What did you recommend in your Direct Testimony regarding certificate of need cost**
2 **estimates and cost caps?**

3 A. Given that MISO's variance analysis process is new and untested, I recommended that
4 the Commission protect ratepayers' interest in this proceeding by taking the following
5 steps. Once the Commission determines the costs of the proposed Project based on its
6 decisions regarding route alternatives, the Commission should hold Xcel accountable by:
7 1) requiring Xcel to wait until the first rate case after the Project is in service to recover
8 any cost overruns for Minnesota ratepayers and 2) requiring Xcel to justify fully the
9 reasonableness of recovering any cost overruns of the Project from Minnesota
10 ratepayers. Ex. DER-___ at 19 (Johnson Direct).

11
12 **Q. Did the Applicants agree with your recommendation?**

13 A. Yes, but with one clarification. Mr. Stevenson stated that:

14 Mr. Johnson did not identify which costs would be used to establish
15 a baseline for the Minnesota Public Utilities Commission's
16 (Commission) review of Project costs. In the Route Permit
17 proceeding, the Commission will determine the final route and
18 design for the Project and may order mitigation. For an
19 appropriate baseline, Applicants propose to file, within 45 days of
20 the written order, an updated estimate that accounts for any route
21 changes or mitigation that the Commission may order. That
22 estimate would then be the baseline to determine if there are any
23 excess costs.

24
25 Ex. XC-___ at 2 (Stevenson Rebuttal).

26
27 **Q. Did the Applicants provide an explanation as to why such a filing would be necessary?**

28 A. Yes. Mr. Stevenson stated that:

1 There are many route and design options that are currently under
2 consideration in this proceeding. While I am confident in the
3 estimates the Applicants have provided, it is important to confirm
4 that the final cost estimates accurately reflect route and design
5 changes and/or mitigation measures ordered by the Commission.
6 In Table 2 in my Direct Testimony, I provided cost estimates for the
7 nine different routes/design options that the Applicants proposed
8 in the Route Permit Application. In addition, Schedule 2 to my
9 Direct Testimony provided cost estimates for the nearly 40
10 different route, segment, and alignment alternatives that were
11 proposed during the scoping process. However, each of the cost
12 estimates in Schedule 2 assumed one specific design and if the
13 Commission were to select a different design, the cost estimates
14 would need to be updated to reflect the selected design.
15

16 It is also possible that the Commission could make route or
17 alignment adjustments to these proposed routes in its Route
18 Permit Order. Likewise, the Route Permit Order could include
19 mitigation measures that were not contemplated by the Applicants
20 in developing the Project cost estimates. These route and/or
21 alignment adjustments and mitigation measures could impact the
22 costs and the proposed cost estimate compliance filing would
23 reflect these changes.
24

25 Ex. XC-___ at 2-3 (Stevenson Rebuttal).
26

27 **Q. Did the Applicant state that they would provide an explanation for any changes to**
28 **their cost estimates in the proposed compliance filing?**

29 A. Yes. Mr. Stevenson stated that:

30 [I]f the final cost estimate is different from the cost estimates that
31 have been previously provided in this proceeding due to route
32 adjustments or mitigation measures included in the Route Permit
33 Order, the Applicants will provide a detailed explanation for the
34 reason for these differences.
35

36 Ex. XC-___ at 3 (Stevenson Rebuttal).
37

1 **Q. How do you respond?**

2 A. DOC-DER generally supports Xcel's proposal for several reasons. First, Xcel has agreed
3 to be held accountable for cost recovery purposes in a future rider to the cost figure it
4 provides in this CN proceeding, and to be bound by that cost cap in a future rate case,
5 unless Xcel can justify the reasonableness of charging ratepayers for any cost overruns.

6 Second, since Xcel proposes to provide this figure shortly after the Commission
7 makes its decision, the figure itself should be robust and take into account any
8 significant changes made by the Commission.

9 Third, if this approach is approved, Xcel must identify this figure clearly and
10 ensure that the costs are easily trackable for future recovery in riders and rate cases.

11 Fourth, allowing Xcel to reflect the costs of any material change in the route
12 would reduce any arguments Xcel might have for recovering any cost overruns in base
13 rates after the project is complete. That is, Xcel's proposal should help eliminate future
14 disputes regarding the appropriate cap figure and whether all costs were taken into
15 account in the Commission's CN decision.

16 Finally, while routing or siting concerns are often an issue for building large
17 energy facilities, there may be more concerns about routing in this proceeding, due to
18 the location near Mankato. Thus, while this proposal may not be acceptable in other
19 proceedings, it appears to be reasonable in this proceeding.

20
21 **Q. What do you recommend?**

1 A. Based on the above, I recommend that the Commission accept Xcel's proposal with the
2 following clarifications. First, I continue to support the cost estimates identified in Table
3 1 above (\$104.8 million to \$160.8 million) and recommend that they be used as the
4 starting point for determining the cap amount.

5 Second, I recommend that Xcel provide a final number or cap amount within 45
6 days of the Commission's Order determining the route. This number should be based
7 on the Commission's decisions in this proceeding using the costs identified for the 39
8 different route options identified in Schedule 2 of Mr. Stevenson's Direct Testimony and
9 clearly identifying the cost effects of any material changes, due to the Commission's
10 decisions.

11 Third, I recommend that the Commission provide DOC-DER and other interested
12 parties the opportunity to address whether they agree with Xcel's final Project cost
13 estimate.

14 Finally, if the Commission approves Xcel's proposal, I recommend that the
15 Commission require the Company to identify these costs clearly and ensure that the
16 costs are easily trackable in future recovery in riders and rate cases.

17
18 **Q. Does this conclude your Surrebuttal Testimony?**

19 A. Yes.